

The image features a modern, multi-story building with a dark, curved facade and large glass windows. The building is set against a backdrop of a city skyline at dusk or night, with various skyscrapers illuminated. The MaxCap Group logo is prominently displayed in the upper left corner of the image.

**MaxCap**  
Group

## **Migration and housing demand**

MaxCap Group Research – February 2024

# Implications for housing



**Record inflows in migration.** A decade-long surge in net overseas migration is driving a massive uplift in population growth in Australia. While the record pace of immigration post-pandemic might slow for policy reasons, the big impacts on housing demand are here to stay.

**Demand exceeds supply.** The increase in housing demand has occurred with diminished supply gains. Supply has been slowed by elevated mortgage rates, higher construction costs and wet weather. Australia is set for marked housing undersupply for some years ahead.

**Acting your age.** The evolving age profile in Australia is clearly shifting housing requirements as well, adding demand broadly to all types of living sectors, but also across specific age groups, including senior retirees, first home buyers, upgraders and university students.

**A home among the gum trees.** New arrivals from different parts of the world bring with them very different housing preferences. Indeed, migration patterns are likely to add demand concurrently for higher-density apartments, house and land packages and student housing.

**Putting a roof over everyone.** With this firm pace of housing demand, there are more urgent calls to lift housing supply, via a policy push for speedier and friendlier development approvals. However, this catch up in supply will likely take several years to unfold nationwide.

**Firm performance drivers ahead.** Persistent housing undersupply is pushing residential vacancies to ultra low levels, unleashing a sizeable surge in rents. Growing residential rents are offering a strong hedge against inflation, especially compared to lagging commercial rents.



# A big rebound in migration

For over 150 years, Australia has seen strong population growth, spurred on by **multiple waves of migration**, starting early with the gold rush from the 1850s, through the post-war boom in the 1950s and most recently with the recent surge in the 2010s and early 2020s.

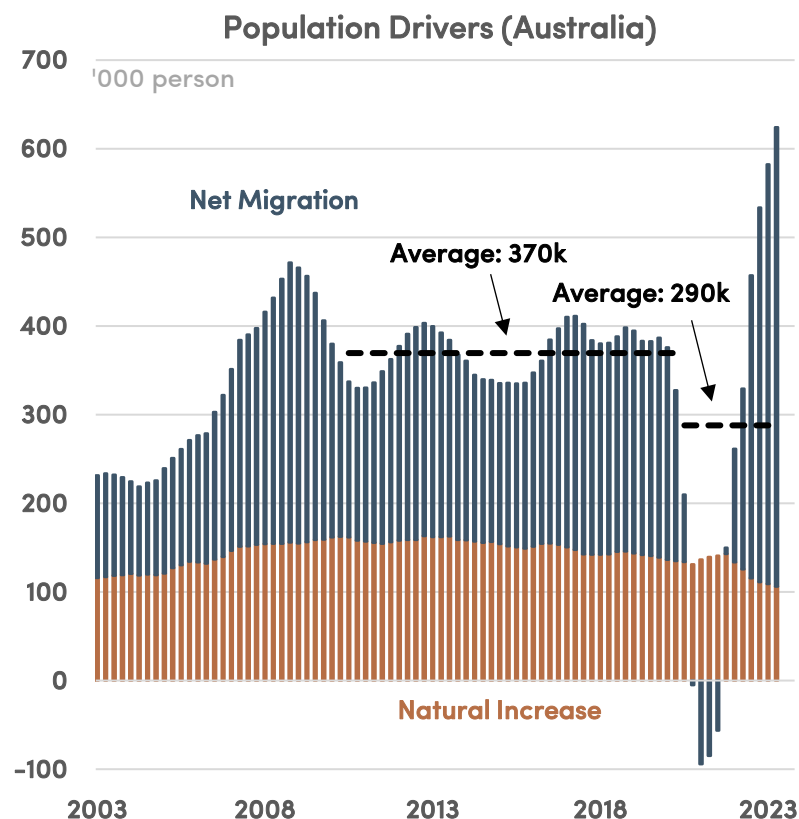
There are **compelling reasons** for the current uplift in migration, given sustained economic and political resilience in Australia, amid worrisome conflicts and political disruptions in Europe and the Middle East. All this uncertainty abroad is prominently adding to the **inflow of immigrants** into Australia, but perhaps less obviously, it is also reducing the **outflow of emigrants** from Australia into the rest of the world.

- While the newspaper headlines are keenly focused on the **robust pace of net migration** into Australia in 2023, this should be regarded in the context of the long-running inflows since the large wave of returning expats triggered by the Global Financial Crisis in 2008.
- Indeed, population gains in the **2010s** tracked at an average of 370,000 people per year, before the pandemic-related border closures. The record rebound in 2023 partly reflected an undiminished intent to migrate through the pandemic and a clear element of catch up as borders reopened. All told, the pace of population gains in the **early 2020s**, averaging 290,000 people per year, **has tracked well below the levels of the prior decade.**

Looking ahead, we do anticipate **some moderation in these migration flows** over the next two years, partly as we move through this catch-up phase and partly reflecting the potential for populist policies to impose near-term ceilings to visa issuances, as we are seeing now in Canada.

Altogether, net migration flows should pull back to more neutral levels (of around 300k people per year), more in line with the pace seen over the past decade. Regardless of the adjustment profile, we still expect **big and enduring demand impacts** for real estate markets.

Australia represents an island of stability in a politically volatile world. This is driving strong inflows of migrants especially with the post-pandemic reopening of borders.



Source: Australian Bureau of Statistics, MaxCap Group (February 2024)

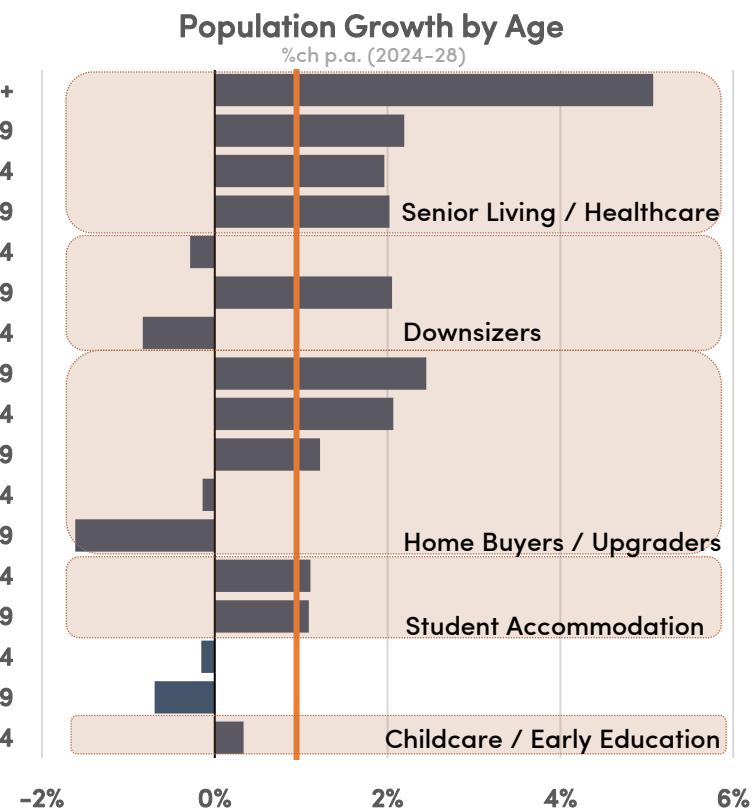
# A demographic shift

Beyond the simple demand boom from rapid population growth, there are **more nuanced impacts** on real estate demand as well, due to demographic drivers, patterns of migration and changing housing preferences, all of which are driving dramatic market changes.

On the **demographic front**, there are big shifts underway in Australia from both the ageing of the population, and the age profile of incoming (and outgoing) migrants. Indeed, the robust growth in aggregate population over the past year (FY 2023: +2.4%) and the expectation of sustained growth over coming years (2024-28: +1% p.a.), mask substantial shifts in population growth across the **different age cohorts**, all with telling demand impacts for various real estate market segments.

- Most significantly, robust growth in the **senior age cohorts** (aged 65+) – on the back of the post-war boom years and improving health and longevity – continue to underwrite relentless demand growth for senior living and healthcare.
- There is still firm growth in the **working age cohorts** (aged 25-49), given sustained inflows of foreign students who stayed post graduation and younger workers through the skilled migration program. Altogether, this is adding strongly to housing demand from buyers seeking their first homes or upgrading to larger homes that suit growing families.
- Meanwhile, there is a noticeable uplift in the **schooling age cohorts** (aged 15-24), given the perennial popularity of Australian high schools and universities to foreign students, particularly out of Asia. This is driving a robust and continuing surge in demand, specifically for student accommodation, centred around key education hubs.
- Lastly, there is a clear moderation in the **pre-school cohorts** (aged 0-4), particularly with the decline in birth rates since the pandemic, which may progressively impede demand for early childcare and early education in coming years.

We are seeing very uneven trends in population growth and ageing, centred around particular age cohorts, which will have specific impacts on housing demand



Source: United Nations, MaxCap Group (February 2024)

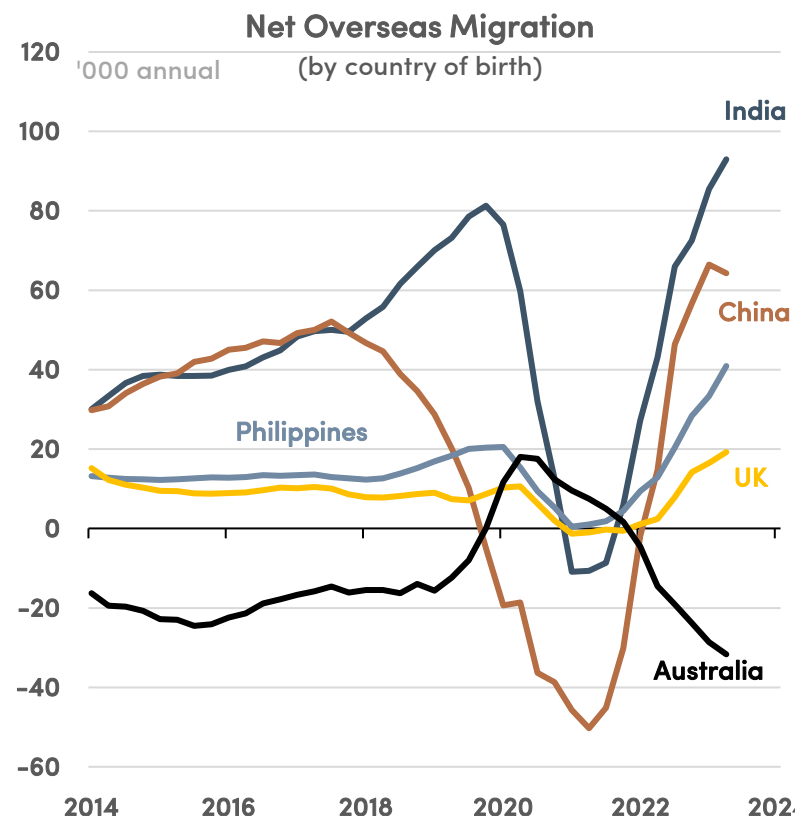
# Sources and implications

In the context of the robust uplift in overall migration into Australia, there is considerable value in understanding **the source of these migration flows**. Specifically, where migrants hail from initially (and the housing preferences they bring along with them) matter greatly for the types of housing supply we would need to meet this increased pace of demand.

- Since 2018, **India** has moved into the number one spot as a source of inbound migrants. Initially, students and skilled workers from India are more likely to be renting, in larger (5+ persons) households, in more affordable locations in Sydney and Melbourne. At the same time, there is a clear preference from Indian migrants, after several years, to seek land and home ownership, around the outer urban fringes. Indeed, Indian-born buyers are typically the largest cohorts in new housing estates, well ahead of any other immigrant or local buyers.
- While inflows from **China** have dipped clearly in recent years, migrants are returning in larger numbers since the reopening of borders, pushing beyond 2017 peak in 2022. There is a similar translation of housing preferences into Australia, with permanent arrivals skewed towards moderate size households (3-4 persons), higher-density apartments, particularly in the urban centres of Sydney and Melbourne.
- There are distinct housing preferences for other groups. Migrants from the **Philippines** also express strong skew towards new house and land packages. Arrivals from **Malaysia** – most often as university students – are disproportionately represented in purpose-built student accommodations. Meanwhile, expats from the **United Kingdom** are often driven by lifestyle factors, more commonly landing in detached housing, more expensive locations, with beach or similar amenities.

Altogether, these **evolving patterns of migration** do drive very specific trends in housing demand, simultaneously pushing demand for medium- to high-density apartments, land subdivisions and purpose-built student accommodations.

There are some noteworthy trends in net migration, driven by sustained inflows from key source markets, which will deeply affect the pattern of housing demand



Source: Australian Bureau of Statistics, MaxCap Group (February 2024)

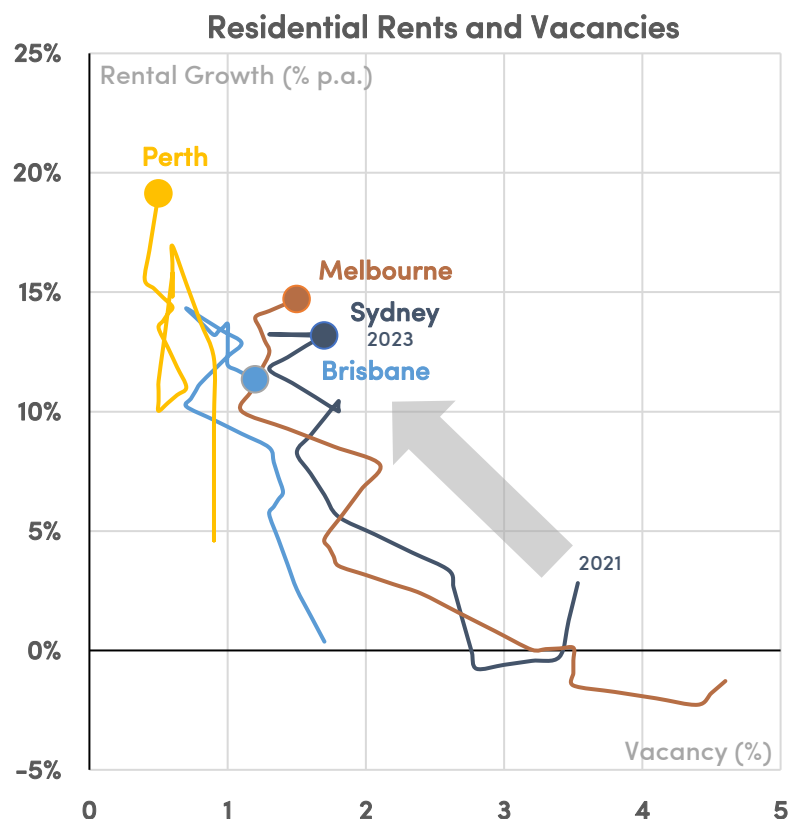
# A boon for residential

Robust population growth in Australia – spurred on by the record pace of net migration – is adding considerably to the sustained pace of **housing demand**. This uplift in demand is occurring in the broader context of a slower pace of **housing supply**, impeded by a combination of higher interest rates, elevated construction costs and the recent spate of wetter weather.

Altogether, this translates to a sizeable mismatch between demand and supply, with dramatic implications for residential markets. This **pattern of undersupply** is expected to persist for a number of years ahead, with enduring impacts on occupancy levels and rental income performance.

- The demand-supply mismatch is coming through most obviously as a shortage of housing, as **residential vacancies** dip to their lowest recorded levels. This lack of available stock is fairly consistent across the country. The surge in supply needed to unwind this shortfall is likely to be still several years away, given the lengthening timeline for builders to move from approvals to completions.
- With low vacancies, the responses in **residential rents** have been both predictable and dramatic. In Australia historically, rent-neutral vacancy rates sit at around 3%, while the market is considered fully-occupied when vacancy rates fall below 1%. Where there is some minor variability across capital cities, current vacancy rates are still low enough to support robust rental growth, at rates that still outpace inflation and outperform nearly all commercial market segments.
- Meanwhile, this demand-supply imbalance is offering a degree of **pricing resilience** not seen in any past rate-tightening cycles in Australia. Where prices should have fallen 10% with higher mortgage rates and weaker affordability, we saw a gravity-defying pricing uplift in 2023 instead. The prospect of a turning point in interest rate in late 2024, should provide further support for prices over the next year.

The demand-supply imbalance is clearly evident in the cyclically low vacancy rates across residential markets, which is in turn driving a sizeable, enduring rental surge



Source: Proptrack, SQM Research, MaxCap Group (February 2024)

# Additional information

**#1**  
**in Australia**  
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**#2**  
**in Asia Pacific**  
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