

Charter Insight

Dwellings in Decline as Demographics Drives Demand

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The significant reduction in overseas migration will see underlying demand for dwellings decline.

However, as major demographic shifts take hold, demand will be driven by vast numbers of existing resident Millennials who are moving into the family formation stage at an unprecedented rate.



Rob Burgess
NATIONAL DIRECTOR - RESEARCH AND STRATEGY
E rob.burgess@charterkc.com.au
T +61 (0) 417 708 925

For obvious reasons, conjecture regarding the impacts of COVID-19 on the Australian property market has become a daily preoccupation as the development industry seeks to navigate its way through an unprecedented level of uncertainty.

Rarely has the question of where, why and how people will live, work and play been so important, as the impact of COVID-19 begins to transform the demand and supply equation across the Australian property market.

As to whether the impact of the virus and the many variables associated with it will bring forward market trends already underway, or create long-term structural change, is far from being understood. And while rampant speculation on the future of the city will likely continue, one certainty arising from the pandemic is the extent to which the very significant reduction in net overseas migration will impact the number of dwellings required.

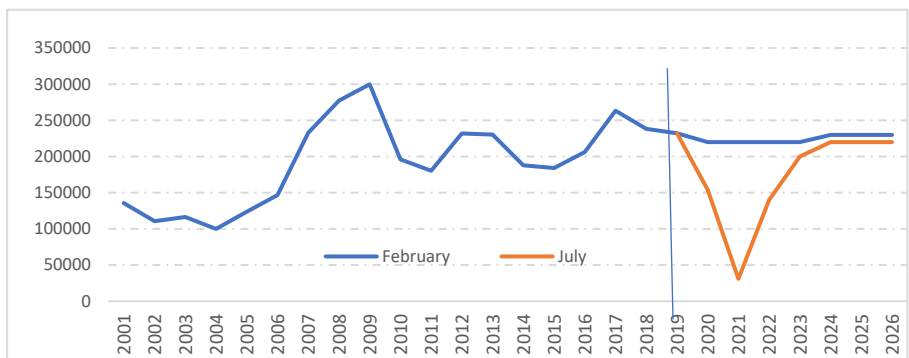
Reduced Migration, Reduced Demand

Consistently exceeding 200,000 people per annum, net overseas migration in Australia has been a powerful force that has generated significant demand for residential property for over a decade.

Before the onset of COVID-19, overseas migration was to be a major driver of demand, particularly in Sydney and Melbourne, where the combined need for an annual requirement of approximately 100,000 dwellings, was forecast. The Federal Government's revised overseas migration figure for FY 2021 is 31,000, the lowest in almost 30 years. As a result, underlying demand will fall below 30,000 dwellings in each of Sydney and Melbourne for the first time in many years.

Underpinned by regional inflows and attracting far fewer overseas migrants than its southern counterparts, Brisbane will experience a less dramatic decrease in underlying demand, forecast to require almost 20,000 dwellings over the coming year.

Australia - Forecast Net Overseas Migration (February & July 2020)



Migration – The Unknown Variable

Overseas migration to Australia has been the result of the same push and pull factors that have characterised patterns of human migration throughout much of history. The pursuit of economic opportunity, political asylum, a chance to study abroad, or to reunite with one's family, are not unique.

The economic and political conditions that have supported high levels of overseas migration in recent years had never been more benign. Though Australia is expected to remain an attractive destination for migrants, the conditions required to enable this are eternally unpredictable. The increasingly competitive landscape impacting the international student market, evident in the changing number and origin of students coming to Australia in recent years, is one example of this. More generally, the propensity for people to migrate diminishes considerably during challenging economic periods.

For the Federal Government, the question of what an appropriate rate of migrant intake should be will be further complicated by high unemployment and an economy that continues to be burdened by a sustained, weak level of productivity. The impact of COVID-19 has confounded the economic, social and political imperative and thus the basis on which Australia's migration program is formulated. Merely adopting a 'populate or perish' approach, as attractive as it might be, is not an option.

Millennials on the Move

Partly the result of the significant reduction in overseas migration, Australia is now entering a phase whereby major demographic shifts will have direct implications for the residential development sector.

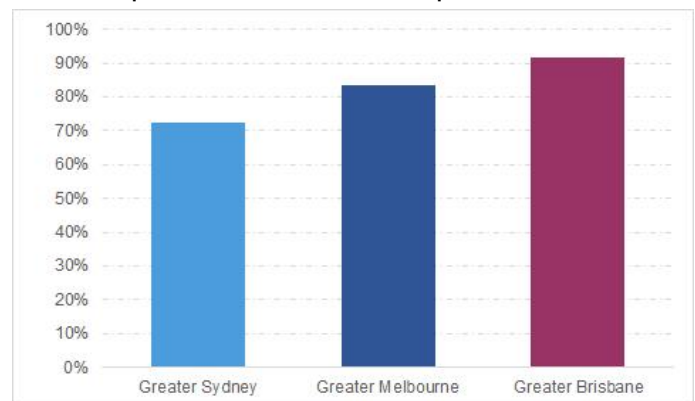
Large numbers of existing resident Millennials have already or will soon enter the 35 to 44 age bracket and will do so at an unprecedented rate. Meanwhile, the significant reduction in overseas migration

means that there will be zero growth in the 25-34 age cohort. As the largest apartment dwelling cohort in the country, this will negatively impact this segment of the residential market, which only a few months ago was headed towards undersupply in all east coast capitals.

That the dominant household type for the 35 to 44 age cohort is 'couple family with children', is instructive for the residential development sector given that the vast majority of such households live in a 'separate house'.

More than any other age group, this cohort is also the most likely to transact residential property for owner-occupation, and it does so at a median price of just below \$800,000¹.

% of Couple Families with Children in Separate Houses



Source: ABS 2016

Together with early indications that there is a COVID-19 inspired shift towards homes that provide sufficient space for permanent working arrangements, the rapid expansion of the 35 to 44 age cohort will have implications for both locational preference and dwelling type.

Having fallen out of favour at some point in the twentieth century, Ebenezer Howard's Garden City concept, whereby the best of town and country were combined to provide a utopian alternative to "unhealthy cities", is now likely to become a preferred future model of living for a growing segment of the population.

¹ ABS Housing Occupancy and Costs, 17 July 2019.

Determining Demand

A significant contributor to underlying dwelling demand for over a decade, if and when net overseas migration returns to pre-COVID levels, will remain uncertain for the foreseeable future.

Despite this, major demographic changes already underway will continue to drive new household formation. In turn, this will generate demand for new housing in locations that provide the required dwelling type at an appropriate price.

For planning authorities, understanding the changing dynamics of the residential market and where required, reforming the policy framework so that housing can be delivered, has perhaps never been so important. If strategic planning and policy is to be effective it must have an understanding of the impacts of its decisions, and the dynamics of the housing market to which it applies.

Following the significant reduction in overseas migration, together with an unprecedented change in demographic composition, the Australian housing market will continue to present opportunities, albeit to varying degrees across different markets. Recognising the inherent drivers, including the preferences of those from whom the demand will come, will be vital in ensuring this is done successfully.

With a comprehensive understanding of the rapidly evolving supply and demand scenario across Australia's many residential sub-markets, Charter's Research & Strategy team can provide detailed insight into the dynamics of these. Informed by our proprietary, national residential supply database together with our demand forecasting expertise, our team has a unique capability to provide a deeper understanding of residential markets to help our clients make more informed decisions.

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