

Productivity Commission  
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AUSTRALIA

**SUBMISSION on *Productivity Commission 2003, First Home Ownership, Productivity Commission Discussion Draft, Melbourne, December*. JEL code: D, G**

Dear Commissioners

I would like to make a submission on the Productivity Commission's Discussion Draft on First Home Ownership.

The Commission is commended for an excellent assessment of the situation in relation to first home ownership. The draft report reflects well on both the expertise and independence of the Commission.

The draft report is balanced in its weighting of the issues and reasoned and evidence based in terms of its conclusions.

The report is well crafted and 'frank' in terms of its assessment of concerns raised by submitters. In addition, the report is comprehensive especially given the time and constraints under which the Commission was placed.

Two comments are provided for the Commission to consider:

- Firstly, it is suggested that the Commission consider making its conclusions more definitive in the overview to ensure that its conclusions are more clear for policy makers;
- Secondly, it is suggested that the Commission re-investigate the significance of population growth, particularly as it relates to household formation as some of the Commission's conclusions in this respect seem incorrect and inconsistent.

Further details on these issues are in the attachment.

Yours faithfully

Rob Keane  
7 January 2004

## **Attachment**

### **Suggested Issues for the Commission to Consider**

#### *Overview Conclusions*

Some conclusions are made within the report and it may be more appropriate to emphasise some of these points in the overview. This will ensure that policy makers ‘focus’ on those issues that the Commission regards as significant. This will also ensure that insignificant and irrelevant issues do not become the focus of policy makers. The following points are suggested for addition to the overview:

- that rising taxation (eg. GST) has not been significant in terms of rising house prices;
- that inappropriate or excessive development charging is unlikely to account for a large proportion of developer charges and industry estimates of potential savings from better charging regimes seem greatly overstated;
- the pursuit of ever increasing levels of home ownership would not be a sound policy objective as beyond some point, the additional benefits for the community are likely to be outweighed by the costs of achieving those higher levels of ownership;
- sharply increased investment in rental housing has been a key contributor to demand and price increases, especially in the last couple of years;
- more first home buyers are purchasing medium and high density housing and are less likely to be purchasing at the urban fringe.

The Commission has stated that ‘Stamp duties are a significant impediment to the reallocation and adaptation of the housing stock, which can heighten price pressures within metropolitan areas over time.’ This is supported and should be emphasised in the overview as it will be important to ensure that housing can be readily adapted in the future, particularly in relation to an ageing population and where first home owners represent a higher proportion of medium and high density housing.

The Commission has also indicated, quite rightly, that stamp duty is not a significant component of house price increases. The Commission needs to consider whether the overview can be made more clear to state that while stamp duty is not a significant component in terms of house price increases, a more broad based land tax regime would be a more efficient, dependable and equitable taxation approach in the future.

The overview key points could include a more balanced expression of the significance of the points. For example, the first reading of the key points would indicate that land releases, developer charges and stamp duty are significant. This is not the Commission’s view and the report could make this point more clearly. Perhaps the Commission could preface its comments about land releases, developer charges and stamp duty by stating that these issues are not significant in terms of recent increases

in house prices but are impediments to the adaptability and renewal of housing stock in Australia.

### *Population Growth*

It is suggested that the Commission reinvestigate the issue of population growth or more accurately increased household formation, as the Commission's conclusions seem inconsistent with the available data and the Commission's statements in other parts of the report. Three key areas are suggested for further consideration:

- the increased rate of immigration;
- the under-reporting of 'headline' population growth; and
- the impacts of increased migration on household formation.

#### Increased Rate of Immigration

Immigration has been and will always contribute positively to the Australian economy and society. However, recent large scale increases, over short periods of time, particularly in the skilled worker category and student category, have resulted in greater rates of household formation than in the past, particularly in Sydney and Melbourne. While this increase has economic benefits, it also has social and environmental costs and has stimulated the demand side of housing. It is suggested that this stimulation is one significant component of the number of components that have resulted in significant house price increases. It is also suggested that recent increased migration could be considered a recent 'booster' of prices and not simply a longer term demand influence.

The Commission has stated that the major determinants of the underlying growth in demand for dwellings are population growth and the propensity of people to form households. Australia has a high population growth rate compared to other developed countries and the Commission has quite rightly analysed this population growth to determine its relevance to household formation.

The Commission has stated that 'immigration has grown rapidly' in the mid-1990's but 'has been offset by a slower rate of natural increase, so that overall population growth has been relatively stable'. This statement is not supported by the data from the Australian Bureau of Statistics (ABS), which indicates that the very small decline in natural increase since 1997 has been replaced by a very high immigration intake. The attached link to data from the ABS clearly shows that:

- from 1997 to 2002, natural increase decreased from 122,000 to 115,000 on an annual basis – a total five year decrease of 14,000; whereas
- from 1997 to 2002, net overseas migration increased from 72,000 through 136,000 in 2001 to 113,000 in 2002 – a total five year increase of 190,000 over the previous baseline level; and
- population growth has been significantly higher in 2001, 2002 and 2003 than in the late 90's.

<http://www.abs.gov.au/Ausstats/abs%40.nsf/1020492cfd63696ca2568a1002477b5/6949409dc8b8fb92ca256bc60001b3d1!OpenDocument>

In summary, over a five year period, the increase in immigration (above the previous baseline of 70,000 per year) exceeds the decline in natural increase by a factor of ten. It is therefore incorrect to state that increases in migration have been offset by slowing natural increase. Increases in migration have been substantially higher than the small decline in natural increase. The Commission should reconsider its statements on this point.

As previously stated and while partially considering the issue, the Commission needs to note the changing components of population growth. Recent policy changes to address skills shortages have resulted in an increase of the net migration intake from 70,000 to 110,000. As immigration now exceeds natural increase, this now means that a higher proportion of Australia's population growth is adults, who are likely to form new households, rather than children, who are likely to be part of existing households. This demand is further stimulated by the Commonwealth Government's recent rapid increase in skilled worker migration, as these migrants would be unlikely to be placed within existing households, as would be the case with family reunion category immigrants.

#### Under-reporting of Population Growth

The Commission quotes a population growth rate of 1.2% but the Commission needs to recognize that these population growth estimates do not include those visitors that do not stay for 12 months continuously in Australia eg. overseas students. The figures used in relation to population growth should also note their limitations. For example the recent population growth figures from the ABS omit significant household formation groups, namely overseas students and business migrants. This is because the ABS figures do not count those persons who are not continuously in Australia for 12 months. The ABS has stated that:

“To be counted as part of the Australian population, a person needs to be in Australia for twelve months or more (this has been applied as an unbroken period). Increasing mobility of some segments of the overseas visitor population and the application of the twelve month rule mean that some people can spend a considerable amount of time in Australia and still not be counted as part of the Australian population as they are never in Australia for more than twelve months at a time. For example, many overseas students studying in Australia who travel home each year for holidays, and temporary business visa holders who travel regularly into or out of Australia are in this category.”

<http://www.abs.gov.au/Ausstats/abs%40.nsf/1020492cfd63696ca2568a1002477b5/6949409dc8b8fb92ca256bc60001b3d1!OpenDocument>

The Commission needs to consider the impacts of this under-reporting of 'headline' population growth in determining the significance for increased household formation. It would appear that a substantial number of people are not counted in the 'headline' estimated resident population and it is suggested that these groups would contribute to increased household formation.

## Impacts of Increased Migration on Household Formation

The Commission has acknowledged that ‘immigration has been an important contributor to underlying demand, especially in Sydney and Melbourne’. On page 52 the Commission states:

“The distribution of arriving immigrants between jurisdictions and between capital cities and regional areas has changed little over the last decade, with NSW standing out as the largest recipient:

- NSW and Victoria received most permanent settlers (40 per cent and 24 per cent respectively in 2001-02).
- Most long-term visitors stayed in NSW (42 per cent) or Victoria (23 per cent).

Most immigrants settle in capital cities. According to the 2001 Census data, Sydney, Melbourne, Adelaide and Perth received 90 per cent or more of their state’s intake. ”

The Commission’s document then states that most migrants move to Sydney and Melbourne. The Commission also comments on page 55 that “However, across Australia as a whole, underlying demand growth (for new dwellings) slowed in the second half of the 1990s, although it did increase quite strongly in NSW and Victoria.” The methods for measuring underlying demand growth are questioned and the Commission should consider whether this information is sufficiently definitive in considering impacts on house prices. However, if the information is accepted on face value then the information and the Commission’s statements appear inconsistent with the Commission’s conclusions on page XVII that increases in household formation do not explain the surge in demand and house prices since the mid-1990s.

The Commission’s document points to substantial increases in household formation in NSW and Victoria which directly correlates to the increases in migration as reported by ABS figures. However, the Commission then appears to dismiss this information in relation to demand for housing and house prices. It is suggested that the Commission reconsider increases in migration and its impact on household formation and house prices.