

The Study on Housing Affordability in Sydney

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ABSTRACT. In recent years, the housing issue in Australia has become one of the most concerned topics among residents. The income growth rate of residents cannot keep up with the rate of increase in housing prices, and unhealthy real estate speculation has aggravated housing pressure. We will carry out a series of investigations and data analysis on this issue through the data collection method and case analysis method. At the same time, taking China's housing purchase restriction policy as an example, we will come up with some suggestions that apply to Australia, mainly: 1. Improve construction efficiency; 2. Simplify the house purchase process; 3. Increase subsidies for low-income and middle-income families; 4. Ensure residents' awareness and understanding of fluctuations in the real estate market.

KEYWORDS: Sydney, housing price, housing affordability, case analysis, countermeasures study

1. Introduction

Housing affordability can be understood as the family's ability to afford to house, and it can also be understood as the family making the best balance between the limited family income and housing expenditure. Housing is an important part of the urban formation and plays an important role in social and economic development. Housing conditions reflect public resource allocation, social equity, government policies, and the quality of citizen life [1]. Housing wealth has an important impact on consumer behavior, so the outlook for consumer spending also depends on future home prices [2]. As a global city, Sydney has faced a rapid growth in population in recent years. According to the rent gap theory, property values will show an upward trend, so house prices will always be a hot social topic. As an inclusive big city, Sydney has the responsibility and obligation to provide each resident with a reliable and comfortable living environment.

2. Background and Contents

2.1 Current situation

Along with the movement of the target, the sink node timely notifies the sensor nodes in the relevant detection area to join in the process of target tracking. Figure 1 is the flow chart of the moving target tracking. In recent years, with the increase of population, The land area in Sydney is approximately over 12,000 km² [3]. In 2002, its population reached 4,000,000, more than 20 percent of Australia's total population [3]. According to the 14th Annual Demographia International Housing Affordability Survey, Sydney ranks second in the world for severely unaffordable housing [Fig1].

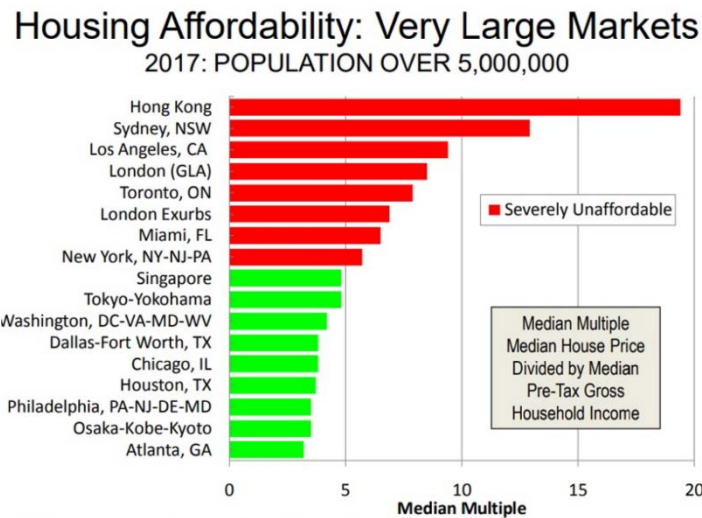


Figure 1. 14th Annual Demographia International Housing Affordability Survey
 Source: <https://www.businessinsider.com.au/chart-sydney-ranks-second-in-the-world-for-severely-unaffordable-housing-2018-1>

Housing affordability has become a hot political topic in Australia, especially in Sydney where many people no longer buy houses for a living but to make money. This kind of unhealthy investment behavior was undoubtedly the main reason for the price rise and indirectly caused by the current housing unaffordability of Sydney. In the mid-1990s, Sydney's homes sold for about 15-20 times their annual market rent [4]. By 2004, this proportion had doubled and the annual rent of houses was 40 times [4]. In Sydney, some young people rent because they are eager for high-quality lifestyle and labor mobility, but most of them are able to achieve it until they are over 35 years old [5]. The shortage of independent affordable housing meant that most first-time home-buyers and tenants are currently unable to find houses at their

location that suits their needs [6]. Housing affordability in Sydney has reached a critical level, therefore the problem of overpriced housing needs to be solved urgently.

While considering housing increases, the income of residents must also be taken into consideration. The rate of increase in house prices and rental prices are growing faster than income growth [Fig 2]. For aspiring buyers, this will reduce their ability to save and close the deposit gap, reduce their desire to buy, and exacerbate the tension between renters and owners [7]. Housing pressure is particularly heavy among low-income and middle-income people. Many young people can't afford a house mortgage on their income, they can't leave their parents' financial help. Households with middle-income, low-income, or very-low-income households spend more than 30% of their income on housing, which affects their ability to pay for basic items such as food, clothing, and transportation [8]. Not only that, but private landlords also continue to raise rent prices to put enormous pressure on the private leasing market, and low-income households are increasingly vulnerable to such high fees [1]. Due to the shortage of affordable and low-rent housing, low-income and middle-income families have a poor choice of housing or rent.

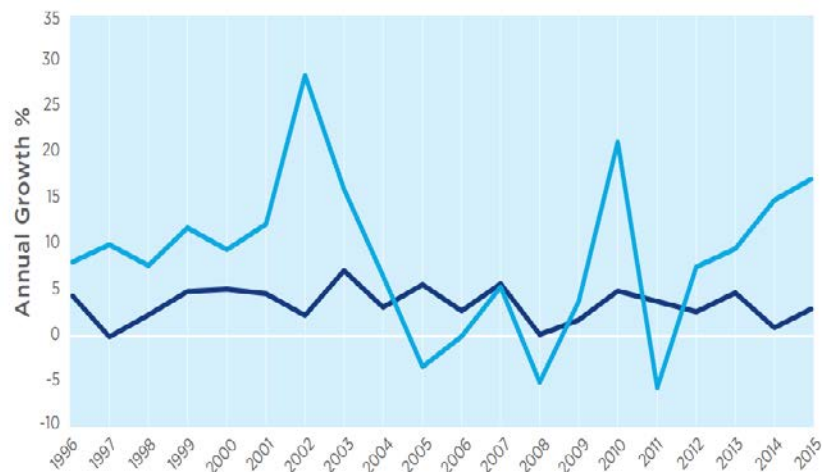


Figure 2. Sydney median house price growth compared to average earnings wage growth Source: A Fair Go for First Home Buyers

In consequence, both affordability and house ownership rates in Sydney are in decline. Declining housing affordability may affect economic performance and labor market efficiency, and it may be a driver of social exclusion and spatial polarization [7]. Therefore, it is very necessary to take immediate measures to alleviate these serious problems.

2.2 Strategies and Analysis

In order to effectively and continuously improve the housing affordability of middle-income and low-income families and reduce their pressure on high housing prices and rents. Sydney has launched a series of targeted policies and plans to address these issues.

Greater Sydney Commission made the housing supply targets according to several collections and assessments and divided into five-year targets starting in 2016 and long-term goals of 20 years [Table 1]. With a minimum housing supply target of 0-5 years, councils need to exceed their targets as much as possible to meet demand. The 6-10 year housing target will build on the five-year target and develop more appropriate housing strategies to meet the various housing needs of different regions [5]. These goals give directions and requirements for specific improvement measures.

Table 1 Housing Targets 2016-2036 Source: The Greater Sydney Region Plan: A Metropolis of Three Cities - connecting people

District	0-5 year housing supply target: 2016-2021	20-year strategic housing target: 2016-2036
Central City	53,500	207,500
Eastern City	46,550	157,500
North	25,950	92,000
South	23,250	83,500
Western City	39,850	184,500
Greater Sydney	189,100	725,000

2.2.1 Guide people to choose the right housing

The Greater Sydney Commission pointed out that as communities and localities grow and change, housing supply must provide the type of housing needed, rather than simply providing a type of housing [5]. It is suggested that people should choose suitable house types and sizes according to their age and family conditions. For example, a newly married couple does not have a child. A one-bedroom apartment seems to be the best choice for them. On the contrary, If they choose an inappropriate type of housing and an oversized area, they can't afford the price and they will lower their quality of life. In different life stages, people have various housing affordability and demand.

This kind of strategy can only lead people to correctly choose the suitable housing. However, there is no significant curb for the excessive rise in housing prices and real estate speculation.

2.2.2 Plans to improve housing affordability

The NSW government has introduced many strategic plans to support the first home buyers and maintain existing housing supply levels. These policies directly benefit first-time or distressed house buyers through subsidies and other means. A Fair go for first home buyers is an iconic initiative that includes support for first-time homebuyers and building more homes and housing infrastructure. Since 2011, the NSW government has provided more than \$1 billion in assistance to first-time home and new home buyers, these include grants, stamp duty reductions, and discounts, mainly to open new homes for first-time buyers [9]. These measures directly alleviate the pressure of many home buyers who purchase houses for the purpose of residence and improves their housing affordability. Although this plan can effectively reduce the housing pressure, it will also increase the government's capital expenditures and burdens.

2.2.3 Supply of affordable housing

The government introduced the National Environmental Planning Policy (SEPP) (Affordable Housing) in 2009. As a State's leading document, the State Environmental Planning Policies pay attention to incorporating existing regulations related to the retention or provision of low-cost or special-demand housing, as well as some measures to encourage the development of affordable housing [10].

- State Environmental Planning Policy (Affordable Rental Housing) 2009 provides incentives for development projects to include a 10-year term for affordable rental housing dwellings for very low to moderate-income households [5]. The implementation of this policy has provided apartments for the elderly, student dormitories, and a new generation of boarding houses. This can effectively alleviate the pressure on the housing expenditure of the younger generation while giving the elderly a comfortable and dependable home.
- Willoughby, Leichhardt and the City of Sydney councils currently have implemented State Environmental Planning Policy No. 70—Affordable Housing (Revised Schemes), this affordable housing schemes require affordable housing provision for all residential developments within the scheme area [5]. Sydney implemented affordable housing contributions in Ultimo, Pyrmont, Green Square, and southern employment sites. Sydney's low-rent housing is built and managed by City West housing. Low-rent housing may include a range of accommodation types and sizes, including one or more bedroom units, homes, and studios. Applicable only in some areas, applicants must meet the eligibility criteria. Low-rent housing in New South Wales is usually managed by non-profit community housing providers and/or private organizations.

At the same time, however, government funding is limited, a large number of funds and land will need to be provided to complete the project, and it will take several months to build these houses. The process of house delivery and approval usually takes several days to complete. At the same time, it is very difficult and time-consuming to verify whether an applicant's qualification meets the requirements. Therefore, in the short term, it will not be able to quickly alleviate the current housing shortage and excessive housing prices.

2.2.4 Guide people to choose the right housing

Private property investors have become a major driving force in the housing price spiral in Sydney [1]. This can be explained from four aspects: lucrative investment environment; housing market speculation; aspirations to create wealth and financial security; and cultural influence [5]. Consumers often misunderstand that real estate investment is a stable and profitable sale. The purpose of their purchase is no longer as simple as living. For example, the parents of many wealthy international students buy a house or apartment abroad as a temporary residence and as an investment in the hope of making a profit when their children leave the country after graduation. Because Sydney has a large number of high schools and international students, this kind of opportunistic investment behavior potentially drives up the house price in Sydney.

Foreigners (temporary residents or non-residents) may apply to buy vacant land for residential development. But they can only choose to purchase new properties, they can not buy the established ones. Approval for new residential buildings is usually subject to certain conditions [11]. They also pay an application fee to the Foreign Investment Review Board (FIRB) of about 1% of the value of the house [Fig 3]. Not only that, but applicants also have to wait more than a month for the results of the application, and three to six months to prepare the loan materials and apply for the loan. The process is complicated and lengthy by the special status of the foreign buyer. Foreign buyers in NSW will also have to pay a total 12% stamp duty and a 2% land tax. Similarly, there are rules for what happens when foreign buyers sell the property.

Action type	Fee Payable
Acquiring an interest in residential land where the price of the acquisition is \$1 million or less (\$0 – \$1,000,000)	\$5,700
Acquiring an interest in residential land where the price of the acquisition is more than \$1 million and less than \$2 million (\$1,000,001 – \$1,999,999)	\$11,500
Acquiring an interest in residential land where the price of the acquisition is between \$2 million and less than \$3 million (\$2,000,000 – \$2,999,999)	\$23,100
Acquiring an interest in residential land where the price of the acquisition is between \$3 million and less than \$4 million (\$3,000,000 – \$3,999,000)	\$34,600
Acquiring an interest in residential land where the price of the acquisition is between \$4 million and less than \$5 million (\$4,000,000 – \$4,999,999)	\$46,200
Acquiring an interest in residential land where the price of the acquisition is between \$5 million and less than \$6 million (\$5,000,000 – \$5,999,999)	\$57,700
Acquiring an interest in residential land where the price of the acquisition is between \$6 million and less than \$7 million (\$6,000,000 – \$6,999,999)	\$69,300

Figure 3. fees for foreign investment applications for residential land. The Source: Australia's Foreign Investment Policy.

These strategies have effectively slowed the rise in house prices and increased the accessibility of homes for locals, who are more likely to be able to afford the price or rent of a home. Most real estate developers may oppose these price control strategies, which they believe hurt their legitimate interests. Because of these restricted purchase policies, sales of their houses have decreased.

- A short case study: China's purchase restriction policy

Since 2000, due to the increase of investors, China's housing prices have risen rapidly, which has a major impact on people's lives, economy and society. The Chinese central government issued a purchase restriction order in 2010 to control housing prices in the Chinese real estate market. This policy severely limits who can buy a house or apartment in each city, how many houses, and apartments people can buy, and how many down payments people have to pay. These policies have severely cracked down on real estate speculation to make profits, effectively slowing

down the rate of housing prices. These policies can be used as a reference when housing prices in Sydney are rising too fast.

3. Recommendation

Although the City of Sydney has been working to improve the affordable capacity of residential housing and to improve policies and regulations, there are still some areas worthy of improvement in the implementation strategy:

- Construction efficiency, quality, and safety are issues of concern. Workers' negative work attitude and poor housing quality are often hot topics in the news. The government and developers shall strengthen supervision over construction progress, quality, and disciplinary measures.
- The entire process of applying, approving, and purchasing a house is complicated and time-consuming. It is recommended to simplify the entire process and increase the efficiency of work. Therefore, most people in need can have a comfortable and warm living environment as soon as possible.
- The authority can increase housing subsidies for low-income families to ease the plight of low-income families who are unable to afford rent. The most direct financial subsidies can effectively reduce their housing pressure and increase housing affordability.
- Last but not least, all potential buyers and investors need to be informed that the real estate market will fluctuate. House prices will not rise blindly, and housing investment is not necessarily safe [1]. The considerable real estate development companies will mislead consumers with the slogan that the real estate will keep appreciating. The government should come forward to give consumers more clear information that the real estate market is not stable.

4. Conclusion

Housing problems have increasingly put tremendous pressure on abundant Sydney residents in recent years. The shortage of affordable housing and unhealthy property speculation have led to over-stress and low affordability for residents. The housing unaffordability and the social problems that it has generated have caused widespread concern.

To satisfy the people's demand for affordable housing, the government has implemented various strategic measures, for instance, direct subsidies for first-time home buyers, raising stamp duty to crack down on property speculation, more affordable housing, and low-cost housing for low-income and middle-income families. Although improving housing affordability is a long-term challenge for Sydney, it will allow residents to live in a reliable environment.

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