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Population patterns, not tax breaks, responsible for housing crisis



Australia's unique population patterns and a shortage of available residential land near jobs and services has had a far greater impact on house prices than interest rates or government subsidies, new analysis shows.

The finding is contained within a new whitepaper produced by LongView and PEXA, the first of a three-part series exploring the origins of the housing crisis.

The whitepaper found that interest rates had a minimal impact on house price growth over the past 50 years, while cumulative spending on government policies, such as the first-home buyers grant, capital gains tax exemptions and negative gearing, accounted for only a small fraction of the more than \$7 trillion growth in the value of Australian real estate over the past 20 years.

It cited ABS research that estimated the capital gains tax exemption and negative gearing combined account for less than 2 per cent of the multi-trillion-dollar recent growth in house prices.

Instead, Australia's rate of population growth, and the growth of its cities, had more to do with price growth.

"We know what has happened; why it has happened is much less understood," LongView Executive Chair Evan Thornley said, referring to falling rates of home ownership in Australia.

"If you really want to understand house prices, you need to understand what is different about Australia.

"Commentators typically focus on interest rates and tax policies.

"Both matter but they don't fully explain the growth we've seen."

While most countries had experienced record low interest rates, supply constraints and government subsidisation for housing, fewer had seen Australia's level of urban density.

The report said that, in a global context, Australia's population was "unusually concentrated", with 51 per cent of the population living in either Sydney, Melbourne or Brisbane.

These population patterns created more pressure on a fixed supply of desirable land, the report noted.

"What sets Australia apart is its consistently high population growth rates and urban concentration," Mr Thornley said.

"Australian cities are unusual – they are few, they are large, and they all have dense CBDs and expansive suburbs, with not much in between.

"As a result, our analysis shows that the value of

land alone accounts for most of the growth in property prices over the past 30 years in Australia.

“Land appreciates, buildings depreciate – and Australia’s population dynamics mean our land appreciates faster and more consistently than almost anywhere else in the developed world.”

The series aims to offer fresh solutions to the housing crisis based on quantitative analysis of decades worth of data.

It was commissioned in response to growing generational disparities in the housing market, including a jump in the number of years it takes to save for a deposit.

The report noted that house prices have grown much faster than incomes in recent decades, with prices rising at a compound annual growth rate of 7.2 per cent since the 1960s.

It is estimated that residential land now makes up 48 per cent of Australia’s national wealth – compared to 34 per cent in 2012 – eclipsing all other Australian asset classes, including commercial real estate, bonds and shares.

PEXA Chief Executive Officer Glenn King said the series aimed to go beyond the simple arguments of supply and demand.

“If you reduce the analysis of our housing crisis to simple supply-and-demand arguments, you are going to get simple solutions – solutions that simply don’t work,” Mr King said.

“What we have sought to do is forensically analyse Australia’s unique demographic and urbanisation profile to help explain Australia’s upward trend in house prices over so many decades.”

Mr King said that the rising cost of residential land meant new homebuyers were forced to live further away from the city centre, limiting any economic benefit they can gain from living in a city.

“Many first-home buyers, who are forced to buy far from the centre of cities, are denied the opportunities that may increase their quality of life, including access to the higher paying jobs that are in the central city and employment hubs,” Mr King said.

“They aren’t reaping the economic benefits that living in a city should bring, benefits that generations of Australian city and suburb-dwellers have enjoyed.

“Put simply, our largest cities are now too big for this.

“This also has serious implications for the challenge of homelessness in Australia, which must be addressed.”

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