
03.

# Housing, home ownership and household savings

## The housing market plays an important role in the living standards of the people of New South Wales. It impacts the State's economic growth and individuals' quality of life.

Stable and affordable housing is critical to economic security and to our physical and mental wellbeing. It provides the physical structure of our communities and can impact access to jobs and services. An efficient housing market strikes a balance between providing people with a secure home and allowing them to move easily when they want to. Housing is also typically the biggest investment a person makes in their lifetime, the largest form of savings, and the foundation for a secure and independent retirement.

Up to 2060-61 we project New South Wales will need 1.7 million additional homes for a growing population, equivalent to one new home for every two existing homes. This is a significant task and will require an average of 42,000 additional homes to be added to the housing stock every year.

Housing deposits have become less affordable over recent decades, with the typical time it takes to save for a home deposit increasing from 6.6 years in 1995-96 to 11.5 years in 2019-20. Along with declining workforce participation amongst younger people, this has contributed to a decline in homeownership rates for all but those aged over 65. If enough new housing is built, the deposit barrier is projected to decline over the coming decades as interest rates increase from record low levels.

The housing challenge over the coming decades is to build enough homes for people to live in, to support access to housing that is more affordable, and to ensure that the housing market is flexible enough to respond to people's changing needs and preferences.

**By 2060-61, NSW will need**

**1 NEW HOME**

**for every 2 current homes**

### By 2061:

NSW will need

**1.7 MILLION**

additional homes

NSW needs an average of

**42,000**

additional homes every year over the next 40 years

Number of people per household:

**2.3**

(down from 2.5 today)

**29%**

of households will be single people (up from 25% today)

# 3.1 The changing shape of the housing market

### Housing matters for the economy and people's living standards

Housing is a basic human need and a key component of our quality of life. Where people live impacts their access to work, education, and community. NSW households spend nearly a third of their disposable income on housing, more than on any other single item.[37] Housing also directly supports employment, with building construction and real estate accounting for around one in every ten jobs.[38]

When there is not enough housing, it becomes less affordable. This puts pressure on household budgets, increases demand for social housing and can lead to an increase in homelessness. If housing is not available in the right places, it becomes more difficult for people to access jobs and can increase the length of the daily commute.

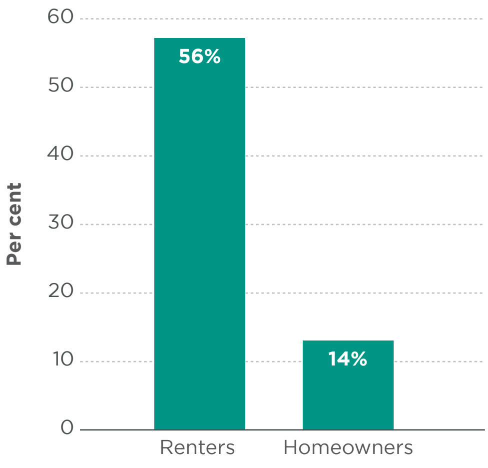
The structure of our housing market has a significant impact on our lives. Chart 3.1 shows that the majority of renters have moved at least once in the past two years, compared with 14 per cent of homeowners. Renters also move for work-related reasons at three times the rate of homeowners,[39] indicating that some homeowners may be forgoing job opportunities or participating in the workforce at all.

This 'mobility gap' between homeowners and renters in Australia is the highest in the OECD[40] and is driven by many factors: stamp duty increases the cost of moving for all homeowners; selling the family home can impact eligibility for the age pension; and the regulations and structure of the rental market can sometimes lead to renters being required to move more frequently than they would prefer. Renters also tend to be younger and younger people move more often.[41]

## This 'mobility gap' between homeowners and renters in Australia is the highest in the OECD.

Reducing the barriers to moving for homeowners, for example through reforming the State's property tax system, would allow people to more easily pursue new job opportunities, be closer to friends and family, and ensure their property best suits their stage of life.

**CHART 3.1:** PROPORTION OF NSW HOUSEHOLDS WHO HAD MOVED IN PREVIOUS 2 YEARS




Source: HILDA 19.0 and NSW Treasury.

[37] 29 per cent of household disposable income in 2015-16 (latest data release). Source: ABS 6530.0.

[38] Includes employment in construction (excluding heavy and civil engineering construction); and property operators and real estate services. Source: ABS 6291.0.

[39] ABS 4130.0.

[40] Kelly, J-F., Hunter, J., Harrison, C., Donegan, P., *Renovating Housing Policy*, Grattan Institute, Melbourne, 2013.

[41] There is still a substantial mobility gap after controlling for age and household composition. Source: HILDA 19.0 and NSW Treasury.

### Record housing construction and COVID-19-related international border closures have reduced the housing undersupply

There have been significant changes in the NSW housing market in recent years. The 2016 NSW Intergenerational Report showed that a housing undersupply had developed in Sydney. For an extended period through the late 2000s and early 2010s, the amount of new housing being built was not enough to keep pace with population growth. This occurred alongside rapid increases in the price of housing and the reversal of a decades-long trend toward fewer people per household.

Since that time, however, the rate of housing construction has been high, with the total number of homes in the State increasing by an average of 57,000 each year. These new homes, combined with reduced population growth from COVID-19-related international border closures, have made inroads into the housing undersupply.

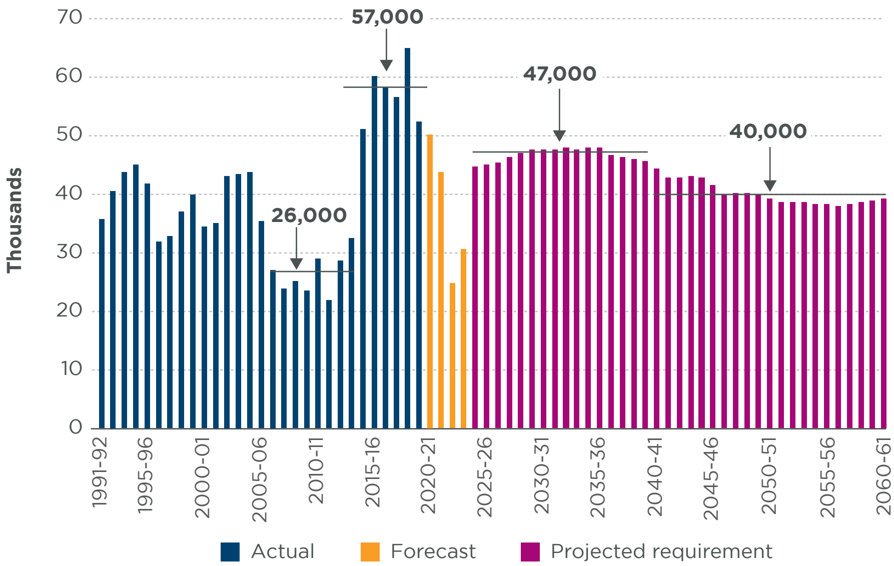
### Despite recent inroads into housing undersupply, the housing task in New South Wales remains large with an additional 1.7 million homes needed by 2060-61

New South Wales will need to build another 1.7 million homes by 2060-61 equivalent to one new home for every two existing homes. This increase is the amount required to meet the needs of a growing population where fewer people will live in each home because of ageing and lifestyle changes. To meet housing demand, we will need to add an average of 42,000 homes every year for the next four decades. In the short term, we expect construction to slow, since border closures have slowed population growth and economic activity. However, population growth will bounce back, and we will need to add an average of 47,000 homes over the 15 years to 2040, and an average of 40,000 over the following two decades (Chart 3.2).

This construction rate will be a significant challenge. The record high construction activity of recent years has been a result of a concerted effort to increase planning approvals and build enabling infrastructure in priority precincts. Developers were also incentivised by strong housing price growth, which was itself partly driven by the accumulated undersupply. A similar focus could be difficult to sustain over the coming decades, particularly as vacant land becomes more scarce which increases the need for development in areas that have already been built up. Without this focus, however, the State would risk declining housing affordability, increasing household size and an increase in the number of people leaving for more affordable housing in other states.

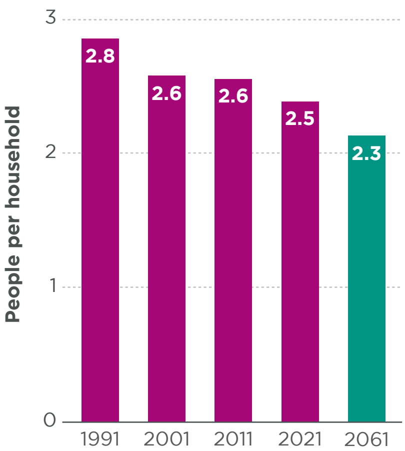
By 2060-61, we project the average number of people per household to fall to 2.3, down from 2.5 today (Chart 3.3). There are projected to be more people living by themselves and fewer families with children (Chart 3.4). This is being driven by the ageing of the population, declining fertility rates and increasing household incomes.

**CHART 3.2:** NET ADDITIONS TO NSW HOUSING STOCK: ACTUAL AND PROJECTED REQUIREMENT



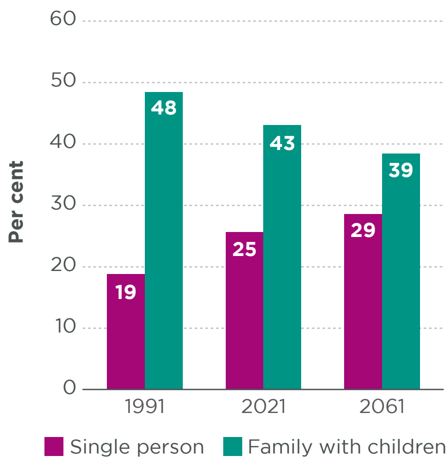

Source: ABS Census, ABS 8752.0 and NSW Treasury.

**CHART 3.3:** AVERAGE NUMBER OF PEOPLE PER NSW HOUSEHOLD




Source: ABS Census and NSW Treasury.

**CHART 3.4:** COMPOSITION OF NSW HOUSEHOLDS – SELECTED HOUSEHOLD TYPES




Source: "Family with children" includes single parent and two parent households with children. Source: ABS Census and NSW Treasury.

### Most housing will be built in Sydney, Newcastle, Wollongong and the Central Coast

The challenge of building enough homes will be concentrated in the cities where nearly three quarters of the State's population live and which have 70 per cent of the housing stock. We expect 86 per cent of New South Wales' population growth over the next 20 years will be in Greater Sydney, with an additional 8 per cent in Newcastle, Wollongong, the Central Coast and Lake Macquarie. Around one third of new housing is projected to be in the form of apartments as the typical number of people living in each home decreases, and undeveloped land in our cities becomes more scarce. This compares with the current 20 per cent share of homes that are apartments.

### Strategic planning will play a key role in meeting the housing supply challenge

The Greater Sydney Commission's Metropolis of Three Cities, published in 2016, sets out the NSW Government's strategic planning framework to build 725,000 new homes across Sydney by 2036. Strategic planning helps to ensure that we can accommodate population growth by building sufficient houses with the right infrastructure, including schools, hospitals, and green space for our communities. There is a need for ongoing commitment by both the NSW and local governments to ensure that these housing targets are identified and met, and that the broader objectives of the plan to create a connected and liveable city are achieved.

Meeting this housing challenge will also require a planning system that is responsive and can provide timely approvals. This is why the 2020-21 Budget included $570 million to support the delivery of the NSW Government's Planning Reform Action Plan to reduce assessment timeframes and provide greater transparency to the community.

Across the State, planning for 1.7 million new homes will also need to account for climate risks. Modelling for this report indicates that by 2060-61 between 39,000 and 46,000 homes will be exposed to inundation and coastal erosion due to rising sea levels. It also shows that the risk of floods could increase by up to 12 per cent (see Box 2.3 in Chapter 2).[42]

## **Box 3.1:** The impact of flexible working on urban structure

The increasingly flexible nature of work could affect where people choose to live and the type of property they live in. In response to the COVID-19 pandemic, 46 per cent of the NSW workforce were working from home by May 2020.[43] For many, this change has since morphed into a hybrid model of work, with work conducted both at home and in the office.

The NSW Innovation and Productivity Council suggests that up to 30 per cent of all work could be done remotely in the future, up from 18 per cent prior to the pandemic. Employers in Sydney are more likely to come under pressure to offer remote work, given that Sydney businesses offer high wages while living expenses such as house prices are lower in regional, rural and outer suburban areas.

Modelling for this report indicates that if a greater proportion of people continue to work from home after the pandemic, more people may choose to live further away from the CBD. This would partially soften the price premium associated with living close to the CBD and increase demand for property in the outer suburbs and regions such as the Central Coast and Illawarra. In an illustrative scenario where half the workforce shifts to working from home two days per week, average housing costs would be 22 per cent lower compared with a baseline where nobody works from home.[44]

[42] NSW Treasury, *An Indicative Assessment of Four Key Areas of Climate Risk for the NSW Intergenerational Report, 2021 Intergenerational Report* Treasury Technical Research Paper Series, TTRP 21-05, 2021.

[43] NSW Innovation and Productivity Council, *NSW Remote Working Insights: Our experience during COVID-19 and what it means for the future of work*, Council Research Paper, Sydney, 2020.

[44] These results are explored in further detail in: NSW Treasury, *Sensitivity Analysis on Sydney's Urban Structure and House Prices for the 2021 Intergenerational Report, 2021 Intergenerational Report* Treasury Technical Paper Series, TTRP 21-04, 2021.

# 3.2 Saving for a secure and independent retirement

### Household savings peak around retirement age

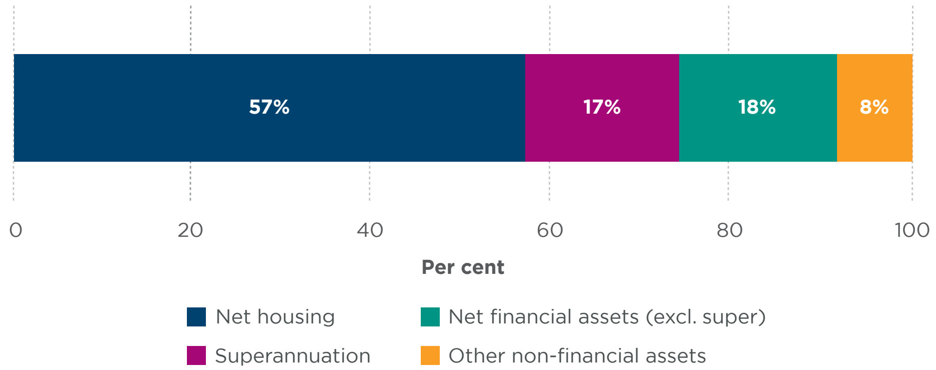
As set out in Chapter 1, the NSW population is ageing and the age dependency ratio is increasing — over the next 40 years there will be more people aged over 65 years for each working age person. Boosting household saving puts individuals in a better financial position for retirement and reduces their reliance on government support such as the age pension and social housing.

Most people save throughout their working lives and household wealth peaks around retirement age. From this point households use these savings to support living expenses in retirement. A key driver of household wealth is how much we earn through our working lives, with those earning more generally experiencing more financial independence in retirement.

### Housing is the main source of wealth for most households

Home ownership is the main source of wealth for households in New South Wales, comprising 57 per cent of average net wealth (assets minus debts). In contrast, superannuation comprises just 17 per cent of net household wealth, less than a third of housing (Chart 3.5).

**CHART 3.5:** COMPOSITION OF NSW HOUSEHOLD WEALTH




Source: Housing includes owner occupied and investment housing assets less housing-related debt. Financial assets includes bank account balances (including offset accounts), incorporated and unincorporated businesses, shares and trusts less non-housing related debt. Non-financial assets includes home contents and motor vehicles.

Source: ABS 6523.0 and NSW Treasury.

### Non-homeowners have significantly lower incomes in retirement compared with homeowners

On average, retirees who own homes have higher material living standards than renters. This group tends to have higher incomes and the added advantage of homeownership lowers their living costs — 84 per cent of homeowners over 65 have paid off their mortgage,[45] while non-homeowners over 65 renting in the private market typically paid $14,000 per year in rent.[46] This is a large share of retirement income, particularly for those without much superannuation to supplement the aged pension and Commonwealth rental assistance. Due to these pressures, 37 per cent of households over 65 who are not homeowners live in social or community housing.[47] The disparity in disposable income between homeowners and non-homeowners over 65 is stark, with homeowners of this age typically having more than two and a half times the income of non-homeowners (Chart 3.6).

**CHART 3.6:** MEDIAN HOUSEHOLD INCOME LESS HOUSING COSTS BY HOMEOWNERSHIP STATUS (HOUSEHOLDS WITH REFERENCE PERSON AGED 65 AND OVER)

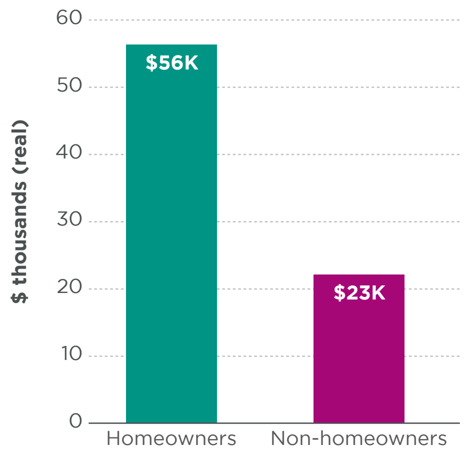
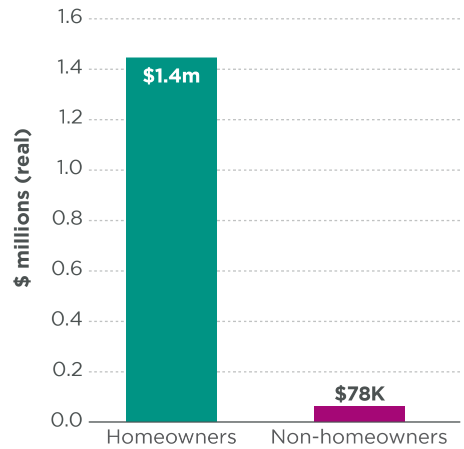



**CHART 3.7:** MEDIAN HOUSEHOLD WEALTH BY HOMEOWNERSHIP STATUS (HOUSEHOLDS WITH REFERENCE PERSON AGED 50-64)




Incomes and wealth for NSW households in 2018-19 expressed in real 2019-20 dollars. Income is gross household income less taxes and housing costs. Source: HILDA 19.0 and NSW Treasury.

[45] NSW households with reference person aged over 65. Source: ABS Census 2016.

[46] Median rent for NSW households with reference person aged over 65 renting in the private market in 2018-19. Source: HILDA 19.0

[47] ABS Census 2016.

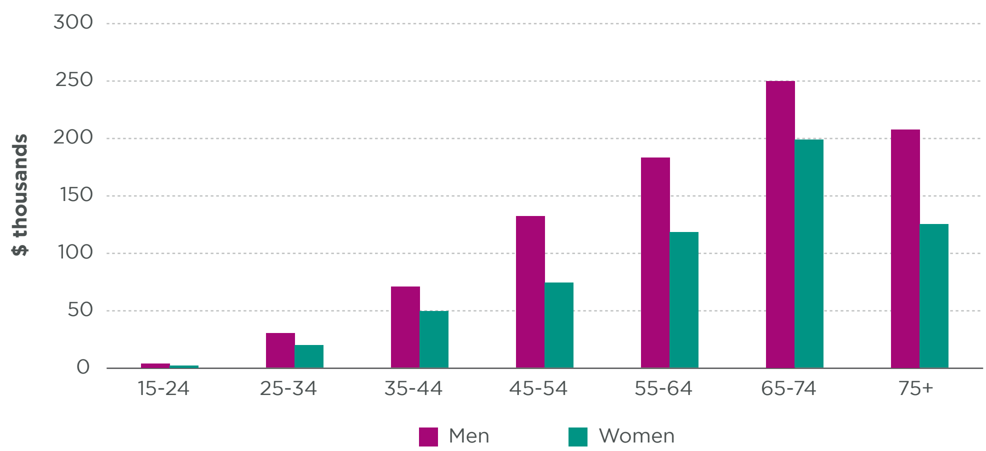
### Superannuation can provide additional disposable income but is not evenly distributed

Owning a home outright in retirement provides financial security and significantly reduces housing costs, but owner-occupied housing does not generally provide additional cash income. In contrast, superannuation savings provide cash income to retirees, instead of, or in addition to the pension. At present, superannuation is not commonly used as an alternative source of wealth to homeownership — non-homeowners generally have lower superannuation balances than homeowners. For households aged 50-64, the median household wealth of homeowners was $1.4 million in 2018, compared with just $78,000 for non-homeowners (Chart 3.7). This disparity reflects that homeownership is closely associated with wealth inequality. This age cohort has not benefited from compulsory employer superannuation contributions throughout their entire working lives, which suggests the potential for this gap to narrow in the future.

Superannuation balances also differ significantly between men and women. Lower average wages and workforce participation have resulted in women having around two thirds the superannuation savings as their male peers (Chart 3.8).

More generally, the same factors which impact homeownership also impact superannuation balances. Those on lower incomes throughout their lives are less likely to own their own home by retirement and will generally have lower superannuation savings as well.

**CHART 3.8:** MEDIAN SUPERANNUATION BALANCES BY AGE AND GENDER (AUSTRALIA)




Balances as of 2017-18. Source: ABS 6523.0 and NSW Treasury.

# 3.3 Trends in housing affordability and home ownership

**Deposits have been growing faster than incomes, while mortgage repayments have grown in line with incomes**

Saving for a deposit is one of the biggest barriers to home ownership. In 1995-96, a median income household took 6.6 years to save for a deposit on a typical home, including 0.7 years to pay stamp duty. By 2019-20, this had nearly doubled to 11.5 years, including 1.8 years to pay stamp duty, as house prices grew much faster than incomes over this period (Chart 3.9). This is why the NSW Government has supported 136,000 first home buyers to enter the housing market through exemptions to stamp duty since 2017, as well as providing 33,000 first homeowner grants.[48]

In contrast to deposits, mortgage repayments — another key indicator of housing affordability — have not grown faster than household incomes.

In 1995-96, a median income household would have spent 38 per cent of their income on mortgage repayments on a newly purchased median priced home, where by 2019-20 this had actually declined to 33 per cent (Chart 3.10). Over the same period, the discounted variable mortgage rate declined from 10.2 per cent to 4.1 per cent, which was more than enough to offset the increase in house prices over the same period.

Declining interest rates alongside a supply-constrained housing market such as New South Wales', have been the primary drivers of the strong housing price growth experienced over recent decades. This is because, in a supply-constrained market, households are generally willing to spend as much as they can afford on housing and lower interest rates increase the amount households can afford to repay.

**CHART 3.9:** YEARS TO SAVE FOR A DEPOSIT

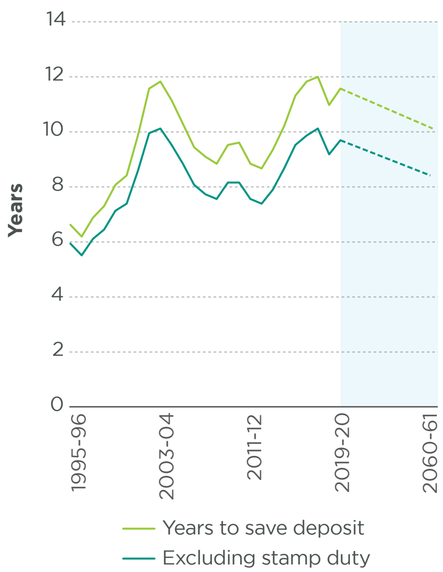
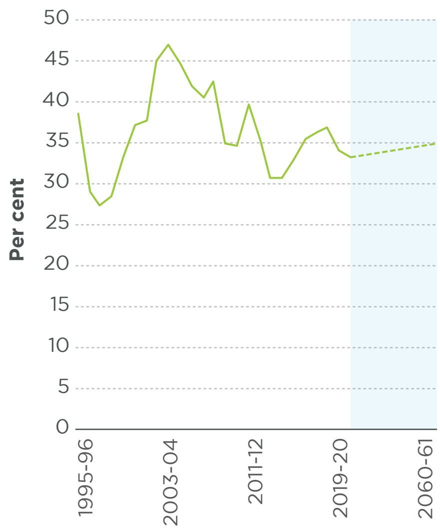



**CHART 3.10:** NEW MORTGAGE REPAYMENT TO HOUSEHOLD INCOME RATIO




Deposit based on a median income household saving 15 per cent of income for a 20 per cent deposit on the median priced NSW home. Mortgage repayments based on repaying a 30-year mortgage at an 80 per cent loan to valuation ratio on a newly purchased median priced NSW home at the discounted variable interest rate, expressed as a proportion of the median gross household income.

Source: CoreLogic, RBA, ABS 6523.0 and NSW Treasury.

[48] As of March 2021.

### Future housing price growth will depend on interest rates as well as housing supply

Interest rates are projected to increase over the coming decade as the economy recovers from the second major global economic shock in under 15 years. This will have significant implications for the housing market. By 2060-61, we project the deposit barrier to be slightly lower than today at 10.0 years, while mortgage repayments on a new home are projected to account for around a third of household income, similar to current levels. This projection is highly sensitive to interest rates and to housing construction activity being sufficient to meet underlying demand.[49]

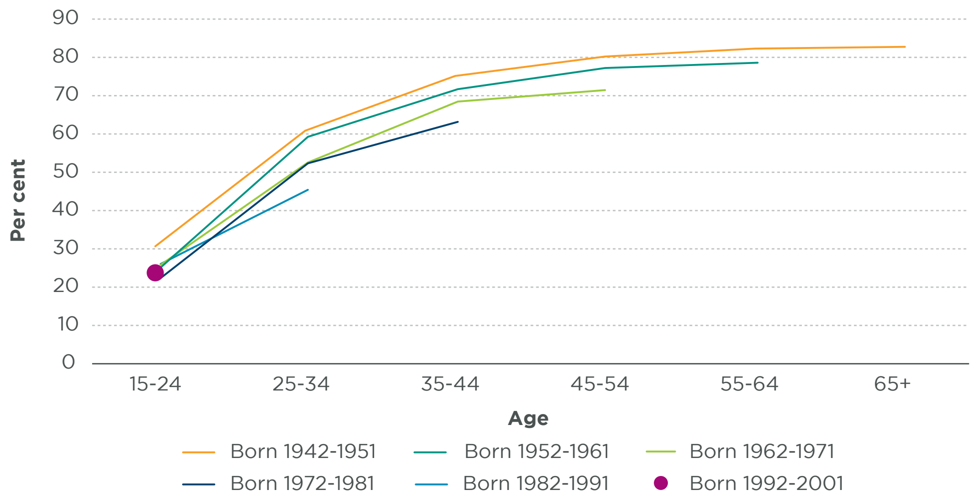
### Trends in home ownership

The share of people who owned a home in New South Wales peaked at 70 per cent in 1966 following a significant expansion after World War II. In the 50 years since 1966, the home ownership rate in both New South Wales and Australia remained relatively stable, although over the past decade it has started to decline and was lower at the 2016 Census than at any time since 1954.

The overall trend has also masked some more dramatic underlying trends in home ownership across generations. The homeownership rate has declined for each generation since the baby boomers (Chart 3.11). For example, 60 per cent of people born between 1942 and 1951 (early baby boomers), owned homes by age 25-34. This dropped by 15 percentage points to 45 per cent for those born 1982 to 1991. Furthermore, the decline in home ownership rates at younger ages has persisted through life, suggesting that the decline may not represent a delay but could instead be a permanent shift. This decline has been driven by the increasing deposit barrier, as well as other social and demographic trends.

The outlook for home ownership rates is uncertain. Our forty-year projections include a return to higher interest rates, which would result in a lower deposit barrier if housing supply keeps up with underlying demand (as set out in Chart 3.2). However, lower workforce participation for those aged 15-24 (as outlined in Chapter 2) will make it harder for young people to save for a deposit early in life and there are a range of possibilities around the adoption of remote working capability which could impact house prices (Box 3.1).

**CHART 3.11:** HOMEOWNERSHIP RATES BY AGE AND BIRTH YEAR COHORT (AUSTRALIA)




Homeownership rates by age of household reference person. Rate shown for 1942-51 birth year cohort aged 65+ includes those born earlier than this cohort.

Source: ABS Census, Yates J., "Trends in home ownership: causes, consequences and solutions", Submission to the Standing Committee on Economic Inquiry into Home Ownership, June 2015; and NSW Treasury.

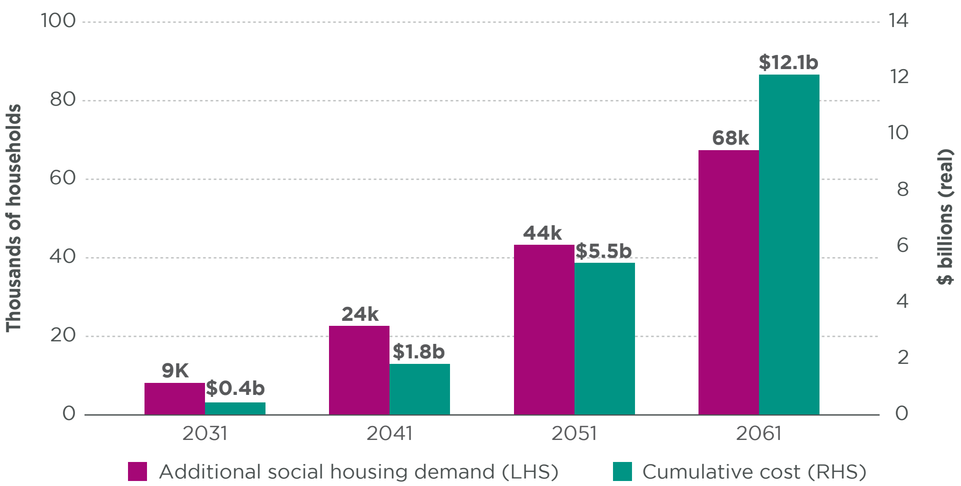
[49] The interest rate outlook is explored in more detail in: NSW Treasury, *Secular Stagnation, the Long-Term Real Bond Rate Outlook and Policy Issues for NSW and Australia*, 2021 Intergenerational Report Treasury Technical Research Paper Series, TTRP 21-06, 2021.

## The relationship between social housing demand and home ownership

Further declines in the homeownership rate would impact the wellbeing of those who miss out on owning their own home. It would also have potential to impact the NSW Budget. If the trends of the past four decades were to continue over the next four, the homeownership rate would decline from 66 per cent today to 58 per cent by 2060-61. Amongst those over 65 who have traditionally had very high home ownership rates, the home ownership rate would decline 10 percentage points to 70 per cent.

If those who retire without owning a home require social housing at a similar rate to today's retirees, this would increase demand for social housing by 68,000 households by 2060-61. Meeting this demand would cost an additional $12.1 billion (real 2019-20 dollars) between 2020-21 and 2060-61 (Chart 3.12). There would also be consequences if this demand is not met, with those on the social housing waiting list typically experiencing acute housing stress.

**CHART 3.12:** ADDITIONAL SOCIAL HOUSING DEMAND IF HOMEOWNERSHIP CONTINUES TO DECLINE (HOUSEHOLDS AGED 65+ ONLY)




Demand for social housing from households with a reference person aged over 65 under scenario where homeownership continues to decline in line with historical trends (per Chart 3.11) and the same proportion of non-homeowners over 65 demand social housing (37%). Chart shows additional demand for social housing dwellings and cumulative cost of provision from 2020-21 if demand is met compared to a baseline scenario with no change in homeownership rates.

Source: NSW Treasury.

# 3.4 Property tax reform

### The problems with stamp duty

Stamp duty is a form of taxation that discourages people from buying a home and from moving home. Stamp duties are expensive, with homebuyers typically needing to pay around 4 per cent of the property price, which is over $40,000 for a median priced Sydney property. Stamp duty also distorts the commercial property market, which means that the economy is not making the best use of land.

Moving away from stamp duty would provide benefits to individuals and the wider economy. For individuals, removing stamp duty would make it much easier to move home, whether it be for a new job, to be closer to friends and family, or to move into housing more suitable for their stage of life. Increased labour mobility would reduce geographical barriers to employment, resulting in improved participation and productivity and lower unemployment. The reduction in stamp duty would lower housing deposits, which are a key barrier to home ownership, and would therefore support higher homeownership rates. Home ownership is the foundation of a secure and independent retirement and also reduces reliance on government support, for example social housing.

### A proposed way to rethink property transactions

The discussion paper *Creating Jobs And Securing Our Future*, released after the 2020-21 Budget, outlines a reform option for consultation that would replace stamp duty and land tax with a much smaller annual property tax. Buyers would be able to choose to pay property tax or stamp duty. To manage the impact on NSW Government revenues, those purchasing the most expensive properties would not be able to opt into the new property tax system immediately.

In the initial years, the reform would be costly for the NSW Government, forgoing significant amounts of stamp duty and acting as a form of economic stimulus. Revenue from the increasing numbers of people paying property tax would in time replace the stamp duty forgone.