

Copyright notice

© Copyright Monash University and the author 2002

Within the limits laid down by the Fair Dealing provisions of the Australian Copyright Act 1968 as amended, you may download, save and print article files for the purpose of research or study and for the purposes of criticism or review, and reporting news, provided that a sufficient acknowledgment of the work is made. If you are obtaining an article on behalf of someone else, you may forward a printed copy but not an electronic copy of the article to them. Other than this limited use, you may not redistribute, republish, or repost the article on the Internet or other locations, nor may you create extensive or systematic archives of these articles without prior written permission of the copyright owner.

For further information contact:
Centre for Population and Urban Research
P.O. Box 11A
Monash University
Clayton, Victoria, 3800
Australia.
Phone: 61 3 9905 2965
Fax: 61 3 9905 2993
peopleandplace@arts.monash.edu.au

MIGRATION AND THE HOUSING AFFORDABILITY CRISIS

■ **Bob Birrell and Ernest Healy**

The decline in housing affordability in Australia has coincided with a sharp rise in net overseas migration. The coincidence has prompted speculation that the two phenomena are causally related, as well as denials from some politicians and developers that any such relationship exists. This article provides projections of household formation which indicate the likely contribution of overseas migration to household growth for Australia's metropolises. It then assesses the role that migrant demand for housing plays in housing affordability outcomes. It concludes that this role is important, particularly in Sydney, where around half the growth in households is attributable to overseas migration and where there are severe geographical and planning constraints on housing supply.

The escalation of housing prices and the associated drop in affordability for aspiring homeowners, particularly over the past several years, has focussed attention on overseas migration as a possible contributing factor. Most commentators are now aware that net overseas migration to Australia has again reached very high levels. These levels may be revised down, for reasons indicated in the accompanying article by McDonald, Khoo and Kippen. However, according to the Australian Bureau of Statistics (ABS), there was a net gain of some 140,000 persons entering and leaving Australia on a permanent or long-term basis in each of the two calendar years 2001 and 2002. These figures are around double the levels of the first half of the 1990s.¹ Not surprisingly, this has led to speculation that the housing price spiral is related to this surge in numbers.

The reaction from Coalition Government leaders has been to deny any such link. Any association between migration policy outcomes and housing prices is said to be coincidental rather than causal. According to the Prime Minister, the immigration argument 'loses a bit of its sting when you look at the fact that immigration, although it's very heavily concentrated in Sydney, hasn't

altered the fact that house prices are rising all over the country'.² For his part, the Treasurer, Peter Costello's contribution to the debate has been to imply that recent migrants are too poor to be a factor in the housing price spiral:

I think it's a bit unfair to blame house price rises on migrants. In my experience migrants that are coming into Australia are not the kind of people that are likely to be bidding up house prices. They generally come in with not very much, and if anybody is suggesting to you we can blame migrants for house prices, I think that's a bit unfair.³

Philip Ruddock, the Minister for Immigration, takes a different tack. He does not deny that a high migrant intake could influence Sydney's housing price structure. Rather, he argues that this intake is being counterbalanced by an outflow of people from Sydney. In his words:

There is a view that Sydney is under enormous pressure because of immigration. It's the case that the larger proportion of migrants settle in Sydney, but it's also the case that very large numbers of people move from Sydney. And if you actually look at the statistics, what you find is that the two fastest growing areas in Australia are south-east Queensland, and south-west areas of

Western Australia... And I think sometimes the Sydney claims are greatly exaggerated. The fact [is] that migrants come, and others move out, it doesn't necessarily put greater pressure on Sydney than is occurring in other parts of Australia.⁴

Ruddock's claim reflects a recent report compiled for the Department of Immigration and Multicultural Affairs by Ross Garnaut, in which Garnaut argues an essentially similar case.⁵ Business economist Chris Richardson (Access Economics) in a piece headed 'The Migration Myth' repeats the point. He claims that Sydney has been growing slower than the rest of Australia including over the last five years. The reason is that 'for each Kiwi into Bondi or Vietnamese in Cabramatta, an existing Sydney resident... ups and leaves town'.⁶ He concludes that the answer to the problem 'does not lie in turning our back on immigrants'.

This defence of immigration has been taken up by the housing industry and, in turn, by some media commentators. For instance, a recent Housing Industry Association press release headed 'Migrant bogey blame shift' claims that Sydney and Melbourne are not growing as rapidly as the rest of Australia:

The fact that Sydney is not growing as fast as the rest of Australia exposes one of the greatest immigration myths. Sydney does not retain recently arrived migrants. Certainly about 900 migrants a week come to Sydney. But, about 840 people a week are leaving Sydney. Increasingly, Sydney is more of a staging point than a final destination for migrants.⁷

Similarly, in July this year, George Megalogenis of *The Australian* reiterated this view with the claim that Sydney was shedding residents to 'all points of the nation', particularly to non-metropolitan

NSW. This outcome, in his view, was a direct challenge to NSW Premier Bob Carr's 'ritual complaint' that Sydney was not coping with the scale of migrant intake.⁸

AN ASSESSMENT OF POPULATION FUTURES FOR SYDNEY

To the extent that there is any factual basis for these assertions, it derives from ABS estimates which show that, since mid-2001, there has been an increase in the net loss of NSW residents to interstate locations (shared by Sydney). Partly as a consequence, Sydney is estimated to have grown by 40,000 in 2001-02, well below the 59,000 figure estimated for 2000-01 and the figure of around 50,000 per annum for years between 1996-1997 and 1999-2000.⁹ If there were a sustained rise in the net annual internal migration loss from Sydney, it would imply a slow down in Sydney's population growth. This issue needs to be addressed at the outset, because if there were a plausible case for such a loss it would undermine the analysis conducted below.

However, the commentary described above is incorrect where it implies or asserts that Sydney has been losing large numbers of people for an extended period and thus that population growth can be discounted as a factor in explaining the housing price bubble in Sydney. Contrary to Richardson's claim above, over the period 1996 to 2001, Sydney's population grew at a slightly faster rate than Australia as a whole.¹⁰ Moreover, Sydney has not functioned as a dispatch point for overseas migrants nor are local residents leaving in significant numbers. According to the ABS, Sydney experienced a net loss of just 60,628 persons to other locations in Australia in the five years between 1996 and 2001 or an average of about 12,000 per year. Our analysis of the

birthplace composition of this loss indicates that it is almost entirely comprised of Australian-born persons. Very few migrants are leaving Sydney and, of those that are, almost all are from English-speaking background birthplaces.¹¹

As indicated in Footnote 10, the ABS currently estimates that between 1996 and 2001 Sydney grew by 247,136 persons, the main reason being that Sydney maintained its high share of an increasing net migration intake to Australia. This gain was only partially offset by the net loss of 60,628 from internal migration noted above. Is there any reason to believe that this situation will change? Our view is that Sydney is unlikely to experience a sharp increase in net out migration, as it is the focal point of job generation in New South Wales. This stems from Sydney's role as Australia's major global city and the employment spin-offs associated with this, particularly in the business services sector.¹² McDonald and Kippen make a similar point in their recent study of Sydney's population prospects. For this reason, they assume that Sydney will continue to experience net internal migration losses of between 8,000 and 12,000 per year.¹³

Projections built on a continuation of these assumptions, along with net overseas migration to Australia of 90,000 to 100,000 per annum, indicate that, over the next twenty years, Sydney will gain at least one million people. Most of this growth will be attributable to net gains from overseas movement.¹⁴ The projection used below to assess household growth between 2001 and 2021 (derived from the 1999 ABS projections)¹⁵ builds on similar assumptions and likewise indicates that Sydney will grow from 4.1 million in 2000 to 5.1 million in 2021.

The matter has been complicated by the release of new population projections (in Sept 2003) by the ABS. In these projections the 'medium' series for Sydney includes the assumption that Sydney will lose 33,000 persons per annum through internal migration. This compares with the actual loss noted above of around 12,000 per annum in the 1996 to 2001 period. The ABS provides no explanation for choosing this assumption. In the absence of an explanation, we believe the assumptions used in our household projections for Sydney remain valid. The ABS accompanies its assumption of very high net internal losses for Sydney with an assumption of very high net overseas migration. In its 'medium' projection, net overseas migration to Sydney is put at 46,203 per annum (or 46 per cent of Australia's total net overseas migration gain per annum of 100,000) compared with 36,475 in our projection (40 per cent of 90,000 net annual migration to Australia). The net effect of these two assumptions in the latest ABS projections is that Sydney is expected to grow by 800,000, to 4.9 million, in 2021 (instead of around one million in our projection). In the ABS's new projection overseas migration is the dominant source of population growth in Sydney. If this projection had been used as the basis of the household projections below, the proportion of household growth attributable to migration in our analysis would have been far higher.

Immigration cannot be wished away as a factor in the creation of underlying population-growth component of housing demand. But whether the migration contribution to metropolitan growth in Australia translates into a major impact on housing prices is another matter. This is the subject of the following analysis. But if migration is to impact on the housing

market, it will mainly do so via growth in the number of households. Lest anyone doubt this impact, the actual growth in household numbers for Sydney over the period 1996 to 2001, and the share attributable to overseas-born households is shown in Table 1. The table shows that the number of households in Sydney grew by 76,931 during this period and that 54 per cent was attributable to household heads born overseas. Most of these extra households would have been renters rather than purchasers (see Table 5 below). Nonetheless, they were occupying dwellings and thus contributing significantly to the growth in demand for housing in Sydney. They provided an important part of the scaffolding, which holds up the Sydney housing market.

HOUSING PRICE DRIVERS DURING THE 1990s

The housing market is driven by a number of forces. These include the underlying demography of the market; this does not just influence the overall size of the population, it affects the rate of household formation. A population composed of large numbers of young adults will generate significant growth in the numbers of new households looking

for accommodation. So too will any tendency towards smaller household size. Between 1991 and 2001, Australia's population increased by 12 per cent while the number of households increased by 21 per cent.¹⁶ This is in part because, during the same period, the mean household size in Sydney declined from 2.8 to 2.7 persons with one of the main contributors being growth in the number of lone person households.¹⁷ Migrants, whether from internal or overseas sources, provide an additional housing demand component.

On the supply side, the capacity of the building industry to provide the additional houses or units needed will vary according to local conditions. If the elasticity of supply is high, then extra demand may be met quickly and without major cost implications. On the other hand, if there are geographical or planning constraints upon extra supply, even a small increase in demand could set off a significant price escalation.

Finally there is a third group of factors associated with the financial setting of the housing market. This includes the extent to which investors have favoured property over shares (as has been the case in the last couple of years), and the interest rate environment together with

Table 1: Households* by birthplace of household reference person, usual residence on census nights, 1996 and 2001, Sydney Statistical Division

	Birthplace of reference person **					Total
	Australia	Overseas born			Other	
		NESB	MESB	Total		
Households 1996	772,644	348,511	152,037	500,548	16,238	1,289,430
Households 2001	793,840	385,144	157,240	542,384	30,137	1,366,361
Growth 1996-2001 [#]	21,196	36,633	5,203	41,836	13,899	76,931
Per cent of total growth	27.6	47.6	6.8	54.4	18.1	100.0

Source: Australian Bureau of Statistics, customised 1996 and 2001 Census matrices held by Centre for Population and Urban Research

* Consists of the reference person in the primary family of a family household and the reference person in a non-family household (group and lone person only).

** Australia includes External Territories: NESB = non English speaking background; MESB = main English-speaking background (UK and Ireland, New Zealand, United States of America, Canada and South Africa); Other = inadequately described, at sea, not elsewhere classified and not stated.

[#] Growth in the number of households headed by overseas-born persons could be due to arrivals since 1996 or to new households formed by persons arriving prior to 1996.

the ease of access to housing finance for prospective homeowners or investors.¹⁸

It is this third set of factors which has dominated recent commentary on the housing price spiral. Since the 1990s, droves of investors have been attracted to the purchase of units and houses, thus providing a huge impetus to demand. This upsurge in the purchase of residential property for investment purposes was facilitated by deregulated borrowing arrangements that were used extensively during the 1990s, a development that triggered alarm bells within the Reserve Bank of Australia.¹⁹ Over the past decade, the ratio of household debt to household income in Australia increased from 56 to 125 per cent, with housing debt presently accounting for 83 per cent of the total debt.²⁰ Significantly, while owner-occupier borrowing remains the largest part of housing debt, borrowing for housing investment has become the fastest growing component of household debt and now represents 30 per cent of the stock of housing loans.²¹ Lending for housing investment has grown annually by 21 per cent since 1990, compared with a 13.5 per cent annual growth rate for owner occupation.²² Investors are now a major factor in fuelling the housing price spiral. Once underway, such spirals feed on themselves as new players are drawn into the market in the hope of sharing the spoils. These players look to areas that have not yet been caught up, even including Tasmania.

Partly as a consequence, housing price increases have occurred in most Australian cities in the last few years irrespective of the numbers of migrant settlers that they received. Adjusting for increases in the Consumer Price Index, housing price increases over the five years to March 2002 were 30.7, 70.5, 45.8, 23.5, 28.1 and 34.8 per cent in

Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra, respectively.²³

THE ROLE OF MIGRANT HOUSEHOLDS IN THE DEMAND FOR HOUSING

Population growth due to migration is not responsible for this third amalgam of factors. However, the current price spiral would never have taken off in the absence of investor confidence that demand for housing would continue to be strong. Migration contributes to this confidence. This helps explain why the housing bubble has been strongest in Sydney. As Table 2 shows, the 'housing affordability' in Sydney, as defined by the HIA/Commonwealth Bank index, is at a catastrophically low level — far below other metropolitan areas. This is in part because, of all Australia's metropolitan housing markets, Sydney features the greatest constraints on supply (discussed further below). Yet, demand for housing in Sydney continues to grow strongly — in part because of the growth in the numbers of migrant households. This point holds even if, as the Treasurer speculates, recently arrived migrants are no more able to afford to buy a house in Sydney than young Australian couples (see Table 5 below). But they have to live somewhere. Even if their demand for housing is mainly for rental accommodation, this is still vital to investors if they are to fill their properties with tenants.

It is no surprise therefore, that experts like BIS Shrapnel can confidently predict continued buoyant conditions in the property market. According to *The Age*, Shrapnel's latest study says '...waning investor demand in housing was expected to become apparent in 2003-04, with high vacancy rates impacting on demand for investment properties. However, strong

Table 2: Housing affordability index and required loan repayments by region, Australia, March 2002 to June 2003

	Affordability* Index by region					
	Mar-02	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03
NSW Sydney	97.8	89.9	84.0	75.0	79.0	73.9
Remainder	181.9	170.6	148.0	146.0	139.3	126.0
Vic Melbourne	125.8	118.4	109.8	109.6	109.3	102.9
Remainder	206.2	197.0	184.7	172.2	164.1	160.6
Qld Brisbane	163.5	154.7	146.4	137.8	133.8	117.5
Remainder	193.6	187.5	181.6	171.3	169.1	148.4
WA Perth	175.7	173.3	171.3	170.0	161.0	150.0
Remainder	224.3	209.5	181.6	166.6	179.5	165.6
SA Adelaide	186.0	177.5	174.0	160.5	165.0	158.0
Remainder	241.5	230.7	252.1	221.0	197.9	230.3
Tas Hobart	286.2	270.2	239.4	233.5	203.3	187.4
Remainder	325.5	329.4	297.3	284.5	263.9	235.1
ACT	164.4	150.1	135.6	121.4	113.7	108.6

Source: *Housing*, Housing Industry Association, June Qtr 2003

* The housing affordability index used by the HIA is based on the ratio of average disposable income to the income required to meet payments on a typical dwelling. An increase in the index represents an improvement in affordability.

underlying demand from overseas migration was expected to underpin residential construction until 2006'.²⁴

Before further comment about the specifics of particular metropolitan housing, we will first provide household growth projections by domestic and overseas migration sources for the major metropolises.

The following projections were prepared by the ABS for the Centre for Population and Urban Research at Monash University. In 1999, the ABS published projections of households for Australia for the period 1996 to 2021, based on the organisation's assessment of Australian residents' propensities (by age and sex) to form and dissolve households.²⁵ For our projections, the ABS applied its Series II assumptions about the propensity to form households in this publication to projections of population growth for Australia's metropolises. These projections derive from those published by the ABS in 1999.²⁶ We chose the Series II projection, the assumptions of which included that the

TFR would fall to 1.6 and that net overseas migration would be sustained at 90,000 per annum (with Sydney receiving 40 per cent and Melbourne 21 per cent of this 90,000). For internal migration, the assumption was that Sydney would lose net 15,000, and Melbourne net 7000 persons per annum. As argued above, these assumptions are still quite plausible. Indeed they are more plausible than those included in the 2003 ABS population projections.

The ABS prepared two projections for this study, one based on the assumption that net migration to Australia per annum was nil and the other based on the assumption that net overseas migration was 90,000 per annum.²⁷ Table 3 provides the results of these projections. The starting year for the projection was 1999 and the finishing year 2021. The annual growth in households from 2001 and the proportion of this growth attributable to net overseas migration is shown in the table. The component of household growth due to net migration is defined as the difference between the growth in

households where net overseas migration is nil and where net overseas migration is 90,000 per annum.

As Table 3 shows, migration at the net 90,000 per annum level accounts for 25.9 per cent of the overall growth of households in Australia in the initial year 2001-2002. This proportion increases to 48.4 per cent by 2020-2021. There are two main reasons for the increase in the impact of net migration. One is that, during the next twenty years, the numbers of young people in their twenties will slow sharply because of the absolute decline in births in Australia since the early 1970s. This will reduce the rate of household formation. The other is that, in this context, migration becomes an increasing contributor to the growth of persons in this age group. As the table indicates, this contribution increases in numerical terms over the period. The reason is the contribution to household formation of migrant children who reach their twenties over the next twenty years.

The impact of migration varies sharply by metropolis. For Sydney the share of household growth attributable to net migration in 2001-2002 is 47.8 per cent. Migration makes the next biggest impact in Perth where it is projected to contribute 33.5 per cent of household growth, then Melbourne where it constitutes 28.6 per cent of growth in 2001-2002. In all metropolises the significance of the migration component grows markedly over the next twenty years.

Developers and builders are already heavily dependent on immigration to sustain their activities in Sydney. Within a decade those operating in Melbourne and Perth will also be dependent on immigration for nearly half the underlying household growth. This will apply for Australia as a whole by 2021

when 48.4 per cent of household growth will derive from overseas migration.

UNDERLYING DEMAND AND SUPPLY ISSUES

Overseas migration is not responsible for the recent housing price bubble. Nevertheless, the above projections strongly suggest that migrants' need for housing is an important component of the overall demand for housing, especially in Sydney. When the bubble does subside, it will not be the end of story because there will be continued substantial growth in housing demand attributable to new household formation. Table 3 shows that for Sydney, Brisbane and Perth overall household growth will continue at recent levels. For Sydney, the main source of annual household growth is overseas migrants and, in the case of Perth, nearly half the growth is projected to derive from this source. In the case of Melbourne, the projected number of new households will decline significantly between 2001-2002 and 2020-2021. As can be seen, though migration accounts for about 30 per cent of household growth in Melbourne at the beginning the projection period, by the end it reaches 63 per cent of annual growth.

Sydney is the main problem area. Household growth is projected to remain at about 24,000-25,000 per year, well above what will be required in Melbourne. The issue will be whether the property development and building industry can keep pace with demand given the constraints on development (discussed below) in Sydney relative to Melbourne. As for Perth, there are few geographical constraints on further development. All that is required is planning permission to flatten more parcels of heathland across the sandy Swan coastal plain; this is land which, though prized by

Table 3: Projected annual total growth in households and the number and percentage of this growth attributable to net migration by capital city, 2001 to 2021

	Australia			Sydney			Melbourne		
	Total	Migration	%	Total	Migration	%	Total	Migration	%
2001-2002	122,072	31,652	25.9	25,147	12,031	47.8	23,012	6,576	28.6
2002-2003	121,877	32,656	26.8	24,884	12,419	49.9	21,711	6,813	31.4
2003-2004	121,471	33,694	27.7	24,651	12,820	52.0	20,366	7,059	34.7
2004-2005	120,126	34,762	28.9	24,463	13,205	54.0	19,879	7,311	36.8
2005-2006	120,582	35,773	29.7	24,617	13,589	55.2	19,772	7,563	38.3
2006-2007	115,064	36,558	31.8	24,397	13,951	57.2	18,979	7,757	40.9
2007-2008	114,955	37,401	32.5	24,517	14,290	58.3	18,910	7,942	42.0
2008-2009	114,643	38,248	33.4	24,464	14,617	59.7	18,730	8,131	43.4
2009-2010	115,590	39,101	33.8	24,726	14,935	60.4	18,847	8,326	44.2
2010-2011	115,064	39,924	34.7	24,794	15,241	61.5	18,692	8,507	45.5
2011-2012	109,044	40,463	37.1	24,564	15,524	63.2	17,984	8,647	48.1
2012-2013	108,310	41,201	38.0	24,595	15,820	64.3	17,882	8,805	49.2
2013-2014	107,747	41,940	38.9	24,514	16,097	65.7	17,667	8,949	50.7
2014-2015	108,104	42,712	39.5	24,785	16,387	66.1	17,773	9,124	51.3
2015-2016	106,437	43,495	40.9	24,652	16,680	67.7	17,407	9,265	53.2
2016-2017	105,388	44,236	42.0	24,582	16,946	68.9	17,277	9,426	54.6
2017-2018	103,364	44,955	43.5	24,305	17,194	70.7	16,958	9,546	56.3
2018-2019	101,737	45,690	44.9	24,011	17,453	72.7	16,593	9,691	58.4
2019-2020	100,580	46,522	46.3	24,039	17,741	73.8	16,477	9,831	59.7
2020-2021	98,010	47,425	48.4	23,632	18,034	76.3	15,959	10,001	62.7
	Brisbane			Perth			Adelaide		
	Total	Migration	%	Total	Migration	%	Total	Migration	%
2001-2002	13,762	3,045	22.1	11,777	3,950	33.5	5,061	1,076	21.3
2002-2003	14,288	3,145	22.0	12,041	4,067	33.8	4,873	1,123	23.0
2003-2004	14,692	3,243	22.1	12,293	4,219	34.3	4,869	1,163	23.9
2004-2005	14,776	3,328	22.5	12,191	4,368	35.8	4,639	1,199	25.8
2005-2006	14,960	3,431	22.9	12,372	4,488	36.3	4,586	1,244	27.1
2006-2007	14,680	3,506	23.9	11,895	4,577	38.5	4,052	1,264	31.2
2007-2008	14,794	3,581	24.2	11,940	4,676	39.2	3,969	1,289	32.5
2008-2009	14,882	3,670	24.7	12,017	4,803	40.0	4,001	1,333	33.3
2009-2010	15,103	3,739	24.8	12,086	4,925	40.7	3,983	1,360	34.1
2010-2011	15,197	3,817	25.1	12,100	5,030	41.6	3,898	1,387	35.6
2011-2012	14,814	3,860	26.1	11,461	5,081	44.3	3,366	1,387	41.2
2012-2013	14,815	3,927	26.5	11,462	5,184	45.2	3,335	1,434	43.0
2013-2014	14,902	3,992	26.8	11,508	5,296	46.0	3,327	1,447	43.5
2014-2015	15,012	4,046	27.0	11,538	5,400	46.8	3,313	1,465	44.2
2015-2016	14,996	4,125	27.5	11,456	5,500	48.0	3,221	1,504	46.7
2016-2017	14,979	4,195	28.0	11,300	5,585	49.4	3,160	1,519	48.1
2017-2018	14,861	4,241	28.5	11,208	5,682	50.7	3,039	1,547	50.9
2018-2019	14,805	4,302	29.1	11,186	5,772	51.6	2,937	1,569	53.4
2019-2020	14,693	4,372	29.8	11,082	5,868	53.0	2,832	1,600	56.5
2020-2021	14,551	4,439	30.5	10,959	5,987	54.6	2,669	1,628	61.0

Source: Australian Bureau of Statistics, Customised projection of household growth.

Note: The total households projected if nil net migration was the case can be obtained by subtracting the 'Migration' column from the 'Total' column.

conservationists, has few other commercial uses.

URBAN GROWTH IN SYDNEY

By contrast, Sydney is physically hemmed in by the Blue Mountains to the west and a string of national parks on its flanks. In addition, all prospective development on the existing urban frontier drains into the Nepean/Hawkesbury river system, a system vulnerable to pollution. In part, this is because the river flow has been reduced, a reduction imposed by the fact that the headwaters of this river system are the main source of Sydney's water supply.

Development of this frontier is possible, but highly contested because of the value of alternative uses (commercial agriculture, hobby farms, nature reserves and future airports to name just a few). The controversy over recent proposals for development in Sydney's North-West are a case in point.²⁸ Furthermore, any such development has become very expensive, in part because concerns about water pollution (from sewerage and storm water) have prompted the NSW government to invoke stringent water pollution standards. In addition, the NSW government has pursued a policy of charging developers the full cost of infrastructure provision (including for arterial roadways) attributable to the new households their estates provide for. Though a sensible policy, it contrasts sharply with that of the Victorian government (see below) and has led to the imposition of very high levies on developers. Developers either pay Sydney Water to provide water, sewerage and drainage facilities or construct these themselves. The drainage facilities usually have to be to a high tertiary standard because of concern about drainage into the Nepean/Hawkesbury. In addition, developers pay so-called Section 94 contributions, which cover arterial roads, open space, and social infrastructure. According to the NSW

Property Council, these contributions have reached around \$50,000-\$60,000 per block of land (even for very small blocks of around 450 square metres).

The result in Sydney is a small output of blocks for detached housing—relative to Melbourne. The NSW Government indicates that the number of lots produced in greenfield areas on Sydney's fringe fell from 8,107 in 1998-1999 to 5,214 in 2001-2002 and that no significant increase is anticipated in the next couple of years.²⁹ There has been a downward trend in the proportion of Sydney's annual increase in dwelling stock located in fringe greenfield areas, from 42.2 per cent in 1993-94 to less than 30 per cent in the late 1990s and further since that time.³⁰ By contrast, in 2001-2002, more than 10,000 residential lots were produced on the fringe of Melbourne.³¹ Sydney developers thus focus on the top end of the market in order to maximise their return. Blocks of just 450 square metres on the frontier in Liverpool cost around \$250,000 and well above this level in more up-market frontier areas, again far above prices for comparable blocks in Melbourne. First-homebuyers in Sydney are effectively priced out of the suburban fringe market. The latest median house price data for Sydney (March Quarter 2003) indicate that there is nothing available under the \$300,000 price bracket on the Sydney fringe. In the case of the Rouse Hill area, developed during the 1990s, the median price of houses is \$495,000 (in post code 2155).³²

The response in Sydney has been a focus on semi-detached housing or units. As Table 4 shows, by 2002-2003, only 34 per cent of new dwellings in Sydney were detached houses, compared with 62 per cent in Melbourne. Much of this higher density development has occurred on brown field sites or via the redevelopment

of existing residential areas. The result is an intensification of development, which has radically changed the look and feel of the city — to the chagrin of many residents. Nor is this a cheap option. It is expensive to purchase areas suitable for demolition and developers also face expensive Section 94 infrastructure contributions. The consequence is that the new dwellings also tend to be well beyond the financial reach of aspiring first homeowners.

Table 4 also supports the contention that there is a low elasticity of supply in the Sydney housing market. Notwithstanding the demand for housing in the current housing price boom, the supply response has been muted, with the output of new houses and units not as high in 2002-2003 as it was in the mid 1990s. On the other hand, there has been a strong supply response in Melbourne

. Not surprisingly, the Treasurer's comment cited above turns out to be right. As Table 5 shows, few recent migrant arrivals own or are purchasing their dwelling. Perhaps with time, they may approach the high home ownership rates of overseas-born persons who arrived in Australia before 1985 and now live in Sydney. However, this is problematic, given that only relatively affluent households are likely to be able to purchase housing in Sydney in the foreseeable future.

While migration remains at present levels no change in this situation in Sydney is likely. Perhaps some baby boomers will cash in their housing chips and move to the coast. But, as noted earlier, there is no evidence that recently arrived migrants to Sydney will relocate out of Sydney. The inability to purchase housing — so evident from Table 5 — is

Table 4: Building approvals for new dwellings by type, Sydney and Melbourne, 1996-1997 to 2002-2003

	Number			Per cent		
	Houses	Other	Total*	Houses	Other	Total
Sydney						
1996-1997	13,884	16,668	32,349	42.9	51.5	100.0
1997-1998	15,681	18,391	35,847	43.7	51.3	100.0
1998-1999	15,350	18,493	35,044	43.8	52.8	100.0
1999-2000	16,180	15,925	32,881	49.2	48.4	100.0
2000-2001	9,789	11,431	21,899	44.7	52.2	100.0
2001-2002	13,221	18,119	32,120	41.2	56.4	100.0
2002-2003	10,555	19,023	30,686	34.4	62.0	100.0
Melbourne						
1996-1997	13,862	6,255	21,305	65.1	29.4	100.0
1997-1998	20,429	6,794	28,252	72.3	24.0	100.0
1998-1999	20,930	8,346	30,831	67.9	27.1	100.0
1999-2000	26,326	11,376	39,240	67.1	29.0	100.0
2000-2001	17,460	9,121	27,871	62.6	32.7	100.0
2001-2002	25,613	10,603	37,332	68.6	28.4	100.0
2002-2003	22,589	12,779	36,276	62.3	35.2	100.0

Source: ABS, *Building Approvals, NSW* and *Building Approvals, Vic*, 1997, 1998, 1999, 200, 2001, 2002 and 2003

* Total includes conversions and dwelling units approved as part of alterations and additions or the construction of non-residential buildings.

Table 5: Household reference persons[#] by birthplace by tenure/landlord type, by time of arrival, Sydney, 2001 Census (reference persons[#])

Birthplace	Year of arrival	Per cent					Total	Number	
		Fully owned	Being purchased*	Rented private landlord	Rented other	Other tenure			Tenure not stated
Overseas	Pre 1985	53.1	21.1	14.3	7.1	2.1	2.2	100	328,337
	1986-1995	24.9	30.4	32.3	8.0	2.3	2.1	100	127,695
	1996-1998	13.8	16.4	60.1	5.3	2.0	2.3	100	34,574
	1999-2001	6.4	6.1	79.3	4.2	1.7	2.3	100	33,601
	Total	40.5	22.0	26.0	7.1	2.2	2.3	100	542,384
Australia		40.9	27.2	21.0	6.8	2.5	1.7	100	793,821
Total**		40.7	24.8	22.9	7.0	2.4	2.2	100	1,366,342

Source: Australian Bureau of Statistics, customised 2001 Census matrix held by Centre for Population and Urban Research

[#] Includes reference persons in family, group and lone persons households only.

* Being purchased includes being purchased under rent buy schemes where purchasers are both purchasing some equity in the dwelling and paying rent for the remainder.

** Total includes inadequately described, not stated.

not deterring migrant settlement in Sydney.

MELBOURNE

Melbourne is far more favourably placed on the supply side of the housing market equation. As Table 3 shows, the underlying demand from household growth is currently about 20 per cent below that for Sydney. In twenty years time, it will be 32 per cent below that of Sydney. As a result, vacant block prices on the outer suburban frontier, as in Cranbourne, were around \$60,000 to \$70,000 in 2002 and around \$80,000 in Whittlesea.³³ Despite these favourable circumstances, Melbourne too has experienced a housing price spiral. As acknowledged, this cannot be attributed to recent migration levels. Nonetheless, Melbourne is beginning to experience dwelling supply problems, which are exacerbating the imbalance between demand and supply in the housing market. These problems are partly attributable to recent State Labor government planning innovations. They stem from the State government's declaration that Melbourne is to henceforth develop on 'compact city'

lines.³⁴

To this end, the Victorian Government's *Melbourne 2030* planning statement has placed an administrative limit on housing development on the suburban frontier. The Government acknowledges that one motive is to avoid the costs to the state budget of providing infrastructure in fringe locations. The Victorian Government could charge developers for this infrastructure. But this is not its policy. For example, the frontier of the city's most important development corridor to the South East is located in the City of Casey. In Casey, the equivalent to Sydney's Section 94 contribution is currently no higher than \$3000 per block on new estates.

Rather than charge developers (or ultimately those purchasing the homes constructed) for the costs of this infrastructure, the Victorian State Government has imposed a tight urban growth boundary. *Melbourne 2030* provides sufficient land on the fringe for only 31 per cent of the anticipated need for new dwellings over the period 2001-2030 (down from 38 per cent over the period over 1996-97 to 2000-2001).³⁵ Instead, the main source of supply for

new dwellings will be 'strategic development sites' within established urban areas. New dwellings in these sites (which are to be located within 400 metres of the major suburban activity centres throughout Melbourne) are projected to provide 41 per cent of the dwellings needed between 2001-2030, up from 24 per cent in the 1996-97 to 2000-2001 period.³⁶ In contrast to Sydney, these constraints on frontier development are not attributable to physical limits to growth or even to significant environmental constraints. In particular, the South Eastern growth corridor could extend from Casey all the way to the La Trobe Valley without major problems.

Since the imposition of the new growth boundary, developers have engaged in a competitive scramble for the remaining undeveloped land designated for suburban expansion within the *Melbourne 2030* boundaries. In the case of the South Eastern growth corridor, the price for land in the City of Casey which can be developed has jumped from around \$200,000 per hectare before *Melbourne 2030* to \$400,000 per hectare since its publication. These land costs are now adding to a sharp increase in the price of house/land packages in Cranbourne (which is the main focus of development in Casey), from around \$150,000 to \$200,000 or more. The favourable situation regarding the affordability of block prices (relative to Sydney) is also changing. On new estates in Cranbourne, blocks are currently selling for \$100,000 or more, well up on the 2002 figures cited above.

As for the development proposed in the 'strategic development sites', this is only just getting underway. Prices of such dwellings start at the \$300,000 plus range. There is no guarantee that development in these 'strategic' sites will reach

the levels postulated by the government, especially when the suburban communities affected realise the scale of redevelopment entailed. If so, the implication is that the compact city strategy may well create an artificial scarcity of new dwellings, especially those accessible to low or modest-income households.

Such an outcome would be consistent with the experience of cities overseas which have introduced urban growth boundaries. In Portland, Oregon, for example, densities did not reach the levels planned for and, partly as a consequence, Portland's housing market now ranks amongst the least affordable in the U.S.A. This is an outcome that some analysts blame on the imposition of an urban growth boundary.³⁷

As is well known, the Bracks Labor Government wants more migrants for Victoria, particularly regional Victoria, and supports a higher immigration policy for Australia. For reasons similar to those evident in Sydney, it is very unlikely that any additional migrants will locate outside Melbourne. Currently almost all those who settle in Victoria do so in Melbourne, because that is where most of the job growth in Victoria is, as well as being the principal location of Victoria's ethnic communities. Table 4 shows that migrants are currently adding about 30 per cent to household growth in Melbourne. Should more be enticed to Victoria they will add to the competition for dwellings within metropolitan Melbourne. The Bracks Government's stated planning goals include ensuring a high quality of metropolitan urban life and the provision of affordable housing. The promotion of additional migration, however, could well contribute to an imbalance between housing demand and

the artificially constrained supply outlook described above.

CONCLUSION

Immigration is an important underlying factor shaping growth in demand for housing because of its role in household formation. This role will become more important over the next twenty years because the numbers of people aged in their twenties would stabilise in the absence of immigration. It is no wonder that the housing and property industries in Australia are so keen for high migration. By 2021, according to our projections, the migration component of household formation growth in Sydney will be around 75 per cent, in Melbourne and Adelaide 60 per cent, and in Perth 54 per cent.

Housing prices are not just shaped by underlying demand. They also reflect the capacity of the building industry to meet this demand, as well as the financial environment, which includes the availability of finance and investor interest in property. The current bubble is mainly attributable to the present financial circumstances. However, by running a high migration program and thereby augmenting household formation, the Federal Coalition government has added fuel to the speculative frenzy.

It is likely that the present bubble will subside soon. This is because of the growing gulf between housing costs and

the capacity of prospective buyers to pay across most of Australia's metropolises. The problem in Sydney, and to a lesser extent in Melbourne, is that even after the speculative element is removed, there will remain an underlying gap between demand (as reflecting in household formation — assuming current immigration levels) and the capacity of the building industry to meet this demand. In Sydney, supply is constrained by geographical, planning policy and infrastructure costing practices. In Melbourne, supply constraints are likely to emerge from the Bracks Government's decision to artificially restrict development on the suburban frontier and instead concentrate on the redevelopment of existing suburban activity centres.

In the case of Sydney, the intuition of residents and some politicians (including the NSW Premier Bob Carr), that immigration is a factor in the housing affordability crisis, is correct. The absence of the immigration component of household growth in Sydney would significantly reduce the underlying gap between demand and supply. There is little doubt that a reduction in the national immigration intake would improve housing affordability in Sydney.

References

- ¹ Australian Bureau of Statistics (ABS), *Australian Demographic Statistics*, cat. no. 3101.0, Table 1
- ² *Australian Financial Review*, 12 August 2003, p. 62
- ³ 7:30. Report, Australian Broadcasting Commission, Transcript of interview between Peter Costello and Tim Lester, 30 July, 2003
- ⁴ Ninemsn News, Channel 9, Transcript of interview between Philip Ruddock and Laurie Oakes, 3 August, 2003
- ⁵ R. Garnaut *et al.*, *Migration to Australia and comparisons with the United States: who benefits?*, Report prepared for the Department of Immigration and Multicultural and Indigenous Affairs, May 2003
- ⁶ *Business Review Weekly*, 28 August, 2003, p. 28

- ⁷ Housing Industry Association (HIA), 'Migrant bogey blame shift', A statement by HIA's Managing Director, Ron Silberberg, 8 August, 2003
- ⁸ *The Australian*, 12-13 July, 2003
- ⁹ ABS, *Australian Demographic Statistics*, cat. no. 3101.0, Table 5
- ¹⁰ In its *Regional Population Growth*, cat. no. 3218.0, issued July 2002, the ABS reported that Sydney grew by 273,586 persons over the 1996 to 2001 period or at an annual growth rate of 1.4 per cent compared with an annual growth rate of 1.3 per cent for Australia as a whole. In 2003, the ABS revised down its estimate for Australia's population growth over the 1996 to 2001 period, and for Sydney, resulting in a reduced increase from 273,586 to 247,136 (see ABS, *Regional Population Growth, Australia and New Zealand*, catalogue no. 3218.0, issued April, 2003.) The revision gives an annual rate of population growth for Sydney over the 1996 to 2001 period of 1.24 per cent per annum compared with the revised national growth rate of 1.18 per cent per annum over the same period.
- ¹¹ E. Healy and B. Birrell, 'Metropolis divided: The political dynamic of spatial inequality and migrant settlement in Sydney', *People and Place*, vol. 11 no. 2, 2003, pp. 65-87
- ¹² *ibid.*; R. Juriedini and E. Healy, 'A decade of change in industry employment', *People and Place*, vol. 6, no. 3, 1998, pp. 54-68
- ¹³ P. McDonald, and R. Kippen, 'Scenarios for the future population of Sydney', *Australian Geographer*, vol. 33, no. 3, 2002, p. 269
- ¹⁴ *ibid.*, p. 263
- ¹⁵ ABS, *Household and Family Projections 1996-2021*, cat. no. 3236.0
- ¹⁶ ABS, *Australian Social Trends 2003*, cat. no. 4102, pp. 175-179
- ¹⁷ McDonald and Kippen, *op. cit.*, p. 277
- ¹⁸ Reserve Bank of Australia, 'Consumer credit and household finances', *Reserve Bank of Australia Bulletin*, June 1999, Reserve Bank of Australia, Canberra
- ¹⁹ I. Macfarlane, Do Australian households borrow too much?, Talk to the Sydney Institute, Sydney, 3 April, 2003, www.rba.gov.au/Speeches/sp_gov_030403.html
- ²⁰ *ibid.*, p. 1
- ²¹ *ibid.*
- ²² Reserve Bank of Australia, 'Recent developments in housing: prices, finance and investor attitudes', *Reserve Bank of Australia Bulletin*, July 2002, p. 3
- ²³ *ibid.*
- ²⁴ *The Age*, 26 August 2003
- ²⁵ ABS, *Household and Family Projections 1996-2021*, cat. no. 3236.0
- ²⁶ ABS, *Population Projections Australia 1999-2101*, cat. no. 3222.0
- ²⁷ The internal migration assumption, that Sydney loses 15,000 persons per annum, was the same for the nil migration and the net 90,000 p.a. scenarios. It may be that net losses from Sydney under the nil migration assumption would be lower than those under the net 90,000 persons assumption. If so, our projections may overstate the gap between household formation under the two scenarios.
- ²⁸ *Sydney Morning Herald*, 4 August 2003
- ²⁹ Planning NSW, *Managing Sydney's Urban Growth – Metropolitan Program 2002, Residential Forecast*, 2003, p. 12
- ³⁰ A. Refshauge, (Deputy Premier of New South Wales), Letter to T. Recsei, Ku-ring-gai Preservation Trust committee member, 21 February, 2000
- ³¹ Department of Infrastructure, *Residential Land Bulletin*, June Quarter 2002
- ³² New South Wales Department of Housing, land and property information, Median Sales Prices – Greater Metropolitan Regions by SSD/postcodes – March quarter, 2003
- ³³ Department of Natural Resources and Environment, *A Guide to Property Values 2002*, pp. 39-43
- ³⁴ Victorian Department of Infrastructure, *Melbourne 2030 – planning for sustainable growth*, Melbourne, October 2002
- ³⁵ Victorian Department of Infrastructure, *Melbourne 2030 – planning for sustainable growth, Implementation Plan 3: Housing (draft)*, October 2002, Melbourne, p. 7
- ³⁶ *ibid.*, pp. 6-8
- ³⁷ S. Staley, and G. Mildner, 'Urban-growth boundaries and Housing Affordability: Lessons from Portland', Reason Public Policy Institute, October 1999, www.rppi.org/urban/pb11.html