

# SUSTAINABLE POPULATION AUSTRALIA

## Canberra Region

PO Box 297  
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14 September 2003

Productivity Commission  
LB 2, Collins St East  
MELBOURNE VIC 8003

Attention: Ms Athena Wicks

### **Inquiry on First Home Ownership**

Sustainable Population Australia (Canberra Region) welcomes the opportunity to make a brief submission on this important reference.

We focus on broad factors relating to the demand for housing, with particular reference to the impact of population growth on that demand. We argue that the implications of this growth for housing affordability are highly significant, and that it is incumbent on the Commission, in discharging its responsibilities under its terms of reference, to include an analysis of the role of population growth in making first home ownership difficult or impossible for many Australians to attain.

#### Our organisation

Sustainable Population Australia (SPA) is a national organisation whose vision is of "*A relationship between humans and the natural environment which ensures the integrity and sustainability of the Earth's life support systems, the ongoing evolution of natural living systems and the well-being of every person in a sustainable population*".

Our central concern is that issues of population size and growth are frequently overlooked, or left aside as too contentious, in debate on public policy issues. This is, however, dangerously myopic.

Incontrovertibly, population growth has been a major driving force in Australia's economic growth. More people, more demand for goods and services, expanding businesses and growing employment. But the basic resources on which our economy and our whole existence depends are limited, and many are being rapidly depleted or

damaged. The state of our water, soils and air provides evidence of the alarming extent to which demand is already pressing on supply.

In planning its future economic pathways, Australia must be mindful of the impact of resource constraints at both the national level and in the wider context of a world where resource shortages are a significant and growing factor in conflict, poverty and despair. It is impossible to overlook the role of human numbers in all this. During the 20<sup>th</sup> century alone the world's population increased fourfold, from 1.5 billion to over 6 billion, and it is projected to approach 9 billion by the middle of this century. More people, more demand for goods and services, greater and greater pressure on limited and diminishing resources - that is the reality of our world.

### The Commission's terms of reference

The terms of reference for the inquiry, while specifying a number of particular matters to which it the Commission is to give attention, require it to "identify and analyse all components of the costs and price of housing", and "the operation of the total housing market, with specific reference to...the demand for housing". It is these aspects of the terms of reference which are the focus of this paper.

### Population growth

Australia's population is growing at around a quarter of a million each year. In 2002 the increase was over 255,000, of which around half was from net overseas migration<sup>1</sup>.

New migrants settle predominantly in major urban areas, where pressure on housing prices is already high. Around 2 in every 5 new migrants heads for Sydney, where, according to figures in Sydney Water's annual report, the population in its supply area increased by about 2.9 per cent in 2001-02<sup>2</sup>. That is a very substantial rate of increase.

In this regard we have noted arguments put forward in some quarters that Sydney's population is not increasing much at all and that, in fact, the inflow of migrants is doing little more than replace other Sydney residents who are moving elsewhere. This needs to be seen as the special pleading and manipulation of statistics that it is<sup>3</sup>. The fact is that people who are essentially Sydney-oriented in their employment are finding themselves obliged to look further and further afield for housing, including in and beyond the Illawarra and Central Coast regions (and housing prices in such areas are under pressure as a result).

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<sup>1</sup> See *Australian Demographic Statistics*, Australian Bureau of Statistics, 5 June 2003. The figure for net migration in that document is 139,000, but that is now widely considered to be an overestimate.

<sup>2</sup> In addition to the Sydney metropolitan region, the Board's area encompasses the Illawarra and Blue Mountains regions.

<sup>3</sup> See, for example, the statement of 8 August 2003 by the Managing Director of the Housing Industry Association, Dr Silberberg, *Migrant bogey blame shift*. This is not to deny the validity of some of the points made in the statement, such as the contribution of immigration to expanding the housing work force.

In other words, the real boundaries of the Sydney area are continually expanding, as is its population.

## Population growth and the demand for housing

Population growth through both natural increase and net migration adds to the demand for housing. Our main interest here is in the net migration component, which is largely determined by Federal government policies about the size of annual migration programs. (Rates of natural increase will also be affected over time by changes in family and other policies, but impacts are likely to take time to work through and to be difficult to measure because of the many other social, cultural and economic influences on family size.)

A search of the web has revealed that, according to Migration News of July 1994, the Housing Industry Association has used a rough 'rule of thumb' that 3,000 to 3,500 houses must be built for every 10,000 immigrants who arrive in Australia<sup>4</sup>. We have not seen any more recent estimate, but note that it is broadly consistent with recent trends in the average number of persons per household in this country.

Applying this rule of thumb to 2002's net migration intake of 139,000 suggests that it would create demand for between 42,000 and 49,000 dwellings<sup>5</sup>.

## Factors influencing housing prices

The factors that have been driving housing prices in many parts of Australia are many and complex. Overall economic growth, rising incomes for many, a sustained period of low interest rates, a greater preparedness to enter into high levels of debt, population movements towards major cities and coastal areas, and rising expectations about housing size and standards are all undoubtedly highly significant. So too, of course, is population growth, though even if overall population levels were static, there would still be expansion of housing in some areas to take account of population shifts, changes in housing preferences, and other factors.

Land availability is undoubtedly a key factor, and the call for the release of more land for housing is a standard response of the building industry to complaints about housing prices. While faster release of land for housing could be expected to put downward pressure on its price, for a time at least, it could not be a long term solution.

With each expansion into new areas comes not only greater problems in such areas as service provision, road congestion and travelling times, but an increase in the relative attractiveness of inner areas. The breathtaking sums being paid for what are essentially older cottages in older suburbs of Sydney are testimony to this, where the cost of constructing a similar dwelling would be only a minor proportion of the total price.

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<sup>4</sup> The document notes that "There are variations by type of immigrant - family unification immigrants are more likely to live with a family rather than buy their own house immediately. Business migrants, on the other hand, will likely have more resources at their disposal and obtain housing immediately upon their arrival."

<sup>5</sup> This is not to suggest, of course, that new migrants would immediately seek to enter the market as first-home buyers. Some undoubtedly would - notably business migrants - but many, patently, would not have the resources to do so for some time. But the addition to the total demand for housing is real, and will feed back into price pressures.

In other words, it is the scarcity value of the land that is the main problem.

But the enormous growth in the values being put on land are by no means confined to inner areas. A recent editorial in the Sydney Morning Herald notes that prices for undeveloped rural land in Western Sydney now exceed \$2.5 million a hectare and that, for a modest building lot, this translates to more than \$180,000 in land costs alone<sup>6</sup>. One imagines there would be many in other areas who would be delighted to receive just a few per cent of such prices for their land.

Nor is the phenomenon confined to major metropolitan areas. There have been recent reports in the Canberra media, for instance, of remarkable increases in the market value of some blocks of land in the space of a couple of years, and house prices have been rising very rapidly for some time.

Moreover, the impact of high metropolitan housing prices is spreading to many other areas, notably along or near the coast, as cashed-up former city home-owners move out to take advantage of comparatively lower housing prices. The impact of this influx on local communities can be a mixed blessing indeed, and particularly for those local residents who have been struggling to put together the resources to enter the housing market<sup>7</sup>.

### Conclusion

The continuing growth in Australia's population, fuelled by high levels of net migration, is a significant factor affecting the demand for, and the affordability of, housing. The impacts, both direct and indirect, of this population growth on the demand for and the affordability of housing, and in particular on the price of land in growing cities and towns, need to be identified and analysed in a dispassionate and disinterested manner.

We look to the Productivity Commission, in its present study, to provide that analysis.

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<sup>6</sup> *Land releases: getting it right*, Sydney Morning Herald, 5 August 2003. The editorial also refers, incidentally, to the views of the NSW Planning Minister, the Hon Diane Beamer, that the Federal Government's immigration policies "are a major contributor to Sydney's 50,000 a year population increase".

<sup>7</sup> There was a recent example of this in the media in the Coffs Harbour region. One issue of the local paper, *The Advocate*, proudly trumpeted that the attractions of the nearby beach town of Sawtell were being "discovered" and there was a much increased interest in the town. Local business interests were, understandably, much pleased. A few days later, however, the paper carried a front-page story about the problems this was creating for local battlers and the dashing of their dreams to be able to buy a place of their own.