

### Abstract

This paper outlines Australia's population growth, with particular emphasis on immigration as the main driver of current growth. The aim is to help explain immigration's role in Australia's housing affordability crisis. The paper describes patterns of migrant settlement and the mismatch of these patterns with housing affordability, as the two most popular immigrant destinations, Sydney and Melbourne, are among the least affordable.

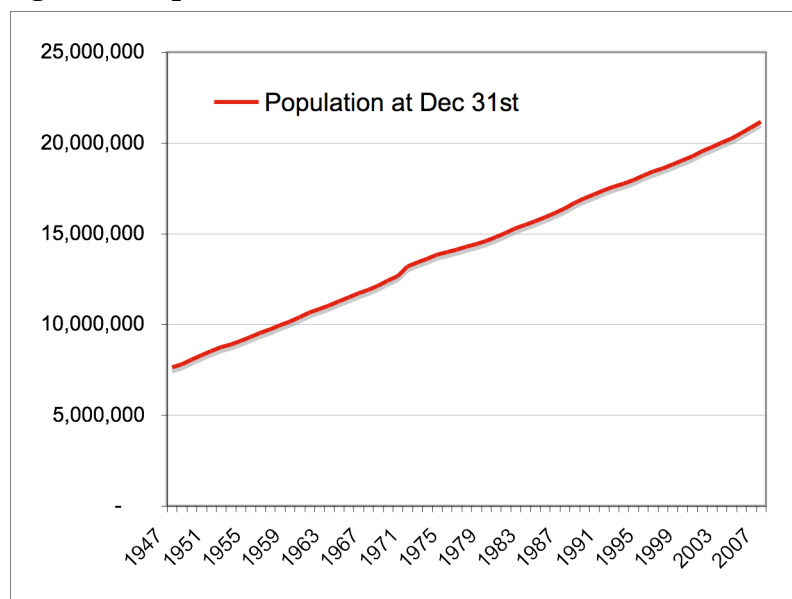
It examines recent population projections, and the considerable future population growth from immigration that these foreshadow. It also presents data showing that high migration will not reverse demographic ageing and then provides a brief overview of some migrant households' size and median incomes. It ends with a discussion of the role of immigration-fuelled growth in Australia's housing affordability crisis, concluding that it plays both a background role in increasing demand and a foreground role in fueling the recent speculative boom in housing prices.

### Population growth and immigration

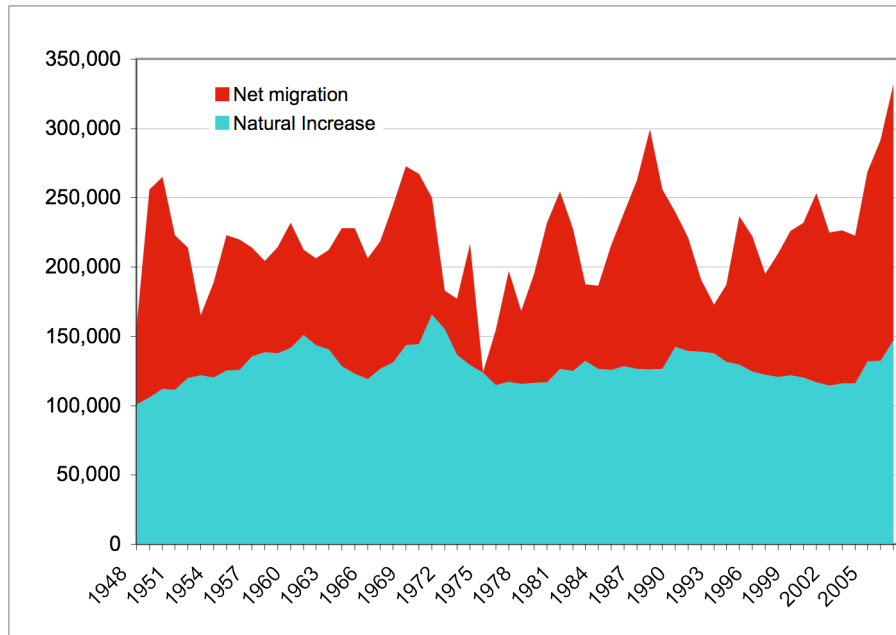
Australia's population is growing rapidly – from both immigration and natural increase, a natural increase that is itself boosted by high migration. This continues the pattern of the post-war years but at a faster rate; from December 1947 to December 2007 the population nearly tripled, growing from 7.6 million to 21.2 million.<sup>1</sup>

This entailed an average annual increase of 224,000 over the 61-year period, or 4300 a week. But from 2005 to 2007 the annual increase has stood at 310,000 per year, or just under 6000 a week, 3500 of this due to net migration.

**Figure 1: Population of Australia, 1947 to 2007**

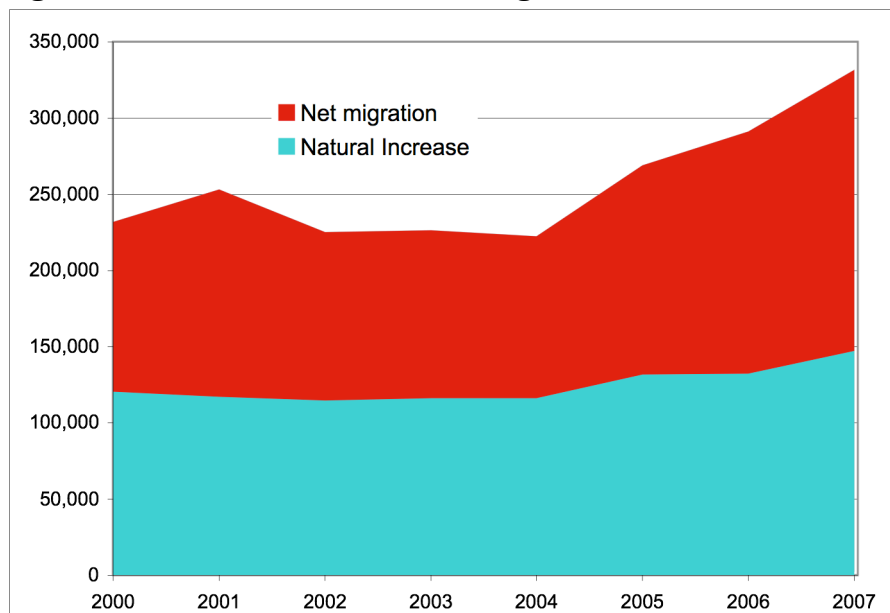


Sources: Data for 1945 to 1951 are from *Demography 1954*, Bulletin No. 72, Commonwealth Bureau of Census and Statistics; those for 1952 to 1977 are from J. Shu, S. E. Khoo, A. Struik and F. McKenzie, *Australia's Population Trends and Prospects 1993*, (BIR), AGPS, Canberra 1994; 1978 on are from *Demographic Statistics*, Australian Bureau of Statistics (ABS), Catalogue no. 3101.0.

**Figure 2: Natural increase and net migration, 1948 to 2007**

Sources: See Figure 1

Note: Net migration is net total migration up to 1975 and net overseas migration from 1976. In principle these two measures should give similar results. Net migration was negative in 1975. It has been set at zero for Figure 2. The data are for calendar years.

**Figure 3: Natural increase and net migration, 2000 to 2007**

Source: *Australian Demographic Statistics*, ABS, Catalogue no. 3101.0 (various issues)

On average around 41 per cent of the annual growth has been due to net migration and 59 per cent to natural increase. See Figure 2. However over the last three year (2005 to 2007) the balance has shifted to 54 per cent from net migration and 46 per cent from natural increase. (See Figure 3.)

Data from the 2006 census provide a snapshot of the contribution of immigration and immigration-fuelled natural increase to the population. In 2006, 52 per cent of Australians were Australia-born with two Australia-born parents; the rest were a mixture of the overseas born, or

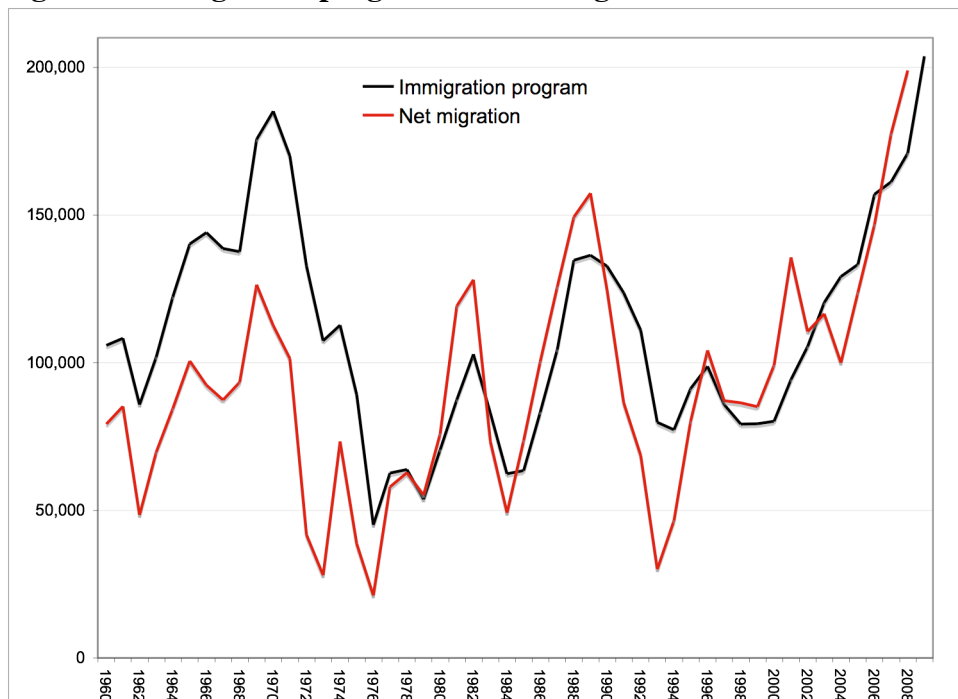
Australia-born people with one or both parent born overseas (plus a disconcertingly high proportion of not stated). See Table 1.

**Table 1: Estimated composition of the population in 2006 by birthplace and birthplace of parents**

	Numbers	%
Australia-born, both parents Australia-born	10,282,282	51.8
Australia-born, one parent overseas-born	2,179,475	11.0
Australia-born, both parents overseas-born	1,452,692	7.3
Overseas-born	4,416,037	22.2
Own birthplace and parents' birthplace not stated	1,366,320	6.9
One or both parents' birth place not stated, but own birthplace is stated	158,486	0.8
Total	19,855,292	100.0

Source: Calculated from data in the basic community profile for Australia, 2006 census, ABS, Catalogue no. 2001.0. Note: A number of assumptions have been made. These are: that people with both parents born in Australia were themselves born in Australia, and that those with one parent Australia-born were also Australia-born, and that those who didn't state their own birthplace were in the same group as those who didn't state their parents' birth place.

**Figure 4: Immigration program and net migration 1959-60 to 2008-09**



Sources and notes: Program data are from annual Immigration Department reports from 1959-1960 to 1998-99 and from *Population Flows: Immigration Aspects*, DIMA/DIAC, various issues for 1999-2000 to 2007-08. The 2008-09 data are from media releases and departmental fact sheets. The program data include the general migration and the humanitarian programs but not New Zealanders. The 2007-08 and 2008-09 program data are planning figures only. (The data were calculated differently prior to 1959, but assisted arrivals totaled 118,800 in 1949 and the programs for 1952 and 1953 were 150,000 and 80,000 respectively <[www.immi.gov.au/media/publications/statistics/federation/timeline1.pdf](http://www.immi.gov.au/media/publications/statistics/federation/timeline1.pdf)>.)

The 1959-60 to 1974-75 data for net migration are net total migration figures. The data for 1975-76 on are net overseas migration (NOM) figures. Both sets are from *Australian Demographic Statistics*, ABS, Catalogue no. 3101.0 (various issues).

The NOM data for 2007-08 is an estimate as only the figures for the first three quarters (September, December and March) were available at the time of writing. The figures for the June quarter 2007 have been added to these to give an estimate for the full financial year.

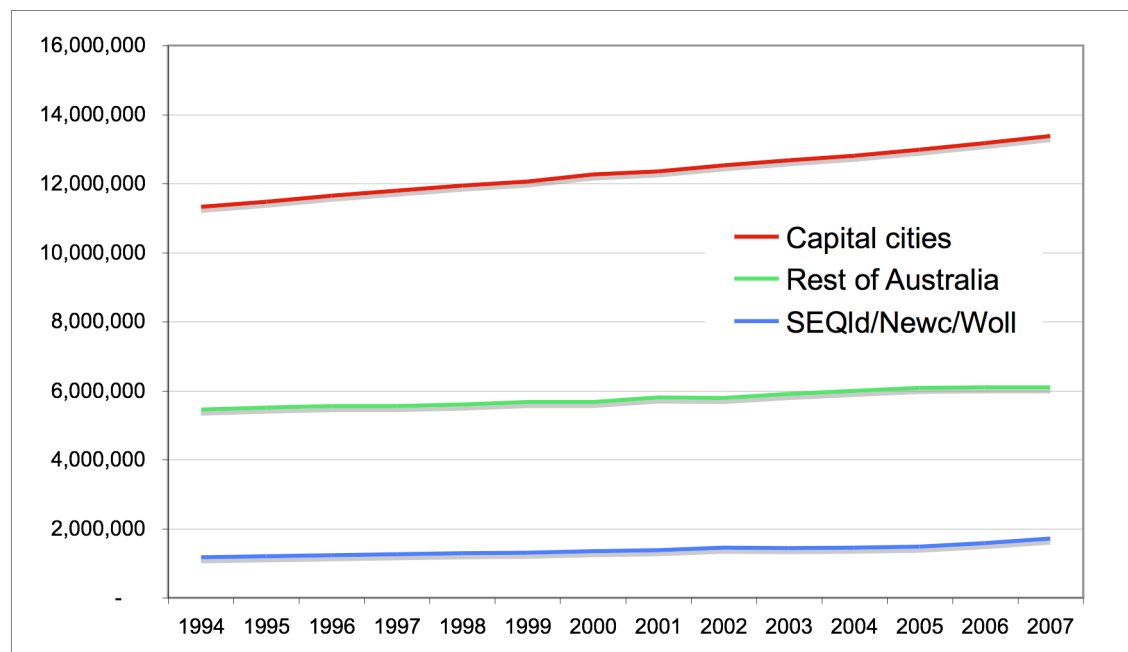
Figure 4 gives a more precise picture of the annual contribution of immigration to the population since June 1960 and, by providing data on the official program, shows the degree to which this contribution is the outcome of active policy choices.

### Distribution of population growth, 1994 to 2007

Australia has long been a highly urbanised nation and, by 1994, just over 63 per cent of the population lived in one of the eight capital cities. A further 6.5 per cent lived in the combined coastal regions of South East Queensland (the Gold Coast and the Sunshine Coast), and the statistical districts surrounding Newcastle and Wollongong. These four regions are the most populous non-capital-city statistical districts.

This means that 30.4 per cent lived in the rest of Australia. At the end of 2007, after a further 3.2 million people had been added to the population, it was still the case that just over 63 per cent lived on one of the eight capitals, but there were now 8.1 per cent in the combined coastal regions and 28.8 per cent in the rest of Australia.<sup>2</sup> See Figure 5.

**Figure 5: Population, capital cities, 'coastal regions', rest of Australia, 1994 to 2007**



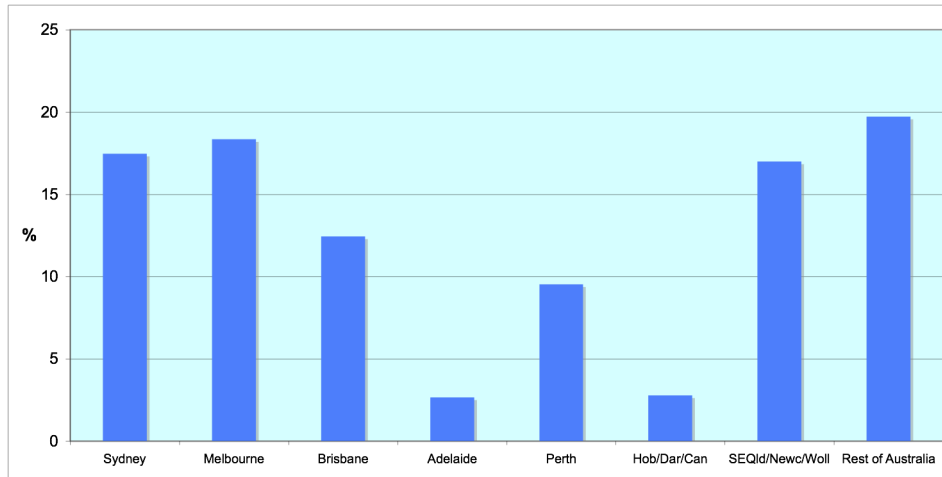
Source: *Australian Demographic Statistics*, ABS, Catalogue no. 3101.0, (various issues)

Note: SEQld/Newc/Woll consists of the statistical districts of Gold Coast-Tweed (QLD/NSW), Sunshine Coast (QLD), Newcastle (NSW) and Wollongong (NSW).

But when we look at the distribution of the growth by individual capitals and regions we see that the four larger capitals, together with the combined coastal regions, absorbed most of the growth (74.5 per cent).

The smaller capitals and the rest of Australia only accounted for 25.2 per cent of the growth. In contrast Sydney, Melbourne and the combined coastal regions took in 52.8 per cent. (See Figure 6.) Figure 7 shows that this bias in the distribution of growth persisted in a more accentuated form from 2000 to 2007.

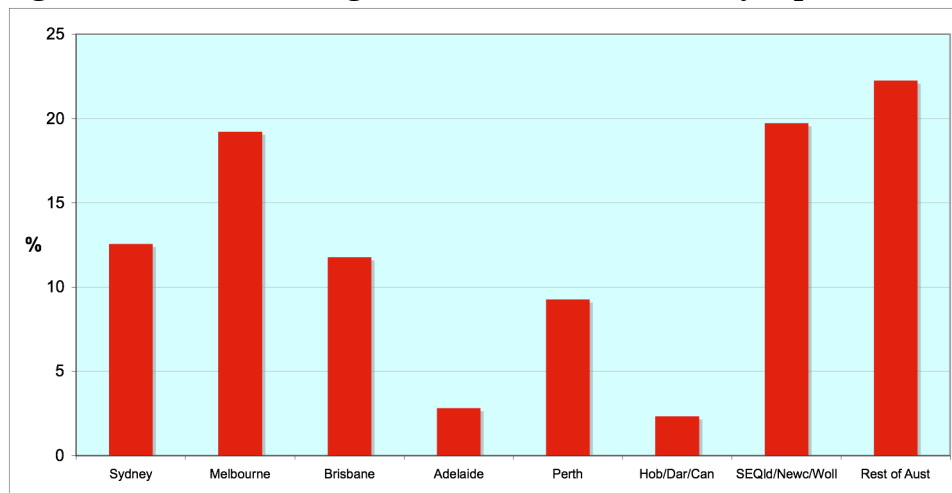
**Figure 6: Distribution of growth 1994 to 2007, 3.2m, by capital cities and regions (per cent)**



Source: *Australian Demographic Statistics*, ABS, Catalogue no. 3101.0 (various issues)

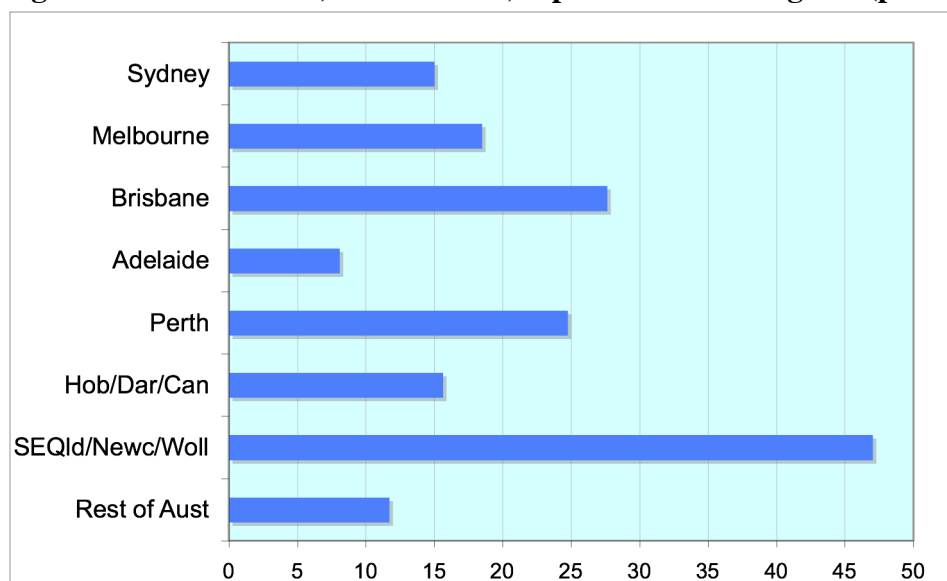
Note: SEQld/Newc/Woll consists of the statistical districts of Gold Coast-Tweed (QLD/NSW), Sunshine Coast (QLD), Newcastle (NSW) and Wollongong (NSW). Hob/Dar/Can is Hobart and Darwin and Canberra.

**Figure 7: Distribution of growth 2000 to 2007, 1.9m, by capital cities and regions (per cent)**



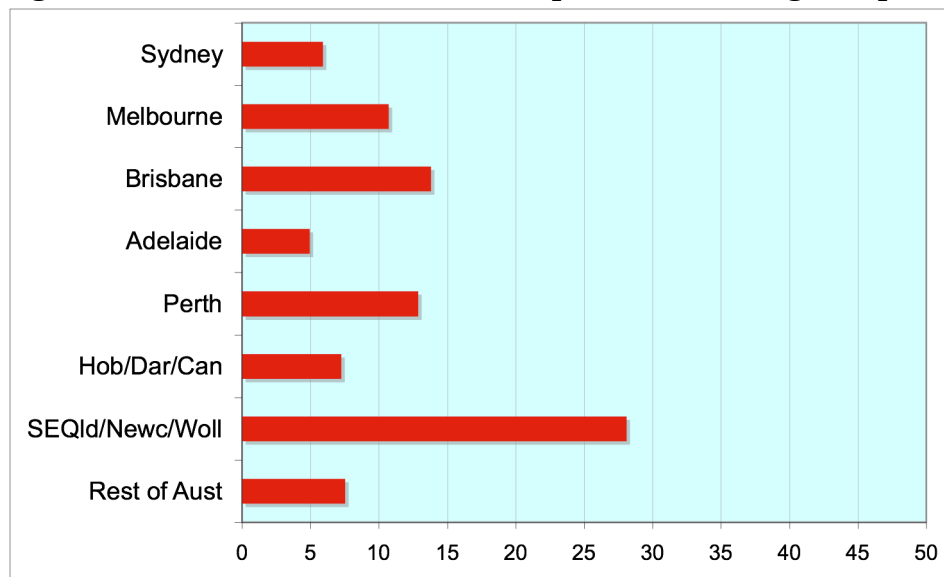
Source and notes: See Figure 6.

**Figure 8: Growth rates, 1994 to 2007, capital cities and regions (per cent)**



Source and notes: See Figure 6.

**Figure 9: Growth rates, 2000 to 2007, capital cities and regions (per cent)**



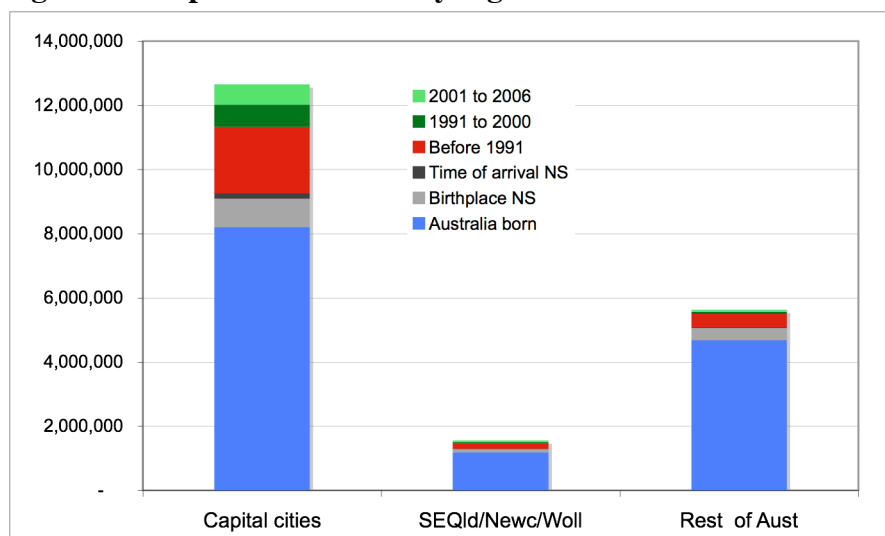
Source and notes: See Figure 6.

Figures 6 to 9 show that, which ever way you cut the data, Brisbane and the main coastal regions have added a great many people and have been growing rapidly. They also show that Melbourne has been adding more people than Sydney and that it has been growing faster than Sydney.

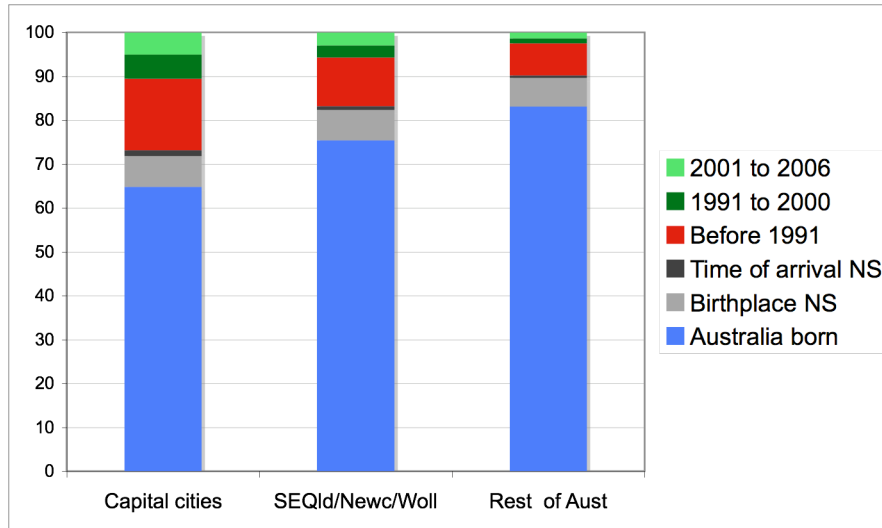
This is interesting because Sydney is still the most popular destination for overseas migrants.<sup>3</sup> But many of the incumbent population have been moving out, some of them pushed out by rising house prices.<sup>4</sup>

Figure 10 shows that migrants are indeed more likely to live in the capital cities, irrespective of whether they came before 1991 or more recently. This preference in their settlement patterns is particularly clear in Figure 11 which is presented in percentage terms.

**Figure 10: Population in 2006 by region and time of arrival**



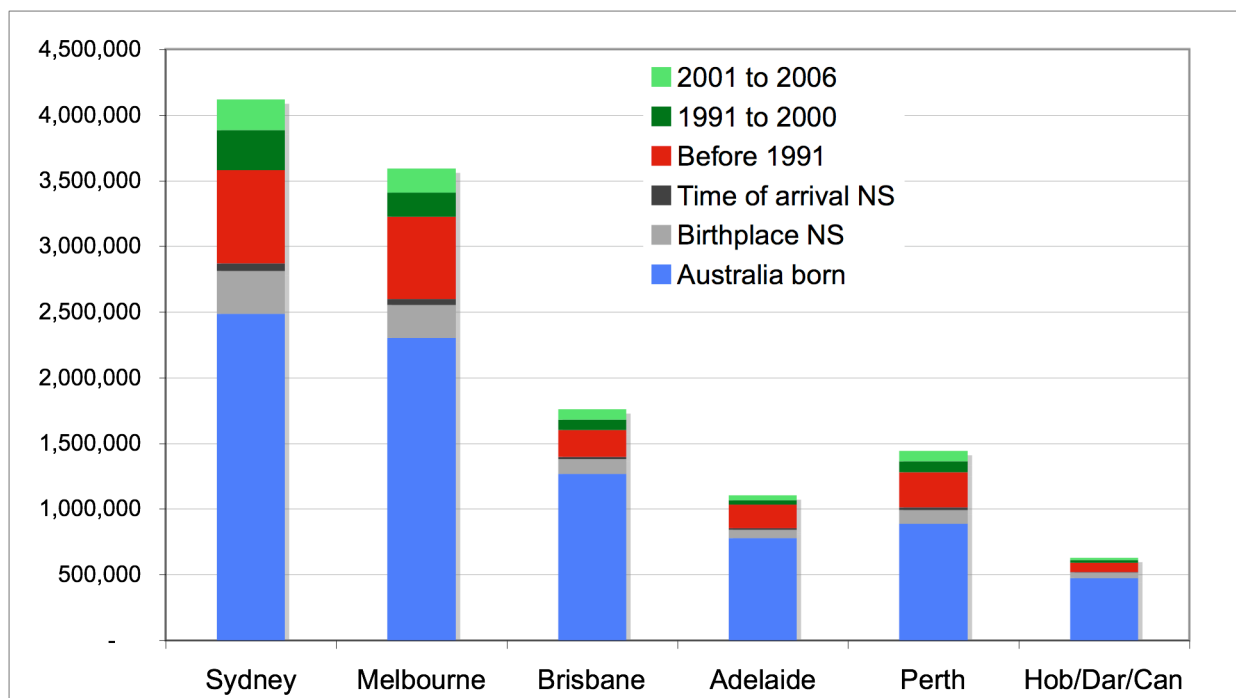
Source: Census 2006, community profiles, major statistical regions for large capitals, statistical districts for other capitals and regions <[www.abs.gov.au](http://www.abs.gov.au)>

**Figure 11: Population in 2006 by region and time of arrival (per cent)**

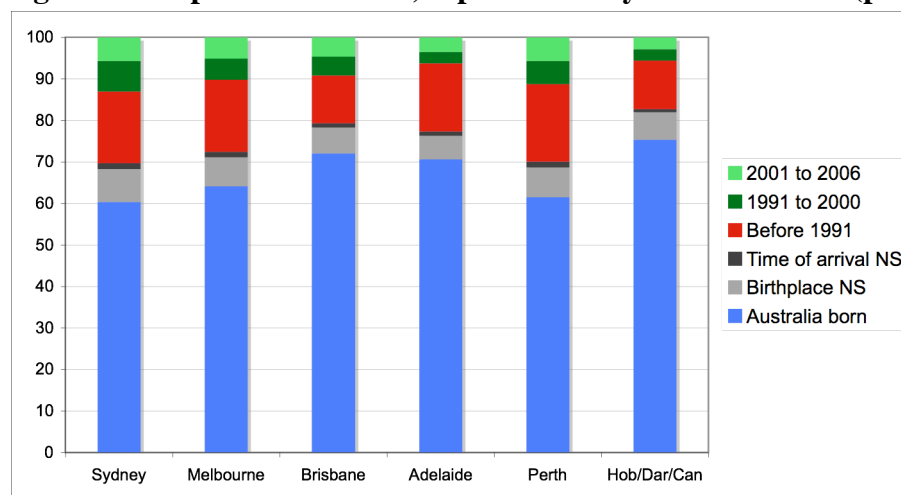
Source: See Figure 10.

Figure 12 focuses on the capital cities alone. And Figure 13 gives the data in percentage terms. Together they reinforce the picture of Sydney as a major destination, but also show that Melbourne is not far behind.

In contrast, while Brisbane has been growing rapidly, it is not one of the more favoured cities for overseas migrants (nor are main coastal regions shown in Figure 11). Perth has fewer overseas migrants in numerical terms than Sydney or Melbourne, though they make up as large a percentage of Perth's population as they do in Sydney.

**Figure 12: Population in 2006, capital cities by time of arrival**

Source: See Figure 10.

**Figure 13: Population in 2006, capital cities by time of arrival (per cent)**

Source: See Figure 10.

In 2006 there were 4,416,037 overseas born people in Australia (this includes those whose time of arrival was not stated). Of these, 80.6 per cent lived in the capital cities, 6.2 in the in the main coastal regions and 13.2 per cent in the rest of Australia.

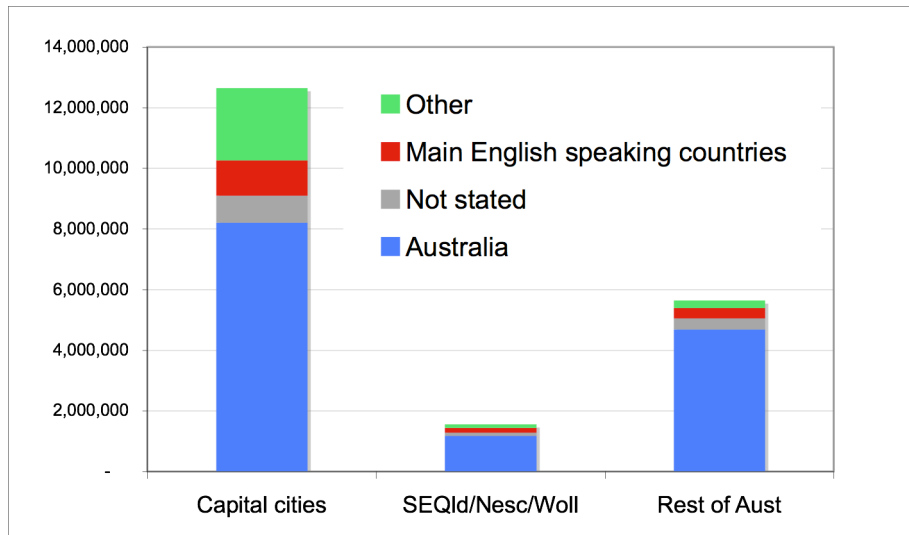
Figures 14 and 15 show that migrants born in non-English-speaking-background countries (those labelled 'other' in the graphs) have been particularly likely to settle in Melbourne and Sydney, while migrants from the main English-speaking countries<sup>5</sup> are rather more likely to chose Perth or Brisbane.

Few of either group settle in the main coastal regions or in the other capital cities.

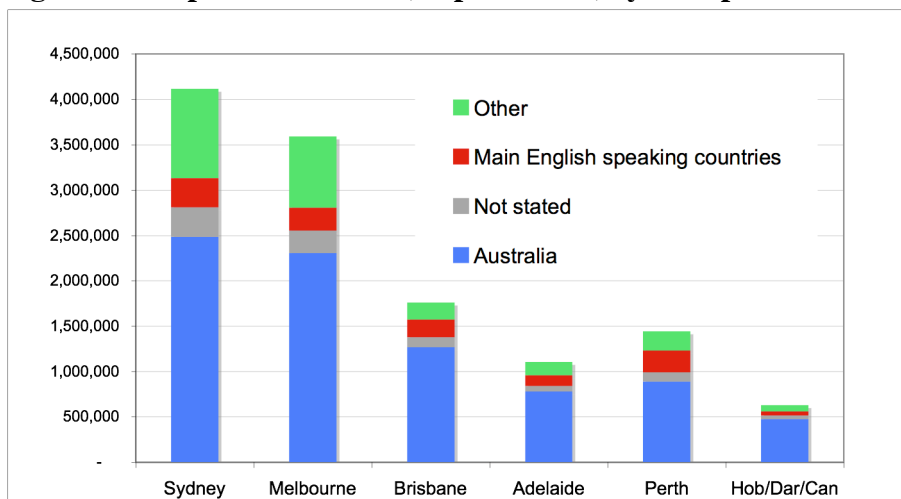
It is therefore unfortunate that the Demographia survey ranks Sydney as 216 on its list of 227 housing markets in the English-speaking world,<sup>6</sup> ranked from most affordable (1) to the least affordable (227). It also ranks Melbourne as 205.

In Melbourne's case households required more than seven times the median annual household income to buy a dwelling sold at the median price in 2007, and in Sydney's case the median household would have needed more than eight times the median household income. (Demographia deems a housing market affordable if three times the median household income is enough to buy the median priced dwelling.)<sup>7</sup>

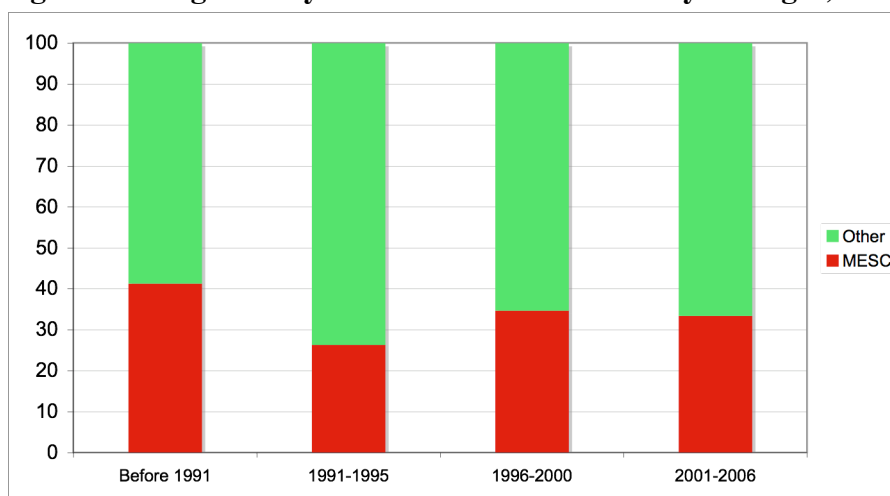


**Figure 14: Population in 2006, by region and birthplace**

Source: See Figure 10.

**Figure 15: Population in 2007, capital cities, by birthplace**

Source: See Figure 10.

**Figure 16: Migrants by time of arrival and country of origin, Australia**

Source: See Figure 10.

Note: MESC stands for main English-speaking countries.

Migrants who did not state their year of arrival are not shown.

Figure 16 also shows that immigrants from non-English-speaking-background countries have outnumbered those from the main English-speaking countries for some time, but that this trend increased after 1991.

The picture that emerges from this overview is that migrants disproportionately head for the four larger capital cities, especially Sydney and Melbourne, and that they are particularly likely to do this if they come from non-English-speaking-background countries.

Over the last 13 years the four main capitals, and the main coastal regions have all been growing rapidly but, in the case of Brisbane and the main coastal regions, this growth has been fueled more by internal migration than by people from overseas.

Sydney's growth is mitigated by the tendency of locals to move out, often to locations in South East Queensland or Brisbane. At the 2006 census there were 140,025 former New South Wales residents who had moved to these locations, either within the previous five years, or within the previous year, compared to 36,662 former residents of Victoria. There were also 164,681 New South Wales residents who had moved from another area in New South Wales to the statistical districts of Newcastle and Wollongong.<sup>8</sup> The data do not say whether all of most of these movers were from Sydney but, if they were, at least 300,000 people left the city for these destinations between 2001 and 2006.

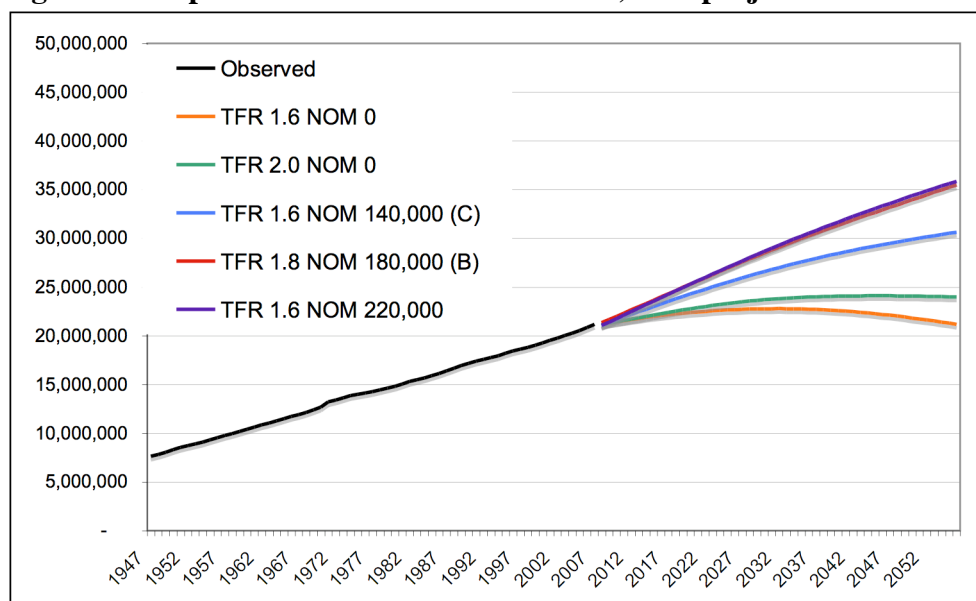
Thus the current government's record immigration program is likely to disproportionately feed Melbourne's growth, and to indirectly feed that of Brisbane and the main coastal regions.

### **Population projections**

The projections published recently by the ABS allow us to look at the varying futures that different policy settings, and different levels of fertility, might bring. Figure 14 sets out five of these (they all assume an increase in life expectancy of around five to seven years).

These projections show that low fertility (a total fertility rate [TFR] of 1.6) and nil net migration would lead to a slow decrease after 2030, but that the two-child family, combined with nil net migration, would produce stability. In contrast, the three high migration scenarios all lead to rapid growth.

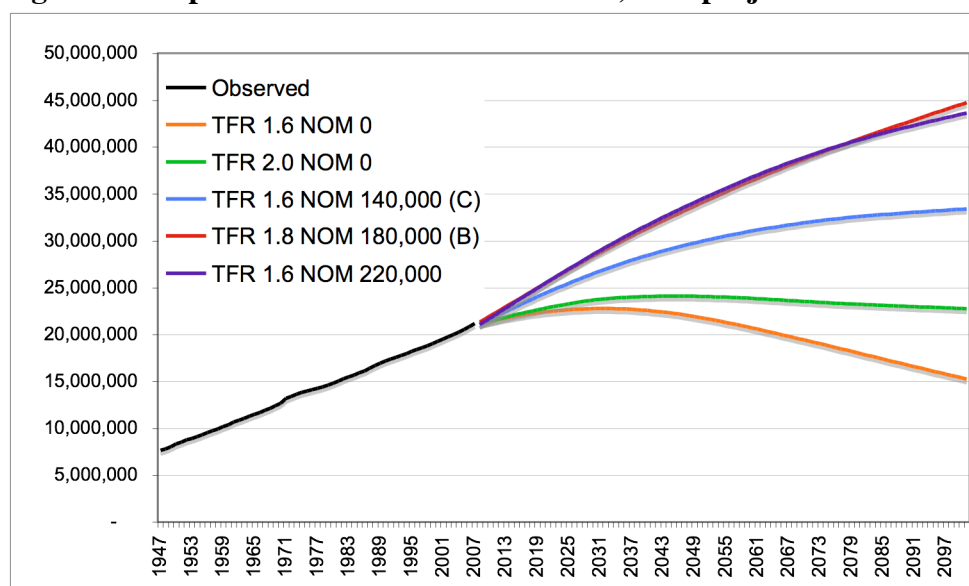
It is worth noting that Kevin Rudd appears to take it for granted that the projection series labelled B (TFR of 1.8 and net overseas migration of 180,000 per year) is what will in fact happen.<sup>9</sup> As the data presented above have made clear, a net overseas migration (NOM) of 180,000 a year is extraordinarily high in the Australian context (see Figure 4 above).

**Figure 14: Population Australia 1947 to 2007, with projections to 2056**

Sources: Observed figures are from the sources given for Figure 1.

Projections are from spreadsheets and data cubes made available with *Population Projections, Australia, 2006 to 2101*, ABS, Catalogue no. 3222.0, 2008. All of the projections shown in Figure 14 assume 'medium life expectancy' which means that life expectancy at birth is expected to rise from the current level of 78.5 years for men to 85.0 and for women from 83.3 to 88.0.

Notes: TFR stands for the total fertility rate and NOM stands for net overseas migration.

**Figure 15: Population Australia 1947 to 2007, with projections to 2101**

Sources: See Figure 14.

Figure 15 shows what the pattern of demographic change would be were any of these five scenarios to persist to 2101. It shows that projection B would still be delivering substantial growth 93 years hence. (Curiously the low fertility and ultra high migration series, TFR 1.6 and NOM 220,000, takes us to almost the same numbers.)

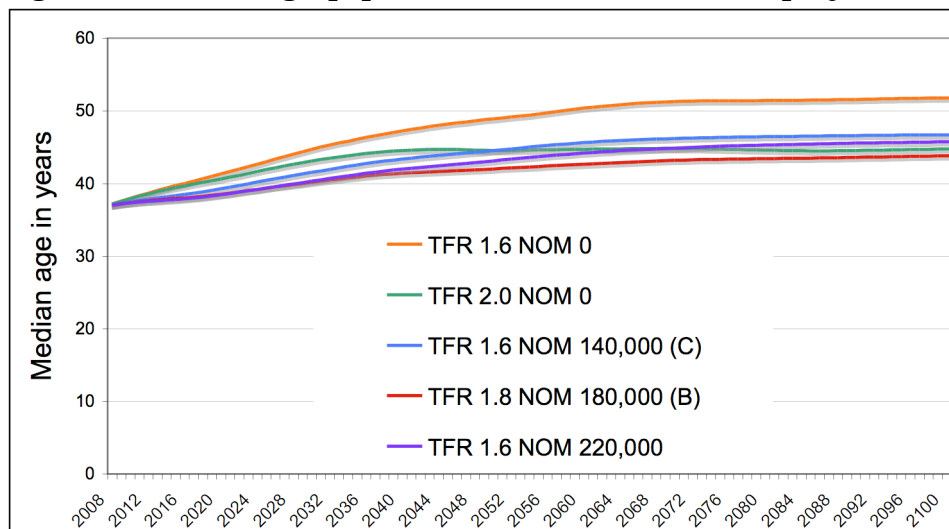
### Demographic ageing

A key justification for pursuing high immigration, used by the current and previous governments, has been to help offset the ageing of the population. This is a trend that has come about as a consequence of both smaller families and increasing life expectancy. The Minister for

Immigration, Senator Evans, draws on it in media interviews,<sup>10</sup> as do other high migration supporters.<sup>11</sup>

But data from the ABS projections present a different picture. Figure 16 projects the median age for Australia under the five series shown in Figures 14 and 15.

**Figure 16: Median age, population 2008 to 2101, current projections**



Source: Calculated from spreadsheets and data cubes published with ABS, *Population projections, Australia, 2006 to 2101, Catalogue no. 3222.0*, Australian Bureau of Statistics, Canberra, 2008 <[www.abs.gov.au](http://www.abs.gov.au)>

Figure 16 shows that the low fertility, nil net migration series (TFR1.6, NOM zero) does indeed lead to an older median age. But if we take the replacement fertility series, with nil net migration as a base line, the high migration scenarios have a minimal effect on the age structure. Helping young Australians to have the two-child family that they want to have would, in contrast, stabilise both the population and the age structure.

High immigration (with lower fertility) would also stabilise the age structure but at the cost of substantial growth, with all the infrastructure, energy, and environmental costs that such growth entails. Of course there are also serious implications for housing affordability. And if unaffordable housing is one of the main causes of low fertility, pursuing high migration in a futile attempt to offset demographic ageing could be having perverse effects.

### **Household size, birthplace, and income**

The demand for housing is a determinant of its price, and this demand is affected by a number of factors, including overall numbers and household size.

From 1991 to 2006 average household size declined from 2.8 to 2.51 people,<sup>12</sup> partly because of later marriage, fewer children, divorce and family breakdown. An older age structure, and thus an increasing number of widows and widowers living in one-person households, also plays a part.

The ABS projects continued falls in household size to between 2.2 and 2.3 people in 2026.<sup>13</sup> The degree to which this will happen can depend on housing affordability; investor confidence that continued population growth will mean continued support for high house prices may be misplaced. If housing remains unaffordable, household size will increase, as adult children stay in their parents' homes and the size of group households expands.<sup>14</sup>

There are also cultural preferences and economic constraints affecting different migrant groups. For example, to a degree, migrants' household size varies with their time of arrival and, in some groups, with ethnic background.

**Table 2: Mean household size by year of arrival of person 1, 2001**

Arrived before 1996	Arrived 1996-1999	Arrived 2000-2001	Aust born	Total
2.56	2.85	2.64	2.50	2.49

Source: Census 2001, one per cent users' file

Note: The full 2001 census found a median household size of 2.6 in 2001; the lower figure here is from the one per cent users' file derived from that census.

**Table 3: Mean household size by birthplace of person 1, 2001**

Australia	Germany	England	China	Oceania (excluding NZ)	North Africa and the Middle East	Viet Nam	Total
2.50	2.18	2.31	3.03	3.12	3.30	3.62	2.49

Source: Census 2001, one per cent users' file

**Table 4: Mean weekly income by birthplace of person 1, 2001**

	Australia	Germany	England	China	Other Oceania (exc NZ)	North Africa & Middle East	Viet Nam	Total
Household income	\$791	\$644	\$786	\$683	\$874	\$720	\$793	\$778
Income per person	\$316	\$296	\$340	\$225	\$280	\$218	\$219	\$312

Source: Census 2001, one per cent users' file

Table 2 shows that migrants tend to live in slightly larger households than the Australia-born, irrespective of their time of arrival.

But Table 3 shows quite marked variations in household size by the birthplace of person 1. Households from the older European sources are smaller than those of the Australia-born, while those from newer migrant source countries, such as China, the Pacific Islands (Oceania) and the Middle East, are larger—in some cases much larger.

Table 4 shows that, generally speaking, this latter group of households also tend to be poorer, perhaps not in terms of total household income, due to a larger number of income earners, but certainly in per capita terms.

Given that many of these households are trying to establish themselves in two of Australia's least affordable housing markets, there are serious social implications in these figures. Along with many existing low-income households trapped in expensive rental markets, few of these recent arrivals are likely to be able to buy into the housing markets in their new country.

### Housing affordability and immigration

Housing affordability has been a problem in Australia for some time. In 1990 the Housing Industry Association (HIA) reported that ‘the affordability of home ownership has halved during the past twenty years’, mainly because of increases in house prices, but also because of high interest rates. Despite this, demand remained strong. The HIA also pointed out that the shortage of housing for low-income renters was particularly acute and made it ‘impossible for some to obtain any type of housing’.<sup>15</sup>

Nevertheless effective demand did not equal underlying demand. Currently Australia faces an annual shortfall of 30,000 dwellings.<sup>16</sup> The 2008 Senate Select Committee on Housing Affordability concludes that one of the reasons for this is that: ‘Prices have risen to bring the increase in effective demand down below that in underlying demand’.<sup>17</sup>

In 2004 the Productivity Commission found that house prices had increased by 80 per cent in real terms between 1996 and 2004.<sup>18</sup> In May 2008 the HIA-Commonwealth Bank Affordability Report for the March quarter, reported continuing declines in housing affordability across almost all states (except Tasmania where it remained flat).<sup>19</sup>

Cox and Pavletich, drawing on the 4th Annual Demographia International Housing Affordability Survey, put Australian affordability in an international context, comparing 28 housing markets in Australia with 199 across five other nations (New Zealand, Canada, Ireland, the UK and the USA). They measure affordability in terms of the multiple of median household incomes required to buy a median priced house in each of the 227 markets they analyse.

If the median house is priced at three times the median household income the market is deemed affordable, or if at 3.1 to four times the median income, as moderately unaffordable. If it is 4.1 to five times the median household income it is seriously unaffordable and at 5.1 times the median household income or more the market is severely unaffordable.

**Table 5: Housing affordability, housing-market ratings by nation, third quarter 2007**

Nation	Affordable or moderately unaffordable	Seriously unaffordable	Severely unaffordable	Total housing markets surveyed	Median multiple household incomes required for median house across all markets
Australia	0	3	25	28	6.3
NZ	0	0	7	7	6.3
UK	0	3	25	28	5.5
Ireland	1	4	1	6	4.7
USA	76	23	30	129	3.6
Canada	22	3	4	29	3.1
Total	99	36	92	227	4.5

Source: Pavletich Properties Ltd., *4th Annual Demographia International Housing Affordability Survey: Ratings for Major Urban Markets (Data for 3rd quarter 2007)*, Wendell Cox Consultancy, Belleville, Illinois USA, 2008, p. 10  
 Note: Housing affordability is measured by the multiple of median household income required to buy a dwelling of median price in each of the 227 markets surveyed. A multiple of 3 is deemed affordable, 3.1 to 4 moderately unaffordable, 4.1 to 5 seriously unaffordable and 5.1 plus severely unaffordable.

Table 5 shows that housing in Australia (and New Zealand) is the least affordable in the six nations surveyed. This was not always so. Cox and Pavletich find that housing in Melbourne in 1981 was very affordable; then the median-priced dwelling could be bought with 2.9 times the

median household income. In 2007 the median dwelling in Melbourne cost 7.3 times the median household income.<sup>20</sup>

Why should housing affordability have decreased so sharply in Australia? The housing market, is affected by a number of forces. First among the factors shaping demand is the underlying demography, including rates of household formation and average household size. Then there is the capacity of households to pay for housing (the degree to which underlying demand becomes effective demand). Immigration obviously boosts demand,<sup>21</sup> even though, as we have seen, many migrant households are too poor to aspire to home ownership. But there is also pressure from Australia-born people, either young people moving out into their own dwellings, or from existing households splitting up.

As well as demand from people who want somewhere to live, there is demand from investors, a demand that has been increasing. Loans for investors grew from less than 20 per cent of all new loan commitments for housing in 1992 to more than 40 per cent in 2004.<sup>22</sup>

Interest rates and the availability of finance also shape the degree to which underlying demand can become effective demand.<sup>23</sup> In explaining the boom in house prices and the decline in affordability the Productivity Commission puts considerable emphasis on the availability of finance, the 'easy money' of the last decade or more.<sup>24</sup>

Then there is supply. How quickly can the housing industry produce dwellings to meet this demand? Answers are affected by the inevitable time lags involved in building infrastructure and dwellings as demand increases,<sup>25</sup> and by the constraints under which developers operate. These constraints can include shortages of material and appropriate labour, but also geographical and planning constraints on the availability of land. Where there are constraints on supply, in the face of growing demand, housing costs can rise quite steeply.<sup>26</sup>

As well as the costs flowing from the nature of housing markets, whether constrained or unconstrained, we should add changes to government charges such as stamp duty and up-front payments for infrastructure. These may be levied on developers and thus passed on to home buyers.

Growing demand, constraints on supply, and up-front payments all play a part in reducing affordability, but these are relatively slow-moving variables. Why should prices have shot up by 80 per cent between 1996 and 2004?

This question brings us to a key factor recently set out by Robert Shiller in the US context: the irrational exuberance of housing booms.<sup>27</sup> Writing in 2003 Birrell and Healy conclude that investors are:

a major factor in fueling 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.<sup>28</sup>

Here higher prices spawn ever higher prices as investors, and owner occupiers, are tempted into the market by the prospect of continuing gains,<sup>29</sup> and as lenders, sharing the belief that prices can only rise, scramble to offer them the money to do so.<sup>30</sup>

A strong element of irrationality drives the boom, but Australian buyers and lenders who might otherwise have been more cautious could assume that unending streams of immigrants would eliminate risk. How could prices fall when the supply of land was constrained and demand was always growing?

Immigration plays a steady direct role in increasing underlying demand. But it also plays an indirect role in increasing demand from those investors who assume that a strong and continuing influx of potential home buyers makes their investment virtually risk free.<sup>31</sup> But prices can fall when enough potential buyers cannot afford to get into the market and when lenders lose their confidence; as we are seeing in America today, booms can have an ugly end.<sup>32</sup>

### *The urban infill response*

Constraints on urban expansion imposed either by planning rules (in Melbourne) or by planning and geographic constraints (in Sydney) have led planners to focus on urban redevelopment with medium and high density housing within existing suburban areas. This is not a cheap option and therefore does not increase affordability. Households on incomes way below the median can no more afford a townhouse than they can afford the traditional suburban home.

Densification is also deeply unpopular with existing residents. Many of them are grieving over irreversible changes to the quality of their lives and, in some cases, are waging impassioned campaigns to prevent these changes.<sup>33</sup>

Policy makers demean the feelings of these protestors when they claim that the conflict is just about property values. It may be for some, but for others it is a fight to preserve the character of parts of their city that they love. If you are engaged in a tussle with such antagonists it is wise not to insult them.

## **Evaluation**

How can we tease out the relative effects of these influences on the cost of housing? Cox and Pavletich are certain that restrictions on the supply of land brought about by prescriptive planning regimes have caused the crises of affordability that they find in many housing markets.

They dismiss the role of population growth, pointing to a comparison of Melbourne and Sydney on the one hand with Atlanta and Dallas-Fort Worth in the United States on the other. All four cities have been growing rapidly, indeed Atlanta and Dallas-Fort Worth more rapidly than Melbourne and Sydney. But Atlanta and Dallas-Fort Worth did not impose planning constraints on suburban sprawl and, in 2007, both were rated affordable, with median multiples below 3.0. In contrast Melbourne's stood at 7.3 and Sydney's at 8.6.<sup>34</sup> For these authors the cause of declining affordability must lie with the draconian planning rules that restrict the supply of land.

From this perspective planners are an evil influence, denying families their preferred option of a free-standing house and garden on the urban fringe, and forcing reluctant populations into unattractive, congested, expensive, high-density redevelopments. But we should also think of what the planners are trying to achieve. They want to preserve farming land and green belts and to encourage people to use public transport. They are not willfully trying to make housing and living spaces unpleasant and expensive.

Thus while Cox and Pavletich mount a convincing argument they are too one-sided in their approach. Why focus just on the supply side of the problem? Certainly policies that restrict supply while at the same time actively increasing demand will force up prices.

In such a setting why look only at supply. What about the demand side of the problem?



Australia may well need some migrants for their specific skills, but we do not need them to make us young again because they cannot perform this magic for us. And we do not need them for growth. We already have substantial population growth, more of it than we can manage.

There is no point in crucifying the planners who limit supply and the politicians who direct them; what we have to do is persuade them to take a broader view and take a good look at the other side of the affordability crisis.

Probably no one can cure the irrational exuberance of a housing bubble in its explosive expansive phase. But bringing in an unending new supply of hungry buyers, some of whom do have the cash to compete, helps blind investors to the risks they are taking. It also prices many existing Australians out of the housing market.

One thing that policy makers can do is to make it clear that they are not underwriting economic irrationality by seeming to make speculative investments risk free.

---

## References

- <sup>1</sup> The actual figures are from 7,637,963 to 21,180,600, an increase of 13,542,637. Sources as for Figure 1.
- <sup>2</sup> Calculated from data in *Australian Demographic Statistics*, ABS, Catalogue no. 3101.0, (various issues)
- <sup>3</sup> In 2007-08 29.1 per cent of settler arrivals said that New South Wales was their destination compared to 24.9 per cent who said Victoria, the next most popular destination. In both cases most would have meant the capital cities of these states. See Department of Immigration and Citizenship, *Settler Arrivals 1997-98 to 2007-08: Australia, States and Territories*, Department of Immigration and Citizenship, Belconnen, 2008, p. 3.
- <sup>4</sup> W. Cox and H. Paveltich, *4th Annual Demographia International Housing Affordability Survey: Ratings for Major Urban Markets (Data for 3rd quarter 2007)*, Paveletich Properties Ltd., Wendell Cox Consultancy, Belleville, Illinois USA, 2008, pp. 4, 25
- <sup>5</sup> Canada, Ireland, New Zealand, South Africa, the United Kingdom and the United States
- <sup>6</sup> The nations surveyed are: Canada, the USA, Ireland, the UK, New Zealand and Australia. These are same group as the main English-speaking countries referred to in this paper, except that the Demographia group does not include South Africa.
- <sup>7</sup> Cox and Paveltich, 2008, op. cit., p. 35
- <sup>8</sup> Calculated from 2006 census community profiles.
- <sup>9</sup> See Rudd quoted in M. Franklin, 'Rudd warns Australia must prepare for emerging arms race across Asia—PM flags major naval build-up', *The Australian*, September 10 2008, pp. 1, 6.
- <sup>10</sup> See P. Kelly, 'Rudd taps global labour pool—Labor promises massive increase in migration', *The Australian*, May 17 2008, p. 1
- <sup>11</sup> See Editorial, 'More workers are a positive force', *The Australian*, May 19 2008, p. 9
- <sup>12</sup> The 1991 figure is from Time series profile, 2001 census, ABS, Catalogue no. 2003.0; the 2006 figure is from Select Committee on Housing Affordability in Australia, *A Good House is Hard to Find: Housing Affordability in Australia*, Parliament House, Canberra, 2008, pp. 20, 52
- <sup>13</sup> *Household and Family Projections: Australia 2001 to 2026*, Catalogue no. 3236.0, ABS, Canberra, 2004, p. 21
- <sup>14</sup> See Louis Christopher quoted in J. Dunn, 'System shock - How property will stand up to the pressure', *The Australian: Wealth Supplement*, November 3 2008, pp. 1, 7.
- <sup>15</sup> They were speaking of affordability in terms of a 'cash costs standpoint'. Housing Industry Association, *Housing Towards 2000*, Housing Industry Association, National Homebuilders' Council, Canberra, 1990, pp. 4-5, 7
- <sup>16</sup> R. Silverberg quoted in Select Committee on Housing Affordability in Australia, 2008, op. cit., p. 49
- <sup>17</sup> Select Committee on Housing Affordability in Australia, 2008, op. cit.
- <sup>18</sup> Productivity Commission, *First Home Ownership: Productivity Commission Inquiry Report, No. 28, 31 March 2004*, Melbourne, 2004, p. xiv
- <sup>19</sup> HIA—Commonwealth Bank Affordability Report, March quarter, 2008  
<[http://www.research.commbank.com.au/cbaresearch\\_display/0,2209,CH3350%255FTS17347,00.html](http://www.research.commbank.com.au/cbaresearch_display/0,2209,CH3350%255FTS17347,00.html)

---

> accessed 23 November 2008. Their report for the September quarter however noted some modest improvements as house prices fell a little in the wake of global financial difficulties.

<sup>20</sup> Cox and Pavletich, 2008, op. cit., p. 16

<sup>21</sup> See Select Committee on Housing Affordability in Australia, 2008, pp. 52, 89

<sup>22</sup> Productivity Commission, 2004, op. cit., pp. xvii to xix

<sup>23</sup> See B. Birrell and E. Healy, 'Migration and the housing affordability crisis', *People and Place*, vol. 11, no. 3, 2003, p. 46

<sup>24</sup> Productivity Commission, 2004, op. cit., pp. xvii to xviii

<sup>25</sup> Productivity Commission, 2004, op. cit., p. xx

<sup>26</sup> Birrell and Healy, 2003, op. cit.

<sup>27</sup> R. J. Shiller, *The Subprime Solution: How Today's Financial Crisis Happened, and What to Do about it*, Princeton University Press, Princeton, 2008

<sup>28</sup> Birrell and Healy, 2003, op. cit., p. 47

<sup>29</sup> Productivity Commission, 2004, op. cit., p. xxii

<sup>30</sup> Shiller, 2008, op. cit., p. 29, 41-47

<sup>31</sup> Birrell and Healy, 2003, op. cit., p. 47

<sup>32</sup> See Shiller, 2008, op. cit.

<sup>33</sup> See *ibid.*

<sup>34</sup> Cox and Pavletich, 2008, op. cit., pp. 16-17