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Population growth exacerbates housing crisis

Bernard Salt | August 07, 2008

WHY all the fuss about the cost of housing and high rents? New house construction is down and rents are up in all capital cities. But surely this crisis cannot simply be a function of high interest rates. After all, today's rates are still 10 percentage points below peak rates in the late 1980s. If anyone had reason to complain about housing affordability it was 25-34 year olds in the late 80s and early 90s. So what's going on?

There are several factors that have affected the supply of residential dwellings, including heightened demand. The number of people added to Australia during calendar 2007 was 332,000 or 1.6 per cent. This is the greatest number added to the national population in any year in our nation's history. And it's evident in our city's growth rates.

Melbourne is adding more people (62,000 per year) than any other Australian city. But also running at high rates are both Brisbane and Perth. Even Adelaide and Tasmania are growing at annual rates of 1 per cent instead of 0.5 per cent (or worse) as was the case in the 1990s.

But what is driving this extreme growth?

The most obvious cause is a record level of net overseas migration. Last year we added a net 185,000 migrants, up from a long-term average of 110,000.

At the peak of the last recession in 1992 Australia attracted just 52,000 migrants. Net migration ramps up with rising prosperity: the more jobs on offer, the higher the rate of overseas migration. And judging by a mix of low unemployment and runaway labour costs in some regions, there is probably scope for even greater levels of migration.

But the forces behind the population boom don't end there. The birth rate has been trending up for six years.

Indeed this rate has taken on the likeness of a hockey stick: a long decline from the early 1980s followed by a modest up-turn from 2002. In 2007 there were 285,000 births in Australia, up from 248,000 five years earlier. The national population increase is now being boosted by a tidy birth-rate kicker equivalent to 37,000 extra babies.

But wait, there's more. Not only are migration and births up but, wouldn't you know it, the death rate has plateaued at 135,000 in 2007, up barely 1000 from the previous year.

What we really need to slow down the national growth rate is for those pesky baby boomers to start presenting to the death age group (say 75+). However, we won't pass this point until the beginning of the 2020s. No use holding our collective breath waiting for the boomers to stop breathing; they aren't budging. For the moment.

All of these factors push up the demand for dwellings. And it's not as if we aren't producing record numbers of households. Some 121,000 households were formed in 2007, up from 64,000 exactly 15 years earlier during the recession. The problem is that this accelerated demand is not finding its way into a sufficient pool of completed dwellings to keep a lid on costs and to provide a healthy alternative to renting. The question is why?

There may be record numbers of new people and households but the odd fact remains that the average household size has flat-lined since 2001. More than 40 years of social change leading to a diminution of the average household size came to a grinding halt this decade. Persons per dwelling dropped from 2.97 in 1991 to 2.76 a decade later and to 2.74 in 2006. It's almost as if the Australian population is bunching up in existing dwellings rather than forming new households.

The bunch-up factor may be due to increased fertility (more kids per house) but it must be more than this. I suspect that Generation Y is increasingly remaining in the family home postponing commitment to

forming their own household.

This might be because they've got a good thing going at Mum&Dad's or, and this is perhaps more accurate, they are dissuaded by the high cost of housing in capital cities.

Neither of these trends were evident in the late 80s: the birth rate continued to drop and Generation X much preferred cruddy student digs to living with the olds. Now the difference may well be that Generation Y are a bunch of middle class softies or Generation X didn't know how to play the game to their economic advantage.

Lots of people bunching up in burgeoning households preferring not to buy but to rent places pressure on the rental market. The demand for housing remains high, but is out of reach of many Australians who are reluctant to make long-term commitments in uncertain times. Also the cost of housing is a factor: perhaps the result of high interest rates and a constricted supply pipeline.

Planning policy from the beginning of this decade introduced urban growth boundaries designed to limit sprawl. But in so doing this policy acted a bit like a lid on a steaming kettle: rising population growth builds a head of steam and the whole housing issue then threatens to blow into a political issue. And why shouldn't access to affordable housing be a political issue?

Here we are in one of the richest nations on the planet, having passed through one of the longest booms in this nation's history, and we're saying that we cannot deliver housing at an affordable rate to Middle Australia, let alone to Battler Australia. How is it that previous generations could manage this process but we can't? Not only should housing be affordable to the vast majority but it should also be available to below-average income earners.

In the short term the resources boom will continue to attract labour and the birth rate will remain ascendant, placing pressure on the demand for accommodation, which will in turn push up rents.

The solution is to either moderate demand or to fix supply. But here's the problem. To significantly lift the supply of affordable dwellings requires investment in urban infrastructure such as public transport. The reason is that affordable and developable tracts of land on the edge of capital cities that could make a difference to supply and affordability are located beyond the city limits.

Perhaps the reason why previous generations could deliver affordable housing was because at that time there was not the public consciousness and concern about car usage and the provision of associated urban services. And if this is the case, then perhaps the early decades (not just years) of the 21st century will be seen as a transition periods where Australian cities and funding priorities are fundamentally realigned.

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