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**The Political Economy of Social Change:  
Changes in the institution of the family and residential property**

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*Abstract:*

*This article reviews a number of the major social forces that have shaped the last three decades of Sydney residential property markets to ascertain whether the future trends will be a continuation of the past.*

*The analysis reveals that some of these factors that influenced the results of the last thirty years have either changed themselves or have exhausted their capacity for generating the degree of change witnessed over the same period. Forecasters and other users of such data are forewarned that quantitative projections, based on the key determinants of the past, should be applied with caution. Instead, attention should be focused on the changing nature of these key variables as well on other possible determinants likely to drive further trends.*

**KEYWORDS**

Demographics, institution of the family; contraception; aging population; residential property; forecasting; financial trends.

**BACKGROUND**

Friedman (1953) enunciated the common view that research in economics should be tested on its predictive success, not on its conformity to causal influences that underpin economic behaviour. The extensive use of regression analysis in property forecasting tends to follow Friedman's methodological prescription by placing undue emphasis on the mathematical relationships between available variables without a commensurate interest in the causal mechanisms behind them. Implicit in this approach is the assumption that the future will be a continuation of the past. This paper critically examines some of the factors that influence residential property values to review the appropriateness of this key assumption in property forecasting. Australian data has been reviewed with a specific focus on Sydney to examine how much the future for residential property will be like the past.

The demand for residential property is influenced by a number of major interrelated demographic, social and economic factors, the total mechanics of which is beyond the scope of this paper. This paper investigates only two of these mechanisms in order to demonstrate that non-economic social factors are an important part of property research

and that the future of residential property is probably not going to be a continuation of the trends of the last three to four decades. The first mechanism is the dependence residential property on population trends. The second is the economic impact on residential property of the social transformation of family values, relationships and women in society that has occurred since 1960. That transformation has had a complex impact, affecting household size, population trends and also household economic behaviour, all of which impact on the demand for residential property. The transformation caused many social factors pertaining to family life to go through a transition from one stable pattern another, each with its own timing, duration and impact, with some still in process. The impacts on residential property values are argued to reflect this complexity, with some impacts now exhausted, while some are yet to take full effect.

### POPULATION GROWTH

Australia's population growth rate is a function of the natural increase (births minus deaths) and net migration (immigration minus emigration), while respective state's population growth is additionally influenced by net internal migration. Australia has experienced a population growth rate of approximately 1.3% over the 1990-91 through 2000-2001 period ranging from 0.99% (in 1993) to 1.49% (1990).<sup>1</sup> This compares favourably with population growth rates below 0.5% per annum over the same period for most of the western world including Italy, Germany, UK and Japan.

Population growth in Australia has favoured the Northern Territory and Queensland over the past five years with increases recorded of 11.3% and 10.2% respectively while South Australia grew by just 1.8% and Tasmania declined by 0.6% over the same period.<sup>2</sup> Furthermore, when examining the components of Australia's population growth, one notes that the natural increase in Australia's population has ranged from only 0.64% to 0.80% per annum over the past decade,<sup>3</sup> suggesting that a healthy share of the increase in the population is attributable to immigration. In fact, it will be immigration policy that will remain the key tool in influencing current and future levels of population growth.

### INTERNATIONAL IMMIGRATION

Since 1945, almost 5.9 million people have migrated to Australia, although approximately 20% of these have later emigrated from Australia. It is estimated about 35% of the direct growth in population over this period is directly attributable to the new settlers. Furthermore, if the Australian born children of these settlers are taken into account, well over 50% of the population growth of the past fifty six years can be ascribed to immigration. Over the past decade, net overseas migration has comprised approximately 37% of Australia's population growth rate, although in the case of NSW its is over 55%.<sup>4</sup> This can be explained by NSW and Sydney, in particular, being highly favoured as the ultimate destination for new settlers. This continues to be the case with NSW attracting over 40% of new settlers each year during the past decade, with an estimated 90% residing in Sydney. However, it is the net immigration figure (i.e., the number of immigrants settling in Australia minus the number of emigrants leaving Australia) which

<sup>1</sup> ABS: *Australian Social Trends, 1997, 1998, 1999, 2000, 2001* (Cat. No.4102.0)

<sup>2</sup> ABS: *Regional Population Growth, Australia 1998-99* (Cat. No. 3218.0)

<sup>3</sup> ABS: *Australian Social Trends, 1997, 1998, 1999, 2000, 2001* (Cat. No.4102.0)

<sup>4</sup> ABS: *Australian Demographic Statistics, March Quarter 2001* (Cat. No. 3101.0)

will influence residential demand. For example, in 1999-2000, 92,272 settlers (referred to as permanent arrivals) arrived in Australia in contrast to 41,078 permanent departures (with 20,844 being overseas born and 20,234 Australian born<sup>5</sup>, with 44.3% of total emigrants coming from NSW). Thus, there was a net rise in permanent settlers in Australia in 1999-2000 of 51,194.

In determining net overseas migration, the ABS includes not only permanent settlers and permanent departures but also long-term arrivals and departures (people staying 12 months or more) since accommodation is required by long-term arrivals as well. Over the 1990-91 through 1999-2000 period, net overseas migration averaged 77,380 which suggests an underlying demand from this source of approximately 20,583 dwellings per annum.<sup>6</sup> Over the past five years, Australia's net overseas migration totalled 461,746 individuals,<sup>7</sup> which translates into underlying demand for dwellings of 122,823 or 24,565 per annum. As 42.8% of settler arrivals during this five year period planned to settle in NSW<sup>8</sup>, this implies an underlying demand for dwellings of 10,514 per annum with approximately 9,500 of these in Sydney as potential first home buyers.

The demographic composition of immigrants has also had a major impact on the demand for housing and will continue to do so. For example, the formation of immigrant households is estimated to approximate 70% of households formed in Sydney over the 1981-86 period,<sup>9</sup> and conservatively, immigrants accounted for 79% of Sydney's population growth between June 1990 and June 1998.<sup>10</sup> In fact, according to Burnley and Murphy, 96.7% of Sydney's population change between 1976 to 1991 was attributable to overseas arrivals.<sup>11</sup> The National Population Council estimated that in the period 1981 to 1986, immigrants in Sydney, Melbourne and Perth represented approximately 70%, 55% and 36% respectively of the total households formed.<sup>12</sup> Therefore, the effect of any change in the immigration program, such as a reduced gross migration target, is more likely to be felt in these capital cities.

Over the past 35 years, there has been a significant change in the source country of permanent arrivals. In the 1960s, the top six source countries of birth represented 81% of all settler arrivals to Australia, including 51% born in the United Kingdom and Ireland. In the 1995-99 period, only 52% came from the top six countries with but 12% born in the UK and Ireland.<sup>13</sup> In addition, the source countries have changed with, for example, New Zealanders the largest contributor (20.1%) to settler arrivals over the past 5 years followed by the UK and Ireland (11.9%). However, instead of settler arrivals from

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<sup>5</sup> Department of Immigration and Multicultural Affairs: *Immigration Update*

<sup>6</sup> BIS Shrapnel's *Building in Australia, 1999-2014* (Sydney, 19<sup>th</sup> edition, 1999, p.53) estimated that for a net overseas migration level of 100,000 per annum, underlying demand from this source would equate with approximately 26,600 dwellings.

<sup>7</sup> ABS: *Australian Demographic Statistics March Quarter 2001* (Cat. No. 3101.0)

<sup>8</sup> Ibid.

<sup>9</sup> Junaker, P.N. et al., *Recent Immigrants and Housing*, 1993, Bureau of Immigration Research, AGPS.

<sup>10</sup> Waxman, Peter *Investing in Residential property: Understanding the Market in the New Millennium*, Wrightbooks, 2000, p.72.

<sup>11</sup> Burnley and Murphy, op.cit.

<sup>12</sup> National Population Council, *Immigration and Housing in the Major Cities: Final Report, 1990*. Canberra.

<sup>13</sup> Commonwealth Bureau of Census and Statistics, *Australian demography*; Australian Immigration-Consolidated Statistic, No. 10, 1978; ABS: *Overseas Arrivals and Departures* (Cat. No. 4301.0)

Greece or Italy included amongst the list of major source countries (as occurred in the 1960s), the last five years has seen the arrival of settlers from China, South Africa, Hong Kong and the former Yugoslav Republics occupying the next four places as major source countries. South Africans have the highest per capita income of any immigrant cohort in Australia and, as such, they are expected to realise home ownership within a reasonably short period of time. Those immigrants arriving under the Skilled migration stream, i.e., many from Hong Kong, can also be expected to venture into home ownership at an early stage of settlement. On the other hand, those entering on Humanitarian grounds, such as from the former Yugoslav republics, or on family reunion grounds (e.g., Vietnamese, Philippines) can be expected to experience rental tenure over an extended period. Finally, New Zealanders have the highest rate of return migration to their country of birth and, as such, their level of home ownership in Australia can be expected to remain well below the Australia-wide average, implying continued reliance on rental accommodation.

The Liberal Government's increased reliance on business migration (62% according to the current Migration Program) at the expense of the family reunion stream should enhance the propensity of new migrants realising home ownership at an earlier stage than in the past.

The level of housing demand is also affected by the age structure of immigrants. For instance, the median age of immigrants, at 28 years, is not only approximately 6 years less than that of the Australian-born population but is also within the high household formation age group (i.e. 20 to 29 years). Evidence also suggests that, although immigrants experience similar housing demand desires to Australian-born residents, the major difference is that immigrants generally arrive in Australia at an age where they immediately contribute to the underlying demand for housing whereas a person born in Australia does not.<sup>1</sup>

Zero population growth in Australia would be a reality were it not for the close to 4.7 million migrants (this figure includes those same migrants who subsequently emigrated from Australia) who have settled in Australia since 1945. The current Liberal Government's lean annual migration intake (when contrasted with, for example the 1986-87 to 1991-92 period), reduces the potential positive impact that immigration would have on the population growth rate and, therefore, on underlying demand for residential property. With immigration, and particularly the refugee intake in the spotlight, it is highly unlikely for there to be a major increase in the migration intake in the foreseeable future by either political party. As such, one can expect that immigration will comprise a lower share of the annual population growth rate unless the natural increase falls more rapidly than expected. Overall, the highly political nature of immigration policy makes it difficult to rely on as a solution to the expected decline in Australia's population growth rate.

## **INTERNAL MIGRATION**

Over the past five years, the NSW population rose 335,518 or 67,100 per year (approximately 1% per annum). Over the same period, Sydney's population increased

by 264,345 or 52,869 (1.3% per annum). Thus, Sydney accounted for 78.8% of NSW's population growth over this period. As a result, Sydney's share of the state's population rose from 62.4% on 30 June 1995 to 63.2% on 30 June 2000.<sup>14</sup>

Despite these results, per annum population growth rates of the state and Sydney have inevitably been below the Australia-wide average. This can be explained by an average net interstate migration loss from NSW of approximately 14,000 residents per annum over the past five years (or a potential 3,700 dwellings per annum). For example, in 1999-2000, there were 108,600 departures from NSW and 93,00 interstate arrivals into NSW, hence a loss of 15,600.<sup>15</sup> In fact, NSW has experienced a net internal outflow for each of the past twenty consecutive years. However, Sydney has benefited from internal migration as a common destination for many people moving from regional areas or other major cities in search of employment, education or lifestyle benefits. It may be assumed on this basis that intrastate migrants to Sydney from regional NSW are more likely to be younger people. They would have more to gain from the city from an economic or employment imperative and they would also be less likely to be bound by real estate commitments. There is anecdotal evidence that residential property in many parts of regional NSW is no longer worth selling. If this is true, then older people who own property may be less inclined to move to the city where real estate prices are still high.

As employment and other opportunities have stagnated in regional areas, many young people have gravitated towards Sydney. This has stimulated Sydney's residential property market at the expense of rural NSW. Over the last half-century, technological and, more recently, commercial factors have limited opportunities for young people in regional Australia. This has resulted in a rapid depopulation of younger people from regional Australia and a consequent acceleration of demographic ageing, especially in smaller towns. For example, according to Salt<sup>16</sup>, between June 1976 and June 2000, 57 government areas in rural Australia averaged a loss of 24% in population while the nation's population grew by 37%.

Data on demographic profiles in small towns is often difficult to obtain as census districts often include larger regional centres. However, anecdotal evidence suggests that in many smaller, non-coastal regional towns there are now very few young families and residential markets have collapsed. However, there are a number of 'lifestyle towns' which as Salt indicates are usually located within a two hour drive of a capital city and are very pleasant places to live like Bowral or Kangaroo Valley<sup>17</sup>. However, these towns are more appealing and financially accessible to baby boomers and well-funded executives with the occupancy rate likely to be 2 per dwelling although one can expect population growth in these regions well exceeding NSW-wide annual rise.

The net interstate migration has been the most volatile of the components of population change as it is unrestricted. Due to the large numbers involved, net interstate migration

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<sup>14</sup> ABS: *Australian Demographic Statistics, March Quarter 2001* (Cat. No. 3101.0)

<sup>15</sup> ABS: 'Interstate migration 1999-2000 in *Australian Demographic Statistics December Quarter 2000* (Cat. NO. 3101.0)

<sup>16</sup> Salt, Bernard, *The Big Shift*, Hardie Grant Books, Melbourne, 2001, p.7.

<sup>17</sup> *Ibid*, p.176.

can have a marked impact on the growth and distribution of population in the States<sup>18</sup> and, therefore, on the residential property sector.

### AGEING POPULATION

The demographic shift in the average age is emerging as a major economic issue for the coming decades. The shift is the direct result of two factors, the marked decline in fertility and the more moderate increase in longevity over the last generation. Of these, the sharp fall in fertility experienced in the fifteen years following 1960, is the more significant. The high birth rate from the fifteen years preceding that fall left a demographic bulge that will shortly enter the retirement age groups. That bulge will pass out of the population in about another three decades, however the demographic pattern from that time onwards will continue to exhibit a bias towards the aged, due to the below replacement fertility levels that have become the pattern of the last quarter century. This is evident in ABS projections which indicate that persons 65 years of age and older are expected to comprise between 24% to 26% of Australia's projected population in 2021 in contrast to 12% in 1998.<sup>19</sup> Currently, Australia has a lower level of ageing than many European countries such as Sweden with 18% over 65 years of age, 17% in Italy and 16% in Greece and the UK. The current strategy for dealing with the problems of our aging population is centred on migration policy. The discussion here considers the effects of local influences only, recognising that they may be mitigated by an effective immigration strategy.

An aging population affects residential property in many ways. Firstly, it is estimated that 51% of women living in single person households are over 65 years of age. Furthermore, all else equal, older people have smaller household sizes and ultimately gravitate towards specialist retirement accommodation and nursing care facilities. However, the residential mobility rate for older people is almost half of the Australian population overall with, for example, 22% of older people moving house between 1991 and 1996 compared to 43% of the total Australian population. Among older people, mobility rates increased with age but the distance moved declined.<sup>20</sup> In recent decades, superannuated retirees have produced an exodus from Sydney to small coastal towns with a consequent distortion of values in those markets. In 1996, 32% of people aged 65 years and over lived within five kilometres of the coast as compared to 25% of all Australians aged between 0-64 years.<sup>21</sup> For the Sydney residential property market, older people produce little net demand, apart from that for retirement villages or smaller home units. As they trade down or out of the market, they vacate and thus contribute to a greater supply of larger and/or more valuable property. Their net effect must be to expand supply as they vacate their family homes in favour of more modest dwellings, the countryside, the nursing home or their heavenly reward.

The notion of an ageing population is partially a misnomer. The current problem is more accurately the absence of young people, brought about by family choices taken decades

<sup>18</sup> ABS: *Australian Demographic Statistics, March Quarter 2001* (Cat. No. 3101.0)

<sup>19</sup> ABS: 'Australia's Older Population: Past, Present and Future' in *Australian Demographic Statistics, June Quarter 1999* (Cat. No. 3101.0)

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

ago. This is important in understanding the impact of this particular demographic ageing compared to its earlier occurrences. The population has been ageing over most of the twentieth century, but that was largely the result of major improvements in health care and facilities leading to greater longevity. Over that time, ageing was not a problem, because it was not the result of a reduction in the natural increase. In such a situation, new households were being formed by young people and older people were living longer, therefore holding onto their property longer. That ageing was a benefit to residential markets because it held stock out of the market longer and, therefore, required construction of new accommodation to cater to the new entrants into the residential property market. In the current ageing of Australia's population, the shift is the result of fewer young people, hence fewer new households, hence lower demand. This will be exacerbated when stock cannot be absorbed as efficiently as a larger proportion of the population begins to move into the 'death-age groups'.

### **FUTURE TRENDS IN POPULATION AND PROPERTY**

The last half-century has seen a marked shift in the foundations of Sydney's population. Natural increase appears to have withered as a major contributor to population. The shift to low natural replacement has produced an aberration in the demographic profile that will affect residential property until it passes out of the population. This places more emphasis on immigration to sustain Sydney's growth. In the past, Sydney has benefited from immigration, both internationally and locally, however the future of both of these is uncertain. International immigration is heavily political, while migration from regional NSW to the city may not be sustainable once regional areas are emptied of persons whose situations incline them to leave regional areas.

### **FAMILY VALUES AND RESIDENTIAL PROPERTY.**

Residential property is used by human households but the *human*, or *social*, characteristics of households is often ignored in property research. Before 1970, the typical household was comprised of a biological family that existed within a constellation of social mores and expectations. At that time, families anticipated a life cycle that consisted of marriage, followed by children, followed by retirement and a golden wedding anniversary. This meant that typical households anticipated children, with their demands for in-home care and a cycle of dwelling demand and home ownership. That cycle began as a modest purchase suitable for future family needs, possible later moves or extensions to accommodate a growing family size, and perhaps eventual contraction as children left to form their own families. Yates (2000) confirmed this, noting that before the 1970s there was a greater access to home ownership and a greater willingness to undertake the ongoing financial commitment associated with home purchase than has been observed in the past two decades.

Today, marriage is only one of the relationships that ground a household and even it no longer carries a clear expectation of the earlier family life-cycle. Winter and Stone (1999, p.44) concluded that marriage is now '*... a part of the social restructuring of gender, sexual and family relations. Not only has the incidence and timing of marriage altered dramatically over the past 20 years, but the norms and values associated with marriage -*

*its social meaning - have also been significantly reshaped.*<sup>22</sup> Households are now cemented only by transient relationships, sometimes incapable of supporting the number of dependants once considered the norm. This change has directly influenced the number and type of dwelling demand and dwelling users' tenure preference and capacity to pay.

## FERTILITY RATE

The fertility rate is perhaps the master indicator of the social changes that occurred in Western cultures in the late twentieth century. The introduction of the contraceptive pill in Australia in 1961 gave women total control over their fertility and hence over a range of other life choices. With that new control, women could reform their attitudes to relationships, their responses to economic pressures and personal morality. In a risky environment, the choice to have children is dangerous as the new parent is vulnerable in many ways, personal, social and economic. The choice to have children also represents a very real personal economic cost, both in terms of lost income and the maintenance cost of dependants. Women were able to choose if they were willing to accept that cost and their choice is evident in the fertility record.

The choice to have a child is also the most robust investment in the future that a human can make. Unlike animals, humans are always supported through their old age by their children, either individually or socially. In the West we have recently come to believe that we support ourselves in retirement through our own efforts of saving. This is only partly true; every financial investment ultimately earns its dividend through the labours of someone else, usually in the future. These future labourers are the children our generation chooses to have. Hence, our superannuation will have real worth only because it allows us to participate in the future productive results of the next generation. Fertility is therefore linked to economics as well as to aspects of social mores regarding family function.

The twentieth century began with Australia's total fertility rate (TFR)<sup>23</sup> at an historical low of about 3.55. Between 1930 and 1934 the TFR fell to the bare replacement level of 2.1 and remained close to that level till the end of the Second World War. After the war it began a solid recovery to peak at 3.6 babies per woman in 1961. The contraceptive pill was introduced into Australia in 1961 causing the TFR to rapidly decline to about 2.9 in 1966, where it hovered until 1971. It then began to decline again, falling to below replacement level in 1976 with the trend since then illustrating a further gradual downward movement to 1.75 babies per woman in 1999-2000.<sup>24</sup>

The 1903 Royal Commission on the Decline in the Birth-rate had identified *human choice* as the cause of fall in the birth rate reported at the end of the nineteenth century. The dip following 1930 is usually attributed to the Great Depression, but this would not explain why it did not recover in the late 1930s. A more perennial factor was the decision by the Lambeth Conference in 1930 that removed the moral sanction against contraception for Anglicans. That decision was adopted by most Christian denominations at the time, and even members of other faiths in Western countries, such as those of the Jewish faith. Given the greater respect for religious values that prevailed then, it constituted a major stimulus for

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<sup>22</sup> Winter, Ian and Stone, Wendy 'Home Ownership: Off Course?' in *Australia's Housing Choices* by Judith Yates and Maryann Wulff (eds). (Brisbane: Queensland University Press, 1999).

<sup>23</sup> The Total Fertility Rate (TFR) is the number of children a woman would bear during her lifetime if she experienced current age-specific fertility rates at each age of her reproductive life.

<sup>24</sup> ABS: *Australian Demographic Statistics*, March Quarter 2001 (Cat. No. 3101.0).

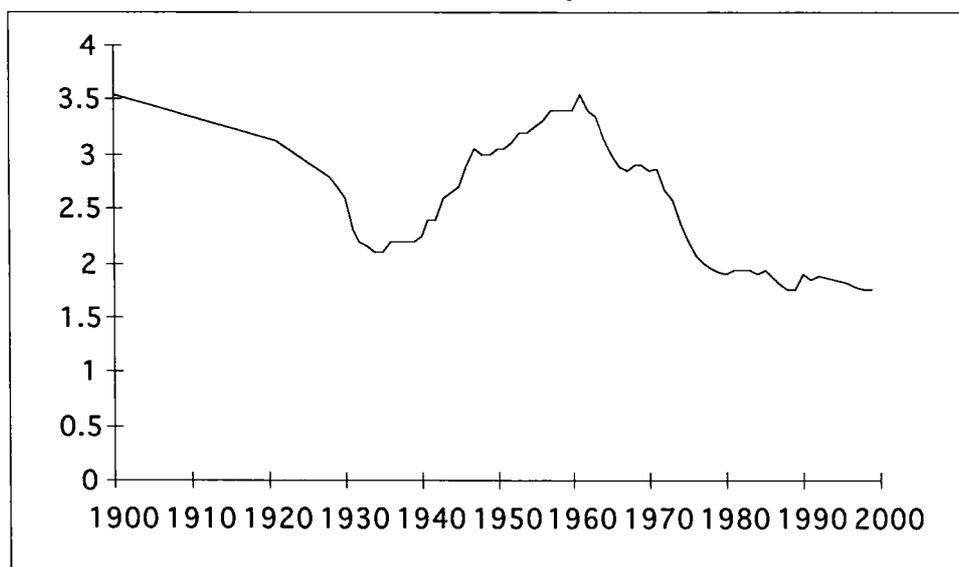
the widespread adoption of artificial contraception. The Second World War certainly interrupted the family life of a great many Australians, but surprisingly, the fertility rate did not actually drop during the war years. The interesting change in fertility was the baby boom following the war. Somehow Australians developed a very positive attitude towards family after the war that reversed the plunge of the early 1930s.

Changes in social attitudes, advances in contraceptive technology and dissent from the remaining religious traditions prohibiting artificial contraception, appear to explain the decline from 1961. Furthermore the changing social attitudes towards the role of women in the family and workplace, the need for dual incomes to realise home ownership and rising levels of marriage breakdowns since the mid 1970s can also be seen as additional explanatory variables that must be considered.

However, unlike the fertility decline 1930-4, the decline from 1961-76 was not a response to any acute social dysfunction such as economic depression or a major war. The new pattern from 1976 has been stable now for about twenty-five years. It has been the result of the free choice of a free people who no longer experience the moral stigma of a century ago against contraception and who have the technology to effectively control their fertility. The pattern of fertility drop appears to have been replicated in many Western countries, with no indication of a significant reversal in the foreseeable future. The fact of below replacement fertility levels appears to be a dominant feature of Australia's social landscape, along with a radically revised approach to relationships in general. These changes appear to have entrained other important changes and deserve careful consideration.

The impact of the fertility change since 1961 can be considered in two parts, the first is the transition and the second is the new stable pattern.

**Exhibit 1: Australian Fertility Rates 1900-1999**



Source: ABS Australian Demographic Trends (3102.0); Births Australia (3301.0)

The transition to a stable below replacement level signals a major transformation in the demographic pattern. If fertility rates remain stable, the population will shortly enter a downward spiral as the total number of deaths in Australia is likely to rise each year due to more people entering the 'death-age groups'<sup>25</sup>. This, combined with an expected reduction in the number of births, should see Australia's natural increase decline in absolute and rate terms. A stable ageing population will have less need for additional dwelling units, and a declining population may result in a permanent pattern of oversupply. Both outcomes will have a major impact on residential property by reversing the long-held truism that property only increases in value in the long term.

The decision to have a child is not taken lightly. There appears to be emerging considerable expression by women of their desire to experience parenting, but little to suggest a desire for repeats of the experience. In the past, moral and social mores, combined with the absence of effective contraceptive technology, inclined most people towards families well above the replacement level. All of these factors have evaporated from Western culture with the evidence suggesting a rising number of women and couples who intend remaining childless. The social indicators therefore suggest troublesome times for residential development.

The transition into a low fertility culture itself has had the opposite effect, creating a number of opportunities for residential property. Some of the factors, such as female labour force participation and divorce rates, that have moved in tandem with the fall in fertility can be shown to have had very positive effects on residential markets, at least through their transition phases.

In addition, urban areas appear to have lower fertilities. Statistical Local Areas (SLAs) in Sydney have been found to have lower fertility levels than the rest of NSW, with about three quarters of Sydney SLAs having a median TFR below replacement level, while around three-quarters of SLAs in the balance of NSW had a median TFR above replacement level.<sup>26</sup> The current replacement level TFR in Australia is estimated to be 2.1, which is the number of children a woman would need to have during her lifetime to replace herself and her partner. However, as estimates based on the 1996 Midwives Collection suggest that 28% of all women in Australia will not have children,<sup>27</sup> it does not appear that the TFR will recover to replacement level over the immediate or medium term. Instead, Australia, and Sydney, in particular, can expect to see an increased number of childless couples which will, accordingly, impact on the consumption pattern of dwelling demand for this sector. Currently approximately 23% of all households are couples only<sup>28</sup> but this rate includes empty nesters, i.e., those older couples whose children have grown up and moved out of the family home. Therefore, a larger share of households can be expected to be single person or childless couples with property developers catering to their space requirements.

This means that the impact of low fertility will be greater in Sydney. Fertility is closely related to other personal and relationship choices. It may even be considered as a consequence of an individual's outlook towards relationships, hence the result of attitudes pertaining to issues such as the changing role of women, desire for extra income or even uncertainty about the stability of marriage. All of these attitudes appear to be prevalent in

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<sup>25</sup> Salt, Bernard, *The Big Shift*, Hardie Grant Books, Melbourne, 2001, p.32.

<sup>26</sup> ABS: *Demography, New South Wales, 1999* (Cat. No. 3311.1).

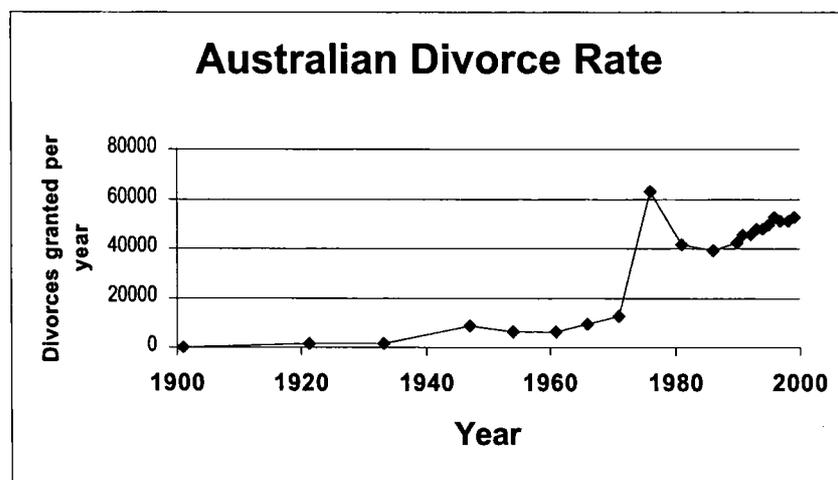
<sup>27</sup> ABS: 'Lifetime Childlessness' in *Australian Demographic Statistics, September Quarter 1999* (Cat. No. 3101.0).

<sup>28</sup> ABS: *Year Book Australia 2001* (Cat. No.1301.0).

## FAMILY BREAKDOWN

Australian family law was radically changed with the passing of the Family Law Act of 1975 that made divorce considerably easier to obtain. Exhibit 2 shows Australian divorce levels over the past century were at a relatively conservative level before 1970, but grew rapidly following the passing of the Family Law Act of 1975 to their present rate of approximately 45% of marriages.<sup>29</sup> The change in the ease of obtaining divorce did not happen without a social context. Social mores regarding relationships underwent considerable change in the decade around 1970 in what has been coined the *sexual revolution*. Easy divorce is consistent with that revolution. There is also a fairly transparent link between the availability of effective contraception and practical mechanics of marriage breakdown. In combination, the forces behind the transition to high levels of divorce suggest that it was timely and permanent. The data indicates that it was also rapid, with the new pattern now reasonably settled.

**Exhibit 2: Australian Divorce Rates 1900-1999**



Source: ABS Australian Demographic Statistics (3101.0); Marriages and Divorces, Australia (3310.0)

Family breakdown immediately doubles household requirements with a consequent pressure on residential demand, although the pattern of household consumption will probably change and housing stress may result. A stable level of divorce results in a stable pattern of households. The transition from low to high divorce rates following the introduction of the Family Law Act would have caused a spike in demand, as one stable household profile in the community was replaced by another that required a greater number of dwelling units. That acute transitional demand would have dissipated once divorce levels stabilised. While divorce levels may increase in the future, the rate of increase is not likely to be as great, evidenced by its rate fluctuating only slightly upwards over the last 20 years.<sup>30</sup> Furthermore, as approximately one-third of all

<sup>29</sup> Ibid and ABS: *Year Book Australia 2001* (Cat. No. 1301.0).

<sup>30</sup> ABS: *Marriages and Divorces, Australia, 1998* (Cat. No. 3310.0)

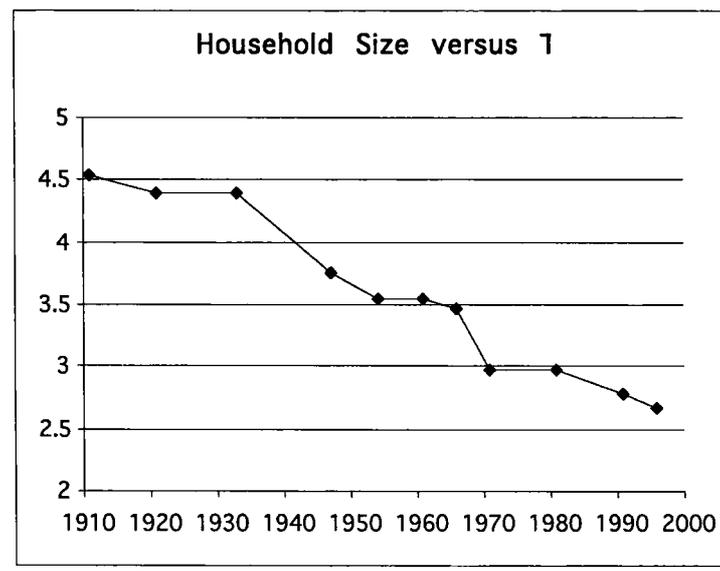
registered marriages celebrated in Australia involved at least one previously married partner, this will further reduce prospects for any major change in its trend.

### HOUSEHOLD SIZE AND FORMATION RATES

In the year to 30 June 2000, the household formation rate was 1.73%. Population growth over the same period was 1.16%, suggesting smaller households (over the 1993 through 2000 period, the respective average annual figures were 1.77% and 1.18%).<sup>31</sup> At first sight, this continues the trend of the past 90 years with the number of households having increased 2.4% per year compared to an average 1.6% increase per year in population over the same period.<sup>32</sup> Reflecting the disproportionate growth in households in relation to population is the fall in the average Australian household size- from 4.5 persons in 1911 to 2.6 in 1999.<sup>33</sup>

Generally, for a given population, the smaller the average household size, the greater will be the number of dwelling units required. If the household size is stable, so will be the demand for dwellings. If the household size declines, it will produce a temporary increase in dwelling demand for a stable population. Additional dwelling demand may therefore be thought of as being the product of population increase and household size reduction.

**Exhibit 3: Australian Household Size 1911-1996**



Source: ABS Census of Population and Housing, various years

Household size appears to have responded to dips in the fertility rate. Household size fell in the decade following 1933 and again in the five years following 1966. Before and between these transitions, household sizes were stable, and there has only been a slight downward trend over the last two decades. Currently household size in the greater

<sup>31</sup> ABS: *Australian Demographic Statistics, March Quarter 2001* (Cat. No. 3101.0)

<sup>32</sup> ABS: *Year Book Australia 2000* (Cat. No. 1301.0).

<sup>33</sup> *Ibid.*

Sydney area is about 2.7 persons with average household size in the total inner Sydney of 1.8 persons per dwelling.<sup>34</sup>

Several additional contingent factors explain the recent trend including reductions in completed family size, the ageing of the population, increased childlessness among couples, the increase in the number of one-parent families and the development of an historically large number of households bound by impermanent non-marital relationships. In addition, immigrant arrivals, young adults leaving home, and interstate migrants all contribute to the demand for new households, and these are unrelated to the forces shaping current family structure and function. Over the past thirty-five years, single person households have doubled, from 11.8% of all households in 1966 to 22.8% in 1996. Had there been no change in the average household size since 1966, the 1996 population could have been housed in 4.828 million dwellings, 1.454 million less than actually existed in 1996.<sup>35</sup> Therefore, the trend towards lone and couple only households has had a major impact on the demand for residential property over this period.

ABS projections<sup>36</sup> indicate that in Australia, there could be as many as 2.4 million to 3.4 million people living alone by 2021 (versus 1,588.2 million in 1966), an increase of between 52% and 113%. This compares to the number of households in total projected to increase from 6.9 million in 1996 to between 9.4 and 10.0 million in 2021 (a rise of between 38% and 46%) compared to a projected 24% increase in the population over the same period.<sup>37</sup> As a result, the household size is projected to decline to between 2.2 and 2.3 persons per household in 2021. Despite lone person households projected to display the highest growth rate of household types, family households are projected to remain the dominant household type, at between 62% to 71% of all household types in 2021 (versus 73% in 1996).<sup>38</sup> There is a practical limit to how far household sizes can fall. By definition, households are occupied dwellings, so the data cannot contain households less than 1.0. Also, the practicalities of family life require that if there is to be any reproduction as we know it, households of at least two (parent and child) or more likely three (both adult parents and child) are required for about two decades in adult's life. Combined with the tendency of adults to generally prefer domestic company, it would appear that an average household size of about two is probably as low as average household size is going to get. That is, the falls of the last century, and especially since 1960, will not be able to happen again. On the contrary, if the population is to develop the capacity to maintain itself through natural increase, household size will probably have to increase.

The marked difference in projections for the household formation growth rate and lone person and two person households is, according to the ABS, a reflection of projected changes in the size and age structure of the population by 2021 and changes in living

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<sup>34</sup> ABS: *Census of Population and Housing, 1996* (Cat. No. 2017.1)

<sup>35</sup> ABS: 'Household Income and its distribution' in *Year Book Australia 2001* (Cat. No. 1301.0)

<sup>36</sup> ABS: 'Who'll be Home Alone in 2021?' in *Household and Family Projections* (Cat. No. 3236.0), June 1999.

<sup>37</sup> ABS: *Year Book Australia 2000* (Cat. No. 1301.0).

<sup>38</sup> Ibid.

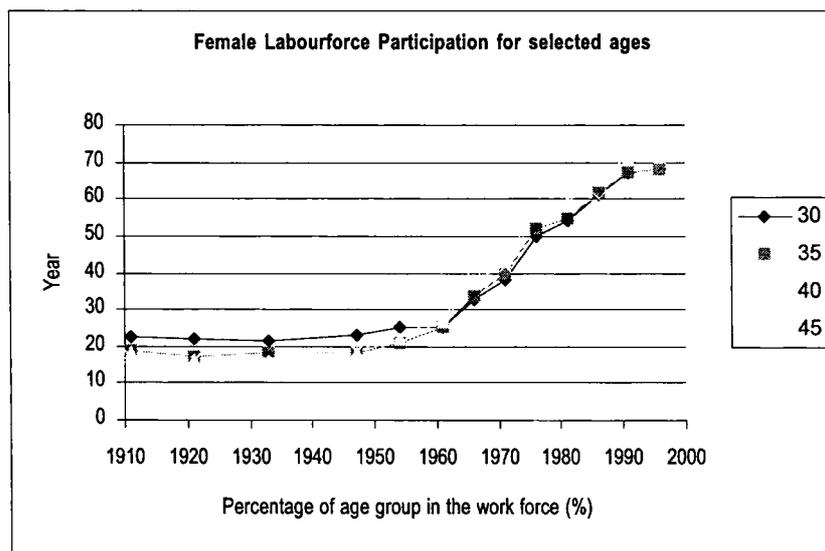
arrangement trends over time.<sup>39</sup> Planners and residential property developers have been moving towards catering to the needs of this group with the greater emphasis on higher density development.

The transition to smaller household sizes would have resulted in an acute increase in demand for dwellings that would have disappeared once the new pattern stabilised. It would therefore be unlikely that historical patterns in residential demand that include this period would be useful in forecasting future trends. It is hard to imagine how close to unity the average household size will fall, but its future decline should be slight compared to the sharp drop during the 1966-70 period. Even its recent downward trend should abate as the current baby boomer bulge enters death age groups.

## LABOUR MARKET PARTICIPATION

Fertility control has facilitated a major change in the composition of household income since women can choose to enter or remain in the workforce without the complication of pregnancy. The labour market composition appears to have undergone significant change over the last three decades with a new pattern of participation apparently emerging. Starting about 1960, female participation in the workforce increased dramatically. The last decade has seen this rate of change settle to the extent that participation projections suggest that a new equilibrium has been reached, as can be seen in Exhibit 4. The exhibit shows the change in workforce participation of women in their prime child rearing years which appears to be plateauing at about 70% up from its pre-1960 level of about 20%.

**Exhibit 4: Female Labour-force Participation 1911-1996**



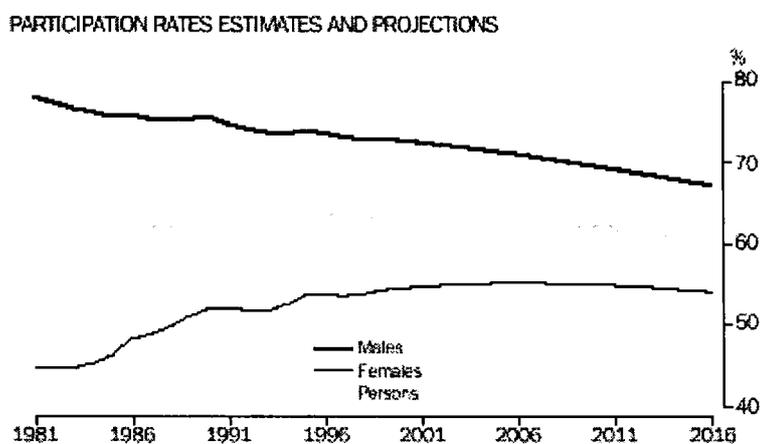
Source: Australian Censuses 1911-1996

Over 60% of new jobs created since 1980 have been for women, which has helped change the balance of family income. Male participation has consistently fallen over the last

<sup>39</sup> ABS: 'Who'll be Home Alone in 2021?' in *Household and Family Projections* (Cat. No. 3236.0), June 1999..

twenty years although this too has stabilised at approximately 72-73%, suggesting that the likely future trend will be a continuation of the past. This means that the labour market participation rates in total are close to a peak, with the future trend being negative. A rising labour participation rate could have been expected to have created an increase in demand for all goods and services, including residential housing. This would also have been amplified by the recognition by banks of perennial second incomes for the purpose of computing loan service capacity. The fact that female participation levels appear to have stabilised, combined with the prospect of a falling overall participation rate, suggests that the boost given to the residential property market by the transition in labour participation patterns has probably been exhausted. The demographics of the labour force will also be affected by the ageing of the population. The future will not be like the past.

### **Exhibit 5: Australian Labour Force Participation Estimates and Projections 1981-2016**



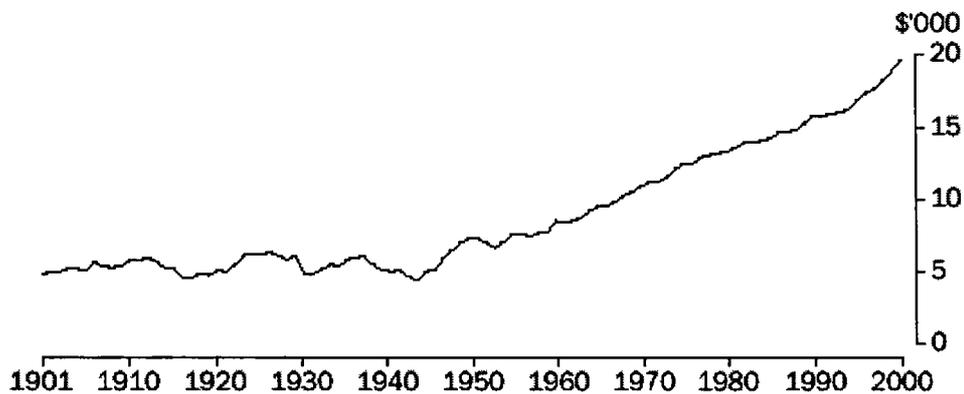
-Source: ABS: 6260.0 Labour Force Projections, Australia 1999-2016

### **CONSUMPTION AND INFLATION RATES**

Increased female labour participation and the subsequent establishment of durable dual family incomes, or multiple household incomes, could have been expected to have been reflected in growth in household disposable income. This appears to have been what has happened, as reflected in the change in household consumption per capita shown in Exhibit 6, below. This increase in consumption has been used as a proxy for an increased standard of living, but this ignores the human cost involved due to the increased workforce participation required to support elevated spending. The pattern of consumption shown in Exhibit 6 changed in about 1960 to an apparently constant upward trend, which has continued to the present. Part of the increase in household consumption of the last forty years would have been the transformation of many activities from in-house into economically visible goods and services. For example, child

care, cooking and home maintenance are out-sourced as members of households increase their involvement in paid work and their dependence on commercial replacements of services previously done by a full time home carer. This has created a phantom increase in expenditure as these services have not generated additional work in aggregate but, instead, have only rendered visible to economic analysis those unpaid services previously undertaken in the home. However, the current trend in household consumption is partially fuelled by changes in household structure and labour force participation. As these factors settle, the forty-year trend of rising household consumption may change. This would appear very likely when, as a result of the ageing population, more people retire from the workforce than enter it.

**Exhibit 6 Household Final Consumption Expenditure per capita in 1999-2000**  
**prices: 1900-01 to 1999-2000**



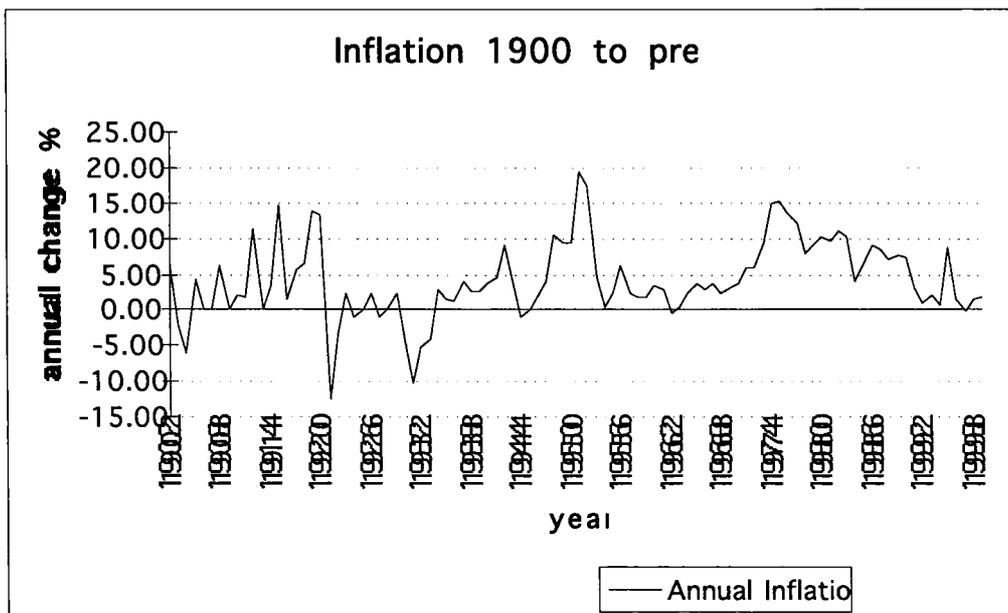
Source: Data for 1900 to 1980 are from Appendix Tables 1 and 4 of Maddock and McLean (1988), supplemented by ABS population and national accounts data from 1981.

A greater propensity to consume may be inflationary. The social transitions that have been considered up to this point could have influenced inflation rates and residential property prices as a result of two sets of influences. Firstly, falling household size meant that there was an immediate increase in physical demand for dwellings. Secondly, increased labour force participation, particularly the establishment of stable second incomes in family households, meant that there was greater household income to transform the physical demand into effective demand. Australia had the reputation of having an outstanding rate of double household income formation during the transition period from 1970 to 1990, which would have multiplied the level of discretionary disposable income resulting from real wage increases alone. The additional household income, combined with fewer dependants, could be expected to have been one of the major factors in fuelling the inflationary pattern evident in the Australian Consumer Price Index (CPI) between 1970 and 1990, as shown in the annual inflation rates in Exhibit 7.

Before 1970, the twentieth century had witnessed only intermittent periods of inflation above 5% in Australia. The only period of significant duration of inflationary pressures followed the Second World War and can be explained by a convergence of several

economic influences including post war recovery, the technological stimulus from the war effort and the relaxation of war time price restrictions. That inflationary period was only abbreviated in comparison to the period of inflation that began in 1970 and continued at over 5% for two decades. Like the earlier period, there are a large number of factors that have been cited as contributing to inflation since 1970, including deregulation of international currencies, excessive wage growth in relation to productivity movement and the oil crisis amongst others. While all of these factors exert inflationary pressures, overall inflation is considered to act as a tax that tends to transfer income away from the major part of the community<sup>40</sup>. The implication is that while these various stimuli for inflation are undeniable, the community's capacity to accept the intensity and duration of inflation and its impacts during the period 1970-90, was novel. It would appear that it was fertility control that was the determining factor that allowed the community to weather the inflationary environment of the time. If social transition was a significant factor causing this period of inflation, then this pattern is not likely to be repeated unless some new factor can emerge capable of producing similar change. A similar argument will also be made for interest rates through the period.

### **Exhibit 7: Australian Inflation Rates 1902-2000**



Source: ABS several Year Books

### **INTEREST RATES**

Like inflation, interest rates may also have been partially influenced by the social transitions of the period. This would have been a consequence of the rising level of demand for property and the expanded debt service capacity of households which, together, would have combined to supply the appropriate stimuli for increased interest rates. The likelihood that households would have had expanded disposable income would

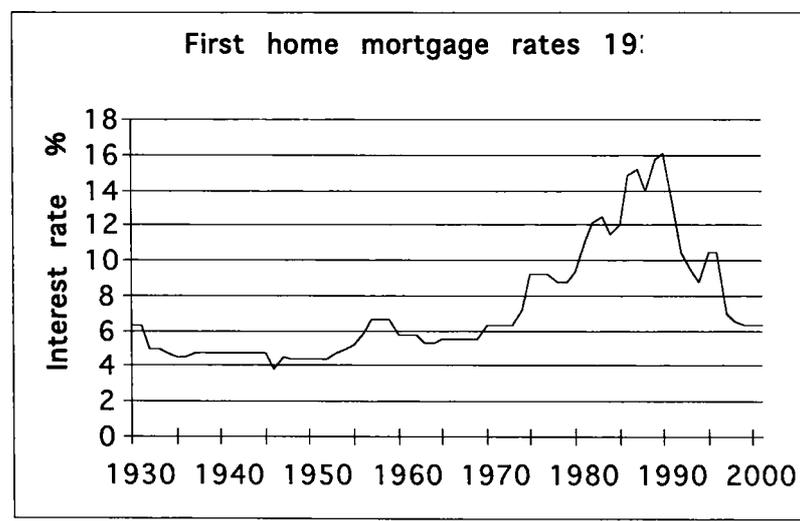
<sup>40</sup> Beare, J. B. (1978). *Macroeconomics*. New York, Macmillan.

have made them less sensitive to the deterrent of elevated interest rates during the transition phase. As households' earning capacity was rising, due to the increasing female labour force participation combined with fewer dependents, they would have been less sensitive to acute increases in interest rates. However, this resilience would have abated as prices and costs rose to absorb that additional debt service capacity. Once household earnings stabilised at the new level of combined dual income labour force involvement, that capacity would no longer exist. This explains why elevated interest rates could not curb inflation in the 1970s, but had a devastating impact in 1990 and following.

In 1989 the social transition was largely complete, but it had developed an attitudinal wake. For almost a generation investors had found that borrowing spelt wealth and interest rates could be weathered since they would be offset by future inflation. Trust in the wealth creation power of future inflation was a powerful force directing investment optimism that took a major hike in interest rates to unseat. Once displaced, the underlying reality emerged that the community no longer had the capacity to tolerate high interest rates or inflation. This was apparent in the reaction to a mild increase in rates in 1994 that stopped the housing market dead in its tracks. Exhibit 6 shows interest rates stable up to about 1974, after which they rose progressively, maintaining historically high levels for about two decades.

Like inflation, in no period in Australia's history, at least as far back as 1852, have interest rates maintained such high rates. There are many other factors that have contributed to this unusual result, such as progressive deregulation of the financial system. However, while these have prompted high interest rates, they could not have been maintained for such an extended period without destroying the economy, unless some additional factor exerted influence on the outcome. That factor appears to have been the economic resilience households gained through the marked increase in the female participation rate, augmented by real wage growth (1974-1981, though eroded after that date), and the reduced number of dependents due to falling fertility rate.

**Exhibit 8: Australian First Home Mortgage rates 1930-2000**



Source: Commonwealth Bank of Australia

A second factor related to debt leveraging for residential property purchase is the permissible loan to value ratio, (LVR). In 1970, the LVR available to most residential property purchasers was about 50%, but that rose over about two decades to 90-95% (with loan insurance). It is peculiar that during a period of extended high interest rates, borrowers would seek greater, not lower, debt leveraging. The demand by borrowers for greater relative indebtedness only makes sense if their optimism regarding their repayment capacity and the future value of their purchase is very strong. That confidence in being able to service larger and more expensive debt only makes sense if their combined household income has risen compared with their expenditure. That optimism was easy for couples anticipating a life of double income with no kids (DINKs).

The social transition hypothesis for both inflation and interest rates may also explain the community's ability to support stagflation, that previously believed impossible combination of stagnation and inflation that occurred for the first time in the middle of the transition period of the decade following 1970. While economists have incorporated it into their theories, it is possible that it will not reoccur unless there is a similar major social transition to support it.

## CONCLUSION

This study has demonstrated some of the ways that social factors impact on the major economic variables influencing the residential property market performance. Many of the factors reviewed here share the common characteristic of having undergone an extraordinary transition that began as a social change about three decades ago. The transitions generally produced spikes in demand for residential property markets. In most cases the transitions have passed and the respective factors are now either at, or near, new stable levels.

While the new social equilibrium will have its own profile of demand for residential property, it appears likely that it will be considerably less than that of recent decades. This means that trends in most aspects of residential property, including prices, occupancy rates, rents, construction levels and dwelling types may be about to undergo a major shift. If this happens, the patterns of the last thirty years, will become increasingly unreliable as a guide for the future direction of residential property. In particular, reliance on quantitative methods that assume a continuation of past trends, may be quite hazardous unless careful consideration is taken of the changing fundamentals.

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<sup>1</sup> Fincher, Ruth p. 32. This footnote looks like an orphan?

Citation for Beare: needs footnote

Beare, J. B. (1978). Macroeconomics. New York, Macmillan.