

INTERNATIONAL STUDENTS AND HOUSING AND OTHER COST OF LIVING PRESSURES

CONTEXT

Australia is experiencing a significant housing shortage and other cost of living pressures. Population growth has been strong, driven by net overseas migration over the past year, including international student arrivals to Australia.

Any policy measure to address housing availability and other cost of living pressures by capping genuine international student arrivals to Australia is short-sighted. It will not address the underlying causal factors of housing and cost of living pressures and instead potentially put a brake on Australia's economic growth and prosperity.

KEY POINTS AND RECOMMENDATIONS

- The housing affordability and more general cost-of-living crisis is fundamentally a supply side problem, rather than attributable to international student arrivals.
- The housing sector is segmented, and international students contribute to particular segments in demand – not all segments. Nonetheless, more investment in housing supply is needed together with broader reforms to boost the supply-side capacity of the economy.
- Capping international student arrivals would be detrimental to Australia's higher education sector, which is already underfunded, and the economy more generally, both in the immediate and longer term.
- Australia needs to ease constraints on housing supply, whether they be input costs, regulatory burdens, and/or skill shortages in trades. Australia also fundamentally needs to revitalise national productivity growth to add to the supply side of the economy.
- The Go8 call for a long-term investment in the innovative and productivity capacity of the Australian economy including through, for example, lifting R&D intensity.

THE UNDERLYING CAUSES OF AUSTRALIA'S HOUSING AND OTHER COST OF LIVING PRESSURES

The **underlying** causes of Australia's housing shortage and broader cost of living pressures are a product of supply side factors. The number of international student arrivals has no direct bearing on these factors, which include:

- a) **Lack of housing supply, including affordable social housing**, underpinned by decades of underinvestment.
- b) **Regulatory barriers and costs** to housing supply, including planning approvals, and **lack of clear policies across all levels of government to ensure supply is adequate**.¹ This includes, elevated construction costs, longer build times and a shortage of tradespeople. Media reports suggest that average wait times from approval to completion of either new houses or apartments have recently increased.²
- c) **Supply chain disruptions** (including globally) that have transmitted into reductions in input supplies and higher input costs passed on through the supply chains to the public.
- d) **Weak productivity growth**.
- e) **Weakening of market competition** and concentrated market power – a potential factor which is being examined by the ACCC along with a focus on renewing National Competition Policy reforms.

The housing affordability crisis is not a domestic phenomenon. Rising housing costs have been reported in various parts of the world, including in advanced economies such as Canada, the UK and parts of Europe.³

Nationally, Australian universities, including the Group of Eight (Go8) universities, together with purpose built student accommodation providers (PBSA), are heavily investing in the supply of affordable student accommodation to address the needs of students.

Go8 universities either provide or facilitate access to accommodation for over 83,000 students. The total accommodation available via the Go8 is approximately two international students for every per student accommodation supply that Go8 members provide/facilitate access to. There are approximately 10 international students for every directly owned university per student accommodation supply.

Go8 members also have a substantial forward plan of additional supply across the next decade, and it is likely that other universities have similar accommodation strategies in place.

DEMAND-SIDE IMPACTS OF INTERNATIONAL STUDENTS

There is no question that certain cohorts of international student arrivals have made a significant contribution to the recent increase in net overseas migration and contributed to demand in the Australian economy, including demand for housing.

Over the past year international students have contributed to demand in the economy. International students spend money on Australian goods and services, which helps businesses across the economy be profitable, employ Australians, and pay taxation, contributing to revenue which in turn can (and is) be utilised on public services.

by international students, this supports 8.78 (headcount) jobs throughout the Australian economy.⁴

The immediate contribution of international students to Australia's economy is estimated by a National Australia Bank (NAB) analysis.⁵ The analysis shows that spending by

... for every \$1 million of off-campus non-fee expenditure by international students, this supports 8.78 (headcount) jobs throughout the Australian economy.

Spending by international students supports employment in Australia, both within the education sector and also more broadly across the economy as well as being a source of labour supply. Previous analysis by London Economics (2021) of the economic impact of Go8 universities suggests that for every \$1 million of off-campus non-fee expenditure

international students was responsible for an 0.8 per cent increase in GDP in 2023, over half of the recorded 1.5 per cent economic growth. To quote the Minister for Skills and Training, Brendan O'Connor on this analysis:

"So, the numbers are in. And it's a two-way story of opportunity".⁶

1 James Hansen and Alicia N. Rambaldi. (2022). 'How do homes transfer across the income distribution? The role of supply constraints', Paper prepared for the 37th IARIW General Conference, 26 August. <https://iariw.org/wp-content/uploads/2022/07/Hansen-Rambaldi-IARIW-2022.pdf>

2 Tom McLroy and Campbell Kwan. (2024). 'IR laws thwart Australia's housing targets: builders'. Australian Financial Review. 9 April. <https://www.afr.com/politics/federal/ir-laws-thwart-australia-s-housing-targets-builders-20240408-p5f12n>

3 Albert Saiz. (2023). 'The global housing affordability crisis: policy options and strategies', IZA Policy Paper No. 203, October.

4 London Economics. (2020). *The economic impact of Group of Eight universities*. https://www.go8.edu.au/Go8_London-Economics-Report.pdf

5 National Australia Bank. (2024). *Markets Research, Macro-Thematic – International students drove growth in 2023*.

6 The Hon Brendan O'Connor MP, Minister for Skills and Training. (2024). *Launch of the Pearson Migrant and Student Study*, Press Release, 21 March 2024.

DEMAND-SIDE IMPACTS OF INTERNATIONAL STUDENTS

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ABS data also shows that spending by international students almost halved to \$22 billion in 2021 (from \$40 billion pre-pandemic) during COVID-related border closures. In fact, the impact of reduced international student numbers was such that the former Prime Minister, Scott Morrison noted it was one of the drivers to re-open the borders in early 2022:

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"we also want [students] to come here and be able to be filling some of these critical workforce shortages, particularly those who are working and being trained in healthcare, aged care, those types of sectors, that will be incredibly helpful".⁷

At a time when the 3–Ps (Productivity, Participation and Population) to economic growth show weak productivity growth and limits to growing participation, Australia is relying on population growth to prevent slipping into weaker economic

growth territory. And it is international student arrivals, through (temporary) population, supporting Australia.

In 2023, spending by international students was responsible for an 0.8 per cent increase in GDP. Recent evidence from the Reserve Bank of Australia (RBA) suggests that growth in total consumer spending, which includes the demand side effect of increased

international student arrivals, has recently slowed.⁸ The NAB expect students' contribution to GDP growth to slow to around ¼ percentage points over 2024. The ABS also recognises the temporary nature of the increase in net overseas migration from international students:

"Many of those now arriving on temporary visas, such as international students, may start to leave as they finish their studies in the coming years. This would have a downward impact on net overseas migration in the future".⁹

INTERNATIONAL STUDENTS AND DEMAND FOR HOUSING

Strong population growth, including net overseas immigration underpinned by international student inflows does raise demand for housing. RBA modelling shows that an increase in population growth reduces rental vacancies, increases rent and housing prices (albeit the impact on housing prices is small, relative to the role of interest rate changes), but also increases construction (supply of housing).¹⁰

It is overstated to blame Australia's **national** housing crisis on international student arrivals, particularly when stronger demand has not been met by supply. **New housing supply falling short of increased demand is a key driver.** Chart 1 shows that from the peak of March 2021, the monthly number of houses approved for construction has fallen by approximately 46 per cent.

While the relationship between demand from international students for housing and vacancies and rents may well be stronger in locations closer

to education institutions and in inner cities where demand already exceeds supply, the relationship between residential vacancies and international student arrivals is not straightforward.

The national residential vacancy rate relative to the seasonally adjusted number of international student arrivals is presented in Chart 2. The expectation that a stronger number of international student arrivals is associated with a lower national vacancy rate due to international students significantly raising demand relative to supply, does not hold.

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7 <https://www.skynews.com.au/australia-news/politics/scott-morrison-pleads-with-backpackers-and-foreign-students-to-return-to-australia-as-country-faces-workforce-shortages/news-story/82721a14a94b0c8882d37a5400ad2373>

8 Reserve Bank of Australia. (2024). Statement on Monetary Policy, February. <https://www.rba.gov.au/publications/smp/2024/feb/pdf/statement-on-monetary-policy-2024-02.pdf>

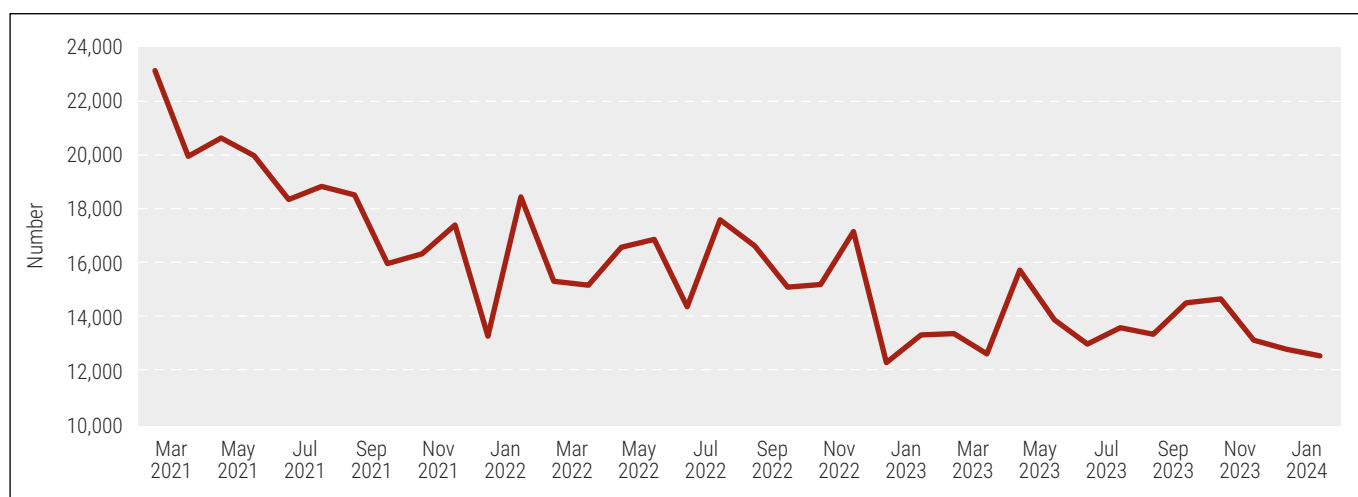
9 Australian Bureau of Statistics. (2023). 'Record high net overseas migration driven by temporary visa holders in 2022–23', Media Release, 15 December.

10 Saunders, T., & Tulip, P. (2019). 'A model of the Australian housing market', Reserve Bank of Australia Research Discussion Paper, 2019-01.

INTERNATIONAL STUDENTS AND DEMAND FOR HOUSING CONTINUED

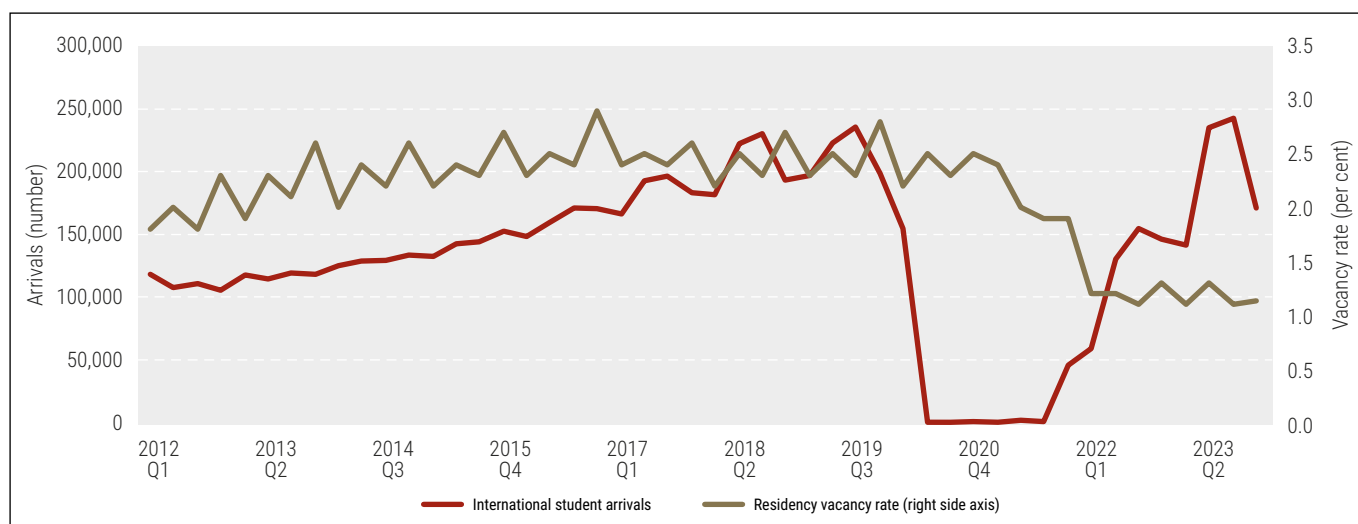
- For example, in the first part of the sample from 2012 to 2019, Chart 2 shows the national residential vacancy rate was generally increasing as the number of international student arrivals also increased. There is a positive association instead of a negative correlation.
- During the COVID-19 pandemic, many international students returned to their home countries, and arrivals were significantly reduced to approaching zero during stages of 2020. Yet over this period, Chart 2 shows the national residential vacancy rate continued to decline (including reflecting a withdrawal of supply of residential properties in response to the pandemic).
- Finally, Chart 2 shows from 2022–2023, international student arrivals have rebounded from the COVID-19 lockdown period whereas the national vacancy rate has remained relatively stable, albeit at a low level.
- The spike in international student arrivals from the near zero levels in 2020 also reflects pent-up demand during the COVID-19 lockdown period. Using 2019 as the "base year" suggests potentially around 174,000 commencing higher education international student arrivals reflect this unmet demand over 2019 arrival levels. This figure does not include students whose studies in Australia were interrupted by COVID-19 and chose to defer rather than continue studying through hybrid course delivery from overseas. Once this spike in pent up demand subsides, there will likely be a return to steady growth.
- In addition, while the portion of temporary student visa holders increased substantially in 2022–23, there is still the natural turnover of students in the sense that a significant proportion of students return overseas after graduation, which is in part a normalising of international student flows.

Chart 1: Number of dwelling units approved



Data source: ABS, Building Approvals, Australia.

Chart 2: International student arrivals and national residential vacancy rate



Data source: International student arrivals – ABS 3401.0 Overseas Arrivals and Departures, Australia, with aggregation to quarterly and seasonal adjustment. Residential vacancy rate – SQM Research: <https://sqmresearch.com.au>

WHAT ABOUT THE IMPACT OF INTERNATIONAL STUDENTS ON HOUSING IN METROPOLITAN AREAS?

The relationship between housing demand and international student arrivals may well be stronger in locations closer to education institutions and especially in inner cities. This is particularly pronounced for Sydney and Melbourne, where the latest ABS data shows significant increases in net overseas migration in areas around major universities in the two cities.¹¹ These are localities where demand for housing already exceeded supply before the recent spike in net overseas migration.

But several factors should be considered:

- In general, international students tend not to have the same collateral and financial means to compete in high rent areas, therefore if there is any causation of people being priced out of rental accommodation, it may be international students that are being priced out of inner city and sought after locations. Evidence suggests that international students are struggling to afford inner-city apartments, as was the case pre COVID-19.¹²
- Some international students seek bespoke student specific accommodation on or around education campus and this accommodation is not generally open to non-students. Accommodation that is tailored to both international and domestic students and is different to the type of private rentals usually in demand by domestic non-student residents include:
 - » University owned accommodation.
 - » Affiliated residential colleges.
 - » PBSA owned/managed in some form of partnership or lease arrangement with the university and a private provider, e.g. Scape.
 - » PBSA entirely privately owned/operating but with universities advertising to students.
 - » Vetted private rental accommodation.
 - » Other options such as “homestays”.
- Where international students do compete with domestic residents for private rentals, some are likely to be in “share homes” where there could be several students living on one property.

¹¹ Australian Bureau of Statistics. (2024). *Regional population*. <https://www.abs.gov.au/statistics/people/population/regional-population/2022-23#data-downloads>

¹² Morris, A., Ashton, L. & Wilson, S. (2022). 'International students and the impacts of precarity: highly and extremely precarious international students in Sydney and Melbourne prior to and during the COVID-19 pandemic'. Sydney: Institute for Public Policy and Governance, University of Technology Sydney.

BROADER SUPPLY-SIDE IMPACTS OF INTERNATIONAL STUDENTS

More broadly on the supply side, in the immediate term, international students help relieve supply side constraints through their labour force participation. Over the medium to longer term, the contribution of international students to Australia is even more profound:

- International students reflect Australia's standing and reputation as a place to be. It assists in our soft diplomacy and cultural and social prosperity. It assists the peoples and countries around us, particularly from developing economies that see Australian education as a way of lifting their own prosperity.
- providing additional funding to universities, including for research, capping international students will put a direct hole in those finances, especially research activities.¹³ Media reports suggest that some universities are already experiencing the effects of slowing international student enrolments even before any capping or other restrictions.

For example, Federation University is reported to be making about 200 staff redundant due to a fall in revenue and international student enrolments.

- Income from international students is effectively propping up our national R&D effort and financing our universities. In the absence of the Australian Government

For example, Federation University is reported to be making about 200 staff redundant due to a fall in revenue and international student enrolments.¹⁴

¹³ Tim Dodd. (2024). 'Universities face \$500m revenue loss from student visa debacle', *The Australian*, 10 April 2024.

¹⁴ Rochelle Kirkham and Steve Martin. (2024). 'Tertiary education union calls for Federation University leaders to resign after announcing redundancy plans', ABC Ballarat, <https://www.abc.net.au/news/2024-04-08/tertiary-education-union-federation-university-redundancy-plans/103680816>

BROADER SUPPLY-SIDE IMPACTS OF INTERNATIONAL STUDENTS CONTINUED

■ Longer-term skills shortages have been one of the most talked about problems facing our nation. International students studying in Australia can and do assist in alleviating skill shortages both in cities and the regions. The great majority of international students do not stay in Australia – so cracking down on international student visas will not affect overall migration in the medium term. Moreover, we should be encouraging more international students

that graduate from our leading universities to seek residency and stay in Australia in the long-term, not less. Our domestic and ageing workforce is not enough to meet our needs.

■ We are in a global race for the most talented, smart and entrepreneurial people if we are to prosper. We need the brightest international students who go on to earn advanced qualifications (HDRs) and experience to help

Australia's drive to become a knowledge economy. If we want to lift productivity then we need our domestic workforce to be augmented by high quality international students, across STEM fields of study, cyber security, defence, engineering and energy sectors. In STEM fields, this is getting more challenging when fewer domestic students take STEM subjects in their high school studies.

■ With a focus on becoming a more complex economic and export-oriented economy, international students are contributing to this as our largest **valued added** services export. Whether an international student levy on Australian universities, or a cap on student numbers – the same result is a damaging policy 'own goal' to our services exports, making the nation poorer (net exports directly feed into our GDP figures).

PARALLELS WITH CANADA?

Canada has recently imposed a two-year cap on new international students visas and restricted eligibility for post-graduate work permits and related permits to spouses of students in an attempt to slow a rapid increase in temporary residents and reduce pressure on its housing and health care services. This is in the context of cracking down on "unscrupulous actors" that have taken advantage of international students and providing a poor education.¹⁵

While this policy is still in its infancy, the negative implications for the Canadian higher education sector and broader economy have been highlighted,

including negative impacts to the sustainability of labour markets, diversity and meeting the needs of high-growth sectors.¹⁶

¹⁵ Speaking notes for the Honourable Marc Miller, Minister of Immigration, Refugees and Citizenship: Announcement related to Temporary Residents. March 21, 2024. <https://www.canada.ca/en/immigration-refugees-citizenship/news/2024/03/speaking-notes-for-the-honourable-marc-miller-minister-of-immigration-refugees-and-citizenship-announcement-related-to-temporary-residents.html>

¹⁶ Colleges and Institutes Canada and Universities Canada. (2024). *Open Letter to Minister Miller: Concerns Regarding January 22nd, 2024 Announcement on International Student Program*. <https://www.collegesinstitutes.ca/news-release/open-letter-to-minister-miller-concerns-regarding-january-22nd-2024-announcement-on-international-student-program/>

SOLUTIONS TO AUSTRALIA'S HOUSING AND OTHER COST OF LIVING PRESSURES

If the Australian Government's resolution is that net overseas migration numbers must be eased, a blunt instrument such as immediate caps on international students attending Australian universities is not a smart solution as already outlined.

The Go8 does support **targeted** interventions to tackle "ghost colleges and visa factories" together with strengthened English language requirements for visas to ensure the integrity of Australia's (international) education and migration systems.¹⁷

More fundamentally Australia needs to ease constraints on housing supply, whether they be input costs, regulatory

burdens, and/or skill shortages in trades. The housing and other accommodation supply issues, on the back of years of underinvestment cannot be solved overnight, and the newly formed National Housing Supply and Affordability Council and Housing Australia Future Fund will need to be effective in significantly boosting supply, including affordable social housing.

¹⁷ The Hon Clare O'Neil MP, Minister for Home Affairs. (2024). 'Albanese Government continues to deliver on Migration Strategy', *Press Release*, 21 March 2024. These measures form part of a broader suite of measures in relation to the international education sector.