

## POPULATION GROWTH HEATS UP SYDNEY AND MELBOURNE PROPERTY MARKETS

A pick-up in population growth despite a weaker contribution of Net Overseas Migration has added fuel to the already hot housing markets of Sydney and Melbourne, where house prices continue to surge.

Population growth is not only the key to Australia's economic growth and output, but it also plays a central role in housing demand and price growth. In this case, it comes as no surprise that a pick-up in population growth in Sydney and Melbourne has coincided with a period of solid house price gains. As Figure 1 suggests, the two have been closely aligned in Sydney where population trends have been a lead indicator towards house price growth. Despite easing over the past 12 months, overseas migrants have underpinned Australia's recent population growth, accounting for approximately 58% of population gains over the past five years.

The importance of overseas migration has become more apparent over the past decade as Australia's immigration policies have been geared to meet the needs of the Australian labour market, with temporary visa programmes (predominately working holiday and

temporary 457 visas) accounting for over half of all overseas visas issued in recent years. Subsequently, population growth over the past decade has been a reflection of a pick-up in temporary migration as opposed to permanent migration.

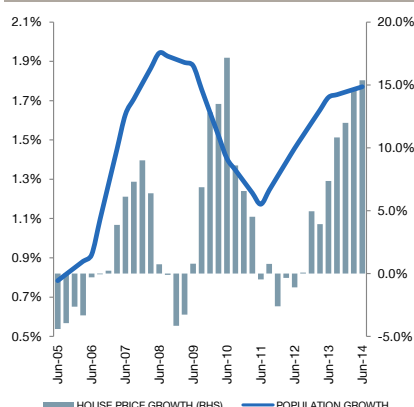
Recent population statistics published by the Australian Bureau of Statistics shows that population growth nationally has eased from its recent peak in 2009, to average 1.5% over the 12 months to September 2014 (latest data). What is more of note however is the rate of population growth by city. Despite remaining high by historical standards, population growth in the dominant resource capital cities of Brisbane and Perth has fallen sharply, particularly Perth where the annual rate fell from 3.6% to 2.5% in just 12 months (year to June 2014 - latest data). The drop in population growth in Perth is now beginning to filter through to its property

market, where over the six months to March 2015, house prices and sales volumes have dropped 2.6% and 2.8% respectively.

On the other hand, population growth in Sydney and Melbourne increased over the 12 months to June 2014, supported by stronger economic prospects, underpinned by residential construction. The stronger economic environment within these cities led to an improvement in Net Interstate Migration (particularly to Melbourne/Victoria) as people sought employment opportunities outside of their home state. The pick-up in population growth has been met with solid house price gains in these cities, where over the six months to March 2015, house prices in Sydney and Melbourne are up 8.2% and 2.8% respectively.

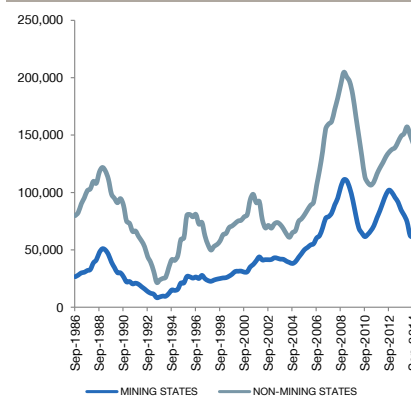
Nationally, the recent easing of population growth can be partly

FIGURE 1  
**Sydney Population Growth vs House Price Growth**  
2005-2014



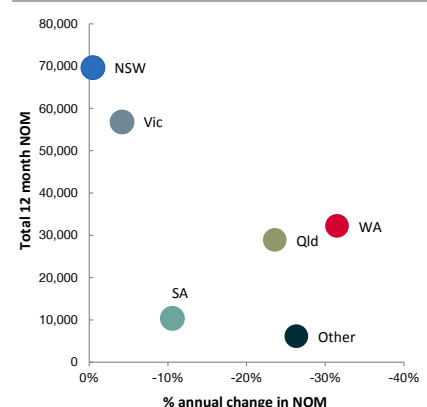
Source: Residex, ABS, Knight Frank

FIGURE 2  
**Net Overseas Migration—Mining & Non Mining States**  
1986—2014



Source: ABS, Knight Frank  
Note: Mining States includes Qld & WA

FIGURE 3  
**Total Net Overseas Migration & % Annual Change by State**  
Year to September 2014



Source: ABS, Knight Frank



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attributed to the improving New Zealand (NZ) economy. Australia has enjoyed strong population growth from NZ citizens (subclass 444 visa holders) over the past five years as weak economic conditions in NZ provided the impetus to move to Australia. However over the past 12 months, the NZ economy has shown solid signs of improvement, with the unemployment rate now lower than Australia at 5.8% (6.2% for Australia). Consequently, NZ citizens are returning home, while fewer are coming to Australia. Not all is bad news however, with a pick-up in Asian migrants partly offsetting this reduction. Inward temporary movements from China and India have represented the bulk of this

uplift, many of which are on student visa programs.

Looking ahead, both population and house price growth favours Sydney and Melbourne, with the lion's share of overseas migrants expected to gravitate towards these 'gateway' cities. Alternatively, fewer migrants on temporary skilled (subclass 457) visas will head to resource capital cities of Brisbane and Perth given more limited employment opportunities as resource projects enter their less labour intensive operational phase. Ultimately, this is likely to constrain population and house price growth in each of these cities.

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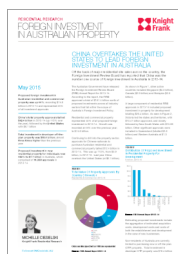
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