

## ***Brian Fallow.* Migration and house prices**

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By [Brian Fallow](#)

Even as Aucklanders digest the implications of the internal migration tide having turned against them, researchers are challenging another pillar of the conventional wisdom: that immigration is a powerful driver of house prices.

At the national level, periods of strong net inflows of migrants from overseas have also tended to be periods of strong house price growth.

The Reserve Bank has been moved to advocate more active Government management of immigration flows with a view to moderating the housing cycle and making the bank's inflation-fighting task easier.

But when it comes to housing we don't really live in New Zealand. We live in a particular neighbourhood in a particular town or city.

Averages mean little. If Graeme Hart joins you in a lift the average net worth of the lift's occupants will shoot up, but that doesn't make you any richer.

So two economists at the Wellington think tank Motu, Steven Stillman and David Mare, have taken a more fine-grained look at the issue.

"Our overall results raise doubts about whether the strong positive correlation that exists between immigration and house price appreciation over the time at the national level is in fact causal," they conclude.

Instead it may be that there are other factors which raise both immigration and house prices.

In other words immigrants are more likely to come to New Zealand when the country is doing well and house prices are on the rise.

They break the country down into 140 "labour market areas" (basically, commutable zones) and then use Census and Quotable Value data to see how population change, international immigration (including returning expatriates) and internal migration affect house prices.

"We find that areas with relatively high population growth over a five-year period also tend to experience relatively rapid appreciation in house prices," they say.

But even though international migration is an important contributor to fluctuations in population, they find no evidence the inflow of foreign-born immigrants to an area is positively related to local house prices, despite a strong correlation over time at the national level.

"On the other hand, there is a strong positive relationship between inflows of New Zealanders previously living abroad into an area and the appreciation of local housing prices, with a 1 per cent increase in population arising from higher inflows of returning Kiwis associated with a 6 to 9 per cent increase in house prices."

This theme – that it is not immigrants driving up house prices, if anything it is returning expatriates – holds good when they tighten the focus to individual neighbourhoods and control for other factors which make one neighbourhood more or less attractive than another.

"We find that neighbourhoods which experience relatively high population growth from returning New Zealanders have greater house price increases than the rest of their labour market area and neighbourhoods with relatively larger inflows of foreign-born immigrants experience slower house price growth relative to the labour market area in general."

Roughly speaking there is one returning expatriate for every three foreign-born immigrants.

Auckland is of course the main beneficiary of the inflow of migrants.



Phil McDermott, a consultant in development planning, calculates that between the 2001 and 2006 censuses, Auckland had a net gain from external migration of 95,000, or 19,000 a year. It accounted for two-thirds of the region's population growth.

Nationally, though, we are losing New Zealanders almost as fast as we are gaining immigrants.

There is a net gain but it is too small to make much difference to the fundamental demographic trend of an ageing population.

And that has implications not only for the housing market, but for the labour market and the tax base as well.

Statistics New Zealand's permanent and long-term migration data for the year ended March recorded that the country lost six Kiwis for every seven non-New Zealanders it gained.

The net outflow of New Zealand citizens was 34,700, including a net 31,500 lost to Australia.

And in that respect there is a large time bomb ticking very loudly.

New Zealand is not the only country staring down the barrel of declining growth in the labour force when the baby boomers start retiring and have to be replaced from the significantly thinner ranks of Generation Y.

A scary presentation by Bernard Salt from KPMG in Australia at the Australia New Zealand Leadership Forum two weeks ago showed that early in the next decade growth in the labour force is about to lurch lower in both Australia and the United States.

Both countries are a whole lot richer than we are and better placed to compete for immigrants (including Kiwis) in an era of labour mobility.

That may be particularly true for those drawn from the footloose Generation Y for whom instant gratification takes too long. If the baby boom generation had invented the teenager, Salt said, generation Y had extended adolescence until the late 20s.

McDermott notes that while immigration to New Zealand has been on a rising trend over the past 20 years, it is relatively gentle compared with trajectories of Australia and Canada.

"The gap opening between them and New Zealand raises questions about our future capacity to compete for skilled and semi-skilled migrants," he said in a briefing paper for the Royal Commission on Auckland Governance.

And during a period of slow labour force growth and low unemployment, the semi-skilled migrant may be as important to Auckland progress as the highly skilled, McDermott said.

Several conclusions suggest themselves from all this.

Employers need to adjust to a permanently tight labour market. That has implications not just for recruitment and retention but for the kind of investment needed to deliver the productivity and incomes needed to compete internationally for labour.

Homeowners need to be realistic about the longer-term demographic underpinnings of the housing market. An online look at what a couple of decades of slightly adverse demographics has done to house prices in Southland is instructive.

And politicians need to think about the longer-term viability of a tax system which relies heavily on taxing the incomes of the better off.

The 15 per cent of taxpayers who earn more than \$60,000 provide 55 per cent of the income tax take and almost a quarter of Government revenue.

Young people who can realistically aspire to be in the top tax bracket are among the most internationally contestable. If they regard New Zealand tax rates as too onerous, they will join the Kiwi diaspora.