

MEDIA RELEASE

7 February 2023

Rate rise demands solutions to housing supply and affordability crisis

Urban Taskforce CEO, Tom Forrest, said that today's interest rate increase, the 9th since May 2022, added more stress to the housing supply and affordability crisis. This demands a swift response from the bureaucratic and political leaders to deliver more housing, especially in NSW.

With typical mortgage rates now around 6% and set to climb even higher, many families were entering into the "red zone" of mortgage stress where the percentage of after-tax household income required to meet repayments was above 30%.

This is a massive change from where the economy was 12 months ago – when mortgage rates were down near 2%. Now we are faced with the prospect of home loan mortgage rates getting close to 7%.

The practical impact on families is equivalent to the start of the recession in the early 1990's when the cash rate hit 17.5%. This is because the prices being paid for new homes are so much higher. In the early 1990s the average home cost three times the average household income. Today, that multiple is closer to 8 times the average household income. So even though the interest rates peaked at a cash rate of 17.5%, the impact on the household budget was similar then to now.

The extreme level of property prices in NSW mean that today's rate rise will cause real pain. Based on the current average mortgage in NSW of \$752,000, each increase of 25 basis points adds an extra \$157 to the monthly re-payments.

With the cash rate now 3.35% higher than when the RBA started increasing rates in May 2022, based on an average loan of \$752,000 in NSW, borrowers are repaying an extra \$2,000 each month more than they were less than a year ago.

Those coming off low fixed mortgage rate are facing what has become known as the "mortgage cliff".

A crucial part of the solution to the affordability crisis was to increase new housing supply, and to do so quickly. The planning system is so complex that it has become a straight jacket on housing supply. Greater flexibility is urgently needed.

Urban Taskforce have identified two areas where the Government could achieve quick wins:

- Firstly, by importing greater flexibility to our zoning rules to allow the owners of empty office space to repurposing underutilised commercial building stock as affordable housing; and
- Secondly, create an affordable housing incentive which adds height and FSR to new buildings for the purpose of providing more affordable and market housing.

Changing the rules and guidelines to enable the repurposing of commercial buildings for residential use (subject to health and safety provisions) for students, incoming migrants, key workers and other facing housing stress, is one way that greater flexibility could ease the current housing supply crisis, particularly in the short term.

Concerningly, today's interest rate increase comes with the likelihood of further rises. This is already causing severe stress among mortgage holders and renters, all of whom get hit whenever rates go up.

The challenge to both the NSW Government and the Opposition is to put in place urgent planning reforms that will deliver short and medium-term changes to address this crisis.

The comments and analysis above can be attributed to Tom Forrest, CEO, Urban Taskforce.

The **Urban Taskforce Australia** is a property development industry group, representing Australia's most prominent property developers and equity financiers.

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