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Standing Committee on Economics
PO Box 6021
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Inquiry into Foreign Investment in Residential Real Estate

On behalf of the Australian Housing and Urban Research Institute (AHURI) I am pleased to make an invited submission to the Standing Committee on Economics' Inquiry into Foreign Investment in Residential Real Estate (the Inquiry).

Foreign investment in residential real estate has not been a specific focus of AHURI research to date. However, the potential influence of foreign investment in residential real estate on overall demand in a context of undersupply means that the following points are relevant to the Inquiry:

- Insufficient supply of new housing to meet underlying demand.
- Real house prices rising faster than incomes—estimates of the ratio of average/median house prices to average/median incomes vary between 5 and 7 depending upon which measures are used.
- A preference for larger, higher quality dwellings, despite relatively small household sizes—from 1994 to 2009, the average size of a new house in Australia increased by 30 per cent from 189 to 245 square metres, average household size fell throughout 20th century from 4.5 to 2.5 persons in 2006, yet the median price of housing in Australia rose 1994–2009 by 240 per cent from \$125 000 to \$425 000.
- Falling rates of home ownership amongst 25–44 year olds—in 1981 61 per cent of 25–34 year olds and 75 per cent of 35–44 year olds were home owners. By 2011 these figures had fallen to 47 per cent and 64 per cent respectively.
- A change in the secure 'tenure for life' status of home ownership with 22 per cent of Australian home ownership careers characterised by either dropping out permanently (9%) or churning in and out (13%) of home ownership.
- Market failure at the bottom end of the private rental market with supply unresponsive to demand, despite a context of growth in the relative size of the private rental market—in 2006 it was estimated there was an undersupply of 298 000 private rental properties affordable and available to households in the lowest 40 per cent of the income distribution. By 2010 this is estimated to be over 500 000 dwellings.
- Continuing high numbers of households in the private rental market in housing affordability stress—in 2007–08 60 per cent of low-income private renters were in housing affordability stress.
- A change in the nature of the private rental market from a predominantly short-term transitional tenure, to one that has 33 per cent of its occupants (in 2007–08) as long-term private renters who have rented for 10 years or more continuously, an increase from 25 per cent in 1994. Long term private renters (597 000) now outnumber households in public housing (365 000).
- The supply of dwellings in affordable housing programs (National Rental Affordability Scheme, community housing, public housing) is not keeping pace with population growth or the changing nature of Australia's population (e.g. more older households and more households with people

with disabilities)—the share of affordable housing program dwellings in Australia has fallen from 5.5 per cent in 1998 to 4.7 per cent in 2012.

- A welcome fall in the number of rough sleepers from 7247 in 2006 to 6813 in 2011.
- Growth in the numbers of people living in boarding and rooming houses and living in severely overcrowded dwellings from 46 991 in 2006 to 59 111 in 2011.

These housing challenges have consequences for economic growth, social cohesion and environmental sustainability that give a greater cogency to the need for government, community and industry action. The causes and nature of Australia's affordable housing problems are complex, diverse and interact differently in different parts of Australia. Housing markets have a strong geographic dimension to them. This means there is not one Australian affordable housing problem. As there is not one problem, there is not one solution.

However, housing policy does have some of the answers and moves in housing policy to link assistance to increasing net new supply in particular market segments (e.g. the National Rental Affordability Scheme, or recent amendments to first home owner subsidies) are important. Moreover, creating hybrid arrangements to bridge gaps between the traditional tenures and creating more stepping stones between them (e.g. shared equity schemes) are the right directions for housing policy development.

However, the evidence finds that the causes and the solutions of Australia's affordable housing problems also lie beyond housing policy. The financial system, taxation arrangements, federal–state relations, income support, land-use planning and public infrastructure all have a bearing on housing affordability. To this end the Australian Government has created a number of important opportunities for these issues to be examined through further policy reviews and inquiries that focus on the financial system, infrastructure costs, tax, Federal-State relations, and welfare payments. It will be important for each of these reviews to consider the evidence below on how these other policy domains impact upon housing affordability and thus how these other policy reviews can assist in addressing housing affordability.

AHURI, through the National Housing Research Program (NHRP), invests annually in housing and urban policy research through a range of activities, including research projects, research capacity building and research dissemination. The NHRP is underpinned by the 'policy development research' concept, which integrates the traditionally separate processes of 'evidence building' and 'policy development' into one set of practices. The defining feature of the research program is a small number of 'Evidence-Based Policy Inquiries', each addressing a pressing policy issues identified by Commonwealth, State and Territory government leaders in housing. Should foreign investment in residential real estate emerge as a policy priority, AHURI will be pleased to address it through the NHRP.

All AHURI research is available free from www.ahuri.edu.au. an identified pressing policy issue, and has therefore not emerged as a research priority for the NHRP research output.

I would like to thank the committee for its consideration of our submission. If there is any way we can be of further assistance to the Inquiry, please contact me directly on 03 9660 2300.

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Executive Director