



The problem of affordability

Four areas of focus to fix Sydney's greatest challenge

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Committee
for
Sydney



Housing affordability is the top issue facing Sydneysiders

Australia's housing crisis has pushed the dream of homeownership – even just of decent shelter – out of reach for many, and the problem is particularly acute in Greater Sydney:

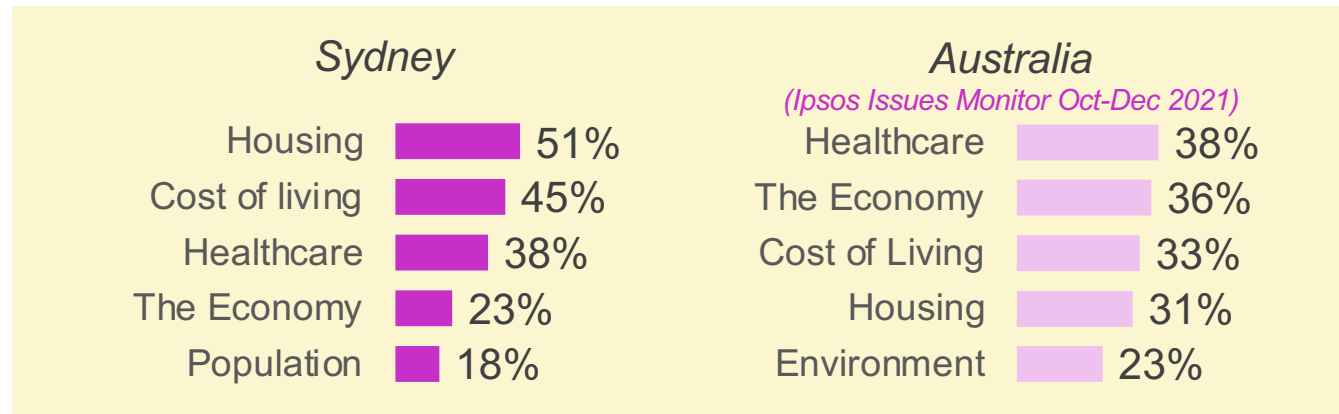
- Home ownership rates are falling fast, halving over recent decades for lower-income earners aged 24-34, from 57 to 28%
- This runs the gamut from people experiencing homelessness and in crisis accommodation, those in community housing, and people seeking market rental and home ownership
- Our annual [Life in Sydney](#) survey showed concerns about housing affordability and cost of living back in force as fears about Covid-19 and its economic impacts subside.

To solve this, we need to pull together on a range of solutions – people affected are in different life circumstances; some policy changes will help one group more than another. So we need more than one solution.

We don't have all the answers yet, but we are committed to working on this to find the answers. In the spirit of open discussion, these are some of the things we are thinking about.

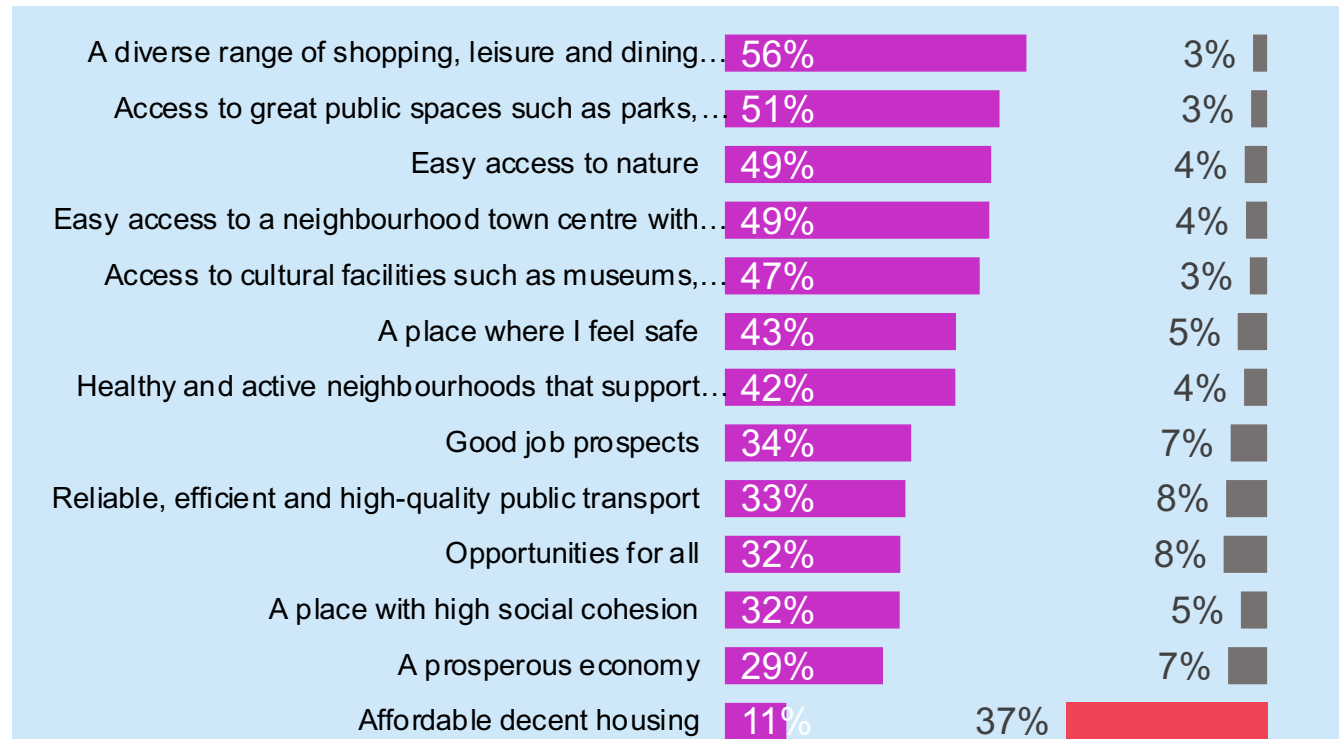
What would you say are the three most important issues facing Sydney today?

Note: Showing top five most common responses.

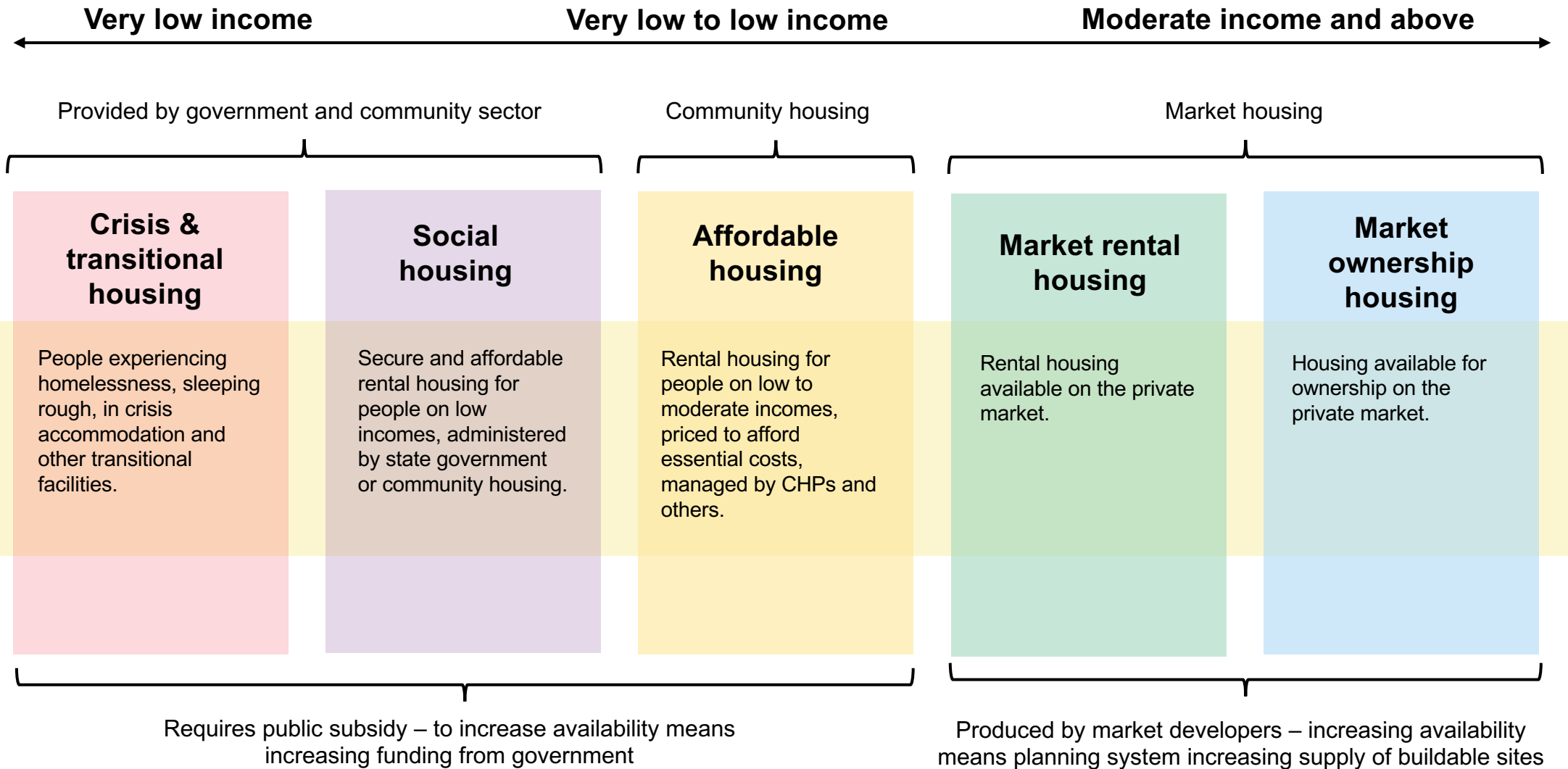


How much do you agree or disagree with each of the following statements about Sydney?

Note: 'Don't know' responses excluded from the chart for analysis purposes. From 0 'strongly disagree' to 10 'strongly agree'.



There are multiple housing crises across Sydney



1. Create an ownership society

The rate of home ownership in Sydney, as in the rest of Australia, is declining. In 1961, approximately 72% of those in their 40s owned their home, compared to 63% in 2021. Over a long period, housing costs have risen faster than wages, which means young households have to save for more years for a down payment.

If these trends continue, Sydney will become a place where home ownership is increasingly only available to those lucky enough to inherit wealth from their parents – profoundly undermining the core Australian values of giving everyone a fair go.

Home ownership matters because, without a much larger social housing sector (desirable but unlikely in the short term) or strong rent control in the private market (which we don't advocate), it is the only way to have a secure retirement in Australia. It is naïve to wish this fact away. We should be doing everything possible to create an ownership society, where people who work hard are able to get into the housing market.

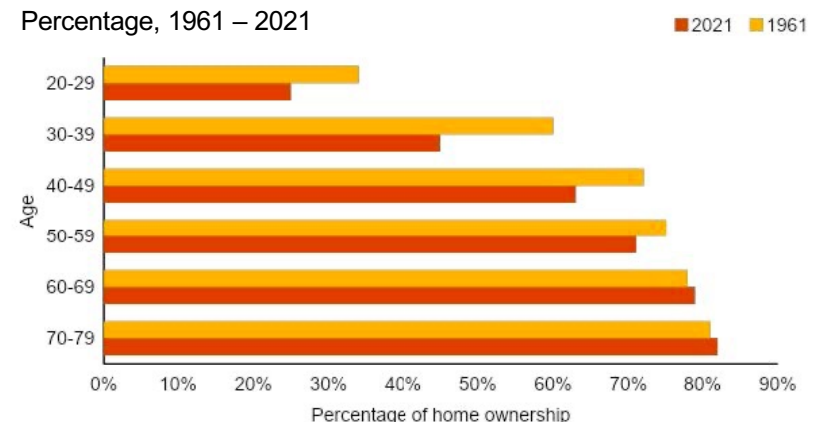
If we are serious about broadening access to home ownership, we need to give the advantage to home buyers for their primary residence, rather than to people to who are buying homes as an investment or as holiday/second homes.

Things that would help:

- Reset the capital gains tax discount for proceeds of private rental property sales — as recommended by the Grattan Institute and others, this should be cut from 50% to 25%, reducing the excess incentive for private landlords to bid up property prices

- Equalise the age pension assets test for renters and owners – capping the value of homes that can be excluded from the test and/or giving renters an equivalent value of non-real estate assets that are excluded from the test
- Eliminate stamp duty and replace it with an annual land tax to reduce transaction costs
- A down payment assistance program, if narrowly targeted to first time home buyers, could help, although it may also have a countervailing impact on increasing prices. Another version of the same idea is NHFIC's 'build to rent to buy' program
- And, while we know neither major political party is currently willing, something that would help is limiting negative gearing for private landlords – specifically, only applying investment business losses against other investment business income, not against wage and salary income. In addition to broadening opportunities for home ownership, reforms like this will tend to channel investment into productive parts of the real economy, rather than real estate speculation.

Share of home ownership by age group



2. Make renting more secure

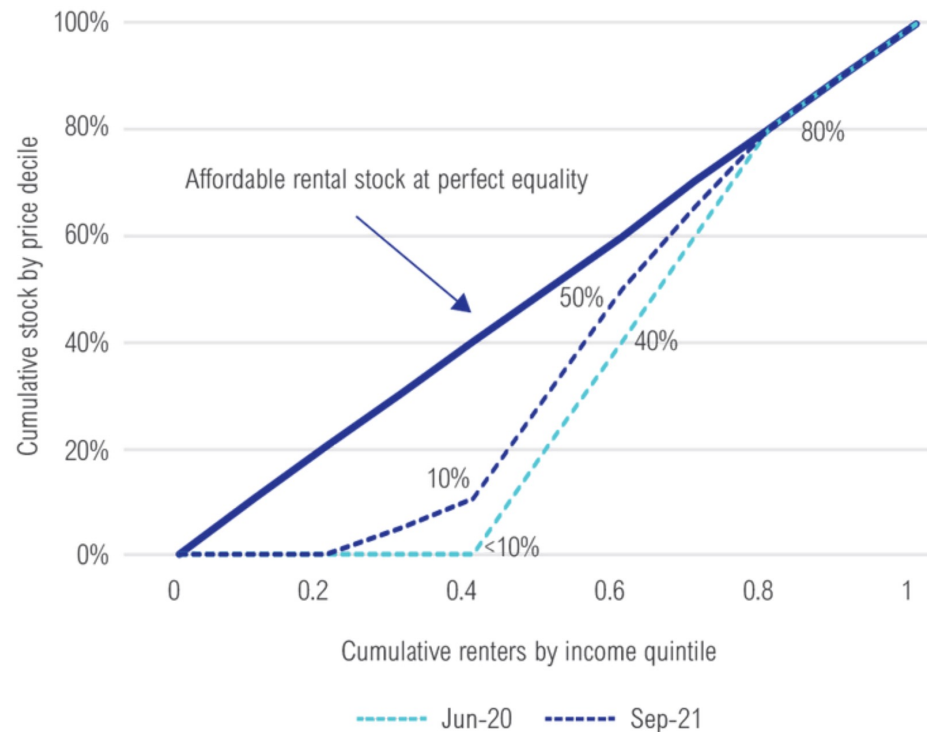
Renting will, of course, remain a big part of the housing system in Sydney. Right now, renting in the private market often involves a lot of insecurity for tenants. Most leases are for a year, sometimes less, then convert to monthly leases. Renters are forced to move often – and worry about it even more.

For young people, for people who may need to move for work, and for people who can't afford to buy a home, renting should be a better option.

Things that would help:

- Amend tenancy laws to give more security of tenure, perhaps by following Victoria's lead to specify a limited range of grounds (e.g. needed for occupancy by the landlord him/herself, property sale) on which a landlord may re-possess their dwelling
- Reform property tax settings under both federal and state/territory government control to attract institutional investors to develop build to rent housing as a product type
- Increase Commonwealth Rent Assistance payments that have been artificially suppressed because of being uprated according to the consumer prices index rather than according to actual rent levels
- Bring back a reworked version of the National Rental Affordability Scheme.

Rental housing affordability – Sydney



The bold centre line shows a well balanced and affordable rental market, tracking from low incomes at the left to higher incomes at the right – the dashed lines show the major affordability gap for low-income households.
Source: [NHFIC](#)



Source: Domain

3. Increase the stock of social and affordable housing

For lower income households who cannot afford housing in the market, social and affordable housing is essential.

As well as this direct benefit for renters who can access affordable dwellings, there is a larger benefit for the broader economy via increased participation, productivity and social cohesion – the latter something that pre-Covid might have seemed soft and fuzzy, but is increasingly central in considerations – with a greater diversity of households more evenly distributed.

Currently, about 4% of Sydney's housing stock is social and affordable, and this number is declining. Again, thinking about the housing continuum, there are multiple issues at different income levels, and this one is need of serious attention.

The development program would rely on a combination of government, market rate developers and the strong network of community housing providers (CHPs). Generally, the global best practice is to have ongoing operations and tenant management in the hands of CHPs.

Note that increasing the supply of social and affordable housing will add competition to the bottom part of the housing market, which will help stabilise prices there as well.

Things that would help:

- We believe Government should set a goal of increasing the stock of social and affordable housing to 10% – and then design a program to get there – factoring in affordable housing development contributions secured through the planning system as well as direct government funding.

Plan for the Waterloo estate

Land & Housing Corporation's Communities Plus is a program to renew housing estates, using market rate development to increase densities and cross-subsidise affordable housing.



4. Increase supply of market housing

We think it's clear that we are not going to solve the housing problem without supply being part of the solution. No one, not least the Committee, is arguing that supply is the whole solution, but it is part of the solution.

The very high cost of land in Sydney, when compared to other capital cities, is one piece of evidence.

In a liberal development market, developers have many options of sites that are buildable, so landowners are not able to charge such high prices to developers.

A well-functioning planning system enables a flexible housing production market, which can create units in proportion to demand in a timely and predictable way. It *also* delivers good design and place outcomes – something we think is essential for maintaining the social license to develop. We want to be creating new buildings and new neighbourhoods that will be loved by future generations of Sydneysiders.

Where should the new housing go? One of the best answers is to cluster it around railway stations. This is something that, up to a point, already happens.

Artist's impression of Crows Nest over station development from Hume Street



5. Launch a wave of experiments

With a problem this big, it's worth trying a lot of things:

- Can we create a pathway for new tenure types like co-living or cooperatives?
- Can we reduce the cost of construction by scaling up greater use of pre-fabrication and off-site assembly?
- Can we reduce household monthly expenses by making it easier get around without needing a car?
- Can we do more with government-owned land? What about church-owned land?
- Can we create a better economic monitoring tool so we have useable market data to help us know when we need to bring on line more buildable sites through the planning system?
- Can we revisit the potential for direct government land acquisition and residential development on a scale that was historically familiar in Australia, but which no longer occurs?

There are many ideas like these that need to be tested and explored.

Melbourne manufacturer TBS produces mid-rise prefabricated residential buildings.



Is it doable? NZ's bi-partisan housing reforms

Even more sharply than in Australia, New Zealand has seen its housing costs rise faster than wages and home ownership rates decline over the past decade.

Unlike Australia, it has recently taken fairly significant measures to intervene. And, on one important aspect of the reform package, it did so in a bipartisan way.

The so-called 'Medium Density Residential Standard' will require the country's biggest cities to permit up to three stories and three dwellings on all existing residential parcels of land.

NZ has essentially ended single-family zoning across much of the urban landscape.

But it didn't just take on the supply shortage. The country also took on the taxation issues, limiting the availability of tax deductions for interest expenses by property investors who are buying existing dwellings (the changes do not affect new development or primary residences).

Again, we would not say the NZ reforms are perfect, but they are an important example of a country enacting a range of different solutions targeted at different parts of the housing market, rather than going all in on one narrow solution.





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