

Submission re First Home Ownership Discussion Draft (regarding the effect of immigration on house prices)

It is very disappointing that the Productivity Commission in its First Home Ownership Discussion Draft has not given due recognition to the importance of immigration as a factor in the current housing boom.

According to the Australian Bureau of Statistics, net migration to Australia rose from 72,440 in 1997 to 135,700 in 2000-01.

(See TABLE 1 - POPULATION CHANGE, Summary (a) at:

<http://www.abs.gov.au/ausstats/abs@.nsf/0/6949409DC8B8FB92CA256BC60001B3D1?Open&Highlight=0,NOM>)

This is an increase of 87.4% in the space of three and a half years. How could such a massive increase not have an effect on demand for housing? Of course it did!

Facts are facts, and it is a fact that between 1997 and 2000-01 immigration increase by an enormous amount. It is also a fact that when immigrants move to Australia, they need accommodation, and that accommodation by and large comes in the form of a house or unit. Thus, immigration increases demand for housing, and thus the prices of housing.

Page 51-52 of the home ownership Discussion Draft states that many long-term visitors to Australia mostly seek rental housing. Does this imply that they do not push up demand and price of housing? If that is so, then it is a false implication. If the supply of physical housing is fixed in the short-term and there are more people wanting to live in those houses then the demand and price of housing will increase as a result, regardless of whether the new arrivals rent or purchase their house.

Page 52 of the Discussion Draft states that many immigrants who come under the family reunion program reside with the Australian citizen they are joining rather than require additional housing, "at least in the short term". While that may be true, immigration to Australia has been at increased very high levels since 2000-01, that is, at least three years. so it is quite likely that within that three years immigrants who at first stayed with relatives would by now have decided to find their own accommodation, thus increasing demand for housing even further.

Table 4.1 on page 54 of the Discussion Draft, regarding annual population growth by state, is out of date and too imprecise. It compares the periods, 1991-6 and 1997-02. This does not properly take into account the increase almost doubling of net migration from 1997 to 2000-01. New figures released by the Australia Bureau of Statistics are more relevant than the growth rates included in the table. The bureau estimates Victoria's population grew by 1.24 per cent in 2002-03. Queensland grew by 2.3 per cent and Tasmania's population rose by 0.9 per cent to 477,100. (<http://www.theage.com.au/articles/2003/12/11/1071125592215.html>).

It is noteworthy that last year house prices in Tasmania increased by an estimated 45% (according to a joint study by AMP and the Real Estate Institute of Australia, as reported in The Mercury, "Hobart leads home boom", 9 Dec 2003 - http://www.themercury.news.com.au/common/story_page/0,5936,8108085%5E3462,00.html). A 45% across the board increase in house prices in the one year is a massive increase, in anyone's language. This was accompanied by a similarly large turnaround in Tasmania's population growth, such that Tasmania's population growth is now at its highest for many years. Basically, a large number of Mainlanders came down to Tasmania because they saw how cheap Tasmania's housing was compared to the Mainland, and as a result prices went up, and now young Tasmanians cannot afford to buy a house in their own state. IE as a direct and clear result of population growth.

The conclusion reached by Productivity Commission on the page 55 of the draft report is completely incorrect. Page 55 states, "The conclusion that population growth and household formation trends have not been major drivers of the recent national increase in housing prices is supported by estimates of the underlying demand for dwellings"

No, it is not! Page 55 further states, "According to BIS Shrapnel (2003).. Underlying demand growth slowed in the second half of the 1990s, although it did increase quite strongly in NSW and Victoria." This is actually quite consistent with the theory (fact) that high immigration has led to an increase in house prices. According to the ABS, net migration was actually quite low in most of the second half of the 1990s, and actually increased to a very level only AFTER the 1990s. Immigration to Australia has been much higher to Australia in 2000, 2001, 2002 and 2003 than it was for all of the second half of the 1990s - (See TABLE 1 - POPULATION CHANGE, Summary(a) at: <http://www.abs.gov.au/ausstats/abs@.nsf/0/6949409DC8B8FB92CA256BC60001B3D1?Open&Highlight=0,NOM>)

And as the Discussion Draft states on page 52, there can be a delay between when migrants arrive in Australia and when they decide to move into their own accommodation. Furthermore, Robert Mellor, director of building services for BIS-Shrapnel stated on SBS TV's Insight program immigration was a "critical driver" of the current housing boom, and that, "whichever way you look at it, stronger population growth ultimately flows through for demand to housing whether we're talking owner-occupiers or renters". (SBS Insight program, 31 July 2003 - <http://www.sbs.com.au/insight/index.php3?archive=1&artmon=7&arty=2003#>)

For the Productivity Commission not to reach the conclusion that the very large increase in immigration to Australia was not a major cause of the current boom in house prices across the country is strange indeed. Maybe it is because it is not political correct to attribute a negative symptom to high immigration. Or maybe it would go against the Coalition Government's high immigration policy.

Interestingly enough, property developers and the housing industry are very much in favour of high immigration because it boosts their business, sales and profits. They lobby the government (successfully) for high immigration. Is that itself not evidence of the effect immigration has on housing demand and prices? Note that on 26 June 2003 the Housing Industry Association issued a press release entitled "Migrants boost housing demand". (<http://www.infolink.com.au/articles/31/0c017c31.asp>). The release stated, "A boost in the number of overseas migrants and stronger than expected population growth have boosted housing demand across Australia according to findings in the Housing Industry Association's recently released National Outlook report". In that report Simon Tennant, Chief Economist for the Housing Industry Association was quoted as saying "stronger population increases had fundamentally increased the requirement for new housing across Australia..."

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Thursday, 12 February 2004

Extract of Net Migration figures for years 1997 - 2003 from

TABLE 1 - POPULATION CHANGE, Summary(a)

Australian Bureau of Statistics - 3101.0 Australian Demographic Statistics

<http://www.abs.gov.au/ausstats/abs@.nsf/0/6949409DC8B8FB92CA256BC60001B3D1?Open&Highlight=0,NOM>

1997	72,400
1997-98	79,200
1998-99	96,500
1999-00	107,300
2000-01	135,700
2001-02	110,600
2002-03	125,300