

# THE POLITICS OF HOT PRICES

MPs feel the heat but there is no easy fix to make housing affordable

GLENDA KORPORAAL  
TURI CONDON

Sydney real-estate agent Patrick Cosgrove was trying to help a couple who sold their house early last year for \$1.1 million.

"They were looking at upsizing to around \$1.5m," says Cosgrove who works in the Double Bay office of Raine & Horne. "But, as the year went on, they couldn't find anything they wanted, and by the end of the year the market had gone up so much that they found that \$1.5m would only buy something similar to their old house."

Cosgrove says the fear of being left behind by the fast moving house market in Sydney has created a climate where many homeowners are too nervous to sell their property before they have found another one, as they worry that being out of the market even for a few months will leave them further behind financially.

"People are trying to secure their new property before they put theirs on the market," he says.

The net result has been a cut-back in the volume of new housing coming on to the market, pushing up Sydney house prices to even more stratospheric levels.

"Volumes of housing on the market are down 50 per cent since this time last year," Cosgrove says.

"And that was already down on the year before.

"The net result is that the market is boiling hot with very low levels of supply and high demand."

While expert after expert has been predicting the rising supply of apartments in major capitals, particularly in Sydney and Melbourne, is set to herald a collapse in the housing market, Sydney's white-hot market and the contin-



Simon Armstrong and Rachael Kennedy are first-home buyers in New Farm, Brisbane; Queensland is the only state to post an increase in first-home buyers in the June 2016 quarter

CLAUDIA BAXTER

do "and I want to make sure that everyone else has that opportunity as well".

NSW Opposition Leader Luke

**Forced out of the Sydney market and into commuter belt**



looking at could see the Opera House or the Harbour Bridge and we still couldn't afford them," Knox said.

son said the strong growth in housing prices, particularly in Sydney and Melbourne, "has been driven by classic economic funda-

problem, including the length of time it takes to get planning approvals for new developments.

"There is a long, slow planning process which is slowing down the supply of new housing," he says.

He says Sydneysiders will have to accept their future is in apartments rather than houses, but like others he argues that improvements in transport would help the situation.

"Sydney now has a population of five million, heading towards eight million people.

"We are seeing a fundamental transition from a suburban environment to a more urban way of living," he says.

"Its residents need to accept a new model of living with greater density around transport modes

**'It would be a good idea for people to move from Sydney to other cities'**

HARRY TRIGUBOFF  
HEAD OF MERITON

and metro rail systems — like London, Paris, New York and many Asian cities."

He argues that Brisbane's big council area, which takes in a million people, makes new planning approvals much easier.

Grant Harrod, chief executive of real estate company LJ Hooker, produced a paper this week with suggestions on how to improve the housing affordability crisis.

"In Sydney, the average home costs 12 times the average household income, compared to only four times 20 years ago," he says.

He points out that NSW's stamp duty tax had increased by a "jaw-dropping 750 per cent" over the period.

He puts forward three policy suggestions for government, including removing NSW's high stamp duties, providing more affordable housing for lower income people and more decentralisation of government services.



ued strong market in Melbourne mean that housing affordability will be one of the hot-button political issues of the next few years at both state and federal levels.

This week incoming NSW Premier Gladys Berejilkian began her term by noting in her first press conference that housing affordability was "the biggest issue people have across the state".

The success of the O'Farrell and Baird Liberal-Nationals governments in reviving the once moribund NSW economy since the 2011 election — combined with near record low interest rates, high stamp duty costs, tight planning controls and a shortage of supply, and Sydney's growing attraction as a global city — has helped to push housing prices to new levels.

Researcher CoreLogic estimates that Sydney's prices have risen 69 per cent since the market trough of mid-2012, while Melbourne's prices are up 51 per cent over the same period.

A survey released this week by international research firm Demographia shows Sydney's housing prices are the second highest in the world out of a survey of 400 major cities, beaten only by Hong Kong.

The report's co-author, Hugh Pavletich, describes the issue as "remarkable", pointing out that almost five million of the state's 7.7 million population were crowded into Sydney. He argues that state and local governments in NSW have lost control of their costs and their capacity to properly finance new infrastructure.

In her press conference, Berejilkian promised to review all options to ease the situation.

"I want to make sure that every average, hard-working person in this state can aspire to own their own home," she said.

Owning a home, she said, was something she had worked hard to

Foley is now pushing for a summit to look at the issue of housing affordability.

The federal Labor Party began pressing the housing affordability button in last year's election, promising to address the problem by abolishing negative gearing on existing homes. Some argue that the policy would only make the situation worse by cutting out potential investors in the rental property market. But the policy is proving popular among lower to middle-income earners in Sydney and Melbourne with its appearance of offering an easy solution to the problem.

The Turnbull government is recognising that housing affordability is an issue it will have to address in the next election in 2019.

With its commitment to retain negative gearing, the Turnbull government is under increasing pressure to look at alternatives in order to be seen to be addressing the issue.

Housing affordability has worsened in Australia since the early 1980s.

The Organisation for Economic Co-operation and Development's housing price to income ratio in Australia jumped by 78 per cent between 1980 and 2015.

But the problem is largely in the cities, with prices in Sydney and Melbourne under the greatest pressure. Prices in Perth have come down with the collapse of the mining boom and the affordability issue is less pressing in Queensland than the two major southern states. In many rural areas, prices are depressed as people leave the land for the jobs in the big cities.

But the debate has become a national issue that could well influence the next election in the key swing areas of western Sydney and Melbourne.

RHIAN DEUTROM

**For Sydney couple Elie Knox, 26, and Adam Wiggins, 26, the dream of home ownership was frustrated for four years by the hot property market.**

**While living with Wiggins's parents in the northern beaches suburb of Mona Vale, the couple spent weekends driving around Sydney, searching for a property they could afford.**

**"We grew up wanting the great Australian dream, and to realise it wasn't going to happen for us was annoying," Knox said this week.**

**"We didn't really want to move, because all of our family and friends are here in Sydney.**

**"We could have bought a one-bedroom shoebox apartment and lived in it for the**

Suggestions this week by federal Nationals leader and Deputy Prime Minister Barnaby Joyce that people who could not afford to live within sight of the Sydney Opera House should think of moving to the country were met with howls of derision.

"If you've got the gumption in you and you decide to move to Charleville (in Queensland) — you're going to have a very affordable house," Joyce said.

Joyce's casual comments provided an opening for Opposition Leader Bill Shorten to hit back at the government, declaring that it was out of touch on the issue of housing affordability.

"There is little chance that this government will do anything serious about the question of housing affordability when senior ministers like Barnaby Joyce make silly statements about housing afford-

ability," Shorten said. He was backed up by Treasury spokesman Chris Bowen, who lives in Sydney's west, from where residents who cannot afford harbourside mansions often travel long distances into the city to get to work.

Bowen said moving wasn't an option for everyone: "It shouldn't



Adam Wiggins and Elie Knox made the move to the coast

next 50 years, but we didn't want to do that."

They didn't agree with the remarks of Nationals leader Barnaby Joyce, who urged home

hunters to move to the regions; Joyce said iconic big-city views could not be expected without a hefty price tag.

"None of the houses we were

But she conceded "it's about being realistic about what you want".

Searching for space for their pets and room to raise a family, the pair purchased a three-bedroom home on an 8000sq m property in Niagara Park, an hour out of the city, in 2015.

According to Knox, the housing market has made it "impossible" for young professionals to aspire to home ownership in Sydney proper.

"We're all working in full-time well-paid jobs — if we can't afford it, how will a university student, working their butt off, do it?"

"The silver lining is that we're all in the same boat, so most young people will end up out of the city, having a few bevvies on the decks of our three-bedroom homes".

He said people needed to live near their families and their jobs.

Addressing the housing affordability issue crosses state and federal lines.

In NSW there has been severe criticism of the state's high stamp duty charges and its land release and planning controls.

Tax is one policy lever that can be used by the federal government but there is also a renewed discussion of what can be done to generate more investment in lower-cost social housing.

Federal Treasurer Scott Morrison this week discussed the issue of affordable housing with British authorities.

"Improving housing affordability is a key policy goal for the Australian government," Morrison said as he prepared for his study tour.

Interviewed in Britain, Morri-

mentals, not as a result of speculative bubbles or financing issues".

"While that may have had some impact at the margins, the fundamentals are about supply."

Solving the problem, Morrison said, was about "increasing land releases, planning and systems, approvals and getting construction happening across the board".

"At the end of the day, it's about how you can build more houses, more units, more dwellings to meet the rising demand of a growing economy," he said.

But there is also a growing discussion of whether new financing policies can be put in place to encourage more investment in social or lower cost housing or to draw on investments from superannuation funds for new projects.

One option being considered by the Turnbull administration is a possible government-backed housing vehicle, like the Clean Energy Finance Corp, which could help with financing, possibly through the instrument of housing adfs for new projects.

While there is no magic wand to be waved, there is no shortage of advice being given to politicians on how to solve the problem.

Chris Johnson, chief executive of the Urban Taskforce, argues that the housing affordability problem is more of a Sydney issue than a national issue.

While thousands of new apartments are being built in Sydney, he says the new supply coming on to the market is just not enough to meet the demands of the city's growing population.

He estimates that Sydney's growing population needs to have about 37,000 new dwelling units a year: "Last year we only had 31,000."

Johnson blames specific state and city issues in Sydney for the

Developers and property companies complain about planning approval processes around the country.

Mark Steinert, who heads the country's biggest residential developer, Stockland, says he has 2000 lots waiting to be registered and to settle. "We still have across the country, and particularly in Sydney and Melbourne, very inefficient planning and very disconnected processes between state government, local government, utilities and authorities."

All of this compounds the lack of supply and affects the cost of housing, Steinert argues. The developer argues that affordability is all about the supply of homes.

"Outer Melbourne has had good supply and that's why a house and land package in the growth areas of Melbourne is half that of Sydney," he says, citing prices of around \$400,000-\$450,000 in Melbourne compared with \$850,000 to \$1 million for a similar new home on Sydney's outskirts.

Steinert also believes the federal government can play a greater role in solving the problem.

"Federally, they can use programs like Smart Cities (an urban planning project that includes partnerships with the private sector and grants) to allocate funding," he says.

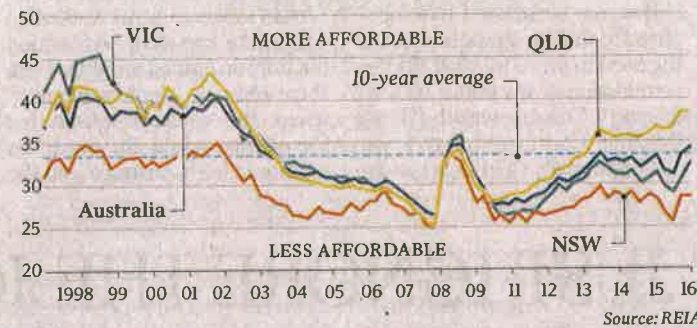
Australia's biggest apartment builder, Meriton's Harry Trigu-boff, supports the idea of policies to encourage more decentralisation.

Australia's richest man, with a fortune estimated at \$10.6 billion, says he does not see Sydney becoming cheaper.

"I think it would be a good idea for people to move from Sydney to other cities and towns."

There is no single solution to the problem but this week's events show the issue is now on the political front burner for both parties.

#### Affordability on the slide



ability," Shorten said. He was backed up by Treasury spokesman Chris Bowen, who lives in Sydney's west, from where residents who cannot afford harbourside mansions often travel long distances into the city to get to work.

Bowen said moving wasn't an option for everyone: "It shouldn't

be this government's only answer when it comes to housing affordability."

The comments by both Berejilkian and Joyce, as the year's housing auction markets begin to gear up, gave Bowen another chance to argue the merits of Labor's negative gearing policies.