

## **Standing Committee on Economics**

### ***Inquiry into Home Ownership***

**To:**

Committee Secretary  
Standing Committee on Economics  
PO Box 6021  
Parliament House  
Canberra ACT 2600

**By email:**

[Economics.reps@aph.gov.au](mailto:Economics.reps@aph.gov.au)

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## **1. FOREWARD**

This Submission has been prepared by the Real Estate Institute of New South Wales (the "Institute") and is in response to the Inquiry into Home Ownership.

The Institute is the largest professional association of real estate agents and other property professionals in New South Wales. The Institute has members who specialise in one or more practice areas, including property management, strata management, residential sales, commercial/industrial, project marketing/management, project investment, stock and station, holiday and short-term rentals, business agents, buyers' agents, auctioneers and valuers.

The Institute consistently takes part in formulating policy in the real estate sector. By representing its members that way, members have a voice in shaping the legislative and regulatory framework of their industry.

## **2. ANNEXURES**

2.1 Population NSW Issue 4, April 2015

2.2 Population, Household and Dwelling Projections

2.3 HIA Housing Affordability Report – June 2015

2.4 HIA Housing Australia's Future 2014

2.5 REIA Submission to the Senate Economics reference Committee inquiry into affordable housing March 2015 – August 2015

2.6 REINSW Media Release, 16 May 2013

## **3. INTRODUCTION**

The Australian property market, particularly in our largest capital cities, is the subject of relentless media attention and consumer interest. There is rarely a news broadcast that does not touch on some aspect of the property market and those individuals that serve the Industry. We respectfully suggest that the catalyst for the establishment of this enquiry, is in part, a response to the communities' fixation on the property market, and its importance socially and economically.

It has reached the stage now where the selling of and/or renovating of property have become successful prime time television programs. It is difficult to take a taxi ride or enjoy a dinner party with friends without the property market entering the conversation. We are without doubt, and at the full spectrum of our society, obsessed with the property market. It would not be possible to live in Sydney and not have an opinion on the property market. We listen to those that confidently predict that the "bubble will burst" and others with opposite views. We all have opinions to share on what drives it, what's wrong with it, and how the issues can be addressed and improved.

As a result of this relentless focus on the market and the amount of "expert opinion" aired constantly on the subject, a growing number of popular opinions have gained traction, not

because they are well researched by those with an understanding of the market but because they are easily understood and politically popular. It is not uncommon when individuals or a community are faced with a problem, for the need to blame someone or a class of people for the problem. Quick fixes and solutions that are easily understood are the most popular.

In recent times it has become popular to blame the foreign investor and negative gearing. While it is true that the foreign investor puts additional pressure on an already stressed market they are not the cause of the problem but merely a minor aggravating factor. In relation to negative gearing, again a popular theory for the casual observer. In reality the theory is flawed, investors in the property market have had access to negative gearing for excess of fifteen years. It was not causing a problem then, but we are expected to believe that it is the cause of all the evil now. In addition, those minded to pursue a broader analysis and deeper research would note that investors in other markets are able to deduct similar expenses in the earning of assessable income in those markets. However, there is no suggestion that negative gearing is adversely disturbing those markets.

#### **4. SUPPLY AND DEMAND**

It is the respectful submission of the Institute that the property market is no different to any other market and that the principles of supply and demand are the key issues. If supply is increased into a market that will push prices down, the converse is true of increasing demand. Therefore to improve housing affordability we must either increase supply or reduce the demand, the later presenting more challenges than the former. The Institute notes that Australia's population is increasing at the rate of 1.5% percent, (355,000 people) each year. The population of Sydney alone is expected to rise by one million people over the next ten years. Each and every one of these additional individuals to our existing population has an expectation of housing in one form or another.

It is the Institute's opinion that the answer and the tool we have to work with is "Supply". Our focus and energies need to be applied to addressing the inhibitors of supply. In addition, we need to recognise that our society has evolved and therefore we need to ensure that we are supplying the market with a contemporary housing product.

#### **5. INHIBITORS OF SUPPLY**

The two inhibitors of supply are property taxes and a convoluted and expensive development approval system. There are a litany of reports discussing Australia's current dwelling requirements and what our needs will be in the future. What is clear is that we are simply not building enough new dwellings to satisfy demand now. Unless the issue is addressed, this will deteriorate even further going forward. The median house price in Sydney has now exceeded \$1,000,000. This milestone is unbelievable even for those of us in the industry. The Institute asks rhetorically, will the Australian dream of home ownership be a thing of the past? The ABS figures clearly show that first home buyers are all but an extinct species.

The property market like all markets of significant value collects data for decision making purposes, and to generally better understand the market conditions and direction. One of the data sets collected and analysed is "days on market". It is a good indicator of the market pressure, the faster property sells is a clear indicator of increasing demand. There is of course a direct correlation with this data set and the price of property. In recent times we

have seen the “days on market” become “hours on market” with buyers registering prior to the release of properties within the development.

## **5.1 Planning System**

Our comments in this section are drawn from our experience of the NSW Planning System. We do not have data or specific knowledge of planning systems around the remainder of the country, however anecdotally we are given to understand that similar issues exist in the other States and Territories.

The development approval system in NSW is regularly referred to by those in that area of the property industry as, “not yes”, “not no”, “but maybe”. There is all too often no certainty of what can and cannot be constructed in a given area. This lack of certainty means that development consent is a journey with an unknown destination for both the developer and the consent authority. Both parties are committed to the process to discover the outcome for which neither can, with any confidence, predict the result. Needless to say that this is both time consuming and costly. On occasions and all too often, the decision or aspects of it are determined by the Land and Environment Court. This court is viewed by some developers as the real consent authority which is not only disappointing but also extremely expensive.

Because the consent authority is more often than not the local council, the development process must also satisfy the political test. That is to say just complying with the planning instruments is not enough it must also satisfy the politically popular test. If it fails this test then it is likely to be refused development consent, as local councillors fear voter backlash. In addition the Institute is aware that it is common practice for local councillors to be guided by their own views and investigations despite having no formal qualifications or experience, rather than taking advice from experts in the area.

The market needs certainty, if a particular development is permitted then let it proceed if it is prohibited then let that be known early in the process.

We also need to better understand the contemporary property consumer. While the free standing house remains the aspiration of some, increasingly people are prepared to trade a backyard and other amenities for high quality, higher density living with shared recreational facilities when this accommodation option also provides travel economies to and from work. Encouraging these developments and supporting them with efficient commuter infrastructure will better respond to the contemporary market and generate efficiencies and economies at work and home.

## **5.2 Property Taxation**

New stock entering the market are subject to tax by all levels of government. The local government with development contributions, federal government with the Goods and Services Tax, and the state government with stamp duty. This means that the ultimate property consumer is paying tax on tax on tax!! The Institute is not aware of any other asset class that is taxed as heavily as real property.

The Institute notes the IPART report on the Review of State Taxation issued in October 2008 stated (at 46):

*“Purchaser transfer duty – which is the second largest contributor to the State’s own source tax revenue – ranks among the least efficient of the NSW taxes. It scores*

*poorly for efficiency because it adds to the cost of real estate transactions and so can distort investment decisions, and because it applies to a narrow base (only those properties sold during the tax year). It scores poorly for robustness, because the revenue it generates can change dramatically from year to year, depending on the property cycle. It also scores poorly for equity and has an average score for simplicity”.*

The only support that stamp duty receives in the market is from state governments who are of course conflicted as they are dependent on the revenue. Government has been completely unwilling to review any aspect of the inefficiencies and inequities of stamp duty. The stamp duty brackets in NSW have not been reviewed for thirty (30) years. This inactivity means that many property transactions are being captured by the higher rates of tax which was never the intention of parliament. Profiteering from inactivity in this area is in the view of the Institute unconscionable. The state government has defended its position by suggesting that a reduction of stamp duty will only fuel an already overheated property market that is of course a convenient and disingenuous stance given that the State Government is the beneficiary of the stamp duty revenue. There is a colloquial saying “turkeys don’t vote for Christmas”.

IPART noted that stamp duty has a narrow base, only those people who buy property during the year pay the tax. While there no such thing as a good tax there are however some taxes that are better than others. Jean Baptiste Colbert, Finance Minister to Louis XIV said *“The art of taxation consists of plucking the goose so as to obtain the largest possible amount of feathers with the smallest possible amount of hissing”*. I suggest that Mr Colbert is advocating the benefits of a broad base tax as opposed to the reverse. As a nation, we need to have a sensible discussion leading to the repeal of the inefficient and inequitable state taxes and have the revenue from those taxes replaced with a broad based tax.

The Institute has suggested to the NSW state government (which would have application nationally) that a reduction in stamp duty is achievable without a reduction in the states revenue (see annexure 2.6). Despite supplying government with the empirical evidence they have been unwilling to adopt the suggesting or even experiment with it.

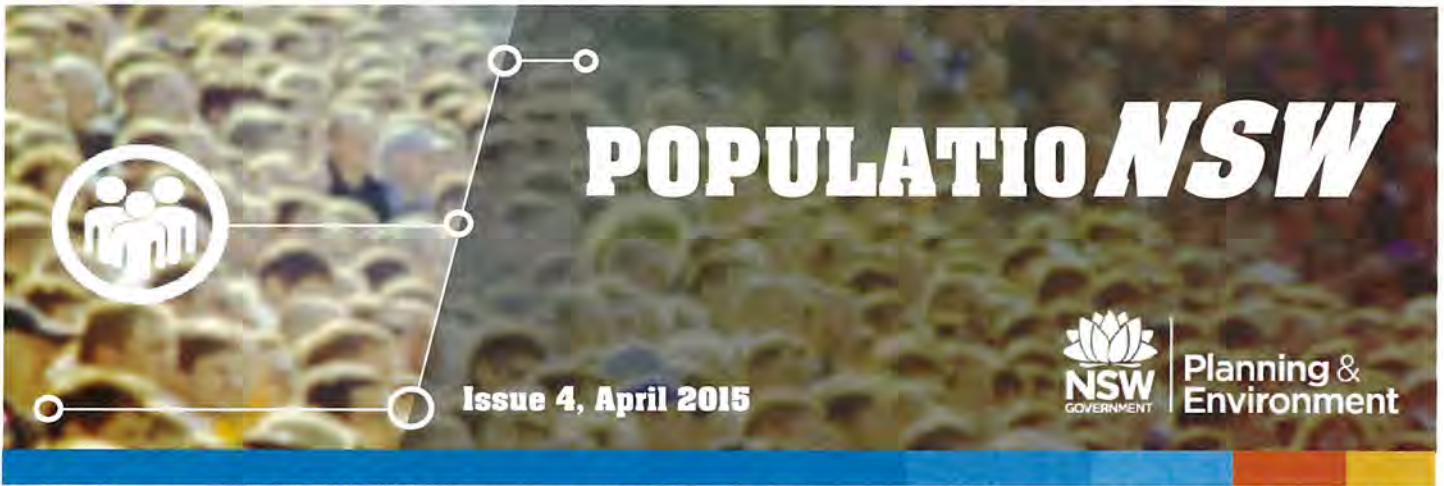
Stamp duty also inhibits exiting stock movements. Retirees (empty Nesters) are electing to remain in there large properties rather than moving to accommodation that would better respond to their needs because of stamp duty. Tax should never be a consideration in respect of a transaction, it should only be a consequential consideration. If we are able to remove the disincentives for this sector of the market and persuade them to make a lifestyle choice in a regional centre we will free up stock in the cities and take pressure off infrastructure.

The Institute thanks you for the opportunity to provide this submission and is available to discuss the issue and its submission if that would be of assistance.

Yours sincerely



**Tim McKibbin**  
Chief Executive Officer  
The Real Estate Institute of New South Wales



This bulletin produced by the New South Wales Department of Planning and Environment provides the latest population data and analysis for New South Wales based on Australian Bureau of Statistics [ABS] data.

**Latest state population estimates**

The population of New South Wales [NSW] continues to grow. By the end of September 2014, the population reached 7.54 million people - an increase of 106,365 people compared to the previous year. This was the largest annual change across all states to September 2014. NSW's growth rate (1.4%) was slightly below the national average (1.5%) (Table 1).

Migration continued to be the major contributor (60%) to population growth in NSW. Net overseas migration (NOM) contributed 69,601 people to NSW's population during the year ended 30 September 2014. This was 349 fewer people compared to the previous year.

For the year to September 2014, NSW accounted for over one-third of Australia's NOM gain (34%). This was an increase of four percentage points compared to the previous year and was because of a decline in the share of NOM in Western Australia (from 20% to 16%) and Queensland (down 16% to 14%). The only other state to see an increase in its share of Australia's NOM was Victoria, rising from 25% to 27% between 2013 and 2014.

These latest population estimates for NSW show smaller net interstate migration losses for the 12 months to 30 September 2014 (-6,305) compared to the previous year (-12,402). This is the lowest net interstate migration loss recorded in the past decade (Figure 1).

Fewer people left NSW for elsewhere in Australia and more people arrived from interstate than in previous years. This smaller net interstate migration loss mainly affects growth in Sydney and areas bordering Queensland and the Australian Capital Territory.

The contribution of natural increase to the state's growth was 40% in the year to 30 September 2014, lower than the 46% seen in 2013. This may be due to temporary processing delays recently experienced due to the transition of the NSW Births, Deaths and Marriages Registry to a new data processing system. These processing lags will be addressed when final population estimates are released by the ABS.

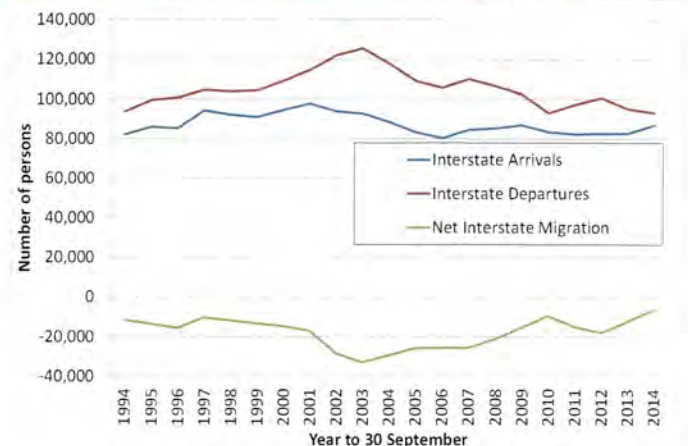
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**Table 1. Latest population statistics (States and Territories)**

| State | Population at 30 September 2014 | Change over previous year | Annual growth rate (%) |
|-------|---------------------------------|---------------------------|------------------------|
| NSW   | 7,544,485                       | 106,365                   | 1.4                    |
| Vic.  | 5,866,292                       | 102,021                   | 1.8                    |
| Qld   | 4,740,927                       | 69,423                    | 1.5                    |
| SA    | 1,688,667                       | 14,303                    | 0.9                    |
| WA    | 2,589,078                       | 53,691                    | 2.1                    |
| Tas.  | 514,978                         | 1,602                     | 0.3                    |
| NT    | 246,322                         | 2,765                     | 1.1                    |
| ACT   | 387,069                         | 4,403                     | 1.2                    |
| Aust. | 23,581,029                      | 354,605                   | 1.5                    |

**Figure 1. Interstate migration NSW, 30 Sept 1994-2014**



## Latest regional population estimates

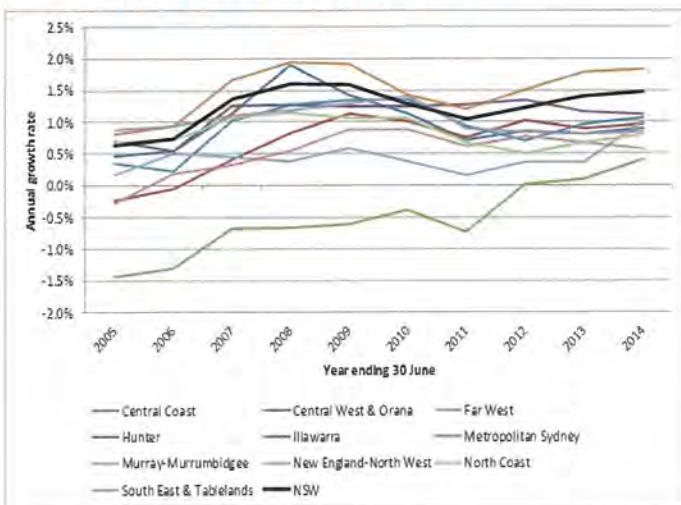
Preliminary population estimates for local government areas are released by the ABS once a year. The most recent estimates are for the year ending 30 June 2014. They show that between 30 June 2013 and 2014, all regions of NSW grew (Table 2). Of note is the higher growth across Sydney, with the city accounting for three quarters of the state's growth between 2013 and 2014. For the first time in many years, there has been an estimated population increase in the Far West of nearly 200 people.

**Table 2. Latest population statistics (NSW regions) 30 June 2014**

| Region                  | Population 30 June 2014 | Change over previous year | Annual growth rate |
|-------------------------|-------------------------|---------------------------|--------------------|
| Central Coast           | 331,007                 | 2,944                     | 0.9%               |
| Central West & Orana    | 284,921                 | 2,731                     | 1.0%               |
| Far West                | 48,374                  | 195                       | 0.4%               |
| Hunter                  | 663,768                 | 7,366                     | 1.1%               |
| Illawarra               | 395,886                 | 4,170                     | 1.1%               |
| Sydney                  | 4,509,579               | 81,283                    | 1.8%               |
| Murray-Murrumbidgee     | 270,966                 | 2,696                     | 1.0%               |
| New England-North West  | 186,320                 | 1,076                     | 0.6%               |
| North Coast             | 559,317                 | 4,435                     | 0.8%               |
| South East & Tablelands | 268,334                 | 2,239                     | 0.8%               |

These preliminary population estimates show accelerated population growth for NSW and most of the regions since 2011. Far West and Murray-Murrumbidgee stand out, with estimated population growth rates for 2013-14 one percentage point higher than for 2010-2011, the biggest difference for any region (Figure 2). Sydney has consistently experienced higher growth than the rest of the state.

**Figure 2. Annual growth rates NSW regions 30 June 2004-2005 to 2013-2014**



## Local government area (LGA) population estimates

Blacktown remains the largest LGA in the state with 332,424 people at 30 June 2014, and had the largest growth for the previous year (Table 3). LGAs within Metropolitan Sydney continue to have the fastest growth across New South Wales. Over one-third of Sydney's LGAs had growth rates over two per cent in the year ending 30 June 2014, with Camden experiencing growth just over six per cent. Only five LGAs had a growth rate less than one per cent: Blue Mountains, Hawkesbury, Ashfield, Fairfield and Sutherland Shire.

**Table 3: Sydney's top growth LGAs 2013-2014**

| Largest growth (extra people) |       | Fastest growth rate |      |
|-------------------------------|-------|---------------------|------|
| Blacktown                     | 7,285 | Camden              | 6.1% |
| City of Sydney                | 6,438 | Botany Bay          | 3.4% |
| Parramatta                    | 5,346 | City of Sydney      | 3.4% |
| Liverpool                     | 4,592 | Canada Bay          | 3.0% |
| The Hills Shire               | 4,160 | Parramatta          | 2.9% |

Outside of Sydney, the largest population increases were seen in LGAs to the north and south of the metropolitan area. Only four LGAs had growth rates over two per cent (Table 4 and Figure 3).

**Table 4: Top growth LGAs outside of Sydney 2013-2014**

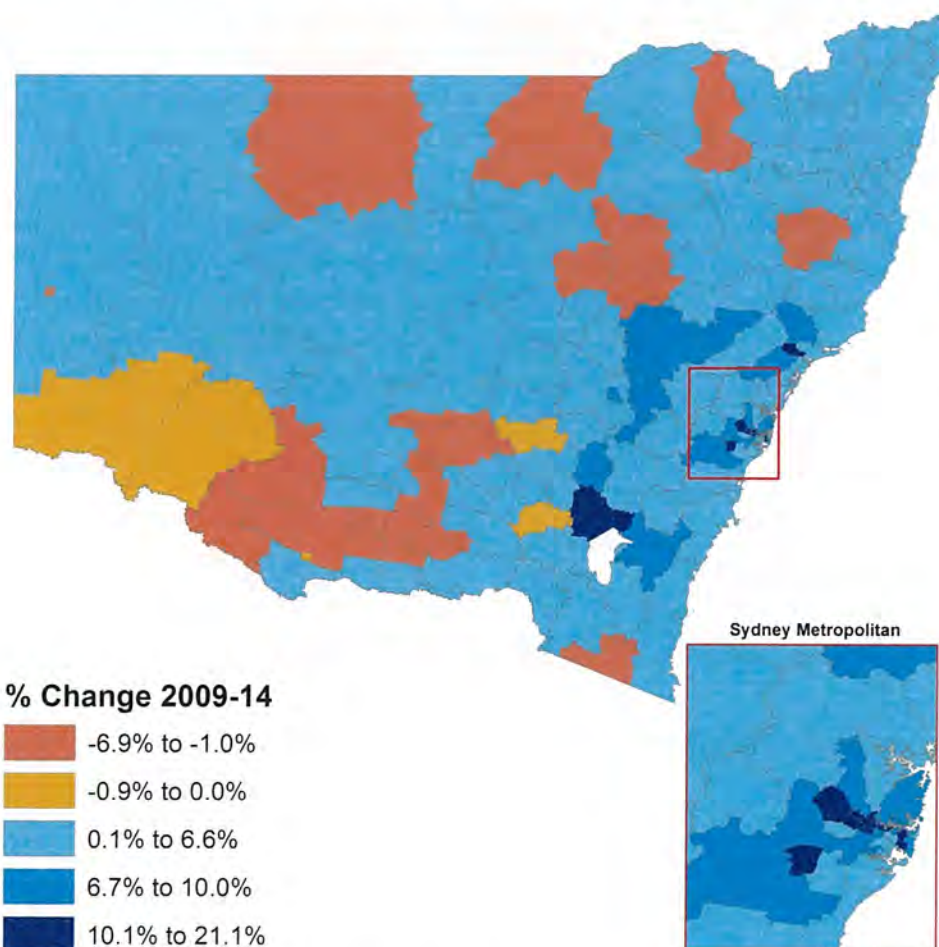
| Largest growth (extra people) |       | Fastest growth rate      |      |
|-------------------------------|-------|--------------------------|------|
| Lake Macquarie                | 1,915 | Dungong                  | 2.5% |
| Maitland                      | 1,728 | Maitland                 | 2.4% |
| Wyong                         | 1,679 | Upper Lachlan Shire      | 2.1% |
| Wollongong                    | 1,578 | Lockhart                 | 2.0% |
| Newcastle                     | 1,478 | Gloucester Cobar/Boorowa | 1.8% |

Throughout the NSW regions, growth during 2013-14 was highest in the larger regional towns and cities. For 19 LGAs, preliminary population estimates for 2014 were smaller than in 2013. Declines were seen in LGAs outside of Sydney and the peri-metro regions. Narrandera and Moree Plains had the biggest estimated declines (59 and 156 people respectively) as well as the fastest rates of decline (-1.0% and -1.1%) (Table 5).

Table 5: Top LGAs for population growth and decline in NSW regions 2013-2014

| Region                  | Largest growth<br>(extra people) | Fastest population growth<br>rate (%) | Largest decline<br>(fewer people) | Fastest rate of population<br>decline (%) |
|-------------------------|----------------------------------|---------------------------------------|-----------------------------------|---|
| Central Coast           | Wyong<br>1,679                   | Wyong<br>1.1                          | No LGAs declined                  | No LGAs declined                          |
| Central West & Orana    | Bathurst Regional<br>642         | Bathurst Regional<br>1.6              | Gilgandra<br>42                   | Gilgandra<br>-0.3                         |
| Far West                | Cobar<br>88                      | Cobar<br>1.8                          | Bourke<br>22                      | Bourke<br>-0.7                            |
| Hunter                  | Lake Macquarie<br>1,915          | Dungog<br>2.5                         | No LGAs declined                  | No LGAs declined                          |
| Illawarra               | Wollongong<br>1,578              | Shoalhaven<br>1.4                     | No LGAs declined                  | No LGAs declined                          |
| Sydney                  | Blacktown<br>7,285               | Camden<br>6.1                         | No LGAs declined                  | No LGAs declined                          |
| Murray-Murrumbidgee     | Albury<br>847                    | Lockhart<br>2.0                       | Narrandera<br>59                  | Narrandera<br>-1.0                        |
| New England-North West  | Tamworth Regional<br>790         | Tamworth Regional<br>1.3              | Moree Plains<br>156               | Moree Plains<br>-1.1                      |
| North Coast             | Tweed<br>1,109                   | Gloucester<br>1.8                     | Clarence Valley<br>33             | Kyogle<br>-0.7                            |
| South East & Tablelands | Wingecarribee<br>579             | Upper Lachlan<br>2.1                  | Young<br>56                       | Young<br>-0.4                             |

Figure 3: Per cent change in population, NSW LGAs, 30 June 2009 to 30 June 2014



The estimated population change during 2009-2014 reveals longer term trends of population decline in some parts of Regional NSW, mainly in the Murray-Murrumbidgee and Far West regions. The largest increases were seen in parts of Sydney, as well as Maitland and the Yass Valley (Figure 3).

Smaller populations are more at risk of population decline. Except for Broken Hill, each LGA shaded in orange or yellow in the map had a population smaller than 10,000 people in 2014. Of these LGAs, 13 had populations of less than 5,000 people. Each of Conargo, Jerilderie and Urana was home to fewer than 1,600 people at 30 June 2014.

### New regional internal migration estimates

ABS has developed a new series of regional internal migration estimates for the years ending 30 June 2007 to 2014. As an alternative to Census-derived migration measures, they estimate how many people have moved between an area and other parts of Australia during a 12-month period. These data show that many NSW residents are moving (Table 6); for the eight year period, 80 of the State's 142 LGAs had over 10,000 people move into the area and 81 had over 10,000 people move out. For effective planning, understanding these movements is vital.

For further information see ABS, Catalogue 3412.0, Migration, Australia, 2013-14.

**Table 6: Top LGAs for internal migration arrivals and departures in NSW regions, 2006-07 to 2013-2014**

| Region                  | Largest number of arrivals<br>(persons) |         | Largest number of departures<br>(persons) |         | Largest net migration gain<br>(persons) |        | Largest net migration loss<br>(persons) |         |
|-------------------------|---|---------|---|---------|---|--------|---|---------|
| Central Coast           | Wyong                                   | 83,625  | Gosford                                   | 75,965  | Wyong                                   | 10,434 | No LGAs with net loss                   |         |
| Central West & Orana    | Orange                                  | 21,554  | Dubbo                                     | 22,210  | Bathurst Regional                       | 1,673  | Dubbo                                   | -1,243  |
| Far West                | Broken Hill                             | 7,540   | Broken Hill                               | 8,835   | No LGAs with net increase               |        | Broken Hill                             | -1,295  |
| Hunter                  | Newcastle                               | 93,193  | Newcastle                                 | 88,867  | Maitland                                | 5,686  | Singleton                               | -1,265  |
| Illawarra               | Wollongong                              | 68,098  | Wollongong                                | 68,160  | Shoalhaven                              | 5,097  | Wollongong                              | -62     |
| Sydney                  | City of Sydney                          | 156,210 | City of Sydney                            | 168,949 | Camden                                  | 9,797  | Fairfield                               | -18,730 |
| Murray-Murrumbidgee     | Wagga Wagga                             | 36,793  | Wagga Wagga                               | 39,770  | Murray                                  | 924    | Wagga Wagga                             | -2,977  |
| New England-North West  | Tamworth Regional                       | 29,358  | Tamworth Regional                         | 27,259  | Tamworth Regional                       | 2,099  | Moree Plains                            | -2,204  |
| North Coast             | Tweed                                   | 50,552  | Tweed                                     | 44,380  | Tweed                                   | 6,172  | Lismore                                 | -1,173  |
| South East & Tablelands | Queanbeyan                              | 29,877  | Queanbeyan                                | 29,898  | Wingecarribee                           | 2,285  | Bombala                                 | -286    |

### Internal migration for Metropolitan Sydney

Sydney LGAs experience thousands of people arriving and departing every year from other parts of the city, regional NSW and interstate. For most LGAs, however, the net result of this movement is a loss of people. Population growth in these areas is driven by births and net overseas migration. Only eight of Metropolitan Sydney's 41 LGAs had an estimated net gain of population through internal migration over the period 2006-07 to 2013-14: Camden, The Hills Shire, Canada Bay, Ku-ring-gai, Pittwater, Wollondilly, Botany Bay and Hunters Hill. Over the same period, net internal migration losses throughout the rest of Sydney ranged from -18,700 in Fairfield to -882 in Hawkesbury.

### Internal migration outside Sydney

All LGAs in NSW have experienced movement of at least a few hundred people in or out of their areas over the period 2006-07 to 2013-14. The net effect of these arrivals and departures was estimated internal migration gain for 36% of the LGAs outside of Sydney (a total of 40). The biggest internal migration gains were for Wyong (10,434 people) and the smallest for Upper Lachlan Shire (18 people). Elsewhere in regional NSW, more people left each LGA than arrived during the eight year period. The biggest net internal migration losses were in Wagga Wagga (-2,977), Moree Plains (-2,204) and Griffith (-2,166). The smallest net losses were in Queanbeyan (-21) and Byron (-31).

### Contact Us

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### Data Sources

- Australian Bureau of Statistics, 2015, *Australian Demographic Statistics September Quarter 2014* ABS Catalogue No. 3101.0, ABS, Canberra. <[www.abs.gov.au/ausstats/abs@.nsf/mf/3101.0](http://www.abs.gov.au/ausstats/abs@.nsf/mf/3101.0)>
- Australian Bureau of Statistics, 2015, *Regional Population Growth Australia 2014*, ABS Catalogue No. 3218.0, ABS, Canberra. <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3218.02>>
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This newsletter has been compiled by the Demography Unit of NSW Department of Planning and Environment to make key demographic information available to all levels of government, the private sector and the community. Some of the data was originally published by the Australian Bureau of Statistics. However, the Demography Unit is responsible for the analysis and interpretation contained in this Bulletin.

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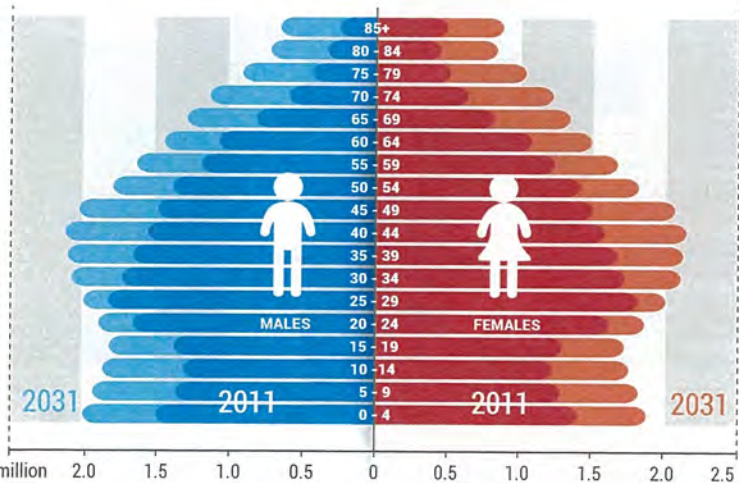
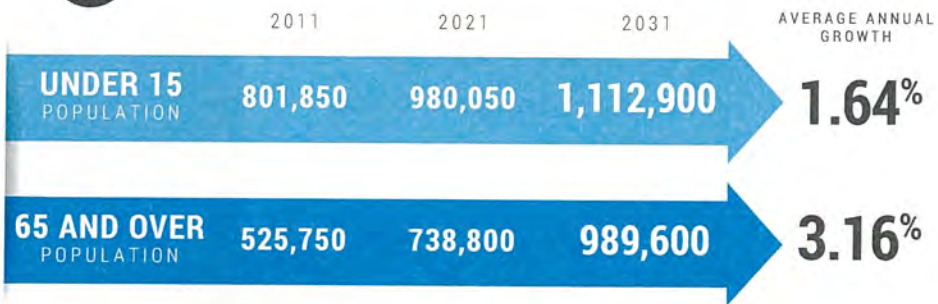
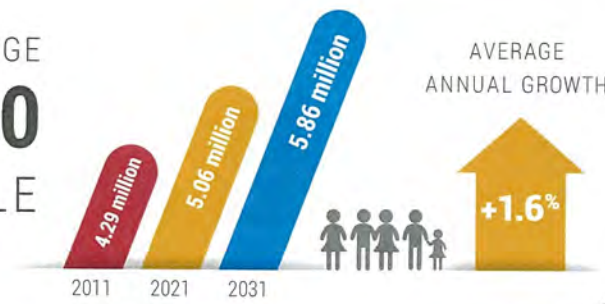


# Sydney Metropolitan

## POPULATION, HOUSEHOLD & DWELLING PROJECTIONS

2011 - 2031

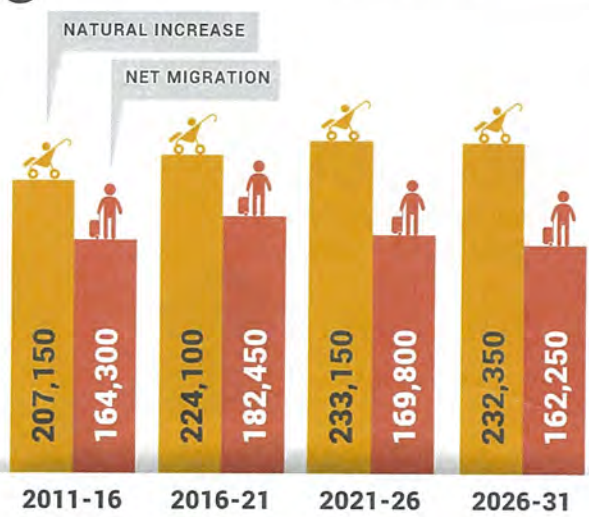
POPULATION CHANGE  
**1,575,550**  
MORE PEOPLE



Sydney has a relatively young population with large numbers of people of working age.

The fastest growing age groups are those over the age of 65 with the Baby Boomer generation and those who migrated during the post-war years moving into these age groups.

## DEMOGRAPHIC DRIVERS OF CHANGE



Over half of Sydney's growth over the next 20 years is likely to be driven by natural increase - that is the difference between births and deaths. The younger age profile in Sydney means a large number of potential mothers contributing to a higher number of births.

Overseas migration will also be an important driver of Sydney's growth, with more international arrivals than departures. These will offset the net losses of people interstate and to other parts of New South Wales.



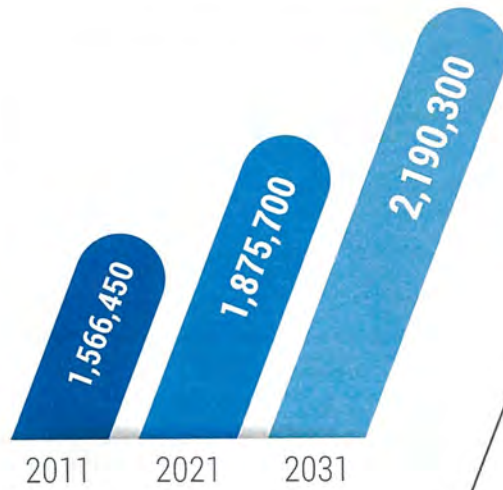


# POPULATION, HOUSEHOLD & DWELLING PROJECTIONS

## HOUSEHOLD CHANGE

# 623,850

MORE HOUSEHOLDS

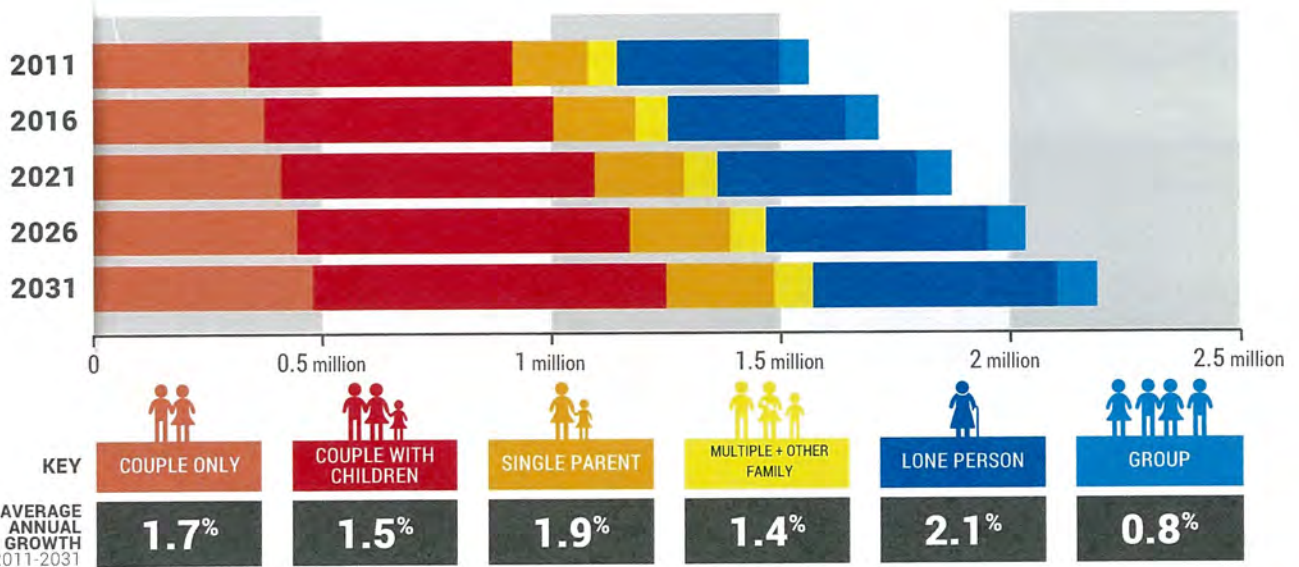


## DRIVERS OF HOUSEHOLD CHANGE

Continued population growth will see growth in the number of households.

Population ageing will contribute to increases in couple only and lone person households.

The large number of people in their 20s and 30s will contribute to growth in households with children.



# 664,300

NEW HOMES NEEDED FROM 2011 - 2031



**Disclaimer**  
While every reasonable effort has been made to ensure that these projections are correct at the time of release, the State of New South Wales, its agents and employees, disclaim any and all liability to any person in respect of anything or the consequences of anything done or omitted to be done in reliance upon the whole or any part of these projections.



# Affordability Report

MEDIAN  
DWELLING  
PRICES

INTEREST  
RATES

MORTGAGE  
REPAYMENTS

WEEKLY  
EARNINGS

HOUSEHOLD  
INCOME

DWELLING  
PRICE  
MOVEMENT

A quarterly update on the affordability of housing

June 2015 Quarter

# Housing Affordability Deteriorated in mid 2015

## HIGHLIGHTS:

- > The HIA Housing Affordability Index deteriorated by 2.9 per cent during the June 2015 quarter, but was 1.0 per cent more favourable than 12 months earlier.
- > Aggregate capital city housing affordability worsened, with the index declining by 3.6 per cent during the quarter.
- > In regional Australia, affordability improved by some 2.7 per cent during the June 2015 quarter.
- > Recent affordability developments reflect a mix of factors including strong dwelling price growth in some cities, two interest rate reductions since the beginning of the year, and subdued earnings growth.

The HIA Affordability Index fell in the June 2015 quarter, signalling a deterioration. The positive impact of a second interest rate cut for the year in May was overwhelmed by an increase in the CoreLogic RP Data median dwelling price and the persistence of sluggish earnings growth.

The national HIA Affordability Index fell by 2.9 per cent to 79.7 in the June quarter this year. When compared to the June 2014 quarter, the index posted a modest improvement of 1.0 per cent.

The national affordability result masks wide geographical variations. During the June 2015 quarter affordability deteriorated by some 3.6 per cent in capital city markets. This was in stark contrast to a 2.7 per cent improvement for regional Australia. Compared with a year earlier, capital city affordability worsened by 0.6 per cent, while in regional Australia affordability saw a 5.2 per cent improvement.

Across the capital cities, affordability developments were mixed. During the June 2015 quarter, affordability in Melbourne saw the largest deterioration (-9.1 per cent), followed by Sydney where affordability worsened by 6.9 per cent. Elsewhere, affordability actually improved. The largest improvement during the quarter occurred in Perth (+6.4 per cent), followed by Hobart (+6.1 per cent). Affordability also improved in Adelaide (+2.7 per cent) and in Brisbane (+1.6 per cent) during the June 2015 quarter.

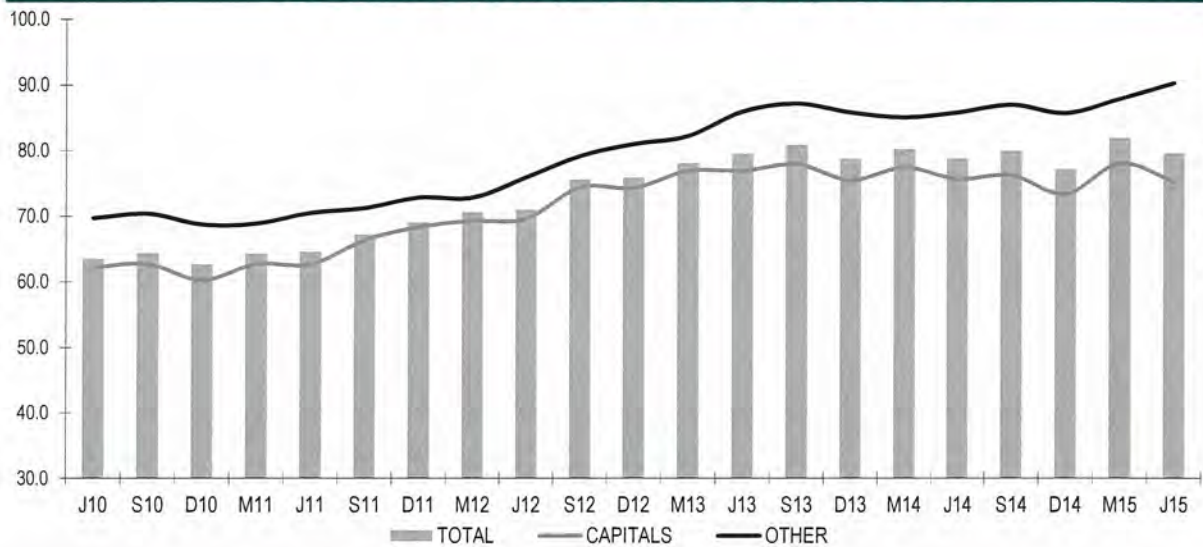
Across regional Australia, affordability developments were more favourable with all of the regional markets covered in this report becoming more affordable during the June 2015 quarter. Compared with the previous

quarter, the largest improvement in affordability occurred in regional South Australia (+15.0 per cent) followed by regional Western Australia (+5.5 per cent). Modest improvements in affordability during the quarter occurred in regional Tasmania (+3.0 per cent) and in regional New South Wales (+1.6 per cent). Regional Queensland and regional Victoria also saw affordability improve during the June 2015 quarter, by 1.4 per cent and 1.1 per cent, respectively. Over the quarter, affordability improved in the Northern Territory (+2.6 per cent), while in the Australian Capital Territory, there was a deterioration (-1.5 per cent).

Since the beginning of the year, the RBA has reduced its official cash rate by 50 basis points to a new low of 2.00 per cent. However, the national median dwelling price increased from \$458,000 to \$485,000 over the 12 months to June, with the pace of price growth even stronger in capital cities. Earnings growth is estimated to have weakened to its slowest pace in almost 20 years. Both price and earnings developments have been detrimental for affordability during the June 2015 quarter.

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## HOUSING AFFORDABILITY INDEX, AUSTRALIA



Source: HIA Affordability Report

## HOUSING AFFORDABILITY INDEX AUSTRALIA

|            | Median Dwelling Price | Interest Rate | Monthly Mortgage Repayment | Average Weekly Earnings* | Qualifying Income | Affordability Multiple | Affordability Index |
|------------|-----------------------|---------------|----------------------------|--------------------------|-------------------|------------------------|---------------------|
|            | \$                    | %pa           | \$                         | \$                       | \$                |                        |                     |
| Jun Qtr 13 | 430,000               | 5.43%         | 2,351                      | 74,141                   | 93,233            | 1.26                   | 79.5                |
| Sep Qtr 13 | 435,000               | 5.18%         | 2,331                      | 74,559                   | 92,121            | 1.24                   | 80.9                |
| Dec Qtr 13 | 453,000               | 5.10%         | 2,303                      | 74,981                   | 95,188            | 1.27                   | 78.8                |
| Mar Qtr 14 | 447,500               | 5.10%         | 2,380                      | 75,425                   | 94,032            | 1.25                   | 80.2                |
| Jun Qtr 14 | 458,000               | 5.10%         | 2,351                      | 75,873                   | 96,239            | 1.27                   | 78.8                |
| Sep Qtr 14 | 455,000               | 5.10%         | 2,406                      | 76,468                   | 95,608            | 1.25                   | 80.0                |
| Dec Qtr 14 | 475,000               | 5.10%         | 2,390                      | 77,068                   | 99,811            | 1.30                   | 77.2                |
| Mar Qtr 15 | 458,500               | 4.90%         | 2,495                      | 77,525                   | 94,497            | 1.22                   | 82.0                |
| Jun Qtr 15 | 485,000               | 4.68%         | 2,362                      | 77,985                   | 97,892            | 1.26                   | 79.7                |

\* Annualised

### Methodology note:

Significant changes have been made to the methodology of the Affordability Report. The dwelling price data in this report is based on the monthly simple median price data in each of the relevant markets as compiled by CoreLogic RP Data. This is the most comprehensive price data available for Australia as it covers all transactions in the market. In previous affordability reports, the price series were based on home purchases financed by mortgages from CBA, which included only a segment of all

transactions. Accordingly, the affordability results for previous quarters have been revised. It is also important to note that earnings data are only available up to November 2014. Accordingly, earnings data for the March and June quarters of 2015 are based on HIA projections and are subject to revision on publication of actual results by the ABS.

# New South Wales

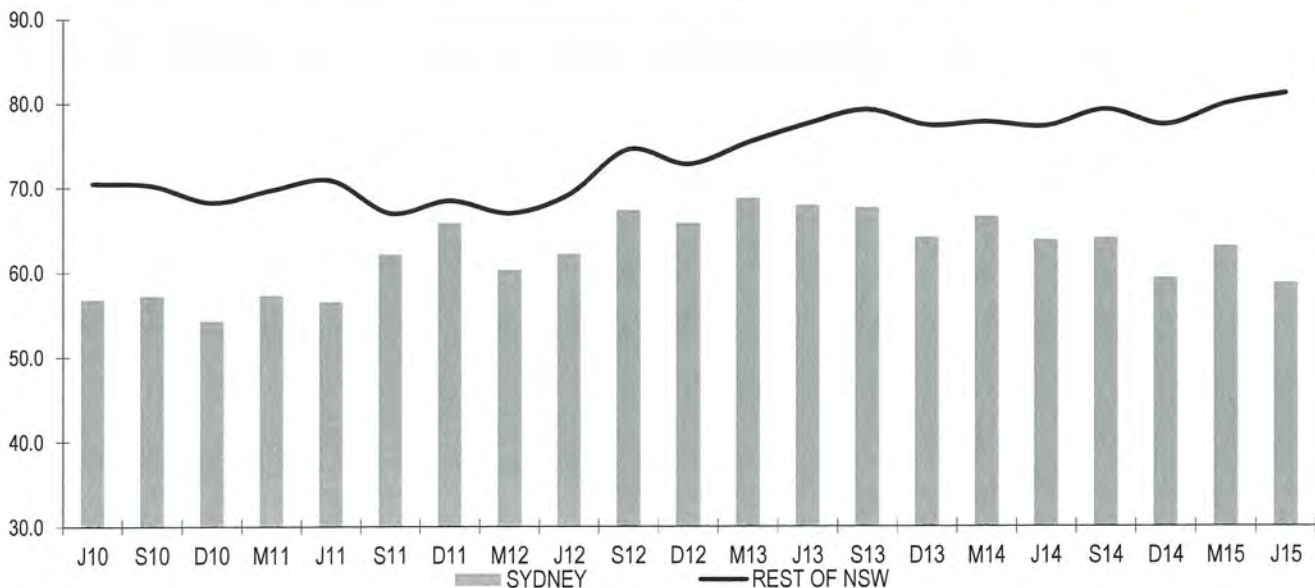


During the June 2015 quarter, housing affordability deteriorated by 5.2 per cent in New South Wales compared with the previous quarter and was 3.6 per cent less favourable than the same period 12 months earlier. However, affordability varied widely between Sydney and regional NSW. During the quarter, regional NSW saw a 1.6 per cent improvement in affordability while Sydney was affected by a 6.9 per cent deterioration. Over the past year, affordability has improved by 5.0 per cent across regional NSW. However, affordability worsened by 8.0 per cent in Sydney over the same period.

Affordability in both Sydney and regional NSW benefitted from the 50 basis points reduction in interest rates since the beginning of the year. In regional NSW, the effect of interest rate reductions outweighed the increase in the median dwelling price from \$365,000 to \$380,000 over the past year. This brought affordability to its most favourable since the September 2002 quarter in regional NSW. At the same time, affordability in Sydney reached its least favourable since June 2011. This is largely due to the Sydney median dwelling price increasing from \$650,000 to \$772,200 over the past 12 months.

The deterioration of affordability in Sydney means that 1.7 full time adult earnings are required to comfortably service a mortgage on the median dwelling in the city. This compares with the national equivalent of 1.26 and means that Sydney faces the greatest affordability challenge of the markets reviewed in this report. In regional NSW, just 1.23 full time earnings are required to affordably provide for mortgage repayments.

## HOUSING AFFORDABILITY INDEX, NEW SOUTH WALES

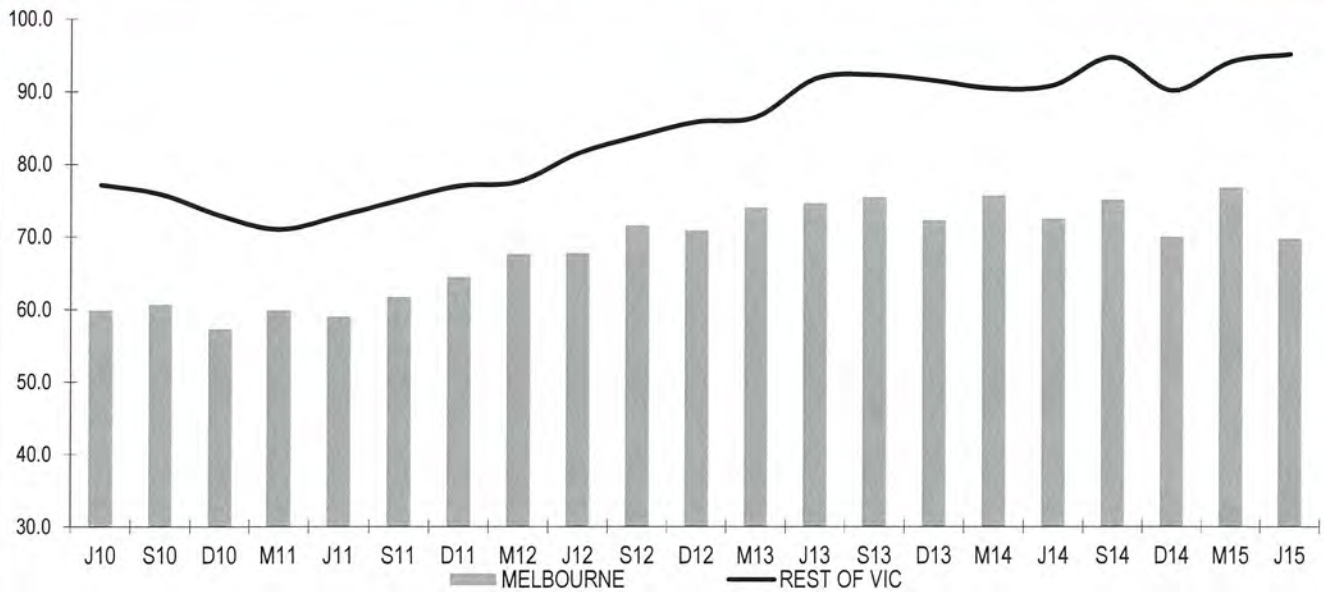


Source: HIA Affordability Report



# Victoria

## HOUSING AFFORDABILITY INDEX, VICTORIA



Source: HIA Affordability Report

During the June 2015 quarter, housing affordability deteriorated by 10.9 per cent in Victoria compared with the previous quarter and was 5.2 per cent less favourable than the same period 12 months earlier. As in NSW, affordability varied between the state's capital city and its regional areas. During the quarter, regional Victoria saw a 1.1 per cent improvement in affordability while Melbourne affordability worsened by 9.1 per cent. Over the past year, affordability has improved by 4.7 per cent across regional Victoria. However, affordability declined by 3.7 per cent in Melbourne over the same period.

Affordability in both Melbourne and regional Victoria benefitted from the 50 basis points reduction in interest rates since the beginning of the year. In regional Victoria, interest rate reductions occurred alongside stable dwelling prices, with the median dwelling price remaining at around \$290,000 over the past year. This brought affordability to its most favourable since the June 2009 quarter in regional Victoria. At the same time, affordability in Melbourne reached its least favourable since the June 2012 quarter. This is largely due to the Melbourne median dwelling price increasing from \$515,000 to \$560,000 over the past 12 months.

The deterioration of affordability in Melbourne means that 1.43 full time adult earnings are required to comfortably service a mortgage on the median dwelling in the city. This compares with the national equivalent of 1.26 and means that Melbourne has the second most challenging affordability conditions after Sydney. In regional Victoria, just 1.05 full time earnings are required to affordably provide for mortgage repayments.



# Queensland

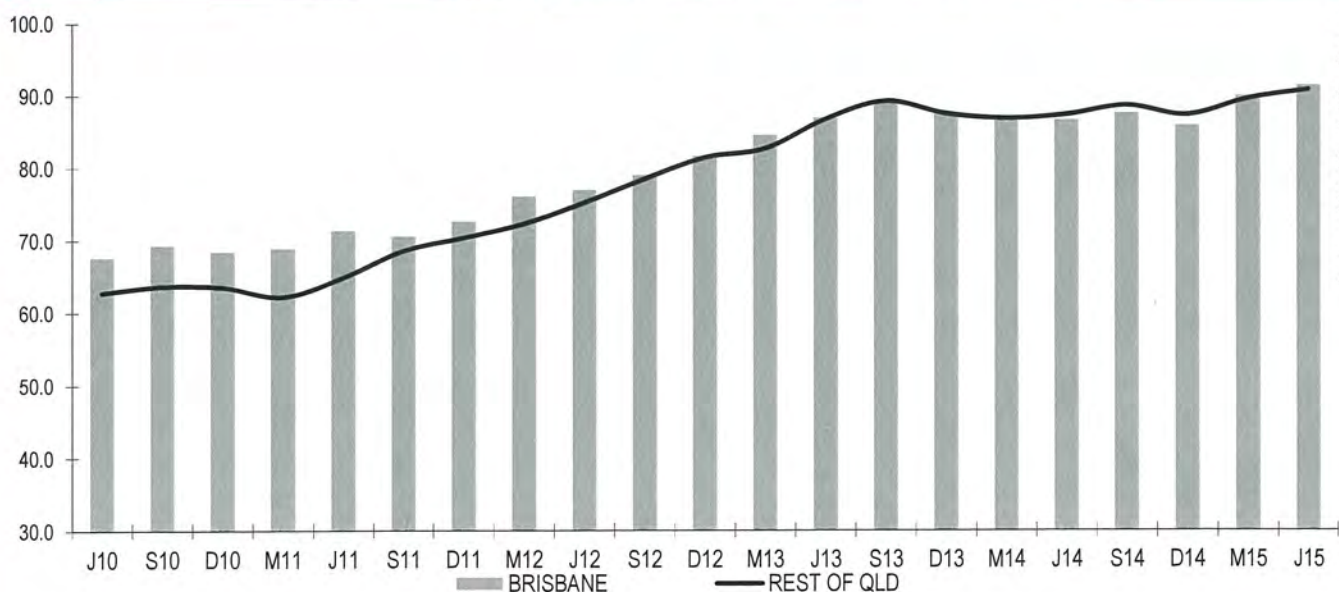


During the June 2015 quarter, housing affordability improved by 2.2 per cent in Queensland compared with the previous quarter and was 5.4 per cent more favourable than the same period 12 months earlier. In contrast to NSW and Victoria, however, there wasn't a capital city – regional area divergence. During the quarter, regional Queensland saw a 1.4 per cent improvement in affordability while Brisbane affordability improved by 1.6 per cent. Over the past year, affordability has improved by 5.5 per cent in Brisbane. Regional Queensland also saw affordability improve over the same period (+3.9 per cent).

Affordability in both Brisbane and regional Queensland benefitted from the 50 basis points reduction in interest rates since the beginning of the year. In regional Queensland, interest rate reductions outweighed the increase in the median dwelling price from \$380,000 to \$390,000 over the year. The effect of interest rate reductions has been to drive affordability in regional Queensland to its most favourable since late 2002. Brisbane affordability is also at its most favourable since the December 2002 quarter. This is despite an increase in the Brisbane median dwelling price from \$450,000 to \$455,000 over the past 12 months.

The improvement of affordability in Brisbane means that 1.1 full time adult earnings are required to comfortably service a mortgage on the median-priced dwelling in the city. This compares with the national equivalent of 1.26 and means that Brisbane has the third most favourable affordability conditions of the six capital cities surveyed in this report. Queensland is unique in being the only state where affordability conditions in the capital city are about as favourable as in its regions during the June 2015 quarter.

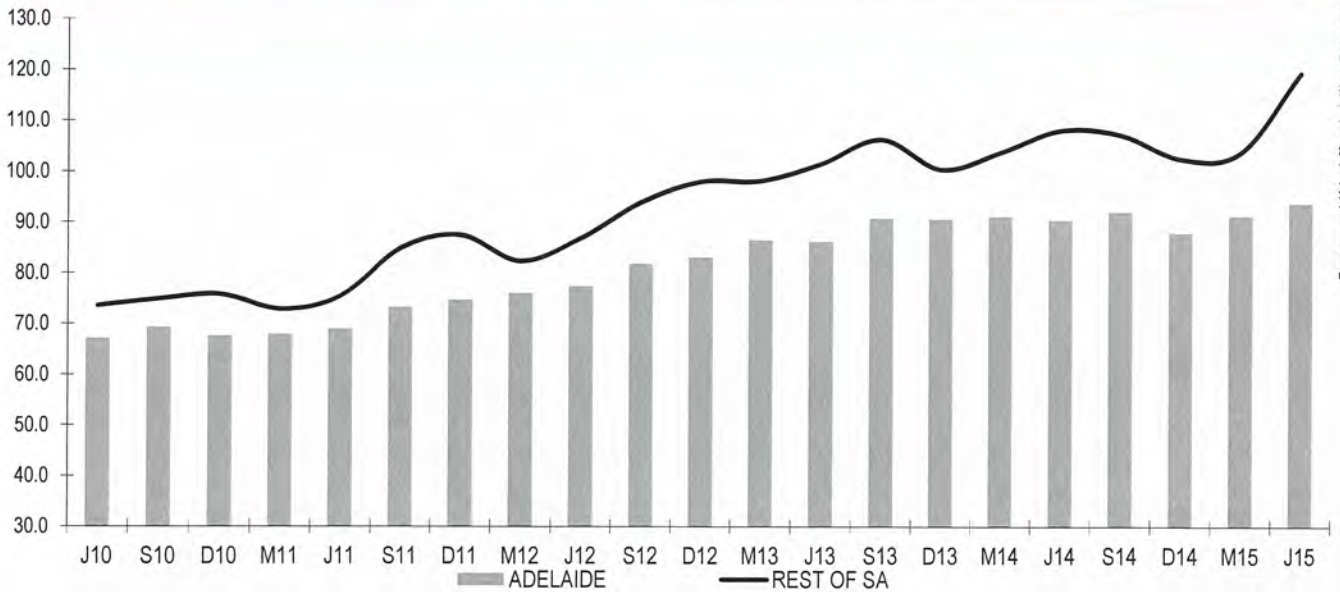
## HOUSING AFFORDABILITY INDEX, QUEENSLAND



Source: HIA Affordability Report

# South Australia

## HOUSING AFFORDABILITY INDEX, SOUTH AUSTRALIA



Source: HIA Affordability Report



During the June 2015 quarter, housing affordability improved by 2.6 per cent in South Australia compared with the previous quarter and was 3.4 per cent more favourable than the same period 12 months earlier. Both the Adelaide and regional SA markets saw affordability improve over this period. During the quarter, regional SA easily saw the largest affordability improvement in Australia (+15.0 per cent) while in Adelaide the improvement was 2.7 per cent. It is important to note that the large changes registered during the quarter in regional SA are partly the result of 'noise' in the median price series, which is likely to have exaggerated the improvement in affordability.

Affordability in both Adelaide and regional SA benefitted from the 50 basis points reduction in interest rates in 2015. In regional SA, the effect of lower interest rates was magnified by the decline in the median dwelling price from \$265,000 to \$255,000 over the year. Affordability in regional SA is at its most favourable since late 2003. Similarly, Adelaide dwellings are at their most affordable since mid-2003. This is despite an increase in the Adelaide median dwelling price from \$395,000 to \$405,000 over the past 12 months.

The improvement of affordability in Adelaide means that just 1.07 full time adult earnings are required to comfortably service a mortgage on the median-priced dwelling in the city. This compares with the national equivalent of 1.26 and means that the Adelaide market has the second most favourable affordability conditions of the six capital cities surveyed in this report. In regional SA, affordability is within the grasp of the single-earner household with just 0.84 full time earnings needed to affordably service a mortgage.

# Western Australia

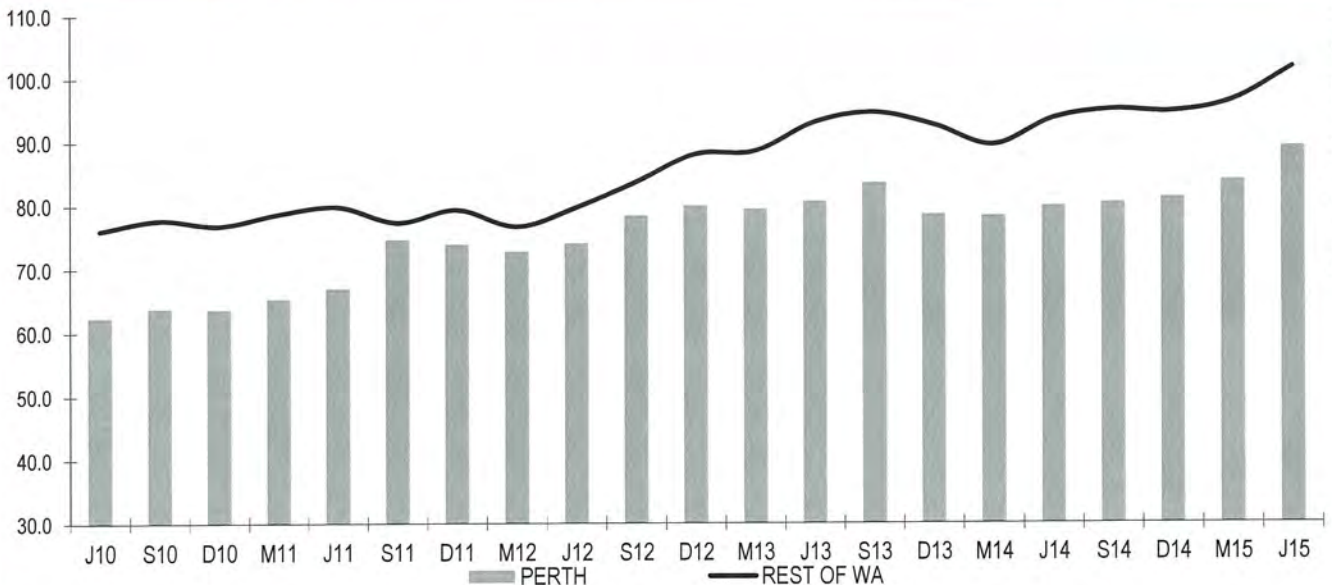


During the June 2015 quarter, housing affordability improved by 4.9 per cent in Western Australia compared with the previous quarter and was 10.8 per cent more favourable than the same period 12 months earlier. In contrast to NSW and Victoria, however, affordability developments in the state's capital city and regional areas were quite similar. During the quarter, affordability improved by 5.5 per cent in regional WA and by 6.4 per cent in Perth. Over the past year, affordability has improved by 11.7 per cent in Perth and by 8.6 per cent in regional WA.

Affordability in both Perth and regional WA benefitted from the 50 basis points reduction in interest rates since the beginning of the year. In Perth, the effect of interest rate reductions was magnified by the fall in the median dwelling price from \$530,000 to \$510,000 over the past year. Reductions in both interest rates and dwelling prices have driven affordability in Perth to its most favourable since the September 2003 quarter. In regional WA, affordability has improved to its best level since late 2004. This has been affected by a reduction in the median dwelling price from \$383,800 to \$380,000 in regional WA over the past 12 months.

The improvement of affordability in Perth means that 1.12 full time adult earnings are required to service a mortgage on the median-priced dwelling in the city. This compares with the national equivalent of 1.26 and means that Perth is more affordable than Sydney and Melbourne. In regional WA, the favourable interest rate and dwelling price developments mean that a mortgage on the median price house can be serviced by a single-earner household.

## HOUSING AFFORDABILITY INDEX, WESTERN AUSTRALIA

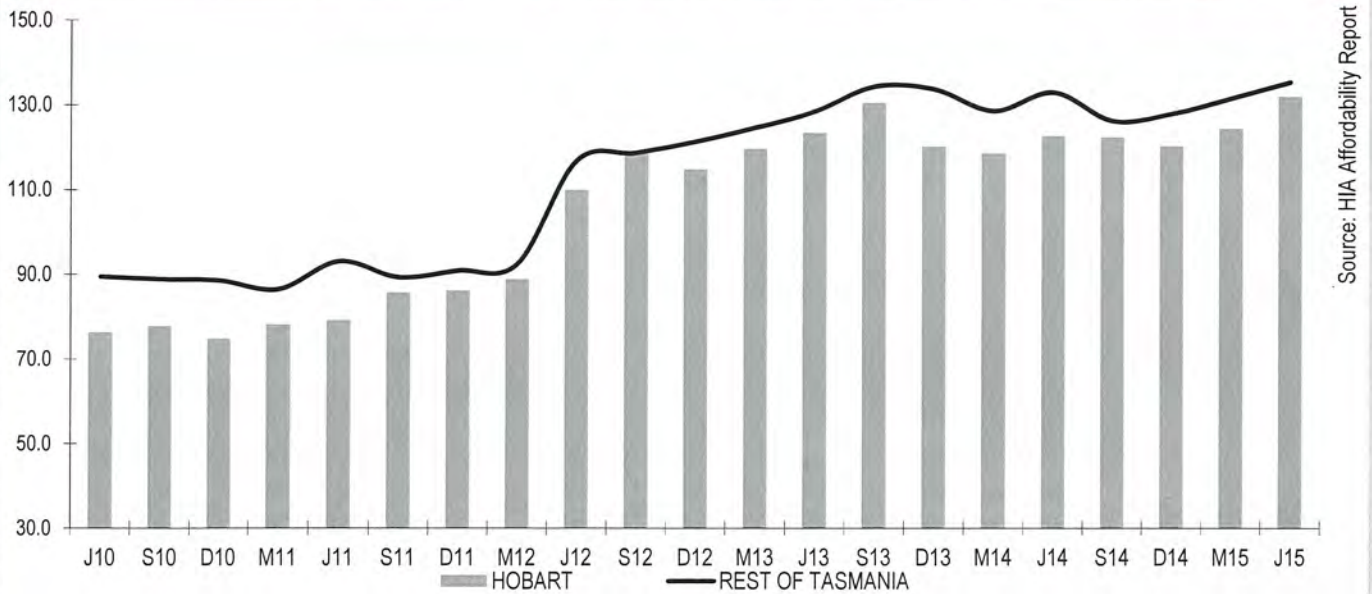


Source: HIA Affordability Report



# Tasmania

## HOUSING AFFORDABILITY INDEX, TASMANIA



Source: HIA Affordability Report

Tasmania is Australia's most affordable state for dwelling purchase. During the June 2015 quarter, housing affordability improved by 4.7 per cent compared with the previous quarter and was 5.2 per cent more favourable than the same period 12 months earlier. During the quarter, Hobart registered a 6.1 per cent improvement in affordability, while regional Tasmania recorded a 3.0 per cent improvement. It is important to note that the large changes registered during the quarter are partly the result of 'noise' in the median price series which is likely to have exaggerated the improvement in affordability.

Affordability in both Hobart and regional Tasmania benefitted from the 50 basis point reduction in interest rates in 2015. In Hobart, the effect of the interest rate reductions was magnified by the decline in the median dwelling price from \$325,000 to \$315,500 over the past year. This has driven affordability in Hobart to its most favourable since the December 2002 quarter. In regional Tasmania, affordability is at its most favourable since the September 2003 quarter. This was despite the increase in the median dwelling price from \$239,000 to \$245,200 over the past 12 months.

The burden of mortgage repayments in Tasmania is lower than in any other state. It is estimated that mortgage repayments in Hobart account for 22.8 per cent of earnings, much lower than the 'affordable' threshold of 30 per cent. In regional Tasmania, mortgage repayments are estimated to account for 21.9 per cent of earnings. This is the lowest of any region covered in this report.



# Northern Territory

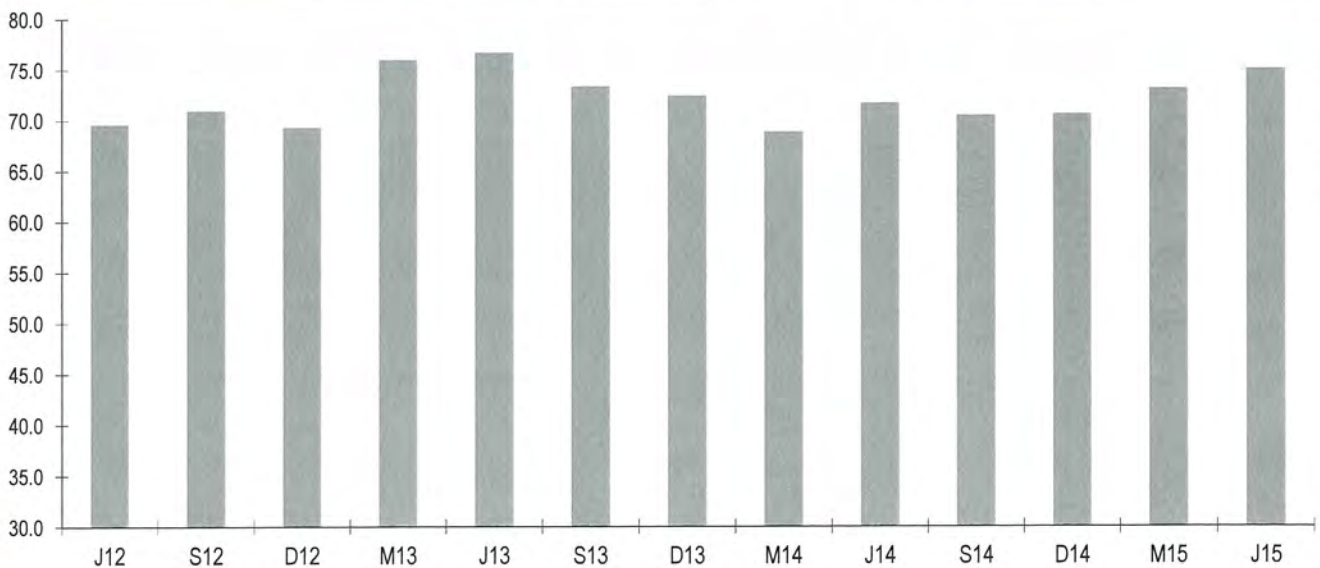


This represents the first time that the Northern Territory has been covered in the Affordability Report. The Territory's inclusion has been made possible by the use of CoreLogic RP Data's comprehensive dwelling price dataset, as well as the availability of earnings price data for the NT since the start of 2012. The development of affordability in the NT is illustrated in the chart below.

During the June 2015 quarter, affordability in the NT improved by 2.6 per cent compared with the previous quarter. Affordability was 4.7 per cent more favourable than the same period 12 months earlier. Affordability in the NT reached its most favourable level during the June 2013 quarter, and is close to returning to such levels.

The recent improvement in affordability in the NT is being driven by the reduction in interest rates since the beginning of the year, as well as the declines in dwelling prices over the past 12 months. The median dwelling price in the NT has fallen from \$511,500 in the December 2014 quarter to \$490,000 in the June 2015 quarter. Despite the recent improvements in affordability in the NT, affordability conditions remain more challenging than is typical across Australia. In the Territory, 1.33 full-time earners are required to comfortably service a mortgage. This is higher than the national average of 1.26.

## HOUSING AFFORDABILITY INDEX, NORTHERN TERRITORY

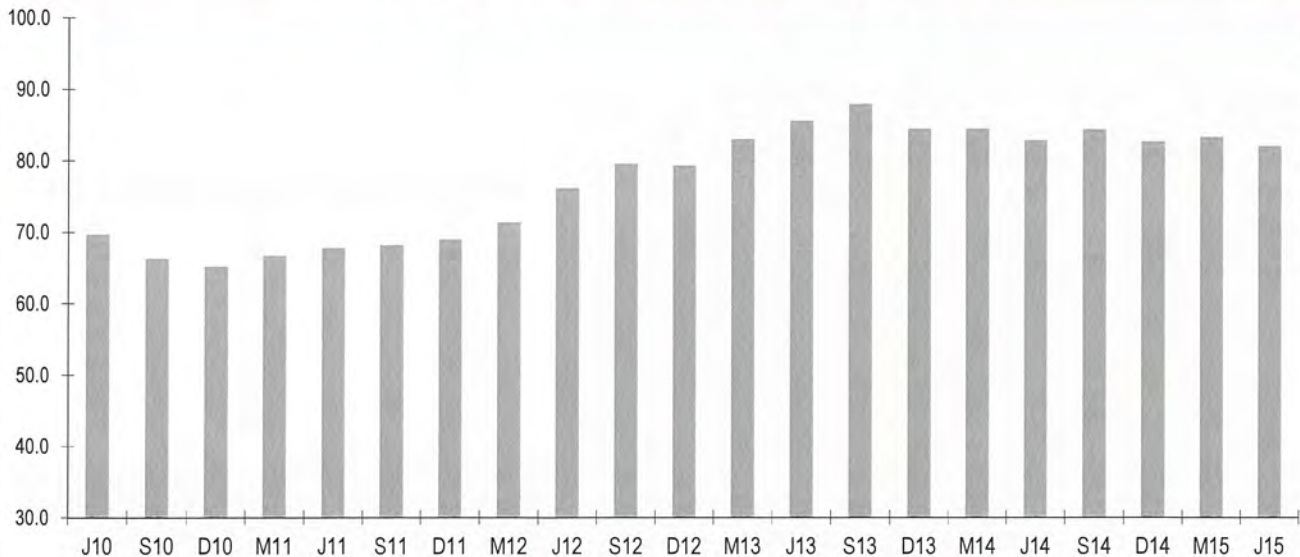


Source: HIA Affordability Report



# Australian Capital Territory

## HOUSING AFFORDABILITY INDEX, ACT



Source: HIA Affordability Report

During the June 2015 quarter, affordability in the ACT deteriorated by 1.5 per cent compared with the previous quarter. Affordability was 0.9 per cent less favourable than the same period 12 months earlier. Affordability in the ACT is at its least favourable since the December 2012 quarter.

The unfavourable change in ACT affordability is despite the 50 basis point reduction in interest rates since the beginning of the year. Following some weakness during 2013/14, dwelling price growth has returned to the ACT over the past year. The median dwelling price increased from \$500,000 in the June 2014 quarter to \$535,000 in the June 2015 quarter. This has been the main factor behind the move towards less favourable affordability.

Earnings developments have also had detrimental effects on affordability. In the year to June 2015, it is estimated that full-time earnings increased by just 1.8 per cent. Despite the unfavourable changes in ACT affordability over the past year, the situation still compares relatively well nationally. In the ACT, it is estimated that 1.22 full-time earners are required to affordably service a mortgage on the median price dwelling. This compares with the national average of 1.26.



# Dwelling Prices

The dwelling prices used in this publication are the simple medians for each market as published monthly by CoreLogic. As such they cannot and do not take account of changes in the mix of size, location and quality of dwellings financed. Quarter-to-quarter variations therefore reflect any changes in the composition of housing financed, as well as changes in the price of a dwelling of a given size, location, and quality.

## DWELLING PRICE MOVEMENT

Jun Quarter 2014 to Jun Quarter 2015

|     | Capital City | Rest of State |
|-----|--------------|---------------|
| NSW | 15.2%        | 4.5%          |
| VIC | 8.7%         | 0.2%          |
| QLD | 2.9%         | 1.8%          |
| SA  | 3.2%         | -2.5%         |
| WA  | 0.0%         | 1.2%          |
| TAS | 0.3%         | N/A           |
| NT  | -2.2%        | N/A           |
| ACT | 2.0%         | N/A           |

Mar Quarter 2015 to Jun Quarter 2015

|     |       |       |
|-----|-------|-------|
| NSW | 3.9%  | 0.3%  |
| VIC | 1.0%  | -1.0% |
| QLD | 0.1%  | -0.3% |
| SA  | 1.8%  | -2.3% |
| WA  | -0.5% | -0.5% |
| TAS | 0.2%  | N/A   |
| NT  | 0.2%  | N/A   |
| ACT | 1.3%  | N/A   |

Source: CoreLogic Hedonic Price series

## HOUSING AFFORDABILITY INDEX BY REGION

|            | NSW    |               | VIC       |               | QLD      |               | SA       |               | WA    |               | TAS    |               | NT   | ACT  |
|------------|--------|---------------|-----------|---------------|----------|---------------|----------|---------------|-------|---------------|--------|---------------|------|------|
|            | Sydney | Rest of State | Melbourne | Rest of State | Brisbane | Rest of State | Adelaide | Rest of State | Perth | Rest of State | Hobart | Rest of State | All  | All  |
| Sep Qtr 13 | 67.6   | 79.2          | 75.5      | 92.3          | 89.1     | 89.1          | 90.8     | 106.3         | 83.5  | 94.6          | 130.5  | 134.3         | 73.3 | 88.0 |
| Dec Qtr 13 | 64.1   | 77.3          | 72.3      | 91.5          | 87.4     | 87.4          | 90.7     | 100.4         | 78.5  | 92.6          | 120.3  | 133.7         | 72.4 | 84.5 |
| Mar Qtr 14 | 66.5   | 77.7          | 75.7      | 90.4          | 87.0     | 86.7          | 91.2     | 103.8         | 78.3  | 89.5          | 118.6  | 128.5         | 68.8 | 84.5 |
| Jun Qtr 14 | 63.8   | 77.2          | 72.5      | 90.9          | 86.5     | 87.2          | 90.5     | 108.1         | 79.8  | 93.6          | 122.7  | 133.0         | 71.7 | 82.8 |
| Sep Qtr 14 | 64.0   | 79.2          | 75.1      | 94.7          | 87.5     | 88.5          | 92.1     | 107.2         | 80.3  | 95.0          | 122.4  | 126.2         | 70.4 | 84.4 |
| Dec Qtr 14 | 59.3   | 77.4          | 70.0      | 90.1          | 85.7     | 87.2          | 87.9     | 102.5         | 81.1  | 94.7          | 120.3  | 127.8         | 70.6 | 82.7 |
| Mar Qtr 15 | 63.0   | 79.9          | 76.8      | 94.1          | 89.8     | 89.4          | 91.3     | 103.8         | 83.8  | 96.4          | 124.4  | 131.5         | 73.1 | 83.3 |
| Jun Qtr 15 | 58.7   | 81.1          | 69.8      | 95.1          | 91.3     | 90.7          | 93.8     | 119.4         | 89.2  | 101.7         | 132.0  | 135.4         | 75.0 | 82.1 |

## AFFORDABILITY MULTIPLE\*

|            | NSW    |               | VIC       |               | QLD      |               | SA       |               | WA    |               | TAS    |               | NT   | ACT  |
|------------|--------|---------------|-----------|---------------|----------|---------------|----------|---------------|-------|---------------|--------|---------------|------|------|
|            | Sydney | Rest of State | Melbourne | Rest of State | Brisbane | Rest of State | Adelaide | Rest of State | Perth | Rest of State | Hobart | Rest of State | All  | All  |
| Sep Qtr 13 | 1.48   | 1.26          | 1.33      | 1.08          | 1.12     | 1.12          | 1.10     | 0.94          | 1.20  | 1.06          | 0.77   | 0.74          | 1.36 | 1.14 |
| Dec Qtr 13 | 1.56   | 1.29          | 1.38      | 1.09          | 1.14     | 1.14          | 1.10     | 1.00          | 1.27  | 1.08          | 0.83   | 0.75          | 1.38 | 1.18 |
| Mar Qtr 14 | 1.50   | 1.29          | 1.32      | 1.11          | 1.15     | 1.15          | 1.10     | 0.96          | 1.28  | 1.12          | 0.84   | 0.78          | 1.45 | 1.18 |
| Jun Qtr 14 | 1.57   | 1.29          | 1.38      | 1.10          | 1.16     | 1.15          | 1.11     | 0.93          | 1.25  | 1.07          | 0.82   | 0.75          | 1.40 | 1.21 |
| Sep Qtr 14 | 1.56   | 1.26          | 1.33      | 1.06          | 1.14     | 1.13          | 1.09     | 0.93          | 1.25  | 1.05          | 0.82   | 0.79          | 1.42 | 1.18 |
| Dec Qtr 14 | 1.69   | 1.29          | 1.43      | 1.11          | 1.17     | 1.15          | 1.14     | 0.98          | 1.23  | 1.06          | 0.83   | 0.78          | 1.42 | 1.21 |
| Mar Qtr 15 | 1.59   | 1.25          | 1.30      | 1.06          | 1.11     | 1.12          | 1.10     | 0.96          | 1.19  | 1.04          | 0.80   | 0.76          | 1.37 | 1.20 |
| Jun Qtr 15 | 1.70   | 1.23          | 1.43      | 1.05          | 1.10     | 1.10          | 1.07     | 0.84          | 1.12  | 0.98          | 0.76   | 0.74          | 1.33 | 1.22 |

## REQUIRED LOAN REPAYMENTS BY REGION (\$PER MONTH)

|            | NSW    |               | VIC       |               | QLD      |               | SA       |               | WA    |               | TAS    |               | NT    | ACT   |
|------------|--------|---------------|-----------|---------------|----------|---------------|----------|---------------|-------|---------------|--------|---------------|-------|-------|
|            | Sydney | Rest of State | Melbourne | Rest of State | Brisbane | Rest of State | Adelaide | Rest of State | Perth | Rest of State | Hobart | Rest of State | All   | All   |
| Jun Qtr 13 | 3,095  | 1,843         | 2,548     | 1,464         | 2,331    | 1,989         | 2,054    | 1,398         | 2,764 | 2,033         | 1,735  | 1,329         | 2,466 | 2,602 |
| Sep Qtr 13 | 3,124  | 1,813         | 2,568     | 1,482         | 2,271    | 1,932         | 1,972    | 1,350         | 2,647 | 1,985         | 1,641  | 1,271         | 2,578 | 2,502 |
| Dec Qtr 13 | 3,310  | 1,865         | 2,732     | 1,523         | 2,314    | 1,970         | 1,996    | 1,445         | 2,795 | 2,012         | 1,781  | 1,277         | 2,611 | 2,574 |
| Mar Qtr 14 | 3,231  | 1,881         | 2,600     | 1,537         | 2,338    | 1,996         | 2,022    | 1,424         | 2,821 | 2,096         | 1,786  | 1,313         | 2,716 | 2,574 |
| Jun Qtr 14 | 3,415  | 1,917         | 2,705     | 1,523         | 2,364    | 1,996         | 2,075    | 1,392         | 2,784 | 2,016         | 1,707  | 1,256         | 2,579 | 2,627 |
| Sep Qtr 14 | 3,441  | 1,891         | 2,627     | 1,471         | 2,353    | 1,980         | 2,022    | 1,392         | 2,795 | 2,007         | 1,734  | 1,340         | 2,658 | 2,600 |
| Dec Qtr 14 | 3,756  | 1,957         | 2,837     | 1,555         | 2,416    | 2,022         | 2,101    | 1,445         | 2,793 | 2,033         | 1,786  | 1,340         | 2,687 | 2,679 |
| Mar Qtr 15 | 3,581  | 1,922         | 2,576     | 1,484         | 2,319    | 1,984         | 2,061    | 1,453         | 2,721 | 2,009         | 1,708  | 1,288         | 2,566 | 2,659 |
| Jun Qtr 15 | 3,897  | 1,917         | 2,826     | 1,463         | 2,296    | 1,968         | 2,044    | 1,287         | 2,573 | 1,917         | 1,592  | 1,237         | 2,473 | 2,700 |

\* Number of average full time adult wages required to affordably service a mortgage on median priced dwelling.

Note: Calculation of the HIA-CBA Housing Affordability Index requires data published within the Australian Bureau of Statistics' quarterly Average Weekly Earnings publication. Since mid-2012, the quarterly publication of this report has been discontinued and it is now only published on a semi-annual basis. As a result, the AWE figures for the March and September quarters will remain constant. This will tend to underestimate affordability measured for these quarters.

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# Housing Affordability Deteriorated in mid 2015

## HIGHLIGHTS:

- > The HIA Housing Affordability Index deteriorated by 2.9 per cent during the June 2015 quarter, but was 1.0 per cent more favourable than 12 months earlier.
- > Aggregate capital city housing affordability worsened, with the index declining by 3.6 per cent during the quarter.
- > In regional Australia, affordability improved by some 2.7 per cent during the June 2015 quarter.
- > Recent affordability developments reflect a mix of factors including strong dwelling price growth in some cities, two interest rate reductions since the beginning of the year, and subdued earnings growth.

The HIA Affordability Index fell in the June 2015 quarter, signalling a deterioration. The positive impact of a second interest rate cut for the year in May was overwhelmed by an increase in the CoreLogic RP Data median dwelling price and the persistence of sluggish earnings growth.

The national HIA Affordability Index fell by 2.9 per cent to 79.7 in the June quarter this year. When compared to the June 2014 quarter, the index posted a modest improvement of 1.0 per cent.

The national affordability result masks wide geographical variations. During the June 2015 quarter affordability deteriorated by some 3.6 per cent in capital city markets. This was in stark contrast to a 2.7 per cent improvement for regional Australia. Compared with a year earlier, capital city affordability worsened by 0.6 per cent, while in regional Australia affordability saw a 5.2 per cent improvement.

Across the capital cities, affordability developments were mixed. During the June 2015 quarter, affordability in Melbourne saw the largest deterioration (-9.1 per cent), followed by Sydney where affordability worsened by 6.9 per cent. Elsewhere, affordability actually improved. The largest improvement during the quarter occurred in Perth (+6.4 per cent), followed by Hobart (+6.1 per cent). Affordability also improved in Adelaide (+2.7 per cent) and in Brisbane (+1.6 per cent) during the June 2015 quarter.

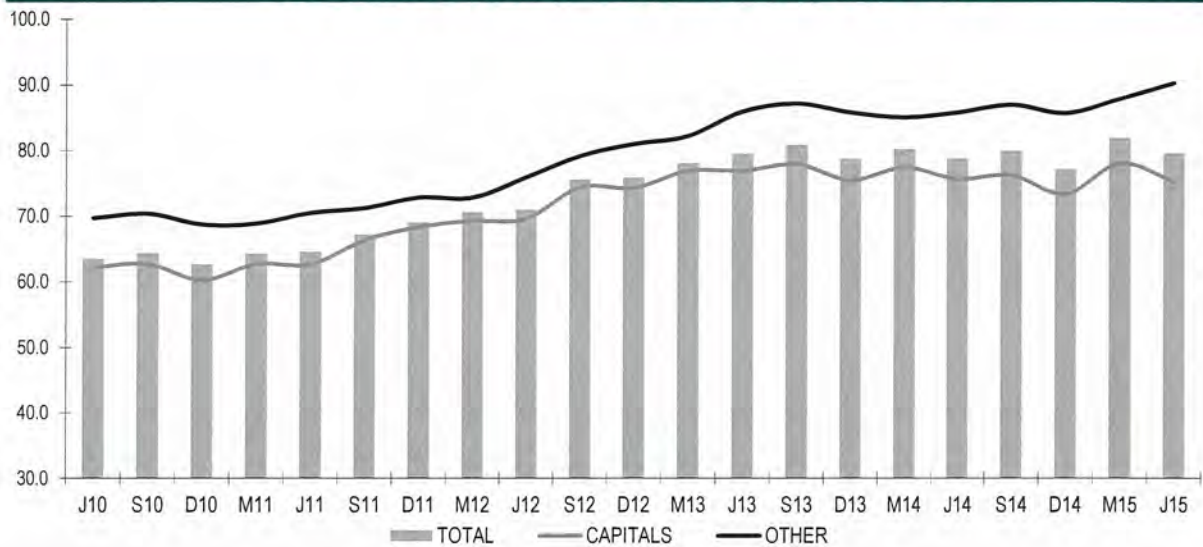
Across regional Australia, affordability developments were more favourable with all of the regional markets covered in this report becoming more affordable during the June 2015 quarter. Compared with the previous

quarter, the largest improvement in affordability occurred in regional South Australia (+15.0 per cent) followed by regional Western Australia (+5.5 per cent). Modest improvements in affordability during the quarter occurred in regional Tasmania (+3.0 per cent) and in regional New South Wales (+1.6 per cent). Regional Queensland and regional Victoria also saw affordability improve during the June 2015 quarter, by 1.4 per cent and 1.1 per cent, respectively. Over the quarter, affordability improved in the Northern Territory (+2.6 per cent), while in the Australian Capital Territory, there was a deterioration (-1.5 per cent).

Since the beginning of the year, the RBA has reduced its official cash rate by 50 basis points to a new low of 2.00 per cent. However, the national median dwelling price increased from \$458,000 to \$485,000 over the 12 months to June, with the pace of price growth even stronger in capital cities. Earnings growth is estimated to have weakened to its slowest pace in almost 20 years. Both price and earnings developments have been detrimental for affordability during the June 2015 quarter.

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## HOUSING AFFORDABILITY INDEX, AUSTRALIA



Source: HIA Affordability Report

## HOUSING AFFORDABILITY INDEX AUSTRALIA

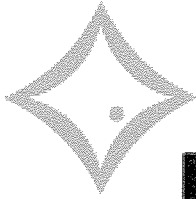
|            | Median Dwelling Price | Interest Rate | Monthly Mortgage Repayment | Average Weekly Earnings* | Qualifying Income | Affordability Multiple | Affordability Index |
|------------|-----------------------|---------------|----------------------------|--------------------------|-------------------|------------------------|---------------------|
|            | \$                    | %pa           | \$                         | \$                       | \$                |                        |                     |
| Jun Qtr 13 | 430,000               | 5.43%         | 2,351                      | 74,141                   | 93,233            | 1.26                   | 79.5                |
| Sep Qtr 13 | 435,000               | 5.18%         | 2,331                      | 74,559                   | 92,121            | 1.24                   | 80.9                |
| Dec Qtr 13 | 453,000               | 5.10%         | 2,303                      | 74,981                   | 95,188            | 1.27                   | 78.8                |
| Mar Qtr 14 | 447,500               | 5.10%         | 2,380                      | 75,425                   | 94,032            | 1.25                   | 80.2                |
| Jun Qtr 14 | 458,000               | 5.10%         | 2,351                      | 75,873                   | 96,239            | 1.27                   | 78.8                |
| Sep Qtr 14 | 455,000               | 5.10%         | 2,406                      | 76,468                   | 95,608            | 1.25                   | 80.0                |
| Dec Qtr 14 | 475,000               | 5.10%         | 2,390                      | 77,068                   | 99,811            | 1.30                   | 77.2                |
| Mar Qtr 15 | 458,500               | 4.90%         | 2,495                      | 77,525                   | 94,497            | 1.22                   | 82.0                |
| Jun Qtr 15 | 485,000               | 4.68%         | 2,362                      | 77,985                   | 97,892            | 1.26                   | 79.7                |

\* Annualised

### Methodology note:

Significant changes have been made to the methodology of the Affordability Report. The dwelling price data in this report is based on the monthly simple median price data in each of the relevant markets as compiled by CoreLogic RP Data. This is the most comprehensive price data available for Australia as it covers all transactions in the market. In previous affordability reports, the price series were based on home purchases financed by mortgages from CBA, which included only a segment of all

transactions. Accordingly, the affordability results for previous quarters have been revised. It is also important to note that earnings data are only available up to November 2014. Accordingly, earnings data for the March and June quarters of 2015 are based on HIA projections and are subject to revision on publication of actual results by the ABS.



# REIA

REAL ESTATE INSTITUTE  
OF AUSTRALIA

## **REIA SUBMISSION TO THE SENATE ECONOMICS REFERENCE COMMITTEE INQUIRY INTO AFFORDABLE HOUSING**

**MARCH 2014**

**PREPARED BY**

**Real Estate Institute of Australia (REIA)**

PO Box 234

Deakin West ACT 2600

Amanda Lynch

Chief Executive Officer

[amanda.lynch@reia.com.au](mailto:amanda.lynch@reia.com.au)

Ph: 02 6282 4277



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## **REIA SUBMISSION TO THE SENATE ECONOMICS REFERENCE COMMITTEE INQUIRY INTO AFFORDABLE HOUSING**

The Real Estate Institute of Australia (REIA) is the peak national association for the real estate profession in Australia.

The REIA's members are the State and Territory Real Estate Institutes, through which around 75% of real estate agencies are collectively represented. The 2011 Census records the Rental, Hiring and Real Estate Services Industry employment sitting at a total of 117,880. By occupation the key data recorded by ABS Census were 64,699 business brokers, property managers, principals, real estate agents and representatives.

The REIA represents an important element of the broader property and construction sector which together makes a significant contribution to Australia's social climate and economic development. Property contributes \$300 billion annually in economic activity.

Importantly, REIA represents an integral element of the small business sector. Some 99% of real estate agencies are small businesses and 11% of all small businesses in Australia are involved in real estate. Only 0.6% of businesses employ 50 or more persons.

REIA is committed to providing and assisting research and well-informed advice to the Federal Government, Opposition, professional members of the real estate sector, media and the public on a range of issues affecting the property market.

The REIA welcomes the opportunity to make a submission to the Senate Economics Reference Committee Inquiry into Affordable Housing.

### **Introduction**

With first home buyers finding it increasingly difficult to enter the housing market, home ownership in Australia is declining after four decades of stable levels.

Over the five years to 2011, home ownership declined by 1.1 percentage points to 67.0% of occupied private dwellings. The drop was evident across all states and territories and was most pronounced in the 35 to 54 age group. In the decade to 2011, home ownership dropped by 4.5 percentage points for the 35 to 44 age group and by 5.5 percentage points for the 45 to 54 age group. The National Housing Supply Council, in its 2012-13 report, showed that it seemed certain that the rate of home ownership would drop further.

Population growth in Australia as well as changes in the demographic composition necessitates that the supply of affordable housing is addressed as a priority policy issue. Australia's population reached 23.13 million in mid-2013, having added over 407,000 people in the year to June 2013 - this is equivalent to a growth rate of 1.8%

over the year which is well above the long term average. The ABS population projections show net overseas migration is expected to make a stronger contribution to population growth in future years than it has in the past.

Availability of affordable housing is a goal that is shared by the Government, the Opposition and all sectors of the community. Availability of affordable housing impacts on the functioning of the economy as well as the wellbeing of individuals and the cohesiveness of communities and society.

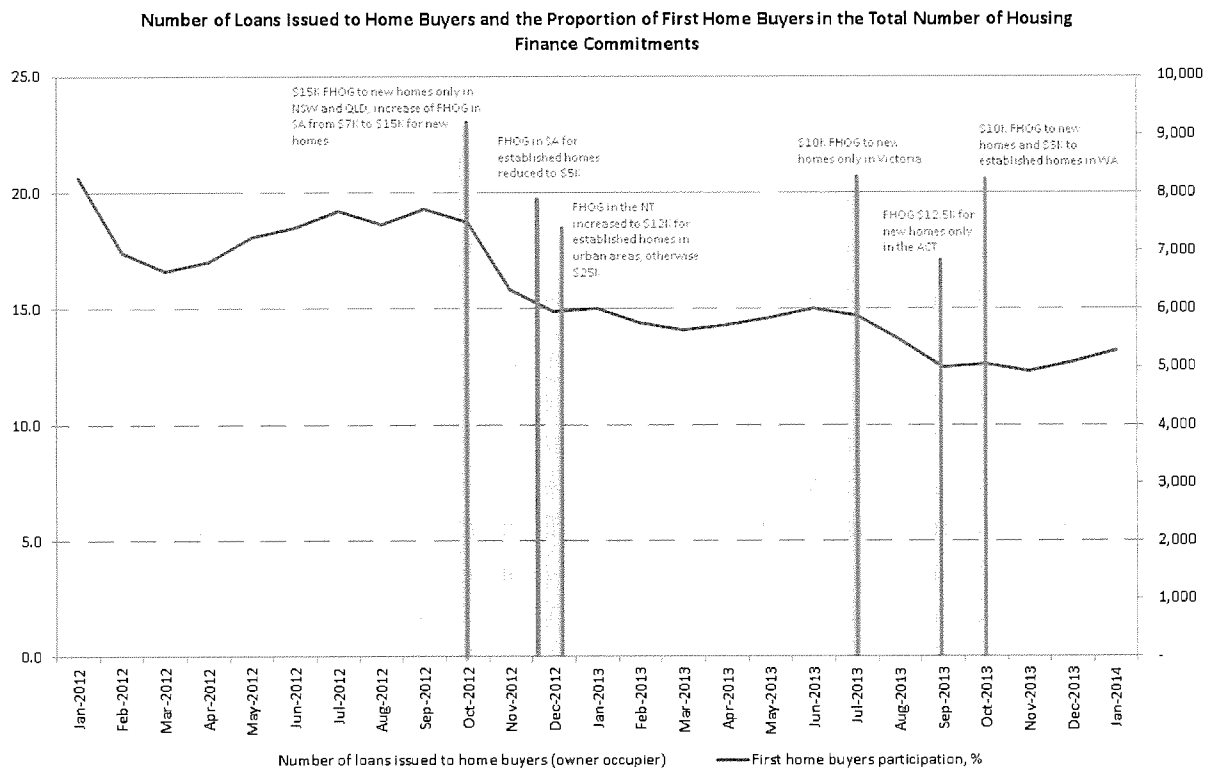
The current Government acknowledged the importance of addressing housing affordability during its pre-election campaigns of 2013 through when it called for improving housing affordability and supporting housing development and promised to improve housing affordability and encourage high levels of home ownership saying, "We will work closely with States and Territories who have primary responsibility for housing to reduce red tape holding up the supply of housing and construction and to increase land release for new homes." The Minister for Social Services the Hon Kevin Andrews subsequently acknowledged the need for leadership by driving a solution to the looming housing supply crisis.

Similarly the Shadow Treasurer, the Hon Chris Bowen, has indicated that housing affordability will be a key area of policy that the Opposition and has said that " there are no easy solutions or magic bullets and ...this is an issue which requires buy in from each of the three levels of government".

### **First Home Owner Grant**

Housing affordability is an acute issue for first home buyers. The easing of monetary policy started in November 2011 resulted in 225 basis points reduction in the official interest rate which has, albeit with a longer lag than expected, resulted in an increase in housing finance approvals. This improvement however is due to a return of investors and changeover buyers. The rate of growth in investors has however been greater than that of upgraders. In November 2013, the proportion of first home buyers in the total number of owner-occupied housing finance commitments collapsed to its historically lowest point of 12.3% indicating the urgent need for policy makers to address the issue.

The graph below shows the number of loans to home buyers and the proportion of first home buyers in the housing finance commitments from January 2012 to January 2014.

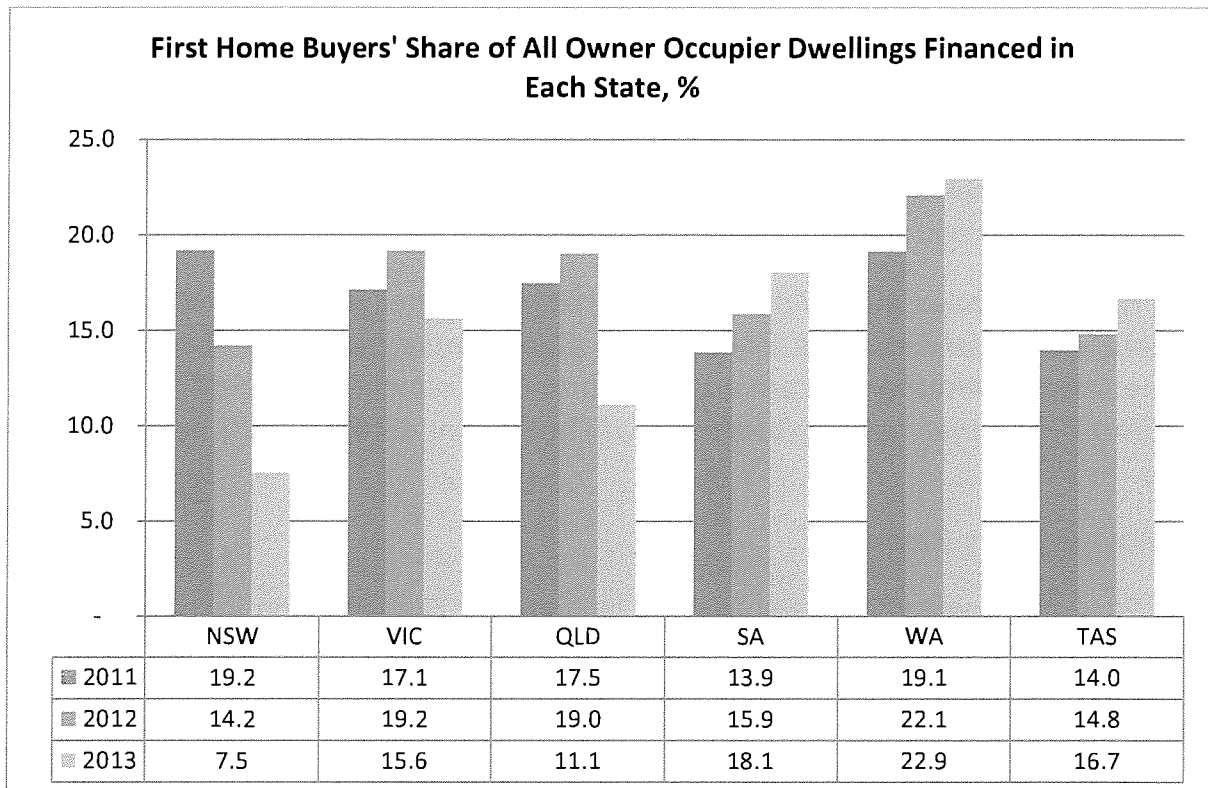


Source: ABS, Revenue Offices of each State and Territory.

One of the most important housing policy instruments in assisting first home buyers is the First Home Owner Grant (FHOG), which was introduced in July 2000. As part of the Intergovernmental Agreement (IGA) on the Reform of Commonwealth-States Financial Relations signed in June 1999, the states and territories agreed to provide financial assistance to Australians who are buying their first home through the establishment of the FHOG. The IGA stated that assistance to first home buyers would be “uniform” and that “an eligible home would be new or established”. All states and territories in signing off on the IGA had the clear intention of providing assistance to all first home buyers.

By the end of 2013, New South Wales, Victoria, Queensland, South Australia, Western Australia, Tasmania and the Australian Capital Territory announced changes to the assistance in their jurisdictions with the majority stating that they would only provide assistance to those first home buyers purchasing new homes. Attachment 1 details the changes by jurisdiction to the eligibility of the FHOG and illustrates the impact these have had on the proportion of first home buyers.

South Australia, Western Australia and Tasmania are the only states which currently provide grants for first home buyers purchasing established housing. It is in these three states that we see that as housing affordability has improved largely by interest rate cuts that the proportion of first home buyers of the total of finance commitments increases. In other states despite the cut in interest rates the lack of assistance to those first home buyers wishing to purchase established housing has seen their presence fall.



Source: ABS.

Victoria, Queensland and Western Australia do provide stamp duty concessions for first home buyers purchasing established housing.

The ABS in its Housing Occupancy and Costs publication reports that in 2011-12, only 18.6% of Australian first home buyers with a mortgage were buying new homes with 81.4% purchasing established dwellings. As shown in the table below, first home buyers in New South Wales, Queensland, South Australia, Tasmania, the Northern Territory and the Australian Capital Territory were above the national average in their preference for established homes.

*First Home Buyers with a Mortgage, by Dwellings Type by State and Territory (%), 2009-10*

| Dwellings Type | NSW    | Vic    | Qld    | SA     | WA     | Tas    | ACT and NT | Australia |
|----------------|--------|--------|--------|--------|--------|--------|------------|-----------|
| New            | 12.5%  | 25.9%  | 16.5%  | 9.3%   | 29.2%  | 5.3%   | 8.7%       | 18.0%     |
| Established    | 87.5%  | 74.1%  | 83.5%  | 90.7%  | 70.8%  | 94.7%  | 91.3%      | 82.0%     |
| Total          | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0%     | 100.0%    |

Source: ABS, REIA special data request.

Another dynamic of the housing market is that sales of established homes to first home buyers in many cases lead to purchases of new housing by the sellers. In these cases the multiplier and employment effects are probably greater than where a

first home buyer purchases a new house. Furthermore first home buyers of established homes usually embark on a program of home improvement and renovation providing a stimulus to the building sector.

Distortion of assistance away from buyers of existing housing is contrary to the IGA and needs to be addressed.

***The REIA proposes that all states and territories either recommit to the IGA in Federal Financial Relations Schedule A, which states that assistance to first home buyers, whether a grant and/or stamp duty concessions, will be “uniform” and that “an eligible home will be new or established”, or sign a new IGA.***

### **Removing Entry Barriers**

The 2012 Mortgage Choice Future First Homebuyer Survey found that for 11.4% of first home buyers an adequate deposit was the biggest barrier to purchasing a property. According to the survey, only 16.1% of first home buyers said that they would have a 20% deposit.

The REIA believes that more should be done to assist first home buyers save for a deposit.

Superannuation is an important financial asset of Australian households. Aside from home ownership it is the second most important financial asset with 82.1% of all Australian households holding at least some savings in their superannuation account and the average value across all households at \$142,429 (HILDA Survey). According to the Association of Superannuation Funds of Australia Superannuation Statistics in 2009-10, the average accumulation for men was \$71,645, for women it was \$40,475 (aged 15-59).

For those in the first home buyer age groups and with superannuation in the accumulation phase the median balance in July 2007, the latest available ABS data was \$15,000 for 25 to 34 year olds and \$32,000 for 35 to 44 year olds.

Allowing access to a proportion of superannuation funds would help prospective buyers to save for a deposit faster. That proportion could be either a fixed percentage of the total or their voluntary payments over and above the super guarantee contribution.

Superannuation and home ownership are both components of a retiree’s “nest egg” and not competing products. By buying earlier in life retirees have every prospect of having a higher equity on retirement and a larger “nest egg” on downsizing.

Furthermore, access to superannuation for the purchase of a first home by helping reverse the trend of falling home ownership, addresses the looming large policy

problem of large numbers of long-term renters aged 45 years and over remaining in the rental sector and possibly requiring rental support in later years.

Using retirement savings towards buying a home has already proven to be successful in Canada, New Zealand and Singapore.

In Canada, the Government has established the Canadian Home Buyer's Plan, which allows Canadian first home buyers to withdraw up to \$25,000 from their retirement savings plan, to purchase or build a home. Funds withdrawn from the retirement savings plan need to be repaid over a 15 year period so that withdrawing the funds will not have a major impact on the ability to secure a comfortable retirement. The scheme has been operating since 1992 with around one-eighth of first home buyers aged 25 to 44 participating.

In Singapore, the Central Provident Fund (CPF) – a social security fund where a portion of an employee's salary is set aside for retirement, healthcare and housing – is integrated with home ownership through CPF housing schemes. A Housing Development Board (HDB) flat may be bought under the Public Housing Scheme for occupation, or a private property may be purchased under the Residential Properties Scheme for occupation or rental.

Monthly contributions to CPF go into three accounts: ordinary, special and Medisave accounts. CPF ordinary account savings up to the valuation limit can be used for full or partial payment of the property, as well as to service the monthly housing payments. Ordinary account savings are available only after at least 5% of the purchase price has been paid in cash. Stamp duty, legal fees and other costs related to the purchase or mortgage may also be paid using savings in the ordinary accounts. Since its introduction in the 1960s, housing schemes have been successfully assisting Singaporeans to purchase their home. In 2013, the home ownership rate in Singapore was 90.5% with over 70% of home owners servicing their housing loans solely with CPF savings. Whilst there are elements of the Singapore scheme that would not be applicable to Australia and first home buyers, there are important core elements that could be adopted for Australia.

In New Zealand, KiwiSaver is a voluntary, work-based saving initiative to help New Zealanders with their long-term saving for retirement. KiwiSaver members choose to contribute 3%, 4% or 8% of your before-tax pay and the employer is required to pay 3%. The initiative has two features to help many New Zealanders to get their foot in the property market: KiwiSaver home purchase withdrawal scheme and KiwiSaver home deposit subsidy scheme. Both of these features of KiwiSaver can also be used to help with the overall deposit when buying land to build a first home house on. Furthermore, if a person has previously owned a home but is currently in a similar financial position to a first home buyer, they still may be eligible for both features.

Below are outlines of the two schemes.

| First Home Withdrawal  | First Home Subsidy  |
|--|---|
| <ul style="list-style-type: none"> <li>• If you have been a member of KiwiSaver for at least three years (regardless of whether or not you have been contributing), you may be able to withdraw all, or part, of your savings to put towards buying your first home.</li> <li>• Your individual contributions, your employer contributions and any investment returns make the amount you are entitled to withdraw.</li> <li>• Government contributions are not paid out in the first home withdrawal.</li> <li>• Your home will be your primary residence. Withdrawal cannot be used to buy an investment property.</li> <li>• Additional requirements for those who have previously owned a home.</li> </ul> | <ul style="list-style-type: none"> <li>• After three years of contributing to KiwiSaver you may be entitled to the deposit subsidy. You have to contribute at least the minimum percentage of your income, currently 3%.</li> <li>• The subsidy is \$1,000 for each year of contribution to the scheme (\$3,000 for 3 years of contributing, \$4,000 for 4 years of contributing and \$5,000 for five years of contributing).</li> <li>• The minimum you can get is \$3,000; the maximum you can get is \$5,000.</li> <li>• You can use the deposit subsidy if you are buying a house, or a land to buy your first home. House price caps apply.</li> <li>• The subsidy will be paid to your solicitor on settlement day.</li> <li>• Your home will be your primary residence. If you move out before 6 months, you will be required to pay the subsidy back.</li> <li>• You can only receive the subsidy once.</li> <li>• Additional requirements for those who have previously owned a home.</li> </ul> |

The United Kingdom can also provide lessons for Australia where recent changes to assistance for first home buyers have been directed to those purchasing established housing extending assistance beyond the new build buyer. Since October 2013 the UK government scheme was extended from only newly built homes to include established homes up to a value of £600,000 (or around A\$1m). Buyers need a minimum 5% deposit, they have to borrow from a participating lender, it must be the buyer's only property and, the government for its guarantees repayment of the mortgage to the lender.

The UK also has an equity scheme for first time buyers, although directed at new dwellings valued to £600,000. Buyers need a 5% deposit. The government then contributes 20% interest free for five years with the remaining 75% being a conventional mortgage. After five years the 'equity loan' attracts a fee of 1.75% of the loans value, which is adjusted each year to the CPI. The 20% loan has to be paid back when you sell.

***The REIA proposes the Commonwealth Government assesses the various schemes that assist first home buyers overseas, with the view of establishing a scheme(s) to encourage young Australians to purchase their first home.***

## **Housing Supply**

One of the factors that contribute to increases in house prices and declining affordability is the undersupply of housing. Supply has been unable to keep pace with demand due to a number of reasons identified below.

### *Land Availability*

Considerable tracts of land suitable for housing are held by government – state and commonwealth – and private land holders / developers. With the Department of Defence having considerable holdings on the outskirts of Sydney as shown in the table below from the register of surplus Commonwealth land potentially suitable for housing. This land or at least parts of it should be systematically released to meet the demand for housing.

### **Register of Surplus Commonwealth Land Potentially Suitable for Housing**

| State/Territory | Property*   | Owner Agency          | Site Area (approximate hectares) | Target Time for Release |
|-----------------|---|-----------------------|----------------------------------|-------------------------|
| ACT             | Belconnen Naval Transmitter Station, Baldwin Drive, Lawson, ACT       | Department of Defence | 143                              | 2012-13                 |
| NSW             | Fort Wallace, Fullerton Road, Stockton, NSW                           | Department of Defence | 32                               | 2012-13                 |
| NSW             | Stockton Rifle Range, Poppawell Road, Fern Bay, NSW                   | Department of Defence | 111                              | 2012-13                 |
| NSW             | Training Depot, Centre & Lennox Streets, Casino, NSW                  | Department of Defence | 2                                | 2012-13                 |
| NSW             | Badgerys Creek Road, Bringsally                                       | Department of Defence | 115                              | 2013-14                 |
| NSW             | Londonderry Road, Londonderry   | Department of Defence | 63                               | 2012-13                 |
| NSW             | Nirimba Drive, Quakers Hill, Schofields                               | Department of Defence | 141                              | 2012-13                 |
| NT              | Lee Point, Lee Point Road, Darwin, NT                                 | Department of Defence | 84                               | 2013-14                 |
| QLD             | Wilton Barracks, 3 Lambert Road, Indooroopilly, QLD                   | Department of Defence | 1                                | 2012-13                 |
| QLD             | Mt Vince Rifle Range, Wollingford Road, Eton, QLD                     | Department of Defence | 169                              | 2012-13                 |
| QLD             | Maryborough Rifle Range, 29 Walker Street, Maryborough, QLD           | Department of Defence | 190                              | 2012-13                 |
| SA              | Elizabeth North Training Depot, Broadmeadows Road, Smithfield         | Department of Defence | 33                               | 2013-14                 |
| VIC             | Corner Colac and Henry Road, Belmont (Geelong)                        | CSIRO                 | 6.37                             | 2012-13                 |
| VIC             | Commercial Road, Notting Hill   | CSIRO                 | 0.16                             | 2012-13                 |
| VIC             | Graham Road, Highbett   | CSIRO                 | 9.3                              | 2012-13                 |
| WA              | Part of the Artillery Barracks site, Queen Victoria Street, Fremantle | Department of Defence | 0.6                              | 2012-13                 |

Source: Department of Finance, <http://www.finance.gov.au/property/lands-acquisition/register-surplus-commonwealth-land.html>

### *Length and Cost of Approval Process and Zoning Policies*

The table below shows estimated time taken for land to complete different stages of the land supply process.

#### **Time to Complete Land Supply Processes for Capital City Planning Areas**

| Stages of Process                   | Sydney | Melb   | Adel    | Perth   | Darwin | Canberra |
|-------------------------------------|--------|--------|---------|---------|--------|----------|
| Locate site and assemble land       | ne     | 2-12   | 1-24    | 12      | ne     | ne       |
| Initial planning and due diligence  | 3-8    | 6-47   | 1-55    | ne      | ne     | ne       |
| Rezone land / amend planning scheme | 16-78  | 18     | 24-30   | 9-48    | 1-6    | 24       |
| Structure plan                      | 36     | 26-78  | ne      | 12-72   | ne     | ne       |
| Prepare subdivision application     | 4-10   | 3-22   | 2-6     | 3       | ne     | ne       |
| Decision on subdivision             | 4-6    | 3-6    | 5-24    | 2-36    | 2-4    | ne       |
| Address approval conditions         | 3-12   | 1      | 6       | 12      | ne     | ne       |
| Install infrastructure              | 12     | ne     | 36+     | ne      | ne     | ne       |
| Total                               | ne-119 | 30-60+ | 24-133+ | 36-120+ | ne     | ne       |

Source: Performance Benchmarking of Planning, Zoning and Development Assessments, Productivity Commission, 24 March 2011.

The table below shows the wide range of statutory timeframes for deciding development applications, with a minimum between 14 to 84 days and a maximum between 42 and 196 days.

#### **Timeframes for Deciding Development Applications**

| State/Territory | Min days | Max days |
|-----------------|----------|----------|
| NSW             | 40       | 60       |
| Vic             | 60       | 60       |
| Qld             | 28       | 140      |
| WA              | 60       | 60       |
| SA              | 14       | 196      |
| Tas             | 42       | 42       |
| ACT             | 28       | 63       |
| NT              | 84       | 84       |

Source: Performance Benchmarking of: Planning, Zoning and Development Assessments, Productivity Commission, 24 March 2011.

The lengthier the delay in meeting the land supply and development the greater the holding costs of developers and the higher the land price when it is released. Streamlining these processes would improve housing affordability.

In addition approval fees (fixed amount or depending on the value of the development proposal) sometimes have to be paid regardless of whether the proposal was approved. A comparison of costs for infill and greenfield development is shown below.

### Cost Components of Developing Infill and Greenfield Dwellings by Capital City

|                              | Sydney     |          | Melbourne |         | Brisbane |         | Perth    |         | Adelaide |         |
|------------------------------|------------|----------|-----------|---------|----------|---------|----------|---------|----------|---------|
|                              | Infill     |          |           |         |          |         |          |         |          |         |
|                              | \$'000     | %        | \$'000    | %       | \$'000   | %       | \$'000   | %       | \$'000   | %       |
| Land                         | \$85.00    | 15%      | \$32.18   | 6%      | \$72.00  | 14%     | \$60.00  | 11%     | \$47.62  | 10%     |
| Govt Taxes & Charges         | \$91.49    | 17%      | \$83.18   | 14%     | \$85.44  | 17%     | \$75.86  | 14%     | \$71.41  | 15%     |
| Professional Fees            | \$24.07    | 4%       | \$16.61   | 3%      | \$16.04  | 3%      | \$16.90  | 3%      | \$7.45   | 2%      |
| Construction                 | \$282.14   | 51%      | \$301.85  | 52%     | \$290.81 | 58%     | \$308.07 | 58%     | \$290.56 | 63%     |
| Development Costs & Interest | \$70.93    | 13%      | \$55.71   | 10%     | \$61.07  | 12%     | \$59.90  | 11%     | \$51.35  | 11%     |
| Development Profit           | -\$1.28    | 0%       | \$88.30   | 15%     | -\$24.52 | -5%     | \$12.68  | 2%      | -\$5.82  | -1%     |
| Total                        | \$552.34   |          | \$577.82  |         | \$500.84 |         | \$533.42 |         | \$462.57 |         |
|                              | Greenfield |          |           |         |          |         |          |         |          |         |
|                              | \$'000     | %        | \$'000    | %       | \$'000   | %       | \$'000   | %       | \$'000   | %       |
|                              | Land       | \$151.88 | 24%       | \$50.00 | 12%      | \$54.00 | 13%      | \$52.00 | 14%      | \$49.71 |
| Govt Taxes & Charges         | \$130.05   | 21%      | \$71.20   | 17%     | \$75.71  | 19%     | \$69.64  | 18%     | \$65.56  | 16%     |
| Professional Fees            | \$9.77     | 2%       | \$2.05    | 0%      | \$3.05   | 1%      | \$8.59   | 2%      | \$4.07   | 1%      |
| Construction                 | \$211.15   | 34%      | \$212.91  | 51%     | \$201.59 | 49%     | \$219.20 | 57%     | \$217.29 | 52%     |
| Development Costs & Interest | \$57.87    | 9%       | \$38.60   | 9%      | \$35.41  | 9%      | \$34.52  | 9%      | \$38.49  | 9%      |
| Development Profit           | \$64.97    | 10%      | \$44.22   | 11%     | \$37.70  | 9%      | -\$0.69  | 0%      | \$39.94  | 10%     |
| Total                        | \$625.68   |          | \$418.97  |         | \$407.45 |         | \$383.96 |         | \$415.06 |         |

Source: URBIS, National Dwelling Cost Study – FaCHSIA, January, 2010.

The table shows that infill developments are generally at least 10% cheaper than greenfield developments and that government taxes and charges amount to nearly 20% of the cost of a house and land package.

#### *Zoning Policies*

The zoning policies of local councils are a major determinant of the type of housing being developed with much land being used for higher value purposes than affordable housing.

#### *Environmental Regulations*

At the Commonwealth level, separate approvals for matters of environmental significance may be needed under the Environment Protection and Biodiversity Conservation Act 1999.

In addition there are state requirements that need to be met. For example in New South Wales BASIX or Building Sustainability Index is a scheme introduced to regulate the energy efficiency of residential buildings by reducing water consumption and greenhouse gas emissions. Whilst there associated savings in energy bills these savings are very small compared to the outlay required to meet the requirements. In essence individual homebuyers of new dwellings are meeting the cost of a public benefit whilst affordability is decreased.

### **Taxation and Housing**

Taxes are one of the important factors determining housing supply and influencing housing affordability.

#### *Negative Gearing*

Negative gearing in its current form for the purpose of property investment is complementary to the goals of the Government in addressing the supply of rental accommodation.

Over 1.7 million of Australians invest in the residential property market with the majority of investors being ordinary mums and dads saving who have only one investment property. Taxation Statistics for 2010-11 shows that taxpayers who earn an annual income of \$80,000 own 72.3% of all loss-making properties with almost three quarters (73%) of investors having only one investment property and less than 10% of investors having three or more investment properties.

Individuals with an interest in a rental property, 2010–11

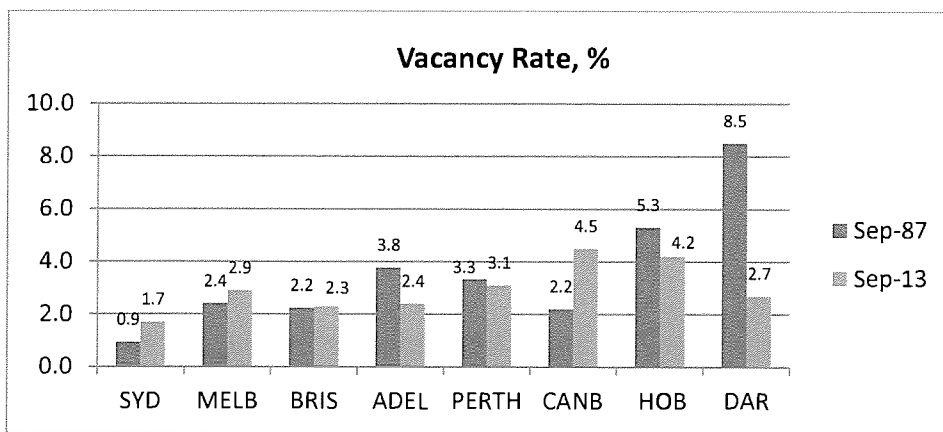
| No of properties | Number<br>Individuals | of | Percentage of Total<br>Individuals | Number<br>Properties | of | Percentage of total<br>properties<br>held |
|------------------|-----------------------|----|------------------------------------|----------------------|----|---|
| 1                | 1,284,852             |    | 73                                 | 1,284,852            |    | 50  |
| 2                | 318,295               |    | 18                                 | 636,590              |    | 25  |
| 3                | 96,991                |    | 5                                  | 290,973              |    | 11  |
| 4                | 34,967                |    | 2                                  | 139,868              |    | 5   |
| 5                | 14,555                |    | 1                                  | 72,775               |    | 3   |
| 6 or more        | 15,264                |    | 1                                  | 152,640              |    | 6   |
| <b>TOTAL</b>     | <b>1,764,924</b>      |    | <b>100</b>                         | <b>2,577,198</b>     |    | <b>100</b>                                |

Source: ATO.

The Henry Review, released in 2010, proposed the replacement of current negative gearing arrangements with the introduction of a 40% discount for income from rental properties. This means that deductions are also discounted by 40%. The argument stated by the review is that the current structure of tax income from savings creates distortions, causing misallocation of savings in particular in the rental property market and leads to investors taking on excessive debt. The Henry Tax Review states the introduction of a broad 40% discount for income from rental properties would mitigate those distortions. The report suggested a smooth transition for highly geared investors in rental properties, phasing in the discount over time, which would allow investors to adjust to the new tax settings and reduce any potential market

disruption. Importantly, the review suggests this should only be adopted following reforms to the supply of housing and to housing assistance. Importantly the report acknowledged that the current tax benefit available for negatively geared properties placed downward pressure on rents.

Changes to negative gearing would impact on the supply of housing and the level of rents in already tight rental market. In 1985, the Hawke Government abolished negative gearing for property only to have it reinstated in 1987. During that period rents increased by 57.5% in Sydney, by 38.2% in Perth and by 32.0% in Brisbane. In the current tight market, as shown in the table below, expectations are the implementation of the Henry Review recommendations will have a dramatic negative impact on renters not dissimilar to the results of mid 1980s.



Source: REIA.

From taxation statistics REIA calculates that implementing the Henry Review recommendation would lead to a rent increase of 2.0% of the median house rent for three bedroom houses. The effect on some properties will be greater than this as will the impact across states. The actual impact will be influenced by vacancy rates, amongst other factors.

Further to amend the current negative gearing provisions for housing would be treating real estate differently to other asset classes and create a distortion on the investment landscape and result in a resource misallocation.

***The REIA proposes that negative gearing be retained in its current form for the purpose of property investment.***

### *Stamp Duty*

Whilst stamp duties are a state tax and are thus not determined by the Federal Government, states will not act unilaterally on the matter unless leadership is shown by the Federal Government. At the October 2011 Tax Forum, according to the then Treasurer, the state tax reform discussion was the most passionate at the forum with even the states acknowledging that their own taxes harm labour mobility and housing affordability.

Stamp duties represent additional costs to property transactions, thereby discouraging turnover of housing and distorting choices between renting and buying, and between moving house and renovating. Individuals who move more frequently would pay more taxes than those who move less. Others, who would have to buy or sell if they changed jobs, could be deterred by these costs thus reducing labour mobility. These distortions lead to a sub optimal outcomes, reduce investment in the property market and impede labour mobility.

An OECD report, "Going for Growth in 2011", notes that lower transaction costs such as stamp duties encourages mobility. The Productivity Commission in its draft report on Labour Mobility in 2003 reiterated the impact that stamp duties have on restricting labour mobility.

From the perspective of fiscal revenue, whilst stamp duties are a major source of revenue for states they are highly volatile, unreliable and unpredictable.

According to the Henry Review "stamp duties on conveyances are inconsistent with the needs of a modern tax system. While a significant source of state tax revenue, they are volatile and highly inefficient and should be replaced with a more efficient means of raising revenue".

The Henry Review recommended that a land tax was an efficient means of replacing the revenue forgone from abolishing state stamp duties. In reality this is not the case. In practice it is likely that a significant proportion of the economic incidence of the tax is passed forward to consumers or backwards to investors adding distortions and reducing the efficiency of the tax and detracting from the claimed simplicity, equity and sustainability of the tax.

***The REIA proposes conveyance stamp duties be abolished and replaced by an efficient source of revenue for states and territories.***

### **Improving the Supply of Housing for Social Housing Tenants Transitioning to Private Rental**

The aim of the REIA proposal is to increase the supply of social housing for those tenants transitioning to the private rental market utilising a currently untapped resource of individual private investors. It is an adjunct, not a substitute, to current initiatives such as NRAS and community housing programs. The scheme recognises that social housing is not meeting demand and is unsustainable without changes in approach. The scheme also addresses the identified shortcomings of current arrangements. The proposal builds on the Western Australian Rental Pathways Scheme.

The provision of social housing is currently financially unsustainable and is characterised by: demand exceeding supply; a large proportion of stock is in disrepair yet on valuable land; the system does not offer the type of housing that many tenants need; the public sector is generally less efficient in managing rental

property than the private sector; except in Western Australia, there is no assistance to social housing tenants with a good tenancy record and stable incomes to make the transition to the private rental market; whilst not always the case, social housing is in larger developments and does not achieve a broad mix of households; whilst NRAS utilises private sector funding, by its nature it excludes small scale investors.

The REIA proposal utilises the untapped resource of small investors and would operate as follows:

- Investors buy a new or existing property for rental purposes. This would be subject to broad guidelines provided by state government agency regarding location, size, number of bedrooms etc. and an upper value
- Agent provides a market value for rental purpose. Rental would be subject to annual reviews
- Owner approaches government agency with details of property and market valuation of rental value for endorsement for transitional housing. May need to facilitate a process for approval prior to sale completion to safeguard and encourage the investor
- Tenant selected from Government list of eligible candidates
- Agent manages the property
- Rental would
  - Need to be subsidised. Current social housing schemes such as NRAS suggest that governments (Federal and state) that the subsidy will be of the order of 20%
  - Governments would need to guarantee the rental payment for the term of the arrangement
- Depending on the extent of the rental subsidy, consideration may need to be given to other assistance to the owner to achieve the equivalent net yield if the property was rented in the private market. This could be through a stamp duty concession and land tax concessions at state level and income taxation provisions at Federal level. This is no different in approach to the current arrangements for Community Housing Providers which receive taxation exemptions
- Maintenance of property
  - The managing agent and owner will attend to routine maintenance matters as currently occurs in the private rental market alleviating the need for government involvement
  - Tenants would be required to meet responsibilities of caring for the property leaving it in good condition at the end of a tenancy
  - Private tenants have a bond which is returned provided the property is left in good condition. Bonds are not, however, generally a part of the social housing system. One way of addressing this would be through a bond collection scheme collected as a part of rental payments until an agreed level of bond is reached. The bond would then be returned to

public housing tenants if their property is kept in good condition at the end of their tenancy. The returned bond could then be used by tenants to get into the private rental market

- In the event that the bond is insufficient to bring the property back to the condition expected after normal wear and tear is taken into consideration the government agency would be responsible for funding the required repairs. In WA the Government will fund any property damage up to \$5,000 in excess of the bond. The repairs would be organised through the managing agent eliminating the need for public sector resources.

As well as increasing the supply of social housing additional benefits of the proposal include: greater operational efficiencies through private sector responsibility for operations and maintenance; utilisation of private sector finance and a corresponding reduction in capital requirement by governments; risk in land value transferred to private sector.

***The REIA proposes improving the supply of housing for social housing tenants transitioning to private rental by utilising individual private investors.***

### **The Need for a National Policy and Plan for Affordable Housing**

Housing is a complex issue, with a number of economic, social and infrastructure factors determining affordability. The substantive causes of the housing affordability problem have been identified to include: prices; the deposit gap for first home buyers; demographic change; insufficient supply of dwellings for both purchase and rental which in itself is attributable to a myriad of factors including taxation; lack of innovation in the building industry; council requirements which generally show a lack of acceptance of low cost housing and lack of diversity of house type as well as protracted and expensive development application processes, and, importantly; lack of urban infrastructure.

According to the third National Housing Supply Council State of Supply report, the gap between the supply and demand for housing will increase over the next years putting further pressure on housing prices.

| <b>Year ended 30 June</b> | <b>Cumulative Demand-Supply Gap</b> |
|---------------------------|-------------------------------------|
| 2013                      | 272,800                             |
| 2014                      | 301,100                             |
| 2015                      | 328,800                             |
| 2025                      | 556,900                             |
| 2030                      | 640,200                             |

Source: National Housing Supply Council, 3<sup>rd</sup> State of Supply report.

What is needed is for the Federal Government to take a leadership role and work with the other two spheres of government, state, territory and local, in developing a coordinated and strategic approach to the provision of housing. This means ensuring that complementary policies, covering amongst other things first home buyers, taxation and supply, are in place to achieve this.

***The REIA proposes that the Government establishes a mechanism to formulate appropriate policies and to monitor their effectiveness.***

## **Recommendations**

REIA makes the following recommendations

- ***That all states and territories either recommit to the IGA in Federal Financial Relations Schedule A, which states that assistance to first home buyers, whether a grant and/or stamp duty concessions, will be “uniform” and that “an eligible home will be new or established”, or sign a new IGA***
- ***That the Commonwealth Government assesses the various schemes that assist first home buyers overseas, with the view of establishing a scheme(s) to encourage young Australians to purchase their first home***
- ***That negative gearing be retained in its current form for the purpose of property investment***
- ***That conveyance stamp duties be abolished and replaced by an efficient source of revenue for states and territories***
- ***Improving the supply of housing for social housing tenants transitioning to private rental by utilising individual private investors***
- ***That the Government takes a leadership role and works with the states, territories and local government to establish a mechanism to formulate appropriate policies and to monitor their effectiveness.***



**media release**

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**EMBARGOED UNTIL 12.01AM THURSDAY 16 MAY 2013**

## **NSW govt should cut stamp duty to grow revenue: REINSW**

The NSW government is being urged by the Real Estate Institute of New South Wales to cut transfer stamp duty rates in the state budget on 18 June 2013 in an attempt to increase state revenue.

REINSW President Christian Payne said a cut in NSW transfer stamp duty rates of as little as 0.5 per cent would incentivise the property market and potentially boost state revenue by up to hundreds of millions of dollars.

"Empirical evidence of past property tax rate reductions shows significant consequential increases in government revenues," Mr Payne said.

"The Reserve Bank's action last week to reduce interest rates is a clear sign the economy needs stimulation.

"What NSW craves is decisive action by the state government to motivate the market," Mr Payne said

"When property transfer taxes are too high, state revenue suffers. The abominated 2.25 per cent NSW vendor duty resulted in a loss of over \$1 billion transfer duty revenue in the only full year it was in operation.

"In the first full year after vendor duty was abolished, NSW revenue from transfer duty increased by more than \$1 billion." (see NSW table)

"What the NSW government needs to recognise is that because NSW transfer duty rates are too high, they are impeding state revenue and we need to cut transfer duty rates to increase state revenue," Mr Payne said.

"Last year, the ACT cut the top rates of transfer duty by 0.75 per cent and it has reaped almost \$28 million additional transfer duty this year. (see ACT 2012-13 Budget Review p38)

"In the Northern Territory, between 2006/07 and 2008/09, property transfer duty rates were cut by 0.45 per cent which resulted in an increase of more than \$22 million in revenue from that duty." (see NT Table)

"Between 2003 and 2006, Western Australia cut property transfer duty rates by 0.9 per cent and revenues from that duty rose by more than \$709 million over the period." (see WA table)

"The data establishes that decreasing property transfer duty rates increases revenue," Mr Payne said

"The evidence is clear that cutting property transfer duty rates incentivises and stimulates the market which produces revenue streams for the state government."

"NSW Land and Property Information lodgment statistics show that between 2003 and 2012, total dealings lodged for land transactions have fallen by almost 280,000 despite an increase in population from 6.687 million as at 30 June 2003 to 7.29 million as at 30 June 2012." (see LPI coloured tables and Australian Bureau of Statistics.)

"What we learnt from the GFC is that it innovative policy action by governments can invigorate and sustain the market.

"NSW needs to take innovative action by cutting transfer stamp duty rates now, to increase state revenue. We're not asking NSW to be Robinson Crusoe. It has been done before and it is proven," Mr Payne said.

### NSW Treasury Annual Reports

| Year    | Transfer Duty Maximum Rate | Vendor Duty Rate | Revenue Transfer Duty | Revenue Vendor Duty | Total    | Revenue Change |
|---------|----------------------------|------------------|-----------------------|---------------------|----------|----------------|
| 2003/04 | 5.5% or 7% (1 month)       | 2.25% (1 month)  | \$3,916M              | \$2M                | \$3,918M | -              |
| 2004/05 | 5.5% or 7%                 | 2.25%            | \$2,911M              | \$371M              | \$3,282M | -\$636M        |
| 2005/06 | 5.5% or 7%                 | 2.25% (1 month)  | \$3,144M              | \$92M               | \$3,236M | -\$46M         |
| 2006/07 | 5.5% or 7%                 | Nil              | \$4,163M              | \$3M                | \$4,166M | +930M          |

### W.A Treasury Annual Reports

| Year    | Transfer Duty Maximum Rate | Revenue         | Increased Revenue |
|---------|----------------------------|-----------------|-------------------|
| 2003/04 | 6.3%                       | \$1,207,271,000 | -                 |
| 2004/05 | 6.0%                       | \$1,218,330,000 | \$11,059,000      |
| 2005/06 | 5.4%                       | \$1,916,434,000 | \$698,104,000     |



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### Northern Territory Treasury Annual Reports

| Year    | Transfer Duty Maximum Rate | Revenue       | Increased Revenue |
|---------|----------------------------|---------------|-------------------|
| 2006/07 | 5.4%                       | \$86,500,000  | -                 |
| 2007/08 | 4.95%<br>(3 months)        | \$97,100,000  | \$10,600,000      |
| 2008/09 | 4.95%                      | \$108,500,000 | \$11,400,000      |
| 2009/10 | 4.95%                      | \$126,128,000 | \$17,628,000      |

**ACT 2012-13 Budget Review:**

[http://apps.treasury.act.gov.au/data/assets/pdf\\_file/0003/418827/2012-13\\_Budget\\_Review\\_FINAL.pdf](http://apps.treasury.act.gov.au/data/assets/pdf_file/0003/418827/2012-13_Budget_Review_FINAL.pdf)

