

Research insight

November 2007

Skilled Migration and the Property Market

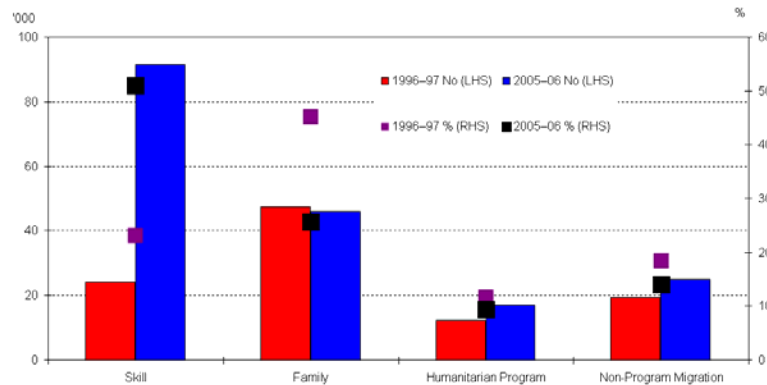
Strong population growth has been a key driver of Australia's economy and property market in recent years with overseas migration - and skilled migration in particular - playing an increasingly major role. In the year ending March 2007 our population grew by over 307,000 people to reach around 20.9 million. Annual population growth was 1.5% - the highest since 1990 - and net overseas migration was the key driver of this growth accounting for 54% of the total increase (162,600 people).ⁱ In addition to a rapidly expanding population, our population is also being transformed with young, skilled and Asian migrants increasingly calling the 'clever country' home. In 2005-06 more than half all overseas migrants were skilled (approximately 91,500 out of 179,800) and nearly three-quarters of the nation's permanent addition migrants were under 35 (72%).ⁱⁱ And while Europe's share of Australia's permanent additions has fallen over the period 1996-97 to 2005-06 (from 25.7% to 22.5%), Asia's share has increased (from 38% to 43%). Skilled migrants from China and India have been amongst the fastest growing migrant sub-groups growing from 3,800 to 12,500 and from 4,700 to 12,300 respectively over the period 2001-02 and 2005-06. The United Kingdom, however, remains an important source of skilled migrants.

A larger, younger and more diverse population will have both significant direct and indirect impacts on the local economy and property market in the long run. While the geographical distribution of these impacts will differ across the country, Victoria can expect to be a major beneficiary of the boost to Australia's pool of skilled migrants. This is due to the State's continuing success in attracting skilled migrants - driven in part by State Government plans to boost Victoria's share of Australia's skilled migrants to 28.5% by 2011 and build on recent success in increasing the State's share of Australia's skilled migrants (from 17.6% in 1998-99 to 26.8% in 2005-06).ⁱⁱⁱ A key part of the Government's plan will be the establishment of two new offices in Britain and India which will help to promote the State's career, business and lifestyle opportunities. Understanding the drivers of these population trends and their implications is critical to property developers, investors and professionals.

The global knowledge economy – More local than you think

Since 1945 approximately 6.5 million migrants have settled in Australia. Around 24% of the population were born overseas and thus migration has been a critical driver of our economic, social and cultural development. In addition to helping fuel national prosperity migrants have also made Australia one of the most liveable and attractive places to live and work in. However, while demand for migrants has remained consistently strong in the post-war period, different stages of development have resulted in different types of migrants being sought. While the post-war period saw the arrival of many relatively low-skilled migrants to boost Australia's industrial economy the policy focus in the modern 'post-industrial' economy has now shifted largely onto skilled migrants and entrepreneurs. This is because innovation and internationalisation are the two key drivers of the modern global economy and human capital and talent is the most important corporate asset.^{iv} As a result of this new global economy reality, the skill stream in Australia's migration program has undergone significant expansion. Over the period 1996-97 and 2005-06 the annual number of Skill Stream migrants (including dependants) has increased nearly fourfold from over 24,000 to over 91,000. Skilled migrants now make up nearly 51% of all permanent additions - up from 23% in 1996-97.

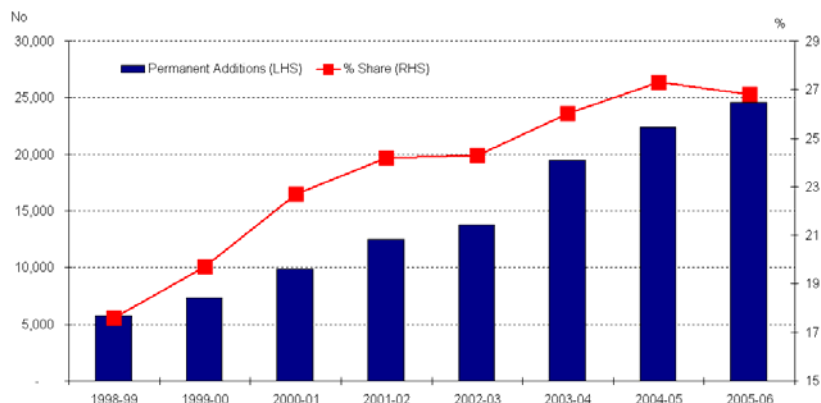
Figure 1: Australian Permanent Additions (000's and % of Total)



Source: ABS

As Australia's manufacturing heartland - but without the rich natural resources of some other states - Victoria has had to pursue a range of economic development strategies, many of which have focused on building the State's ability to innovate. The successful attraction of skilled migrants has been a key driver of this strategy and one supported by the State's unique lifestyle and strengths in key industries such as advanced manufacturing, biotechnology, finance, automotive, aerospace and multimedia / information technology. As a result, Victoria's share of skilled migrants has increased sharply over the last decade (see the figure below). Business migrants have also increased sharply.

Figure 2: Victorian Number and Share of Australian Skilled Stream Permanent Additions



Source: Victorian Government: *Global Skills for Victoria*

Skilled Migrants and the Property Market

The continuing increase in skilled migrant numbers can be expected to support robust growth in Victoria's property market while also influencing the nature of demand and preferred locations. While it is difficult to assess how this will exactly occur we can speculate on the possible impact of skilled migrants:

- **Residential** – Skilled migrants come to Australia for many reasons, not least the employment and lifestyle opportunities. While skilled migrants are as diverse as the Australian population, we can expect that quality, environmentally friendly and 'smart' housing' will be popular with many. Accommodation for foreign students will also remain important given Australia's continuing success in the global education market. Prices may also be higher because of the earning capacity of skilled migrants. Their demanding jobs (many of them professionals) will also mean that low-maintenance housing might be important while the need for affordable housing (especially in the early years of settling) will be strong. Importantly, the evidence suggests that many make quick decisions when it comes to property – it is estimated that nearly two-thirds of all migrants buy a dwelling within the first 18 months
- **Child care** – Many skilled migrants have children (or soon do after arrival). Moreover, unlike the rest of the population, they are unlikely to have many friends and families in Australia when they first arrive. As a result parents might be working and may require child-care facilities and services. Given a nation-wide increase in the demand for formal care (including long-day care) and a conducive policy environment geared around increasing workforce participation we can expect that child care demand will continue to be supported by skilled migration
- **Office / Industrial** – Skilled workers and entrepreneurs are 'knowledge workers' and can be expected to demand quality (if not state-of-the-art) offices and other workplaces. As migrants, they are prepared to move and establishments / locations that offer better working conditions can be expected to win their employment
- **Location** – Understanding where migrants are settling is critical. Data from the Department of Immigration and Citizenship suggests that the Victorian Local Government Areas of Monash, Casey and Greater Dandenong are 'hotspots' with nearly 7,000 migrants settling in these municipalities over the period 1 January 2005 to 1 November 2007.

Going forward we can expect that skilled migrants will continue to play a critical role in the transformation of the Australian economy and property market. Anticipating the nature and extent of the transformation will be important for the property industry, business and policy makers.

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ⁱ ABS. Natural increases contributed the balance (138,000) to total population growth.

ⁱⁱ This was higher than in the rest of the community (48% and 14% respectively).

ⁱⁱⁱ Victorian Government.

^{iv} Fast Company (<http://www.fastcompany.com/magazine/16/mckinsey.html>). See also Kulkarni, A. Grewali, B.S, Malhotra, P. and Bougias, G. (2005) *National Competitive Advantage and Skilled Migration: A Knowledge Economy Perspective and the Role of India and China*. ABERU Discussion Paper 18.