



Reversing the Decline in Home Ownership

**The Real Estate Institute
of New South Wales**



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1. Introduction

This paper sets out the arguments and demonstrates the importance of home ownership, both socially and economically. It also sets out and examines the reasons for the decline in home ownership and supply of residential rental property.

Along with food and water, shelter (housing) is not a discretionary spend. The data below makes it clear that both the owner occupier and rental markets are currently in crisis and deteriorating.

The NSW community has the reasonable expectation of affordable housing. Sadly, with Sydney recognised as the second most expensive city in the world, affordable housing is not something we can expect in the foreseeable future.

We need the NSW Government to cease politicising housing, an attempt to divert the community's attention away from its failure to adequately respond to the supply problem. Dealing with the symptoms of the problem will not solve the problem itself – insufficient housing, and particularly, affordable housing. NSW simply needs more property and that means investing in building more property. Until Government directs its attention exclusively to supply, the housing market will remain in crisis.

Providing first home buyers with the option to pay the property tax instead of stamp duty does not increase the number of available properties and therefore, does nothing to improve affordability.

For those seeking rental accommodation, driving property investors out of the market has reduced supply and put upward pressure on rents.

Banning rent bidding, freezing rents, and removing the landlord's right to recover possession of their property does not put additional stock into the market; on the contrary, it drives investment away.

We must firstly look at the inhibitors to supply, the time taken (sometimes years) and costs incurred with council approval processes and the taxes and charges applied by all three levels of Government, inflating the price of new property by 40%.

Government talks affordability and then acts with tax!



Tim McKibbin

Chief Executive Officer

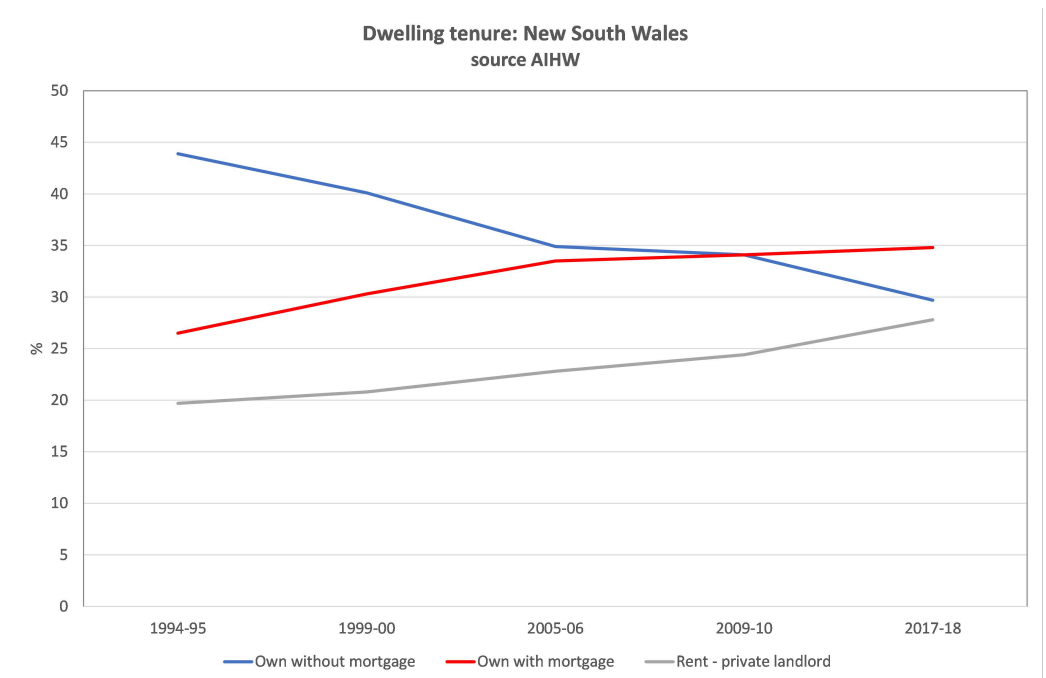
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2. Reversing the long-term decline in home ownership

Home ownership is in long-term decline in New South Wales, which has negative impacts on the cost-of-living security of tenure and economic growth.

The proportion of households renting has increased significantly and continuously since the mid-1990s, as shown in Chart 1.

Chart 1



The proportion of households renting from private landlords has increased from 19.7% in the mid-1990's to 28.8% in 2017-18. A lower number of tenants rent from the state housing authority, the proportion declining from 5.4% to 3.7% over the same period.

The anecdotal evidence and peripheral data strongly suggest that the above has deteriorated further since 2018.

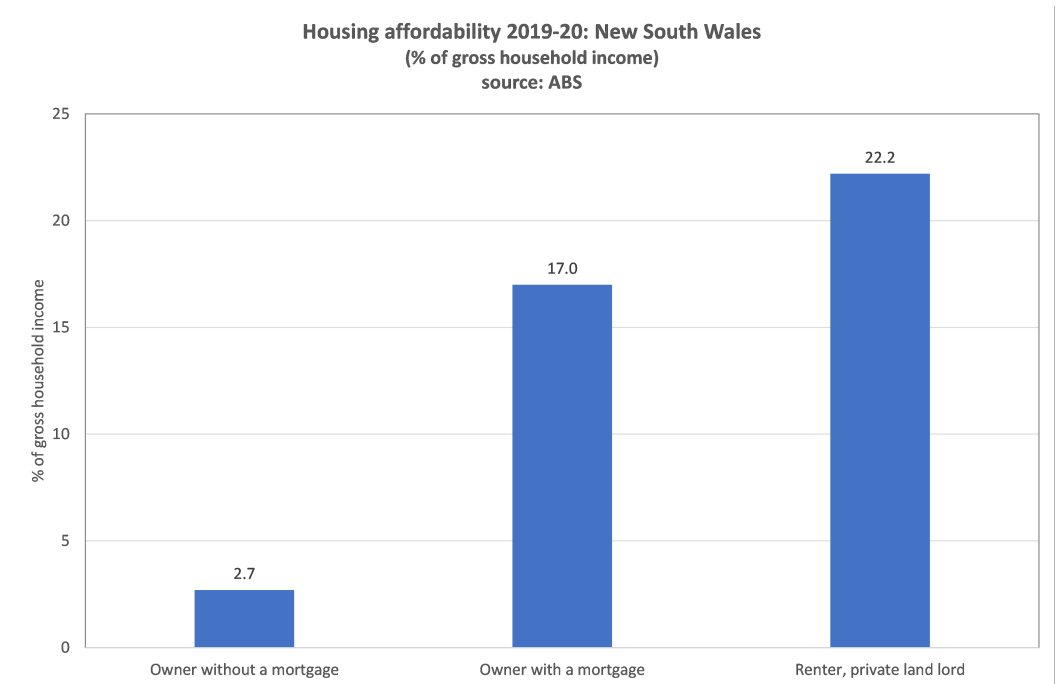
There has been a marked decline in the number of people who own without a mortgage (43.9% to 29.7%) and an increase in the proportion who own with a mortgage (26.5% to 34.8%).

These changes are important both in terms of security of tenure and household finances. They are also a drag on the economy of New South Wales.



The cost of housing, in terms of the proportion of gross household income devoted to housing, is far lower for owners without a mortgage than for owners with a mortgage and renters (Chart 2).

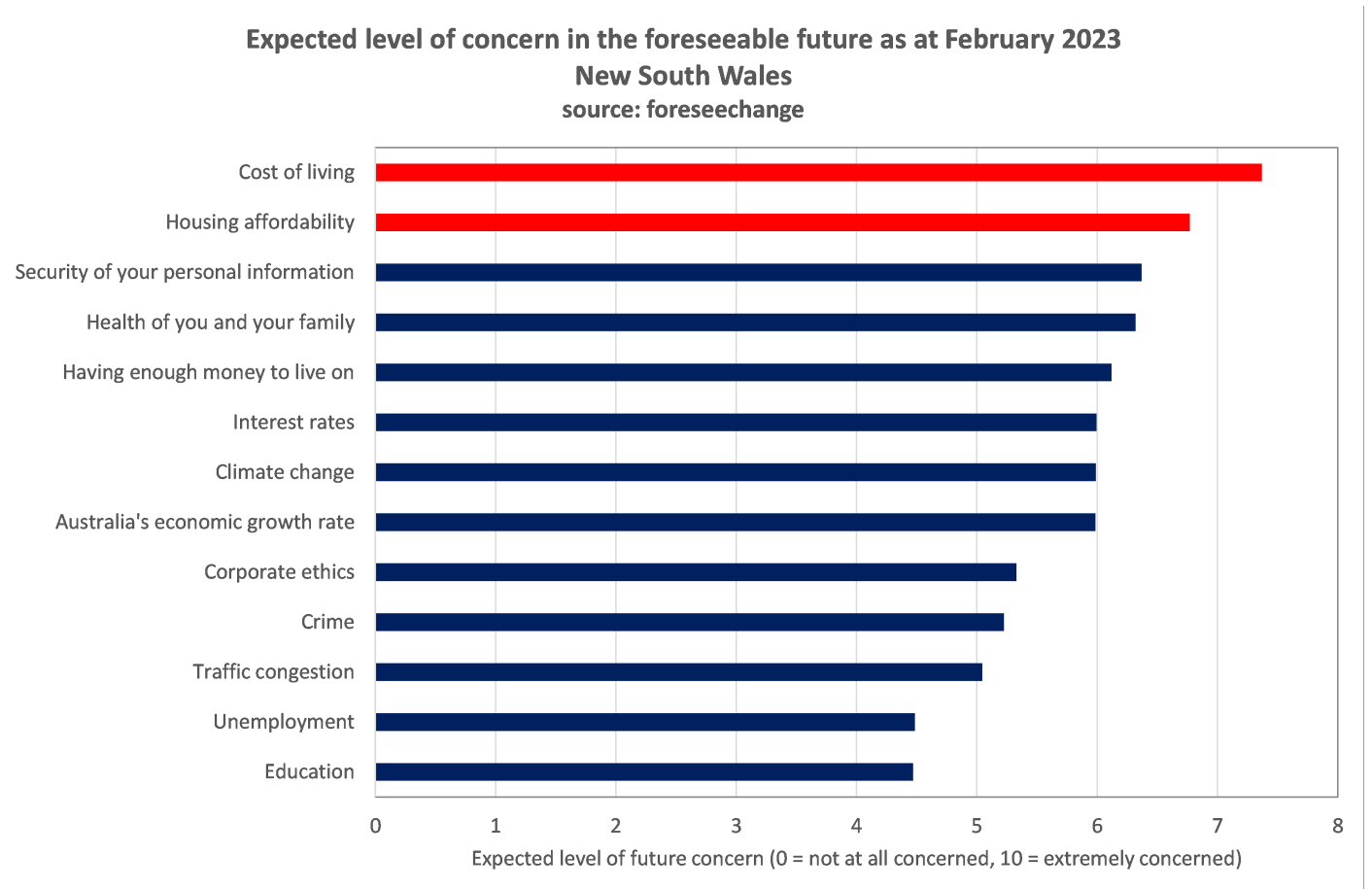
Chart 2



By increasing the rate of home ownership, households will lower their cost of housing. This provides them with more discretionary spending capacity. As household consumption expenditure represents more than half of gross domestic product, economic growth will increase and so will GST collections which are returned to the states from the Federal Government.

The two major issues that adults in New South Wales expect to be of concern in the foreseeable future are the cost of living and housing affordability (Chart 3).

Chart 3



The cost of living and housing affordability are expected to be of higher concern than issues such as health, climate change, economic growth, and crime.

Policies that improve dwelling ownership will:

1. Reduce the cost of living;
2. Boost economic growth and GST revenue for the state government.

The cost of buying a first home is impacted by the dwelling price, interest rates, and stamp duty.

Currently, higher interest rates and lower property prices are reducing the time it takes for couples to save a deposit to buy an entry level home. The time has shrunk by eight months nationwide, according to a report published by Domain in the Australian Financial Review on March 21, 2023. On the other hand, the proportion of income needed to service a mortgage has blown out to 41 per cent of the median household income.

One way of making it more affordable for first home buyers to enter the market is to extend the concessional stamp duty discount for first home buyers. First home buyers pay a concessional rate of stamp duty up to \$800,000. If the concessional rate was reduced, or the upper threshold was increased to one million dollars, or both, then more first home buyers could enter the market. By limiting the assistance to a specific class of purchasers, in this case first home buyers, will not drive prices up as suggested by some market commentators. It merely makes first home buyers more competitive in the market.

The current concessional rate demonstrates the effectiveness of Government assistance. Analysis of CoreLogic data shows the average percentage of dwellings that turned over in the last 12 months by median price in suburbs was:

\$500k to \$600k: 5.1%
\$600k to \$800k: 5.3%
\$800k to \$1,000k: 4.4%
\$1,000k to \$1,200k: 4.0%
>\$1.2k: 3.6%.

Clearly, turnover decreases with price, especially for areas where the average house price exceeds \$800,000. First home buyers currently pay a concessional rate of stamp duty up to \$800,000.

However, we need to be mindful that the median price of residential dwellings in NSW (\$1,130,500) remains the highest in the country. Accordingly, the first home buyer market is above \$600,000 where the benefit of the stamp duty concession diminishes.

Chart 4

Mean dwelling price, states and territories

	Jun Qtr 22	Sep Qtr 22	Dec Qtr 22
NSW	1,270.4	1,176.3	1,130.5
VIC	973.5	921.6	894.4
QLD	795.4	767.7	738.8
SA	653.1	650.6	644.3
WA	643	629.3	630.3
TAS	685.9	673.6	649.6
NT	501.1	490	488.2
ACT	1,023.7	961.7	929.2
Australia	961.1	909.9	881.2

The information in Chart 4 is provided by: [Australian Bureau of Statistics - Total Value of Dwellings](#)

The loss of revenue associated with an extension of the concessional rate of stamp duty would be offset, at least in part, by revenue collections on a higher number of sales and by increased GST revenue over time, resulting from increased discretionary spending as housing costs decline. The economy would also benefit from increased discretionary spending power.

An additional relevant factor is the increasing time interval between moving house, which limits availability for first home buyers. A 2019 report by CoreLogic found that in Greater Sydney, the average house ownership period increased from 9 years in 2009 to 12.4 years in 2019. For the rest of NSW, the interval increased from 7.7 years to 10.5 years over the same period.

Stamp duty is a major disincentive to moving and limits availability of homes suitable for first home buyers.

"The worst thing about stamp duty is that it stops many young families from getting into the property market," said then Treasurer Dominic Perrottet in 2021.

Despite Mr Perrottet's position, the Government collects eye-watering amounts of stamp duty every year.

Chart 5

Fin. Year --	Month --	Values	
		Number of Transactions	Duty Paid (\$)
2023	1/12/2022	17,227	851,480,904
	1/11/2022	20,306	1,051,114,466
	1/10/2022	17,444	804,077,885
	1/09/2022	18,082	848,112,543
	1/08/2022	19,809	953,835,598
	1/07/2022	18,981	964,245,201
2023 Total		111,849	5,472,866,596
2022	1/06/2022	21,875	1,235,248,954
	1/05/2022	23,052	1,059,184,805
	1/04/2022	19,361	1,012,546,688
	1/03/2022	24,305	1,200,790,507
	1/02/2022	19,799	945,521,032
	1/01/2022	19,759	1,104,835,193
	1/12/2021	25,215	1,620,281,842
	1/11/2021	28,370	1,313,173,486
	1/10/2021	23,188	1,641,753,252
	1/09/2021	24,400	1,060,513,668
	1/08/2021	24,396	1,199,899,322
	1/07/2021	25,464	1,102,646,616
2022 Total		279,184	14,496,395,366

Because the holding time of properties has increased by 35% (slightly more for houses and less for apartments), the potential loss of stamp duty revenue is in the region of \$5 billion annually.

However, if tax rates were reduced by 25% and transactions were increased by 35%, the stamp duty collections would be in the vicinity of \$14.6 Billion.

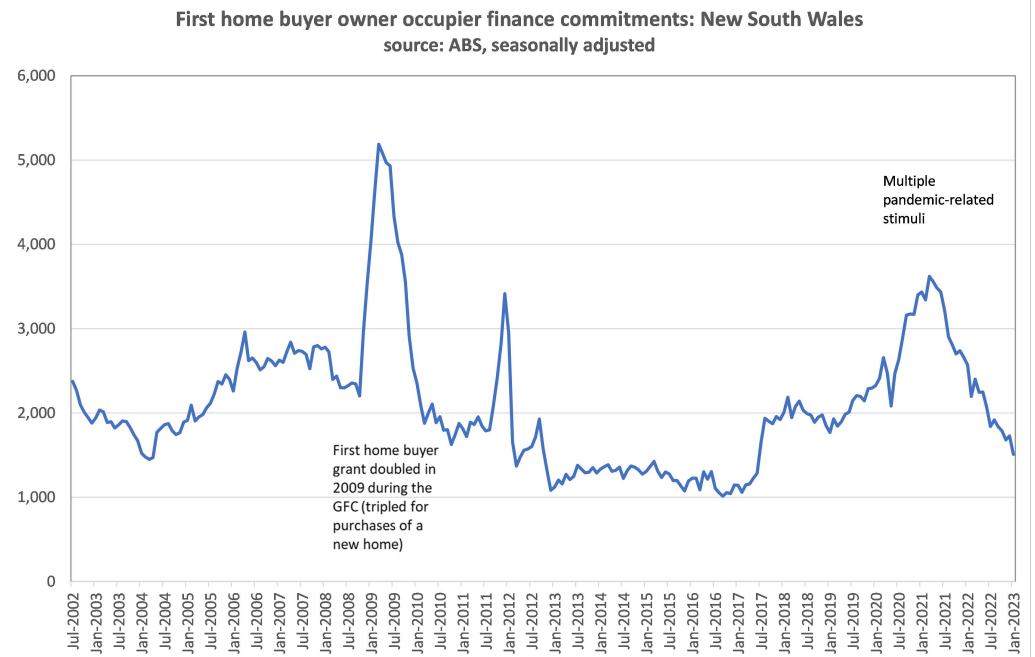
It is accepted that the above paragraph makes several broad assumptions that could be challenged if there was a deeper analysis of the data. Nonetheless, there is empirical evidence demonstrating that reducing the rate of tax will generate additional transactions offsetting the loss of stamp duty per transaction. NSW Treasury should be instructed to investigate and model the optimal tax rate.



The number of first home buyer finance commitments in New South Wales is declining rapidly from the pandemic-related stimuli in 2020 and 2021 (Chart 6). While the stimuli brought forward some demand, over 100,000 people turn 21 in New South Wales every year so latent demand is still very strong.

The average age of first home buyers has been increasing over the past 30 years, this has accelerated in the last 10 years. The average age of first home buyers now sits at 36 years.

Chart 6



Despite the attempts by some people to exclude the housing market from the established economic principles of supply and demand. The reality remains, NSW has a growing population and a supply of property that cannot respond to the demand.

We know a 10% increase in supply improves affordability by 25%. It is therefore critical that Government resources and energies are dedicated towards increasing supply.

Finally, although it is not necessary to further demonstrate the lack of supply and affordability problems, it would be remiss of us not to recognise that Sydney holds the unenviable position of the second most unaffordable city in the world!

The 5 most expensive major cities around the world calculated as a multiple of the median household income and the median dwelling price:

CITY	MEDIUM MULTIPLE
Hong Kong, China	23.2
Sydney, Australia	15.3
Vancouver, Canada	13.3
San Jose, USA	12.6
Melbourne, Australia	12.1

3. Conclusions

This paper sets out the arguments and demonstrates the importance of home ownership, both Over the last 10 years there has been a systemic failure by Government to understand and remedy the current market conditions. Instead, the Government's lack of activity in the market has made buying a home beyond the capacity of most people. Whichever rebuttal arguments Government may put forward in its defence, they will first need to explain why Sydney is the second most unaffordable city in the world.

Dwelling ownership has been in long-term decline in New South Wales. This has caused an increase in the cost of housing and the cost of living. The two major issues of future concern amongst adults in New South Wales are the cost of living and housing affordability. Lifting the level of home ownership will ease these concerns and improve consumer spending, economic growth, and GST revenue.

A reduction in the rate of stamp duty tax will generate increased market activity. The reduced stamp duty revenue per transaction will be offset by an increase in the number of sales and higher GST revenue.

In addition, there is a case for reducing stamp duty for specific classes of people moving house (for example, empty nesters) to increase the supply of dwellings suitable for first home buyers. This may also be partially self-funding by increasing the rate of dwelling turnover.

The disproportionate tax burden imposed on buying and holding property, as compared to other transactions and assets, needs urgent review.



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