

HOUSING MARKETS AND MIGRATION – EVIDENCE FROM NEW ZEALAND



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SUMMARY HAIKU

People need houses.
More people higher prices,
wherever they're from.

INTRODUCTION

There has been widespread recent concern that strong increases in immigration flows have caused a housing crisis in New Zealand. Between 1986 and 2013, the number of foreign-born New Zealand residents more than doubled, whereas the New Zealand-born population rose by only 8 percent. Over the same period, the average real (inflation-adjusted) house price increased by about 140 percent.

In this paper, we examine the relationship between population changes and house price growth from 1986 to 2013. Because of data availability, most of the analysis is for 1991 -- 2013. House prices have increased substantially since 2013, but we have no reason to expect different results. The study did cover similar strong-growth periods, e.g. 2001-2006, when average real house price increased by more than 50 percent.

We focus on how local area population change, in terms of both its size and composition, affects the price and supply of housing in those areas. We find that despite there being a strong correlation between immigration and house price changes nationally, there is no evidence that local house or apartment prices are positively related to the share of new immigrants in an area.

DATA

The analysis presented in this paper uses data assembled from several sources:

- population and dwelling data from New Zealand Censuses of Population and Dwellings between 1986 and 2013,
- average house sales price data from Quotable Value New Zealand,
- average rents using tenancy bonds data from the Ministry of Business, Innovation & Employment,
- building consents data from Statistics New Zealand.

We consider three local area definitions of housing markets. The first is based on the 66 territorial local authorities, but with Auckland City disaggregated into 13 wards. The second definition is based on 140 labour market areas. We also separately examine suburban (area unit) variation within Auckland.

We categorise people by whether they are foreign-born or New Zealand-born, and whether they live in the same local area as in the previous census. In particular, we split the population into six groups: new immigrants, returning New Zealanders, immigrants who move within New Zealand, New Zealanders who move within New Zealand, staying immigrants, and staying New Zealanders.

RESULTS – HOUSE PRICES

A 10 percent increase in local area population is associated with 4–6.5 percent higher house prices.

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In areas with a 1 percent higher share of returning New Zealanders (and 1 percent fewer staying New Zealanders), house prices are up to 9 percent higher on average. Similarly, a 1 percent redistribution of population from staying New Zealanders to moving New Zealanders is associated with up to 2 percent higher house prices. In contrast, having a relatively higher number of new or moving immigrants in an area has no effect on house prices, after we control for the population size.

The results for apartment prices are broadly similar to those for house prices.

RESULTS – RENT

The effect of population size on rent for both houses and apartments is small and not statistically significant. However, we estimate that higher shares of new residents (including new and moving immigrants, and returning and moving New Zealanders) are associated with higher average rents. This result is particularly strong for returning New Zealanders.

RESULTS – HOUSING SUPPLY

Our results indicate a 1 percent increase in population is associated with an almost equivalent increase in the number of occupied, private dwellings or the number of bedrooms. These results suggest little evidence of household crowding.

We find New Zealanders tend to migrate to areas with more slowly growing housing supply. Areas that have 1 percent more moving New Zealanders (and 1 percent fewer staying New Zealanders) have, on average, about 0.4 percent less housing growth. This suggests a possible reason why returning New Zealanders have more of an impact on house prices.

RESULTS - AUCKLAND

We find the smaller the area of focus the smaller the impact of population on housing. In Auckland, when we analyse at the suburb (area-unit) level, we estimate that a 10 percent local population growth raises house prices by only 1.6 percent, compared with 6.5 percent for territorial authority-level estimates and 6.2 percent for labour market area-level estimates in the national analysis.

CONCLUSION

Population growth puts upward pressure on house prices. However, after controlling for population growth and differences in the socio-demographic characteristics of areas, there is little systematic evidence of a relationship between the *composition* of the local-area population and housing market prices. In particular, we find no evidence that a higher share of new (international) immigrants in an area is associated with higher house prices. We do, however find rents are positively related to higher shares of recent movers.

Housing provides shelter and is also an asset. House prices capture both aspects, while rent prices only capture the first. The absence of any population size effects on rents implies that the potential to profit from house purchase and sale is likely to be a major contributor to house and apartment price increases.

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