

GROWTH THAT BUILDS

Beyond the immigration blame game

Marian L. Tupy



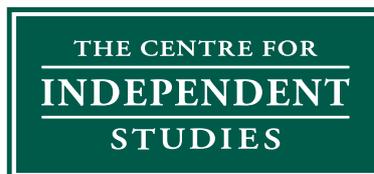


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Policy Paper 63

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Introduction

Immigration and housing affordability have become politically inseparable in contemporary Australia. With rents high, home ownership increasingly out of reach, and housing supply persistently undershooting official targets, it is tempting to conclude that fewer migrants would mean lower prices.

That argument has intuitive appeal. More people require more homes. In tightly-constrained markets, additional demand pushes up rents and prices.

But intuition is not policy. The evidence suggests a more nuanced reality: migration increases housing demand, yet whether that demand translates into sustained price pressure depends fundamentally on the responsiveness of supply. Where planning systems restrict land use, delay approvals, and cap density, even modest demand shocks quickly become price shocks. Where supply is flexible and institutions allow building to respond, the long-term affordability effects are far smaller — and can even be offset by stronger economic and housing growth.

This paper argues that Australia's housing crisis is primarily a supply failure, not simply a headcount problem. It examines international and Australian evidence on migration and housing markets, including research on zoning restrictions, supply elasticity, and labour bottlenecks in construction. It also considers the role of skilled migration in strengthening the productive capacity of the economy — particularly in the very occupations needed to design, approve and build more homes.

The central point is straightforward. Australia does not face a binary choice between skilled migration and affordable housing. It faces a policy choice between maintaining restrictive land-use systems that convert growth into scarcity, or reforming those systems so that population growth can be absorbed through construction rather than capitalised into higher prices.

In short, the housing shortage is not an inevitable consequence of migration. It is the predictable result of constrained supply.

The choice is not ‘immigration or affordability’

In Australia today, mass immigration is a political non-starter partly because many voters see the increased cost of housing as one of the country’s most urgent cost-of-living problems. A more plausible approach to immigration is narrower and more practical: a focused intake of skilled migrants who can help Australia innovate, raise productivity, and fill capability gaps without automatically worsening housing shortages.

True, a growing population raises housing demand, but the size of the cost effect depends on whether supply can respond. Skilled migrants can strengthen the supply side of the economy, including the people and systems needed to approve, design, and build more homes. In that sense, the real choice should not be ‘immigration or affordability’. It should be whether Australia combines skilled immigration with faster homebuilding and better land-use rules.

Australia’s housing shortage and the concomitant affordability decline is real, as Sam Fox and I noted in a recent CIS report. But it does not follow that more skilled immigration must make matters worse. The key word is must. In a city where housing supply is fixed, adding more people pushes up rents and prices. In a city

where supply can expand, the same population growth can be absorbed with much smaller price effects; especially over time. The research supports both parts of that claim. The argument is not that demand disappears. The argument is that policy and supply response decide whether demand becomes a lasting affordability problem.

Start with the point that critics get right. Albert Saiz’s well-known U.S. study finds that immigration inflows raise local rents and housing values in destination cities, with an estimated effect of about 1% on rents and values for an inflow equal to 1% of a city’s population. That is a real demand effect that no serious account of the housing problem should deny.

But Saiz’s broader work shows that housing supply differs sharply across cities because of geography and regulation. In plain language, some places can build — but don’t. If a city’s house building program is constrained by planning rules, height limits, approval delays, and political veto points, then any demand shock, including migration, turns into a price shock faster. If supply is flexible, more of the shock turns into construction.

Auckland's reforms

Auckland, New Zealand, is the best nearby example of what happens when a city eases housing rules. In 2016, Auckland’s Unitary Plan upzoned about three-quarters of the city’s residential land, allowing more intensive housing across a large share of the urban area rather than in a few small pockets. Researchers studying the reform describe it as unusually large by international standards and find strong evidence that the upzoning increased housing construction.

The important result is not that prices instantly fell everywhere. They did not. The important result is that the city’s housing market shifted onto a better path because builders were finally allowed to respond. Studies of Auckland using quasi-experimental methods and synthetic controls found that the reform increased supply and reduced rents relative to what would likely have happened without the reform. One study

reported that, six years after the reform, rents for three-bedroom dwellings were materially lower than the synthetic comparison, with estimated reductions in the range of about 22% to 35%. It also implied that those rents would have been substantially higher without the reform.

A later review of the debate concluded that the evidence is “remarkably robust” that Auckland’s zoning reforms increased housing supply and reduced rents. That is the main lesson for Australia. When demand rises in a tightly regulated city, housing gets more expensive. When a city deregulates enough land for real construction, supply expands and rent pressure eases relative to the no-reform path.

Australia's man-made scarcity

That is where the CIS economist Peter Tulip's work becomes central for Australia. In an RBA research paper with Ross Kendall, Tulip estimates that zoning and related restrictions raise housing prices in Australia's major cities by pushing prices above the cost of physical supply. Their Sydney example is telling. They estimate a large gap between the market value of land and the marginal physical value of land — in heavily regulated markets, land sells for far more than its inherent physical worth would justify — creating man-made scarcity that inflates prices.

That matters because Australia's current problem is not only demand growth. It is weak supply growth. The National Housing Supply and Affordability Council's 2025 report projects that housing completions will fall short of the national

target. The report's estimate is roughly 938,000 new homes over five years versus the 1.2 million target. If supply is already missing target by that margin, then blaming one source of demand while leaving supply rules mostly untouched will not solve the shortage.

The Reserve Bank's 2019 report coauthored by Tulip and Trent Saunders also points in the same direction. RBA analysis has long recognised that population growth increases demand for housing but also increases housing construction. In other words, migration is not only a demand variable. It is also part of a broader growth process that can induce investment, building, and adaptation. The size and timing of the price effect depend on how quickly supply responds.

Migration as supply-side policy

Skilled immigration changes the supply side of the economy in ways that raw headcounts miss. Skilled migrants are often workers in occupations that raise productive capacity, including engineers, planners, surveyors, architects, and project managers. The Jobs and Skills Australia occupation shortage data shows persistent shortages in many of these roles, including construction project managers, project builders, architects, surveyors, civil engineers, quantity surveyors, structural engineers, and urban and regional planners.

Adding such workers can increase the rate at which homes get approved, designed, financed, and built. In a country trying to expand housing supply, labor bottlenecks are not a side issue. They are part of the core building constraint. Skilled migration aimed at those bottlenecks, in other words, can raise housing supply capacity even if it also adds some demand.

Critics may still object that skilled migrants tend to earn more and therefore bid up prices. That can happen in specific suburbs and market segments. But that is not the same as saying that they raise housing costs for Australia in a lasting way. Higher earners also increase tax revenue, support business formation, and raise productivity. Those gains can support infrastructure, transport, and housing investment if policy allows it. More importantly, skilled migration can increase the supply of the very

services and systems that make housing cheaper to produce.

The Reserve Bank's discussion of international students offers a useful parallel. The RBA notes the basic short-run demand effect in tight rental markets, including a back-of-the-envelope estimate that a population increase of 50,000 could raise private rents by around 0.5% relative to baseline. But it also says that the rise in international students likely accounted for only a small share of rent increases since the COVID-19 pandemic, and it stresses that housing outcomes depend on the interaction of supply and demand. It further notes that higher population can spur more dwelling investment over time, even if capacity constraints slow the response. That is a balanced way to think about migration and housing.

The lesson from economic history and urban economics is simple. Growing cities become expensive when growth collides with barriers to building. Population growth alone does not produce today's housing shortage. The shortage appears when governments ration land use, delay approvals, cap density in high-demand areas, and then act surprised when prices rise. Tulip and Kendall's estimates of large zoning effects in Australian cities fit this pattern. So does the broader literature linking housing outcomes to supply elasticity.

Policy choice, not a law of nature

That means Australia faces a policy choice, not a law of nature. If Canberra and the states expand skilled migration while leaving planning systems unchanged, some local prices and rents can rise in the short run. If they expand skilled migration and also liberalise zoning, speed approvals, support infrastructure, and target shortage occupations tied to housing delivery, the long-run effect on housing costs can be positive for affordability relative to the alternative path.

A practical program follows. First, protect and expand skilled channels that resolve housing and infrastructure bottlenecks. Second, reform state and local planning rules that create administrative scarcity. Third, align migration policy with construction capacity goals rather than using migration restrictions as a substitute for housing reform. Fourth, judge policy outcomes by completions, rents, and time to

approval, not by headline migration numbers alone. Australia's own institutions already describe the supply shortfall and the skill shortages. The missing step is to connect the two.

The strongest version of the anti-immigration housing argument says more people always mean higher housing costs. The research evidence does not support that strong claim. It supports a narrower claim: more people raise demand, and prices rise most where supply is slow, constrained, or blocked. Once that is understood, the policy answer changes. Australia does not need a false choice between innovation, skilled talent, and affordable housing. It needs to stop treating a supply problem as if it were only a headcount problem.

Conclusion and policy proposals

Australia's housing shortage is real. Rents are high, home ownership is slipping out of reach, and supply is falling short of national targets. It is understandable that migration has become entangled in the public debate. More people do increase demand for housing. But the evidence is clear: prices rise most sharply where supply is slow, constrained or blocked. Migration does not create scarcity on its own. Planning systems do.

The strongest version of the anti-immigration argument — that more people inevitably mean higher housing costs — is not supported by evidence. A narrower claim is correct: demand shocks translate into price shocks when governments prevent construction from responding. Once that is understood, the policy response changes.

Australia faces a choice. It can restrict skilled migration in the hope of easing pressure in the short term while leaving supply constraints largely untouched. Or it can address the structural causes of scarcity and use skilled migration as part of a broader productivity and housing strategy. A practical reform program would include:

- Protecting and expanding skilled migration pathways, particularly for occupations directly tied to housing delivery and

infrastructure, such as engineers, planners, surveyors, project managers, builders and skilled tradespeople.

- Reforming state and local planning systems to reduce artificial land scarcity, ease density restrictions, and shorten approval times.
- Aligning migration settings with construction capacity goals, ensuring intake decisions complement rather than substitute for housing reform.
- Investing in infrastructure and enabling services that support higher housing supply and urban expansion.
- Measuring success by outcomes that matter — housing completions, rental growth, and approval times — rather than headline migration numbers alone.

The lesson from economic history and urban economics is straightforward. Growing cities become expensive when growth collides with barriers to building. If those barriers are removed, supply expands and affordability improves relative to the no-reform path.

Australia does not need a false choice between innovation, skilled talent and affordable housing. It needs to stop treating a supply problem as if it were merely a headcount problem.

Immigration and housing affordability have become closely linked in Australian politics, with high rents and falling home ownership fuelling claims that fewer migrants would lower prices. While migration does increase housing demand, whether this leads to sustained price rises depends largely on housing supply.

In markets where planning rules, land-use restrictions and construction bottlenecks limit new building, added demand quickly pushes up prices. Where supply is flexible, the long-term impact on affordability is much smaller and can be offset by economic growth.

This paper argues that Australia's housing crisis is mainly a supply failure rather than simply a population issue, and examines evidence on zoning, supply responsiveness, labour constraints and the role of skilled migration in expanding housing capacity.

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Related Works

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Peter Tulip. *Housing Affordability and Supply Restrictions*. CIS Policy Paper 55. 2024



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