



Addressing Sydney's Housing Market: Build Out or Build Up?

The Economics of Housing Insight Series

The first instalment in our state-based insights series on the economics of housing in Australia, addresses issues relating to current and future demands on Sydney's housing stock.

Sydney is a great place to live, work and play. Renowned globally as one of the most liveable and safest cities in the world, it offers a relaxed lifestyle and world-class education, and fosters a culture of entrepreneurship and innovation.¹

And people vote with their feet – Sydney's average yearly population growth was nearly 80,000 people in the decade preceding COVID, amounting to 1.7 per cent per annum. In 2019, almost a third of all migrants in Australia made Sydney their home.²

Population growth and immigration can play vital roles in shaping the future of Sydney and Australia. They drive economic growth, address challenges associated with an ageing population, help fill labour shortages and diversify our society with a mix of cultures, ethnicities and languages.

However, population growth can bring with it significant challenges. One major concern at the forefront of people's minds is the housing shortage. After the lifting of COVID travel restrictions, inward migration has surged. Since 2022, the rate of net overseas migration has more than doubled compared to the years before the pandemic, intensifying pressure on the already strained housing market.³

Nowhere is this more apparent than in the rental market. Rental vacancies are at historic lows and asking rents have soared to historic highs, placing households under financial pressure amid a cost-of-living crisis.⁴ The number of NSW households in extreme housing stress has increased by 32 per cent since 2022.⁵ Many people are forced to live further away from their communities and job opportunities. High housing stress also contributes to more fundamental social problems, such as mental health issues and homelessness—the NSW social housing waiting lists grew by 15 per cent in 2022.

One way to respond to this challenge is to advocate for more homes to be built. The NSW Government has made considerable efforts to remove obstacles to housing development and encourage higher residential densities. This includes changing planning controls and allowing density bonuses.

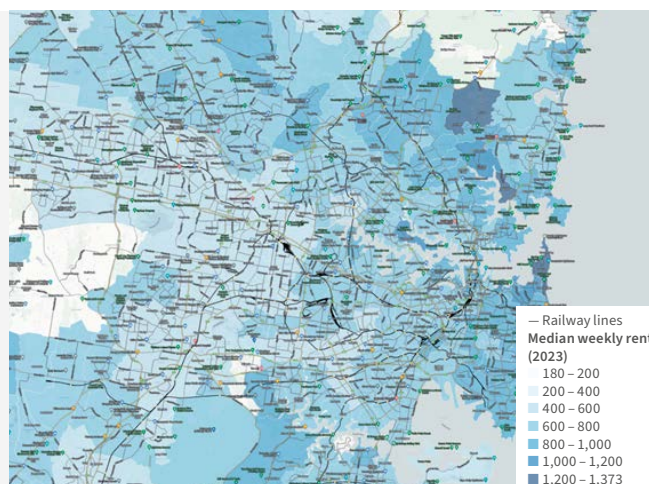
A key and rather contentious question remains—where should we permit more houses to be built? This article examines this question from an economic perspective, exploring the societal and economic costs and benefits of building more housing in different parts of Sydney.

We discuss how both the costs and benefits of additional housing vary significantly across space and what this means for the types of location where future growth would be most beneficial.

Location, Location, Location

As a starting point, let's explore where people want to live. Suburbs with access to good amenities, in close proximity to jobs and quality schools, and that have access to efficient transport systems and other desirable features, tend to be in high demand. Disparities in rental prices across suburbs reflect the value residents place on living in a more attractive location.

The following map shows estimated median rents in December 2023 for two-bedroom units. Unsurprisingly, the closer to the coast and employment centres, the higher the rent—with the premium for living in inner-city suburbs, compared to city fringe locations, reaching nearly \$500 per week, equating to around \$25,000 per year.



This alone suggests that providing more housing in areas with good amenities and access to jobs would deliver the biggest benefits to residents in or around Sydney

But there are, of course, other factors to consider.

The Societal Costs Of Additional Housing in Sydney

Increasing the supply of housing brings societal costs. Some of these burdens fall on governments (i.e. taxpayers), who bear the cost of supporting public infrastructure. Local residents bear other costs, such as increased traffic, disruptions and overshadowing. Furthermore, everyone is affected by broader impacts, such as lost biodiversity and heightened carbon emissions.

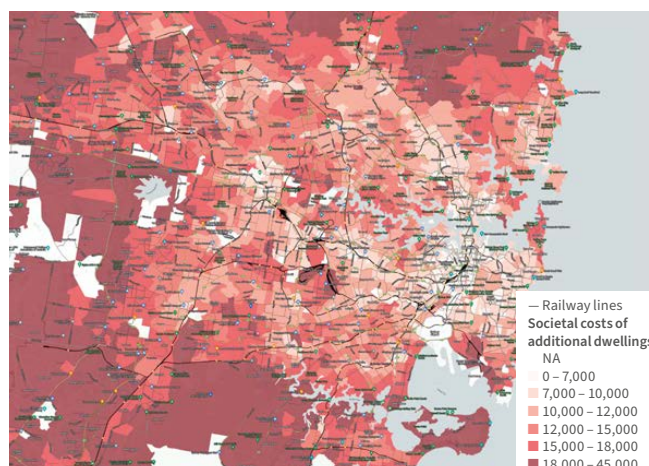
The costs of housing developments differ significantly across each city. They will vary substantially based on whether the housing is built on a site that is greenfield, brownfield, fringe, infill, transit oriented or in growth areas. Additionally, each development site will present unique challenges, such as overshadowing, flood risk and heritage protection. However, in general, these costs include:

- **Public infrastructure costs** on a per dwelling basis vary significantly based on location, with established areas benefitting from existing infrastructure and lower costs. The costs typically range from around \$60,000 per dwelling in infill locations to nearly \$150,000 per dwelling on the urban fringe.
- While **congestion costs** are higher in built-up areas due to increased traffic, efficient public transport leads to reduced car usage and shorter travel distances per trip. This results in a per-household societal cost of less than \$5,000 per year, compared to \$15,000 to \$20,000 per year in fringe locations.
- The **carbon costs** associated with development can be complex. Embodied carbon in construction materials and activities may favour simpler construction of stand-alone dwellings common in

growth areas, although this may be offset by the smaller dwelling sizes delivered in inner-city locations. Conversely, unit developments are more energy efficient, with fewer windows and external walls. Overall, there may not be significant differences by location.

- **Loss of biodiversity** is a primary concern in greenfield areas, particularly on the fringe. The cost of greenfield land loss can exceed more than \$20,000 per dwelling.

These costs can be converted into annual, per dwelling-equivalent societal costs based on location on the following map. It is important to note that dwellings in fringe areas are typically larger than inner-city infill developments, so they accommodate more residents. Therefore, a strategy to house a larger portion of the future population in infill locations may require the construction of more dwellings compared to a housing strategy focused on greenfield growth, assuming all other factors remain constant. This is reflected in the following analysis.



The societal costs associated with building additional dwellings peak across swathes of fringe locations and in certain pockets throughout the city. However, in general, per dwelling societal costs tend to be significantly lower in inner-city locations and along major rail and metro routes. These factors must be considered when planning for Sydney's future growth.

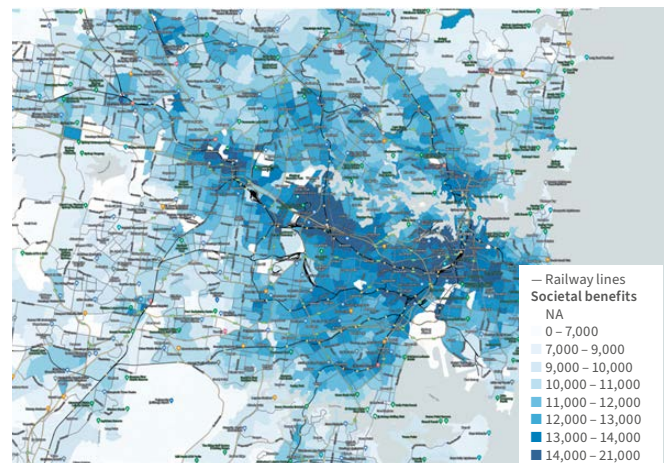
The Returns Additional Housing Delivers

Just as additional development can bring societal costs, it can also bring societal benefits. Again, these vary by location.

- The most significant of these benefits stems from **agglomeration economies**, where denser economic activity leads to increased productivity. These economies are fundamental to the existence of cities because they give firms access to a large labour force—including a talent pool of suitable workers—and shared resources and infrastructure, and facilitate the exchange of knowledge among workers. Encouraging proximity between workers and employment centres contributes to productivity gains—typically valued at \$15,000 per dwelling per year near city centres, but less than \$5,000 per year in many fringe areas.

- Additionally, promoting an active lifestyle can foster positive societal benefits. Residents of inner-urban areas typically walk and cycle more as part of their daily routine compared to those in outer areas, improving public health outcomes—valued at around \$1,500 per dwelling per year.

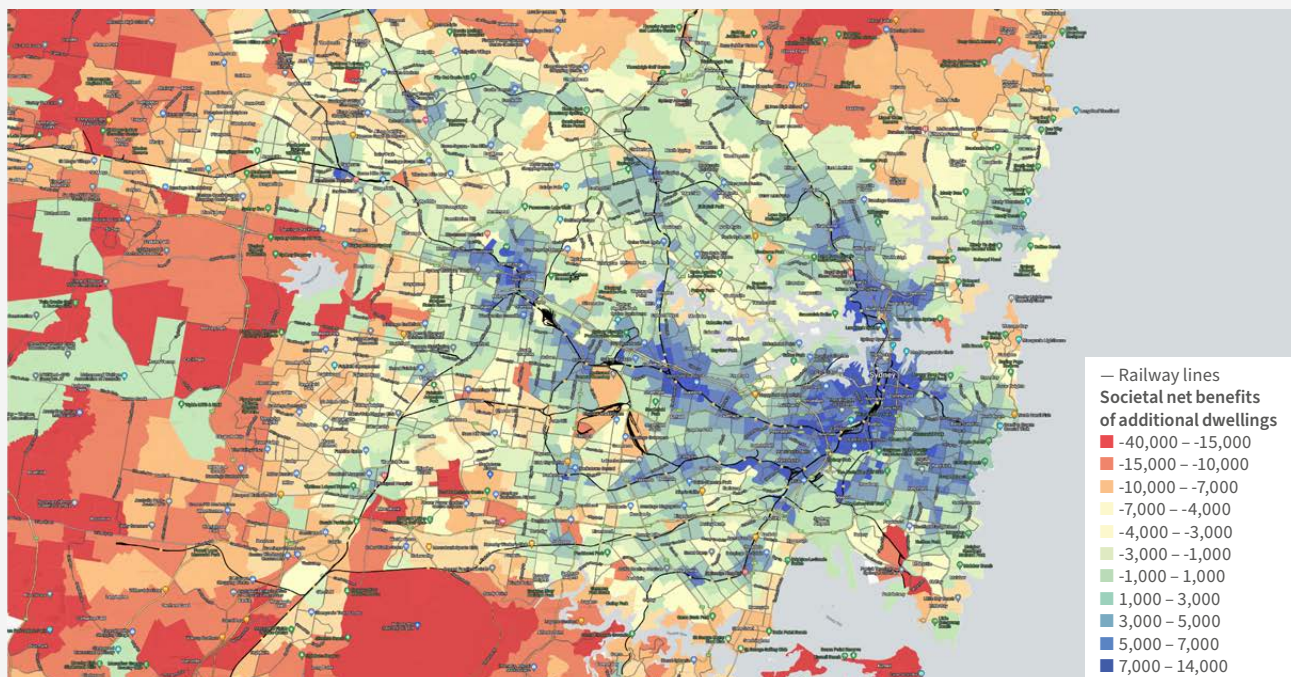
The following map shows these benefits, highlighting interesting geographical patterns.



The economic returns to higher-density development are greater along major transport corridors and near employment centres, reducing to zero at the urban fringe.

What Does It All Mean?

By integrating the societal costs and benefits shown in the previous two maps, we derive the following net benefits of additional density.



Considering the insights explored so far in this article, it is unsurprising that the net societal benefits of increased residential density are positive along major mass transport corridors in and out of primary employment centres.

To address housing shortages effectively, we should limit further costly urban sprawl and prioritise more development where existing infrastructure can be leveraged, supporting a productive economy.

It is important to note that this analysis is a high-level, comparative overview of different locations to explore general spatial patterns. It does not suggest we should stop building in red areas or build in all blue areas. Rather, the maps highlight where planning policy settings should allow more residential density, assuming other factors remain constant.

In summary:

- Various attributes make different parts of Sydney more attractive to residents, leading to higher rents and house prices. Allowing higher densities in these locations would enable more people to enjoy these amenities.
- Other societal costs and benefits of densification also align with this approach, indicating that additional density should be permitted near employment centres and areas with existing infrastructure that can be leveraged.

How FTI Consulting Can Help

While current NSW Government efforts to override planning controls around key infrastructure hubs are steps in the right direction, nuance is needed. The Economic & Financial Consulting team at FTI Consulting understands that every location has unique challenges. We can help organisations to navigate opportunities to avoid unintended outcomes by:



Communicating the net public value a proposed development delivers to the community —

Encompassing both the general and site-specific impacts of a development, such as enabling more productive use of land, improved amenities, better pedestrian access, adaptive heritage reuse and precinct benefits.



Conducting comprehensive cost-benefit analysis, evaluation and assessment — Of urban renewal projects, affordable housing, social housing and infrastructure projects, incorporating all aspects of societal costs and benefits at a site-specific level.



Developing priorities for and assessing the value of outcomes — Across precincts including health, biomedicine, education, innovation and cultural events.

¹ The Economist Intelligence Unit Limited, "[The Global Liveability Index 2023](#)", viewed April 2024.

² FTI analysis of Macrotrend and ABS data.

³ FTI analysis of ABS data.

⁴ SQMResearch, "[Residential Vacancy Rates](#)", viewed April and "[Weekly Rents](#)", viewed April 2024.

⁵ NSW Council of Social Service, "[Housing and Homelessness](#)", viewed April 2024.



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