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Demand, deposits, debt: Housing affordability in Sydney

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by Chris Angus

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Housing affordability in Sydney

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EXECUTIVE SUMMARY

Sydney's house prices have long been a concern for policymakers and the wider community. Now, as the city's median prices hover around (or over) the million dollar mark, the NSW Planning and Housing Minister Anthony Roberts has characterised the situation as a "crisis", further stating that if immediate action is not taken to ensure affordable housing, the city will pass "the point of no return" in terms of being able to provide for its residents.[1]

PART ONE: SYDNEY'S HOUSE PRICES AND AFFORDABILITY

Sydney's house prices: outrunning the rest

Over the 25 year period between 1991 and 2016, there has been a sustained and substantial increase in Sydney's house prices. Housing NSW figures show that in September 1991 Greater Sydney *dwellings* had a median price of $**158,000**. By September 2016, this median price was **$776,000**. In comparison to dwelling prices, Greater Sydney's median *house* prices have increased by even greater levels, from $**160,000** in September 1991 to **$865,000** in September 2016. **[Section 2.1.1]**

Other house price estimates report even higher median prices for the city; in fact, Australian Bureau of Statistics (ABS) data indicates that Sydney's median *unit* price is higher than median *house* prices in Melbourne and Canberra. **[2.1.2]**

Key Sydney house price statistics

Greater Sydney's dwelling prices have risen by an average of 6.6% each year since 1991

- Median price, Sept 1991: $158,000
- Median price, Sept 2016: $776,000

Median dwelling prices in Sydney are up to 69% higher than the NSW median ($618,000)

- Inner Sydney: $1.042m (+69% NSW median)
- Middle Sydney: $840,000 (+36%)
- Outer Sydney: $685,000 (+11%)

In 1991 a Sydney house was 5.3 times average NSW annual earnings. It is now 10.8.

- According to one measure, Sydney's price-to-income ratio was 12.2 in 2016: second only to Hong Kong.

Sydney house prices have outpaced wage growth in NSW over the past 25 years

- Cumulative house price growth: 180%
- Cumulative wage growth: 99.6%

Australia's household debt is the second highest in the world

- Switzerland: 128.2%
- Australia: 123.1%

In comparison to Sydney, property price growth elsewhere in NSW has been relatively modest.

As of September 2016, the median dwelling price for metropolitan regions outside Sydney was $500,000, and $365,000 for the rest of the State; both below the State median. Australia-wide, house prices have been driven

[1] J Saulwick, More density around rail stations and new schemes for renters: NSW housing plan, Sydney Morning Herald, 20 March 2017.

primarily by rapid increases in Sydney, and Melbourne to a lesser extent. According to the ABS, Sydney's house prices have remained the most expensive of all capital cities over the 13 years to December 2016. **[2.2-2.3]**

Housing affordability indicators

The house price-to-income ratio is one of the most widely used methods to assess historical trends in affordability; in 2016, Sydney's house prices were **10.8 times** the average NSW resident's annual earnings. This was similar to other price-to-income ratios, which range from **7.7** to **12.2** depending on the study. **[3.1]**

A low inflationary environment has also contributed to housing affordability issues. Wage growth is a key driver of household income, but while house prices have steadily increased in recent years wage growth has slowed. The Consumer Price Index has also 'decoupled' from Sydney's Residential Property Price Index over the past five years, leading to a higher mortgage repayment burden in the long term. **[3.2]**

Higher house prices have led to an increase in transfer duties, with NSW Office of State Revenue statistics indicating that the average duty paid has increased from **$14,736** in 2005-06 to **$31,183** for 2015-16. Australian households have also seen a dramatic increase in debt levels; according to Bank for International Settlements (BIS) data, Australia has the **world's second highest household debt-to-GDP ratio** after Switzerland. **[3.3-3.4]**

PART TWO: SUPPLY AND DEMAND DRIVERS OF HOUSE PRICES

What has been driving up house prices?

At a fundamental level, the price of any good or asset is determined jointly by supply and demand. The housing sector has its own unique mix of supply and demand drivers that are numerous and complicated, with ongoing debate whether supply or demand drivers are the primary cause of high house prices. Nevertheless, there is widespread agreement that real house prices in NSW have been driven by supply *and* demand factors, with demand fundamentals being exacerbated by supply constraints. **[4.1-4.2]**

Supply drivers

This briefing paper considers three supply factors:

- Responsiveness of housing supply;
- Regulatory issues linked to land release and development; and
- Costs relating to finance, construction and infrastructure provision.

A lack of dwelling approvals and construction in Sydney during the mid-1990s and 2000s contributed to the increase in the city's house prices; according to ABS data, by 2008-09, dwelling approvals were **35.2 per cent** lower than in 2001-02. This shortfall has since been reversed, but there remain issues as to both the types of houses being built, and where dwelling approvals are being made. **[5.1]**

Planning and regulatory issues are often identified stakeholders as hindering efforts to increase housing supply in Sydney. A 2012 survey of Australian residential property developers found that developers faced problems such as onerous planning controls, delays in zoning approvals and community opposition, which made development a slow, difficult and expensive process to undertake. **[5.2]**

NSW housing supply and demand

Between 2008-09 and 2015-16 NSW housing approvals surged, reaching a 15 year high of 53,992 in the last financial year.

Clusters of social disadvantage are increasingly pushed further towards city peripheries, which are poorly resourced in terms of infrastructure, jobs and transport.

Sydney's population increase in the decade to 2015 was double that of regional NSW

- Greater Sydney LGAs: 16% cumulative population increase
- Regional LGAs: 8.8% increase

Australia has seen unprecedented wealth accumulation and growth in market share for investors through the 1990s and early 2000s

- Proportion of financing going to investment housing, Jan 1992: 16.7%
- Proportion of financing going to investment housing, Jan 2017: 51.3%

Alongside issues of dwelling supply responsiveness and regulation are issues such as obtaining finance for residential development; a lack of infrastructure alongside new housing; and construction costs. **[5.3]**

Demand drivers

This paper discusses five key demand factors that affect house prices:

- Population growth and household formation;
- Reductions in interest rates and inflation;
- Financial deregulation;
- Taxation treatment of housing; and
- Changes in investor demand.

High immigration levels lead to increased housing demand as overseas and interstate migrants need immediate accommodation upon arrival. According to the ABS, between 2005 and 2015 the Australian population increased by around 3.6 million people. Sydney received almost one-fifth of this population, bringing its population to over 4.5 million as of 2015. **[6.1]**

The move to a low inflation environment has led to the interest rate reaching historically low levels. At the same time, increased competition among housing lenders has made it easier for many borrowers to obtain loans, and contributed to lower interest costs by reducing lending margins. Simultaneously, financial deregulation has led to increased borrowing capacity, which in turn has boosted housing demand across Australia. **[6.2-6.3]**

The tax treatment of housing also affects house prices. In addition to demand from prospective homebuyers, there is also a speculative element to housing demand that may be encouraged by the tax system. A number of tax concessions have heavily favoured existing homeowners and property investors, the latter of whom are responsible for the majority of finance entering the housing market. **[6.4-6.5]**

PART THREE: IMPACTS OF HIGH HOUSE PRICES AND RESPONSES

Social impacts of high house prices

Unaffordable housing can lead to a wide range of negative impacts on individuals and communities, and are magnified the greater an individual's disadvantages or vulnerability. This paper argues that expensive housing risks creating a 'trickle-down' effect on society, affecting in turn the following four groups of people:

- The private ownership market, particularly first homebuyers (FHB);
- The private rental market;
- Public or community housing residents, especially those reliant on welfare provisions; and
- Persons forced into emergency housing and homelessness.

Prospective homebuyers face an increasingly larger deposit gap between what a household on average earnings could afford to borrow and median house prices. According to Bankwest, first time buyer couples in Sydney will need to save for an average of 8.4 years in order to form a deposit for a median priced house. These financial challenges have led to record low levels of first homebuyers in the property market. Prospective buyers face significant opportunity costs by this delay in buying a home: first, the necessary deposit increases yet further, while prospective home buyers do not receive the benefits of capital growth from house price growth. **[7.1]**

As Australians are increasingly locked out of the housing market, an increasing number remain in the rental market while they attempt to save for a house deposit. However, this increase in the number of renters appears to have occurred in tandem with increases in rental costs. For example, Housing NSW and ABS data indicate that the median weekly rent for Greater Sydney was **33.6 per cent** of NSW weekly income in December 2016; above the 25 year historical average of 30 per cent, and the 25 year low seen in 2005 (27 per cent).

Should more renters enter the market, there is a risk that rents will increase even further, which will disproportionately affect low income private renters. **[7.2]**

An increasingly unaffordable private rental market has further trickle-down consequences, as higher prices expand the gap between regular market rents and social housing subsidised rents.

This gap already exists for many NSW residents; according to Anglicare Australia's 2016 Rental Affordability Snapshot, for single households on the Newstart allowance with one child aged over eight years, there were **no affordable and appropriate private rentals** in Greater Sydney or the Illawarra.

> ### Social impacts of high house prices
>
> **The proportion of finance going to first homebuyers is at record lows**
>
> - Peak FHB financing, Jun 2009: <u>33.4%</u>
> - FHB financing, Dec 2016: <u>7.9%</u>
>
> **Rent as a proportion of earnings increases the closer a person resides to Sydney's CBD**
>
> - Inner Sydney, Dec 2016: <u>40%</u>
> - Middle Sydney, Dec 2016: <u>33.8%</u>
> - Outer Sydney, Dec 2016: <u>29.3%</u>
> - Greater Sydney average, Dec 2016: <u>33.6%</u>
>
> **Sydney retirees in the <u>private rental market</u> need more than <u>$1 million</u> in superannuation savings to live at a comfortable standard**

However, the trickle-down effect of unaffordable housing has the greatest impact on Australia's most vulnerable. When families cannot afford to own or rent a home, their choice is limited to living in overcrowded homes, emergency accommodation or the streets. **[7.3-7.4]**

Fiscal and economic impacts of high house prices

There are three existing fiscal and economic challenges that may be exacerbated by steadily rising high house prices:

- Existing inequity and revenue loss from Commonwealth tax concessions;
- An increasing reliance on transfer duty in NSW that may result in fiscal volatility in the long term; and
- A growing property market 'bubble' that, if it were to burst, risks causing widespread economic consequences.

A number of stakeholders have argued that two tax concessions—the 50 per cent capital gains tax (CGT) discount for housing investors, and negative gearing concessions—incentivises real estate investment, which increases demand for housing and potentially leads to negative implications for housing affordability, financial stability and equity. These two taxes disproportionately favour older, wealthier Australians, and cost the Commonwealth considerable tax revenue. **[8.1]**

Turning to State stamp duties, most economists argue that these are highly inefficient taxes that impact economic activity and increase volatility of State revenue. However, according to the NSW Government's own forecasts, the State will become increasingly reliant on these transaction taxes without policy change. **[8.2]**

Alongside these criticisms is a growing view that Sydney, or perhaps all of Australia, is experiencing a property bubble. While not all observers agree that a bubble exists, key figures such as Australian Securities and Investments Commission Chairman Greg Medcraft and Treasury secretary John Fraser have argued that Sydney's property sector has reached unsustainable levels. Whether or not observers agree that Sydney or Australia's property market is in a bubble, they would likely agree that, if it experienced a sudden downturn, Australia would see a sharp and prolonged economic recession. It has been argued that several economic depressions in the 19th and 20th centuries were due to the bursting of property market bubbles. **[8.3]**

Recent policy responses and proposals

Successive NSW Governments have recognised that, with a rising population, Sydney requires a substantial increase in the number of homes in order to meet demand. The 2014 Plan for Growing Sydney reported that Sydney needs an additional **725,000 dwellings by 2036**, and set out a range of strategic goals for the Government over the next two decades. In November 2016 the Greater Sydney Commission released Towards Our Greater Sydney 2056, which proposes that, over the next 40 years, Greater Sydney should change from a city with a single central business district in the city's east into a metropolis of three cities. **[9.1.1]**

However, these strategic plans must counter a number of development, infrastructure and demographic challenges that have emerged in recent years, including: **[9.1.2]**

- Increasing divergence between housing in inner and outer Sydney: the former is experiencing significant apartment development, with the latter seeing most of the detached housing construction. This has led to concerns that many new developments are unsuitable for young family and new migrant households;
- Further increases to Sydney's population, which some commentators believe will exacerbate high house prices and lead to additional housing supply challenges; and
- The ability to provide adequate infrastructure alongside new housing supply. The Productivity Commission identified an infrastructure backlog of approximately **$38 trillion** between 2013-14 and 2059-60, raising questions as to how infrastructure will be funded in the future.

In January 2017 then NSW Planning Minister Rob Stokes announced a series of proposed planning law reforms that are intended to reduce delays in Development Application processing by councils, and also enhance community confidence in the planning system. Key changes include improved community engagement in planning and development decisions and the formation of an Independent Planning Commission to speed up planning approval. **[9.2]**

A wide range of proponents have proposed abolishing State stamp duties and replacing these with a broad-based land tax. This is already occurring in the ACT, which in 2012 began a 20 year-long transition from stamp duties to land tax. According to initial analysis, the reform has deterred housing speculation and **saved new home buyers up to $2000 on mortgage costs**. There are also calls to rein in negative gearing and the CGT discount in order to improve housing affordability. The Grattan Institute modelled the impact of quarantining rental loss deductions and reducing the CGT discount from 50 to 25 per cent. It concluded that changes to both taxes would result in Commonwealth revenue gains of, respectively, **$1.6 billion and $3.7 billion per year**. **[9.3]**

A housing policy proposal gaining attention is shared ownership and equity schemes, which enable individuals to purchase a home in partnership with a private or public equity provider, enhancing affordability through lower deposit requirements and ongoing housing costs. A majority of Australian jurisdictions operate some form of shared equity scheme for homebuyers, with Western Australia’s Keystart program having **helped over 98,800 borrowers into home ownership**. **[9.4]**

Social impact investing has also been identified as a possible means of generating financing for affordable housing, using investments that generate measurable social and/or environmental outcomes alongside financial returns. Two forms of social impact investment are discussed in the paper:

- **Social impact bonds:** An outcomes-based contract between the government and non-government organisation service providers, under which the government pays for targeted improvements in outcomes for a defined population.
- **Social impact investment funds:** These instruments pool funds from many investors to invest in several social impact investments, and can fund wholesale investment opportunities requiring larger amounts of capital, such as the construction of affordable housing.

In 2013 NSW became the first Australian State to implement social impact bonds, with the goal of reducing the number of children and young people in out-of-home care. Evaluations of existing social impact investing have been positive, although there remain a number of potential barriers, including investor attraction, their ability to be scaled up to address larger populations, and the mixed results of individual instruments. **[9.5]**

GLOSSARY

AHURI: Australian Housing and Urban Research Institute.

APRI: Australian Population Research Institute.

Cash rate: Monetary policy decisions are expressed in terms of a target for the cash rate, which is the overnight money market interest rate.

Compound annual growth rate: The mean annual growth rate of an investment over a specified period of time longer than one year.

CPI: The Consumer Price Index, an ABS index which measures quarterly changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by a population group (i.e. metropolitan households).

Decile: A method of splitting up a set of ranked data into ten equally large subsections.

Demand: How much (quantity) of a product or service is desired by buyers.

First homebuyers (FHB): Persons entering the home ownership market for the first time.

GFC: Global Financial Crisis.

GMR: Greater Metropolitan Region.

GDP: Gross domestic product. The total market value of goods and services produced in Australia within a given period after deducting the cost of goods and services used up in the process of production but before deducting allowances for the consumption of fixed capital. It is equivalent to gross national expenditure plus exports of goods and services less imports of goods and services.

GSP: GSP is defined equivalently to GDP but refers to production within a State or Territory rather than to the nation as a whole.

Greater Sydney: Comprised of Inner, Middle and Outer LGA ‘Rings’ within Sydney per Housing NSW Rent and Sales Report.

Greater Sydney Commission: An independent organisation funded by the NSW Government with the goal of coordinating and aligning planning for the future of Greater Sydney.

Inflation: A measure of the change (increase) in the general level of prices.

Interest rate: The term used to describe the cost of borrowing money or the return to the owner of the funds which are invested or lent out.

Land tax: A tax levied on the owners of certain types of land in NSW, irrespective of whether income is earned from the land.

LGA: Local Government Area.

Median price: The midpoint of dwelling values in the reference period. Half of all properties bought/sold in the period did so at a price below the median, the other half had a price above the median.

Net overseas migration: The net gain or loss of population through immigration to Australia and emigration from Australia.

Non-strata: Separate houses.

Transfer duty: Duty on a sale or transfer of land (including improvements) in NSW.

Standard variable mortgage rate: Mortgage lenders' benchmark rate or interest rate used to advertise their products.

Strata: Townhouses, terraces/villas, flats/units (multi-unit dwellings), and other multi-unit dwellings with Torrens titles.

Supply: Represents how much the market can offer of a particular product.

Unstratified median house price: The midpoint of sales data taken from the ABS's residential property sales dataset, with no grouping (stratifying) or weighting applied.

WPI: The Wage Price Index, an ABS index which measures changes in the price of labour in the Australian labour market. In a similar manner to the CPI, the WPI follows price changes in a fixed "basket" of jobs and is therefore not affected by changes in quality and quantity of work.

1. INTRODUCTION

High house prices are not a new phenomenon in Sydney: since at least the mid-1990s the Harbour City has laid claim to Australia's most expensive housing.[2] It remains so to this day; indeed, as of December 2016 ABS data indicates that Sydney's median *unit* price of $710,000 is higher than median *house* prices in Melbourne and Canberra respectively ($675,000 and $650,000).[3]

Debate continues over the causes of Sydney's consistent and sustained house price growth, though most agree that some combination of demand fundamentals and supply constraints have led to the costs experienced today.[4] However, what policymakers, politicians and the wider community are progressively coming to realise is that home ownership is increasingly out of reach of many Sydneysiders. As detailed in chapter 3 of this paper, various housing affordability measures indicate that dwelling prices have surged ahead of wages since the early 2010s, with prospective homebuyers forced to take out record high mortgages that remain remotely affordable only by virtue of low interest rates. Even then, they continue to drift into unaffordable territory.

Of course, this assumes that prospective homebuyers can afford to buy property in the first place. Research shows that, on average, first homebuyers in Sydney must save for approximately 8.4 years to form a deposit for a median priced house: the longest savings time in Australia.[5] With most of Sydney seemingly unaffordable for first homebuyers—Domain reported that only *four* suburbs are still within reach for this demographic in 2016[6]—the rates of first home ownership have steadily declined since the turn of the century.[7]

Yet first homebuyers are only the most visible victims of Sydney's unaffordable property market. As detailed in chapter 7, expensive housing has a 'trickle-down' effect on the community; high house prices create compounding negative effects that first affect Sydney's first homebuyers and middle income earners, then increase hardship for those currently struggling in the private rental market, and finally cause the most harm to people dependent on public housing and government welfare.

To say that there is an abundance of government responses and public policy proposals to the issue of housing affordability is a gross understatement: there is a long history of policies and proposals that attempt to address this vexing issue. Recent proposals are discussed in chapter 9, and have a common thread of returning some degree of equity to an increasingly polarised housing market.

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[2] G Wettenhall, P Browne, Urban Australia: trends and prospects, Australian Urban and Regional Development Review, September 1995, p 168.

[3] See section 2.1.2 of this paper.

[4] See section 4.2.

[5] Bankwest, First Time Buyer Deposit Report 2016, 21 December 2016, p 3.

[6] J Duke, From 51 suburbs in 2000 to four in 2016: The last areas Sydney first-home buyers can afford, Domain, 21 February 2017.

[7] See section 7.1.2.

PART ONE: Sydney’s house prices and affordability

2. SYDNEY HOUSE PRICES: OUTRUNNING THE REST

2.1 The meteoric rise in Sydney's dwelling prices

Over the 25 year period between 1991 and 2016, there has been a sustained and substantial increase in Sydney's house price. The city's median house price varies across indexes (see Figure 1), but consequently, as shown in sections 2.2 and 2.3, house prices in Sydney are, by any available measure, the most expensive in Australia.

Figure 1: Most recent median house price in Sydney, by index

Index	Median price ($)		Date measured
	Houses	Other dwellings (e.g. units)	
Housing NSW	865,000	700,000	Sep 2016
CoreLogic	895,000	685,000	Feb 2017
ABS	970,000	715,000	Dec 2016
BIS Shrapnel/QBE	1,047,600	729,800	Jun 2016
Residex	1,069,000	705,500	Sep 2016
REIA	1,076,900	697,500	Sep 2016
Domain	1,123,991	711,256	Dec 2016

For this chapter, Housing NSW's quarterly Rent and Sales Reports are used as the key source of median home prices. This is because of the detail of Housing NSW statistics, which have been derived from information provided on Notice of Sale or Transfer of Land forms that are lodged with Land and Property Information NSW.[8] It also allows this paper to retain consistency with previous Research Service publications on house prices.[9]

However, other house price indexes are also listed in this chapter, to provide a broader analysis of changing house prices in Sydney compared with other capital cities and regions.

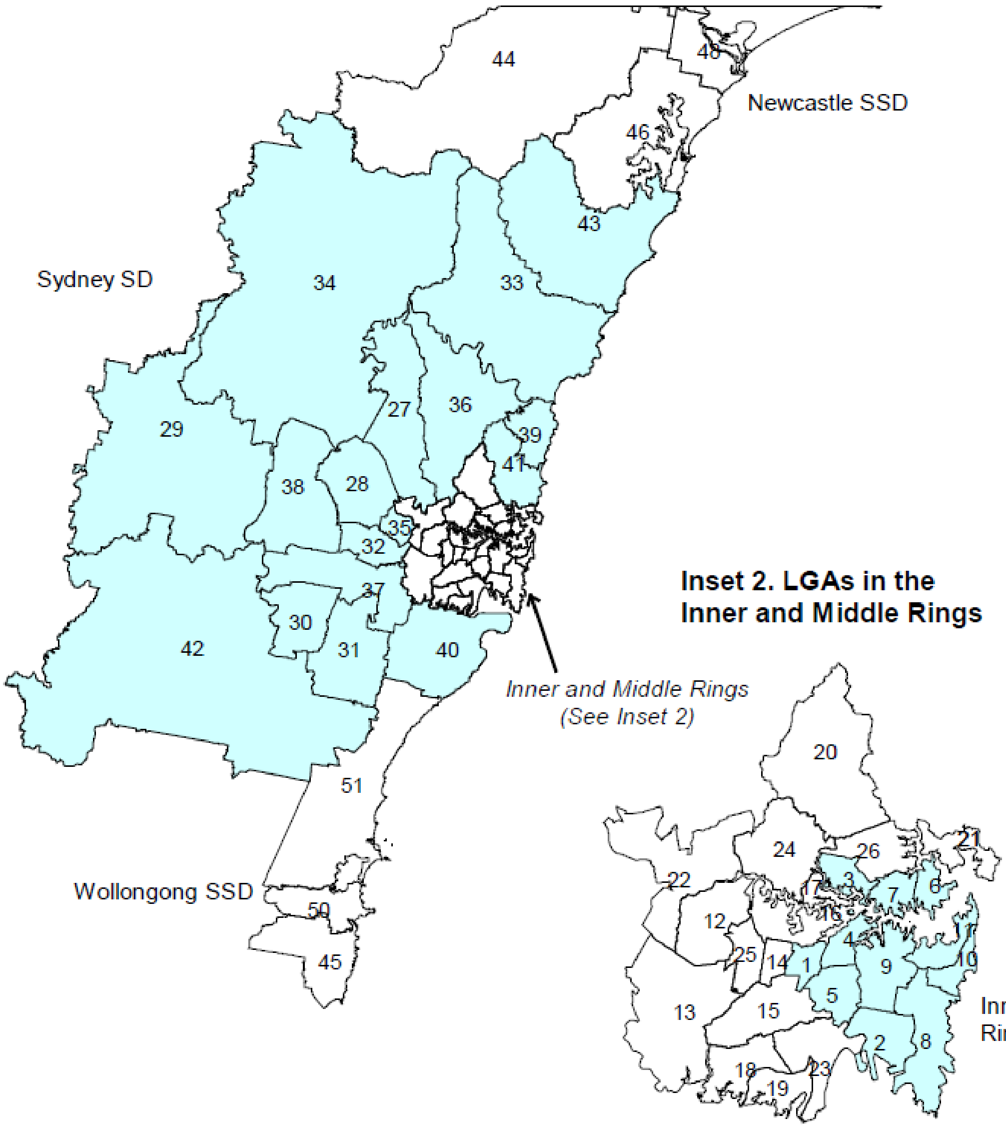
[8] Housing NSW, Rent and Sales Reports, n.d.

[9] A Haylen, House prices, ownership and affordability: trends in New South Wales, NSW Parliamentary Research Service, BF 01/2014.

2.1.1 Median house prices and long term growth – Housing NSW

Housing NSW uses a range of geographic areas based on the ABS's Australian Statistical Geography Standard and Australian Standard Geographical Classification (Figure 2):

Figure 2: Inner, Middle and Outer Ring local government areas in Greater Sydney[10]

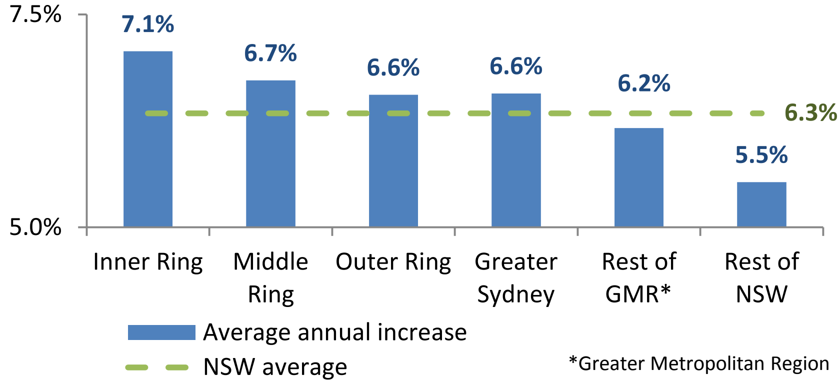


Greater Sydney is comprised of Inner, Middle and Outer local government area (LGA) 'Rings' within the city, and is also combined with the LGAs of Newcastle, Cessnock, Maitland, Port Stephens, Lake Macquarie, Wollongong, Shellharbour and Kiama to form the Greater Metropolitan Region (GMR). Additionally, the 'Rest of NSW' as referred to in this chapter is comprised of areas of the State that are not included in the GMR.[11]

[10] Housing NSW, Rent and Sales Report, Issue No 118, March 2017, p 9.
[11] Ibid, p 15.

As shown in Figure 3, between September 1991 and September 2016 dwelling prices in the Greater Sydney area grew by an average 6.6 per cent per annum, while the Inner, Middle and Outer Rings of the city all experienced annual growth above the State average:

Figure 3: Average annual price growth by NSW region, all dwellings, Sep 1991 to Sep 2016[12]



At first glance a 6.6 per cent average annual growth rate may appear to be unexceptional. However, because this growth has compounded over such an extended period, long term house values across Greater Sydney have jumped remarkably.

This capital growth figure is very high compared to historic Australian housing growth rates. As reported by Yates, the average annual increase in Australia's real house prices in the 20 years to 1995 was just 1.1 per cent, while the 50 year average from 1960 to 2010 was 2.5 per cent per year.[14]

> **House price growth in investment terms**
>
> House price growth can be expressed using compound annual rates. To emphasise how seemingly small amounts of capital growth can result in substantial returns over time, house price growth rates are shown here as compound interest (interest paid on both the initial principal as well as the accumulated interest being earned).[13]
>
> As noted in the chapter, house prices in Australia grew by an average rate as low as **1.1 per cent** until the mid-1990s. Were this growth rate to apply to an investment of $10,000, after 25 years the investment would be worth approximately **$13,150**. However, Greater Sydney house prices grew by an average of **6.6 per cent** per year: after 25 years an investment of $10,000 would be valued at approximately **$49,425**.

If capital growth rates were to be viewed as investment returns (see breakout), house growth rates between 1991 and 2016 represent dramatically higher returns than seen in earlier time periods.

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[12] Ibid. Growth rates calculated using compound annual growth rate: see Glossary.

[13] MoneySmart, Compound interest, ASIC, 31 October 2016.

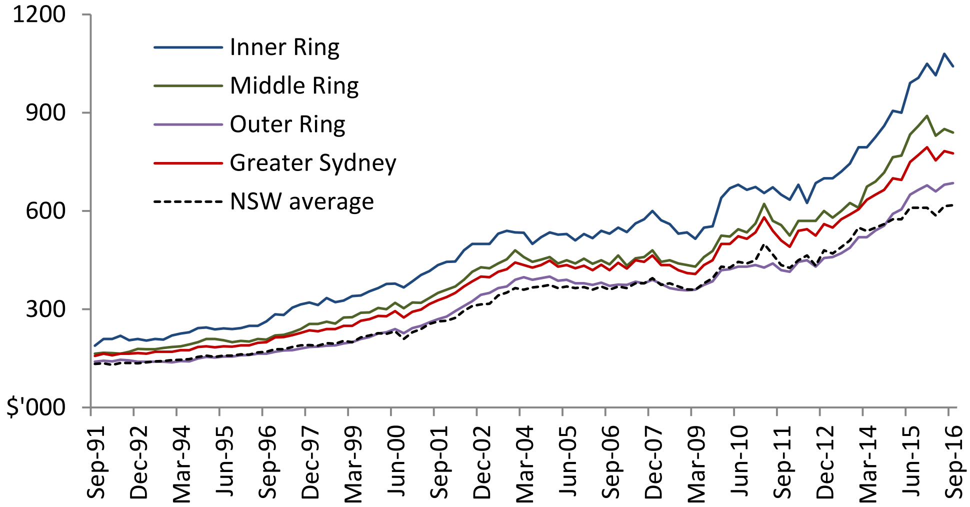
[14] J Yates, 'Housing in Australia in the 2000s: On the Agenda Too Late?' (Paper presented at Reserve Bank of Australia, 15-16 August 2011), p 263.

In dollar terms, Housing NSW figures show that in September 1991 a Greater Sydney dwelling had a median price of **$158,000**: approximately 19 per cent above the State median dwelling price ($133,000). By September 2016, the median price of a Greater Sydney dwelling was **$776,000**: 26 per cent higher than the State median price ($618,000). Changes to the median dwelling prices in Sydney's three suburban Rings have been as follows:

Table 1: Median price in Sydney, all dwellings, by suburban ring[15]

Ring	Median price, Sep 1991	% above NSW median ($133,000)	Median price, Sep 2016	% above NSW median ($618,000)
Inner	$189,000	42%	$1.042m	69%
Middle	$165,000	24%	$840,000	36%
Outer	$140,000	5%	$685,000	11%

Figure 4: Median quarterly sales price in Greater Sydney, all dwellings, Sep 1991 to Sep 2016[16]



Tables 2 and 3 show, respectively, the changes in median dwelling prices by NSW region every five years between September 1991 and September 2016, and the average annual growth rate during each of these five year periods. Note that cells shaded in blue indicate the median dwelling price or average price increase at that time was equal to or greater than the NSW average.

[15] Housing NSW, note 10.
[16] Ibid.

Table 2: Median quarterly sales prices, all dwellings, Sep 1991 to Sep 2016[17]						
Region	Median house price as of September ($'000)					
	1991	1996	2001	2006	2011	2016
Inner Ring	189.0	263.0	435.0	531.0	650.0	1,042.0
Middle Ring	165.0	208.0	350.0	437.0	557.0	840.0
Outer Ring	140.0	165.0	270.0	372.0	420.0	685.0
Greater Sydney	158.0	200.0	328.0	420.0	510.0	776.0
NSW	**133.0**	**170.0**	**263.0**	**360.0**	**435.0**	**618.0**

*Cells shaded in blue indicate the median dwelling price during that quarter were equal to or greater than the NSW average.

Table 3: Average annual median price increase, all dwellings, Sep 1991 to Sep 2016[18]					
Region	Average annual growth rate per previous five years (%)				
	1991-96	1996-2001	2001-06	2006-11	2011-16
Inner Ring	6.8%	10.6%	4.1%	4.1%	9.9%
Middle Ring	4.7%	11.0%	4.5%	5.0%	8.6%
Outer Ring	3.3%	10.4%	6.6%	2.5%	10.3%
Greater Sydney	4.8%	10.4%	5.1%	4.0%	8.8%
NSW	**5.0%**	**9.1%**	**6.5%**	**3.9%**	**7.3%**

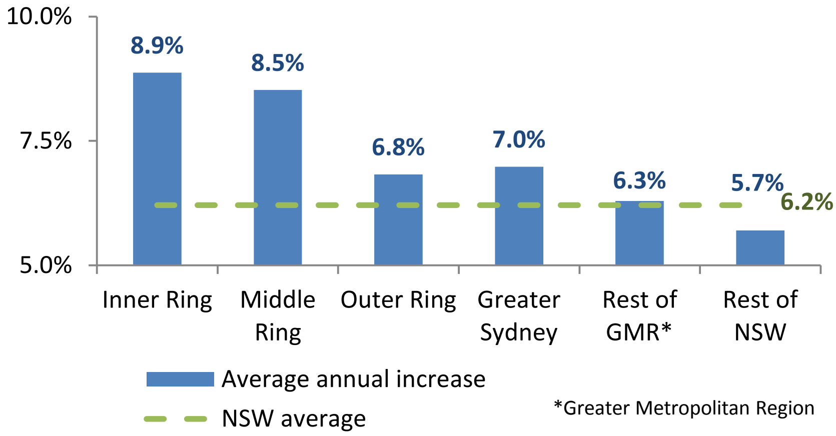
*Cells shaded in blue indicate annual increases during the period were equal to or greater than the NSW average.

In comparison to *dwelling* prices, the data shows that Sydney's median *house* prices have increased by even greater levels over the past 25 years.

Non-strata house prices in Greater Sydney increased by an average of **7 per cent** per annum between September 1991 and September 2016, with all of Greater Sydney's suburban rings and NSW's Greater Metropolitan Regions seeing significantly higher growth rates than the State average (Figure 5).

[17] Ibid.
[18] Ibid.

Figure 5: Average annual price growth by NSW region, non-strata dwellings, Sep 1991 to Sep 2016[19]



In dollar terms, non-strata dwellings in Greater Sydney increased in median price from **$160,000** in September 1991 to **$865,000** in September 2016: 44 per cent above the NSW statewide average ($600,000). This substantial premium appears largely caused by soaring prices in Sydney's Inner and Middle Rings (Table 4):

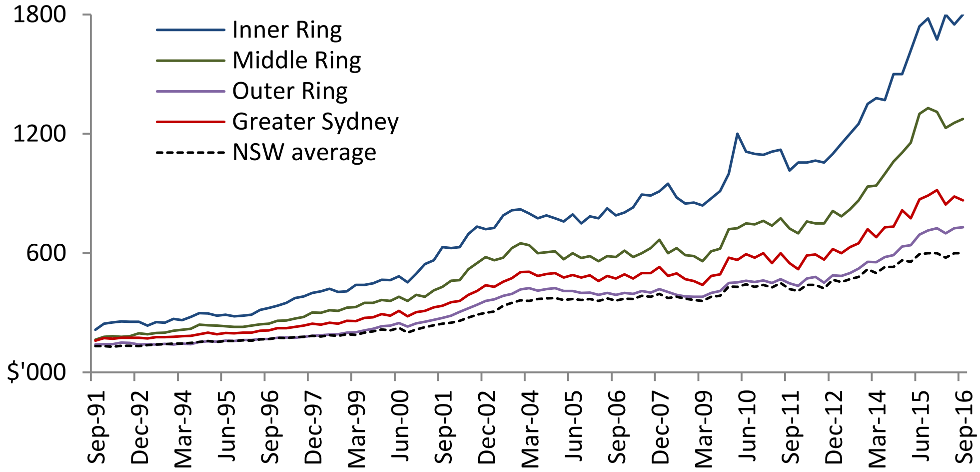
Table 4: Median price in Sydney, non-strata dwellings, by suburban ring[20]

Ring	Median price, Sep 1991	% above NSW median ($129,000)	Median price, Sep 2016	% above NSW median ($595,000)
Inner	$215,000	62%	$1.8m	200%
Middle	$165,000	24%	$1.275m	113%
Outer	$140,000	5%	$730,000	22%

[19] Ibid. Growth rates calculated using compound annual growth rate, which is the mean annual growth rate of an investment over a specified period of time longer than one year.

[20] Ibid.

Figure 6: Median quarterly sales price in Greater Sydney, non-strata dwellings, Sep 1991 to Sep 2016[21]



Tables 5 and 6 show the change in median house prices by NSW region every five years between September 1991 and September 2016, as well as the average annual growth rate during each of these five year periods:

Table 5: Median quarterly sales prices, non-strata dwellings, Sep 1991 to Sep 2016[22]

Region	Median house price as of June ($'000)					
	1991	**1996**	**2001**	**2006**	**2011**	**2016**
Inner Ring	215.0	325.0	630.0	790.0	1,015.0	1,800.0
Middle Ring	165.0	246.0	430.0	580.0	724.0	1,275.0
Outer Ring	140.0	168.0	275.0	390.0	449.0	730.0
Greater Sydney	160.0	212.0	335.0	472.0	550.0	865.0
NSW	**133.0**	**168.0**	**245.0**	**362.0**	**420.0**	**600.0**

*Cells shaded in blue indicate the median dwelling price during that quarter were equal to or greater than the NSW average.

Table 6: Average annual median price increase, non-strata dwellings, Sep 1991 to Sep 2016[23]

Region	Average annual growth rate per previous five years (%)				
	1991-96	**1996-2001**	**2001-06**	**2006-11**	**2011-16**
Inner Ring	8.6%	14.2%	4.6%	5.1%	12.1%
Middle Ring	8.3%	11.8%	6.2%	4.5%	12.0%
Outer Ring	3.7%	10.4%	7.2%	2.9%	10.2%
Greater Sydney	5.8%	9.6%	7.1%	3.1%	9.5%
NSW	**4.8%**	**7.8%**	**8.1%**	**3.0%**	**7.4%**

*Cells shaded in blue indicate annual increases during the period were equal to or greater than the NSW average.

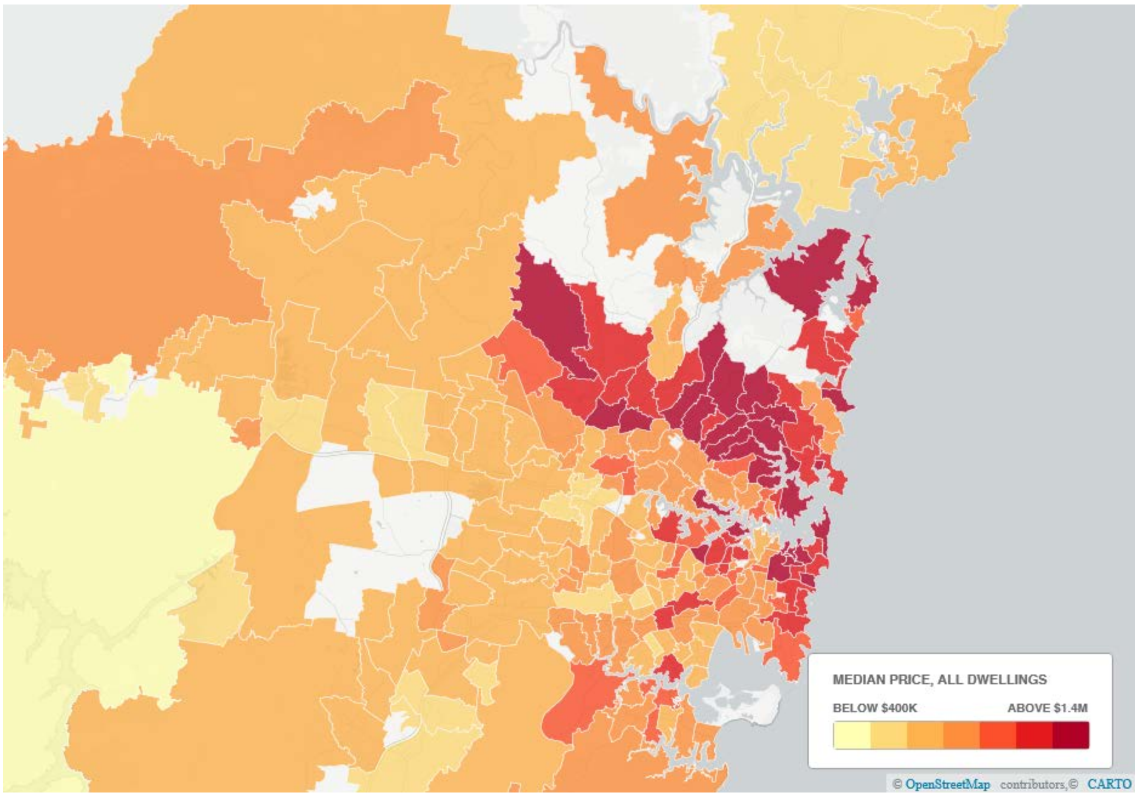
21 Ibid.
22 Ibid.
23 Ibid.

Figures 7 to 9 on this and the following page map the most recent Housing NSW median house prices by postcode for the Greater Sydney region. The three figures show median prices for, respectively:

- All dwellings;
- Non-strata properties only; and
- Strata properties.

These maps make clear that, across large swathes of Sydney, prospective homebuyers must spend substantial sums of money in order to enter the property market.

Figure 7: Median house price in Greater Sydney, all dwellings, Sep 2016[24]



[24] Ibid.

Figure 8: Median house price in Greater Sydney, non-strata, Sep 2016[25]

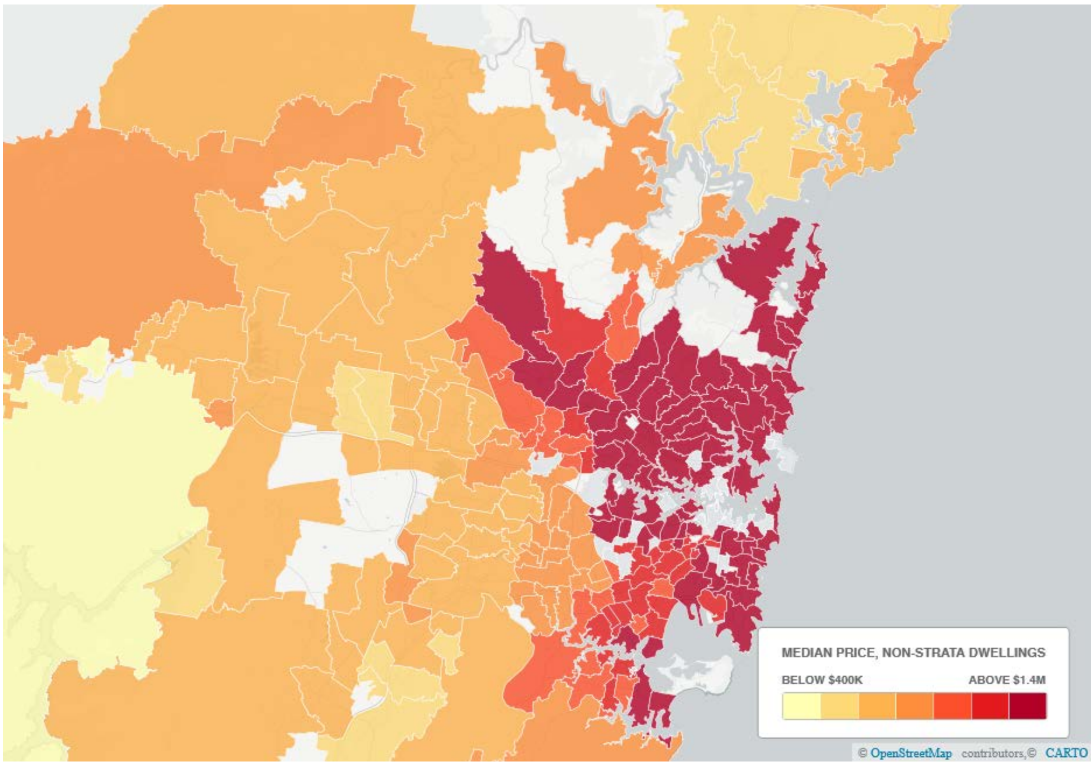
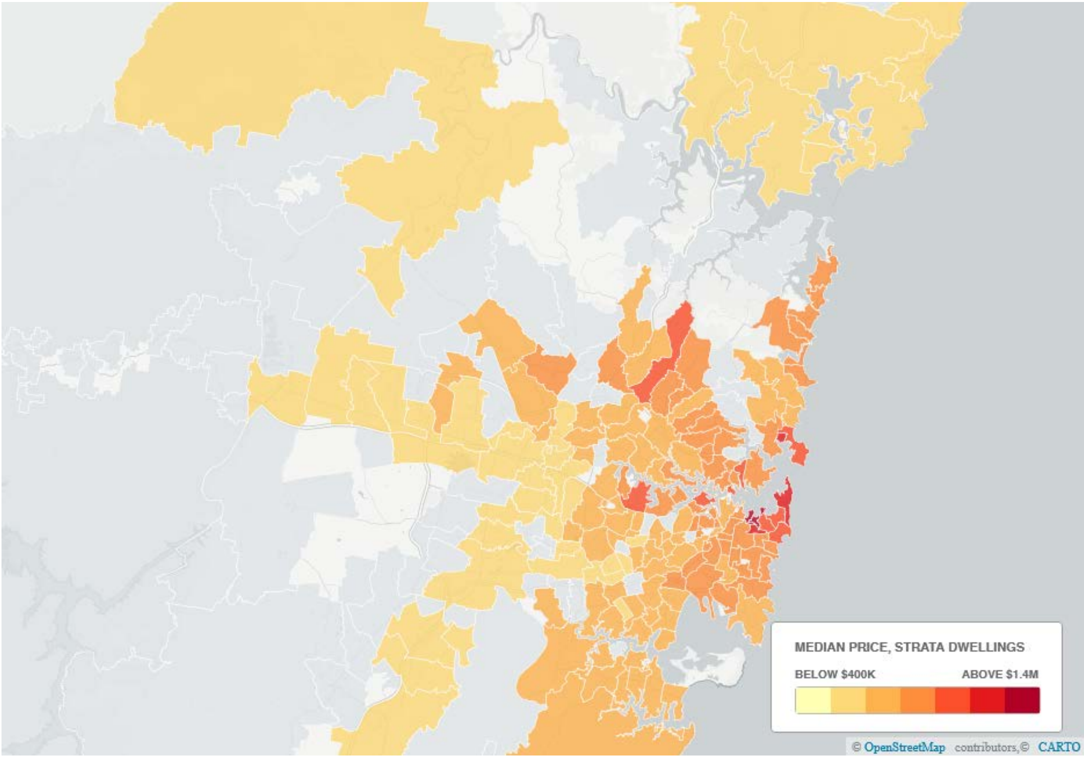


Figure 9: Median house price in Greater Sydney, strata, Sep 2016[26]



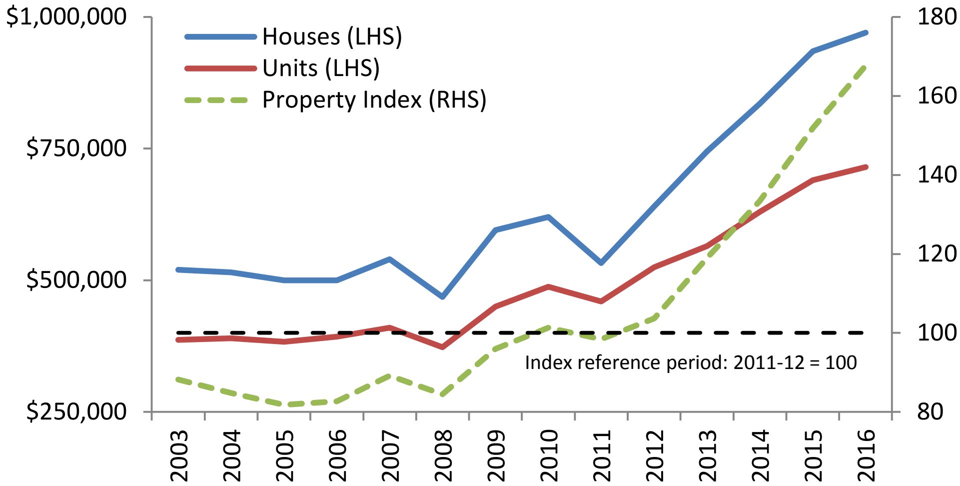
[25] Ibid.
[26] Ibid.

2.1.2 Other estimates of house prices and growth

Aside from Housing NSW, there are a range of other organisations that estimate median house prices using a variety of statistical methods.[27] Several key estimates are discussed below in order to provide a comprehensive picture of current house prices across Sydney.

ABS Residential Property Price Index (RPPI): The ABS's RPPI measures price changes of residential dwelling stock, with data available from 2003 to 2016. The ABS also provides the unstratified median house price[28] for both houses and attached dwellings (such as apartments or units) over the same time period. Both the RPPI and the unstratified median house prices for Sydney are shown below:

Figure 10: ABS Sydney unstratified median house price and Residential Property Price Index, Dec 2003 to Dec 2016[29]



According to ABS estimates, Sydney's median house and unit prices as of December 2016 are the highest of all Australian cities and regions ($970,000 and $715,000). In comparison, the next two most expensive housing markets in Melbourne and Canberra have median house prices of $675,000 and $650,000 respectively—lower than Sydney's median *unit* price—and median unit prices of $512,000 and $427,500 each.

[27] For a discussion of these methods, see: ABS, 6464.0 - Residential Property Price Indexes: Concepts, Sources and Methods, 2014, 30 September 2014; J Hansen, Australian House Prices: A Comparison of Hedonic and Repeat-sales Measures, RBA, RDP 206-03, May 2006.

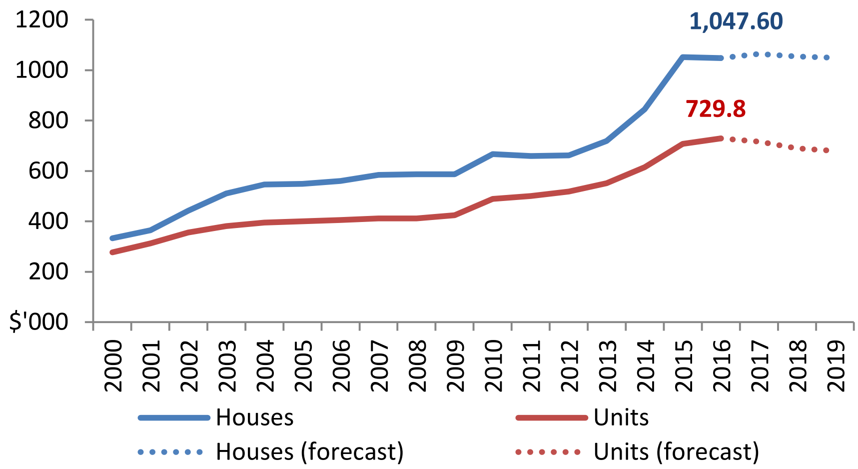
[28] See Glossary.

[29] ABS, 6416.0 - Residential Property Price Indexes: Eight Capital Cities, Dec 2016, 21 March 2017, Tables 1, 4-5.

BIS Shrapnel: In its *Australian Housing Outlook 2016-2019*, BIS Shrapnel determined weighted median house prices[30] for Sydney from 2000 to 2016 using raw sales data, as well as forecast prices for 2017 to 2019 (Figure 11). According to these figures, as of June 2016 Sydney's median house price was approximately $1.05 million and the median unit price $729,000.

Similar to other measures, Sydney was the most expensive city in Australia, with the next most expensive city's median *house* price (Melbourne, with a median house price of $774,300) only marginally more expensive than the cost of a median priced *unit* in Sydney. While BIS Shrapnel's forecasts predict that Sydney's prices will flatten in the years to 2019 (with the median house price remaining around the $1.05 million mark), these forecasts nevertheless indicate that properties below the million dollar mark will be in short supply in Sydney in coming years.

Figure 11: Sydney median property prices, as at June quarter, 2000 to 2019[31]

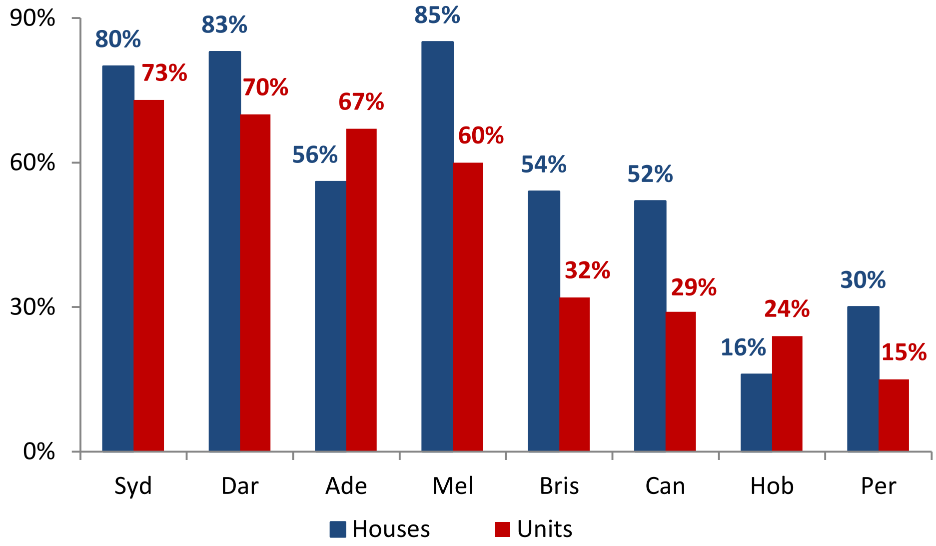


CoreLogic: In October 2016 CoreLogic published house and unit price increases by capital city suburb between June 2006 and June 2016. According to this data, Sydney saw the greatest increase in prices over the decade, with the median house price increasing by 80 per cent and the median unit price increasing by 73 per cent (Figure 12).

[30] A median weighted by the geographical distribution of the housing and unit stock. It is considered that the weighted median better accounts for the effect of an imbalance in the sales in the period. See QBE, BIS Shrapnel, Australian Housing Outlook 2016–2019, October 2016, p 6.

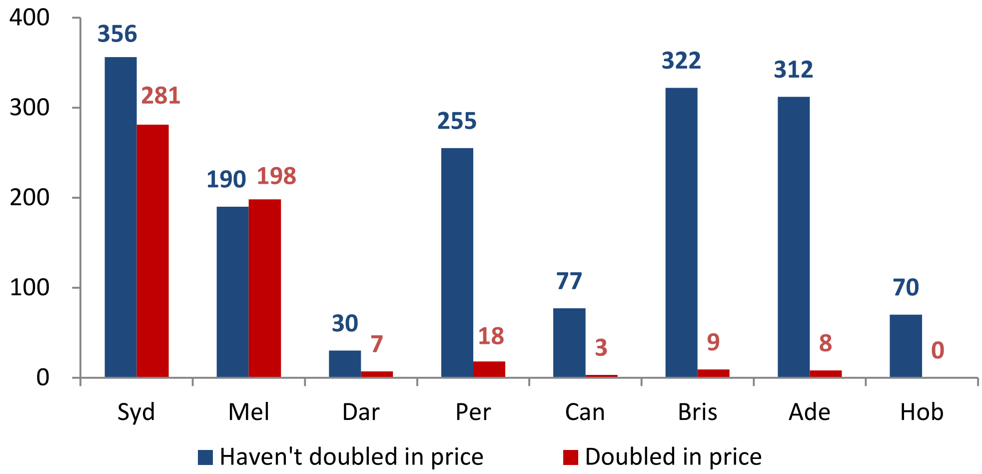
[31] Ibid p 8.

Figure 12: Percentage change in median selling prices, June 2006 to June 2016[32]



CoreLogic also determined the number of suburbs in each city that had had their median house and/or unit prices double in value over the decade to June 2016. Figures 13 and 14 show that, in Sydney, 281 suburbs (approximately 44 per cent of all city suburbs) had median house prices double in value over the decade, while 73 suburbs (21 per cent) had their median unit prices double in value: more than all other cities:

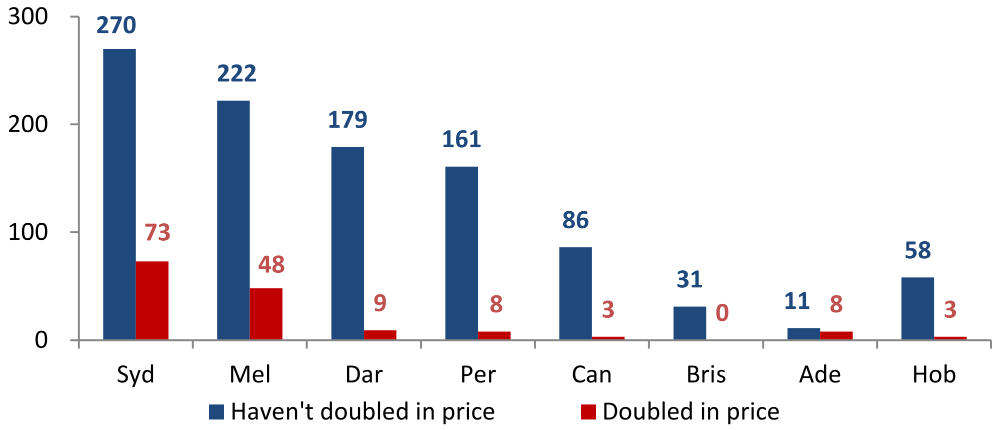
Figure 13: No of capital city suburbs where median house prices have and have not doubled between June 2006 and June 2016[33]



[32] C Kusher, How many suburbs have seen median prices double over the past decade?, CoreLogic, 10 October 2016.

[33] Ibid.

Figure 14: No of capital city suburbs where median unit prices have and have not doubled between June 2006 and June 2016[34]



2.2 Property prices in the rest of NSW

In comparison to Sydney, property price growth in other parts of NSW has been relatively modest. Housing NSW figures show that in September 1991 the median dwelling price in the Rest of the GMR was $112,000 and $95,000 for the Rest of NSW: 16 and 29 per cent below the State median price respectively. By September 2016 the median dwelling price for the Rest of the GMR and the Rest of NSW was $500,000 and $365,000 respectively.

While the Rest of the GMR median price remains at a similar level below the NSW median (19 per cent), the Rest of NSW region has seen dwelling prices increase at a much slower pace than the rest of the State, with its median price 41 per cent below the NSW median (Table 7 and Figure 15):

Table 7: Median price in NSW regions, all dwellings[35]

Ring	Median price, Sep 1991	% below NSW median ($133,000)	Median price, Sep 2016	% below NSW median ($618,000)
Rest of GMR	$112,000	16%	$500,000	19%
Rest of NSW	$95,000	29%	$365,000	41%

[34] Ibid.
[35] Housing NSW, note 10.

Figure 15: Median quarterly sales price in Rest of GMR and Rest of NSW, all dwellings, Sep 1991 to Sep 2016[36]

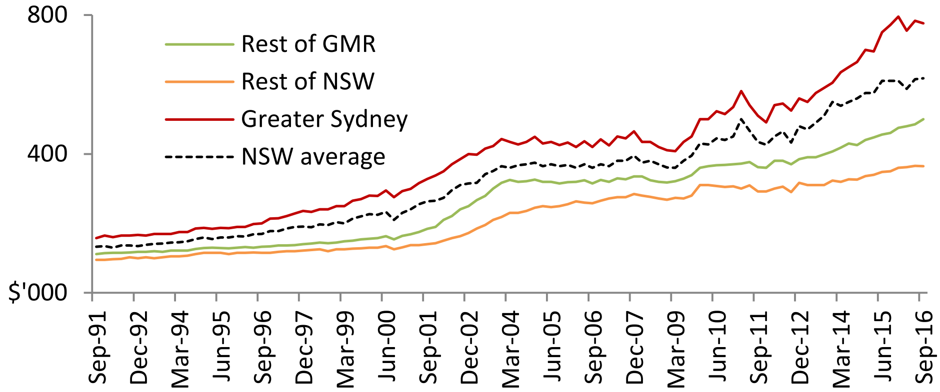


Table 8 shows the change in median dwelling prices by NSW region every five years between September 1991 and September 2016, while Table 9 shows the average annual growth rate during each of these five year periods.

As can be seen, at no point over the past 25 years did non-Greater Sydney dwellings have median house prices greater than the NSW average. However, both the Rest of GMR and Rest of NSW regions experienced above average annual median price increases between 2001 and 2006:

Table 8: Median quarterly sales prices, all dwellings, Sep 1991 to 2016[37]

Region	Median house price as of Sep ($'000)					
	1991	**1996**	**2001**	**2006**	**2011**	**2016**
Rest of GMR	112.0	133.0	184.0	315.0	362.0	500.0
Rest of NSW	95.0	115.0	140.0	258.0	292.0	365.0
NSW average	**133.0**	**170.0**	**263.0**	**360.0**	**435.0**	**618.0**

*Cells shaded in blue indicate the median dwelling price during that quarter were equal to or greater than the NSW average.

Table 9: Average annual median price increase, all dwellings, Sep 1991 to 2016[38]

Region	Average annual growth rate per previous five years (%)				
	1991-96	**1996-2001**	**2001-06**	**2006-11**	**2011-16**
Rest of GMR	3.5%	6.7%	11.4%	2.8%	6.7%
Rest of NSW	3.9%	4.0%	13.0%	2.5%	4.6%
NSW average	**5.0%**	**9.1%**	**6.5%**	**3.9%**	**7.3%**

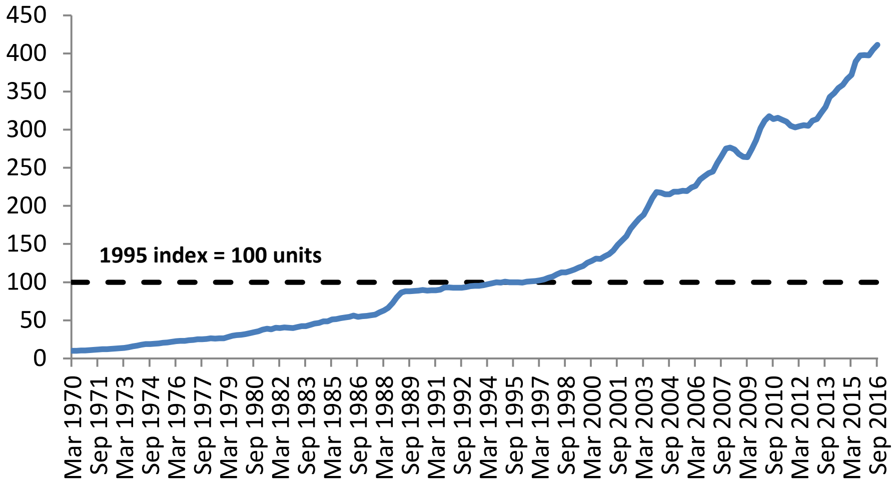
*Cells shaded in blue indicate annual increases during the period were equal to or greater than the NSW average.

[36] Ibid.
[37] Ibid.
[38] Ibid.

2.3 Property prices in Australian capitals

As a nation, Australia has seen significant increases in residential property prices since the 1990s, as evident from time series data collected by the Bank for International Settlements:

Figure 16: Long series data on Australian nominal residential property prices, Mar 1970 to Sep 2016[39]



However, this growth has not occurred evenly; as explained by the International Monetary Fund, Australian house prices have been driven primarily by rapid increases in Sydney (and to a lesser extent Melbourne), with current rates of house price inflation (discussed further in sections 3.2 and 6.2) implying rising overvaluation within the residential property sector.[40]

Accordingly, this section compares Australia's capital cities to provide an indication of house price trends in different parts of the country. Note that Housing NSW data only provides median house price estimates for NSW, and accordingly other data sources are relied upon in this section to compare capital city house prices.

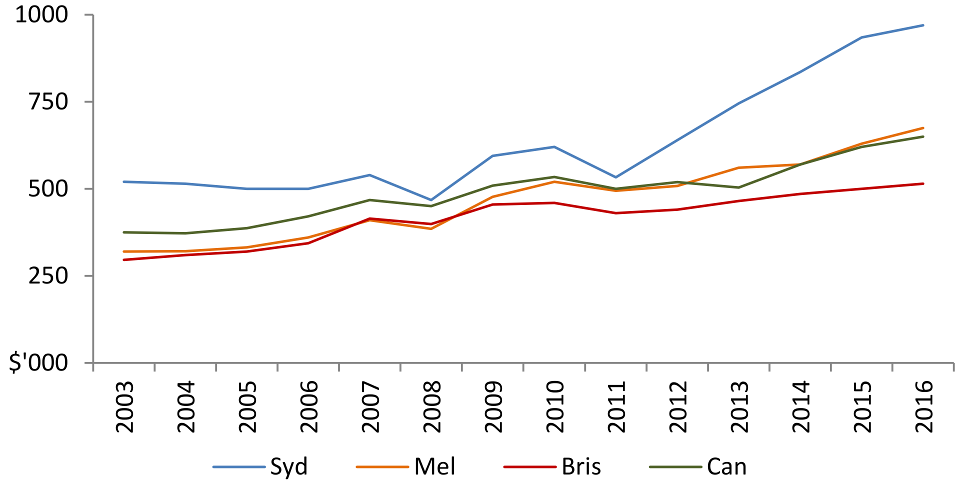
2.3.1 Australian Bureau of Statistics

According to the ABS's Residential Property Price Indexes (RPPI) for Australian capital cities, all of the nation's capitals have seen increases in median house prices since 2003. Figure 17 compares Sydney with other major cities to demonstrate that the NSW capital has grown far faster than other metropolitan regions, particularly after 2012:

[39] Bank for International Settlements, Long series on nominal residential property prices, 22 February 2017.

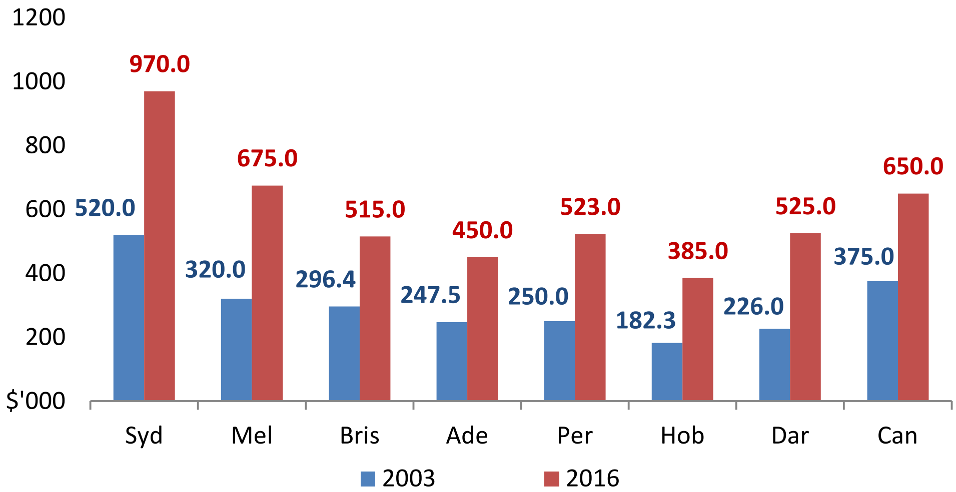
[40] International Monetary Fund, Australia: 2015 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Australia, 30 September 2016, p 9.

Figure 17: ABS Residential Property Price Index by select Australian capital cities, Dec 2003 to Dec 2016[41]



The ABS's unstratified median house prices for Australia's capitals in December 2003 and December 2016 are shown below to provide an indication of house price changes since the early 2000s.

Figure 18: Median house price by Australian capital city, Dec 2003 versus Dec 2016[42]



While Sydney has remained the most expensive of all capital cities over this 13 year period, its house prices have increased off a much higher base price. As a percentage increase over their starting median prices, several capitals have risen in price far greater than Sydney (Table 10):

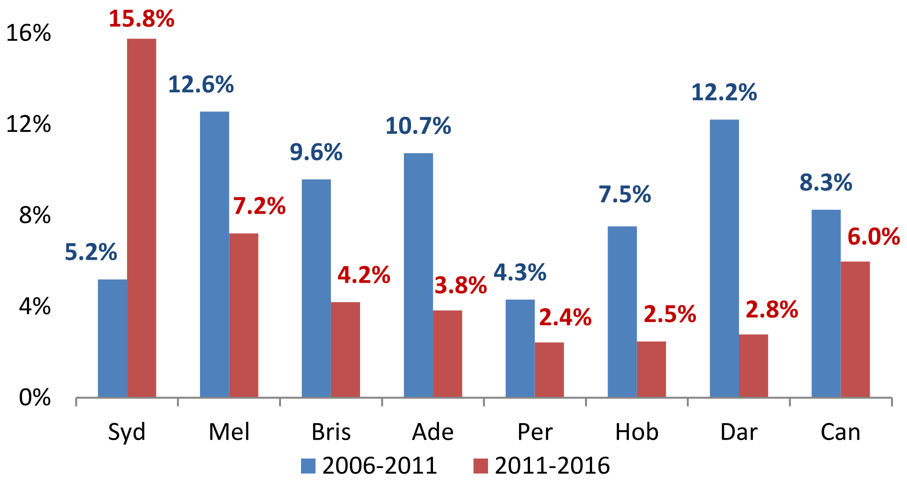
[41] ABS, note 29, Tables 1, 4-5.

[42] Ibid. Growth rates calculated using compound annual growth rate, which is the mean annual growth rate of an investment over a specified period of time longer than one year.

Table 10: Increase in capital city median house prices between 2003 and 2016[43]	
Capital	**Increase on 2003 median price**
Darwin	132.3%
Hobart	111.2%
Melbourne	110.9%
Perth	109.2%
Sydney	86.5%
Adelaide	81.8%
Brisbane	73.8%
Canberra	73.3%

This absolute increase disguises changes in the pace of house price growth over the course of the decade. As shown below, the average annual growth for ABS house price estimates show Sydney growing at a slower rate than most other Australian cities between 2006 and 2011. In contrast, Sydney's house prices raced past the State average and that of other Australian capitals between 2011 and 2016.

Figure 19: Average annual house price growth by capital city, 2006-11 and 2011-16[44]



2.3.2 CoreLogic

The CoreLogic Hedonic Index—which measure "quality-adjusted" changes in property value over time[45]—shows changes in median house prices across major Australian cities. According to the most recent CoreLogic results, the aggregated median house price across Australia's eight capital cities was

[43] Ibid.
[44] Ibid. Growth rates calculated using compound annual growth rate, which is the mean annual growth rate of an investment over a specified period of time longer than one year.
[45] The CoreLogic Daily Home Value Index is a hedonic model that utilises comprehensive information on the attributes and characteristics of residential properties (such as location, land size, and bedrooms): see CoreLogic, Daily Index – Types of Indices, 30 January 2017.

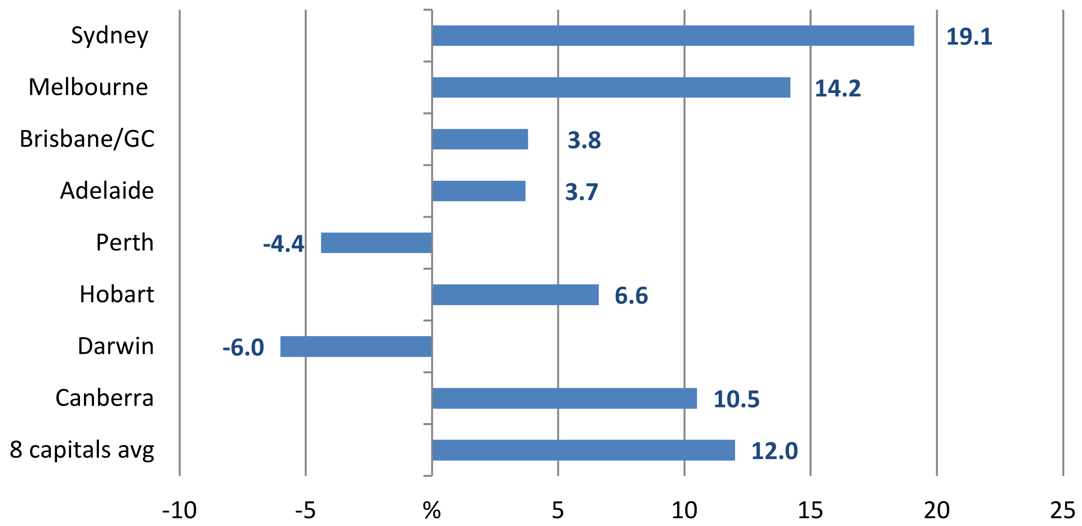
$600,000 in the 12 months to February 2017, which has been elevated as a result of median house prices in Sydney, Melbourne and (to a lesser extent) Canberra (Table 11):

Table 11: Median house price by Australian city, CoreLogic, year to February 2017[46]

Capital city	Median price ($)		
	Houses	*Units*	*All dwellings*
Sydney	895,000	685,000	795,000
Melbourne	680,000	480,000	610,000
Brisbane/Gold Coast	535,000	392,000	495,000
Adelaide	455,000	356,000	435,000
Perth	500,000	400,000	477,000
Hobart	383,800	312,500	374,000
Darwin	530,000	402,500	499,500
Canberra	635,000	405,000	575,500
Combined eight capitals	600,000	495,000	570,000

Year-on-year, median houses prices have surged in Sydney and other Australian capitals. As shown in Figure 20, Sydney saw a 19.1 per cent annual increase in median house price growth to the end of February 2017. Melbourne also saw significant growth of 14.2 per cent over the year, and Canberra experienced a 10.5 per cent jump in house values.

Figure 20: Median house price growth, by capital city, to February 2017[47]



[46] T Lawless, 'Annual capital city growth trend reaches new high' (Media Release, CoreLogic, 1 March 2017), p 3.
[47] Ibid.

3. HOUSING AFFORDABILITY INDICATORS

There are numerous means by which housing affordability can be measured, and accordingly determine whether or not home ownership remains in reach of the average Australian.

The standard measures of affordability show an improvement when average household incomes grow faster than house prices, or when mortgage interest rates are falling (leading to the borrowing power of households increasing). The interaction of house prices, incomes and the cost of mortgage finance affect the ability of potential first homebuyers to access home ownership and as such are the most common indicators of affordability.[48]

However, home ownership affordability is multi-dimensional and encompasses issues beyond point-of-purchase affordability.[49] Given this, several indicators of affordability are assessed in this chapter.

3.1 Price-to-income ratios

The house price-to-income ratio is one of the most widely used methods to assess historical trends in affordability, and essentially involves dividing the median house price by median earnings.[50]

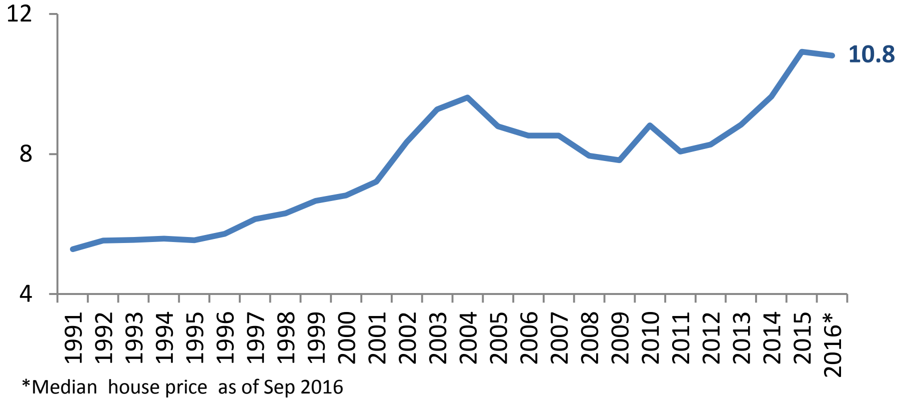
Figure 21 overleaf shows a price-to-income ratio determined by dividing Sydney's median house price (according to Housing NSW data) by the average annual earnings for NSW (according to the ABS's Average Weekly Earnings time series). In 1991 a Sydney house cost **5.3 times** the average NSW resident's annual earnings; by 2016, the median priced house cost the average NSW resident **10.8 times** his or her annual earnings.

[48] J Yates, 'Australia's housing affordability crisis' (2008) 41 *The Australian Economic Review* 200, p 201; A Haylen, note 9, p 38.

[49] A Haylen, note 9, p 39.

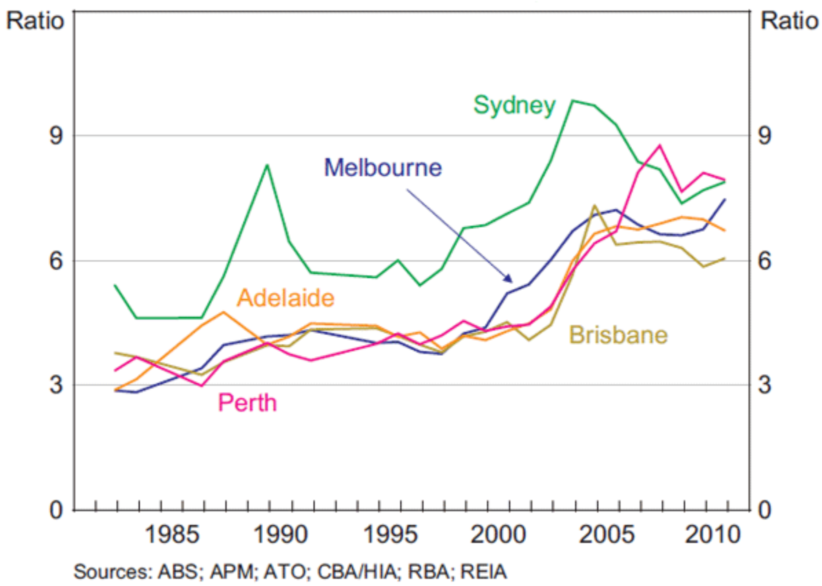
[50] P Henman, A Jones, Exploring the use of residual measures of housing affordability in Australia: methodologies and concepts, AHURI, Final Report No 180, January 2012, p 8.

Figure 21: Sydney median house price to NSW annual income ratio, 1991 to 2016[51]



Other studies have reported similar price-to-income ratios in respect to Sydney house prices. Fox and Finlay reported in 2012 that Australia's price-to-income ratios were relatively stable over the early to mid-1980s, but had risen over the late 1980s to the early 2000s. According to their research, the ratio in Sydney was generally higher than in other state capitals during this period:

Figure 22: Dwelling price-to-income ratios by capital cities[52]



In 2016, a Commonwealth Parliamentary Library paper determined that the ratio of average Australian disposable household income to Sydney's median house prices increased from approximately 3.3 in June 1981 to just over seven in June 2015.[53]

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[51] Housing NSW, note 10; ABS, 6302.0 - Average Weekly Earnings, Australia, Nov 2016, 23 February 2017, Table 13A.

[52] R Fox, R Finlay, Dwelling Prices and Household Income, RBA Bulletin, December 2012, p 18.

[53] M Thomas, 'Housing affordability in Australia', in Commonwealth Parliamentary Library, *Parliamentary Library Briefing Book – 45th Parliament*, August 2016, p 86.

Furthermore, the annual Demographia International Housing Affordability Survey reported that, as of September 2016, its measure of Sydney's price-to-income ratio was 12.2: the second least affordable in the world after Hong Kong (see right).[54]

While the rise in Sydney's price-to-income ratio levels has elicited community concern,[55] this affordability measurement has some shortcomings; notably, that these ratios do not factor in changes to borrowing capacity.

As noted by Fox and Finlay, although there have been increases in the price-to-income ratio since the late 1980s, these have come hand-in-hand with financial market deregulation, which has made it much easier for households to borrow money for home purchases.[56]

Demographia International Housing Affordability Survey: least affordable cities

City	Price-to-income ratio
Hong Kong, China	18.1
Sydney, NSW	**12.2**
Vancouver, Canada	11.8
Santa Cruz, USA	11.6
Santa Barbara, USA	11.3
Auckland, New Zealand	10.0
Wingcarribee, NSW	9.8
Tweed Heads, NSW	9.7
Tauranga-Western Bay of Plenty, New Zealand	9.7
San Jose, USA	9.6

3.2 Decoupling of wages growth and inflation from house price growth

3.2.1 Wages growth

Wage growth figures are an important indicator of inflationary pressure in the economy and are a key driver of growth in household income. Unfortunately, wage growth has suffered a significant decline over the past few years,[57] which makes the comparison of wages with high house prices even starker.

Nationally, through the year to December 2016 the ABS's Wage Price Index (WPI) increased by 1.9 per cent: a record low for the series.[58] This reflects the impact of the slowdown in mining wage growth, and is a rate of growth likely to be experienced for at least the next few years.[59] In contrast to low wage growth, Sydney's house price growth has soared.

[54] Demographia, 13th Annual Demographia International Housing Affordability Survey, January 2017, p 2.

[55] For example, see M Wade, The 10 things that most worry Sydneysiders: Ipsos Issues Monitor, Sydney Morning Herald, 28 December 2016; G Fernando, Young Aussies see home ownership as a distant pipe dream, study finds, news.com.au, 30 December 2016.

[56] Fox and Finlay, note 52, p 16.

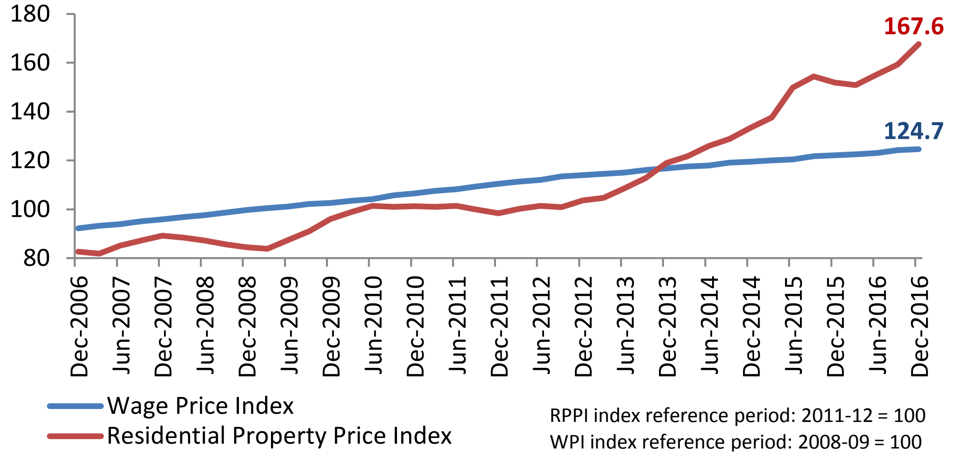
[57] J Bishop, The size and frequency of wage changes, ABS, 16 November 2016.

[58] ABS, 'Wages growth remains at record low' (Media Release, 22 February 2017).

[59] ABS, 6345.0 - Wage Price Index, Australia, Sep 2016, 16 November 2016; G Dyer, B Keane, How can we fix flat wages growth? We can't, Crikey, 24 November 2016.

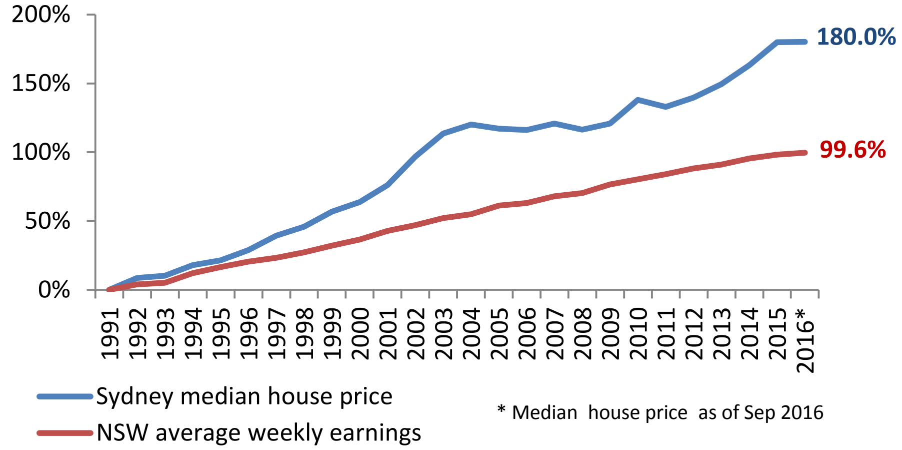
Analysis of ABS data shows that since December 2013 Sydney's Residential Property Price Index (RPPI) has 'decoupled' from the NSW WPI: an indication that house prices have outpaced wages (Figure 23).

Figure 23: NSW WPI vs Sydney RPPI, Dec 2006 to Dec 2016[60]



The disparity between house prices and wages is further illustrated below in Figure 24. Over the 25 years between 1991 and 2016, Housing NSW's median house price for Greater Sydney rose by a cumulative total of 180 per cent. In contrast, the ABS's average NSW weekly earnings estimate increased by a comparatively lower 99.6 per cent.

Figure 24: Cumulative growth, Sydney median house prices vs NSW average weekly earnings, 1991 to 2016[61]



This contrast has been observed by other analysts; according to Bloomberg, NSW properties increased by 12.4 percent in 2013 and 14.5 percent in 2014, while annual wages increased by 2.5 and 2.4 per cent respectively.[62] More

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[60] ABS, 6345.0 - Wage Price Index, Australia, Dec 2016, 22 February 2017; ABS, note 29, Table 1.

[61] Housing NSW, note 10; ABS, note 51, Table 11A.

[62] N Somasundaram, Sydney Home Prices Surging at 5 Times Wages Fuel Bubble Woes,

recently, SQM Research has forecast Sydney house price growth in 2017 to be between 11-16 per cent:[63] growth between six to eight times greater than that of recent wages.

3.2.2 Inflation

Although a low inflation environment has had a positive impact on housing affordability—namely, causing interest rate falls that due to lower interest repayments make it easier to take out larger mortgages[64]—it does have a number of negative consequences. As illustrated by van Onselen, an individual experiencing low inflation but purchasing an $800,000 house (Buyer A, a proxy for today's homebuyer) will nevertheless have a higher mortgage repayment burden than an individual buying a $400,000 property under high inflation conditions (Buyer B, a proxy for a late 1980s homebuyer):

> Why? Because while their initial interest repayment is the same, they are required to repay an extra $400,000 in loan principal over the 25 year term. Hence, halving the mortgage rate does not justify a doubling of home prices.
>
> The situation is even worse when wages growth is taken into account. Periods of high inflation are generally accompanied by high nominal wages growth. And while both scenarios above assume the same real wages growth (2%), the high inflation buyer enjoys much faster nominal wages growth, which effectively inflates away their mortgage balance over time.
>
> After 15 years, Buyer A's mortgage repayment burden has reduced by only 24% (to 38% of income), whereas for Buyer B it has reduced by 56% (to 16%).
>
> In the final year of the loan, Buyer A's mortgage repayment burden has reduced by only 38% (to 32%), whereas for Buyer B it has reduced by 75% (to 9%).
>
> In short, low inflation and low nominal wages growth means that a big mortgage taken-out today remains a big mortgage for decades to come.[65]

While housing price inflation reached record high levels during the 1980s, this was accompanied by high levels of general inflation, including nominal wages growth that inflated away mortgage balances. In contrast, according to Kohler and van der Merwe, although inflation remained low and stable during the 2000s and 2010s, house price growth decoupled from inflation rates.

According to Kohler and van der Merwe, between 2005 and 2015 Australia's Consumer Price Index[66] (CPI) was low and stable, and consistent with the

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Bloomberg, 28 April 2015.

[63] M Janda, Home prices to keep surging in Sydney, Melbourne over 2017, risk of 2018 bust: SQM Research, ABC News, 27 September 2016.

[64] See section 3.4

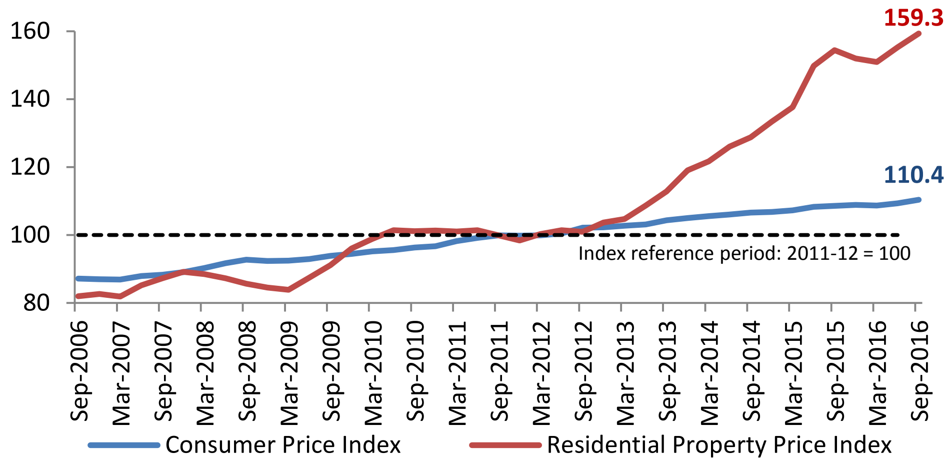
[65] L van Onselen, Special report: Why common housing affordability measures are wrong, Macrobusiness, 27 October 2016.

[66] The CPI measures quarterly changes in the price of a fixed 'basket' of goods and services that account for a high proportion of expenditure by particular population groups, such as metropolitan households. See: ABS, 6401.0 - Consumer Price Index, Australia, Dec 2016, 25 January 2017.

Bank's longstanding inflation target of 2 to 3 per cent per annum. However, over the same period house price growth outstripped the rate of inflation in other prices in the economy, including inflation in the cost of new dwellings.[67]

This decoupling is evident when comparing the ABS's CPI and RPPI. Over the decade to 2016, Sydney's CPI rose by an average of 2.4 per cent per annum, while the RPPI rose by an average of 6.9 per cent each year. As per the RPPI and the WPI comparison in section 3.2.1, since December 2012 Sydney's RPPI has outpaced the CPI, particularly after a series of particularly large quarterly jumps from September 2013 (Figure 25).

Figure 25: Sydney CPI vs RPPI, Sep 2006 to Sep 2016[68]



3.3 Transfer duty increases

As house prices increase, so too does the amount of transfer duty a prospective buyer must pay (see right). NSW Office of State Revenue statistics indicate that, in 2005-06, the average duty paid was $14,736 per transaction. As Sydney's median house price increased, so has the average amount of transfer duty payable, more than doubling to $31,183 per transaction by 2015-16 (Figure 26).

Higher house prices, higher duties

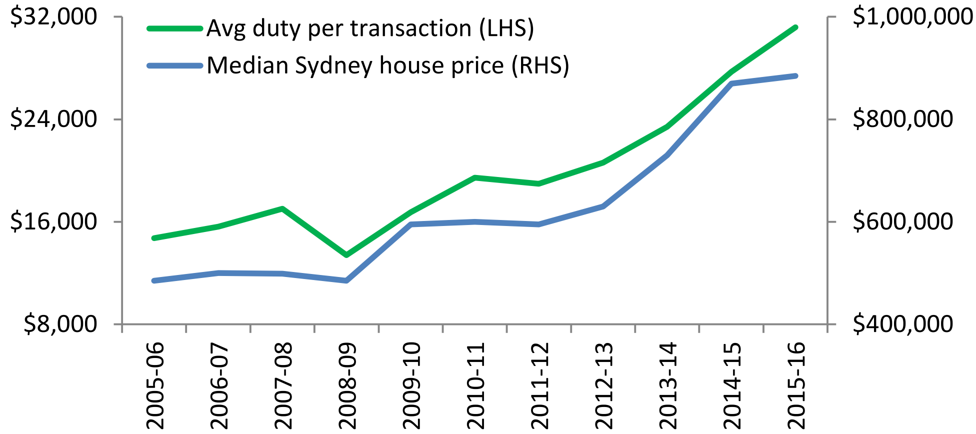
According to NSW Office of State Revenue duties rates, a property valued between $300,000 and $1 million incurs transfer duty of $8,990, plus $4.50 for every $100 above $300,000.

Should a property exceed $1 million though—Sydney's approximate median house price according to several indexes—the cost of transfer duty increases to $40,490 plus the higher rate of $5.50 for every additional $100 above $1 million.

[67] M Kohler, M van der Merwe, Long-run Trends in Housing Price Growth, RBA Bulletin, September 2015, p 28.

[68] ABS, note 66, Tables 1-2; ABS, note 29, Table 1.

Figure 26: Average NSW transfer duty costs versus Sydney median house price, 2005-06 to 2015-16[69]



*Median house price = Housing NSW figure for Greater Sydney, non-strata, as of June

3.4 Mortgage debt

As discussed in section 6.2, the deregulation of the 1980s and low inflation environment since the 1990s led to cheaper and easier access to finance, thereby increasing access to housing. However, as reported in 2015 by Kohler and van der Merwe, a steady increase of the debt-to-income ratio has accompanied this easy lending environment, with these rises closely associated with high housing price inflation that has been observed since the early 1990s.[70]

Levels of indebtedness have risen further since 2015. In its most recent Financial Stability Review, the RBA reported that the household debt-to-income ratio is at record high levels, and increasing still (see Figure 27 overleaf).

This is supported by data compiled by the Bank for International Settlements (BIS) comparing the ratio of household debt-to-GDP across multiple countries. BIS's data shows Australia's debt-to-GDP ratio to be 123.1 per cent: the second highest in the world after Switzerland's ratio of 128.2 per cent (see table overleaf).[71]

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[69] Office of State Revenue, Land Related Transfer Duty, NSW Government, 13 January 2017.

[70] Kohler and van der Merwe, note 67, pp 23-4.

[71] Bank for International Settlements, Credit to the non-financial sector, 6 March 2017, Table F3.1.

Figure 27: Household finances, per cent of household disposable income[72]

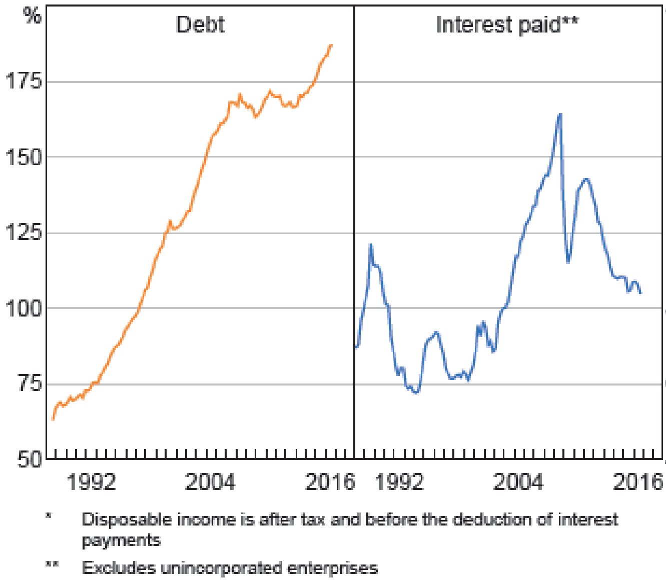


Table 12: Household debt-to-GDP in select nations, Q3 2016[73]	
Country	**Ratio of household debt-to-GDP (%)**
Switzerland	128.2
Australia	123.1
Denmark	120.7
Netherlands	111.0
Canada	100.6
New Zealand	94.4
Korea	91.6
United Kingdom	87.6
United States	79.4

The issue of a high household debt-to-GDP ratio is simply that too large a debt increases the risk of individuals being unable to repay their debts should interest rates rise, or changing circumstances affect their income. Even in the absence of a crisis, the IMF has commented that excessive debt levels are still associated with lower economic growth, as highly indebted borrowers decrease their consumption and investment as they become unable to service their debt.[74]

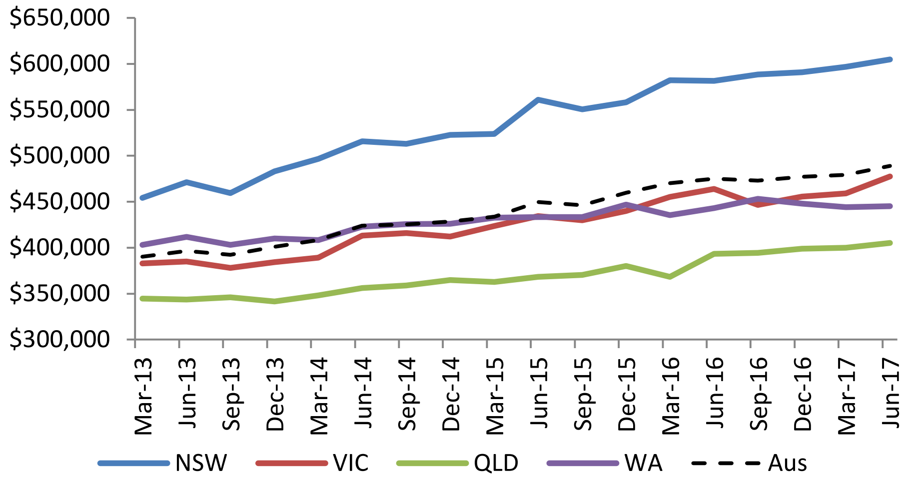
While the RBA believes that Australian households' debt-servicing ability remains well supported because of low mortgage interest rates, it still commented that "with incomes growing more slowly than in the previous decade, households may not be able to rely on income growth to make their debt easier to service".[75]

---

[72] RBA, Chart Pack: Household Sector, 4 January 2017.
[73] Bank for International Settlements, note 71.
[74] International Monetary Fund, Fiscal Monitor: Debt: Use it Wisely, October 2016, p 9.
[75] ABS, Financial Stability Review, 13 October 2016, Ch 2.

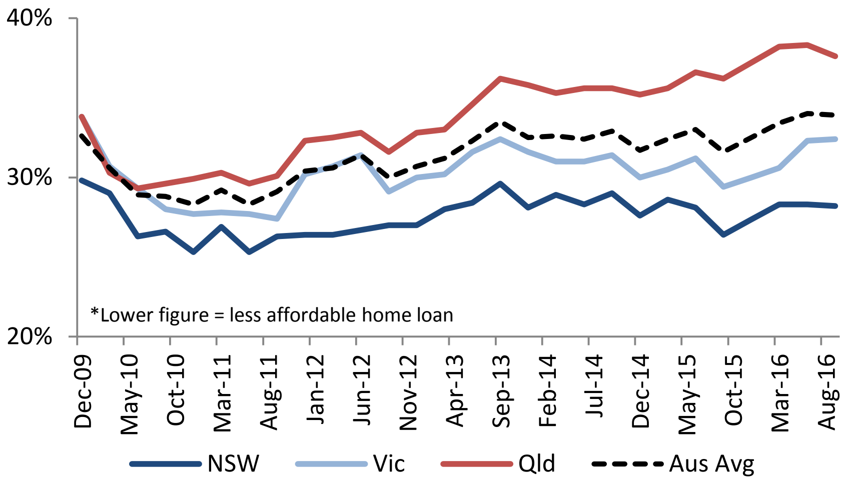
Recent mortgage data for NSW shows that prospective homebuyers are borrowing increasing levels of finance in order to afford homes. AFG's Mortgage Index shows both actual and forecast mortgage sizes by State between March 2013 and June 2017. Over this period, the average NSW loan will increase from $454,208 to $604,945: an average annual increase of 7 per cent (Figure 28):

Figure 28: Average mortgage size by State, Mar 2013 to Jun 2017[76]



Home loan affordability has remained an issue in NSW. The Real Estate Institute of Australia's (REIA) quarterly Home Loan Affordability Indicator shows the ratio of median family income to average loan repayments: lower values reflect worsening home loan affordability.[77] As shown below, since the start of the decade home loan affordability in NSW has consistently been the worst of all States.

Figure 29: REIA Home Loan Affordability Indicator, Dec 2009 to Sep 2016[78]



[76] AFG, 'AFG Mortgage Index: December Quarter 2016' (Media Release, 11 January 2017).

[77] REIA, Adelaide Bank, Housing Affordability Report: September Quarter 2016, 7 December 2016, p 4.

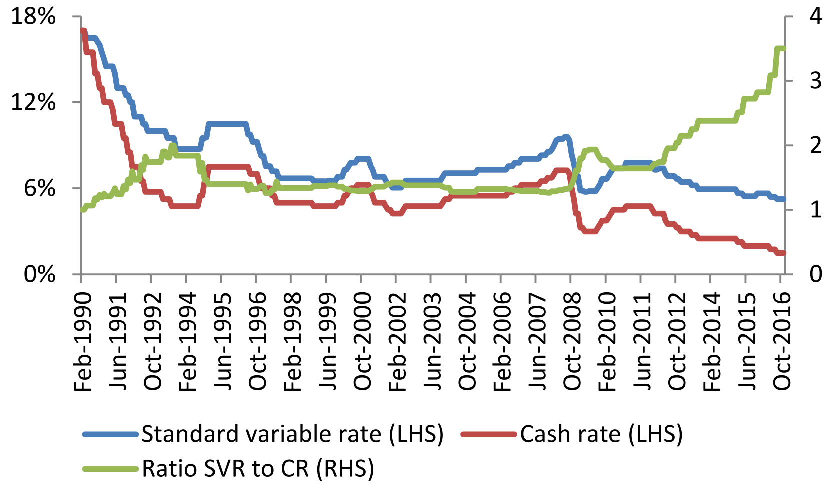
[78] REIA, Adelaide Bank, Housing Affordability Reports, December 2009 to September 2016.

The latest Affordability Indicator results for September 2016 gave NSW home loan an affordability score of 28.2 per cent: below Victoria (32.4 per cent), the Australian average (33.9 per cent), and Queensland (37.6 per cent).

A further issue for mortgagees is the fact that the banks are no longer passing on interest rate cuts in their entirety. The most recent series of interest rate cuts saw the cash rate fall from 4.5 per cent in November 2011 to a record low of 1.5 per cent since August 2016.[79] Meanwhile, over this period the standard variable mortgage rate (SVR) for owner-occupiers reduced from 7.55 to 5.25 per cent.

Although the SVR reduction has undoubtedly eased the burden of mortgage repayments, it has not dropped at the same rate as the cash rate. Indeed, as of November 2016 the SVR was a record 3.5 times greater than the cash rate. In comparison, between 2008 and 2016 the SVR was on average 2.1 times higher than the cash rate, and 1.3 times larger between 1999 and 2007 (Figure 30).

Figure 30: Cash rate and standard variable rate, 1990 to 2016[80]



BIS Shrapnel has commented that since the GFC wholesale funding costs have made it more difficult for banks to pass on costs. Nevertheless, it acknowledged that the correlation between changes in the cash rate and the SVR is not as strong as it has been in the past.[81]

[79] RBA, Statement on Monetary Policy, November 2016, p 39.

[80] RBA, Statistical Tables, December 2016, Monetary Policy Changes – A2, Indicator Lending Rates – F5.

[81] QBE, BIS Shrapnel, note 30, p 10.

PART TWO: Supply and demand drivers of house prices

4. WHAT HAS BEEN DRIVING UP HOUSE PRICES?

4.1 The impact of supply and demand on the housing market

At a fundamental level, the price of any good or asset is determined jointly by supply and demand.[82] Beyond this basic model though, each individual market sector is affected by its own unique mix of supply and demand drivers.

In terms of property, the Commonwealth Bank has explained that the housing sector has a unique set of characteristics that set it apart from other sectors of the economy:

> Enter a supermarket and everything on the shelf is for sale. In housing, however, the "liquid" part of the market is quite small. About 4-6% of the dwelling stock is turned over each year and new construction adds 1½-2½% to the stock. The rest is locked up. The limited amount of stock in play magnifies the price effect of changes in the supply-demand fundamentals.[83]

The factors affecting supply and demand—and consequently affordability—are numerous and complicated, as can be seen in the diagram on the following page. Determining the exact impact a particular supply and demand driver has on any given housing market is a vexing challenge for experts,[84] resulting in heated debate as to which driver (or drivers) plays the most significant role in creating unaffordable housing.

The debate over whether one set of drivers affects prices more than others is discussed in this chapter. Chapters 5 and 6 then introduce key supply and demand drivers that impact housing markets, along with select examples of how these drivers have impacted Sydney's house prices.

Note that due to the difficulties in quantifying the impact of individual supply and demand factors, this paper **does not** assess the relative importance of any given factor, **nor** does it attempt to determine whether the ongoing rise in Sydney's housing prices is attributable more to supply or demand issues.

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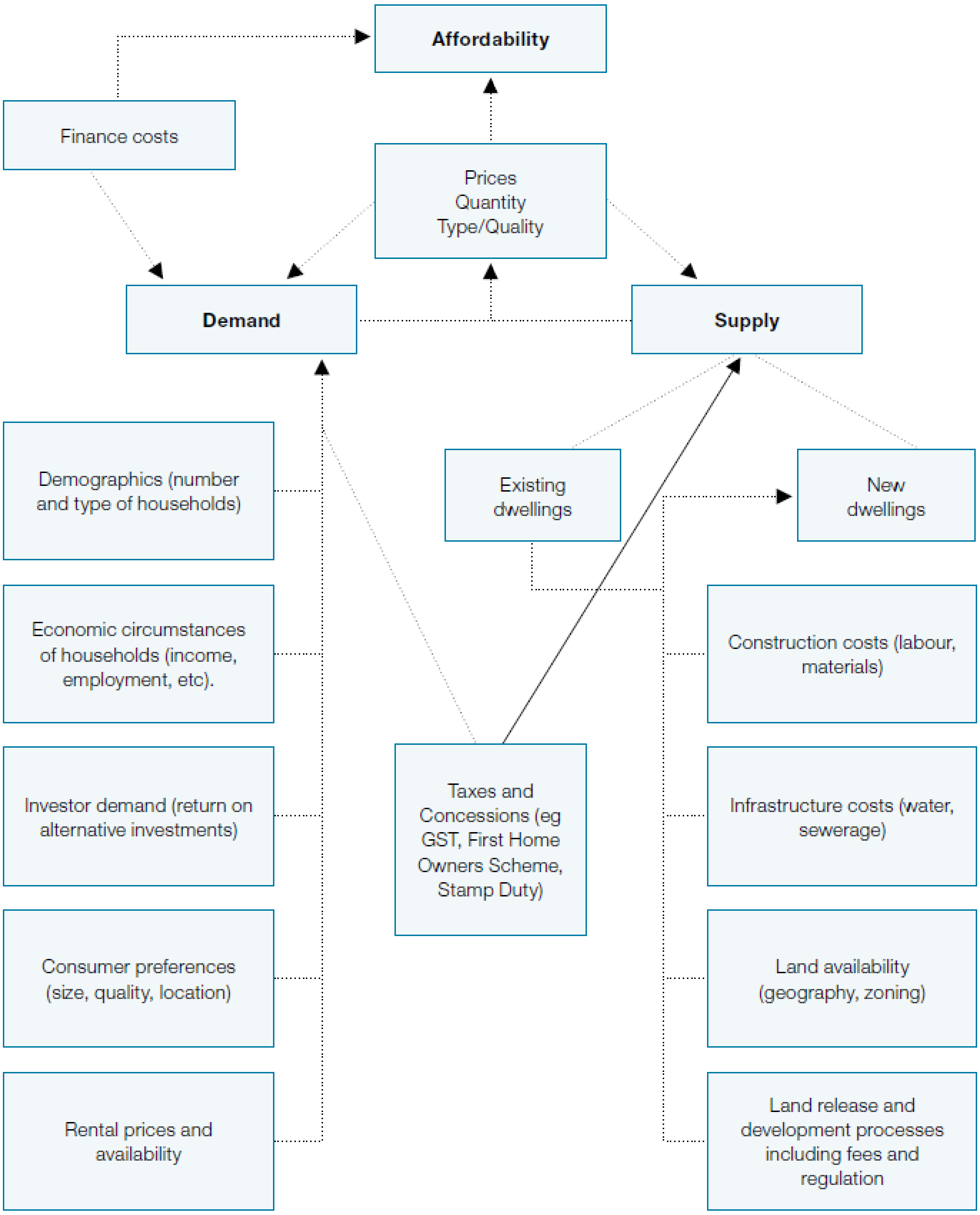
[82] Kohler and van der Merwe, note 67

[83] Commonwealth Bank, Housing bubbles – eight questions and some answers, October 2013, p 1.

[84] M Rahman, 'Australian Housing Market: Causes and Effects of Rising Price' (Paper presented at the Proceedings of the 37th Australian Conference of Economists, 2008), p 5.

Figure 31: Factors influencing housing supply, demand and affordability[85]



[85] National Housing Supply Council, State of Supply Report 2008, 2009, p 6.

4.2 Does any one driver cause high house prices?

A major challenge for policymakers is determining how much weight should be placed on any given supply or demand driver. This is complicated by the fact that different drivers can affect different housing markets in different ways: for example, population growth is likely to have a greater impact on Sydney's housing market than in regional NSW by virtue of larger numbers of migrants moving to the capital.[86] These difficulties are exacerbated further because many existing economic frameworks focus solely on demand- *or* supply-side factors, rather than both.[87]

Stakeholders and commentators continue to debate whether supply or demand drivers are the primary cause of high house prices (see box on right). Nevertheless, as discussed in a previous Research Service publication, there is widespread agreement that real house prices in NSW have been driven by supply *and* demand factors, with demand fundamentals being exacerbated by supply constraints.[88]

In 2015 the Commonwealth Senate inquiry into housing affordability concluded that the issue of housing affordability is not correctly categorised as solely a supply-side problem or a demand-side problem.[89] The preference for this more balanced view is, as detailed by Yates, a result of the inherent difficulties in determining the exact impact any given supply or demand factor has on a particular property market:

> **Supply OR demand? An ongoing debate**
>
> There remains considerable disagreement over the exact impact supply and demand drivers have on house prices, and whether current housing price trends are being affected predominantly by supply factors or demand factors.
>
> Illustrating this divide, on the **supply side** Commonwealth Treasurer Scott Morrison has steadfastly argued that high Australian house prices are a result of "pent-up supply issues", while organisations such as the Housing Industry Association and Commonwealth Department of Social Services have commented that new dwelling supply has not responded to increased demand in recent decades.
>
> On the **demand side**, ratings agency Fitch has stated that housing supply is unlikely to be the sole root cause of booming house prices, while a range of economic commentators have contended that demand factors, such as State economic performance, or greater levels of mortgage debt and taxation policies that encourage speculation, play a key role in high prices.

> Aggregate econometric analyses … can only give some insights into the factors that affect house prices. Problems arise for a number of reasons: the factors that affect house prices are complex and can vary over time; there are difficulties in measuring key variables (such as expectations); and there can be problems in capturing the impact of structural shifts in key fundamental determinants, particularly when there are lags before their impact is felt. It is also difficult to

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[86] See section 6.1 for further discussion.

[87] Commonwealth Bank, note 83.

[88] A Haylen, note 9, p 9.

[89] Senate Economics Legislation Committee, Out of reach? The Australian housing affordability challenge, Australian Government, May 2015, Ch 3.33.

capture the impact of changes at a sub-aggregate level that might occur slowly over time, such as structural changes that affect the spatial distribution of the population, changes in the distribution of income or changes in housing preferences.[90]

While the following two chapters consider supply and demand drivers respectively, this is in fact an arbitrary division done for simplicity. In reality, this separation ignores a range of caveats and exceptions to these distinct categories: for example, as shown in Figure 31 earlier, taxation can be considered a supply *and* demand factor depending on what tax policy is being reviewed. Furthermore, the drivers discussed are not exhaustive: there is substantial evidence that other factors influence the supply of housing.[91]

Ultimately, house price drivers interact with one another in complex ways that are not fully understood even by experts; accordingly, it would be unwise for policymakers to summarily dismiss the supply *or* demand 'half' of this pressing economic equation.

5. SUPPLY DRIVERS

As long as there is demand for home ownership or rental, there will be a supply response through the construction of new property. The extent to which affordability problems persist is determined by how well the supply of housing can respond over time.[92] In theory, the price of a house should be close to its marginal cost; this is determined as the sum of the cost of land, land development and new housing construction. If there are no restrictions on land supply, the price of land on the fringes of a city should be tied reasonably closely to its value in alternative uses (for example, its agricultural potential).[93]

In practice, these ideal circumstances tend not to materialise. Rather, a range of factors serve to impact on the supply of new housing,[94] leading to fewer houses than needed which in turn drives up the price of available dwellings. Supply-side drivers include factors that affect the cost of providing housing, and factors that impact the responsiveness of supply to changes in short and long term demand.[95]

In this briefing paper, the supply factors considered include:

- Responsiveness of housing supply;
- Regulatory issues linked to land release and development; and

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90 Yates, note 14, p 264.

91 NSW Legislative Council, Select Committee on Social, Public and Affordable Housing, Social, Public and Affordable Housing, September 2014, p 47.

92 National Housing Supply Council, note 85, p 47.

93 A Haylen, note 9, p 31; A Richards 'Some observations on the cost of housing in Australia' (Address to 2008 Economic and Social Outlook Conference, Melbourne, 27 March 2008).

94 W Hsieh, D Norman, D Orsmond, Supply-side Issues in the Housing Sector, RBA Bulletin, September 2012.

95 Yates, note 14 p 270.

- Costs relating to finance, construction and infrastructure provision.

5.1 Responsiveness of housing supply

The appropriate level of dwelling supply is an ongoing challenge for policymakers. A unique challenge in relation to the housing market is the existence of short term lags in the ability of housing supply to respond to changes in demand.[96] Ge and Williams explain why this inelasticity is a notable characteristic of the housing market:

> The reason [housing supply is inflexible in the short term] is that there are time lags between changes in price and increases in the supply of new properties becoming available, or before other homeowners decide to put their properties onto the market. The long-term impact of time lags on price depends on the length of time to the supply response, which in turn is determined by the price elasticity of supply.[97]

Until the supply response catches up to demand, higher house prices are the inevitable outcome.[98]

However, too much dwelling supply can also bring about deleterious consequences. For example, the RBA has expressed unease over Australia's inner city apartment markets, warning of negative financial ramifications should apartment market conditions deteriorate.[99] And, as stated by the Reserve Bank of New Zealand (RBNZ), a panicked attempt to rapidly increase supply risks inadvertently turning a housing shortfall into a property market bust.[100]

[96] Kohler and van der Merwe, note 67.

[97] X Ge, B Williams, 'House Price Determinants in Sydney' (Paper presented at the 22nd Annual European Real Estate Society Conference ERES 2015, Istanbul, 2015) p 138.

[98] Commonwealth Bank, note 83. Also see Ge and Williams, note 97, p 137.

[99] RBA, Financial Stability Review, October 2016, p 25.

[100] E Watson, A closer look at some of the supply and demand factors influencing residential property markets, Reserve Bank of New Zealand, AN 2013/11, December 2013, p 9.

Sydney's dwelling shortfall

There is research showing that a lack of dwelling approvals and construction in Sydney during the mid-1990s and 2000s contributed to the increase in the city's house prices.[101] The Australian Housing and Urban Research Institute (AHURI) summed up dwelling supply fluctuations in Sydney (and other capitals) during the 2000s:

> Between 2001 and 2006, the rate of growth in the number of households in Sydney, Melbourne, Brisbane, Perth and Adelaide was greater than the rate of population growth. This indicates that although the population was increasing the new households kept forming at a faster rate, meaning that there were dwellings available and affordable for them to move in to and 'form' households in.
>
> Between 2006 and 2011, however, this trend reverses. Rates of population growth quickened but rates of new household formation did not keep pace. This indicates that a significant number of people were not forming new households.[102]

ABS building approvals data between 2001-02 and 2015-16 (see Figure 32) show that Greater Sydney LGAs[103] experienced several years of dwelling shortfalls during the mid-2000s. Between 2001-02 and 2008-09 there was a significant decline in the number of dwelling approvals in Greater Sydney LGAs; by 2008-09, dwelling approvals were 35.2 per cent lower than eight years earlier (28,600 approvals to 13,303), and were 52 per cent below the 15 year average of 27,727 approvals per annum.

However, since the end of the 2000s the decline in dwelling approvals has reversed as a result of State Government action (see section 9.1). Between 2008-09 and 2015-16 approvals surged, reaching a 15 year high of 53,992 in the last financial year. This was more than four times the number of approvals made in 2008-09, a 122.3 per cent cumulative increase on 2001-02 levels, and nearly double the 15 year average (94.7 per cent).

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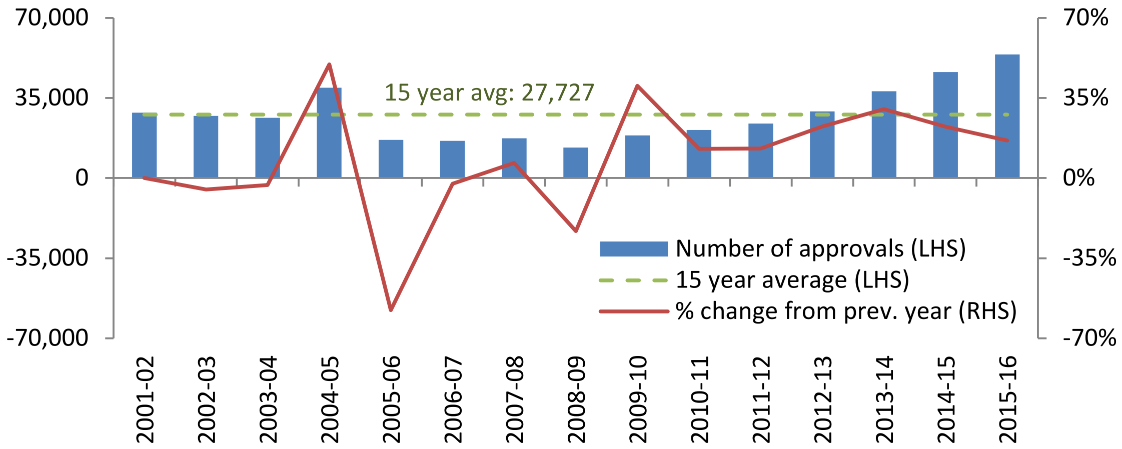
[101] Ge and Williams, note 97, p 145; Kohler and van der Merwe, note 67; McKell Institute, Homes For All - The 40 things we can do to improve supply and affordability, 2012.

[102] Australian Housing and Population Research Institute, No homes for new households in Australia's capital cities, AHURI Brief, 22 November 2016.

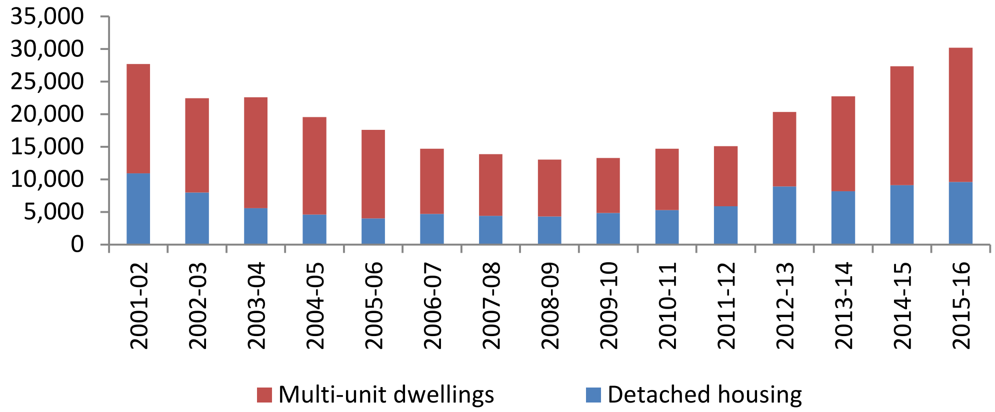
[103] Namely, Ashfield; Auburn; Bankstown; Blacktown; Blue Mountains; Botany Bay; Burwood; Camden; Campbelltown; Canada Bay; Canterbury; Fairfield; Hawkesbury; Holroyd; Hornsby; Hunters Hill; Hurstville; Kogarah; Ku-ring-gai; Lane Cove; Leichhardt; Liverpool; Manly; Marrickville; Mosman; North Sydney; Parramatta; Penrith; Pittwater; Randwick; Rockdale; Ryde; Strathfield; Sutherland; Shire; Sydney; The Hills Shire; Warringah; Waverley; Willoughby; Wollondilly; and Woollahra.

Figure 32: Annual dwelling approvals in Greater Sydney LGAs, 2001-02 to 2015-16[104]



Dwelling completions have also risen since reaching a half-century low during the 2000s. NSW Department of Planning and Environment statistics indicate that after dropping to 13,041 in 2008-09, the number of completions has since returned to levels similar to that seen at the beginning of the 2000s. As of 2015-16, there were 30,190 dwelling completions in the Sydney region: over two-thirds of these were multi-unit dwellings (Figure 33):

Figure 33: Number of dwelling completions in Sydney region, 2001-02 to 2015-16[105]



While it has been recognised that Sydney requires a substantial increase in housing supply in the long term, there remain issues as to both the types of houses being built, and where dwelling approvals are being made. The NSW Government's response to these issues, and ongoing challenges, are outlined in section 9.1.

[104] ABS, 8731.0 - Building Approvals, Australia, derived data (new houses and other residential buildings).

[105] NSW Department of Planning and Environment, Housing monitor reports, 14 February 2017.

5.2 Regulatory issues

Planning and regulatory issues are often cited by stakeholders as hindering efforts to increase housing supply in Sydney. Two examples are summarised below.

5.2.1 Land release challenges in Sydney

A recurring issue raised by residential property developers is the lack of available land for housing construction. In part, land release challenges are a consequence of inherent geographical and demographic limitations in cities such as Sydney.[106] However, it was argued in the 2016 Commonwealth Parliamentary inquiry into home ownership that local and State governments can also impede the release of land for housing development:

> The ABA [Australian Bankers' Association] emphasises that land release in Australia is insufficient due to structural issues, commenting that Australia ranks poorly in international surveys of land availability and that this is reflective of excessively restrictive regulations and developer levies by local governments.
>
> AHURI comments that the evidence for downward pressure on house prices by an increased release of land is varied and that the connection between land supply and price, and the flow on to eventual house prices, is complex. AHURI further submits however:
>
>> … a well-run and timely land release policy can help with the supply of new houses. When planning controls deliver certainty about what is going to be developed where, and that information is made widely available, then each developer can plan the nature and scale of their developments with confidence.[107]

In a March 2016 report, the Australian Population Research Institute (APRI) made the following comment about the issue of land release in Greater Sydney:

> Since the late 1980s successive NSW state governments have curtailed urban expansion on the fringe. This is partly because of the geographical constraints on the outward spread of the city. However, it also reflects the high priority the NSW planning authorities have placed on consolidating the city within the existing built-up area.
>
> The result is that very little land is being released for subdivision in Sydney. When blocks are put on the market they sell out within days. Just 602 blocks were sold on average each month in the September quarter of 2015. The median price of a blocks sold in this quarter was $484,000. The price trend is sharply upwards. In the September quarter of 2014 the median price of blocks sold in fringe projects was $344,000 and in the September quarter of 2013 it had been $329,900. These blocks are being sold to upgraders and investors rather than first home buyers. Homes built on these blocks sell for even more than established detached houses in nearby outer suburbs.[108]

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[106] For a discussion about these geographic restrictions, see: A Haylen, note 9; International Monetary Fund, note 40.

[107] Senate Standing Committee on Economics, Report on the inquiry into home ownership, Parliament of Australia, 16 December 2016, pp 38-9.

[108] B Birrell, D McCloskey, Sydney and Melbourne's Housing Affordability Crisis – Report Two:

While there continue to be calls for greater levels of land release in capital cities—to which the NSW Government has responded to at least some extent[109]—policymakers must ensure that newly released land is adequately serviced by community infrastructure. The Commonwealth Department of Infrastructure and Regional Development warned that urban fringe areas in Sydney and other metropolitan capitals are becoming more distant from many of the established employment, education and health opportunities:

> There are concerns held by researchers, state governments and local councils that while land release on the urban fringe may have once been a valid strategy for boosting the supply of affordable housing, this approach may be increasingly problematic.
>
> Recent research undertaken by the Australian Housing and Urban Research Institute (AHURI) concluded for those cities under study, Sydney, Brisbane and Melbourne, that clusters of social disadvantage were increasingly being pushed further towards city peripheries over the period 2001–11. The report notes that the outward movement of social disadvantage is being driven by housing affordability factors and it poses new challenges, because these areas are already poorly resourced in terms of accessible jobs, transport, facilities and services.[110]

The issue of infrastructure is discussed further in section 9.1.2.

5.2.2 Planning controls

Arguably, one of the most controversial and complex factors impacting housing supply is a city or jurisdiction's planning laws and regulations. As explained in the 2014 NSW Legislative Council's Committee inquiry into social, public and affordable housing, "[t]he planning system in New South Wales is complex, with a number of legal instruments and policies that apply at a state and local level":

> Planning and development is carried out under the *Environmental Planning and Assessment Act 1979* (EPAA) and associated regulations. In addition, there are environmental planning instruments that regulate land use and development, including state environmental planning instruments and policies (SEPPs). At a local level, there are also Local Environmental Plans and Development Control Plans, instruments that guide planning decisions for local government areas.[111]

No End in Sight, The Australian Population Research Institute, March 2016, p 20.

[109] R Stokes, New land release will boost housing supply (Media Release, 22 September 2015).

[110] Department of Infrastructure and Regional Development, State of Australian Cities 2014–2015, Australian Government, 12 August 2015, p 41.

[111] NSW Legislative Council, note 91, p 185.

A 2012 survey of Australian residential property developers for the National Housing Supply Council found that developers faced problems such as onerous planning controls, delays in zoning approvals and community opposition, which made development a slow, difficult and expensive process to undertake.[112] The survey also listed factors limiting development on land in, and on the fringes of, metropolitan areas:

> Developable land in fringe areas, particularly close to Melbourne and Sydney, consists primarily of small, rural residential lots that must be acquired and consolidated prior to development. The time and costs associated with acquiring land (owners "hold out" for the price they want) and seeking approval to consolidate (usually through re-zonings) are significant. These costs, as well as state and local infrastructure levies … have implications for the financial feasibility of developing in these areas.[113]

Even when they are a necessary part of the system, planning laws can delay housing construction at significant cost to developers. In a 2012 Reserve Bank of Australia (RBA) Bulletin, Hsieh, Norman and Orsmond explained further:

> While there are sound reasons for councils and government agencies to impose stringent tests during the planning phase, the uncertainty and time typically taken to settle planning issues can increase the cost and risk of housing development. In particular, because developers incur holding costs on land (both the cost of financing its acquisition and land tax), the time it takes to get through the planning process increases total development costs. And since the economic viability of a new development is ultimately capped by the prices of existing housing in nearby areas, increases in costs due to a protracted planning process can make new housing developments unviable.[114]

5.3 Finance, infrastructure provision and construction costs

Alongside issues of dwelling supply responsiveness and regulation are a range of associated costs to developers and wellbeing issues for prospective residents of new developments. Examples of disincentives are shown in the following figure:

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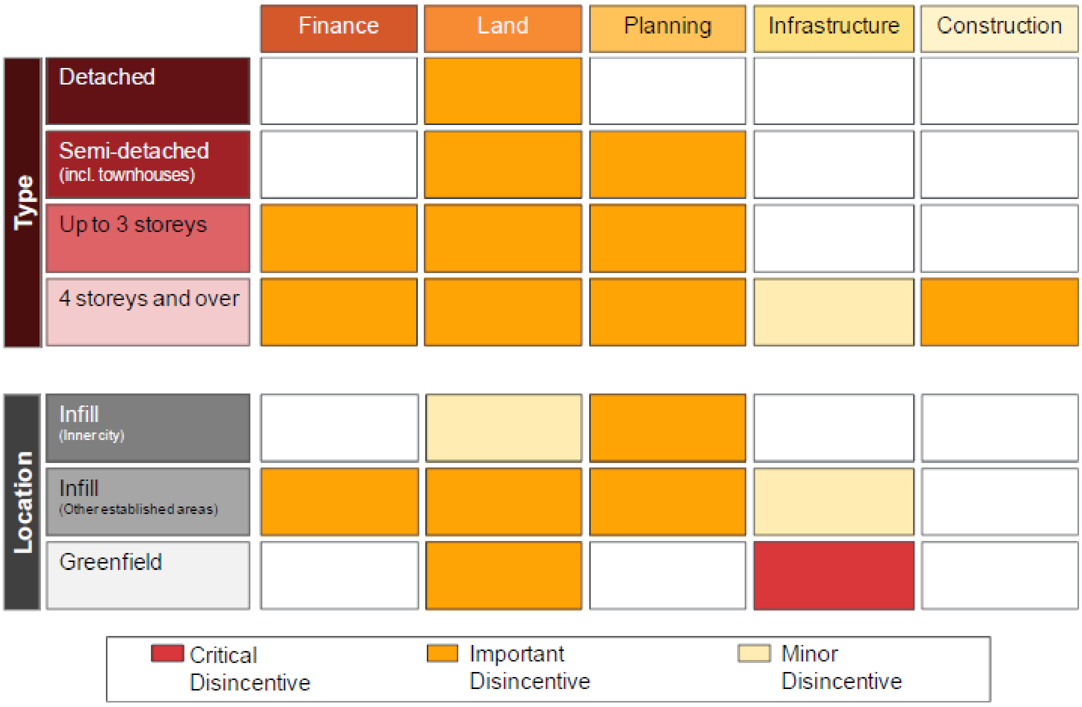
[112] Urbis, Report to the National Housing Supply Council: Scoping Study into Housing Supply Responses to Change in Affordability, June 2012 pp 14-16.

[113] Ibid p 14.

[114] Hsieh et al, note 94.

Figure 34: Disincentives to development in Sydney, by house type and location[115]



This section covers three such issues: securing finance;[116] delays and lack of provision of associated infrastructure;[117] and the cost of housing construction.[118]

5.3.1 Finance

As aptly stated by The Grattan Institute, "[w]hat gets funded, gets built".[119] In general, without some form of financing residential development simply does not happen. AHURI outlined some of the financing challenges faced by property developers:

> The development approval system is often considered to be the major barrier to housing supply when, in reality, the vast majority of schemes will not make it anywhere near the approval phase because they are either not financially feasible or, if they are, the developer cannot secure the necessary finance to undertake the project.
>
> There are many policy decisions, particularly those that dictate what a developer

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[115] J Kelly, The Housing We'd Choose, Grattan Institute, June 2011, p 29.

[116] A particular challenge for smaller developers that work on infill projects too small for larger developers, but are important for increasing housing in established areas: see Kelly, note 115, p 30; S Rowley, G Costello, D Higgins, P Phibbs, The financing of residential development in Australia, AHURI Final Report No 219, February 2014, p 65.

[117] Kelly, note 115, p 33.

[118] Ibid pp 34-5.

[119] Ibidp 30.

> can and cannot deliver on a development site, which will impact on the potential profitability of a development and therefore its chances of being built. There are also policy decisions that increase the potential risk of a development, for example uncertainty surrounding an approval process or potential infrastructure costs, that may mean a bank is unwilling to lend to that particular project due to the nature of that risk. Policy decisions that reduce risk and uncertainty can create an environment where developments are more likely to proceed and housing subsequently supplied.[120]

5.3.2 Infrastructure

Even if land were to be released at a greater pace and regulatory red tape slashed, policymakers must still provide adequate infrastructure to these new communities, such as roads, public transport, health and educational services. In Australia, a range of stakeholders have criticised successive State and Commonwealth Governments for underinvestment in essential infrastructure, which in turn has affected the timely supply of new housing.

The Grattan Institute commented in 2011 that delays and lack of provision of infrastructure—both in greenfield areas and upgrades to existing infrastructure—had affected development volumes, particularly in Sydney (Figure 34 above). The Grattan Institute also commented that, at the time of its report, outer Sydney councils used developer contributions to recover a high proportion of their infrastructure costs, with the consequence that developers chose to build less in these areas.[121]

A number of submissions to the 2016 Commonwealth Parliamentary inquiry into home ownership argued that there was an infrastructure deficit in Australia, with "better structure and a better approach to infrastructure funding … needed that will spread the costs across a larger number of people and make projects more viable for developers".[122]

5.3.3 Construction costs

Some stakeholders have argued that construction costs play a role in house price increases. For example, in a 2014 submission, the RBA reported that, "[i]n many cases, the bulk of the cost of a new dwelling is the cost of construction, not the government charges or land, though construction costs might be lower if some building regulations were changed".[123]

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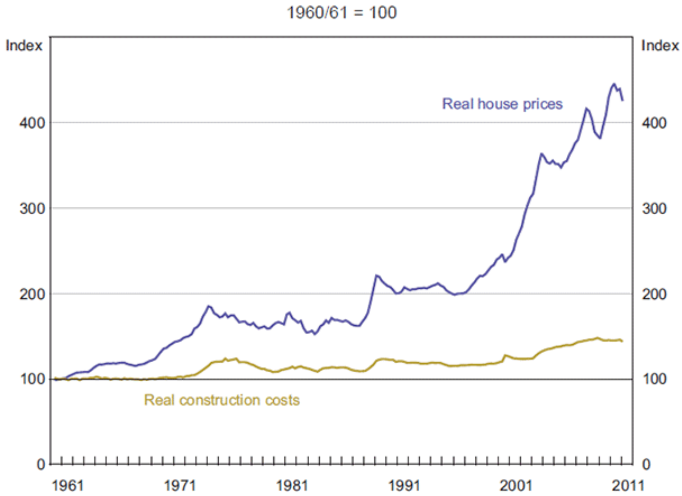
[120] Rowley et al, note 116, p 1.
[121] Kelly, note 115, p 33.
[122] Senate Standing Committee on Economics, note 107, pp 42-3.
[123] RBA, Submission to the Inquiry into Affordable Housing, February 2014.

However, this claim has been challenged by other experts. Yates has argued that, while some of the increase in both dwelling prices and construction costs reflects increased costs associated with larger dwellings and higher quality construction, the increasing divergence between house prices and construction cost (Figure 35) is also driven by the increasing price of land.[124]

Figure 35: Change in Australian real house prices and construction costs[125]



This opinion was supported by a 2012 Council of Australian Governments Housing Supply and Affordability Reform report, which concluded that "real construction costs [are] not driving the escalating housing prices, suggesting that the costs of land and land development are the major supply-side drivers of increasing house prices".[126]

[124] Yates, note 14, p 272.
[125] Ibid.
[126] National Housing Supply Council, Housing Supply and Affordability Issues 2012-13, 2013, p 90.

6. DEMAND DRIVERS

While supply constraints affect property values, prices are also subject to a range of demand dynamics that are often short term and speculative in nature. As with supply drivers, a large range of demand fundamentals can contribute to changes in house prices.[127] This paper discusses five key demand factors that affect house prices:

- Population growth and household formation;
- Reductions in interest rates and inflation;
- Financial deregulation;
- Taxation treatment of housing; and
- Changes in investor demand.

6.1 Population growth and household formation

Population growth underpins housing demand and has played a pivotal role in the price increases experienced across Australia, Sydney in particular.[128] There are two main components to population growth:

1. Net overseas migration; and
2. Natural increase (births minus deaths).

High immigration levels have had the greatest impact on the increase in housing demand in Australia; this is because overseas and interstate migrants are in need of immediate accommodation upon arrival, something existing residents are less likely to require.[129] Subsequently, this has increased underlying demand, which in turn has exceeded the supply of new dwellings coming onto the Australian property market.[130] With a substantial proportion of migrants moving to Sydney (see overleaf), the impact of population growth on the city's housing market appears more pronounced than in other parts of the country.

Alongside population growth, changes in household formation also affect demand. The 2016 Commonwealth Parliamentary inquiry into home ownership referred to the RBA's submission, which reported shrinking household sizes alongside the increasing national population:

[127] For an overview of demand factors influencing house prices, see Rahman, note 84; P Abelson, R Joyeux, G Milunovich, D Chung, 'Explaining house prices in Australia: 1970-2003' (2005) 81 *Economic Record* S96; A Haylen, note 9.

[128] Senate Select Committee on Housing Affordability in Australia, A good house is hard to find: Housing affordability in Australia, Australian Government, June 2008; Productivity Commission, First home ownership, Inquiry Report No 28, June 2004.

[129] QBE, BIS Shrapnel, note 30, p 23.

[130] Kohler and van der Merwe, note 67.

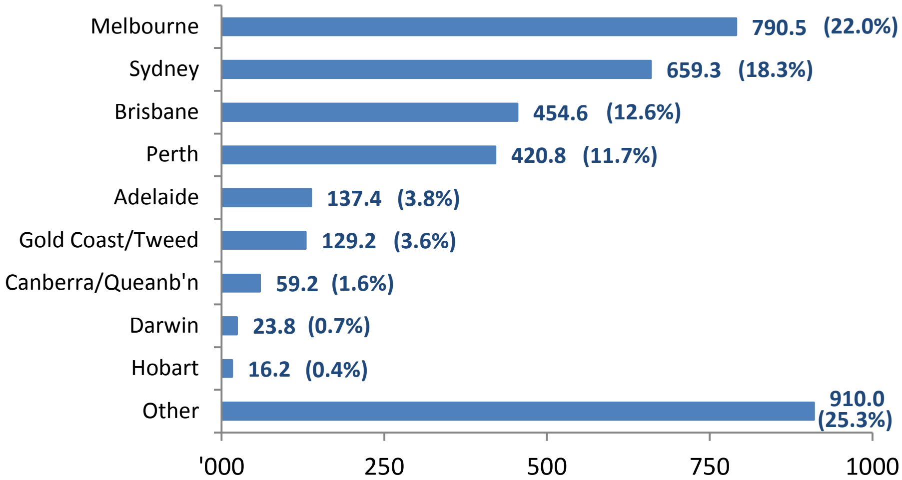
After relatively stable growth from the early 1990s through to the mid 2000s, Australia's population growth stepped up significantly owing to higher net immigration and, to a lesser extent, a slightly higher rate of natural increase. Average household size, the other component of household formation, has declined markedly since the 1960s and, all else equal, has generated an increase in demand for housing for a given level of population.[131]

Sydney's migration surge

According to the ABS, between 2005 and 2015 the Australian population increased by around 3.6 million people: an average annual increase of 1.6 per cent or, as visualised by former Treasury Secretary Ken Henry, the equivalent of "building a whole new city the size of Melbourne every decade between now and the end of the century".[132]

Melbourne and Sydney absorbed two-fifths of this population increase: more than all other capital cities combined (Figure 36). Of this growth, Sydney received an additional 659,000 persons, bringing its population to over 4.5 million as of 2015.

Figure 36: Major city population increase and proportion of total increase, 2005 to 2015[133]



Other ABS data shows that, in the year to March 2016, net overseas migration to NSW comprised 62 per cent (70,780) of the State's annual population growth, with natural increase contributing only 38 per cent (42,782).[134]

[131] Senate Standing Committee on Economics, note 107, p 44.

[132] C Yates, Build a new Melbourne every decade or face more congestion, Canberra Times, 13 December 2016.

[133] ABS, 3218.0 – Regional Population Growth, Australia, 2014-15, March 2016, Table 1.

[134] ABS, 3101.0 - Australian Demographic Statistics, Mar 2016, September 2016, Table 2.

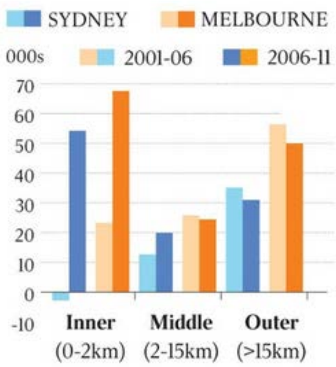
Sydney's population increase has been substantially higher than the rest of the State, as evident when reviewing population changes in NSW LGAs. As shown in Figure 37, Greater Sydney LGAs have experienced a 16 per cent population increase over the decade to 2015; nearly double the growth of regional LGAs over the same period (8.8 per cent):

Figure 37: Cumulative population growth, Greater Sydney vs regional NSW, 2005 to 2015[135]

It appears clear why Sydney has experienced such a large proportion of NSW migration: most jobs are there, especially in the city centre. Research by The Grattan Institute commented further on the concentration of jobs growth in Australian CBDs:

> Capital city centres have captured nearly half of all new jobs created across the nation in the past 10 years, signalling the failure of policies to promote decentralisation and driving disenchanted regional voters to minor parties. … [Grattan Institute chief executive John Daley] said the concentration of growth in the city centres had only developed since the mid-2000s. In the five years to 2006, the majority of employment growth in both Sydney and Melbourne was more than 15km from the city centre. The change has been caused by the growing concentration of consumer spending on services. Businesses selling services gain from proximity to other service providers and the mass of people in the city centres.[136]

Figure 38: Employment growth in Sydney and Melbourne, 2001-06 and 2006-11[137]



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[135] ABS, note 135.

[136] D Uren, City jobs growth stymies regions: Grattan Institute, The Australian, 4 January 2017.

[137] Ibid.

6.2 Interest rates and inflation

The RBNZ summarised the effect that interest rates have on property ownership—and, consequently, house prices—as follows:

> Interest rates are important in determining the payoffs associated with owning a property. When interest rates fall, owning a house becomes more attractive. However, the reason for the fall in interest rates matters a lot. If interest rates fall because the economic outlook has weakened, then, all else equal, house prices may not rise at all. In particular, houses prices are unlikely to be bid up to the same extent as they would in a situation where banks had reduced their margins or bank funding costs had fallen.
>
> However, it is difficult to tell whether a fall in interest rates is permanent – i.e. the neutral level of interest rates has fallen – or cyclical. And the outlook for interest rates can be quite uncertain. If potential purchasers expect that a fall in interest rates is going to persist, then they will bid up house prices much more than if they think low interest rates will be temporary.[138]

In Australia, the move to a low inflation environment resulted in the interest rate falling over much of the 1990s, and is now at historically low levels. At the same time, increased competition among housing lenders has made it easier for many borrowers to obtain loans, and contributed to lower interest costs by reducing lending margins (see next section).

However, as discussed in the following chapter, the current low inflation environment has resulted in a range of risks emerging in the housing market, most notably increasing levels of mortgage debt amongst Australians.

6.3 Financial deregulation

It is generally accepted that Australian financial deregulation during the 1980s and 1990s was a major source of stimulus to the high rate of real house price inflation from the mid-1990s onwards. In particular, financial deregulation in Australia promoted greater competition and product innovation and, through reduced interest margins and increased finance availability, increased borrowing capacity which boosted housing demand.[139]

A 2015 RBA paper by Kohler and van der Merwe further found that financial deregulation led to a decoupling of house price inflation from economic inflation, which the former had broadly followed during the 1980s:

> Low inflation together with increased competition in the mortgage market reduced housing loan interest rates, thereby easing serviceability constraints. Previously credit constrained households were increasingly able to borrow more for a given level of income and pay higher prices. Without a corresponding increase in supply in the most desirable locations, this was likely to have led to a pick-up in housing price growth, and household debt, for a protracted period.[140]

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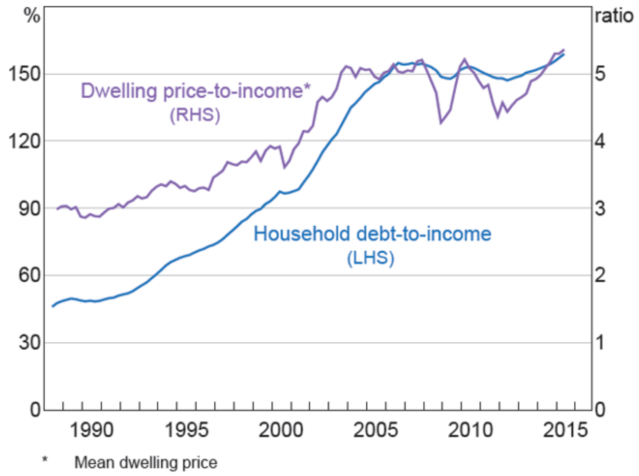
[138] E Watson, note 100, p 6.
[139] A Haylen, note 9, Ch 3.2.
[140] Kohler and van der Merwe, note 67, pp 23-4.

The authors commented that increased access to credit by Australian households since the 1980s can be seen in the steady increase of the ratio of household debt to income, which fluctuated around 150 per cent during the 2000s and early 2010s (Figure 39):

Figure 39: Debt- and price-to-income ratios, 1990 to 2015[141]



Nevertheless, other RBA officials have commented that it remains unclear whether the increase in demand caused by financial deregulation represents a structural shift to a new and higher equilibrium level of effective demand for housing, or whether it represents a house price bubble.[142] This question is considered further in section 8.3.

6.4 Taxation treatment of housing

The tax-privileged status of owner-occupied and investment housing plays a high-profile role in the debate about house prices. As explained in the 2008 Commonwealth Parliamentary inquiry into housing affordability in Australia, in addition to demand from prospective homebuyers, there is also a speculative element to housing demand that may be encouraged by some aspects of the tax system.[143]

A wide range of stakeholders have criticised the existing taxation system for distorting the property market by heavily favouring both wealthy speculative investors and existing homeowners. Yates summarises the criticisms of these tax concessions, and their impact on housing affordability:

> [The existing inequitable distribution of household wealth] is made worse by generous tax concessions to owner-occupied housing. These concessions are also reinforced by the exemption of owner-occupied housing from the asset tests in retirement … assistance is perversely provided, with the greatest assistance going to high-income and high-wealth households. The distribution of assistance provided

[141] Ibid p 24.

[142] L Ellis, Housing and Housing Finance: The View from Australia and Beyond, RBA, RDP 2006-12, December 2006, p 24.

[143] Senate Select Committee on Housing Affordability in Australia, note 128, pp 58-60.

by tax concessions to owner-occupiers is reinforced by those to rental investors.[144]

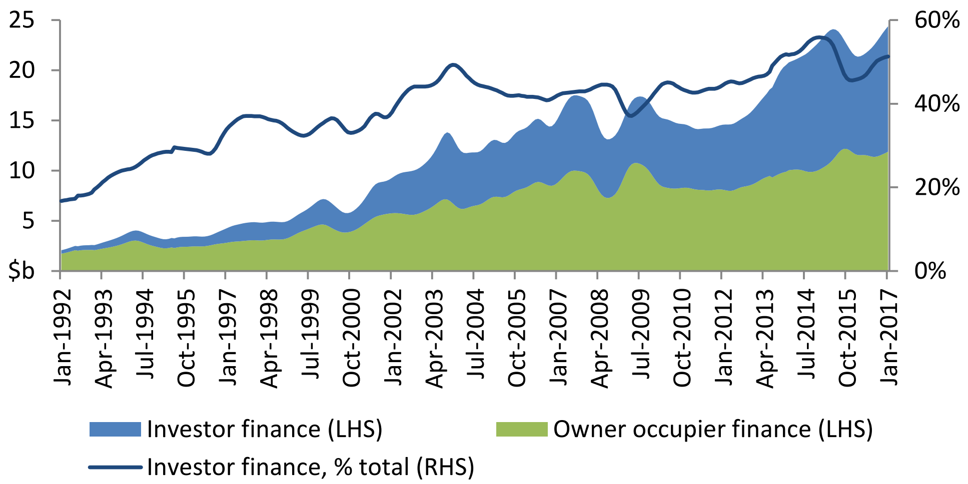
Two forms of tax concessions have attracted ongoing attention from critics: negative gearing and the 50 per cent capital gains tax discount. These taxes, the criticism they have received, and possible policy responses, are outlined in section 9.3.2.

6.5 Investor demand

Prior to the late 1980s, housing demand was largely accounted for by owner occupiers. However, the rapid escalation of prices in the early 1990s, combined with structural tax changes and improved access to credit, saw residential real estate become a highly desirable form of investment. Property owners were able to use the equity in existing properties (which have increased in value significantly during this period) to obtain further finance for the purchase of investment properties. This resulted in unprecedented wealth accumulation and growth in market share for investors through the 1990s and early 2000s.[145]

Now, first homebuyers and owner-occupiers compete with domestic and foreign investors, who put larger and larger amounts of capital into the housing market. According to ABS data, over the 25 years from January 1992 to January 2017, the share of finance going to investment housing in Australia increased from **16.7 per cent** to **51.3 per cent**, with a record high of 55.8 per cent from November 2014 to January 2015:[146]

Figure 40: Housing finance commitments, investor versus owner occupier financing, Jan 1992 to Jan 2017[147]



[144] Yates, note 14, p 286.

[145] A Haylen, note 9, p 16.

[146] Investor housing demand reduced in the second half of 2015. This was the result of the Australian Prudential Regulation Authority's December 2014 decision to limit investor lending by banks to an annual growth rate of 10% to lean against the stimulatory effects of record low interest rates. See: APRA, 'APRA outlines further steps to reinforce sound residential mortgage lending practices' (Media Release, 9 December 2014).

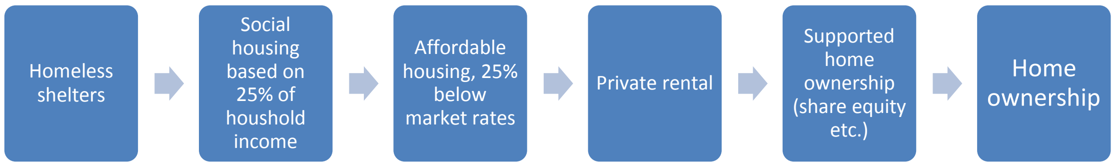
[147] ABS, 5609.0 - Housing Finance, Australia, January 2017, 10 March 2017, Table 11.

PART THREE: Impacts of high house prices and responses

7. SOCIAL IMPACTS OF HIGH HOUSE PRICES

Unaffordable housing can lead to a wide range of negative impacts on individuals and communities. These impacts are magnified the greater an individual's disadvantages or vulnerability; this is because the housing system in its entirety is interconnected (Figure 41), with supply and demand imbalances in certain segments of the market can have flow on effects across the full continuum of housing.

Figure 41: Housing market continuum[148]



This paper argues that expensive housing risks creating a 'trickle-down' effect on society, whereby the impacts of high house prices on prospective homeowners create further, compounded negative effects that trickle down from Sydney's middle income earners to those who rely on public housing and government welfare for survival.[149] The chapter discusses how the city's high house prices affect, in turn, the following four groups of people:

- The private ownership market, particularly first homebuyers;
- The private rental market;
- Public or community housing residents, especially those reliant on welfare provisions; and
- Persons forced into emergency housing and homelessness.

7.1 Prospective home buyers in the private ownership market

7.1.1 The expanding deposit gap

Reviewing the historical ability of Australians to purchase dwellings, Yates reported that, starting in the mid 1980s, there emerged an increasingly larger deposit gap between what a household on average weekly earnings could afford to borrow and median house prices.

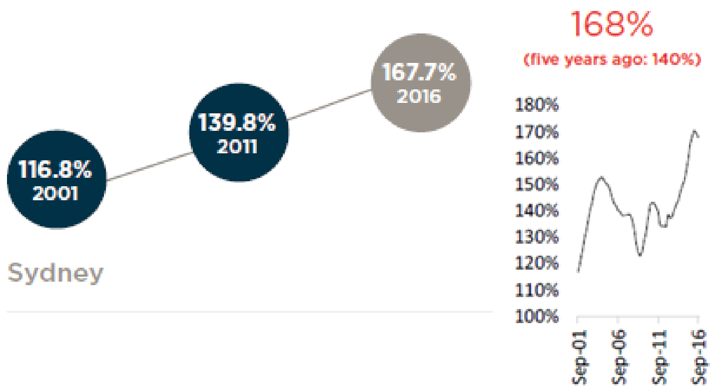
> Even during the 1990s, the size of the deposit gap meant that a household needed to have access to at least the equivalent of its annual income (in addition to the amount needed to pay for transaction costs) in order to purchase a median priced dwelling. By the 2000s, this had risen to four times annual income. Over time, the average income entry point for access to home ownership has increased.[150]

[148] A Haylen, Affordable rental housing: the problem and its causes, NSW Parliamentary Research Service, EB 13/2015, p 4.
[149] P Bentley, S Stewart, Submission to New South Wales Government: Social, public and affordable housing (Inquiry), McKell Institute, February 2014.
[150] Yates, note 14, pp 279, 281.

The deposit gap has worsened as house prices in Sydney have experienced sustained capital growth, which in turn has led to increases in transfer duty that have further increased the size of necessary pre-purchase savings.

CoreLogic's December 2016 Housing Affordability Report found that, as property prices have continued to surge it has become increasingly difficult to save for a deposit, especially in light of minimal wages growth in recent years. In Sydney, a median income household ($93,593 per annum) must save 168 per cent of this income in order to reach the minimum savings required for a 20 per cent deposit on a median priced dwelling (which avoids the additional cost of lenders mortgage insurance).[151] By way of comparison, in 2011 this figure was 139.8 per cent, and in 2001 it was equivalent to 116.8 per cent (Figure 42):

Figure 42: Percentage of annual household income required for a 20 per cent deposit, Sydney[152]



Some analysts have contended that Sydney's house prices must drop by a quarter of their current value in order to bring deposit levels down to their historical average:

> Research by Deutsche Bank's chief Australian economist Adam Boyton shows it would take a 25 per cent drop in Sydney home prices to bring the size of deposit required back to average levels over the past 20 years. … With the size of a standard 20 per cent housing deposit relative to income now well above the previous peak seen at the top of Sydney's last big boom in 2002-2003, Mr Boyton said it would take a 25 per cent decline in prices just to get back to the 20-year average.[153]

The deposit gap is an especially vexing problem for first homebuyers: according to Bankwest's *First Time Buyer Deposit Report 2016*, first time buyer couples in Sydney will need to save for an average of 8.4 years in order to form a deposit for a median priced house. This was six months longer than the time needed in 2015, and the longest required savings time across Australia.[154]

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[151] MoneySmart, Saving for a home, ASIC, 31 January 2017.

[152] CoreLogic, Housing Affordability Report, December 2016, pp 9-10.

[153] M Janda, Home prices would need to drop 25pc to help first time buyers: Deutsche Bank, ABC News, 27 September 2016.

[154] Bankwest, note 5, p 3.

Many first homebuyers are simply unable to save enough money to bridge the ever-expanding deposit gap and are increasingly turning to the “bank of Mum and Dad” for financial support, as illustrated in a survey conducted for the 2016 Bankwest Curtin Economics Centre Housing Affordability Report:

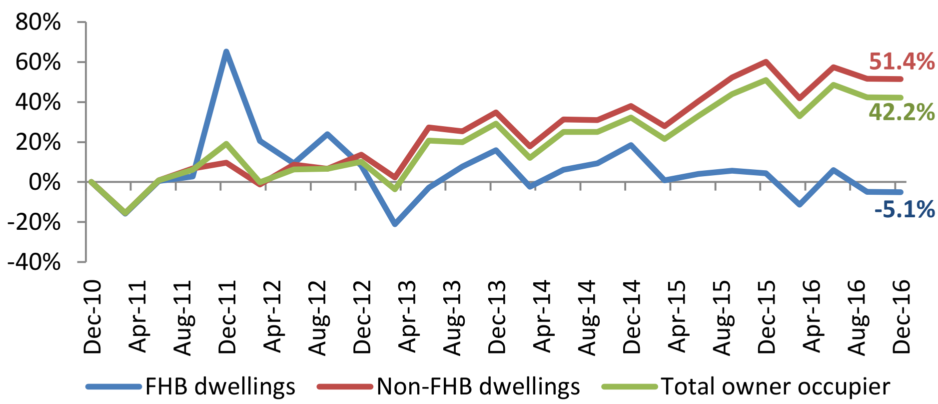
> The deposit gap is the biggest barrier to home ownership. The survey calculated the average gap between the deposit currently available to an individual and the amount the individual expected to need for home purchase. This gap was around A$50,000.
>
> Among Gen Ys already in home ownership, 38% reported they had received financial assistance from their parents or grandparents. For those yet to enter home ownership, only 17% expected to receive some assistance to buy. A further 24% indicated help might be offered.
>
> Therefore, almost 60% of Gen Ys surveyed are unlikely to receive the benefit of intergenerational assistance. This may prevent them from ever entering home ownership.[155]

Should a person or couple not have access to family wealth, their ability to purchase a home is further reduced compared to their more fortunate peers.

7.1.2 Fewer numbers of first homebuyers

Section 6.5 showed the dramatic rise of investor finance (compared with traditional owner occupier finance) since the early 1990s. While owner occupier financing has also experienced substantial growth over the past 25 years, this increase masks a major decline in the number of first homebuyer dwellings being financed. As shown in Figure 43, ABS data for NSW indicates that the number of first homebuyer dwellings being financed has fallen by 5.1 per cent since December 2010, while financing for other owner occupier dwellings increased by 51.4 per cent over this period:

Figure 43: Cumulative change in NSW owner occupier demand since Dec 2011 (original data)[156]



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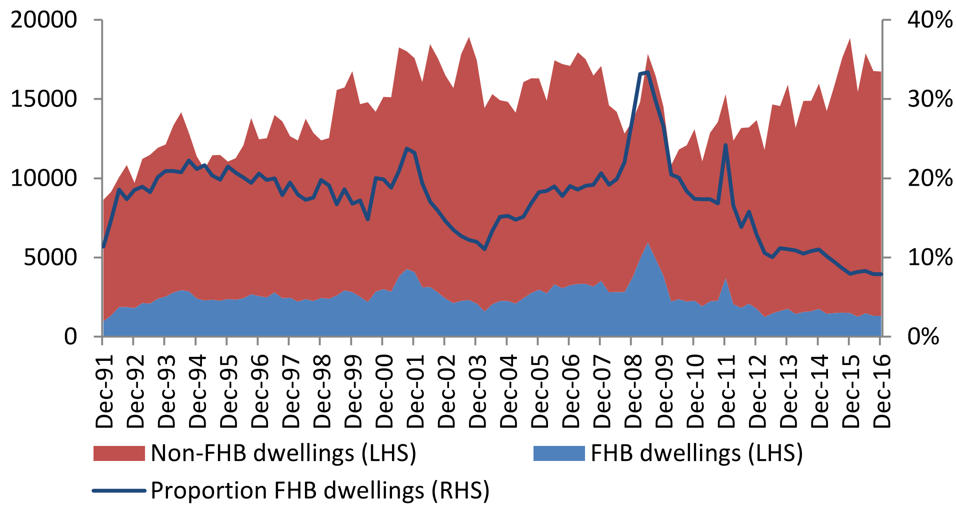
155 S Rowley, A James, R Ong, What’s the key to home ownership for Gen Y?, The Conversation, 23 June 2016.

156 ABS, note 147, Table 9b.

As a proportion of total dwellings financed, first homebuyer dwellings reached a peak of 33.4 per cent in June 2009. With the exception of a sharp upswing in December 2011—likely because first homebuyer transfer duty concessions were restricted to newly constructed homes the following month[157]—there has been a steady and sustained decline in the proportion of first homebuyer dwellings obtaining finance (Figure 44):

Figure 44: Number of NSW first homebuyer and non-FHB dwellings financed, Dec 1991 to Dec 2016 (original data)[158]



The issue of low first homebuyer levels is a national problem, as illustrated by the findings of the 2016 Household, Income and Labour Dynamics in Australia (HILDA) survey. The HILDA survey revealed a growing divide between younger and older homeowners:

> Using the information on the identities of the legal home owners available in wealth years, the figure shows that the decline in home ownership has been concentrated on those aged under 55. Home ownership among persons aged 25–34 declined from 38.7% in 2002 to 29.2% in 2014, with much of the decline occurring between 2010 and 2014. … There was essentially no change in home ownership among those aged 65 and over.[159]

AHURI has also documented this trend, finding that younger homebuyers are resorting to a range of adaptive behaviours in response to unaffordable housing, including deferring house purchases or delaying having children due to the costs associated with raising a family.[160]

157 NSW Government, Budget Papers 2011-12, Budget Paper No 1, p 15; S Johnson, Exemptions tightened for first-home buyer, Sydney Morning Herald, 6 September 2011.

158 ABS, note 147, Table 9b.

159 HILDA, The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14, 2016, p 68.

160 T Burke, W Stone, L Ralston, Generational change in home purchase opportunity in Australia, AHURI, Final Report No 232, November 2014, pp 2-3.

While some observers have argued that some first homebuyers are now becoming investors instead of owner-occupiers,[161] it appears beyond doubt that housing affordability—high prices, large deposit gaps and huge mortgages—is the primary reason for the significant drop in first homebuyers since 2009.

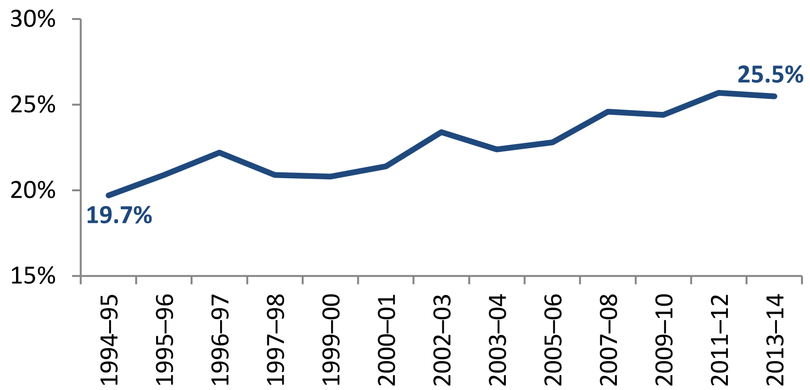
For prospective buyers, there is a significant opportunity cost in waiting to buy a first home which materialises in two ways. First, as real house prices rise (and rise disproportionately to income, as shown in section 3.1) the deposit required to buy a home will rise with time. This cost is then compounded because prospective home buyers cannot, by virtue of not owning any property, receive the benefits of capital growth from house price increases.[162]

7.2 Private rental market

7.2.1 More people entering the rental market

As Australians are increasingly locked out of the housing market, an increasing number remain in the rental market while they attempt to save for a house deposit. Renting has become more common since the mid 1990s, with ABS data showing the proportion of NSW households that are private renters increasing from 19.7 per cent in 1994-95 to 25.5 per cent in 2013-14 (Figure 45).

Figure 45: Proportion of NSW households in the private rental market[163]



Grattan Institute research found that between 1981 and 2011, the median age of the head of renter households increased from 32 to 37 years,[164] while AHURI reported a growing proportion of one and two-parent renter families with dependent children and a relative decline in the proportion of single person households.[165]

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[161] Commonwealth Bank, Housing Finance – November 2016, 17 January 2017, p 1.

[162] C Angus, NSW Economic Update: Summer 2017, NSW Parliamentary Research Service, SI 01/2017, p 32.

[163] ABS, 4130.0 - Housing Occupancy and Costs, 2013-14, 17 February 2016, Table 17.

[164] J Kelly, Renovating housing policy, Grattan Institute, October 2013, pp 18-19.

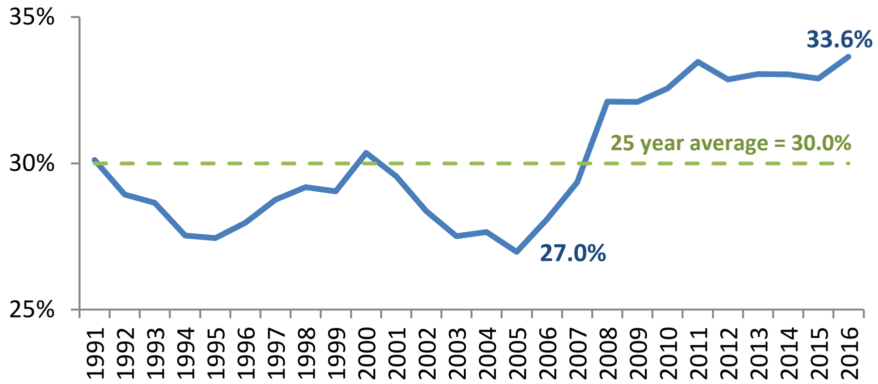
[165] W Stone, T Burke, K Hulse, L Ralston, Long-term private rental in a changing Australian private rental sector, AHURI, Final Report No 209, July 2013, p 1.

7.2.2 Financial stress

This increase in the number of renters appears to have occurred in tandem with increases in rental costs. While aggregate wages growth in the Sydney metropolitan region have increased broadly in line with rental price increases between 1981 and 2011, the national ratio of median rent to median income paid by tenants who rented privately rose to 27 per cent in 2011: up from a more affordable 19 per cent in 1981.[166]

The cost of rent as a proportion of earnings has increased since the mid-2000s. Figure 46 shows weekly median rent (according to Housing NSW data) as a proportion of NSW median weekly earnings based on the ABS's Average Weekly Earnings time series). After falling to a 25 year low of 27 per cent in 2005, the median weekly rent across Greater Sydney as of December 2016 was 33.6 per cent of NSW average weekly earnings: above the 25 year historical average of 30 per cent.

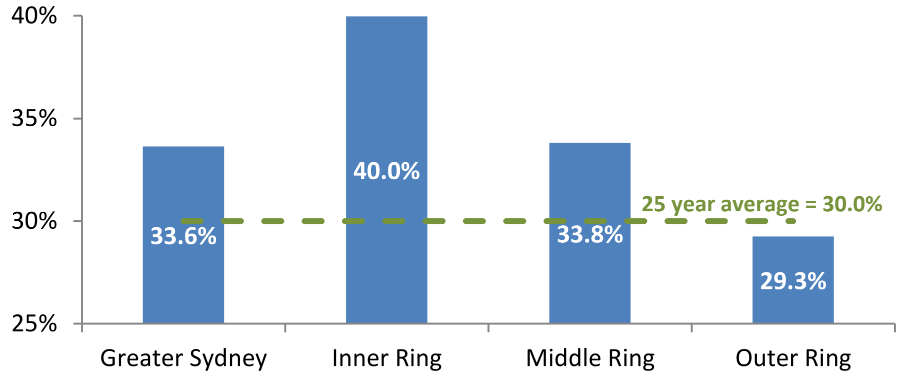
Figure 46: Greater Sydney median weekly rent as proportion of NSW weekly income, 1991 to 2016[167]



Rent as a proportion of earnings increases the closer a person resides to Sydney's CBD. As shown overleaf, the median rent for Inner Ring suburbs constitutes 40 per cent of the average State weekly earnings, while Middle Ring suburbs are slightly above the Greater Sydney average. Only the Outer Ring rental market had median rents below the historical average (29.3 per cent as at December 2016):

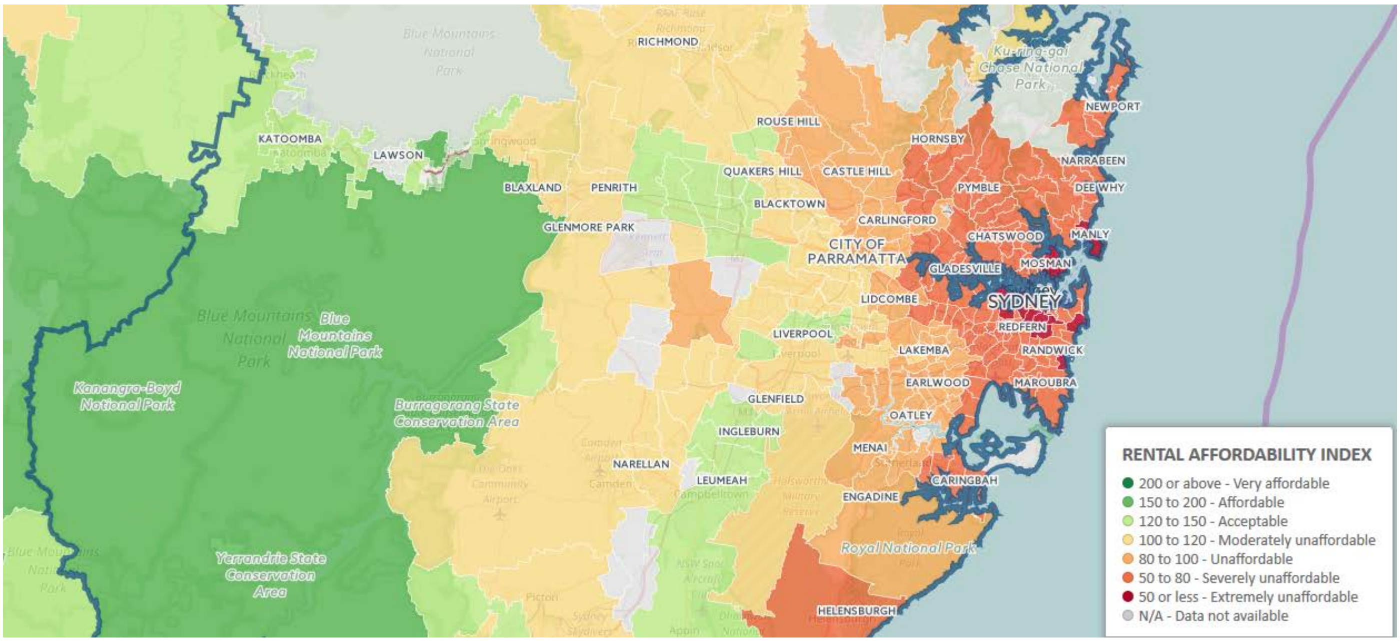
[166] A Haylen, note 148, p 2.
[167] Housing NSW, note 10; ABS, note 51, Table 13A.

Figure 47: Greater Sydney median weekly rent as proportion of NSW weekly income by Sydney region, Dec 2016[168]



Other sources, such as the Rental Affordability Index created by National Shelter, Community Sector Banking and SGS Economics and Planning, argue that for many Sydneysiders, the vast majority of the city ranges from moderately to extremely unaffordable for renters (Figure 48). According to online realtor Nested's 2017 Rental Affordability Index, Sydney is the eighth most expensive city globally in which to rent, with monthly rent estimated to cost $1610 for an individual and $3051 for a family.[169]

Figure 48: Rental Affordability Index, Greater Sydney, Quarter 2 2016[170]



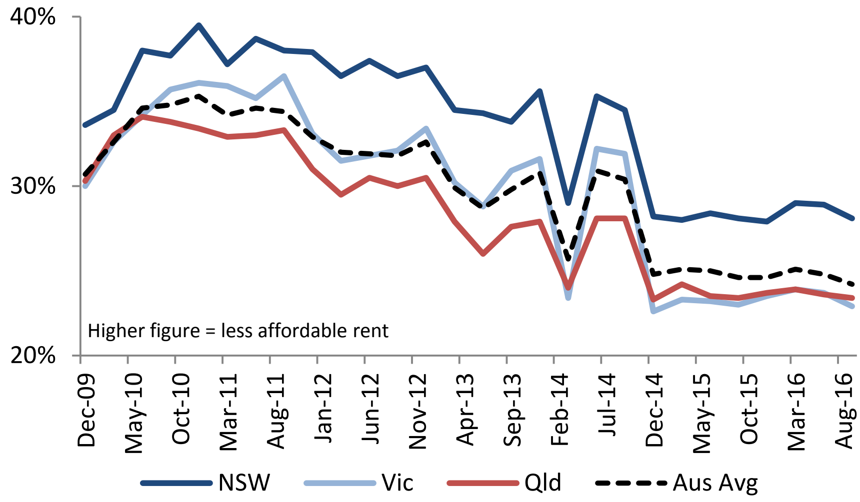
[168] Ibid.

[169] Nested, Rental Affordability Index, 2017. Prices converted from GBP to AUD using XE Currency Converter on 23 March 2017 (1 GBP = 1.63 AUD).

[170] National Shelter, Community Sector Banking, SGS Economics and Planning, Rental Affordability Index, 2016.

Nevertheless, this increase in median rent as a proportion of income may have reversed somewhat more recently. For example, REIA statistics indicate that renting a three bedroom house became more affordable between December 2009 and September 2016. Nevertheless, as shown overleaf, NSW's affordability levels are significantly higher than other jurisdictions:

Figure 49: Proportion of family income needed to meet rent payments for three bedroom house, Dec 2009 to Sep 2016[171]



With seemingly endless house price growth, the ongoing struggle to save for a deposit,[172] and concerns about future workforce trends and job automation,[173] it is perhaps no surprise that many young Australians are pessimistic about their futures. According to Deloitte's *Millennial Survey 2017*, only 8 per cent of Australian millennials surveyed believed they will be better off than their parents, and a minuscule 4 per cent thought they would be happier.[174]

7.2.3 Greater hardship for the vulnerable, old and poor

However, the real impact of the influx of aspiring homebuyers into the rental market is reserved for existing low income private renters. Low income households are already significantly more likely to rent than their wealthier counterparts (see Figure 50), and an increase in the number of renters risks exacerbating an already undersupplied housing market, leading to increased demand and upward pressure on rents.

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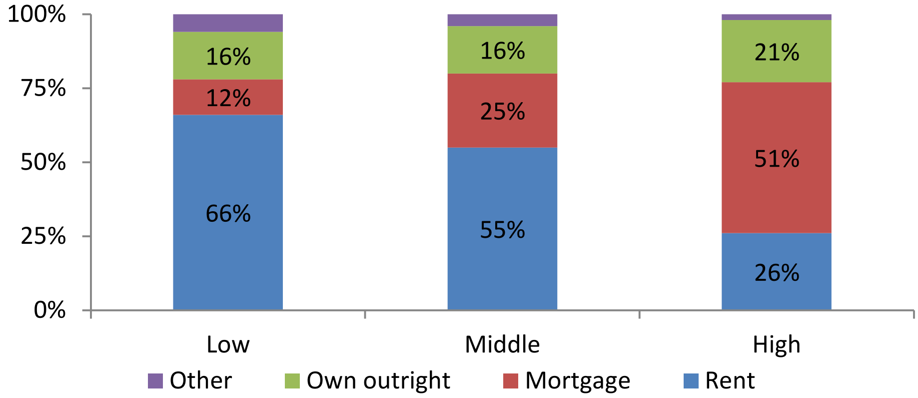
171 REIA, Adelaide Bank, note 78.

172 M Johnson, D Baker, The great Australian lockout: Inequality in the housing market, The Australia Institute, March 2015, p 10.

173 C Angus, Future workforce trends in NSW: Emerging technologies and their potential impact, NSW Parliamentary Research Service, BF 13/2015, Ch 5.3.

174 Deloitte, Millennial Survey 2017, February 2017; J Hewett, The great housing dilemma in Australia, Australian Financial Review, 7 February 2017.

Figure 50: Breakdown of tenure type by household income, 20-59 years, 2012[175]



These problems already exist in NSW, with the State Government's Affordable Housing Taskforce reporting in 2011 that 57% of low income private renters in NSW are currently in housing stress[176], compared with 42% in Victoria, 46% in Queensland and 40% in the ACT.[177] Long term renters are even more likely to be in housing stress, as reported in a 2013 AHURI study:

> Overall rates of housing stress among private renters increased from 1981 to 2011. Data from the most recent Census in 2011 indicates that 62.6 per cent of long-term renters are in housing stress (with those in the lowest 40% of the income distribution paying more than 30% of income on regular rental payments) and that more than 20 per cent of low income long-term renters regularly pay more than half of their income on rent.[178]

Older renters have been particularly vulnerable to financial stresses as prices increase, and are likely to face additional challenges in future. A 2016 paper by the Swinburne Institute for Social Research reported that an increasing number of older people in Australia are experiencing housing insecurity and impoverishment in retirement, with lone person or couple households living in private rental at the age of 45-49 years likely to remain private renters during their retirement.[179]

2016 research by Morris echoed these findings, outlining the hardships faced by this group of older Australians:

[175] Johnson and Baker, note 175, p 11.

[176] There are various measures of housing stress. The two most widely used definitions are: a) Those households whose gross income falls in the bottom 40% of the income distribution and who are paying more than 30% of their household income to meet their housing costs (this is sometimes referred to as the 30/40 rule); or b) The (larger) group of households who have gross incomes below 120% of the median household income and who are paying more than 30% of their household income to meet their housing costs. See NSW Affordable Housing Taskforce, Interim Report, March 2012, fn 10.

[177] Ibid p 6.

[178] Stone et al, note 165, p 2.

[179] A Sharam, L Ralston, S Parkinson, Security in Retirement: The impact of housing and key critical life events, Swinburne Institute for Social Research, October 2016, p 3.

> Some of the older private renters interviewed had been fortunate and had found secure and reasonably priced accommodation. However, most were having to spend a considerable part of their income on accommodation and were constantly anxious about their security of occupancy. After paying the rent, they had little left for necessities and for some ensuring adequate nutrition was a major challenge. Social exclusion was severe. Their lack of funds meant that their capacity to participate in society was seriously constrained. They had little or no capacity to engage in leisure activities and maintaining social ties was financially and emotionally challenging. Their circumstances had a deleterious impact on their health.
>
> …
>
> [W]hat is evident is that, as long as a virtually unregulated market is viewed as the primary way for low income households to access housing, an ever-increasing number of older (and younger) Australians will be destined to live in inadequate, unaffordable and insecure housing.[180]

These issues may worsen in years to come due to changing home ownership trends; namely, levels of home ownership and levels of mortgage indebtedness. A 2017 Australian Institute of Superannuation Trustees report commented that Australia's retirement income system takes for granted that most retirees will have very low housing costs: this is due to the presumption that most retirees will own their own homes and be mortgage debt-free. However, declining rates of home ownership, as well as a rising proportion of homeowners who still have mortgage debt outstanding, make these assumptions increasingly dubious and will likely lead to the following negative consequences:

- an increasing proportion of new retirees will use some or all of their accumulated superannuation savings to discharge their outstanding mortgage debt, meaning that a higher proportion of retirees may remain wholly or partially dependent on the age pension than currently assumed; and
- an increasing proportion of retirees will be living in privately rented housing, spending a higher proportion of their income on rent, potentially generating political pressure for increases in the level of Commonwealth Rent Assistance, in the age pension itself, or both.[181]

Such a scenario is supported by research undertaken by the Association of Superannuation Funds of Australia, which estimated that Sydney retirees in the private rental market will need more than $1 million in superannuation savings to live at a comfortable standard, compared to $545,000 for a single and $640,000 for a couple who own their own home.[182]

[180] A Morris, The Australian Dream: Housing experiences of older Australians (CSIRO Publishing, 2016) pp 227, 234.

[181] S Eslake, No place like home: The impact of declining home ownership on retirement, AIST, March 2017, p 3.

[182] Association of Superannuation Funds of Australia, 'Retirees renting need more than $1 million to be comfortable' (Media Release, 13 March 2017).

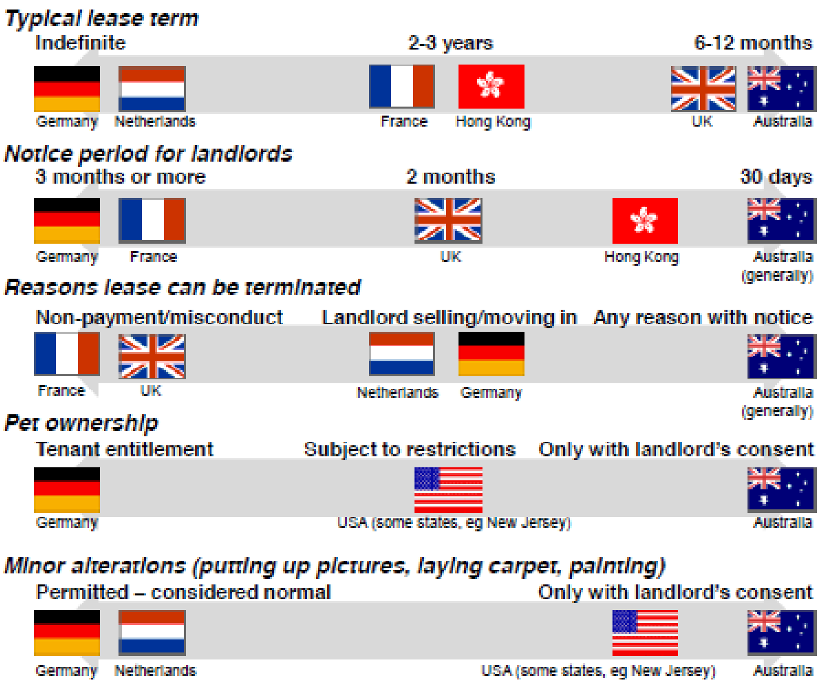
7.2.4 Insecurity and instability

While renting can provide benefits to individuals—for example, flexibility to move more quickly in response to job opportunities, and avoidance of many transaction costs involved with buying a home[183]—renters nevertheless face insecurity and instability due to their living circumstances.

While frequently moving properties may be characteristic of renters, in many cases moving is not voluntary. A 2013 AHURI report stated that 32 per cent of renter households who had moved in the previous five years characterised the move as forced or constrained, compared to only 11.1 per cent of owners and public housing tenants.[184]

Some observers contend that this instability is at least partially a result of residential tenancy laws that heavily favour landlords over tenants, especially in comparison to other developed nations (see Figure 51 and breakout box overleaf).

Figure 51: Typical rental conditions in selected countries[185]



183 J Kelly, note 164, p 18.
184 Stone et al, note 165, p 21.
185 J Kelly, note 164, p 20.

Discrimination and eviction: the potential pitfalls to renting

In NSW, under the *Residential Tenancies Act 2010* the minimum notice period for "no grounds" tenancy terminations is 90 days for a period tenancy agreement, and 30 days for a fixed term agreement.[186]

A 2017 survey conducted by consumer organisation Choice, National Shelter and the National Association of Tenant Organisations reported that half of all tenants surveyed reported experiencing some form of discrimination—for example, for having a pet, or for receiving government payments—while around one in ten respondents said that their rent had increased or their landlord or agent became angry after they requested a repair.[187] There have also been anecdotal reports of tenants, having enquired about property repairs, have found themselves evicted with no explanation or apparent justification.[188]

Further discussion around security of tenure can be found in the 2015 Parliamentary Research Service publication *Private rental housing and security of tenure*.[189]

7.3 Public and community housing

An increasingly unaffordable private rental market has further trickle-down consequences, as higher prices expand the gap between regular market rents and social housing subsidised rents.

As of December 2016, the median weekly rent for Greater Sydney was around $520.[190] However, depending on income levels, renters in social, public or community housing[191] pay subsidised rent ranging from 20-25 per cent below market rates to no more than 25-30 per cent of their incomes in rent.[192] This gap is important for the ability of social housing tenants to transition into private rental: the larger the difference between a subsidised social rent and the market rent, the more disincentives there are for a social housing renter to move if their personal circumstances improve.

[186] *Residential Tenancies Act 2010* (NSW), ss 84-85. Also see Tenants NSW, Factsheet 10: Landlord ends agreement, October 2014.

[187] Choice, National Shelter, National Association of Tenant Organisations, Unsettled: life in Australia's private rental market, 15 February 2017, pp 15, 20.

[188] J Saulwick, When should landlords be allowed to evict tenants?, Sydney Morning Herald, 3 October 2016. Also see Tenants NSW, 5 years of the Residential Tenancies Act 2010 in New South Wales, July 2015, section 5.1.

[189] L Roth, Private rental housing and security of tenure, NSW Parliamentary Research Service, EB 15/2015.

[190] Housing NSW, note 10.

[191] For the difference between these types of housing, see: NSW Legislative Council, note 91, Ch 2.

[192] Department of Family and Community Services, Renting affordable housing, NSW Government, May 2014; Department of Family and Community Services, Charging Rent Policy, July 2016, p 9.

The gap between Sydney's subsidised and private rental markets is evident when reviewing Anglicare Australia's *2016 Rental Affordability Snapshot*. According to the study, of the 12,993 private rentals advertised for rent during one weekend in Greater Sydney, 688 were affordable and appropriate for people living on the minimum wage (approximately 5.3 per cent of all available properties), while only 43 were affordable and appropriate for people on income support (just over 0.3 per cent). For single households on the Newstart allowance with one child aged over eight years, no private rentals in Greater Sydney or the Illawarra were deemed affordable and appropriate by Anglicare.[193]

The 2010 Australia's Future Tax System Review (Henry Tax Review) concluded that, nationally, this gap has contributed to tenants remaining in public housing for longer than they may want or need, consequently exacerbating waiting times for others in need of accommodation.[194]

A 2013 report by the NSW Auditor-General found that at the time there were approximately 55,000 eligible households—representing about 120,000 people—on the waiting list for public housing.[195] As of June 2015, according to the NSW Department of Family and Community Services, the expected waiting times for a two bedroom social house in Sydney's south east and north is around ten or more years, while in the city's west and south west the wait can be anywhere from two to five years in Campbelltown to over a decade in Liverpool or Auburn.[196]

7.4 Emergency housing and homelessness

The trickle-down effect of unaffordable housing has the greatest impact on the nation's most vulnerable: namely, low or no income individuals who are unable to access government or community-subsidised housing. When families cannot afford to own or rent a home, their choice is limited to living in overcrowded homes, emergency accommodation or the streets.

Census data shows that on Census night 1.2 per cent of the Greater Sydney population experienced some form of homelessness,[197] whether sleeping out, staying in emergency accommodation or living in severely crowded houses (Table 13). The city and inner south, inner west and south west had the highest levels of homelessness on Census night:

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[193] Anglicare Australia, Rental Affordability Snapshot, April 2016, p 69.

[194] Commonwealth Government, Australia's Future Tax System Final Report, Part 2, Vol 2, 2 May 2010, p 605.

[195] NSW Auditor-General, Making the best use of public housing, July 2013, p 2.

[196] Department of Family and Community Services, Expected Waiting Times, NSW Government, June 2015.

[197] The ABS defines a person is homeless if they do not have suitable accommodation alternatives and their current living arrangement is in a dwelling that is inadequate; or has no tenure, or if their initial tenure is short and not extendable; or does not allow them to have control of, and access to space for social relations.

Table 13: Homelessness by Greater Sydney region, 2011 Census			
Region	**No of homeless persons**	**Total population**	**Percentage of homeless**
City and Inner South	4,473	130,610	3.42%
Inner West	1,915	110,868	1.73%
South West	2,103	124,558	1.69%
Parramatta	2,137	148,750	1.44%
Blacktown	1,411	107,594	1.31%
Eastern Suburbs	1,246	110,489	1.13%
Inner South West	2,253	199,753	1.13%
Outer West and Blue Mountains	1,024	110,973	0.92%
Outer South West	774	85,666	0.90%
Central Coast	767	129,680	0.59%
North Sydney and Hornsby	863	154,451	0.56%
Ryde	300	64,729	0.46%
Northern Beaches	411	95,224	0.43%
Sutherland	328	82,122	0.40%
Baulkham Hills and Hawkesbury	233	72,737	0.32%

The Census further reported that in 2011 the rate of homeless persons in NSW was 40.8 persons per 10,000 population: an increase on both 2006 and 2001 levels (33.9 and 36.4 respectively).[198]

The largest group of homeless in the 2001, 2006 and 2011 Censuses are those who live in 'severely' crowded dwellings: defined as dwellings which needed four or more extra bedrooms to accommodate residents adequately. According to the ABS, while the number of people in this group fell slightly between 2001 and 2006, it jumped 31 per cent (9,857 people) to 41,390 in 2011 and accounted for most of the rise in homelessness.

Census data for NSW also reported a 30.6 per cent jump in the number of people living in severely crowded dwellings (Table 14). After the Northern Territory, NSW has the second highest rate of people living in marginally housed, crowded dwellings (32 people per 10,000 population).[199]

Table 14: NSW persons living in 'severely' crowded dwellings, 2011 Census[200]			
Census year	**No of homeless persons (approximate)**	**Proportion of homeless persons**	**Change from previous Census**
2001	6,202	22%	-
2006	5,999	27%	-3.3%
2011	7,834	34%	30.6%

[198] ABS, 2049.0 - Census of Population and Housing: Estimating homelessness, 2011, 12 November 2012.

[199] Ibid

[200] Ibid Table 4.

8. FISCAL AND ECONOMIC IMPACTS OF HIGH HOUSE PRICES

Available evidence demonstrates that unaffordable housing can damage the broader economy. The RBNZ has stated that the impact of high house prices is not confined to the residential property sector; "[d]ynamics in residential property markets can significantly impact the cost of living, net worth of households, countries' cyclical economic performance, and the wider financial system".[201]

This chapter discusses three existing fiscal and economic challenges that may be exacerbated by steadily rising high house prices:

- Existing inequity and revenue loss from Commonwealth tax concessions;
- An increasing reliance on transfer duty in NSW that may result in fiscal volatility in the long term; and
- A growing property market 'bubble' that, if it were to burst, risks causing widespread economic consequences.

8.1 Commonwealth tax concessions

As discussed in section 6.4, both owner-occupied and investment housing benefits from a tax-privileged status that stakeholders argue has exacerbated the existing inequitable distribution of household wealth.

In its country report for Australia, the International Monetary Fund (IMF) concluded that Australia's tax and benefits system incentivises real estate investment, which increases demand for housing and potentially leads to negative implications for housing affordability, financial stability and equity. In particular, the IMF was critical of the 50 per cent capital gains tax (CGT) discount for housing investors, as well as negative gearing concessions:

> **The CGT concession for investors and the tax deductibility of net losses on housing investments from other income increase incentives for 'negative gearing'.** When an investor expects capital gains, a property investment may be worthwhile even if rental income does not cover interest costs and maintenance expenses. This effect is enhanced if the resulting loss can be deducted from taxable income, and by concessional CGT treatment. In an environment of rapidly rising real estate prices, the incentives for this form of investment increase, since low-taxed expected capital gains increase. Negative gearing thereby acts as an amplifier of price movements in the real estate market and encourages investment that would otherwise incur ongoing revenue losses. At the same time, however, this tax treatment could subsidize rents, since at a given dwelling price it makes a lower rent acceptable to landlords. However, as it also increases dwelling prices, the net impact is not clear—moreover, if the motivation is to help low-income renters, this can be done much more efficiently (e.g., through direct transfers).[202]

[201] E Watson, note 100, p 20.

[202] International Monetary Fund, Australia: Selected Issues, IMF Country Report No. 15/275, September 2015, p 53.

These two tax concessions are not exclusive to the housing sector, and apply to a range of other asset classes in addition to housing.[203] However, the 2016 Commonwealth Parliamentary inquiry into home ownership reported that these concessions could be claimed to a much greater extent in the property sector than in other areas:

> The RBA emphasised that although the tax system does not discriminate against asset classes in terms of the ability of an investor to negatively gear them, there is a far higher capacity to leverage property than any other type of asset:
>
> > I think the distinction is not that different assets are treated differently; it is just that not all assets offer the prospect of capital gains. And to the extent that you can gear an asset it is treated the same, but it is not feasible to gear all assets to the same extent as can be done for property. It is not that property is treated differently; it is just that the effect is quite particular.
>
> The RBA made the point that 'the combination of negative gearing and concessional taxation of capital gains creates an incentive for people to invest in assets that produce capital gains versus assets that do not.'[204]

Yates has also argued that these tax concessions favour older, wealthier Australians and increase housing demand from already established households:

> [A]ssistance provided to owners is equally perversely distributed by age, with older, high-income households – with significant equity in owner-occupied property – receiving far greater benefits than younger households with low housing equity. While imputed rent is less than interest costs (which can occur until housing equity reaches a critical point), younger households are disadvantaged when purchasing a dwelling compared with investors with the same income and housing wealth characteristics because of their inability to deduct mortgage interest costs. In the short run, it is cheaper for low-income, low-wealth households to rent as investors can keep rents below financing costs because of the returns available from geared rental investment.
>
> The combined impact of increases in income (due to rising living standards), increases in wealth and generous tax concessions to higher-income households provides one explanation of why established households have increased their demand for housing. This is manifest both in the form of consumption demand for increased services from owner-occupied housing (met by relocating to a more expensive dwelling or by upgrading their existing dwelling through expenditure on alterations and additions) and in the form of investment demand for housing assets (met through increased investment in owner-occupied housing and/or rental housing). In both cases, mortgage finance helps render this demand effective.[205]

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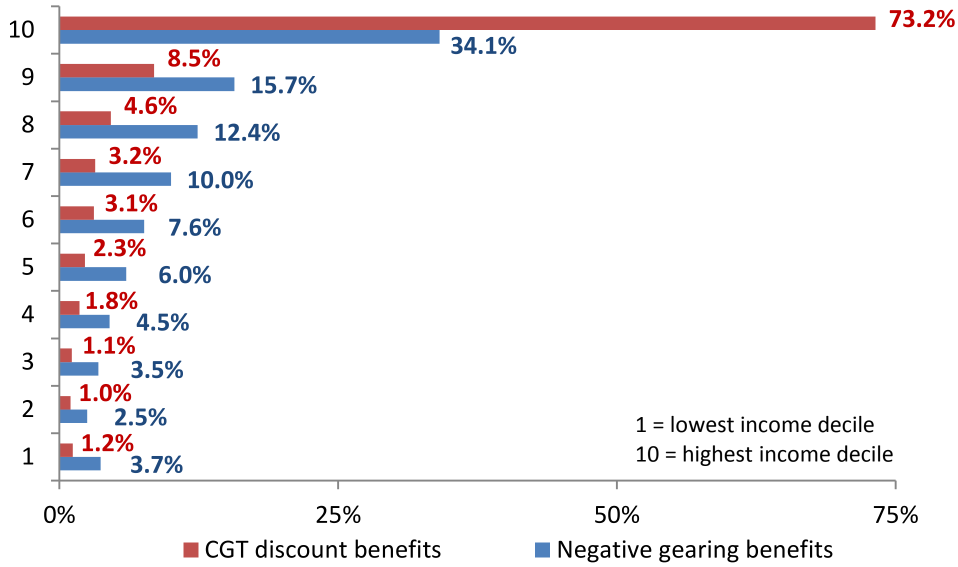
[203] For example, see: Australian Tax Office, Guide to capital gains tax 2016, 26 May 2016., Appendix 4; Senate Standing Committee on Economics, note 107, p 17.

[204] Senate Standing Committee on Economics, note 107, p 19.

[205] Yates, note 14, p 286.

Other research, such as that conducted by The Australia Institute (Figure 52), supports the view that wealthy households are the primary beneficiaries of these tax concessions, rather than lower income households, who face more difficulties entering the property market as a consequence of their lower levels of wealth.

Figure 52: Distribution of negative gearing and CGT discount benefits by household income decile, 2014-15[206]



The loss of Commonwealth tax revenue as a result of these disproportionately skewed concessions is considerable. Modelling conducted by the National Centre for Social and Economic Modelling (NATSEM) on behalf of The Australia Institute estimated that each year negatively geared residential investment property reduces tax revenue by $3.7 billion—with half these tax breaks flowing to the top 20 per cent of households—while the CGT discount costs the budget $4 billion per year, with almost three quarters of benefits flowing to the top 10 per cent of households.[207]

2016 research by The Grattan Institute made even higher estimates of foregone tax revenue, with these tax concessions subsidising increasingly large rental losses experienced by Australian landlords:

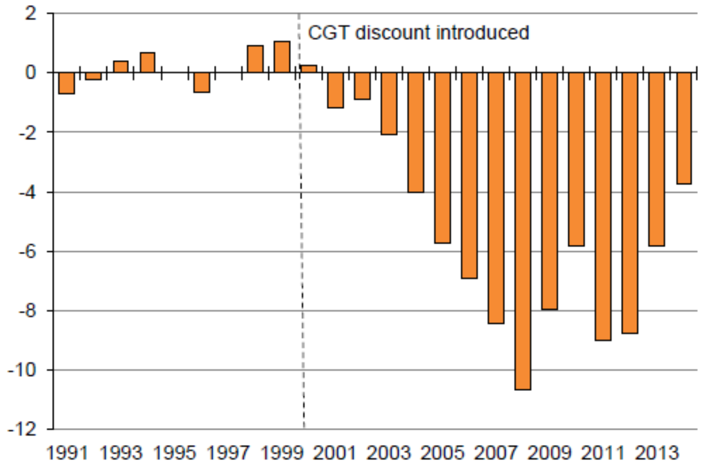
> In their eagerness to pursue tax minimisation strategies, Australian landlords have moved from being collectively profitable, to accruing billions in net rental losses each year. In 2013-14, 1.3 million landlords reported collective losses of $11 billion. And total net rents have been consistently negative since the introduction of the CGT discount. Losses are reducing only because interest rates have fallen.[208]

[206] M Grudnoff, Top Gears: How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices, The Australia Institute, April 2015, p 5.

[207] Ibid pp 4-5.

[208] J Daley, D Wood, Hot property: Negative gearing and capital gains tax reform, Grattan Institute, April 2016, p 26.

Figure 53: Total net rent, 1991 to 2013 ($b, 2013-14 prices)[209]



Although it is the Commonwealth that experiences the loss of tax revenue as a result of these concessions,[210] NSW and other States feel the effects through rising house prices associated with increased investor demand. The States may also receive smaller Commonwealth payments to address vertical fiscal imbalance as a result of the Commonwealth's reduced revenue pool.

8.2 Transfer duty in NSW

Stamp duty is any tax levied on a legal document, such as a contract for sale of a business or land. In NSW, stamp duty payable on land is referred to as transfer duty. It is an administratively simple tax to collect as it is levied on the sale price, which is easily observable, and is levied by all Australian States.[211]

However, most economists have concluded that stamp duties are highly inefficient taxes that cause a number of problems for communities and governments. The 2008 Commonwealth Senate Committee report on housing affordability, *A good house is hard to find*, summarised the shortcomings that arise from stamp duties:

> Stamp duty is the most visible and substantial state government impost on home buyers. State governments have failed to adjust stamp duty thresholds to keep pace with house prices. This led to a substantial increase in the average rate of stamp duty on a median priced house. The committee's broader concern is that stamp duties are inefficient. They discourage people from moving to more appropriate housing types as their circumstances change. They may encourage first home buyers to buy a larger home than they need at the time to avoid paying further duty should they relocate.[212]

[209] Ibid

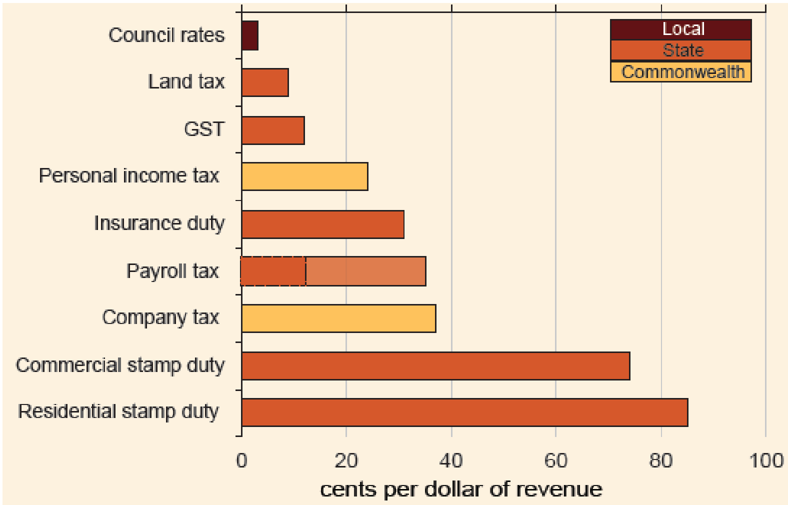
[210] For a summary of the Commonwealth's current fiscal balance see: Parliamentary Budget Office, National fiscal outlook as at 2016-17 budgets, Australian Government, Report No 03/2016.

[211] Commonwealth Government, Australia's Future Tax System Final Report, Part 1, Vol 1, 2 May 2010, pp 252-53.

[212] Legislative and General Purpose Standing Committee, A good house is hard to find: Housing

A 2015 Commonwealth Treasury analysis found stamp duty on conveyances caused a high estimated loss of economic activity that predominantly affected Australian workers.[213] Similar findings have been made by the Australian National University,[214] The Grattan Institute (see Figure 54),[215] Commonwealth Parliamentary Committees,[216] and the NSW Government.[217]

Figure 54: Loss of economic activity (cents) for each $ increase in tax[218]



These findings were also made by the Henry Tax Review, which recommended the abolition of stamp duties in favour of a broad-based land tax; a recommendation that has been taken up by the ACT (see section 9.3.1).[219] However, the most significant impact for State Governments is the volatility of stamp duty compared to other taxes (Figure 55 overleaf). This volatility occurs for the following reasons:

> This is because the tax base is determined by two variables that can be subject to significant swings in short periods of time: the value of properties being transferred and the number of properties being transferred. For instance, around 52,000 established properties were turned over in Sydney in 2007, but only 42,000 in 2008, a fall of 19 per cent. The progressive nature of conveyance duty rates can add to this volatility.[220]

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affordability in Australia, Parliament of Australia, 16 June 2008, p 3.

[213] L Cao, A Hosking, M Kouparitsas, D Mullaly, X Rimmer, Q Shi, W Stark, S Wende, Understanding the economy-wide efficiency and incidence of major Australian taxes, Commonwealth Treasury, Working Paper No 2015-01, April 2015, pp 52-3.

[214] C Murphy, Efficiency of the tax system: a marginal excess burden analysis, Crawford School of Public Policy, ANU, Working Paper No 4/2016, June 2016

[215] J Daley, B Coates, Property Taxes, Grattan Institute, July 2015.

[216] Legislative and General Purpose Standing Committee, note 212.

[217] NSW Government, Future State: NSW 2056, NSW Intergenerational Report 2016, p 70.

[218] Daley and Coates, note 215, p 12.

[219] Commonwealth Government, note 211, p 263.

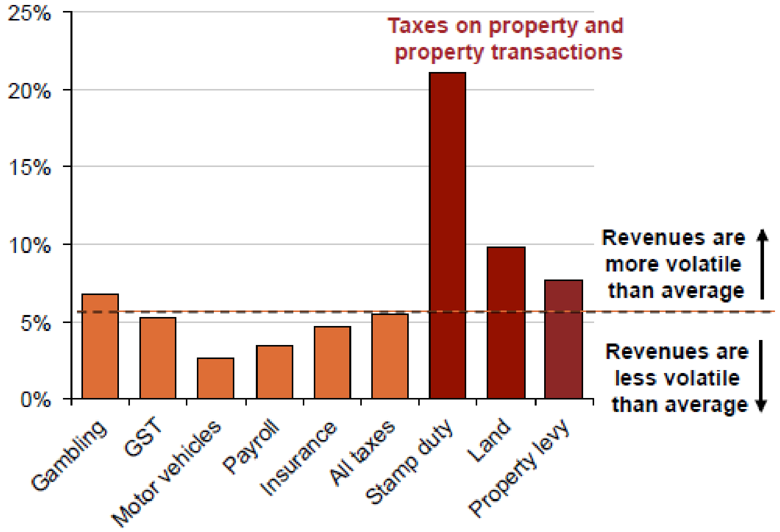
[220] Commonwealth Government, note 211, p 253.

Stamp duty's equity and efficiency problems

The Henry Tax Review found that transfer duties prevent people moving home. It referred to a number of studies that outlined a range of efficiency and equity effects that occur as a result of this discouragement:

- People may commute more, creating greater road congestion.
- People who want larger houses may choose to renovate, rather than move; or they may buy a larger house than they need in anticipation of eventually needing the space. This could lead to a housing stock that is larger than necessary, which may have environmental consequences.
- Making housing transactions more expensive may lead to higher unemployment, as people are less likely to move to get a job, and to lower productivity, as there is greater impediment to shifting to a better-paying job.
- Some groups may have less access to the housing market since they need to save to pay the stamp duty.
- Stamp duties may discourage older Australians from moving to a smaller home and reduce the amount of equity withdrawn from a home if they do downsize.[221]

Figure 55: Volatility of different Australian taxes[222]



The Grattan Institute has contended that State Treasurers dislike volatility because it makes budgeting more complex.[223] If this is correct, NSW may face increasingly complex budgetary challenges as the State becomes more reliant on transfer duties for revenue. As shown in the following figures, transfer duty as a proportion of NSW tax revenue has surged since the mid-1990s, from 12.4 per cent of total State tax revenue ($1.45 billion) in 1996-97 to a forecast 29.5 per cent in 2016-17 ($8.78 billion).

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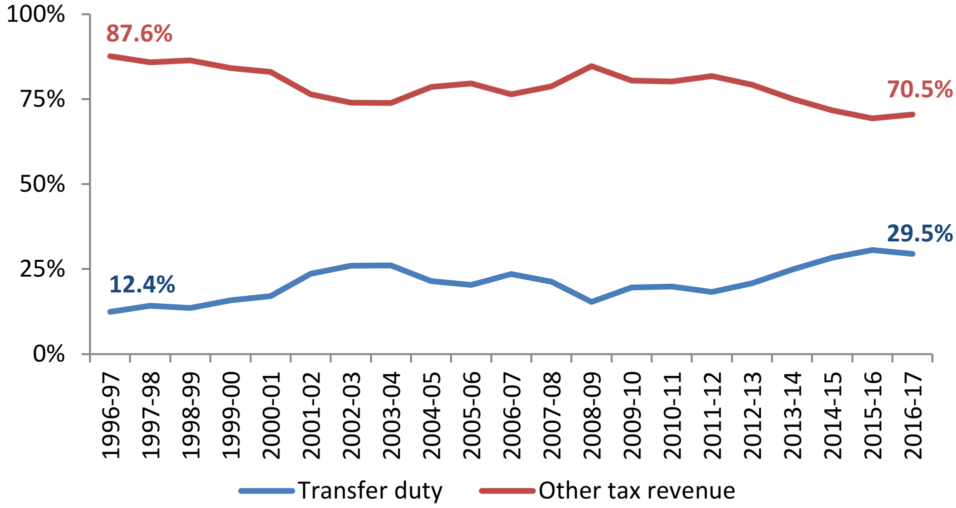
[221] Ibid p 255.
[222] Daley and Coates, note 215, p 7.
[223] Ibid p 6.

Figure 56: Transfer duty as proportion of NSW tax revenue, percentage, 1996-97 to 2016-17[224]



NSW Government projections indicate that the State faces ongoing dependence on transfer duty, even in the face of diminishing returns from the tax. According to the NSW Budget 2016-17, the proportion of tax revenue comprised of transfer duty is forecast to stay around the 30 per cent mark until 2019-20, when duty revenue is estimated to increase to approximately $9.8 billion.[225]

Looking ahead to the mid-21st century, the NSW Government's 2016 Intergenerational Report forecast that, without policy change over the 40 years to 2056, NSW will become increasingly reliant on volatile transfer duty and other transaction taxes:

> We are becoming increasingly dependent on transfer duty, which is expected to grow at 6.4 per cent a year over the projection period, compared to total land taxes, which grow at 6.3 per cent. But the high average growth rate will not be steady. Year-on-year growth in transfer duty revenue, which depends largely on property transactions, has varied between negative 32 per cent and positive 39 per cent over the last 10 years. As well as being volatile, transfer duty is also relatively inefficient, and its growth as a share of the economy may affect economic growth.[226]

Increasing dependence on transfer duty also exposes the State to additional fiscal burdens due to the costs of an increasingly ageing population:

> [Figure 57] presents the key changes in the fiscal gap between the no-ageing and ageing scenarios. These are the differences between each area's contribution to the fiscal gap with, and without, ageing.
>
> The 2.2 percentage point increase in the fiscal gap due to population ageing comes

---

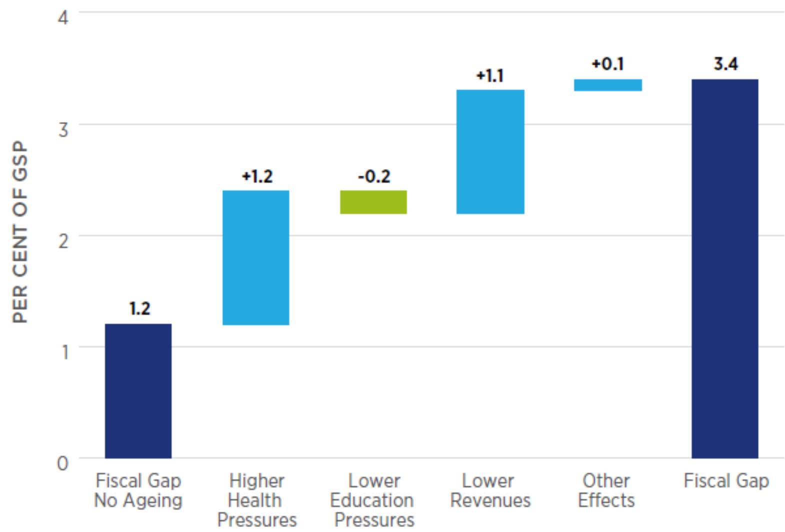
[224] Transfer duty figures derived from NSW Budget Papers 1996-97 to 2015-16; total tax revenue figures taken from NSW Government, Budget Paper No 1: Budget Statement, NSW Budget 2016-17, Table C.1.

[225] NSW Government, Budget Paper No 1: Budget Statement, NSW Budget 2016-17, Table 5.4.

[226] NSW Government, note 217, p 70.

> from higher growth in health expenses (+1.2 percentage points) — partially offset by lower growth in education (-0.2 percentage points) — and **slower growth in revenues (+1.1 percentage points). The slower revenue growth is primarily due to lower transfer duty, land tax and payroll tax revenues. Housing price and payroll tax growth decline with a smaller traditional working-age population share.**[227] [emphasis added]

Figure 57: Key changes in fiscal gap between no-ageing and ageing scenarios, 2055-56[228]



Nevertheless, while maintaining significant population growth may ameliorate a number of future revenue challenges, high levels of migration—particularly when migrants move predominantly to Sydney (see section 6.1.1)—simply poses different and equally problematic challenges for government and communities. These challenges are discussed in section 9.1.2.

8.3 Property bubbles and busts

8.3.1 Is Sydney experiencing a property bubble?

It remains subject to debate, but there appears to be a growing belief that Sydney—or even the entire nation—is experiencing a property bubble, defined by Stiglitz in the following manner:

> [I]f the reason that the price is high today is only because investors believe that the selling price will be high tomorrow—when "fundamental" factors do not seem to justify such a price—then a bubble exists.[229]

Arguments for and against the claim that Sydney is currently experiencing a housing bubble are outlined in the breakout boxes overleaf.

[227] NSW Government, note 217 p 81.

[228] Ibid.

[229] J Stiglitz, 'Symposium on Bubbles' (1990) 4 *The Journal of Economic Perspectives* 13, p 13.

We ARE experiencing a housing bubble

Over the past few years, a range of commentators have argued that Sydney—and possibly Australia—is in the middle of a property bubble, fuelled by what observers have argued to be a combination of investor demand, debt-financed speculation, a taxation system rewarding speculators and/or net rental income losses.[230] As noted in an opinion piece by economist Lindsay David:

> As recent history tells us, there is no greater giveaway that a housing market is experiencing a debt-fuelled bubble than a market with ever-compressing rental yields and ever-expanding household liabilities.[231]

However, it is not just commentators who believe either Sydney or Australia is in the middle of a property bubble.

In an interview with Switzer TV, former Commonwealth Bank CEO and Financial System Inquiry Chair David Murray likened the Australian housing market to the 17th century Dutch Tulip Bubble,[232] leaving the economy vulnerable to collapse if not managed effectively by regulators.[233] ASIC Chairman Greg Medcraft has also argued that both Sydney and Melbourne are in a housing price bubble,[234] while Treasury secretary John Fraser warned in 2015 that Sydney is "unequivocally" in a housing bubble and argued that record low interest rates were encouraging people to overinvest in real estate.[235]

A number of international observers have also warned of a bubble. UBS's 2016 Global Real Estate Bubble Index ranks Sydney as the fourth highest ranked international city facing a bubble risk, having jumped up the ranks since 2012 after becoming a target for foreign investors:

> Real housing prices peaked in the second half of 2015 after an increase of 45% since mid-2012. Since then, prices have corrected by a low single-digit. The Australian residential market is influenced by a rapidly growing foreign demand (in particular, Chinese), which has tripled in value over the last three years. Increasing supply and further tax measures to reduce foreign housing investments may end the price boom rather abruptly.[236]

Additionally, the large number of new apartments either recently completed or under construction in many Australian capitals raises the risk of an apartment oversupply, which the RBA has stated could result in banks experiencing material losses on their development lending.[237]

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230 P Egan, P Soos, Bubble Economics: Australian Land Speculation 1830-2013 (2014, World Economics Association) p v; I Verrender, A bubble is building that could shake our economy to its core, ABC News, 29 February 2016; Grudnoff, note 206, p 12.

231 L David, As Australia's housing bubble gets bigger, the Reserve Bank prepares to blame Trump, The Guardian, 1 December 2016.

232 A Sooke, Tulip mania: The flowers that cost more than houses, BBC News, 3 May 2016.

233 Switzer TV, Interview with David Murray (Online interview, 1 December 2016).

234 S Danckert, ASIC warns on housing bubble, cyber threats, Sydney Morning Herald, 20 March 2017.

235 M Janda, M Clarke, Sydney housing 'unequivocally' in a bubble, says Treasury boss: PM Tony Abbott happy to see prices rising 'modestly', ABC News, 1 June 2015.

236 UBS, Global Real Estate Bubble Index, September 2016, p 13.

237 RBA, note 99, p 25.

Although the RBA is not convinced that a housing bubble exists in Australia,[238] investment firm Credit Lyonnais Securities Asia has forecast a worst case scenario where falling apartment prices in specific cities could expand to other regions and market sectors, resulting in dwelling prices falling sharply in all areas and leading to a recession.[239]

We are NOT experiencing a housing bubble

In contrast to the examples above, other stakeholders express doubt about the existence of a housing bubble. The 2016 Commonwealth Parliamentary inquiry into home ownership commented that, although prices were inflated in Sydney and Melbourne, this was not a reflection of the Australian housing market as a whole. The inquiry also referred to evidence provided by ANZ Bank which stated that, although Sydney's housing market was expensive, it was not experiencing a bubble.[240]

In relation to the national property market, the Commonwealth Bank stated in 2013 that evidence indicating a house price bubble is far from compelling, and that in "a true bubble rising prices need to be backed up by: an acceleration in housing credit growth over a relatively short period; an easing in lending standards; and an expectation that dwelling prices keep rising."[241]

The RBA also contends that recent monetary policy measures have helped reduce the risk of a market bubble. The previous RBA Governor Glenn Stevens has stated that the factors responsible for this reduction in risk include strengthened lending standards,[242] the slowing of lending growth, and a large supply of new apartments expected over the next couple of years.[243]

However, more recent APRA data indicates that growth in investor lending has begun to increase again after slowing to a low of 4.5 per cent in August 2016, leading Financial System Inquiry Chair David Murray to say that the current investor lending limit is not enough to slow down investor lending.[244]

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[238] Statement by Glenn Stevens, Governor: Monetary Policy Decision, Media Release, 2 August 2016.

[239] F Chung, Housing bubble a 'recession risk', news.com.au, 2 September 2016.

[240] Senate Standing Committee on Economics, note 107, pp 6, 16.

[241] Commonwealth Bank, note 83.

[242] In particular, the Australian Prudential Regulation Authority's (APRA) December 2014 decision to limit investor lending by banks to an annual growth rate of 10 per cent. See APRA, note 146.

[243] Statement by Glenn Stevens, Governor: Monetary Policy Decision, Media Release, 2 August 2016.

[244] M Roddan, RBA, APRA should curb investor loans: David Murray, The Australian, 13 February 2017.

8.3.2 The consequences of a property market bust

Whether or not observers agree that Sydney or Australia's property market is in a bubble, they would likely agree that, were we in a collapsing bubble, Australia would see a sharp and prolonged economic recession.

Australia has seen a series of economic depressions and recessions since the mid-19th century. Of these, Egan and Soos argue that economic depressions in the 1840s, 1890s and 1930s (as well as the recessions in the mid-1970s and early 1990s) were attributable to land market bubbles.[245] To illustrate the harms caused by property market collapses, this paper focuses on the 1890s Depression and its impact on Australian economic and community life.

Following the aftermath of economic depression during the 1840s, Australia experienced "The Long Boom": a 40 year long era of economic expansion, rapidly increasing population and rising incomes. Much of the prosperity of the era has been linked to the discovery of gold in Victoria in 1851, but the wool industry also expanded during the mid-to-late 19th century to become a significant economic sector.[246]

In particular, Melbourne experienced a substantial urban construction boom during the 1880s. According to Simon, the Melbourne land boom commenced in earnest following the introduction of trams, and the rapid growth in population generated demand for land in the ring suburbs around the centre of the city:

> Through much of the 1880s the *stock* of properties was growing at around 5 per cent per year. The rapid increase in the stock of properties was, additionally, associated with large rises in the price of property. … At the same time as the stock was growing at around 5 per cent per year, prices were growing at between 5 and 10 per cent per year. At its peak, in 1888, average values rose by over 18 per cent and the stock increased by 6½ per cent.[247]

The Melbourne land boom, spurred on by large increases in lending, affected most members of society—including members of parliament—and was concurrent with a boom in share prices.[248] The boom came hand-in-hand with a substantial increase in foreign and government debt, the rapid growth of an inexperienced financial sector governed by a highly laissez-faire regulatory regime, and an 'irrational exuberance' that led investors to expect unrealistic capital gains on real estate investment.[249]

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[245] Egan and Soos note 245, p iii.

[246] I McLean, *Why Australia prospered: The shifting sources of economic growth* (Princeton University Press, 2013), Ch 5; Egan and Soos, note 245, p 18.

[247] J Simon, 'Three Australian Asset-price Bubbles' in T Richards, T Robinson, Asset Prices and Monetary Policy, 18-19 August 2003, pp 20-1.

[248] Ibid pp 22.

[249] McLean, note 246, p 120; Egan and Soos, note 245, p 20.

However, from 1891 an economic crash ensued. While the exact trigger for the crash is unclear,[250] McLean listed a number of incidents that ushered in economic depression in the Australian colonies:

> The London capital market became increasingly concerned about the expected returns on further lending to Australia, at least partly in reaction to events in Argentina [which experienced a recession in 1890] … This is the contagion effect, familiar from recent financial crises such as those among Asian economies in 1997. And the popping of a speculative bubble in land and housing in Victoria led to a crisis in the financial sector in 1893 with the collapse or temporary closure of many banks leading, in turn, to the loss of freezing of deposits and a decline in lending. Growth there slowed, reducing colonial government revenues, thereby restricting Victoria's capacity to continue funding high levels of public investment in infrastructure and further slowing domestic economic activity. The downturn in economic prospects in the colonies more generally (with the exception of Western Australia) at first slowed the rate of immigration, thus compounding the negative demand forces in their economic, then e dot a complete drying-up of immigration as the depression deepened.[251]

The effect of the crash was substantial and long term in nature. Simon commented that, following the crash, the population of Greater Melbourne declined from 490,000 in 1891 to 458,000 in 1897 as people left the city to seek better opportunities elsewhere.[252]

Egan and Soos wrote that, after increasing by 44 per cent from 1882 to 1891, Melbourne's housing prices fell 29 per cent between 1891 and 1895 and took until 1950 to reach the former peak established in 1891. Sydney saw similarly large falls in house prices during what is known as the 1890s Depression, falling 37 per cent from 1890 to 1898 and not reaching its 1890 peak until 1968. Furthermore, the 1890s saw ongoing labour unrest and unemployment levels peaking at 16 per cent as a consequence of the land bust, the failure of financial institutions and large falls in domestic and global economic output, trade and commerce.[253]

According to recent research, in some ways the 1890s Depression in Australia was deeper and longer lasting than the Great Depression of the 1930s; namely, in that it was preceded by a much larger increase in credit and then experienced a major banking collapse.[254]

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[250] Simon, note 247, p 23.
[251] McLean, note 246, pp 121-22.
[252] Simon, note 247, p 23.
[253] Egan and Soos, note 245 pp 34, 40.
[254] D Merrett, 'The Australian Bank Crashes of the 1890s Revisited' (2013) 87 *Business History Review* 407, p 409.

Egan and Soos made the same argument in their 2014 book Bubble Economics:

> The data considered so far suggests the 1890s depression was more severe than the 1840s and 1930s depressions. The falls in real GDP and real GDP per capita were greater in the 1890s than in the 1930s, although this is partially attributable to high population growth in the lead up to this depression. Further, the recovery to the previous GDP peak in real terms took twice as long in the 1890s than during the 1930s. As well as a greater economic contraction during the 1890s, the level of deflation was more severe and lasted for twice as long as the 1930s. The 1890s experienced widespread financial instability, resulting in a large number of banking and [non-bank financial institution] failures, while the 1930s financial system was far more robust. Bank credit losses and bad and doubtful debts were also significantly higher in the 1890s depression, with no recorded credit losses during the 1930s. The fall in bank profitability was much greater in the 1890s than in the 1930s.[255]

Egan and Soos argue that the modern financial sector is fuelling another land market bubble, amplifying financial instability which in turn may lead to economic downturn.[256] Whether Sydney or Australia is facing a property bubble of such magnitude (or at all) is uncertain, and beyond the scope of this paper to judge.

However, given the grave consequences that have arisen in the past when assets bubbles were left unchecked, policymakers would be well placed to consider these historical examples when assessing current trends in the housing market. As was written by the philosopher George Santayana, "those who cannot remember the past are condemned to repeat it".[257]

[255] Egan and Soos, note 245, p 56.
[256] Ibid p iii.
[257] G Santayana, *The Life of Reason* (Dover Publications, 1980) Vol 1.

9. RECENT POLICY RESPONSES AND PROPOSALS

Since 2005 the NSW Parliamentary Research Service has produced a number of papers on the issue of housing. These papers provide a detailed overview of historical State and Commonwealth Government approaches to housing provision and the cost of housing in NSW.[258]

Given the plethora of research that has been conducted into this issue, this paper does not provide a historical overview of housing affordability policies and proposals. Instead, it summarises recent policy proposals by the NSW Government prior to the release of a comprehensive housing affordability strategy later this year.[259] It also discusses a number of proposals currently being discussed in the public sphere but not yet adopted in NSW.

9.1 Dwelling supply responses and challenges

9.1.1 The NSW Government's Plan for Growing Sydney

Successive NSW Governments have recognised that, with a rising population, Sydney requires a substantial increase in the number of homes in order to meet demand.[260] As outlined in section 6.1, following a sustained decline in dwelling approvals between 2001-02 and 2008-09, the number of approvals has since grown to record highs, reaching a 15 year high of 53,992 in 2015-16. In December 2014, the Baird Government released *A Plan for Growing Sydney*, which reported that Sydney will need an additional 664,000 new dwellings by 2031 (since revised to 725,000 dwellings by 2036).[261] To reach this target, *A Plan for Growing Sydney* sets out the following four directions for the Government:[262]

- Direction 2.1: Accelerate housing supply across Sydney;

[258] Key papers on housing affordability that have been produced by the NSW Parliamentary Research Service include: J Wilkinson, Affordable Housing in NSW: Past to Present, NSW Parliamentary Research Service, BF 14/2005; L O'Flynn, Housing Affordability, NSW Parliamentary Research Service, BF 04/2011; L O'Flynn, Social housing, NSW Parliamentary Research Service, EB 08/2011; A Haylen, House prices, ownership and affordability: trends in New South Wales, NSW Parliamentary Research Service, BF 01/2014; A Haylen, Affordable rental housing: the problem and its causes, NSW Parliamentary Research Service, EB 13/2015; A Haylen, Affordable rental housing: current policies and options, NSW Parliamentary Research Service, BF 11/2015.

[259] G Berejiklian MP, Housing Affordability, NSW Parliamentary Debates, 15 February 2017.

[260] In December 2005 the Iemma Government released the *City of Cities Metropolitan Strategy*, which targeted an additional 640,000 new homes for Sydney and the Central Coast to accommodate a (then) projected population growth of 1.1 million people in Sydney by 2031. Similarly, in 2011 the O'Farrell Government released *NSW 2021*, a broad plan to address a range of economic and social reforms, including increasing housing supply and suitable land for greenfield development.

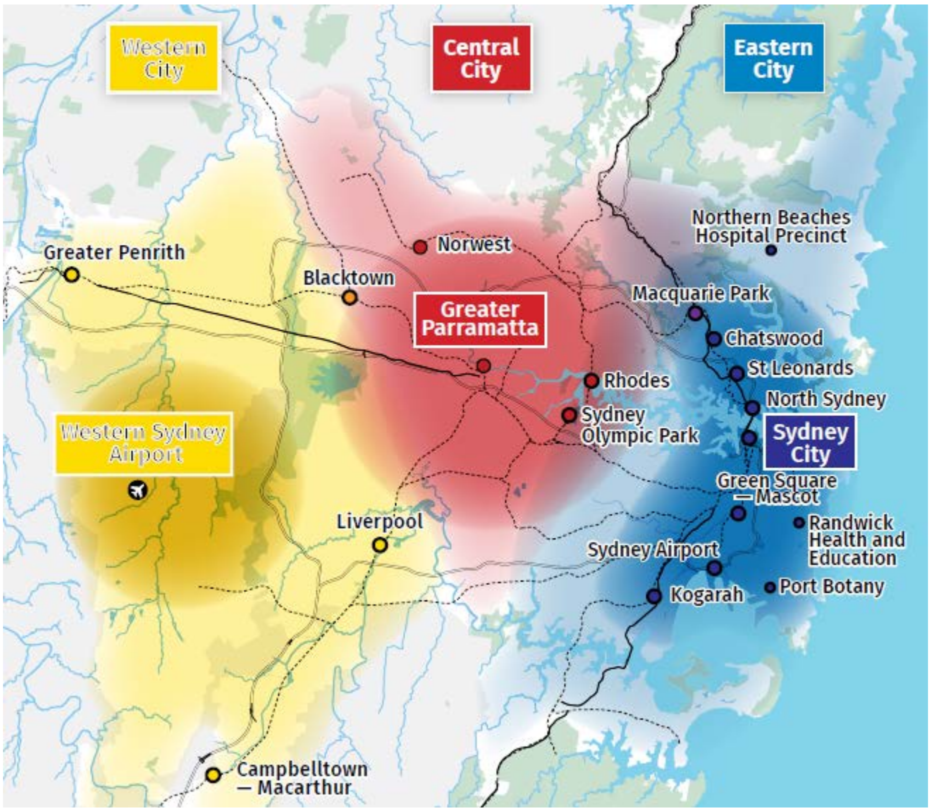
[261] Department of Planning and Environment, A Plan for Growing Sydney, NSW Government, December 2014, p 65; Greater Sydney Commission, Towards Our Greater Sydney 2056, 21 November 2016, p 8.

[262] Department of Planning and Environment, note 261, Goal 2.

- Direction 2.2: Accelerate urban renewal across Sydney – providing homes closer to jobs;
- Direction 2.3: Improve housing choice to suit different needs and lifestyles; and
- Direction 2.4: Deliver timely and well planned greenfield precincts and housing.

These and other Directions are to be managed by the Greater Sydney Commission, an independent entity that retains responsibility for the delivery of the Plan.[263] In November 2016 the Commission released *Towards Our Greater Sydney 2056* (the 2056 Plan), which outlines how the Government will meet the needs of communities across Greater Sydney, including housing.[264] The 2056 Plan proposes that, over the next 40 years, Greater Sydney should change from a city with a single central business district in the city's east into a metropolis of three cities:

Figure 58: A metropolis of three cities: Sydney in 2056[265]



The 2056 Plan aims to create 817,000 jobs and 792,000 homes in Greater Sydney by 2036, and increase the range of jobs, services and other opportunities within 30 minutes of most Sydneysiders, particularly those living in

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[263] Ibid p 18; G Griffith, The Greater Sydney Commission, NSW Parliamentary Research Service, EB 20/2015.

[264] Greater Sydney Commission, Towards Our Greater Sydney 2056, 21 November 2016.

[265] Ibid p 4.

socially disadvantaged areas.[266] To accommodate new housing growth, the 2056 Plan emphasises the need to accelerate housing supply across Greater Sydney; this is to be done as follows:[267]

- Identifying and developing a series of urban renewal corridors, which provide opportunities to focus new housing in centres (both existing and new)with frequent public transport that can carry large numbers of passengers;
- Building medium density development within existing parts of the city—ideally within one to five kilometres of regional transport—and providing a greater variety of housing sizes to suit individual household needs, preferences and budgets; and
- Further land release in Greater Sydney's north west and south west, which would provide opportunities for more intense development and a greater variety of housing choice.

The 2056 Plan is accompanied by six draft District Plans, which link the 2056 Plan with *A Plan for Growing Sydney* and councils' Local Environmental Plans.[268] As an illustration of how these District Plans function, the *Draft West District Plan* identifies a series of overarching priorities to inform strategic planning and subsequent actions, with housing one part of an interconnected strategy to make Western Sydney a viable place to live in the future (Table 15):

Table 15: Draft West District Plan – Actions and Outcomes[269]

Category of action	Example actions	Outcome
Implementation and monitoring	Align land use planning and infrastructure planning	Inform the NSW Government's infrastructure decision making
	Develop a framework to monitor growth and change in Greater Sydney	Inform the ongoing actions and infrastructure investments of Government required to deliver the Plans
Productivity	Implement the Western Sydney City Deal; an October 2016 Commonwealth and NSW memorandum of understanding to target additional infrastructure investment, increase housing and deliver more jobs closer to homes and services	Increase in total jobs in Western Sydney
	Support skills development as Western Sydney Airport is constructed	Reduced inflow of workers from outside the District
Liveability	Councils to increase housing capacity across the District	Creation of housing capacity and increase in diversity of housing choice

[266] Ibid p 7.
[267] Ibid pp 8-9
[268] Greater Sydney Commission, District Plans, 21 November 2016.
[269] Greater Sydney Commission, Draft West District Plan, 21 November 2016.

Table 15: Draft West District Plan – Actions and Outcomes[269]		
	Encourage housing diversity	Increase in diversity of housing choice
	Independently assess need and viability	Increase in affordable rental housing
	Undertake broad approaches to facilitate affordable housing	Increase in affordable housing
Sustainability	Develop a Strategic Conservation Plan for Western Sydney	Protection and management of areas of high environmental value
	Identify land for future waste reuse and recycling	Identification of land for waste management
	Identify and map potential high impact areas for noise and air pollution	Improved land use and transport decision making

The Draft District Plans and the 2056 Plan are on public exhibition until the end of March 2017, with formal submission encouraged to provide feedback and ideas to improve the draft plans.[270]

9.1.2 Ongoing challenges

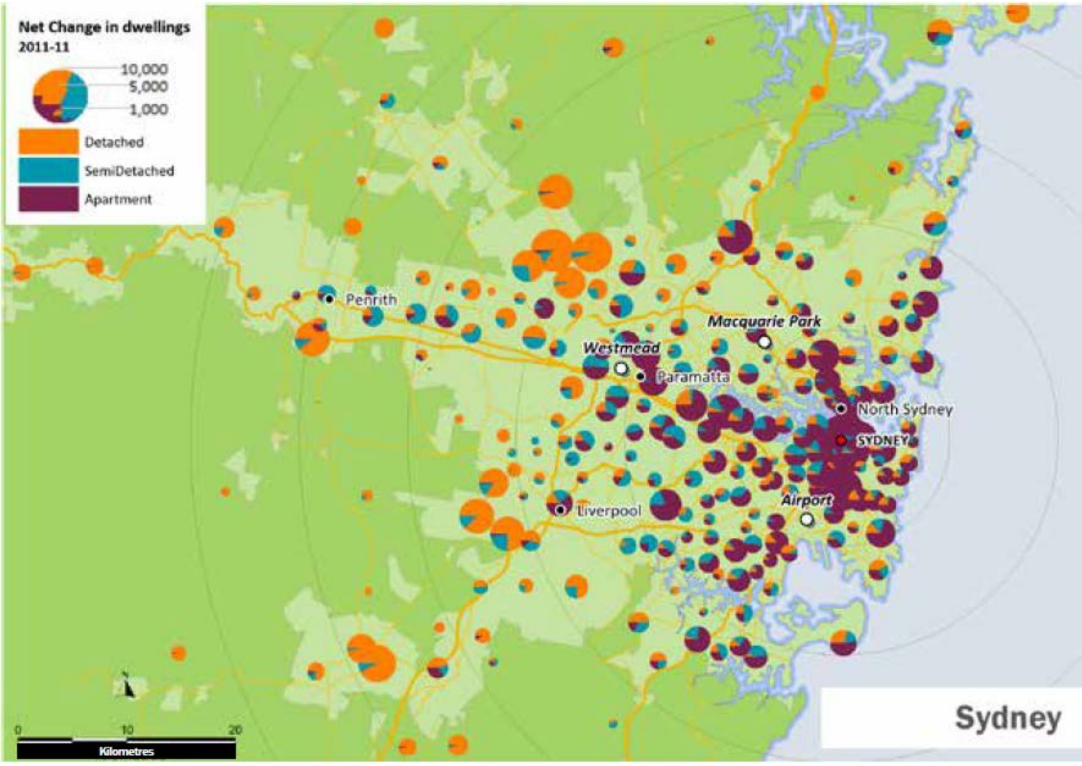
Should the 2056 Plan succeed, it would address to at least some extent the ongoing issues of housing supply in Sydney, as well as a range of urban fringe and infrastructure deficit issues discussed in section 5.2.1. In order to succeed, the 2056 Plan and the associated District Plans must counter a number of development, infrastructure and demographic issues that have emerged in recent years. These are discussed in turn below.

A tale of two cities: There is increasing divergence between inner and outer Sydney, with the former experiencing significant apartment development, and the latter seeing predominantly detached housing construction.[271] In an August 2015 report on Australian cities, the Commonwealth Department of Infrastructure and Regional Development discussed trend:

> Accompanying the change in urban densities in Australia's largest cities is the increase in the number of semi-detached and apartment dwellings being constructed. … In Sydney, semi-detached and apartment dwellings make up 56 per cent of all new dwellings built over the last decade, whereas they made up only 35 per cent of Sydney's total housing stock at the start of the decade, in 2001.
>
> …
>
> While the proportion of apartments and semi-detached houses is increasing as a share of total dwellings, these developments differ substantially from detached dwellings in terms of the number of bedrooms. Of all flats, units and apartments across Australia, the vast majority (82 per cent) have 1 or 2 bedrooms. Conversely, of all detached houses across Australia, 89 per cent have 3 or 4 bedrooms.[272]

[270] Greater Sydney Commission, note 268.
[271] Department of Infrastructure and Regional Development, note 110, p 44.
[272] Ibid pp 42-44.

Figure 59: Distribution of dwelling net change, Sydney, 2001 to 2011[273]



Aside from oversupply concerns in the apartment sector (see section 8.3.1), the significant increase in the number of one or two bedroom apartments has led to concerns that such developments are unsuitable for young family and new migrant households. APRI gave further explanation in a March 2016 report:

> Most of the growth in the need for extra dwellings in Sydney and Melbourne will come from young resident households entering the family formation phase of their lives and from new migrant households who for the most part will also be entering the same phase. Their priority is family friendly two or three bedroom dwellings with some protected external space.
>
> There will be an increase in one- and two-person households. But the planners have not understood that this is largely a consequence of population ageing in Sydney and Melbourne as the householders born after 1950 replace the much smaller numbers born before 1950. The householders aged over 50 currently occupy around half the existing detached housing in Sydney and Melbourne. Though not new households, there will be many more of them because of the ageing effect. This means that the existing shortage of such housing will get worse.[274]

Given this apparent mismatch between housing types and community need, those implementing the 2056 Plan will need to ensure that the goal of greater housing diversity in Greater Sydney remains a priority in the coming decades.

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[273] Ibid p 44.

[274] Birrell and McCloskey, note 108, p v.

Population changes: High immigration will likely continue well into the future, with NSW's population expected increase from 7.6 million people in 2016 to 11.2 million by 2056.[275] This increase is part of a nationwide trend, with the Productivity Commission's April 2016 paper, *Migrant Intake into Australia*, reporting that Australia's population could increase to 50 million by 2060 if net overseas migration increases at the rates seen over the past decade; almost 23 million more people than through natural population increase alone.[276]

The spectre of large population increases has led some experts and commentators to claim that immigration will contribute to high house prices. According to a 2016 paper by APRI:

> The permanent [migration] program is the dominant contributor to Australia's high rate of population growth, though there is also a contribution from net movements in and out of Australia from temporary migrants and Australian residents. The result is that Australia is experiencing the highest rate of population growth in the developed world (apart from Luxembourg).
>
> …
>
> The consequences for Sydney and Melbourne are serious. As we have documented elsewhere, some 64 per cent of the growth in households in Sydney and 54 per cent in Melbourne is due to net overseas migration. These migrant households are vying with residents, investors and upgraders for scarce family friendly housing (mainly detached houses). This, along with tax inducements to investors and record low interest rates, has led to huge increases in housing prices. Younger resident households and migrant households themselves are being priced out of the market. Congestion and competition for access to scarce public facilities, including hospitals, is also getting worse.[277]

While other experts have found that, compared with other drivers, overseas migration had a weak impact on housing prices,[278] migration nevertheless increases demand and subsequently will require an appropriate supply response. Another concern is whether the location of new supply is appropriate for Sydney's growing population. AHURI noted in a November 2016 briefing paper that two of the three regions of Greater Sydney with the highest rates of population increase are in Western Sydney:

> The largest percentage growth in population for Sydney was in the Parramatta area (26.4%), which recorded a growth rate nearly 10 percentage points higher than for the average for the entire greater city (16.7%) … and also had the largest numerical population increase (up by 95 482 to 456 989 people).[279]

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[275] NSW Government, note 217, p 20.

[276] Productivity Commission, Migrant Intake into Australia, Report No 77, April 2016, p 15.

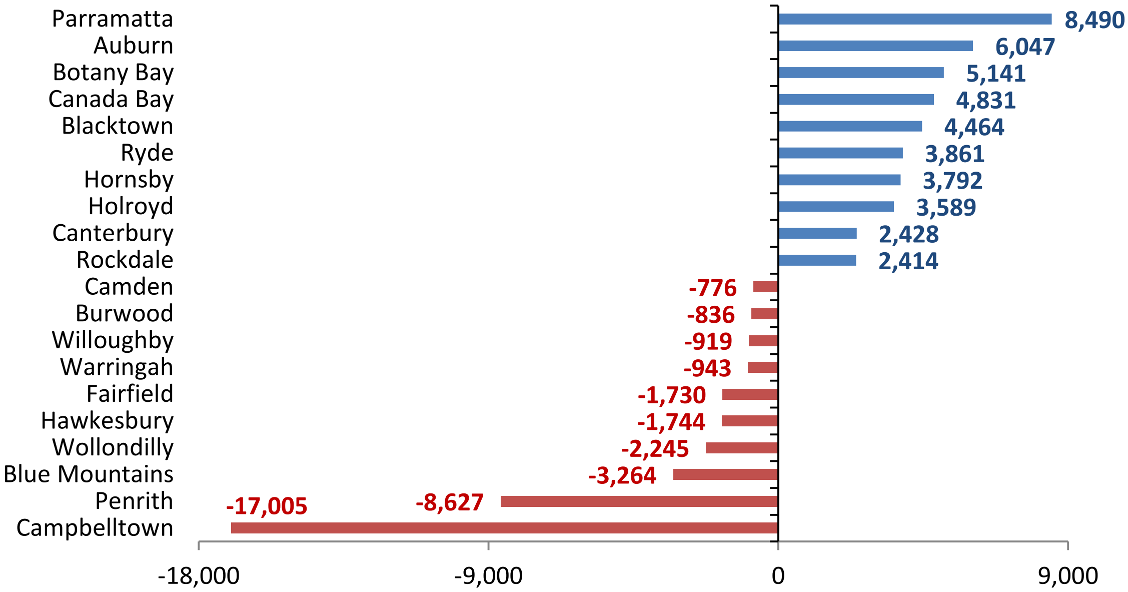
[277] B Birrell, E Healy, B Kinnaird, Immigration Overflow: Why It Matters, The Australian Population Research Institute, December 2016, p 8.

[278] Ge and Williams, note 97, p 146.

[279] AHURI, Where Sydney's population is growing fastest, AHURI Brief, 7 November 2016.

While over the past decade NSW Government supply targets continue to be met as a State average, the location of approved dwellings has been uneven. Recent analysis found that while a number of city councils (particularly in the inner west and north) have exceeded housing supply targets, LGAs in Western Sydney are failing to keep up. Figure 60 shows that, while Parramatta has exceeded its target by 8,490 approvals, Campbelltown has seen a shortfall of approximately 17,000 dwellings:

Figure 60: Total over or under supply for all new dwellings approvals, select Greater Sydney LGAs, 2005-06 to 2015-16[280]



Various stakeholders have argued that the discrepancy arises for different reasons; for example, development objections in Sydney's centre west, or the failure of government planners to anticipate Sydney's changing preferences.[281] Whatever the core reason (or reasons) underpinning uneven development, this will pose a key challenge for policymakers as they attempt to implement the ambitious 2056 Plan across the city.

Australia's infrastructure deficit: Alongside appropriate locations, types and amounts of housing is the need for adequate infrastructure, both in existing regions experiencing increased population growth and new communities on the urban fringe. However, the anticipated increase in NSW's population is expected to result in an infrastructure backlog of immense proportions. In April 2016 the Productivity Commission outlined the consequences of high immigration on house prices and community wellbeing:

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280 J Robertson, Sydney's tale of two suburbs: new analysis shows the wide spread of development, Sydney Morning Herald, 6 February 2017.

281 Ibid

High rates of immigration put upward pressure on land and housing prices in Australia's largest cities. Upward pressures are exacerbated by the persistent failure of successive state, territory and local governments to implement sound urban planning and zoning policies.

…

Immigration, as a major source of population growth in Australia, contributes to congestion in the major cities, raising the importance of sound planning and infrastructure investment. While a larger population offers opportunities for more efficient use of, and investment in, infrastructure, governments have not demonstrated a high degree of competence in infrastructure planning and investment. Funding will inevitably be borne by the Australian community either through user-pays fees or general taxation.[282]

A 2013 Commission paper estimated that, in order to meet the infrastructure need of Australia's increasing and ageing population, governments must spend approximately **$38 trillion** in capital investment between 2013-14 and 2059-60: over **five times** the cumulative investment made over the last half century.

To put that in context, in the more than fifty years from 1959-60 to 2012-13, total investment in Australia has been around $8.2 trillion. While different assumptions about capital income shares, multifactor productivity growth and depreciation affect the projections, they all produce qualitatively similar outcomes: Australia will be buying and building a large amount of physical capital. Without the efficient allocation of that capital, the achievable labour productivity growth rate would be considerably lower. Accordingly, barriers to funding capital or to its importation can undermine labour productivity growth. The large magnitudes also suggest that even small inefficiencies which impede investment, or make it more costly than necessary, would have large welfare consequences.[283]

There is already evidence that existing infrastructure is not keeping up with Sydney's booming population. ABC News cited NSW transport data showing that almost all Sydney trains were over capacity during the morning peak hour:

The Bureau of Transport Statistics considers trains operating at 135 per cent of capacity to be "uncomfortable" and "behind schedule".

But dozens of peak hour trains are running at well over 135 per cent capacity, with one — the Northern Line from Hornsby — reaching 180 per cent.

The Western and Illawarra lines are above 170 per cent.

On average, five of the 14 CBD lines are over capacity in the morning peak (between 8-8:59am), but they are all below the 135 per cent threshold in the afternoon peak (from 5-5:59pm).[284]

Recently, the NSW Audit Office reported that most punctuality KPIs were not being met by Sydney's bus operators, while journey time reliability fell from 88

[282] Productivity Commission, note 276, pp 38-9.

[283] Productivity Commission, An ageing Australia: Preparing for the future, 22 November 2013, pp 118-19.

[284] L Mayers, Sydney trains almost all over capacity in morning peak hour, transport data reveals, ABC News, 17 November 2016.

per cent in 2014-15 to 86 per cent in 2015-16.[285] Additionally, the Australian Medical Association's *Public Hospital Report Card 2017* conclude that, in the wake of Commonwealth Government funding cuts, NSW (and almost all other jurisdictions) has failed to improve emergency department waiting times, meet the National Emergency Access Target and decrease elective surgery waiting times.[286]

The NSW Government has acknowledged these infrastructure challenges in its 2016 Intergenerational Report, noting that without adequate and appropriate housing supply and supporting infrastructure, NSW risks unwinding any potential economic gains from population growth.[287] Strategies such as the 2056
Plan and *A Plan For Growing Sydney* further demonstrate the Government's understanding that a long term, coordinated approach between government, industry and the community will be necessary to address the myriad factors that have led to unaffordable housing across Greater Sydney.

However, it remains unclear exactly how the significant amounts of new infrastructure will be funded in the coming decades.

9.2 Planning law reforms

A 2015 Parliamentary Research paper outlined a range of planning mechanisms that could be used to improve affordable housing supply: both for ownership and rental. Key policies discussed included the following:[288]

- **Inclusionary zoning:** A mechanism that incentivises developers to set aside an affordable proportion (usually around 10% to 15%) of units in residential developments for low-income households in exchange for development rights or zoning variances. This mechanism forms part of the Greater Sydney Commission's Draft District Plans, with a target of 5-10% affordable housing on rezoned land;[289]
- **Compact housing and minimum lot sizes:** Residential densification through compact housing has been raised as a potential solution to improving the quantity and affordability of housing in dense urban areas; and
- **Voluntary planning agreements**: Under these types of agreement, a developer agrees to provide or fund affordable housing, usually in exchange for another incentive, such as a density bonus or a land contribution.

[285] NSW Audit Office, Volume Nine 2016 Report on Transport, 1 December 2016, Ch 6.

[286] Australian Medical Association, AMA Public Hospital Report Card 2017, 17 February 2017, p 11.

[287] NSW Government, note 217, p 64.

[288] A Haylen, Affordable rental housing: current policies and options, NSW Parliamentary Research Service, BF 11/2015, Ch 8.

[289] L Troy et al, Sydney needs higher affordable housing targets, The Conversation, 24 November 2016.

On 9 January 2017 then NSW Planning Minister Rob Stokes announced a series of proposed amendments to the State's *Environmental Planning and Assessment Act 1979* (EPAA), which are intended to reduce delays in Development Application (DA) processing by councils, and also enhance community confidence in the planning system.[290] An overview of the Environmental Planning and Assessment Amendment Bill 2017 (2017 Bill), and initial stakeholder response to the changes, are made in turn below.

9.2.1 Overview of the EPAA amendments

According to Minister Stokes, the 2017 Bill aims "to build greater confidence in the planning system by enhancing community participation, strengthening upfront strategic planning and delivering greater probity and integrity in decision-making".[291] This is to be done under four broad objectives which bring a range of modifications and new clauses to the EPAA (Table 16). Key changes are outlined below.

Table 16: Objectives of the updates to planning legislation[292]

Objectives	Initiatives	Example actions
Community participation	Enhancing community involvement in the key decisions that shape our cities, towns and neighbourhoods	Community participation plans
		Statement of reasons for decisions
		Stronger consultation requirements for major projects
Strategic planning and better outcomes	Continuing to improve upfront strategic planning to guide growth and development	Local strategic planning statements
		Standard development control plan format
		Improved environmental impact assessments
		Fair and consistent planning agreements

[290] R Stokes, 'Planning reforms to boost housing supply' (Media Release, 9 January 2017).
[291] Department of Planning and Environment, Planning Legislation Updates: Summary of proposals, NSW Government, January 2017, p 2.
[292] Ibid p 4.

Table 16: Objectives of the updates to planning legislation		
Objectives	**Initiatives**	**Example actions**
Probity and accountability in decisions	Improving transparency, balance and expertise in decision-making to improve confidence and trust in the planning system	Directions for local planning panels
		Ensuring delegation to council staff
		Independent Planning Commission
		Preventing the misuse of modifications
		Clearer powers to update conditions on monitoring and environmental audit
Simpler, faster planning	Creating a system that is easier to understand, navigate and use, with better information and intuitive online processes	Efficient approvals and advice from NSW agencies
		Fair and consistent planning agreements
		Simplified and consolidated building provisions

Updated objects of Act: Under cl 1.1 of the 2017 Bill the EPAA's objects under s 5 are to be modernised while largely retaining the intent and effect of the existing objects. With regard to housing, the Act is "to promote the timely delivery of business, employment and housing opportunities (including for housing choice and affordable housing)".[293]

Community participation plans: Schedule 2.1 of the 2017 Bill requires planning authorities to prepare community participation plans that outline how the authority will engage the community in planning and development decisions.[294] The NSW Department of Planning and Environment provides further information as to what these plans entail:

> The plan will set out how and when the planning authority will undertake community participation in relation to upcoming proposals and development applications, including:
>
> - the ways in which the community can provide their views and participate in plan-making and planning decisions made by the authority; and
> - how the community can access information about planning proposals and decisions.[295]

These plans must also have regard to the community participation principles that will be set out under clause 2.23(2) of the proposed Act (see overleaf).

[293] Environmental Planning and Assessment Amendment Bill 2017 (NSW) cl 1.1.
[294] Ibid cl 2.23.
[295] Department of Planning and Environment, note 291, p 7.

Proposed community participation principles

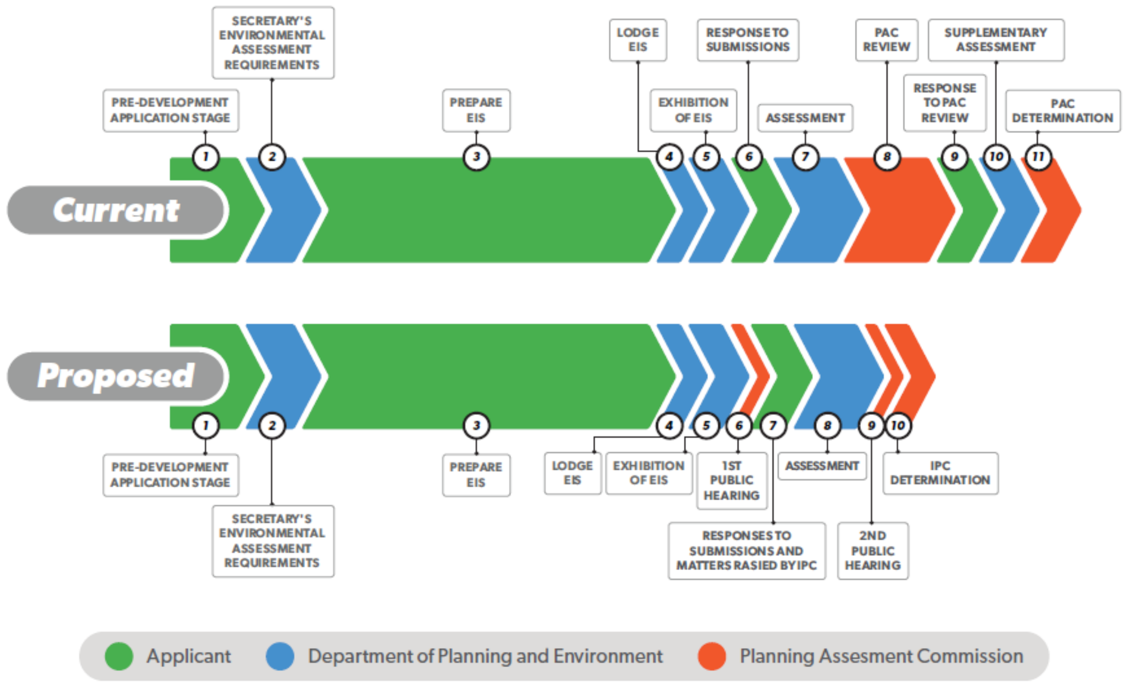
- The community has a right to be informed about planning matters that affect it.
- Planning authorities should encourage the effective and on-going partnerships with the community to provide meaningful opportunities for community participation in planning.
- Planning information should be in plain language, easily accessible and in a form that facilitates community participation in planning.
- The community should be given opportunities to participate in strategic planning as early as possible to enable community views to be genuinely considered.
- Community participation should be inclusive and planning authorities should actively seek views that are representative of the community.
- Members of the community who are affected by proposed major development should be consulted by the proponent before an application for planning approval is made.
- Planning decisions should be made in an open and transparent way and the community should be provided with reasons for those decisions (including how community views have been taken into account).
- Community participation methods (and the reasons given for planning decisions) should be appropriate having regard to the significance and likely impact of the proposed development.

Independent Planning Commission: The 2017 Bill proposes that the existing Planning and Assessment Commission be turned into a new Independent Planning Commission (IPC).[296] To support its independence, the IPC will no longer have a statutory function to review development proposals, and will instead guide assessments being undertaken by the Department of Planning and Environment to ensure that these assessments take into account all issues the IPC wishes to consider (though the IPC will still determine development applications for State significant proposals).

According to the Department of Planning and Environment, this will result in resource and time savings of between 70 and 160 days per proposal (depending on complexity), with no reduction in assessment rigour (Figure 61).[297]

[296] Environmental Planning and Assessment Amendment Bill 2017 (NSW) Div 2.3.
[297] Department of Planning and Environment, note 291, p 28.

Figure 61: Removal of the duplicative review function of the Independent Planning Commission[298]



The role of design and housing density: A new object of the EPAA is to be inserted that aims "to promote good design in the built environment".[299] The reason for this new object is because, although design is already a relevant consideration for decision-makers, it will ensure that design is considered and balanced with the other objects of the Act:

> For example, the promotion of good design will be considered in a framework that also promotes land use planning that encourages economic development and the principles of ecologically sustainable development. This will be the task of decision-makers in the context of both strategic planning and development assessments.[300]

Released alongside the 2017 Bill was a draft Medium Density Design Guide and Medium Density Housing Code for public comment. The draft Guide and Code are aimed at making it cheaper, easier and faster to build lower-rise medium density housing, with specific emphasis on dual occupancies, terraces, townhouses and manor houses.[301]

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[298] Ibid p 39.
[299] Environmental Planning and Assessment Amendment Bill 2017 (NSW) cl 1.1.
[300] Department of Planning and Environment, note 291, p 46.
[301] Ibid pp 22-3.

9.2.2 Stakeholder response

While public commentary on the proposed planning changes is limited, it appears that there has been a mixed reaction to the amendments. For example a Sydney Morning Herald article reported that the Planning Institute of Australia would have preferred the Planning Minister to "come up with a completely new act", while the Urban Development Institute of Australia welcomed the proposal to force councils to use expert panels to approve developments rather than have councillors approve individual projects.[302]

According to other sources, the Newcastle Council has voiced its support for the proposed changes, stating that it "welcomes any proposals to simplify planning laws and produce higher quality design outcomes for our local government area",[303] while the Housing Industry Association also called the proposal a "step in the right direction" and "positive for the residential housing sector".[304]

The exposure draft Bill will be available for public comment until 31 March 2017 in order to receive community and stakeholder feedback as to whether further changes will be made.

9.3 State and Commonwealth tax reforms

The most publicly discussed reforms—and almost certainly the most politically challenging—are those relating to the reform of NSW and Commonwealth taxes.[305] Stakeholder criticism of these taxes was previously provided in chapter 8; this section outlines proposed reforms to NSW's duties and the Commonwealth's negative gearing concession and capital gains tax (CGT) discount.

9.3.1 Abolition of stamp duty for broad-based land tax

In light of the criticism covered in section 8.2, a large number of stakeholders have advocated moving from stamp duty to a broad-based land tax. Proponents of this reform include, but are not limited to, the Property Council of Australia;[306] the NSW Business Chamber and NSW Council of Social Services;[307] KPMG;[308]

[302] J Saulwick, 'Disingenuous': NSW and Sydney proposed planning changes provoke mixed reaction, Sydney Morning Herald, 9 January 2017.

[303] M McGowan, Baird government planning reform welcomed by Newcastle Council, Newcastle Herald, 11 January 2017.

[304] HIA, 'Proposed NSW Planning Amendments a Step in the Right Direction says HIA' (Media Release, 11 January 2017).

[305] P Bentley, M D'Cruz, A plan to end stamp duty: Making property taxation fairer in New South Wales, McKell Institute, March 2016, p 41; J Hewson, 'The politics of tax reform in Australia' (Speech delivered at the Crawford School of Public Policy, August 2014).

[306] Deloitte, Property Council of Australia, The revenue raising potential of a broad-based land tax, March 2016.

[307] NSW Business Chamber, NCOSS, Taking on tax: Reforming NSW property taxes, February 2016.

[308] KPMG Economics, Housing affordability: What can be done about the Great Australian Dream?, October 2016.

AHURI;[309] the IMF;[310] the Commonwealth Senate Standing Committee on Economics;[311] the 2011 NSW Financial Audit (the Lambert Report);[312] and the Henry Tax Review.[313]

Implementing a broad-based land tax in NSW: A number of broad-based land tax models have been proposed by experts,[314] but the 2011 Lambert Report investigated the viability of this reform on behalf of the NSW Government, and is discussed in detail here.

The Lambert Report recommended the abolition of transfer duty and imposition of a 'Stamp Duty Replacement Tax' (SDRT, i.e. land tax) on all properties, including principal places of residence. The Report proposed a land tax rate of 0.75 per cent of the assessed land value for properties with land value less than $775 per square metre, and a marginal rate of 1 per cent on land values above this threshold. The benefit for homebuyers—particularly first homebuyers—would be a significant reduction in upfront housing costs:

> For homebuyers, instead of paying transfer duty averaging about $19,000 based on the market value of the property, the purchase would trigger application of the SDRT averaging about $2,260 per year based on the land value of the property. That is, the up-front tax payments involved in buying a home would be significantly reduced. In most cases, the present value of SDRT payments will be about the same as the transfer duty that would otherwise have been paid.[315]

To avoid existing homeowners being taxed twice after having previously paid transfer duty on their properties, the Lambert Report recommended that land tax should apply to residential properties only after a property is transferred for the first time. The Lambert Report estimated that within 20 years of such a regime being introduced, 80 per cent of residences would fall under the new taxation requirements.[316]

While the Lambert Report is silent on the issue of hardship provisions, the Henry Tax Review recommended deferring land tax for low income earners:

> The amount could accrue as a debt attaching to the property, with an appropriate caveat registered at the Land Title Office and a non-concessional rate of interest applied (in line with the standard variable mortgage rate). Asset-rich, income-poor persons could then allow the debt to accumulate until they move. The debt would be acquitted at the next transfer.[317]

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[309] R Ong, C McMurray, G Wood, M Cigdem, How would proposed reforms in the Henry Tax Review affect housing affordability for private renters and property owners?, AHURI, Research and Policy Bulletin 160, February 2013.

[310] IMF, Fiscal Monitor: Taxing Times, October 2013, p 25.

[311] Senate Economics Legislation Committee, note 89.

[312] NSW Government, NSW Financial Audit 2011, September 2011.

[313] Commonwealth Government, note 211.

[314] For example, see Daley and Coates, note 215, Ch 5; Commonwealth Government, note 211, Ch C2-4.

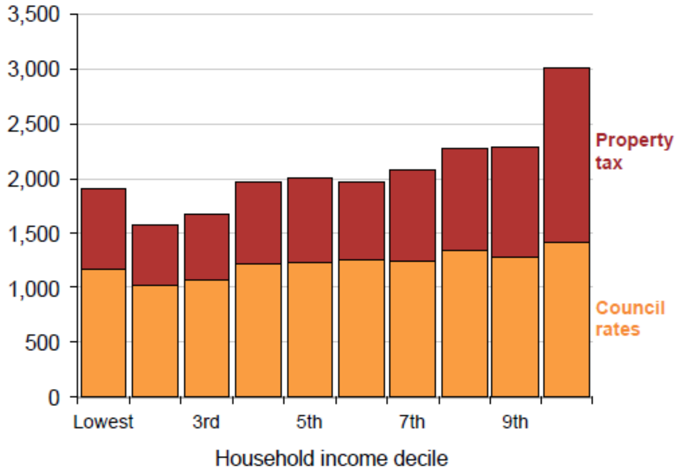
[315] NSW Government, note 312, p 13-4.

[316] Ibid.

[317] Commonwealth Government, note 211, p 266.

The Grattan Institute was also supportive of this measure, but noted an alternative option was to provide an exemption or rebate for the first portion of property tax liability. This would make the levy more progressive with respect to household wealth. However, The Grattan Institute nevertheless cautioned that such a policy would result in a significant reduction in tax revenue.[318] Ultimately, The Grattan Institute argued that with hardship provisions in place, a broad-based land tax would not impose unreasonable burdens on homeowners, with the average burden of the levy likely to be smaller than existing council rates for most homeowners.[319]

Figure 62: Property taxes payable by property owners in each income decile, 2011-12 dollars[320]



Will it help housing affordability?: While a 2016 working paper from the IMF concluded that a 0.5 per cent increase in property tax led to 0.5-5.5 per cent decline in house price volatility,[321] Bentley and D'Cruz did not expect land tax reform to have a direct impact on State house prices. Nevertheless, the authors argued that such a reform would have two key benefits for housing affordability, particularly for first homebuyers:

> Firstly, the up-front housing cost of stamp duty will be removed. … [An estimated] stamp duty of $42,250 is payable on the median priced Sydney home, representing one quarter of upfront housing costs. This abolition will play a major role in improving house affordability for home buyers.
>
> Secondly, the proposal will considerably improve housing affordability through incentivising a more appropriate allocation of housing stock. Stamp duty reduces the transfer of housing stock as individuals and families seek to avoid paying tax by not moving home. As a result, a misallocation of housing stock exists in New South Wales.[322]

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318 Daley and Coates, note 215, pp 19-21.

319 Ibid p 23.

320 Ibid p 24.

321 T Poghosyan, Can Property Taxes Reduce House Price Volatility? Evidence from U.S. Regions, IMF Working Paper No WP/16/216, November 2016, p 5. Also see: M Janda, Property tax rise could reduce house price booms and busts, ABC News, 11 November 2016.

322 Bentley and D'Cruz, note 305, p 35.

With regard to the second benefit, since land tax would likely be an annual payment based on land value, homeowners with larger properties (e.g. parents whose children have moved out) may find it more financially prudent to downsize to a smaller home in retirement, while people with undeveloped plots of land would have greater incentive to commence developments so as to avoid paying tax on an unused resource.[323]

Similarly, the Productivity Commission concluded that stamp duty creates an artificial barrier to relocation that in turn restricts employment mobility.[324] Abolishing stamp duty would allow workers to move more freely to take on employment in other parts of the State; this may also have the effect of encouraging some people to relocate away from Sydney to more affordable parts of NSW.

Additionally, the Lambert Review noted that the repeal of transfer duty would improve statewide consumer welfare by the equivalent of an extra $2.6 billion of income per year (approximately $370 per resident).[325]

The ACT's land tax reforms: In 2012 the ACT Taxation Review recommended that conveyance duty be abolished. In doing so, the Review recommended that the Territorian Government:

- pursue at least a 10 year, and up to a 20 year, transition plan to ameliorate the impact of the change on households
- have due regard for conveyance duty paid in the years leading up to the change, and
- recognise the significance of the change and consult with the community on the transition plan.[326]

The ACT Government agreed in principle to this recommendation,[327] and that same year began a multi-decade task of major tax reform whereby the Territory's stamp duties are to be replaced by a broad-based land tax. The main reform initiative involves the abolition of conveyance duties and insurance premiums, while transitioning over a 20 year period to a land tax regime.[328]

As of the 2016-17 Budget, the ACT Government had completed Stage One of its tax reforms, which has led to a significantly reduced reliance on conveyance and insurance duties and an increased reliance on the efficient general rates base (Figure 63 overleaf).

[323] M Collett, 5 ways we could make buying a house more doable, ABC News, 16 February 2017.
[324] Productivity Commission, Geographic Labour Mobility, April 2014, p 190.
[325] NSW Government, note 312, p 13-2.
[326] ACT Government, ACT Taxation Review, May 2012, Recommendation 10.
[327] ACT Government, Government Response to the ACT Taxation Review, May 2012.
[328] ACT Government, 2016-17 Budget Paper No 3, 2016, p 249.

The Budget Papers further noted that because of the tax reforms to date, the conveyance duty charge for most residential properties in the ACT was already significantly lower than the national average (Figure 64):

> In 2011-12, conveyance and insurance duty revenues together represented 24 per cent of total own source tax revenue – this is forecast to decrease to around 16 per cent in 2016-17. The relative share of inefficient taxes will decline further over the forward estimates period as the transition of tax bases continues.
>
> General rates revenue is now the largest component of own source tax revenue at around 27 per cent of total tax revenues in 201617 compared to 18 per cent in 2011-12.[329]

Figure 63: General rates, conveyance and insurance duties as a percentage of total tax revenue in the ACT, 2016-17[330]

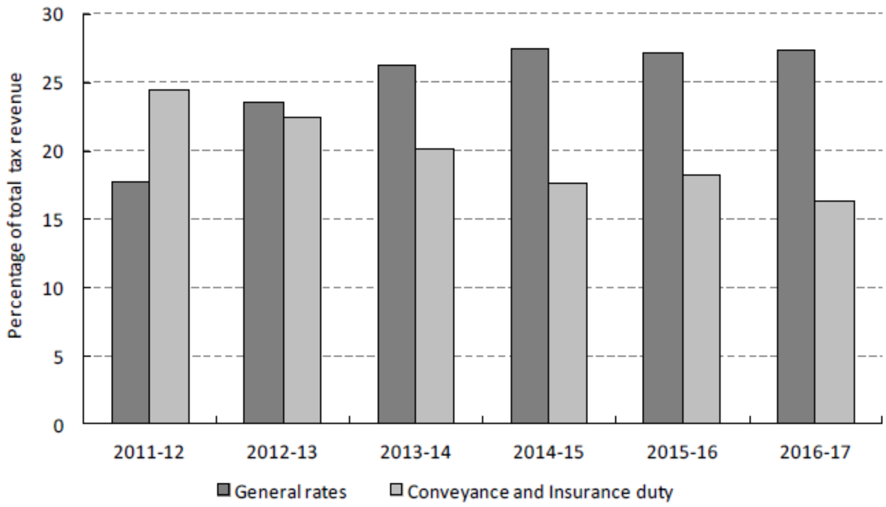
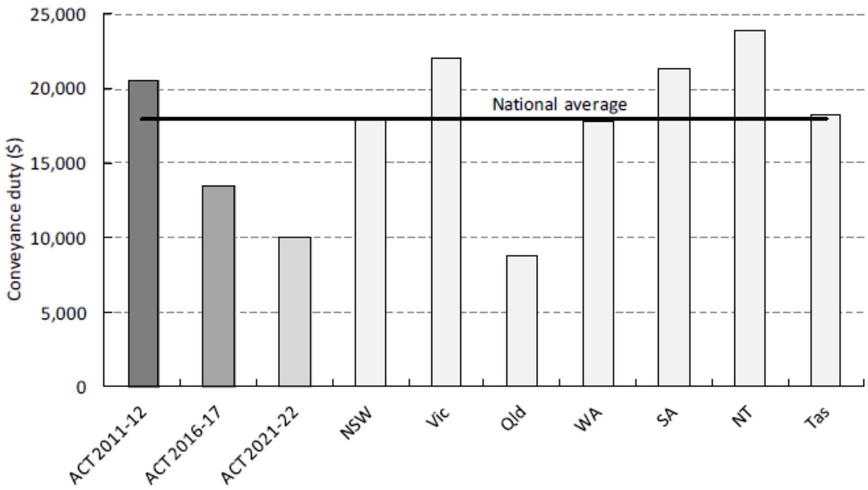


Figure 64: Conveyance duty payment for a $500,000 property in the ACT[331]



[329] Ibid.
[330] Ibid p 250.
[331] Ibid p 252.

As duties have been reduced, land tax has increased. The ACT Revenue Office reports that land tax is calculated via a fixed charge of $765 and a valuation charge of between 0.2746 per cent and 0.575 per cent depending on the average unimproved value of a property (AUV).[332] The ACT Budget Papers provided examples of land tax liability for different types of housing:

Table 17: Comparison of land tax liability in the ACT[333]

Suburb	Property Type	AUV	Land tax	Market value
City	Unit	$130,000	$1,087	$500,000
Charnwood	House	$240,000	$1,489	$500,000

To avoid hardship, the ACT Government provides assistance in the form of a 50 per cent rebate on tax payable, and options for deferment of payments that, depending on certain criteria being satisfied, can be extended indefinitely.[334]

An August 2016 review of the reforms by think tank and tax reform lobby group Prosper Australia made the following findings:

- Increasing land tax rates appears to have deterred housing speculation
- Future land tax obligations are already capitalised into lower land prices
- Because of this, new home buyers save between $1000 and $2000 per year on mortgage costs
- New housing construction has remained strong during the tax transition period
- Residential rental growth is at historical lows, benefiting renting households
- The distribution of land tax obligations between different types of land holders is the main political sensitivity[335]

Prosper also made the following comments as to the viability of a broad-based land tax in the ACT:

> The main lesson is that a transition to a land value tax system can be achieved without radical disruption to property markets, and will have the added benefit of reducing speculative buying and dampening price cycles. The Territory's unique leasehold tenure system and development provisions, that ensure that all land leased to the private market is utilised for its lease purpose within two years, already provides many of the development incentives that a broad-based land tax would bring should it be adopted in other jurisdictions that lack these features. Therefore, a transition towards land value taxes elsewhere would likely lead to noticeable increases on new housing construction and lower rental prices.[336]

[332] ACT Revenue Office, Rates calculation for 2016-17, 22 August 2016.
[333] ACT Government, note 328, p 258.
[334] ACT Revenue Office, Rates assistance, 9 February 2017.
[335] C Murray, The First Interval: Evaluating ACT's Land Value Tax Transition, Prosper, August 2016, p 4.
[336] Ibid p 5.

Land tax reform challenges: While a broad-based land tax may lead to more stable revenue and help ease housing affordability issues, there is disconnect between the economics and the politics of this tax. As explained by the OECD, despite its virtues, land tax has been characterised as the "tax everyone loves to hate".[337] Bentley and D'Cruz made similar comments as to the political difficulties associated with the tax:

> Tax reform is not a simple task. The minority who find themselves adversely affected complain loudly, while the majority that benefit are often not immediately aware that they have benefited.
>
> A reform such as is proposed would face additional political difficulties as it is a form of tax associated with the family home, making it particularly vulnerable to scare campaigns from political parties, peak bodies or interest groups that oppose the reform.
>
> This is why the proposal has not been implemented, despite two decades of expert reports, commissions, inquiries and reviews explicitly recommending it.[338]

The Lambert Report's recommendation for land tax reform was not taken up by the NSW Government.[339] In October 2016 the then-NSW Finance Minister Dominic Perrottet acknowledged that reducing stamp duty and introducing a broad-based land tax would encourage the transfer of property.[340] However, Premier Berejiklian subsequently said that she was not in favour of land tax reform.[341]

Similarly, NSW Labor did not include land tax reform in its affordable housing policy for the 2015 State election,[342] although it has previously had internal discussions over whether or not to introduce a broad-based land tax.[343]

9.3.2 Reining in negative gearing and capital gains tax concessions

Although these taxes are outside NSW jurisdiction, there have nevertheless been calls to rein in both negative gearing and the CGT discount in order to improve housing affordability. Aside from providing owner-occupied and investment housing with a tax-privileged status unavailable to those without property, The Australia Institute has argued that both these taxes increase investor demand, exacerbating house price growth:

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[337] E Slack, R Bird, The Political Economy of Tax Reform, OECD Working Paper No 18, April 2014, p 4.

[338] Bentley and D'Cruz, note 305, p 41.

[339] NSW Government, Government response to the Report of the NSW Financial Audit 2011, n.d.

[340] D Crowe, M Coultan, NSW land tax plan to reboot market in home affordability push, The Australian, 26 October 2016.

[341] S Nicholls, J Saulwick, Housing affordability: experts urge Gladys Berejiklian to act, Sydney Morning Herald, 23 January 2017.

[342] NSW Labor, Labor's $300 million ten point plan to address the housing affordability crisis without privatising electricity, 21 March 2015.

[343] S Nicholls, Labor left pushes for NSW land tax overhaul to counter GST hike, Sydney Morning Herald, 6 February 2016.

> Negative gearing and the CGT discount combine together to encourage Australian investors to invest in residential property which is having the effect of pushing up house prices and lowering rates of home ownership. The proportion of housing finance that is going to investment properties is growing. These tax perks encourage investors to make a loss and to focus not on rental returns but on capital gains.[344]

A number of stakeholders have argued for both these taxes to be restricted to some extent. In an April 2016 paper, The Grattan Institute modelled the impact of quarantining rental loss deductions and reducing the CGT discount from 50 to 25 per cent, with the curbing of these tax concessions likely to have the following effects:

> The proposed changes to negative gearing would reduce tax write-offs for property investment by about $2 billion a year in the short run and $1.6 billion a year over time. Assuming a discount rate of 5 per cent, the present value of these lost tax benefits would be about $33 billion.
>
> The proposed reduction of the capital gains tax discount to 25 per cent would reduce after tax returns by about $3.7 billion a year, or $73 billion in perpetuity. Assuming 40 per cent of this relates to gains on real estate (in line with 2013-14 gains realisations) then the expected present value of the lost benefits would be approximately $29 billion.
>
> If these lost tax benefits of $33 billion and $29 billion were both fully capitalised into the value of residential property – currently worth $5,400 billion – prices would by around **1 per cent** lower than otherwise.[345]

The Grattan Institute noted that these changes would increase effective tax rates for property investors, thereby reducing their demand for property. Even so, these changes would have a relatively modest impact on the housing market:

> Economic theory suggests that higher property taxes and reduced investor demand will lead to some combination of higher rents and lower property prices. But in urban housing markets with tight constraints on supply almost all the impact will be on residential property prices rather than on rents … Tax changes that might only drag down house prices by 1 or 2 per cent should be put in perspective. House prices have grown annually by an average of 7.3 per cent since 1999. Such a tax change corresponds to a few months' growth lost (or a few months to defer a sale).[346]

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[344] Grudnoff, note 206, p 3.
[345] Daley and Wood, note 208, p 32.
[346] Ibid p 31.

Furthermore, Holden has contended that limiting negative gearing to new properties may act as a boost to new housing construction:

> This would help tackle the serious issue of constrained housing supply, allow for a smooth transition for existing investors, and have important indirect benefits in the housing construction sector. … Although it is beyond the scope of this report to provide a detailed estimate of the amount this would increase due to the tax incentives involved in this scenario, a plausible estimate is that a net 10 percent increase could occur.[347]

The question of whether these tax concessions should be grandfathered so as not to impact existing investors has been subject to considerable debate. While stakeholders appear to be supportive of grandfathering negative gearing concessions, so as to "defuse vociferous opposition from those who benefit from the current arrangements", The Grattan Institute commented that "for capital gains tax changes, grandfathering causes a number of problems: it adds to complexity, reduces liquidity, and treats new investors – particularly younger investors – unfairly".[348]

Whether or not reducing negative gearing and the CGT discount will have a significant impact on Sydney's house prices, the ongoing existence of these tax concessions still raises questions of equity in a housing market increasingly out of reach of many Sydneysiders. The Commonwealth Government has signalled that it has no intention of modifying these tax concessions.[349]

9.4 Shared ownership and equity schemes

According to the 2014 NSW Legislative Council inquiry into social, public and affordable housing, shared ownership and equity schemes enable people to purchase a home in partnership with an equity provider, which could be the government, a community housing provider or another organisation. The inquiry report further noted that this type of arrangement enables the person to buy into a home with a lower income or equity than what would be normally required, and are able to occupy the property while splitting any profit or loss from the re-sale of the property with the equity provider.[350]

A number of benefits stem from these schemes, which have been listed by AHURI:

- Compared to conventional mortgage arrangements, shared equity can enhance affordability for homebuyers by reducing both deposit requirements and ongoing housing costs.

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[347] R Holden, Switching Gears: Reforming negative gearing to solve our housing affordability crisis, McKell Institute, June 2015, pp 28, 32.

[348] Daley and Wood, note 208, p 46.

[349] K Murphy, G Hutchens, Malcolm Turnbull rules out changes to capital gains tax or negative gearing, The Guardian, 15 February 2017.

[350] NSW Legislative Council, note 91, pp 226-27.

- It may provide mortgage lenders with opportunities to expand into new markets and offer equity investors a more flexible opportunity to invest in residential real estate other than through direct investment.
- From a policy perspective, it provides government with the opportunity to develop frameworks that can assist households both access, and sustain, homeownership. More broadly, shared equity approaches can contribute to policy reform and offer a means of leveraging in more – and more appropriate – forms of affordable housing.[351]

9.4.1 Existing schemes and their impact

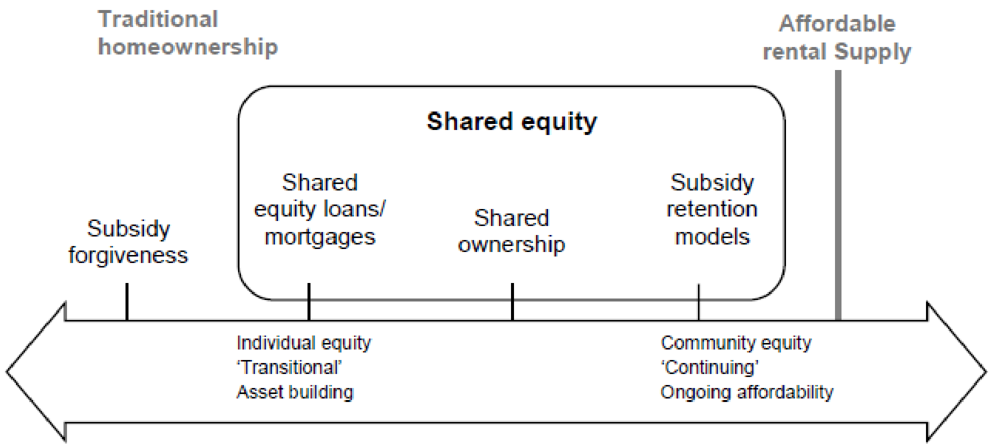
A majority of Australian jurisdictions operate some form of shared equity scheme for homebuyers (see right).

According to AHURI, existing shared equity schemes in Australia fall primarily within the 'transitional' model toward the left hand side of the shared equity approaches shown in Figure 65.

Australian shared equity schemes

State	Name
ACT	Shared Equity Scheme
NT	HomeBuild Access
NSW	No scheme
Qld	Pathways
SA	HomeStart
Tas	HomeShare
Vic	No scheme
WA	Keystart

Figure 65: Positioning shared equity approaches[352]



Western Australia's Keystart Home Loans is perhaps the most well-established and successful of existing shared equity schemes. Keystart was established in 1989 to provide low-deposit home loans to West Australians unable to meet the deposit requirements from mainstream lenders. According to the WA Housing Authority's *Annual Report 2015-16*, Keystart addresses a market gap for creditworthy low to moderate income households that cannot raise the deposit

[351] AHURI, Innovative financing for homeownership: the potential for shared equity initiatives in Australia, Final Report No 137, August 2009, p 2.
[352] Ibid p 3.

required by mainstream lenders.[353] It provides the following to eligible Western Australian residents:

- A lower deposit scheme. The deposit required in the metropolitan area is 2% of the property purchase price and up to 10% in regional WA depending on the property price and its location. For first home buyers, the first home owner grant can contribute toward the deposit.
- No lenders mortgage insurance (LMI). LMI is typically required by other lenders if clients fall short of their deposit requirements. Keystart saves clients between $8,000 and $10,000 by charging no LMI.
- No ongoing monthly account keeping fees.
- Education program. This program was implemented in September 2010 and designed to help a growing number of ineligible West Australians (mainly through too much debt) become eligible for a Keystart loan. The program has over 600 participants and has proved successful in its aims since inception.[354]

While its standard product is a low deposit home loan for homebuyers, Keystart provides a range of additional home loan products, including products for Aboriginals, people with disabilities and Housing Authority tenants. Eligibility requirements for the standard low deposit home loan, along with deposit and savings requirements and loan conditions, are set out in tables 18 to 20:

Table 18: Keystart income and property purchase price limits[355]

Purchasing region	**Income limit**	**Property Purchase Price Caps**
Metro Area	$90,000 (Singles)	$480,000
	$115,000 (Couples)	
	$135,000 (Families)	
Regional Areas (excluding Kimberley & Pilbara)	$110,000 (Singles)	$500,000
	$135,000 (Couples)	
	$135,000 (Families)	
Kimberley	$120,000 (Singles)	$650,000
	$150,000 (Couples)	
	$150,000 (Families)	
Pilbara	$150,000 (Singles)	$650,000
	$180,000 (Couples)	
	$180,000 (Families)	

353 Housing Authority, Annual Report 2015-16, Western Australian Government, September 2016, p 53.
354 Keystart, About Us, 2017.
355 Keystart, Keystart Home Loan, 2017.

Table 19: Keystart deposit and savings requirements[356]		
The amount you buy your home for	**The deposit required**	**Genuine savings required**
Up to $480,000	2% deposit *	1%
$480,001 - $500,000	5% deposit	1%
$500,001 - $650,000	7% deposit	2%

Table 20: Keystart home loan terms[357]	
Term of loan	30 years
Maximum other debts	Existing monthly debt repayments less than 10% of gross income
Lenders mortgage insurance	Not required
Loan keeping fees	0%
Additional repayments	Yes
Loan increases	Yes
Repayment frequency	Monthly
Statement frequency	6 monthly

The Housing Authority's *Annual Report 2015-16* stated that the scheme has approved over 62,000 loans since 1989, assisting more than 98,800 borrowers into home ownership. During 2015-16, Keystart approved 2,072 new standard loans during the financial year, comprising 75 per cent for new construction and 25 per cent for established properties, with $777.3 million of loans approved.[358]

In 2013 AHURI and PricewaterhouseCoopers conducted an evaluation that included an assessment of one of Keystart's products, the SharedState loan: a shared ownership scheme available for first and subsequent homebuyers with the Housing Authority.[359] According to the evaluation, the shared equity initiative was successful in meeting its goals of increasing the volume of lower cost affordable housing and home ownership entry points. The three main mechanisms that underpinned the success of the scheme were the procurement of new affordable housing at scale, an efficient and effective sales program and the provision of a shared equity loan.[360]

More recently, a 2017 study by University of Adelaide researchers found that for every 1 per cent rise in the penetration rate of the South Australian HomeStart scheme, home ownership in sample Adelaide suburbs increased by approximately 0.6 per cent. This represented an 8 per cent rise in low income home ownership levels compared with similar areas in NSW and Victoria.[361]

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[356] Ibid.

[357] Ibid.

[358] Housing Authority, note 353, p 53.

[359] Keystart, SharedStart Home Loan, 2017.

[360] AHURI, PricewaterhouseCoopers, A new approach to delivering shared equity opportunities in Western Australia: a case study evaluation, December 2013, pp 6-7.

[361] E Bagshaw, J Massola, Home ownership 8 per cent higher in suburbs with shared equity

9.4.2 Proposals for a NSW shared equity scheme

In NSW, the Select Committee on social, public and affordable housing argued that, as part of a suite of actions, the NSW Government should investigate and report on a shared equity scheme for the following reasons:

> We believe that shared equity schemes may be an important option in providing access to home ownership for many people, particularly lower income and moderate income households. By providing additional pathways to home ownership, these schemes may help to alleviate pressure in the private rental market, and consequently, on the social housing wait list.[362]

The NSW Government noted this recommendation in its response to the inquiry report,[363] and noted in its 2016 Social Housing Strategy that programs using shared equity mortgage products alongside other approaches to home ownership could work well in NSW regional areas.[364] However, although it appears to be considering such an approach,[365] the Berejiklian Government has not yet announced any shared equity scheme for the State.

9.5 Social impact investing

According to the Australian Government's social impact investing discussion paper, social impact investments are investments made with the intention of generating measurable social and/or environmental outcomes in addition to a financial return.[366] A key feature of social impact investment is that it utilises private investment funds to address public concerns. Through this means, social impact investment offers 'blended returns'[367] on investment: a combination of measurable financial and social outcomes that many investors find appealing.[368]

A number of factors suggest that social impact investment has the potential to become an increasingly important means by which governments can address a broad range of complex social issues:

schemes, study shows, Sydney Morning Herald, 24 March 2017.

362 NSW Legislative Council, note 91, p 233.

363 NSW Government, Advice from Minister for Social Housing and Minister for Planning regarding recommendations of committee, 27 January 2016, p 22.

364 NSW Government, Future Directions for Social Housing in NSW, 2016, p 25.

365 J Saulwick, More density around rail stations and new schemes for renters: NSW housing plan, note 1.

366 Commonwealth Government, Social Impact Investing Discussion Paper, January 2017, p 8.

367 E Disley et al, Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough, United Kingdom Ministry of Justice and RAND Europe, 2011, p 2.

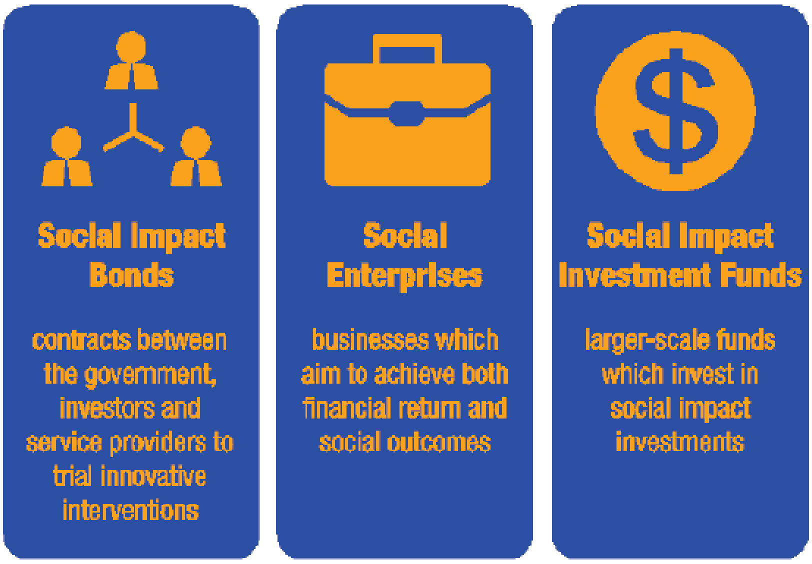
368 See, for instance, K Dembek, D Madhavan, F Michaux, B Potter, Impact Investing Australia: 2016 Investor Report, Impact Investing Australia, 2016, pp 6-7.

> Attitudes and perspectives around investment and wealth are shifting; major social and environmental challenges of our time need solutions; and governments are grappling with short and long-term budget constraints against a backdrop of lower economic growth and ageing populations. Sitting at the intersection of this confluence of factors is impact investing.[369]

In terms of the impact of social impact investing on the housing sector, 2016 research undertaken by Ernst & Young (EY) argued that there were "strong links between stable, quality housing and improved health and justice outcomes, which (if realised) lead to reduced service expenditure" for State Governments. Accordingly, social impact investing could play an effective role in bringing about such outcomes.[370]

There are several types of social impact investing, as shown in the figure overleaf. However, this paper focuses on two types of social impact investment: social impact bonds and social impact investment funds. Social impact investment in the form of social impact bonds have also been discussed in detail in previous NSW Parliamentary Research Service publications.[371] This section provides an abridged version of the research undertaken by these earlier publications.

Figure 66: The main forms of social impact investing[372]



[369] Ibid.

[370] Ernst & Young, Social impact investing research, March 2016, p 32.

[371] T Gotsis, Social Impact Bonds and recidivism. A new solution to an old problem?, NSW Parliamentary Research Service, EB 01/2017; L Roth, Social Impact Bonds, NSW Parliamentary Research Service, EB 17/2011; A Haylen, note 288, Ch 9.2.

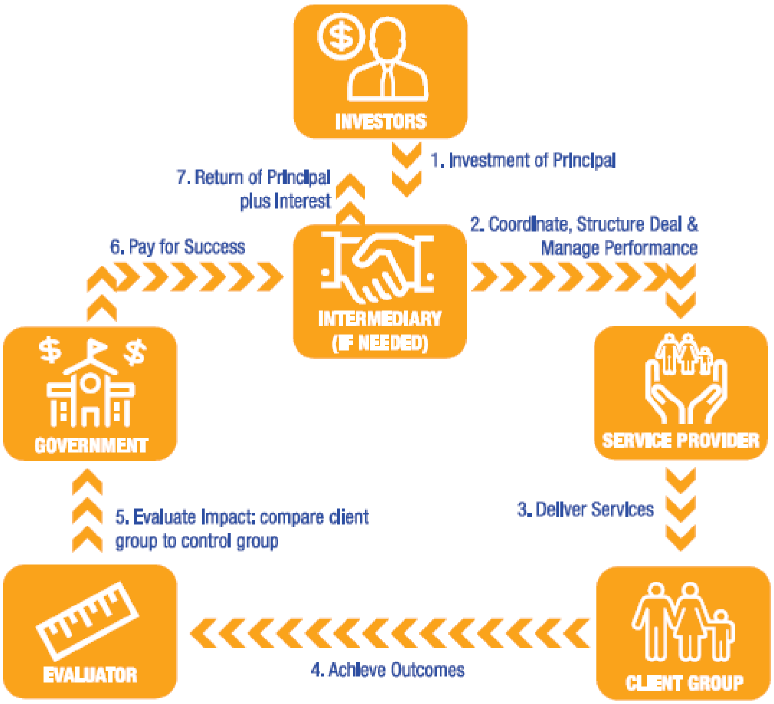
[372] Commonwealth Government, note 366, p 10.

9.5.1 Definition of social impact bonds and social impact investment funds

Social impact bonds are a form of social impact investment.[373] Central to any social impact bond is an outcomes-based contract between the government and non-government organisation service providers (NGOs). Under the terms of that contract, the government agrees to pay for targeted improvements in outcomes for a defined population.[374] Private investment is raised on the basis of this outcomes-based contract and used to fund upfront service delivery by NGOs.[375] Returns are paid to investors only if target outcomes are met. A structural overview of a social impact bond is presented in Figure 67.

Social impact bonds also offer governments, investors and the community potential financial, social and innovation benefits. The benefits, which are both short-term and long-term, include: cash savings to government agencies; avoided costs to government agencies; productivity gains; and (measurable) benefits to individuals and communities.[376]

Figure 67: Social impact bond mechanics[377]



[373] Office of Social Impact Investment, Principles for social impact investment proposals to the NSW Government, NSW Government, 2015, p 2.

[374] J Palumbo, I Learmonth, Social Impact Bonds, Social Ventures Australia, 2014, p 5.

[375] Ibid.

[376] Office of Social Impact Investment, Technical guide: Outcomes measurement for social impact investment proposals to the NSW Government, NSW Government, 2016, Sydney, p 28; Roth, note 371, pp 2-3.

[377] Commonwealth Government, note 366, p viii.

Social impact investment funds are defined according to the Social impact investing discussion paper as follows:

> Social impact investment funds pool funds from many investors to invest in several social impact investments. Social impact investment funds are typically larger in scale than social impact bonds or direct investment in individual social enterprises. Social impact investment funds offer a number of advantages over bespoke social impact bonds or social enterprise financing deals … [and] can fund wholesale investment opportunities requiring larger amounts of capital, such as the construction of affordable housing.[378]

The discussion paper further noted that social impact investments are attractive to a variety of investors, primarily "financial first investors" (who expect financial returns comparable to mainstream investments) and "impact first investors" (who are willing to accept below-market financial rates of return or greater risk to achieve social goals).[379]

9.5.2 Examples of social impact investing schemes

In 2013 NSW became the first Australian State to implement social impact bonds via Newpin and the Benevolent Society: the social impact bonds under these schemes aim to reduce the number of children and young people in out-of-home care.[380] As detailed in the 2017 Research Service publication *Social Impact Bonds and recidivism*, in July 2016 the NSW Government entered into the On TRACC social impact bond, Australia's first social impact bond designed to reduce recidivism.[381]

In February 2016 the NSW Government announced the Social and Affordable Housing Fund (SAHF). The SAHF comprises two main elements:[382]

- SAHF NSW (the Fund): The NSW government has contributed $1.1 billion in seed funding which will be invested by the NSW Treasury Corporation. The returns will be used to support SAHF Phase 1 projects.
- A dedicated unit established within the Department of Family and Community Services (FACS) to commission and procure Social and Affordable Housing services.

According to FACS, SAHF Phase 1 will deliver access to between 2,000 and 3,000 additional social and affordable homes in metropolitan and regional NSW, together with access to integrated support services.

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[378] Ibid p xi.

[379] Ibid p xii.

[380] NSW Budget Estimates 2016–17, p 3–11. See also: NSW Family & Community Services, 'NSW Budget — reforms for kids needing care' (Media Release, 18 June 2016). The number (22,400) of children and young persons in out-of-home-care includes those on guardianship orders.

[381] Gotsis, note 371, p 12.

[382] NSW Department of Family and Community Services, Social and Affordable Housing Fund, n.d.

Phase 1 will purchase service packages from the private and not-for-profit sectors; these service agreements will run for up to 25 years and will comprise:[383]

- Access to accommodation;
- Asset management and tenancy management services;
- Coordination of access to support services tailored to each household member; and
- Performance and data reporting.

In May 2016, the NSW Government announced that nine parties were shortlisted to develop social and affordable homes using SAHF funding. Once the preferred proponents are announced, it is expected that a number of the parties will be awarded contracts under the SAHF program.[384]

Turning to the Commonwealth, EY noted that the National Rental Affordability Scheme (NRAS) is considered by some to be a form of social impact investment; namely, that it incorporates payment by results elements in the form of financial incentives for private investors to build and rent housing to low-to-moderate income households at below market rates.[385]

At the international level, EY listed several examples of social impact investment schemes, though it also noted that these programs were relatively recent and so were unable to demonstrate longer term hypothesised outcomes:

> - There are a number of examples of social enterprises or housing associations sourcing capital from intermediaries to develop and/or purchase affordable rental housing for target cohorts, including SEFA's 3 Sista's loan and UK affordable property funds such as Real Lettings. Some providers also use finance to scale up support services being provided to tenants. Realised benefits include tenants being able to sustain their tenancies and so maintain quality housing, improved health and wellbeing outcomes.
> - Direct investment in affordable housing via housing bond issues (e.g. Canada's Toronto Community Housing Corporation Bond).
>
> Some consider the Commonwealth Government's National Rental Affordability Scheme to be a form of SII [social impact investment] in that it incorporates PbR [pay by results] elements (private investors receive incentives for developing affordable housing units).[386]

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[383] Ibid.

[384] B Hazzard, 'Strong interest in $1.1 billion social and affordable housing boost' (Media Release, 2 May 2016).

[385] Ernst & Young, note 370, p 31.

[386] Ibid p 29.

9.5.3 Evaluations of social impact investing

On the performance of social impact bonds, EY stated the following:

> For SIBs [social impact bonds] we found examples of positive performance and savings to government however overall evidence of realised financial benefits for government is limited as most SIBs [social impact bonds] have only been in operation for 1-2 years, which is insufficient time to measure long term outcomes. There may also be selection bias in public reporting.
>
> It is unclear as to whether PbR [payment by results] and outcomes-based contracting schemes offer value for money overall compared to other mechanisms, as results varied considerably between providers, programs and sectors.[387]

Despite the promise of social impact bonds, there are a number of challenges to the broader introduction of these financial instruments. For example, the interim report for the 2014 Financial Services Inquiry noted that there were several potential barriers to investors engaging in social impact investment in Australia including the following:

- Some superannuation trustees consider their fiduciary duties to be a barrier to impact investment. This is despite there being no explicit prohibition to impact investment provided, superannuation trustees meet the sole purpose test.
- Private and public ancillary funds, which provide a link between donors and organisations that can receive tax deductible donations, are unclear whether they may count discounted returns toward minimum distribution requirements.
- Some private ancillary funds do not meet sophisticated or professional investor tests under the exemptions from the prospectus regime, despite very high net worth individuals or organisations having established them.
- Relatively simple instruments, such as social impact bonds, are subject to onerous disclosure requirements.[388]

Social impact bonds have also tended to target relatively small populations, prompting questions as to whether they can be scaled up to make a real difference to the social issues they address.[389] On this point, Galitopoulou and Noya comment:

> [E]vidence so far suggests that SIBs have been reaching a relatively limited number of beneficiaries. According to a recent study by [the] Brookings Institution … among the 38 SIBs that it examined, 25 of them serve populations of less than 1,000 beneficiaries. Of course, scaling — particularly in terms of number of beneficiaries — is not the ultimate aim of SIBs in principle. Therefore, when scaling occurs, it can be viewed as a ripple effect. Moreover, scaling is a relative term and can have multiple interpretations and should not be measured only in quantitative (number of beneficiaries, for example) but also in qualitative terms (depth of impact). That being said, it should be underscored that SIBs are one among other tools of impact investing market … Given the scale and severity of social needs globally and locally, we should not overestimate SIBs capacity to address them.[390]

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[387] Ibid p 2.
[388] Financial Services Inquiry: Interim Report, July 2014, p 2-73.
[389] M Steketee, Will Social Impact Bonds Change the World?, Inside Story 4 October 2016.
[390] S Galitopoulou, A Noya, Understanding Social Impact Bonds, OECD, 2016, p 20.

Turning to social impact investment funds, EY found examples of investment in affordable housing with positive benefits to individuals and government to include:

- Debt finance from SII funds to provide development capital and capacity finance for social enterprises or housing associations developing / purchasing affordable rental housing. Housing is sometimes targeted specific groups, including indigenous persons, people with disabilities, individuals and families on benefits (SEFA – 3 Sista's; UK Real Lettings Property Fund; UK Homes for Good; UK Golden Lane Housing).
- Alongside this, SII fund finance can also be used to provide working capital to scale up support services being provided to tenants, to help them sustain their tenancies. There is some overlap between funding for housing and funding for support services aimed at improving employment and health outcomes.
- Capital raised via housing bonds to fund similar developments or purchases of social or affordable housing (Canada's Toronto Community Housing Corporation Bond; UK Derwentside Homes).
- The Commonwealth Government's NRAS … has shown mixed results. It originally aimed to provide 50,000 additional affordable rental dwellings by June 2016; the actual number is expected to be around 35,000. It has also had limited success with attracting private investment into the affordable housing sector with more charities than private investors as operators. However, the scheme appears to be at least more cost effective than the previous Social Housing Initiative (albeit this focused on social housing), and has added a significant number of affordable housing units to the nationwide pool for at least the next 10 years.[391]

However, with regard to the NRAS, recent news reports suggest that the scheme to be scrapped by the Turnbull Government in its 2017-18 Budget. This was because, according to figures released in the 2017 Report on Government Services, national housing supply had reduced by 16,000 homes rather than increasing, while other commitments had failed to be met by various levels of government:

> Furthermore, 20 per cent of that existing stock was now considered to be in an unacceptable state while 8 per cent was uninhabitable.
>
> A promise to reduce homelessness by 7 per cent had also not been met, with the homeless rate instead rising 17 per cent.
>
> The states and territories had also failed to deliver on commitments to alleviate by 10 per cent the number of low-income households under rental stress, considered to be those spending more than 30 per cent of their income on rent. The number of households now in that category rose from 32.4 per cent to 42.5 per cent since 2008.[392]

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[391] Ernst & Young, note 370, p 31.

[392] S Benson, $9bn home affordability scheme to be dumped in May budget, The Australian, 10 February 2017.

10. CONCLUSION

As demonstrated throughout this paper, the issue of high house prices is a complex one. Debate will undoubtedly continue over which drivers are to blame for the ongoing rises in dwelling prices in Sydney (and elsewhere in Australia), with each proposed policy response likely to reflect each author's belief that supply, or demand, is the key factor in exacerbating housing costs.

Whatever degree to which any driver affects house prices, the key outcome has been stark: absent a long term, sustained, multi-governmental commitment to addressing supply and demand challenges in the property market, more and more Sydneysiders are becoming unable to buy homes in their own city. While there are a range of economic consequences and risks inherent in the existing property market that governments would much desire to avoid, the issue of secure, affordable housing is at its heart a social issue for both NSW and the nation more broadly.

First homebuyers have been viewed in the media and wider community as a yardstick for housing affordability. Sadly, evidence shows that, increasingly, the burdens of saving for a deposit are becoming greater as house prices continue to grow beyond forecasts, while wages simultaneously stagnate. Without the financial backing of 'the Bank of Mum and Dad' or the fortune to have "a good job that pays good money",[393] prospective first homeowners are simply outbid and outborrowed by property investors,[394] or existing homeowners who have realised strong capital gains from an earlier entrance into the property market.

Without the advent of significant reforms to help this group purchase homes, Sydney may transform into a city of renters akin to New York City or San Francisco.[395] An issue that this raises is whether State tenancy laws adequate security and stability to those who have little financial choice but to rent for long periods of time.

However, unsuccessful first homebuyers with steady, reasonably well-paid employment and savings are a comparatively fortunate class of Australian. As noted in this paper's introduction and detailed in chapter 7, the issue of high house prices trickles down to those less fortunate, with compounding negative effects that ultimately bring the most harm to the community's most vulnerable individuals.

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[393] L Bourke, Joe Hockey's advice to first homebuyers - get a good job that pays good money, Sydney Morning Herald, 9 June 2015.

[394] J Irvine, A manifesto for Generation Rent, Sydney Morning Herald, 21 February 2017.

[395] According to the 2011 Census, 30.4 per cent of Greater Sydney residents rented. In comparison, 50.8 per cent of New York City residents rented in 2013, while 64.2 per cent of San Franciscans live in renter-occupied housing. See .id, Greater Sydney: Housing tenure, n.d.; United States Census Bureau, 2013 Housing Profile: New York City, NY, May 2015; Bay Area Census, San Francisco City and County, n.d.

Many private renters already face considerable levels of housing stress as rents across Sydney increase. Low income earners and older renters are two prominent examples of groups of people facing insecurity, social exclusion and health consequences as they are slowly squeezed out of the private rental market. There is currently no place for many of them to go either, with huge waiting lists for social and public housing forcing the least fortunate into functional or actual homelessness.

Unfortunately, it is those who are worst off who experience the greatest impacts of unaffordable housing.

There is no deficiency of policy responses to this pressing issue, as can be seen in the many proposals made by a variety of stakeholders and the prolific commentary seen in the media these past few months.

Many of these policies have been widely supported by observers, including the increase of dwelling supply, measures to reduce investor involvement in the property market, and new financing innovations to better fund affordable housing. Policymakers have also recognised the need for detailed, long term strategic planning; the Greater Sydney Commission's 2056 Plan and the NSW Government's *A Plan for Growing Sydney* both aim to provide an appropriate mix of housing and associated amenities across Greater Sydney.

Strategic plans can only go so far though, and social impact bonds are merely an instrument that without a viable investment will do nothing to increase supply or affordability. Ultimately, implementation is the key to the success of any of these policies. To avoid the shortcomings of earlier (and equally bold) strategic plans or policies, all levels of government must work together to ensure success.

Some commentators believe that Australia has left the issue of housing off the agenda for so long that any new proposals or reforms to have significant impact on increasing housing affordability.[396] In fact, some are contending that, due to inaction in the past, the great Australian dream of home ownership is now coming to an end.[397] Others, such as NSW Planning and Housing Minister Anthony Roberts, have argued that the State it "almost at the point of no return" in responding to the issue of unaffordable housing for its residents.[398]

It is not this paper's role to determine whether this is the case or will be in future. However, it will make the point that, in order to succeed in the effort to make some form of housing affordable for all, we as a society must not accept a future whereby an ever-shrinking group of people are able to enter and benefit from the property market.

As stated by former Planning Minister Rob Stokes in a 2016 speech to the Committee for Economic Development of Australia:

> "We should not be content to live in a society where it's easy for one person to reduce their taxable contribution to schools, hospitals and other critical government services — through generous federal tax exemptions and the ownership of multiple properties — while a generation of working Australians find it increasingly difficult to buy one property to call home"[399]

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[396] Yates, note 14, p 289.

[397] I Verrender, Housing affordability: How did we get here, and do first-time buyers ever stand a chance?, ABC News, 20 February 2017.

[398] J Saulwick, note 1.

[399] J Kelly, M Coultan, Liberals split on negative gearing tax policy, The Australian, 25 November 2016.