

# The Real Reason for Sydney's House Price Growth



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## The Real Reason for Sydney's House Price Growth

### Executive Summary

The current contention around house prices in Sydney, is that Mum and Dad investors who are able to negatively gear investment properties, are driving demand and pushing house prices up.

Mr Wayne Wanders, Chartered Accountant and author of the book “Avoid the Poverty Trap”, set out to determine if this contention is true. Mr Wanders undertook analysis using the publicly available housing data from sources such as the Australian Bureau of Statistics.

As negative gearing tax laws are consistent across Australia, Mr Wanders believes that, if Mum and Dad negative geared property investors were the major cause behind the growth in Sydney house prices, you would expect to see similar growth rates in other locations around Australia.

But what Mr Wanders found is that the facts do not support this.

The facts clearly show that apart from Melbourne, Sydney house prices have grown by nearly double other capital cities in the last 10 years, and nearly double regional NSW in the last six years.

Mr Wanders said that “if the same negative gearing tax laws exist across Australia why can Sydney house prices rise 94 per cent in the last 10 years, but Brisbane only increase by 51 per cent and only 12 per cent in Perth.”

“Why can Sydney house prices go up significantly higher than regional NSW?”

So, the facts show that negative geared Mum and Dad investors are not the prime reason behind the growth in Sydney house prices.

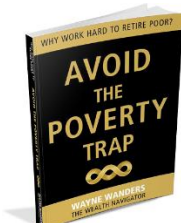
There has to be another cause!

Given that Sydney's population has grown twice as fast as regional NSW, one could draw the conclusion that this population growth is a driver for increased demand for Sydney houses, and is a major factor behind the growth in Sydney house prices.

So the next question is why is the population growing more in Sydney than in regional NSW?

It has to be jobs.

People go where the work is.

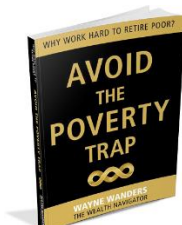


## The Real Reason for Sydney's House Price Growth

If there is no work in the regional cities, irrespective of how cheap the housing, why would you live there?

So maybe the real cause of Sydney's house price growth is the fact that successive governments have under invested in regional towns to drive jobs growth in those towns.

And this lack of jobs is pushing people back into Sydney, placing pressure on Sydney's housing stock and driving up house prices.



### Introduction

As Australia's property market operates under free market practices, the price of property is determined largely by supply and demand.

If demand exceeds supply, then prices rise. If supply exceeds demand then prices fall.

Overall property supply is determined by the existing number of houses plus any new housing being built. Property supply at any one time relates to how many new and existing homes are on the market for sale.

Property demand is either from owner occupiers or from Australian and international investors.

The current contention around house prices in Sydney, is that Mum and Dad investors who are able to negatively gear investment properties, are driving demand and pushing house prices up.

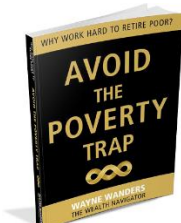
So Mr Wayne Wanders, author of the book "Avoid the Poverty Trap" extended the research done whilst writing his book to review whether negative gearing is the prime cause of the increase in house prices in Sydney.

### So What is Negative Gearing?

A lot of people talk about the term negative gearing, but Mr Wanders feel very few people understand exactly what it is.

It simply means that the revenue earned (in the case of investment property, rents) is less than the expenses incurred (in the case of investment property things like interest, insurance, rates, water, etc.).

In plain English, you would say it was a loss. The person who has a negatively geared investment property has an annual loss. They are hoping this annual loss is more than compensated for by appreciation in value via capital gains.



## The Real Reason for Sydney's House Price Growth

### Detailed Analysis

The current negative gearing tax laws are uniform across Australia. Whether you own a property in Sydney or one in Broken Hill, the tax treatment is the same. Therefore the starting point in this analysis is to compare Sydney's housing price growth rate with other locations in Australia

Table 1 below compares Sydney's housing price growth rate over the last 10 years with the other capital cities.

Table 1: Capital City House Price Growth Sept 2006 to Sept 2016

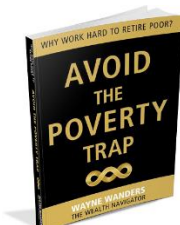
	Residential Property Price Index				
	Sep-2006	Sep-2016	Change	% Change	Average per Year
Sydney	82.0	159.3	77.3	94.27%	9.43%
Melbourne	68.1	132.9	64.8	95.15%	9.52%
Brisbane	78.5	118.8	40.3	51.34%	5.13%
Adelaide	73.8	113.3	39.5	53.52%	5.35%
Perth	95.1	106.3	11.2	11.78%	1.18%
Hobart	84.6	113.4	28.8	34.04%	3.40%
Darwin	67.3	104.0	36.7	54.53%	5.45%
Canberra	76.0	113.5	37.5	49.34%	4.93%
Weighted average of eight capital cities	78.4	135.0	56.6	72.19%	7.22%

Source: ABS Report 6416.0 Residential Property Price Indexes: Eight Capital Cities

If negative gearing alone was the cause of the price growth in Sydney, you would have expected growth in other capital cities to be similar.

As you can see from Table 1, Sydney and Melbourne house price growth over the past 10 years has been nearly double of most of the other capital cities. This would tend to suggest that factors other than negative gearing are having a significant impact on house price growth in Sydney (and in Melbourne).

The comparison in Table 1 was between capital cities. Tables 2 and 3 below compare the housing price growth rates of selected Sydney suburbs with the housing price growth of selected regional towns in NSW.



## The Real Reason for Sydney's House Price Growth

Table 2: Housing Price Growth of Selected Sydney Suburbs 2010 to 2016

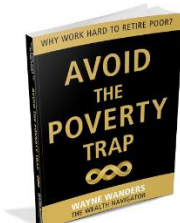
Suburb	Postcode	Median House Price				
		2010	2016	Change	% Change	Average per Year
Chatswood	2067	\$1,150,000	\$2,255,000	\$1,105,000	96.09%	16.01%
Penrith	2750	\$318,000	\$600,000	\$282,000	88.68%	14.78%
Epping	2121	\$880,000	\$1,644,000	\$764,000	86.82%	14.47%
Blacktown	2148	\$354,000	\$650,000	\$296,000	83.62%	13.94%
Bradbury	2560	\$310,000	\$535,000	\$225,000	72.58%	12.10%
St Ives	2075	\$1,060,000	\$1,828,000	\$768,000	72.45%	12.08%
Bankstown	2200	\$495,000	\$842,000	\$347,000	70.10%	11.68%
Rockdale	2216	\$665,000	\$1,120,000	\$455,000	68.42%	11.40%
Sutherland	2232	\$512,000	\$861,000	\$349,000	68.16%	11.36%
Kellyville	2155	\$669,000	\$1,070,000	\$401,000	59.94%	9.99%
Maroubra	2035	\$1,100,000	\$1,745,000	\$645,000	58.64%	9.77%

Source: Domain.com.au Suburb Profiles 27 January 2017

Table 3: Housing Price Growth of Selected NSW Regional Towns 2010 to 2016

Suburb	Postcode	Median House Price				
		2010	2016	Change	% Change	Average per Year
Goulburn	2580	\$250,000	\$363,000	\$113,000	45.20%	7.53%
Nowra	2541	\$245,000	\$350,000	\$105,000	42.86%	7.14%
Dubbo	2830	\$257,000	\$350,000	\$93,000	36.19%	6.03%
Bathurst	2795	\$273,000	\$359,000	\$86,000	31.50%	5.25%
Albury	2640	\$365,000	\$449,000	\$84,000	23.01%	3.84%
Gunnedah	2380	\$245,000	\$325,000	\$80,000	32.65%	5.44%
Tamworth	2340	\$250,000	\$326,000	\$76,000	30.40%	5.07%
Wagga Wagga	2650	\$309,000	\$375,000	\$66,000	21.36%	3.56%
Orange	2800	\$295,000	\$347,000	\$52,000	17.63%	2.94%
Armidale	2350	\$299,000	\$350,000	\$51,000	17.06%	2.84%
West Kempsey	2440	\$197,000	\$235,000	\$38,000	19.29%	3.21%
Cobar	2835	\$200,000	\$230,000	\$30,000	15.00%	2.50%
Cooma	2630	\$208,000	\$230,000	\$22,000	10.58%	1.76%
Broken Hill	2880	\$108,000	\$130,000	\$22,000	20.37%	3.40%
Grafton	2460	\$265,000	\$285,000	\$20,000	7.55%	1.26%
Moree	2400	\$205,000	\$222,000	\$17,000	8.29%	1.38%
Lismore	2480	\$305,000	\$308,000	\$3,000	0.98%	0.16%
Casino	2470	\$265,000	\$237,000	-\$28,000	-10.57%	-1.76%

Source: Domain.com.au Suburb Profiles 27 January 2017



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As you can see from Tables 2 and 3 the house price growth rate in various Sydney suburbs over the past 6 years, is much higher than the housing price growth rates seen in various regional towns in NSW for the same period.

Once again this would tend to suggest that factors other than negative gearing are having an impact on house price growth in Sydney verses regional NSW.

The comparisons of the house price growth of Sydney, verses most other places in Australia, (other than Melbourne) would suggest that investors and negative gearing tax laws are not the prime factor behind the high house price growth seen in Sydney in recent years.

If it is not investors and negative gearing, what else can drive up prices?

One such area that seems to be overlooked is owner occupier demand.

What drives owner occupier demand?

One of the largest contributing factors is population growth.

Table 4 sets out the population growth for Sydney and Regional NSW.

Table 4: NSW Population Growth 2010 to 2015

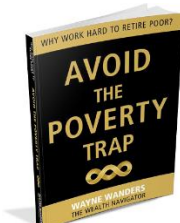
	Population			
	2010	2015	Growth	Growth %
Sydney LGA's	4,119,934	4,466,878	346,944	8.42%
Country NSW LGA's	3,024,358	3,150,806	126,448	4.18%
Grand Total	7,144,292	7,617,684	473,392	6.63%

LGA's – Local Government Areas

Source: ABS Report 3218.0 Regional Population Growth, Australia

From this table you can see that population growth in the Sydney Local Government Areas is more than double what the rest of NSW experienced.

You could then draw the conclusion that this population growth is a driver for increased demand for Sydney houses and is a major factor behind the growth in Sydney house prices.





### Conclusion

Given that negative gearing tax laws are consistent across Australia, if Mum and Dad negative geared property investors were the major cause behind the growth in Sydney house prices, you would expect to see similar growth rates in other locations around Australia.

However, the data in this report clearly shows that apart from Melbourne, Sydney house prices have grown by nearly double other capital cities in the last 10 years and nearly double regional NSW in the last six years.

So, the facts show that negative geared investors are not the prime reason behind the growth in Sydney house prices.

There has to be another cause!

Given the way Sydney's population has grown compared to regional NSW, one could draw the conclusion that this population growth is a driver for increased demand for Sydney houses and is a major factor behind the growth in Sydney house prices.

So the next question is why is the population growing more in Sydney than in regional NSW?

It has to be jobs.

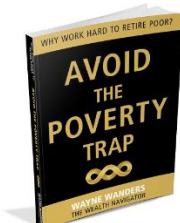
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### About the Author

Wayne Wanders, the Wealth Navigator, is committed to getting Australians off the treadmill of working hard all their life, just to retire poor. All so that hard working Australians can have the life they want, and more importantly, deserve.



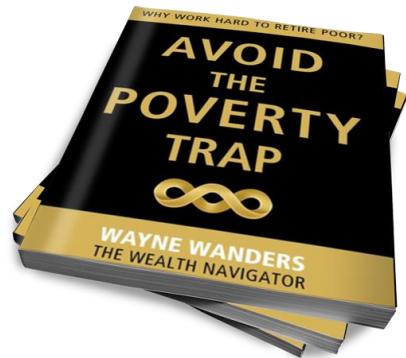
Whilst Wayne has been a chartered accountant for over 30 years, Wayne is not your normal accountant. His philosophy of “why think outside of the square when you can just make the square bigger”, gives Wayne an open mind and the ability to dig deeper into challenges.

Some say Wayne's true talent is in seeing things that others do not. As Wayne makes the invisible, visible, you could call Wayne a forensic accountant.

It was this thinking that made Wayne realise that the retirement system in Australia is flawed. And that most Australians are on the treadmill to work hard and retire poor, heading straight for what Wayne calls the Poverty Trap.

So Wayne made it his mission to use his personal experience and knowledge to help hard working Australians avoid the Poverty Trap by:

- Raising awareness of the flaws in the current retirement system;
- Helping people accept responsibility for their own financial future;
- Helping people understand where they are financially today and where they want to be in the future;
- Showing people in plain English, actionable ways to improve the health of their wealth and increase their bank balance; and,
- Acting as their accountability partner, giving them guidance and motivation to achieve their goals.



All so that they can have the life they want, and more importantly, the life they deserve.

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