



THE UNIVERSITY OF  
**SYDNEY**

The Henry  
Halloran Trust



# A Housing Strategy for NSW

## A Response to the Discussion Paper

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### Attachments

Gurran and Bramley (2017), Chapter 9

Gurran, Pill and Maalsen (2020)

AHURI Evidence Summary Changes in affordability and availability of rental housing in Australia

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<sup>1</sup> With thanks to Dr Cameron Murray for providing Figures 1, 2 and 3.

## 1. Introduction

We commend the NSW Government for the process of developing a NSW Housing strategy. It is an excellent initiative and provides a great opportunity for making some systematic improvements to the NSW Housing system.

Rather than answering the particular questions raised in the Discussion paper we thought we would provide a list of general comments. These relate to:

- Our analysis of NSW Housing Markets
- The shortage of affordable dwellings
- Supply risks in the future
- The role of planning
- A diverse housing stock
- Data requirements

Our comments in this submission are based on a series of research projects undertaken by ourselves and colleagues over the past two decades, and we attach several recent pieces of work for further reference.

## 2. Our analysis of NSW Housing markets.

An effective and accurate analysis of the housing markets in any jurisdiction is very important. It provides the platform for any effective policies. Unfortunately the standard of analysis in Australia has been poor, often dominated by property lobby groups and so called “experts” with little knowledge of property fundamentals.

The common narrative is that housing in Sydney is expensive because demand has exceeded supply and supply bottlenecks especially the planning system has meant that prices have continued to increase. This analysis is usually accompanied by talk about a shortage of housing (eg NSW Budget Papers in 2016) with an implication that boosting construction will alleviate the affordability pressures affecting first home buyers and lower income renters. The Discussion paper falls into this sort of language in places. For example, on page 54 it says:

*“Housing prices have risen faster than incomes over the last few decades due to lower income growth, population growth, the undersupply of housing and investor demand”*

The problem with this statement is that it is missing the key element in the rising prices of housing - lower interest rates.

A previous Governor of the RBA, Ian McFarlane had this to say about rising housing prices and interest rates:

*“The first question is why have the prices of the eight million houses in Australia basically doubled over the last decade? The answer to that one, I think, is almost entirely on the demand side. Basically, because we returned to low inflation, interest rates were halved.”*

*People could now borrow, if they wished, twice as much. They did not have to borrow twice as much; they could have taken it in lower debt servicing if they had wanted to, but there were a whole lot of incentives in the system that meant they borrowed twice as much. The incentives were mainly tax incentives, plus a history of high inflation. So they borrowed the money and drove up house prices, so the whole stock of eight million houses basically doubled in price. (House of Representatives 2006)*

Lower interest rates have meant that whilst house prices have gone up, the repayments for a housing loan has been reasonably stable. The standard variable interest owner-occupier housing loan has dropped from 10.5% in May 1996 to 4.5% in 2020 leading to a long period of an underlying trend in rising house prices. The sharp impact of interest rate cuts was shown by the two cuts in interest rates in 2019 which restarted price increases in a housing market that prior to the interest rate cuts was showing signs of a slow correction. The difficulties that this cycle creates is felt by first home buyers who need to raise an ever-increasing deposit. This deposit gap has led to reductions in home ownership rates especially for younger age groups in Australia, but existing home owners and investors have perversely enjoyed rising wealth associated with residential assets. In turn, this cycle of lower cost finance (combined with the taxation incentives for property owners) has fuelled demand for housing, including new construction, supporting economic activity and wider consumer confidence but exacerbating a situation in which new production is dependent on rising house prices.

#### *Is there a housing shortage?*

Ensuring that new housing production supports existing and projected population growth and change is certainly an important goal for any housing strategy, and (in the absence of other financial distortions), supports price moderation over time. However, a narrative of a shortage can also be used by participants in the housing market. For instance, property industry participants may use the narrative of 'shortage' to support claims for looser or out of sequence land release, or to signal to investors there is a buying opportunity. Federal politicians may use the simplistic narrative of shortage to blame State Governments for the "housing problem", while sidestepping electorally difficult questions around tax reform or funding for social housing.

Therefore statements about housing shortage in the NSW Strategy Discussion Paper (p21) should be carefully considered and substantiated.

*There was an estimated undersupply of 100,000 homes in Greater Sydney in 2016. The number of homes built in 2017–18 represented the first time for more than a decade that enough new homes were built to accommodate population growth.<sup>17</sup> We need to maintain this given the expected increase in population numbers.*

This statement refers to an estimate of a 100,000 dwelling shortage quoted in the NSW Treasury's intergenerational report, and is based on using persons per dwelling estimates from the 2006 census, with a small average household size generating a large demand for housing. The authors considered the increase in household size observed in the 2011 Census was a temporary phenomenon associated with the global financial crisis (GFC). Accordingly, their model predicted a shortage of 100,000 dwellings in New South Wales by 2016. However, the results from the 2016 census that for Sydney, person per dwelling figures have actually increased since 2011 (from 2.7 to 2.8). If the model had used the 2016 figures for persons per household it would have in fact shown a small *surplus* in housing supply, rather than a shortage.

The Discussion paper correctly identifies that the best way to examine the balance between supply and demand in the housing market is to examine the rental market. The key issues here

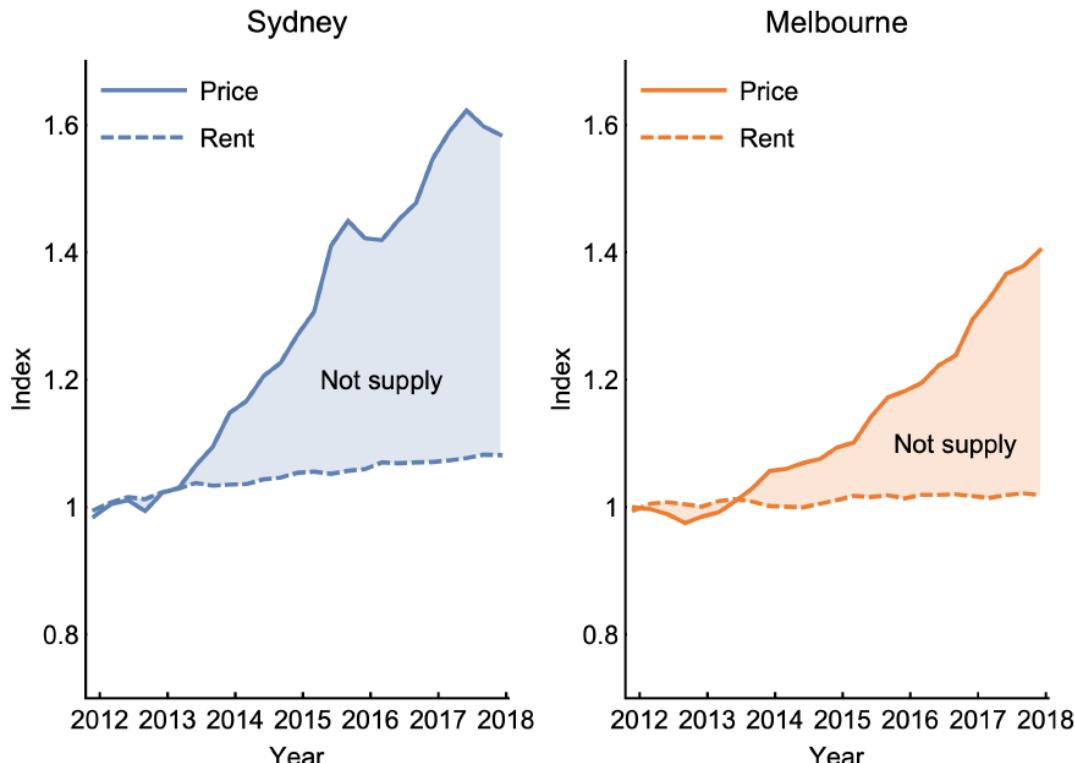
are rent increases (real rents will increase when demand exceeds supply) and the vacancy rate. The RBA (Saunders and Tulip, 2019) estimates that real rents rise in Australia when vacancy rates are less than 2.4%. Table 1 below shows Sydney rental vacancy rates from the NSW REI and rents from the NSW Rent and Sales Report. There is no evidence of a significant shortage from this data, particularly since late 2017. The table shows that rents have not risen in nominal terms since June 2015, and in real terms since June 2013. If there was a shortage of 100,000 dwellings in 2016 there would be evidence of decreasing vacancy rates and rising rents which are not evident in Table 1.

**Table 1. Sydney rents and vacancy**

	June 2020	June 2019	June 2018	June 2017	June 2016	June 2015	June 2014	June 2013	
Vacancy rates	4.5%	3.4%	2.7%	1.8%	1.8%	2.1	1.8	2.1	
Median Rent- 2 BR Apt	500*	520	540	550	520	500	495	470	

\*March 2020

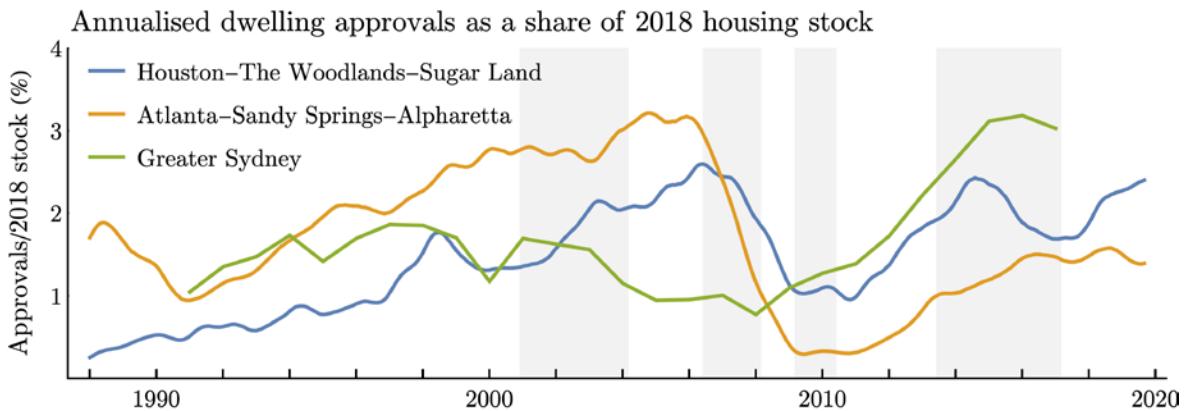
A longer term perspective on the relationship between rents and house prices in shown in Figure 1 which maps rents and house prices in Sydney and Melbourne between 2012 and 2018. The rents reflect the balance between supply and demand whilst the house price reflects the impact of reductions in interest rates as well as a range of other issues such as taxation settings.



**Figure 1. Changes in rents and house prices in Sydney and Melbourne 2012 to 2018**

As a series of studies for the Australian Housing and Urban Research Institute (AHURI) has shown, the shortage is not in overall housing or in overall rental stock; but rather in the quantity of rental stock that is affordable and available for low and very low income earners (see for example, Hulse et al. 2019).

Sydney has been able to generate enough housing largely through a large number of approvals, resulting in a surge of new construction. Figure 2 shows the approvals in Sydney as a percentage of the 2018 housing stock and compares its performance with two US cities often held up as exemplars of flexible planning systems supporting new housing supply. In recent years, Sydney is performing much better than the US cities of Houston and Atlanta.



**Figure 2. Dwelling approvals as a percentage of 2018 housing stock.**

Figure 7 in the Discussion paper suggests that Sydney's housing supply target has actually been over-estimated for the majority of the past decade, since the systemic under-supply of the amount implied would have resulted in decreasing vacancy rates and rising rents. Since as can see from Table 1 this is not the case, the housing supply target was an aspirational benchmark but not necessarily helpful as a tool for guiding planning decisions or strategic performance evaluation. We would suggest that it is more useful to specify housing supply targets which address particular cohorts in the housing continuum (e.g. low income renters; moderate income first home buyers etc); as a basis for informing strategic actions and performance measures.

We would further make the following observations about the potential to over-estimate housing supply targets shown in Figure 7:

- The required dwelling models used to generate the target assume a decrease in persons per household as a result of ageing. However, as mentioned the increase in housing costs have meant that this number has increased and not decreased. Since this change is across the entire housing stock, a small rise in the average across Greater Sydney, can accommodate a significant proportion of annual population growth.
- A significant proportion of the growth in Sydney's population has come from international students. Many students are housed in special purpose student accommodation provided by Universities and private providers. Since this accommodation is not fully self-contained (students share cooking and social spaces) they are not included in ABS dwelling counts and hence a key element of housing supply is excluded from the analysis.
- A significant proportion of temporary international migrants including students are on low incomes. As a result , they often choose informal housing options in very crowded dwellings. This reduces the demand for dwellings from this cohort. Much of this informal

housing sector runs under the radar and is unlikely to be reported in official statistics including the census.

- About half the growth of population is generated by natural increase. This growth is often accommodated by households renovating their existing dwelling to create more housing capacity. The HIA (2017) estimate that about \$33 billion per annum is spent on renovations in Australia. An allowance needs to be made in the model for an element of population growth to be accommodated by dwelling additions.

We would suggest that an urgent review of housing demand methods should be undertaken, back casting the approach so the resultant housing targets match outcomes in the housing markets (including the data shown in Table 1).

### 3. The shortage of affordable dwellings

The shortage of affordable dwellings is a serious concern for NSW. It is placing great stress on NSW households and leading to a society of have and have nots which is based not on your employment but rather whether you have access to home ownership. (Adkins, Cooper and Konings. 2020). The dynamics of this issue are clear. NSW for many years has acknowledged the need for Government-provided and/or subsidised housing to assist those who are not catered for by the market. Over time the demand for this housing has increased in NSW for four reasons. Firstly, Commonwealth income support programs, especially Newstart have decreased in real terms over recent years making it harder for some Centrelink clients to operate in the private market. Secondly, rent assistance payments have not kept up with the increases in rent charges. Thirdly, as more people have been unable to enter the home ownership market there has been a crowding out in the rental market, with people on lower incomes competing with moderate income households who previously would have entered home ownership. Fourthly, just like the rest of population has increased, the population on lower incomes has increased, especially through temporary migrant visas and the refugee settlement program. There has been no equivalent increase in social housing stock to meet this increased demand. Table 2 shows the social housing stock in Sydney and NSW as a proportion of the total population between 2006 and 2016. The table shows that despite the increase levels of housing stress since 2001 there has been a decrease in the total social housing supply per 1000 Sydney residents. Successive governments have turned their back on this increasing demand for social housing generating the entirely predictable housing market outcomes we see across NSW. For example, according to Table M3a of the Local Government Housing Kit database the proportion of the rental stock affordable for those on low incomes in Greater Sydney has shrunk from 33.6% in June 2001 to 18.0 % in June 2016. Further evidence is provided in Hulse et al (2019).

**Table 2. Ratio of social housing per 1000 people – Greater Sydney 2006 to 2016**

Year	2006	2011	2016
Ratio	18.7	18.1	16.3

Source: ABS 2016 Census Time Series. Social Housing Estimate based on SHA Plus Housing co-operative/community/church group landlord

The key lesson here is this level of affordability stress has occurred despite the record levels of housing supply. Whilst we consider measures to increase the total housing supply in NSW as very important, Governments also need to put in place deliberate policies to help low income households. For example, we commended the Affordable Rental Housing targets in the Sydney Metropolitan Strategy but there still has been no implementation of this important scheme.

Unfortunately, this looks a lot like a Government more interested in sounding concerned about this group but doing nothing.

## 4. Supply risks in the future

Whilst we would suggest that the highest priority action for Governments is to increase the supply of social housing, looking past the COVID19 induced slow-down in demand, there will be some problems in the future for Sydney in catering to Sydney's increasing population. The Discussion Paper suggests that this can be achieved through infrastructure and appropriate development controls.

*While Greater Sydney is able to accommodate enough new housing for the next few years, the NSW Housing Strategy should consider opportunities for development to create a stable housing development pipeline. This can be achieved through infrastructure and service provision, as well as appropriate development controls. (Discussion Paper, p37)*

Whilst this strategy worked in the last decade, we do not expect that this experience will be repeated.

We assume that the three sources of demand for new housing that will generate new housing supply are:

1. Investors
2. Owner occupiers
3. Social housing

Since lower interest rates have been the main driver of house price growth since about 2000, and we are at the bottom of the interest rate cycle, once the latest two rate 2020 decreases wash through the system, the era of double digit house price increases that have drawn so many investors into the market would appear to be over. Since during the 2014-2017 building boom in Sydney, investors were responsible for a significant proportion of new housing supply, especially in the apartment market, it is important to consider how to generate investment in new housing supply in an era of lower capital gains. Clearly the Build to Rent sector has an important role to play here but there are a number of policy settings, especially in the area of tax that need to change, before this sector can scale up (Pawson, 2019). This should be a clear aim of the NSW Housing Strategy.

Looking at the supply of social housing, currently public housing renewal in NSW is dominated by the Communities Plus process where large tracts of social housing rely on a densification strategy, with the majority of the new stock sold off to private purchasers - as a way of funding renewals. Usually a major private sector developer is the lead development partner. In an era of low house price inflation this model might be hard to replicate. An alternative strategy might be to use a Community Housing Provider as the lead partner, based on smaller sized projects with a much smaller reliance on sales to private purchasers. Clearly this approach would need a larger Government investment but would generate a higher yield of social housing dwellings. This investment should run in a counter cyclical fashion to support employment in the housing construction sector during downturns but also to generate the most efficient outcomes for Government by being able to generate cheaper bids for housing construction.

At the same time, it is important to prevent the loss of permanent housing units through a return to the unregulated use of homes for tourist accommodation in high demand markets such as Sydney. The reported release of thousands of former short term rental units back into Sydney's rental

market, following the COVID-19 pandemic highlights the importance of introducing real controls to preserve permanent housing supply for long term residents.

The NSW Housing Strategy needs a framework for managing non-residential and short term uses of housing in ways that properly account for rental affordability pressures, amenity issues, as well as public health and safety risks associated with unregulated tourism in homes and apartment buildings.

## 5. The role of planning

The current focus on improving planning systems by accelerating approvals whilst not unimportant is likely to have little impact on the current problem of the lack of affordable housing in Sydney and elsewhere. The NSW Planning system has demonstrated that when there is sufficient demand, it can generate approvals for the required dwellings. The key point here is that there is no evidence that the planning system is any significant impediment to increasing total supply, although it might constrain supply in particular locations. Since the GFC the number of approvals has comfortably exceeded the total completions (see Figure 3). At the end of 2018, Sydney had about 100,000 housing approvals in hand.

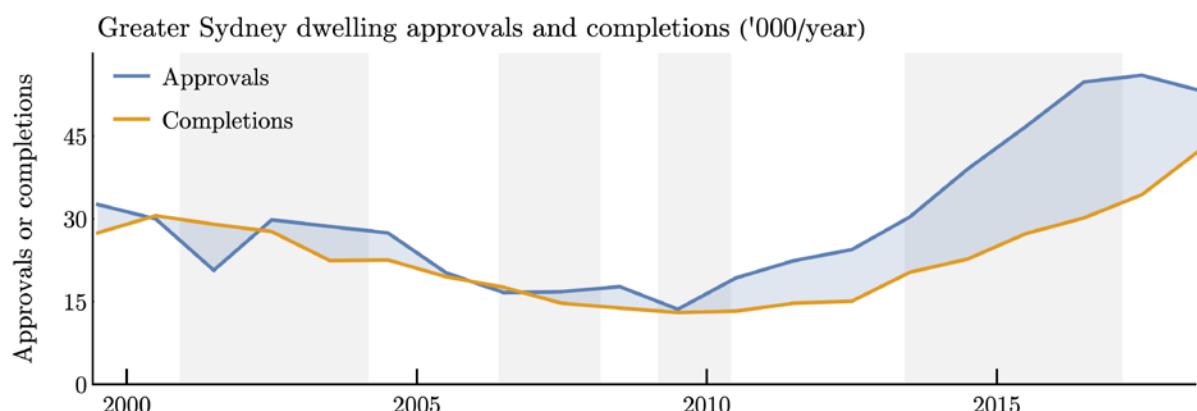


Figure 3. Dwelling approvals and completions in Greater Sydney

Where the planning system can and must help is in addressing the land component of providing affordable and social housing. Significant windfall gains are provided to landowners through upzoning their property or in achieving a variation to prevailing development rules. The size of these windfalls represent the high land costs which exert a barrier to affordable and social housing development.

Requiring new residential developments to address affordability – from moderate rental units through to low cost home ownership or mixed tenure partnerships involving non profit social housing providers – is standard practice in global cities throughout the world and can also be effective in regional markets. The NSW Housing Strategy needs a much stronger framework for progressing affordable housing objectives in all new residential developments and major projects. This includes operationalising the affordable rental housing target scheme as outlined in the Sydney Metropolitan Strategy, and developing parallel approaches for regional centres.

## 6. A diverse, sustainable, and high quality housing supply

The NSW Housing Discussion Paper and the Strategy which it seeks to inform, could provide a much stronger framework for progressing a diverse, sustainable and high quality housing supply. This means providing housing across the continuum (from crisis, disability, and special need housing through to social and affordable rental, low cost home ownership, and accommodation for the aged); addressing tenure insecurity and accommodation standards through further reforms and regulation in the private rental sector; and addressing the sustainability and climate resilience of the existing housing stock.

The location and design of new housing supply relative to existing and projected climate risk, is also a theme that needs further consideration in the Discussion paper and which should be further developed in the Housing Strategy.

### *The needs of an ageing population*

As Australia and NSW ages, many older people are living in housing that is not appropriately designed for ageing in place. A particular concern is social housing stock. A particular risk issue is bathrooms which can generate trip hazards for older users, particularly when showers are located over an existing bath. For example, Australian data indicates that about one in every eight days spent in hospital for a person aged 65 years and older was directly attributable to an injurious fall (AIHW, 2019). Whilst it is not possible to identify what proportion of these falls resulted from poor housing design, it is important to note that about 85% of falls occurred in either the home or in residential aged care. Partly as a result of an increased incidence, and partly as a result of the ageing of the population the patient days for hospital care directly attributable to fall-related injury doubled in Australia, from 1999-00 to 2010-11 (AIHW, 2013).

Whilst as part of the COVID-19 economic response the Federal Government HomeBuilder program has provided funds for home renovation, a much more targeted strategy where the State Government partnered with older Australians to undertake a home modification program to make their housing safer and more suitable for ageing in place could generate considerable benefits in terms of reduced hospitalizations and improved quality of life. The State Government's cash contribution for privately owned stock might be reasonably modest but could be anchored by a good design guide (like the Apartment Design Guide). Bathroom renovations usually require multiple trades and hence would have the added benefit of providing substantial employment multipliers across the State.

### *Sustainability of existing housing, and the rental sector*

Similarly, the NSW Housing Strategy could provide a stronger framework for improving the quality and environmental sustainability of the existing housing stock, and particularly housing in the private rental sector. This would include assessing and addressing the thermal performance and energy efficiency of housing and developing much stronger regulation of quality and standards in the private rental sector.

## 7. Data gaps and unmet housing needs

Whilst the NSW Government's main focus has been on increasing total housing supply the data collected and generated by NSW DPIE and others made sense. What is the total likely supply, what is the total dwelling targets and what are total dwelling approvals etc. However, if the policy focus changes to one of addressing the shortage of affordable housing, the data needs should change as well. For example, in these circumstances it would be more appropriate to collect:

- Total approvals for affordable housing
- Total projected affordable housing supply
- Total additional social housing supply.

Moreover, it would also be useful to examine the total dwelling approvals in existence at any point in time to provide an indication to what extent the planning system is a break on potential housing supply (or as economists say if the stock of housing approvals is likely to be a binding supply constraint).

The COVID-19 Pandemic has highlighted the wider public health risks associated with a shortage of adequate and affordable accommodation, particularly in the major cities. Overcrowding and informal housing arrangements in particular, appear to have emerged in response to a lack of affordable and appropriate private rental housing for low and very low income households. Current Census data sheds very limited light on these issues, in particular, the range of informal rental housing arrangements which expose occupants to serious health and safety risks (see Gurran et al, 2020) for more details. There is a need to increase the timeliness and sensitivity of housing data beyond census periods and aggregate rental / sales statistics; as a basis for informing more targeted policy interventions.

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