Australia does have a housing shortage

The myth that Australia already has enough housing – that it's just owned by the wrong people, namely, investors – needs to be confronted and debunked because it is worsening the housing and homelessness crisis across Australia.

1. Population < housing demand

The core of this myth is that Australia's dwelling stock has increased faster than its population, therefore there must be no housing shortage.

Housing demand is not determined by the number of people alone, it's determined by the number of **households** – which is the ratio of population and **household size**.

The implied household size in Australia is 2.4 people per home – 27.6 million people in 11.5 million homes.

But we know that Australians actually **want** to live in smaller households. Kids want to move out of the family home faster. Young adults want fewer roommates. Overseas migrants in particular tend to live alone or with fewer housemates when they first arrive – and Australia's population growth is increasingly driven by these arrivals.

And we know this for at least a couple of reasons:

- This is the inevitable consequence of people becoming wealthier, across the world – people can afford more space to themselves, so they do, causing household sizes to shrink
- This trend accelerated during the pandemic. RBA data highlight the dramatic decline in household sizes during the pandemic, alongside the rapid increase in dwelling prices over the same period. People wanted more space (i.e. smaller household sizes) while Australia's population was **stagnant** – soaring demand with no population growth, because household sizes dropped.

Saying that the dwelling stock grew faster than population completely ignores how many housemates Australians actually want – not just how many they're forced to tolerate given the current dwelling stock.

Australia clearly has a housing shortage.

2. Investors don't add to housing demand, they add to supply

Investors don't add to housing demand because they don't live in their investment property – they rent it out to another household. Whether the property is owned by an investor or owner-occupier does not change the number of households able to live in it.

Every investor in Australia could sell their property to the renters currently residing in them, and the calculus of Australia's housing market would remain completely unchanged. Australia would still have almost 30 million people chasing less than 12 million homes.

You just changed the tenure of Australian housing, not the underlying shortage.

Moreover, investors don't just buy existing housing, they build new housing too.

While an owner-occupier, by definition, buys and lives in one home, an investor will do the same **and** buy an additional home(s) for someone else to live in. And many of these additional properties are newly constructed homes – so the investor, without adding to demand (because they're not living in their investment property), didn't just add to rental supply, they added to dwelling stock.

In just the last year, investors accounted for over 40 per cent of loans issued for the purchase or construction of brand new housing (this number is even higher for major apartment developments), without adding to demand. Owner occupiers add to housing supply too when they buy or build a new home – but they also add to demand because they live in that home.

So getting rid of investors doesn't get rid of housing demand – the (now ex-) investor is still living in their own home. What it does do is get rid of a major source of new housing supply.

If you're worried about investors competing with first home buyers and other owner occupiers at your average weekend auction, then we need to allow the industry to build more housing. The world is not a zero-sum game where someone has to lose in order for another to win.

3. In what universe does ‘too many investment properties’ produce a rental vacancy rate of 1 per cent?!

The argument that Australia has too many investors is an argument that we have too many investment properties. And yet, rental vacancy rates across Australia are around record lows, barely more than 1 per cent.

In Perth, Adelaide, Darwin and Hobart, they’re closer to half of one per cent!

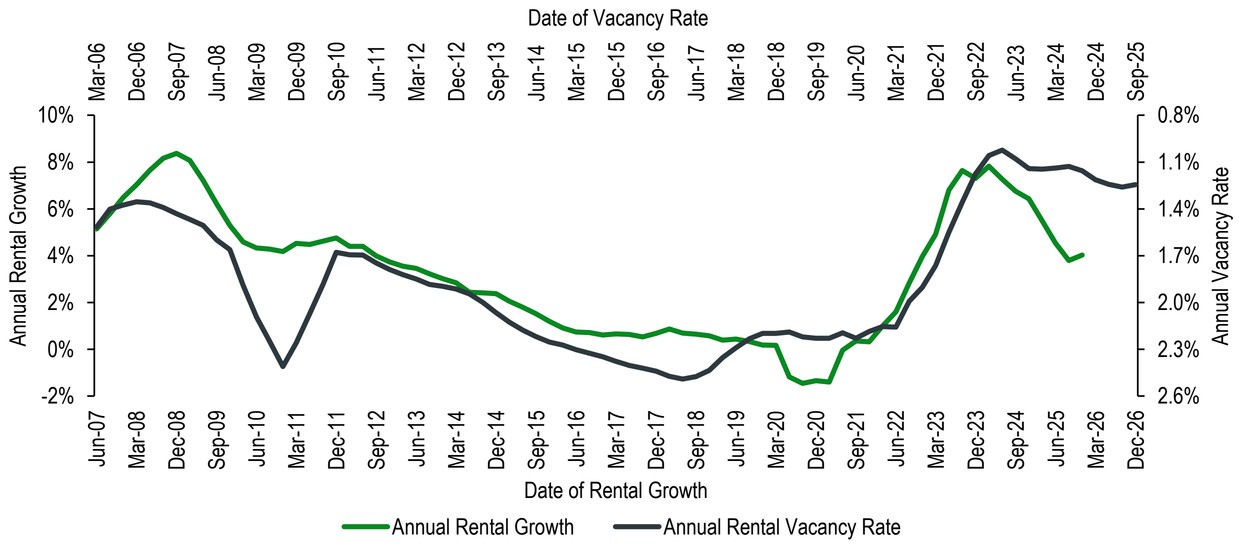
Over the last 20 years, rental vacancy rates have been inversely associated with rental price growth just over a year later, with a correlation of 0.7 – that’s a tight relationship.

And predictably, in response to recent acutely low vacancy rates, rents have been increasing rapidly.

This is what happens during a housing shortage.

Rents vs Vacancy Rates

Source: ABS, SQM



And the idea that if investors sold their properties to their own tenants (as though all those tenants are in a position to buy), it wouldn’t affect the overall balance in the rental market, is true. Today. But it completely overlooks the fact that we’re already in a rental crisis, and that the pool of renters in Australia is growing.

- Hundreds of thousands of overseas (and in some places, interstate) migrants arriving every year tend to rent before buying
- Tens of thousands of kids each year, when they first move out of their parents’ homes, also tend to rent before buying
- People renovating need a rental while their home is unoccupiable
- Even in an affordable housing market, there are people who – shock, horror – actually prefer the freedom of renting over the longer term commitment of homeownership

This is one of the worst rental crises in living memory, with a growing pool of renters – not a market with ‘too many investment properties’.

In order to produce a housing market that simultaneously has a surplus of investors **and** record low vacancy rates, investors would have to be buying up properties and leaving them vacant, and yet …

4. There are not vast swathes of investment properties lying vacant across Australia

Another common myth is that Australia has a huge number of properties simply sitting vacant that, if they were made available, would solve our housing crisis.

The myth pops up, often around Census time, when it is revealed that around 10 per cent of Australian housing was ‘unoccupied’ on Census night.

This does not mean vacant!

On any given night (not just Census night), about 10 per cent of Australian housing is unoccupied. This number has been produced Census after Census, in country after country, for a number of reasons:

- The usual residents are on holiday, staying with friends or family
- The property is undergoing renovations or repairs and is temporarily unoccupiable
- The property is a holiday home or farm house, not located anywhere useful for most Australians
- The property is for sale or lease and therefore, only temporarily between rental tenants or owner occupiers
- The property is a deceased estate going through the process of being sold and/or re-occupied

Most of these unoccupied properties are not in a position to solve the housing crisis.

5. You don't make housing more affordable by taxing it more

Another myth that apparently needs repeated debunking is the suggestion that we should wind back 'tax breaks' for investors, as though increasing costs on any segment of the housing market will make it more affordable.

Taxing investors out of the market may change the ownership tenure of existing housing but beyond the short term, it worsens affordability for everyone.

If you tax investors out of the market, especially when demand for housing is strong, you've just made the situation worse for the large – and growing – cohort of people who need rentals. Rents and prices rise to entice investors (that you just tried to get rid of) back to the market. Now everything is less affordable for everyone.

As a thought experiment, try thinking of a single example – anywhere in the world, at any point in history – where taxing something more made that thing more affordable.

The solution is to reduce the cost of housing, not increase it. This means lower taxes. Fast-tracked shovel ready land, both greenfield and infill, complete with fairly-funded infrastructure. Faster approvals. Skills development, both domestically and from overseas. And encouraging investment in housing, not punishing it.

We need more housing!