Housing market drivers and affordability interventions in Sydney

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Presentation overview

- Housing market trends
- House purchase and rental affordability
- Housing market drivers
- Interventions to tackle unaffordability
Recent housing market trends in Sydney

- Volatile house price trend – but up 72% in real terms since 2001
- Rents up 31%
- Recent price spike – up 27% (real terms) in last 2 years

![Graph showing real house prices and rents, Sydney 2001-15](source: NSW Rent and Sales Report)
Comparing house price affordability

- Sydney 2014 median price – almost 10 times median hhld income
- As in other case study cities – housing far less affordable to locals than in rest of country

![House price affordability comparison, 2014](image)

Source: Demographia
Comparative house purchase affordability trends over time

- Sydney prices have remained least affordable in relative terms for most of the past decade
- London catching up since 2010

![Comparative house price affordability – trend over time](chart)

Source: Demographia
Private rental affordability – Australia-wide

- Rents rising faster than incomes so rental affordability declining
- Nationally, 54% of lower income renter households facing unaffordable rents in 2011
- Part of longer term trend

![Graph](chart.png)

**Private renters in lowest 40% of income distribution, 2006 and 2011**

- % of all lower income private renters
  - Paying severely unaffordable rent
  - Paying unaffordable rent
  - Paying affordable rent

**Gross housing cost to income ratio: bottom 40% of income earners, 1982-2011**

- Gross housing costs as % of gross household income

- Owner-purchasers
- Private renters

**Source:** Wood (2015)
Rental affordability in Sydney

- Private rental affordability considerably worse in Sydney than nationally
- Even higher rates of unaffordability in inner suburbs

![Bar chart showing private renters in lowest 40% of income distribution, 2011.](chart.png)

**Source:** Hulse et al (2015)
Consequences of rental unaffordability

Over the past year, have any of the following happened to you/your household because of a shortage of money?

a. Had trouble paying your utility bills on time
b. Had trouble paying your car registration or insurance on time
c. Pawned or sold something
d. Went without meals
e. Unable to heat your home adequately
f. Sought assistance form welfare/community organisations
g. Sought financial help from friends or family

61% of renters on Rent Assistance had experienced ‘deprivation’ during previous year

Lower income renters in Sydney and Melbourne

- None of these problems (39%)
- Couldn’t pay bills or went without essentials (44%)
- Sought financial help (17%)

UNSW Long term renters study (with UTS and Swinburne University) – survey of 600 private renters 2015
Comparative national housing market drivers

• As internationally, recent house price boom triggered substantially by record low interest rates
• But speculative investment dynamics deeply embedded in Aus housing market
• Strongly incentivised by ‘subsidies’ even more favourable than in UK and US:
  – Concessions on negative gearing and capital gains tax (for landlords)
  – Minimal property/land tax
• Disproportionate share of Aus population in few large coastal cities also a factor

Sydney real house prices and Australian interest rates

Sources: House prices - NSW Rent and Sales Report; Interest rate - RBA (Table F5 Housing loans; Mortgage managers; Variable; Basic)
Explaining ‘Sydney vs rest of Aus’ house purchase affordability gap

- Shared with comparator cities is large house price differential with rest of country
- Property values more disconnected from local incomes
- Disproportionate foreign investor market influence a likely common factor and partial explanation:
  - Growing numbers of wealthy Chinese and others looking to park wealth in ‘stable jurisdictions’
  - Facilitated by ‘significant investor’ visa rules
  - Rapid rise in overseas investment post 2012/13 significant – nearly 80% to NSW/Vic (prob mainly to Syd/Melb)

![Graph showing foreign investment in residential properties](image)

*Source: Foreign Investment Review Board*
Rental housing market drivers

- Relatively high popn growth due to migration a significant housing market driver
- Direct consequences on *rental market* demand
- Foreign students the most volatile component of migration
- Again, bears most heavily on Syd/Melb markets
- Recently published foreign student forecast suggests renewed pressures on rents in near future

**Overseas migration trends and forecasts, 2006-2018**

Source: DIBP
Housing affordability/affordable housing interventions

- Knowing how to intervene calls for accurate analysis of the problem
- ‘Housing unaffordability purely a supply problem’ hard to square with Sydney’s 2013-2015 coincidence of:
  - 27% real terms rise in Sydney prices
  - Apartment construction boom straining building industry capacity
- Also underlain by claim that real culprit is restrictive planning
- But Sydney planning approvals greatly in excess of building completions – 160k compared with 100k in past 5 years
- As in the UK (and probably the US) growing inequality in housing space *distribution* in Aus:
  - more second homes
  - more underutilised/over-consumed homes
Intervening to tackle Australia’s housing unaffordability – a 10-point plan

- 10-point plan highlights need for actions to:
  - Cool overpriced market by correcting tax system distortions
  - Redirect effective rental housing subsidies to affordable rental
  - Direct interventions to expand affordable housing – esp in high demand locations
- For State Govts, more scope for actions of third type – esp. through planning powers
- Compared with NY and London, little Sydney action to preserve and expand AH since 1990s
- One result: decisive & damaging outward shift in low income population [next slide] – remote from job growth zones
- Current NSW Govt may be facing up to problem
- Chance to embed affordable housing in new wave of major UR projects must not be missed
Changing distribution of low price private rental housing 1991-2011

Green = reduced
Blue = stable
Pinks = increased 100-200%
Magenta = increased >200%

Map credit: Maggie Reynolds, Swinburne University

From ARC study on the geography of private rental investment activity – joint project: UNSW/Swinburne
The 10-point plan in detail

1. Moderate speculative investment in housing by a phased reduction of existing tax incentives favouring rental investors

2. Redirect the additional tax receipts accruing from reduced concessions to support provision of affordable rental housing

3. Actively engage with the super funds and other institutional players who have shown interest in investing in rental housing

4. Replace stamp duty (an inefficient tax on mobility) with a broad-based property value tax (a healthy incentive to fully utilise property assets)

5. Expand availability of more affordable hybrid ‘partial ownership’ tenures such as shared equity – to provide ‘another rung on the ladder’

6. Implement the Henry Tax Review recommendations on enhancing Rent Assistance

7. Reduce urban land price gradients (compounding housing inequity and economic segregation) by improving mass transit infrastructure

8. Further simplify landuse planning processes to facilitate housing supply, but retaining scope for community involvement and proper controls on inappropriate development

9. Require LA local housing needs assessments and give LAs powers to secure mandated affordable housing targets

10. Develop a costed and funded plan for existing public housing to see it upgraded to a decent standard and placed on a firm financial footing within 10 years.

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