

Housing Strategy Implementation Unit  
 Land and Housing Corporation  
 NSW Department of Planning, Industry and Environment  
 Ashfield BC, NSW 1800

Compass Housing Services (Compass) welcomes the opportunity to provide feedback on the NSW Housing Strategy Discussion Paper.

Compass is a Tier 1 Community Housing Provider with almost 6000 properties under management across New South Wales from Sydney to Broken Hill. Our vision is for a world in which all people have appropriate and affordable shelter and are engaged in sustainable communities.

We would like to congratulate the NSW Government on its commitment to the creation of a holistic housing strategy and respectfully offer the following observations and feedback.

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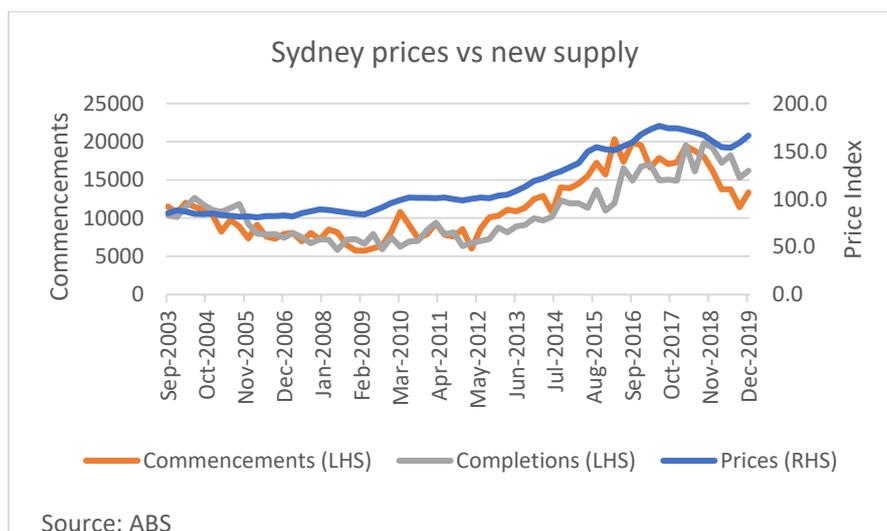
General observations:

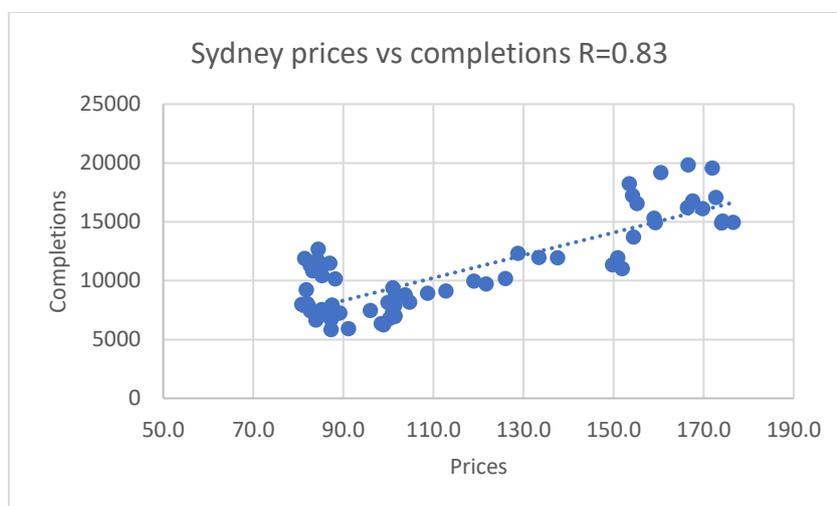
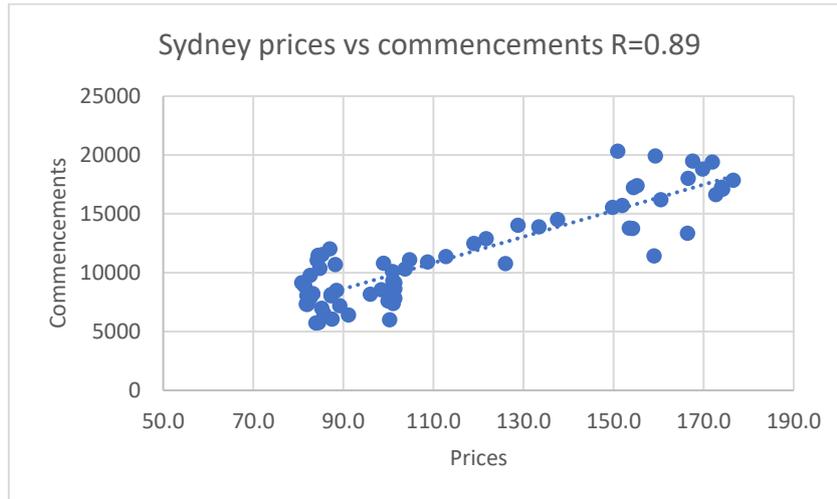
Alignment with Sustainable Development Goals

Compass believes any long-term plan for housing should incorporate the United Nations Sustainable Development Goals (SDGs). The SDGs are a globally accepted framework for sustainable development. We note that the NSW Office of Environment and Heritage supports the SDGs through its Sustainability Advantage Program and believe aligning the objectives of the NSW Housing Strategy with the SDGs, in particular SDG 11: Sustainable Cities and Communities, is a logical way to ensure maximum impact and relevance.

A question of supply and demand

It is not necessarily accurate to describe capital city housing markets as being subject to the forces of supply and demand as commonly understood. In reality, increasing supply has almost no discernible deflationary impact on dwelling prices. In fact, the correlation between new supply prices and new supply is strongly positive, i.e. increasing supply is associated with increasing prices and vice versa.





There are several reasons for this. The first involves the way property development is financed in Australia. Due to financiers' insistence on a high proportion of pre-sales, the vast majority of new dwellings in Australia have been sold before they even exist, meaning new supply is only ever a function of existing demand. Second, purchases of newly built dwellings comprise only a small fraction of all property transactions making it impossible for new supply to do more than partially offset any given increase in demand. And finally, demand for housing does not respond to price signals the way a conventional supply and demand model would predict. On the contrary, in the housing market, where the good in question is one of the necessities of life and has no realistic substitute, increasing prices often stimulate *more* demand, not less, as FOMO fuelled first home buyers look to get in "before things gets even worse", and investors are incentivised to maximise their potential profit by buying sooner rather than later. Whether that heightened demand translates into purchases is largely a question of people being able to access the necessary amount of debt.

### The role of government

It is important not to overlook the extent to which well-intentioned government interventions in the Australian housing market have contributed to the decline in affordability. Many of these interventions, such as generous tax breaks for investors and overly accommodative monetary policy, are obviously beyond the control of the NSW Government, however there are several areas in which

policies enacted at the state level have exacerbated the problem. Demand-side stimulus such as first home buyer grants for instance, have been repeatedly proven to be not just ineffective but counterproductive<sup>1</sup>.

Affordability is also negatively impacted by government dependence on stamp duties which increase the up-front costs of home ownership. By inflating the upfront costs, stamp duty can also result in buyers having to take out a larger mortgage, resulting in higher repayments and, potentially, the need to purchase lenders' mortgage insurance. Additionally, because they are effectively a tax on transacting, stamp duties can discourage people from relocating or downsizing, even if it would otherwise be in their interest to do so.

It is encouraging to see many of these issues opened up for discussion in this discussion paper. Below are some more specific observations and information which we hope will prove useful in the development of the final strategy document.

## Theme 1: Supply

### The impact and distribution of population growth

The comparison with the other global cities which also have increasing populations of questionable validity. The truth is that Sydney's population growth rate of 1.7% per annum is substantially higher than almost anywhere else in the developed world outside Australia.

	Average annual rate of change (percentage)	
	2000-2018	2018-2030 (projected)
New York City	0.3	0.5
Los Angeles	0.3	0.5
London	1.2	1.0
Paris	0.6	0.6
Berlin	0.3	0.1
Rome	0.7	0.4
Madrid	1.4	0.5
Amsterdam	0.7	0.6
Tokyo	0.5	-0.2
Seoul	0.0	0.2
Hong Kong	0.6	0.6

Source: United Nations

And, according to the most recent US Census, the populations of New York, Los Angeles and Chicago are all shrinking.<sup>2</sup> So the idea that population growth on the scale experienced by Sydney over the past 10 years is simply part and parcel of being a "global city" is, at the very least, contestable.

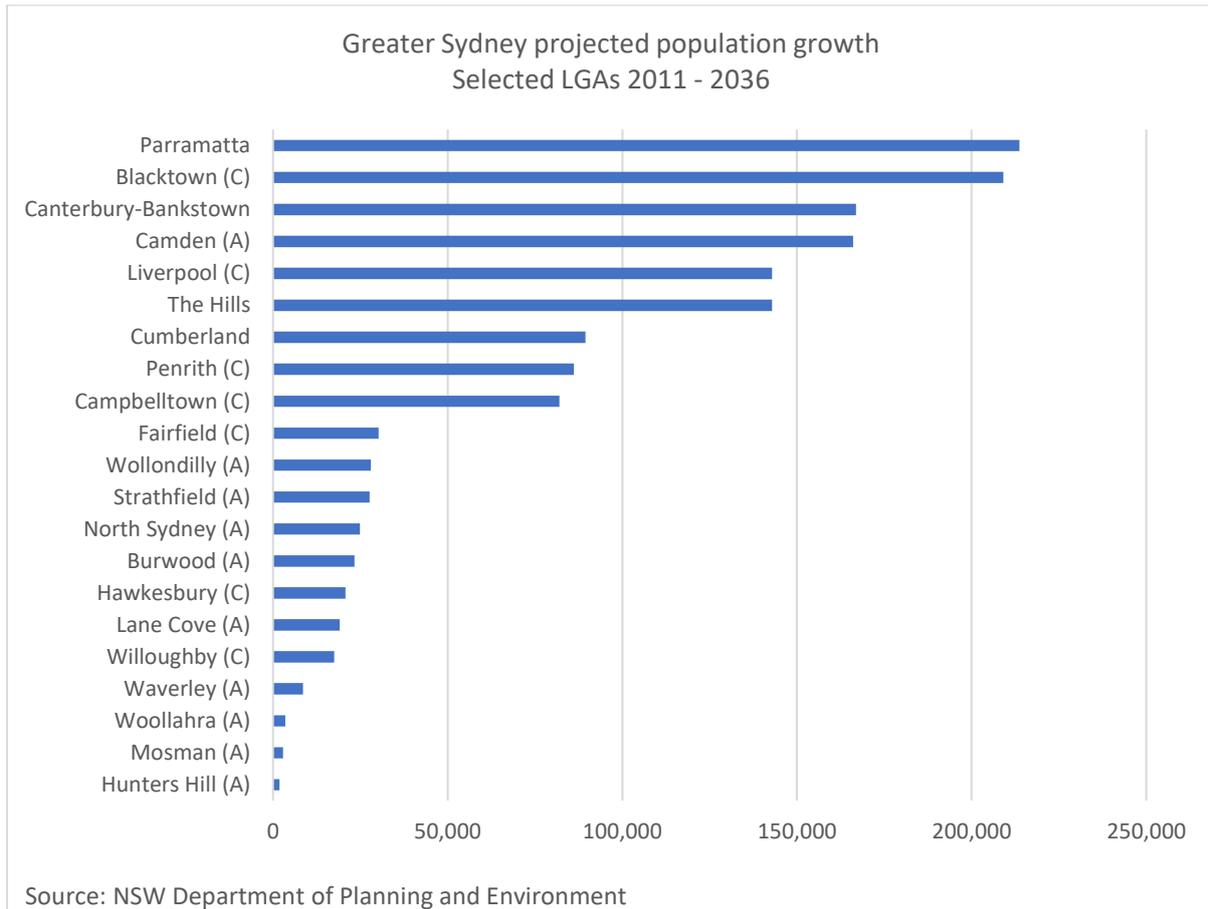
It is also worth revisiting the way in which both rapid population growth, and the attendant increase in housing density are framed as being inevitable, rather than simply as the result of deliberate

<sup>1</sup> See Malo & Burke, 2020

<sup>2</sup> See Hendrix, 2020

policy decisions which could be reversed with the stroke of a pen (or via “black swan” events such as Covid-19).

There are also questions about the equity of the geographic distribution of the projected density increase. There seems no reasonable explanation as to why the western “River” and “Parkland” parts of Sydney are set to experience the overwhelming majority of the development, while the eastern “Harbour” area of the city remains largely unchanged.



### Regional housing

Although regional areas are expected to grow much more slowly than Sydney, that does not mean residents in those areas are immune from housing stress. Analysis conducted by Compass Housing using its proprietary Affordable Housing Income Gap model has revealed that, unlike regional areas in most other states, some parts of regional NSW are characterised by extremely unaffordable housing. The impact is particularly hard felt in popular tourist destinations such as Byron Bay where the local rental market has been cannibalised by short-term letting platforms like Airbnb. Prior to the pandemic, a study from the University of Sydney found more than 17% of the total housing stock in the Byron Shire was listed on Airbnb<sup>3</sup>. According to Compass’ analysis, four of the 10 least affordable rental markets in NSW are located outside metropolitan Sydney<sup>4</sup>.

<sup>3</sup> See Gurran et al, 2018

<sup>4</sup> See Kennedy, 2020

### Supply targets

The strategy would benefit from clearly defined targets for the delivery of new social and affordable housing, based on current and projected levels of demand in various locations. In developing these targets it will be important to recognise that official waiting list figures very likely underestimate the true level of need. A report published by Compass in 2019 based on income data from the 2016 census and current social housing eligibility criteria estimated that the true level of need in NSW could be more than three and a half times higher than the number of households listed on the waiting list.<sup>5</sup>

The lack of supply targets is part of a broader gap in terms of policy objectives making it difficult to establish what success looks like.

### The role of community housing providers

Compass welcomes the states commitment to partnering with the community housing sector to better utilise government land and increase the supply of dwellings. However the strategy would benefit from greater recognition that many tier 1 CHPs are already leveraged close to their maximum capacity under various NHFIC and commercial bank covenants meaning their ability to contribute meaningfully to new supply is likely to be quite constrained in the absence of increased cashflow arising from further property transfers.

## Theme 3: Affordability

This section of the discussion paper does an outstanding job of laying out the various components of the state's affordability challenge.

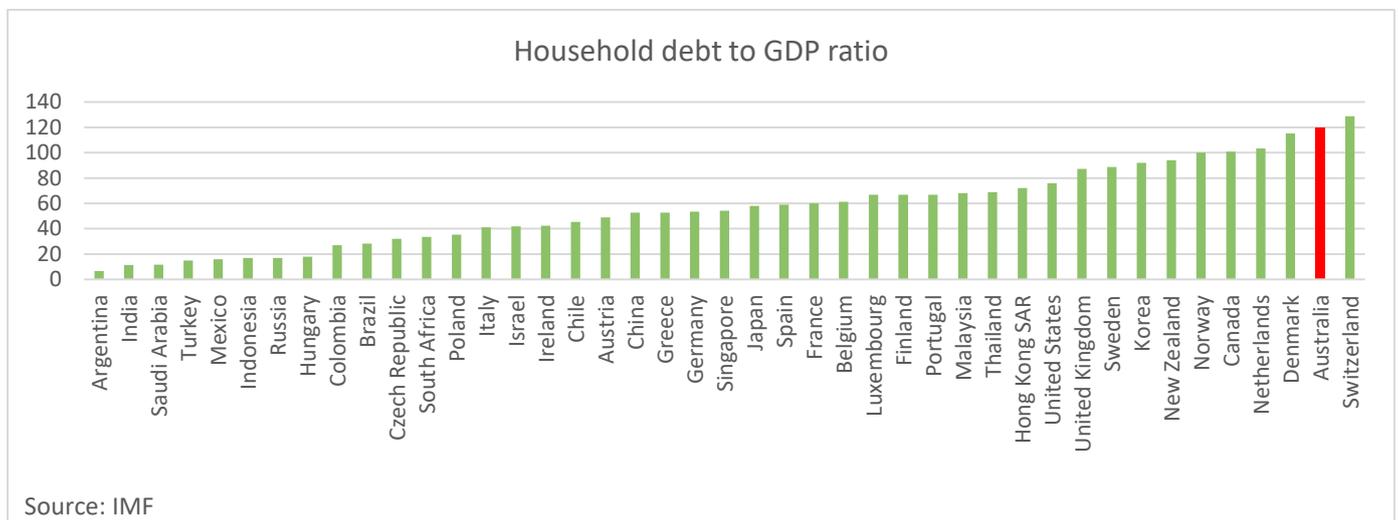
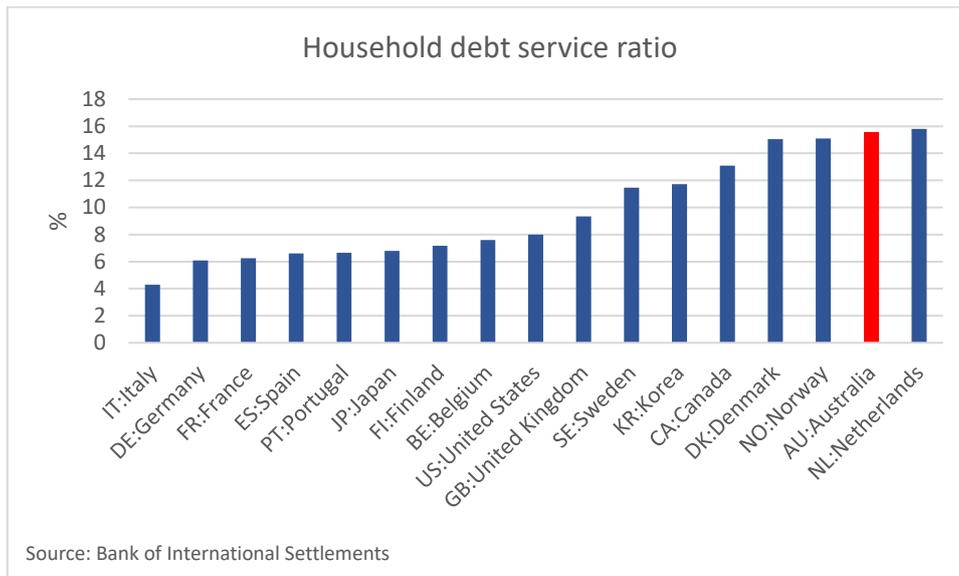
### Rental stress

It may be beneficial to update the definition of housing stress used in the discussion paper. Rather than applying the 30/40 rule, i.e. households in the bottom two income quintiles and paying more than 30% of income on rent, Compass suggests the 30% threshold is applicable to all households earning up to 120% of median income. This definition is more useful because it recognises that households in the middle income quintile are likely to be workers whose after-tax incomes are lower than their gross incomes, whereas those in the bottom two quintiles are more likely to receive a significant share of their income in the form of an untaxed government benefit or pension and therefore have very little, if any, difference between their gross and net incomes.

If housing stress becomes widespread, as it has in Australia, it doesn't merely increase demand for social housing and homelessness services, it acts as a drag on the economy more broadly because people in housing stress inevitably cut back on consumption in other areas. The servicing of debt, either directly via mortgage payments or indirectly via rent which is then used by landlords to pay off a mortgage, is a necessary but hugely unproductive use of money. Australia's multi-decade housing boom has vastly increased the share of household income that is devoted to this singularly unproductive form of expenditure, and left Australians with the dubious distinction of being among the most heavily indebted people on earth.

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<sup>5</sup> See Kennedy, 2019.



Although we often think of rental stress as being something that is experienced primarily by low income earners, it's a challenge that has been steadily working its way up the income distribution for many years.

Compass' Affordable Housing Income Gap (AHIG) Report clearly shows that in many parts of NSW, even median income earners struggle to find housing that doesn't absorb substantially more than 30% of their household income. According to the most recent edition of the report, the annual income required to rent a three-bedroom home in Sydney's inner suburbs without experiencing housing stress was \$164,667 which is \$67,063 more than a typical renting household makes in a year. Unlike most other states, NSW also has severe affordability problems for median income earners in many regional areas. Remarkably, four of the 10 most unaffordable LGAs in the state are located outside metropolitan Sydney.

The current lack of affordable housing supply, will be exacerbated by the gradual wind-up of the National Rental Affordability Scheme over the next seven years. There are approximately 6,122 NRAS dwellings in NSW. These dwellings will progressively exit the scheme in the years ahead as the

incentive payments to the property owners cease.<sup>6</sup> As the incentive payments expire it is to be expected that the majority of owners will either seek to sell the properties, or to lease them in the private rental market.

The removal of the rental subsidy will place current tenants in an extremely precarious position. Analysis of Compass' own Affordable Housing portfolio reveals that even with the discount in place many tenants are on the cusp of housing stress. If and when the subsidy is removed, three quarters of current tenants would immediately fall into housing stress.

This is not surprising when one considers the income profile of these tenants and the size of the rental increases they face. Almost 30% of Affordable Housing tenants have annual incomes under \$30,000. Approximately 60% have incomes under \$50,000. These households currently receive an average discount of \$100 per week. The removal of that subsidy would see rents jump by an average of 38% overnight with the average rent increasing from approximately 32% of gross income to more than 50%.

Few people will be capable of absorbing rental increases of such magnitude without severe financial hardship. It is likely that a substantial proportion of current NRAS tenants will end up back on waiting lists for social housing.

### Homelessness

Homelessness continues to be one of the most intractable social issues in Australian society. Increasingly impacting more diverse sections of the community, homelessness is a key issue in urban, rural and remote Australia, and all communities are experiencing levels of homelessness that are not responsive to the existing pattern of support services.

Compass welcomes the state's recognition of the benefits of a Housing First approach to homelessness. Historically, homelessness services worked from the premise that an individual's problems should be resolved prior to allocation of accommodation. This effectively means 'treatment in place' maintaining someone in a homeless situation while addressing mental health or addiction issues. The assumption was that a tenancy would not be sustained while a person had behaviours that were not socially acceptable. Housing First turns that assumption on its head and asserts that the first support required to resolve chronic homelessness is to provide stable accommodation. From a strong base of secure housing, interventions to tackle a wide range of issues are more likely to be successful and to develop the behaviours required to sustain a tenancy either in social housing or, following transition, to the private sector.

A primary example of a Housing First approach is the Common Ground model. In Australia, the first Common Ground development opened in Adelaide in 2007, followed by Hobart in 2008, Melbourne in 2010, Sydney in 2011 and Brisbane in 2012.

Common Ground is a permanent supportive housing solution to end chronic homelessness, not a homelessness service offering crisis services or transitional housing to homeless people. Common Ground sites provide people with a safe place to live permanently and the support to help them achieve stability in their lives.

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<sup>6</sup> Refer to Appendix A for a full breakdown of locations and expiration timeframes.

International and national evaluations of Common Ground facilities identify a high success rate for ending cyclical and chronic homelessness. In an evaluation of the Brisbane Common Ground facility, the University of Queensland reported clear evidence of positive housing outcomes, sustained tenancies and high levels of tenant satisfaction. Critically, the review identified a savings to government of \$13,100 p.a. for each person stably homed. Consequently, Common Ground, along with the earlier example of Housing First generally creates significant savings compared to the costs identified with street living. If we add to this its success rate in its provision of permanent, safe housing for some of the most vulnerable members of our communities it presents as an ideal model for tackling chronic homelessness throughout Australia.

Resolving homelessness requires a multi-level governance assigning clear responsibilities to local, state, territory and federal levels of government. It also requires all those parties to work flexibly and collaboratively with NGOs and private sector providers. Resolving homelessness requires true collaboration and partnership at national, state, regional and local levels. Currently, service providers are seen as grant recipients or contractors rather than partners, able to inform policy, gather and share data and self-evaluate effectiveness.

Short-term funding cycles create uncertainty, prevent forward planning and create difficulties maintaining expert staff teams, as funding gaps create employment discontinuities. The competitive grant system also creates a perverse incentive to “manage” homelessness rather than eradicate it. Longer term funding cycles provide planning continuity and greater trust between funder and recipient organisation. However, they also need to be accompanied by effective monitoring and evaluation, preferably designed to fully measure outcomes rather than outputs. Compass believes this objective could best be achieved by contracting services directly from high performing Tier 1 CHPs, and placing them in charge of administering contracts with the SHS.

### Support for first home buyers

Compass would recommend the state resists pressure to provide additional financial support to first home buyers, due to the inflationary impact on prices. First home buyer subsidies have been a staple of both state and federal government “housing affordability” policies for decades, yet over the period in which they have been in effect both home ownership rates and housing affordability have unquestionably declined. In the memorable words of economist Saul Eslake: “It’s hard to think of any other policy that has been pursued for so long in the face of such incontrovertible evidence that it doesn’t work.”



### Purpose built student accommodation

The inclusion of purpose-built student rental housing seemed somewhat incongruous in the context of a discussion about affordability. Given its much vaunted “export” status, it seems reasonable to expect the tertiary education sector to be capable of providing accommodation for students without the need for additional government support. It is worth noting however that the figures used to demonstrate the sector’s contribution to the economy involve a remarkably generous interpretation of what constitutes an export. For instance, according to the official figures published by the Department of Foreign Affairs and Trade, the “export” value that is ascribed to the international education sector, includes the money students spend on day-to-day living expenses<sup>7</sup>, a substantial portion of which comes from income earned while working in Australia, and is therefore no more an “export” than local spending that is done by any other Australian based worker. If one also factors in the probability that at least some portion of that expenditure is on imported goods, the export value of the international student trade, and therefore it’s true impact on state’s balance of trade, becomes even less certain.

What is rather more certain however, is the frequently inexcusable treatment of international students in the Australian labour market and the impact their exploitation has on wages more generally. Research published by the University of New South Wales earlier this year found that more than three quarters of international students were paid less than the casual minimum wage,<sup>8</sup> with some being paid as little as half their correct entitlement. In this context, perhaps the most effective step the government could take to improve housing affordability for international students would be to use those powers available to it to ensure students are not systematically robbed of their wages by unscrupulous employers.

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Compass once again wishes to thank the NSW Government for the opportunity to provide feedback on the Discussion Paper and looks forward to continuing our productive relationship in the years ahead.

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<sup>7</sup> [https://www.dfat.gov.au/sites/default/files/australias\\_goods\\_and\\_services\\_by\\_top\\_25\\_exports\\_2019.pdf](https://www.dfat.gov.au/sites/default/files/australias_goods_and_services_by_top_25_exports_2019.pdf)

<sup>8</sup> <https://newsroom.unsw.edu.au/news/business-law/wage-theft-rife-international-students-australia>

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## Appendix A: Expiring NRAS Dwellings – New South Wales

State/Suburb	Calendar year of dwelling exiting NRAS program								
	2019	2020	2021	2022	2023	2024	2025	2026	Total
<b>NSW</b>									
ABERDARE			3						3
ABERGLASSLYN					7	5			12
ADAMSTOWN						18			18
ALBION PARK RAIL			3						3
ARMIDALE	4								4
ASHFIELD				32		20		9	61
AUBURN					14	38		2	54
BANKSTOWN	13	10				37		22	82
BARDIA					5	3			8
BASS HILL								4	4
BATEHAVEN				5					5
BATHURST						1			1
BAULKHAM HILLS					2			2	4
BEECROFT							32		32
BEGA			10						10
BELMONT						16			16
BLACKETT						13			13
BLACKTOWN		71					1		72
BOORAGUL								19	19
BOURKLANDS					1				1
BOWRAL						6			6
BROKEN HILL						3	16		19
BROOKVALE					1				1
BUNGARRIBEE								65	65
BURRADOO							5		5
CAMPBELLTOWN	5	2		2			29	56	94
CAMPERDOWN			42		64	105			211
CAMPSIE							5		5
CANLEY VALE			23						23
CANTERBURY						2		2	4
CARDIFF			2						2
CARINGBAH						28			28
CARSS PARK								2	2
CASTLE HILL							6		6
CASTLECRAG					3	1			4
CESSNOCK		11	2		8	6			27
CHARMHAVEN		12		8					20
CHIPPENDALE							488	340	828

COFFS HARBOUR			14					14
CONSTITUTION HILL					6			6
COORANBONG				5				5
CURRANS HILL					1			1
DEE WHY					1		30	31
DENHAMS BEACH				6				6
DUBBO		2		6	9			17
DULWICH				1				1
DULWICH HILL				54				54
DUNDAS				5	7			12
EAGLE VALE			6					6
EAST MAITLAND		2	4	24	3			33
EDMONDSON PARK			1	4	3			8
ELANORA HEIGHTS				14				14
ELERMORE VALE					2			2
ENFIELD				3	3			6
EPPING						3		3
EVELEIGH						88		88
FAIRFIELD				57	17		60	134
FAIRY MEADOW				22	9			31
FORSTER					22			22
GLEBE							153	153
GLENMORE PARK					18			18
GOONELLABAH			6		8		20	34
GORMANS HILL						14		14
GOROKAN			3					3
GOSFORD							52	52
GOULBURN		33			15		28	76
GRAFTON		2	6					8
GRANVILLE						1	5	6
GREGORY HILLS					6			6
GREYSTANES							1	1
GUILDFORD			24	74	7	12	87	204
GUILDFORD WEST					2			2
HAMLIN TERRACE				30				30
HARRIS PARK	15				2		10	27
HORNSBY						24	2	26
HORSLEY	1	3						4
INGLEBURN		1						1
ISLINGTON	8				24			32
JAMISONTOWN		18						18
JORDAN SPRINGS			5	3		33		41

JUNCTION HILL				6					6
KATOOMBA							16		16
KENDALL						8	2	37	47
KENTHURST		9							9
KINGSWOOD	36	26	6		8		27		103
KIRRAWEE								3	3
LAKEMBA							12		12
LAMBTON						6			6
LEUMEAH						10			10
LISMORE			26					20	46
LIVERPOOL		17		10	2	48			77
MACQUARIE FIELDS						1			1
MAITLAND						41		4	45
MARKS POINT								18	18
MAROUBRA				8					8
MARRICKVILLE						3	14		17
MAYFIELD						22		20	42
MAYS HILL								30	30
MAYS HILLS								1	1
MENAI								12	12
MERRYLANDS		12				4	10	15	41
MIRANDA								3	3
MORTLAKE			1			7			8
MORUYA					9				9
MOSS VALE							11		11
MOUNT ANNAN						6			6
MOUNT DRUITT			34				7		41
MOUNT HUTTON								25	25
MUDGEE						20			20
MULGOA							26		26
MUSWELLBROOK						3			3
NEWCASTLE			30				4		34
NEWCASTLE WEST				1					1
NORTH GOSFORD						58			58
NORTH NOWRA			2	2					4
NORTH PARRAMATTA		9							9
NORTH TAMWORTH				12					12
NORTHMEAD		12							12
NOT STIPULATED								100	100
NOWRA						12			12
ORANGE						16	54		70

OXLEY PARK		10		1					11
PARRAMATTA			10			15	38	52	115
PEAKHURST								33	33
PENRITH			10		5	8	64	134	221
PLUMPTON						10			10
PORT MACQUARIE		4	19	7				93	123
POTTS HILL						32			32
PUNCHBOWL							5	4	9
QUAKERS HILL							1		1
RANDWICK								2	2
RAYMOND TERRACE			3	24		1			28
REDFERN						17		59	76
RHODES					10				10
ROOTY HILL					7				7
ROPES CROSSING		3	4	7	7	69	22		112
ROSEHILL					23	3			26
ROSEMEADOW						11			11
ROUSE HILL	1	1						35	37
RYDALMERE				10			10		20
RYDE				5		3		2	10
SEVEN HILLS								7	7
SHELLHARBOUR							71		71
SINGLETON						2			2
SMITHFIELD			50			5			55
SOUTH NOWRA			1						1
SPRINGWOOD				18	2	3			23
ST GEORGES BASIN						5	1		6
ST LEONARDS						5			5
ST MARYS	2	15					7	24	48
STRATHFIELD			3						3
SUTHERLAND								46	46
TELOPEA				152					152
THE PONDS					40				40
TOONGABBIE							6		6
TOUKLEY						23			23
TWEED HEADS						20		87	107
ULTIMO				32				26	58
WADALBA			9			5	19		33
WAGGA WAGGA					6	3			9
WALLSEND				6	14	36			56
WARATAH			14			14			28
WARWICK FARM								13	13
WATANOBBI			2			11	1		14

WAUCHOPE				5					5
WELBY					1				1
WENTWORTH POINT			4	12					16
WENTWORTHVILLE					27	12		39	78
WERRINGTON						27			27
WEST NOWRA						19			19
WESTMEAD				5	3	3	1		12
WOLLONGONG	2	4							6
WOODBURN						5			5
WORRIGEE	12				26				38
WYOMING						9			9
WYONG			6	8					14
YAGOONA					2	32			34
YAMBA				10					10
ZETLAND		19						93	112
TOTAL	75	271	380	457	605	1140	1186	2008	6122