

Construct NSW

The state of consumer confidence

Benchmarking consumer confidence
towards purchasing class 2 residential
properties in NSW

May 2022



mccrindle

Message from David Chandler OAM, NSW Building Commissioner

A survey of consumer confidence to purchase a new apartment in NSW

NSW has seen a sharp increase in strata living in recent years, with increasing numbers of residents and families choosing to live in apartments over detached houses. Apartment living now reflects a cross section of Australian society, with different family structures and sizes calling strata apartments home.

There are now over 81,700 strata schemes registered in NSW and every year this number grows by up to 1,000 new buildings. NSW has experienced a strata boom in the last 20 years, with more than 33,000 strata schemes being established since the year 2000.

In recent times residential apartment buildings in NSW have attracted negative attention with high profile media coverage of defective buildings and protracted disputes over who is responsible for paying the cost of remediation work. In 2017, the NSW government committed to a significant reform program to turn around the negative apartment market narrative. These reforms have been underpinned by nation leading legislation, more boots on the ground for the regulator and a new proactive strategy to hold the poor players accountable. These reforms are ongoing, however, there is growing evidence as to why consumers should be more confident to consider purchasing a new apartment.

Strata residents make up 22% (600,000) of the state's total households. Strata schemes also provide the infrastructure for retirement villages, lodges and short-term holiday lettings. The total insured value of strata schemes in NSW is more than \$400 billion. Strata schemes provide significant further benefits by employing almost 1,500 strata managers and another 1,300 employees. Jobs for maintenance and repairs on strata property indirectly employ plumbers, electricians, and gardeners, with almost 600,000 callout jobs being made in 2019.

Now is an appropriate time to measure how consumers are feeling about the apartment market in NSW. At the same time, it is appropriate to seek the latest feedback about areas that would either motivate or hold back consumer decisions to buy a new apartment. The well-regarded research firm McCrindle was appointed to independently collect this data. Their report follows.

The report identifies areas where the industry has more work to do to ensure the positive NSW reform momentum is maintained. Ensuring this momentum will be reliant of consistent trustworthy data that can be used to benchmark the performance of both the players and the buildings they make. A modern construction industry is now part of a global marketplace where long supply chains and the need for dynamic compliance assurance capabilities are developed. These must then feed into the way forward looking asset maintenance confidence is assured. Building resilience indicators are now a major driver of how insurers can recalibrate risk cover and pricing. Industry has worked collaboratively to deliver a better consumer deal.

We believe that this report provides evidence to support the reform initiatives that have been and remain to be delivered in NSW. The report explores the drivers of consumer confidence, and whether trust indicators for players and buildings will make a difference. The industry wants its

customers back. Consumers want to have confidence in what they are buying. This report will help validate how these mutual objectives can be constructively joined to ensure future supplies of apartments can meet the community's housing needs while contributing to the NSW economy.

David Chandler OAM

NSW Building Commissioner



Contents

1.	Executive Summary	6
2.	Objectives and methodology	9
2.1	Research objectives	9
2.2	Research methodology	9
2.2.1	Confidence level and margin of error	9
2.2.2	Terminology	10
2.2.3	Graphs and rounding	10
3.	Demographic summary	11
4.	Exploring confidence	12
4.1	Measuring financial, social and physical confidence	12
4.1.1	Financial confidence is high	12
4.1.2	Social confidence is higher for property over other investment types	14
4.1.3	Factors of physical confidence are low with concerns about resilience and durability of apartments	15
4.2	Affordability is the greatest driver of low confidence, however, the trustworthiness of apartments is also a concern	18
4.2.1	Not knowing where to go for information is a challenge	18
4.3	There is an openness to buying apartments	21
4.3.1	Apartment buyers are interested in being owner-occupiers	21
4.4	Three in ten NSW residents are confident to buy an apartment currently	23
5.	Boosting consumer confidence	26
5.1	Finding reliable and trustworthy information is a key challenge	26
5.2	Trust is often determined through building inspections	28
5.2.1	Prospective buyers find searching the internet for information to be helpful	29
5.3	Three in ten are aware of Construct NSW's work but just 17% believe it's effective	31

5.3.1	Hearing about what the government is doing helps to raise confidence	32
5.4	There is interest in a building compliance measure and other new initiatives	33
5.4.1	Half of NSW residents are willing to pay more for peace of mind	34
5.5	There is an interest in 10-year liability insurance	35
5.5.1	There is an openness to pay more for 10-year liability insurance	36
5.6	Openness to buying off the plan increases when introduced to the building compliance measure and 10-year liability insurance	37
5.7	The public care about the environment and believe an embodied carbon rating is worthwhile	40
5.7.1	An embodied carbon rating is appreciated, but not a key factor for decision making	40
5.8	The building compliance measure and 10-year warranty may become important features of the apartment purchasing journey	42
5.9	Economic impact of Construct NSW initiatives	44
6.	Engaging with the building compliance measure	45
6.1	Hosting the building compliance measure on the NSW Government website could help to build trust	45
6.2	Prospective buyers want detailed information on the score	47
7.	Appendix – Economic impact study	50

1. Executive Summary

The NSW apartment market has suffered from incidents surrounding defective buildings. This has been a cause for concern among many consumers. The aim of this report is to explore the current state of confidence towards purchasing an apartment in NSW. To begin to rebuild confidence among consumers, Construct NSW is developing new measures that may provide reassurance and trust for consumers when purchasing apartments. This report also explores the impact of these measures on consumer confidence.

The confidence explored in this report is not about a person's ability to afford an apartment, or interest in purchasing, but refers to the extent to which they believe they are purchasing a 'quality' product. Quality should not be confused with trustworthiness. An apartment is one of the biggest investments one is likely to make, and people should expect it to perform to the seller's promises and their expectations. Trustworthiness encompasses how much the seller is willing to stand by what they have built and provide assurance to the consumer.

This report covers details from a survey of NSW residents (n=1,010) and NSW prospective apartment buyers (n=1,030). The results from both samples have a confidence level of 95% and a margin of error of 3%. For more information on the methodology, refer to section 2.2.

Three in ten NSW residents are currently confident to purchase an apartment

Half of NSW residents (50%) are currently looking to purchase residential property within the next two years. Of these, 35% are considering an apartment, which equates to 17% of all NSW residents. When sentiment and confidence is tested, three in ten (30%) NSW residents strongly or somewhat agree they would be confident buying an apartment in the current market.

The greatest driver of low confidence to purchasing an apartment is because the market is unaffordable (50%). Other reasons NSW residents have low confidence to purchase an apartment is because they don't trust developers (31%), there are better types of investments (25%) or because they believe apartments are not well constructed (24%).

Financial confidence is high

Consumer confidence refers to a person's belief that they are making a good purchase. This sentiment can be influenced by a number of factors such as the belief that a purchase will have a good return on investment (financial confidence), the belief that a purchase will be encouraged by family and friends (social confidence) and the belief that the resilience of the product will match expectations (physical confidence).

Financial confidence is strong with 57% of NSW residents strongly or somewhat agreeing that apartments have a good return on investment. This is unsurprising given that NSW residents perceive property in general to be a better investment in comparison to other investments.

Social confidence is also strong with 56% of NSW residents believing their friends and family would be extremely or very supportive if they wanted to purchase an apartment.

Physical confidence, however, is not as high. NSW residents share greater concern about how well apartments are constructed. Just 37% strongly or somewhat agree apartments are built to withstand the climate for their local environment, and half (53%) agree a lot of apartments in NSW have defects. Concerns about defects in apartment buildings influences consumer confidence to purchase. More than half of NSW residents who believe a lot of apartments have defects in NSW (52%) would not purchase an apartment because of this.

There is a need for trustworthy information for consumers

For NSW residents, the greatest challenge when purchasing an apartment is not knowing whether an apartment has defects (64%). This is followed by not having enough information on the building and who was involved in the construction (50%). NSW residents also believe it's a challenge that buildings don't have a risk or quality rating (47%), that developers and builders don't have a risk or quality rating (46%) and that buildings don't have a reliable warranty (46%). Reforms being implemented by Construct NSW seek to respond to these issues.

Communication of NSW Government initiatives can help build confidence

Just 17% of NSW residents believe the work the NSW Government is currently doing to improve the residential apartment building industry is extremely or very effective. This could, in part, be explained by the low awareness of the work the government is doing in this space (30% aware of what Construct NSW is doing to restore confidence).

When NSW residents are informed about new measures that have been put in place by Construct NSW to protect consumers and restore public confidence between June 2020 to July 2021, their confidence to purchase an apartment increases. Almost half of NSW residents (47%) strongly or somewhat agree that after hearing about these measures, they have greater confidence to purchase an apartment in NSW. Hearing about these measures also increases confidence for three in five prospective apartment buyers (62%).

The building compliance measure and 10-year liability insurance increase consumer confidence

The Construct NSW reforms are looking to introduce a building compliance measure which would provide a score consumers can use to make an informed decision when choosing between apartments. This score would take into account the standard of materials used, traceability of the building certification process and a risk rating for the builder and developer. When NSW residents are introduced to the building compliance measure, three in five (62%) strongly or somewhat agree this measure would give them more confidence to purchase an apartment in NSW. This is similar for prospective buyers, with three in four (77%) strongly or somewhat agreeing they would be more confident. This indicates there is a real interest in the market for a new tool, such as this.

The idea of 10-year liability insurance intrigues consumers. It is a form of insurance taken out by the developer or builder to cover a building for ten years for costs incurred by an owner in the event there are problems impacting the building's stability or safety. This similarly sees NSW residents grow in confidence as 60% of NSW residents strongly or somewhat agree the introduction of a warranty insurance would give them greater confidence to purchase an

apartment in NSW. Three in four (74%) prospective buyers also agree they would have more confidence.

Consumers care about the environment, but it's not the most important factor when thinking about purchasing an apartment

Consumers care about the environment, with half of NSW residents (53%) being extremely or very concerned about the impact of climate change in Australia and 82% believing the NSW Government should tackle climate change issues in Australia. There is even an interest in the embodied carbon rating which is being developed as a new rating to measure and certify embodied carbon for new buildings. More than one in three NSW residents (36%) and 56% of prospective buyers would be extremely or very likely to purchase an apartment using an embodied carbon rating.

Despite this, when NSW residents are presented with a list and asked to choose the top three most important features when thinking about buying an apartment, having an embodied carbon rating falls to the bottom of the list (13%). Unsurprisingly, price (67%) and location (58%) are at the top of the list, followed by the building compliance measure (45%) and having a 10-year warranty (45%).

2. Objectives and methodology

2.1 Research objectives

In November 2021, Construct NSW commissioned McCrindle to conduct quantitative and qualitative research to understand the market sentiment towards buying an apartment in NSW. The key objectives of this research are to:

- Baseline the state of consumer confidence towards buying an apartment in NSW
- Understand the contributing factors to high and low confidence
- Test what can be done to increase consumer confidence.

2.2 Research methodology

The state of consumer confidence report is the collation of quantitative and qualitative data gained through an online survey and focus groups with consumers. The survey was completed by 1,010 NSW residents, representative by age, gender and location. This sample collected 175 respondents who were looking to purchase an apartment in the next two years. The sample was then topped up to collect a total of 1,030 responses from NSW residents looking to purchase an apartment within the next two years to ensure statistical significance in this cohort. The survey was in field from the 22nd of February to the 9th of March 2022.

Two focus groups were conducted on the 16th of March with consumers looking to purchase an apartment in the next two years, either as investors or owner occupiers. There was a total of 18 participants across the two groups, with an even mix of genders, age and location within NSW (metro and regional). Insights from the focus groups are used to add further depth to the survey findings.

2.2.1 Confidence level and margin of error

A confidence level is the degree of certainty that responses will fall within a certain percentage if the survey was to be re-run. The larger the sample size, the higher the confidence level.

The margin of error indicates the percentage by which results in the data set may vary depending on sample size. The larger a sample size is, the lower the margin of error is.

- Results from NSW residents (n=1,010) have a confidence level of 95% and a margin of error of 3%.
- Results from prospective apartment buyers (n=1,030) have a confidence level of 95% and a margin of error of 3%.

2.2.2 Terminology

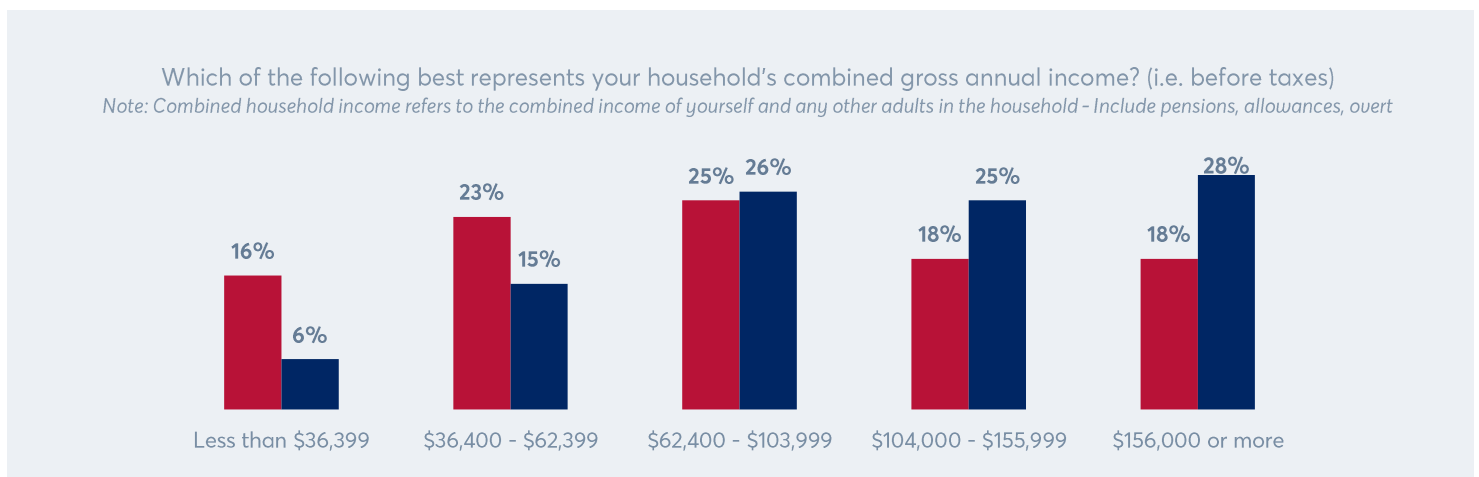
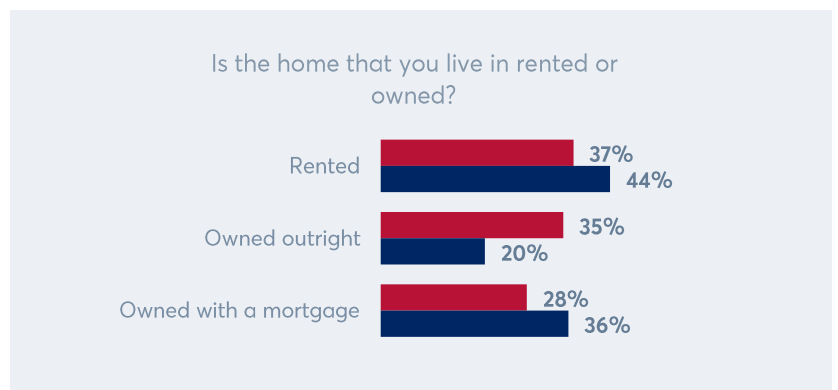
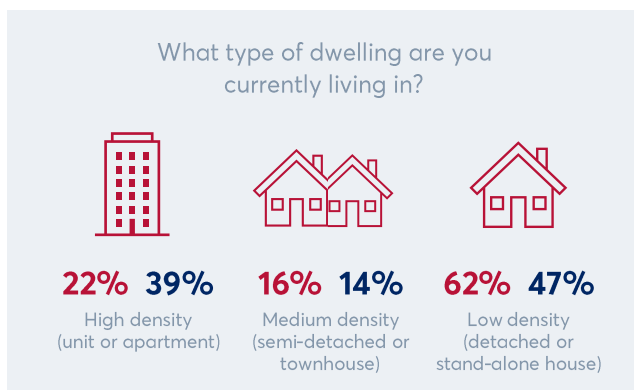
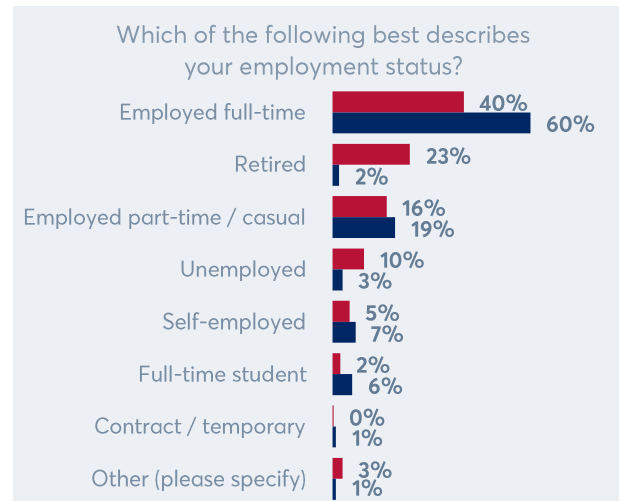
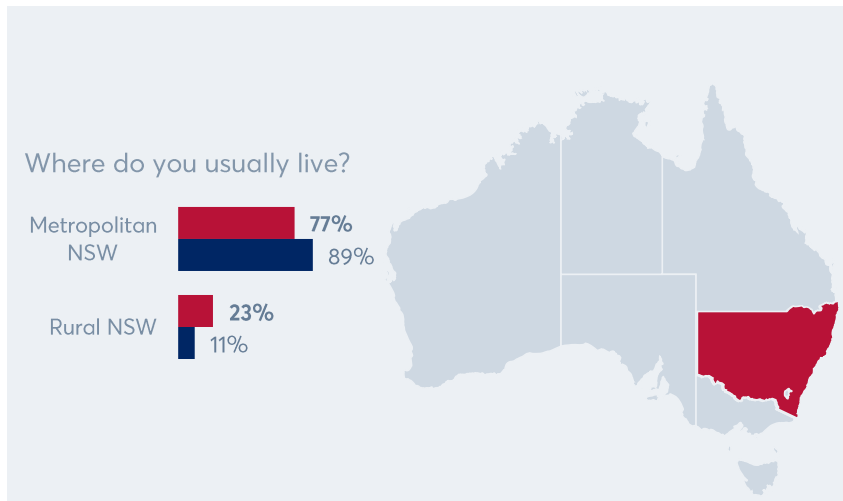
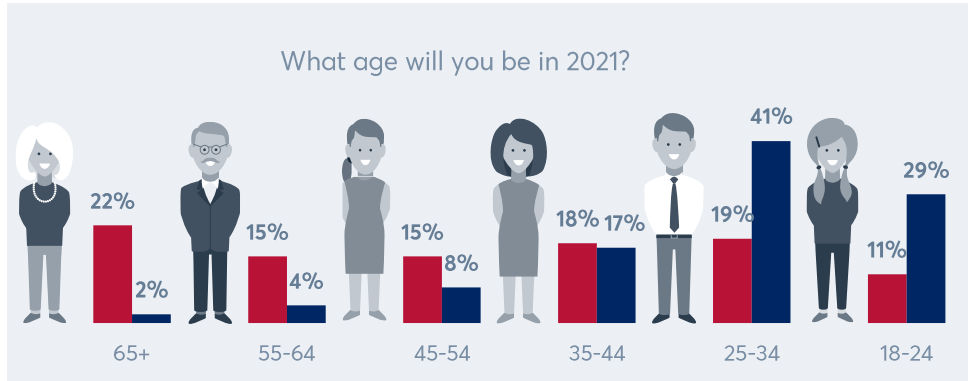
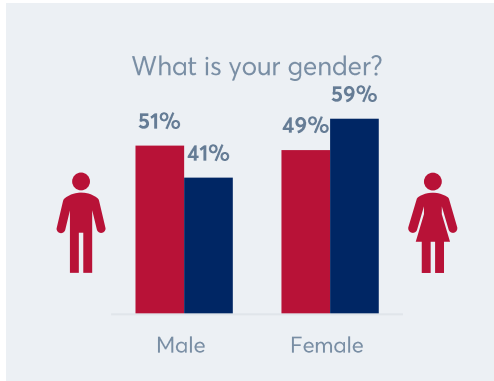
Throughout this report, respondents from the NSW population group are referred to as 'NSW residents', or 'residents'. Those looking to purchase an apartment in the next two years are referred to as 'prospective apartment buyers' or more simply 'prospective buyers'. When spoken about as a collective, 'consumers' or 'the public' is used to refer to these two groups.

2.2.3 Graphs and rounding

Data labels on the graphs in this report have been rounded for simplicity. Some graphs may, therefore, sum to 99% or 101%. Any calculations where two data points are added are based on raw data, not the rounded data labels on the graph, which are then rounded once combined.

3. Demographic summary

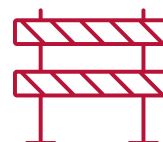
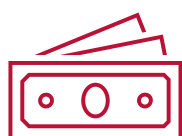
■ NSW residents n= 1,010 ■ Prospective apartment buyers n=1,030



4. Exploring confidence

4.1 Measuring financial, social and physical confidence

When thinking about buying property, there are many factors that are at play which can influence the public's confidence towards purchasing property. For this survey, we explored three areas to reveal the mechanics of confidence and to demonstrate the confidence factors that might weigh into a decision. The three areas include how financially confident the public is when thinking about the return on investment. Additionally, how socially confident they are which can include if buying property is socially perceived as a good decision, or how physically confident they are which involves thinking about the resilience and trustworthiness of buildings that exist or are being built today.

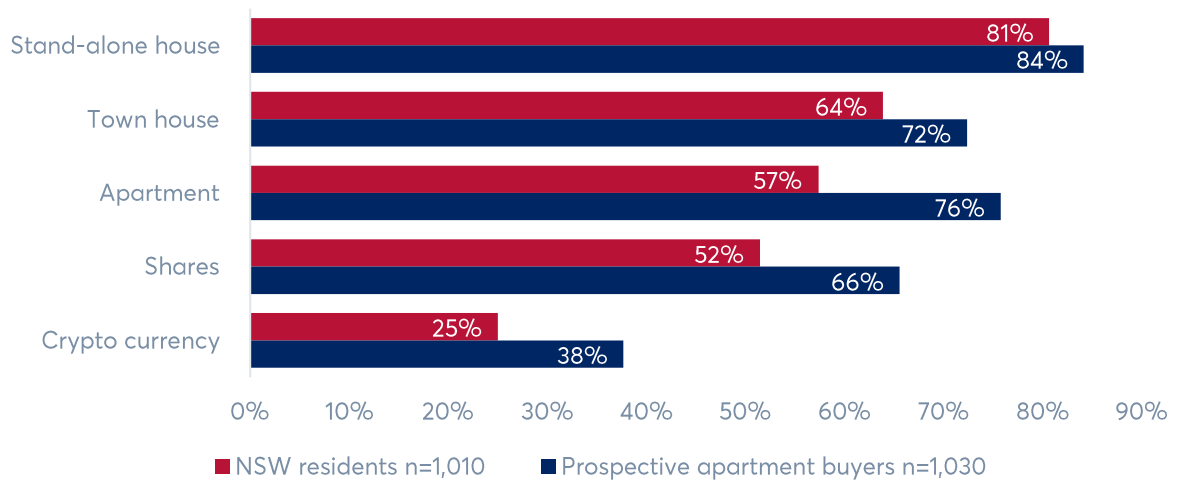


4.1.1 Financial confidence is high

For NSW residents, when thinking about what investments would produce a good return, property rates higher than other forms of investments (Figure 1.1). Four in five (81%) strongly or somewhat agree that a stand-alone house would have a good return on investment and 57% believe apartments have a good return. Positively, prospective buyers are much more likely to agree that buying an apartment produces a good return on investment (76%), even more so than townhouses (72%).

Younger cohorts of NSW residents are more likely to be optimistic and have financial confidence across most of the investments, aside from stand-alone houses, where older NSW residents show slightly more financial confidence (85% 65+ cf. 80% 18-24, 83% 25-34, 76% 35-44, 82% 45-54, 80% 55-64).

Figure 1.1. - Question: To what extent do you agree the following would have a good return on investment?
Strongly/somewhat agree



4.1.2 Social confidence is higher for property over other investment types

Similar to financial confidence, social confidence is higher for property than other investment types, with lower density options coming out on top (Figure 1.2).

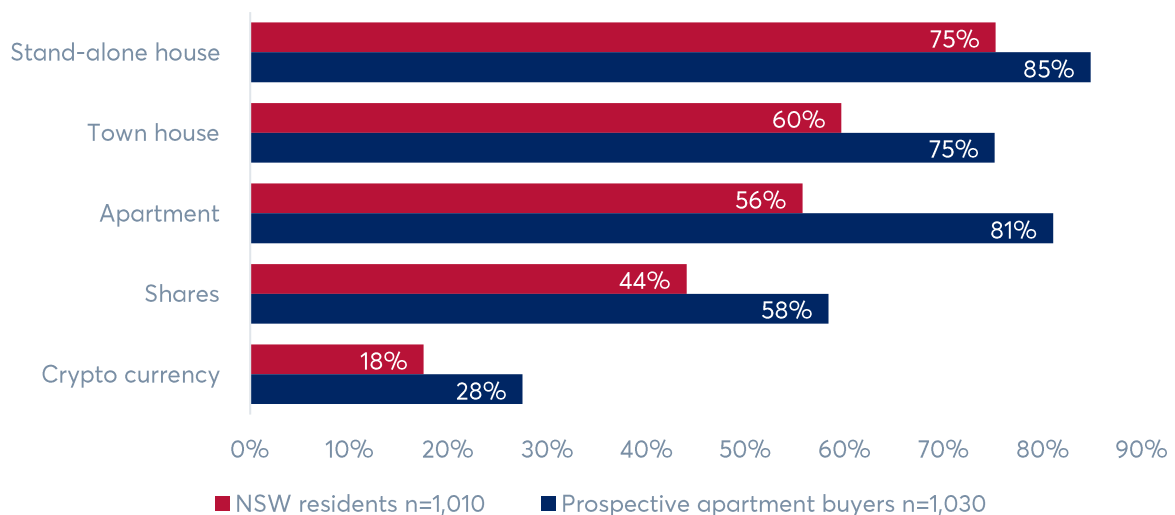
Three in four NSW residents (75%) believe their family and friends would be extremely or very supportive if they were to invest in a stand-alone house while 56% believe they would be supported for purchasing an apartment. Other investments, such as shares (44%) or crypto currency (18%) are less likely to garner support from family and friends, demonstrating the social value that is placed on property investment in the Australian context.

Prospective buyers are much more likely to believe they would be extremely or somewhat supported by family and friends if they were to purchase an apartment (81%) compared to NSW residents (56%).

Younger NSW residents have higher social confidence than older NSW residents for each investment type, particularly for apartments as they are more likely to believe they would be extremely or very supported by those close to them if they invested in an apartment (73% 18-24, 71% 25-34 cf. 55% 35-44, 57% 45-54, 45% 55-64, 39% 65+).

This could be due to a few factors, such as living in an apartment may be seen as more socially acceptable when people are younger. Additionally, there may be more understanding from family and friends that younger people might struggle to afford a detached home, so an apartment may be the best option.

Figure 1.2 - Question: If you were in a financial position to make an investment, how supportive do you think your family and friends would be of you making the following types of investments?
Extremely/very supportive



4.1.3 Factors of physical confidence are low with concerns about resilience and durability of apartments

Less than two in five NSW residents (37%) strongly or somewhat agree apartment buildings in NSW are constructed to withstand the weather particular to their local environment (Figure 1.3). Not only this, but more than half (53%) agree that a lot of apartment buildings in NSW have defects (Figure 1.4). This is having a direct impact on NSW residents' confidence. Half of those that believe a lot of apartment buildings have defects (52%), say they would not purchase an apartment because of this (Figure 1.5).

Older NSW residents are also more likely to strongly or somewhat agree that a lot of apartment buildings have defects (63% 65+ cf. 37% 18-24, 49% 25-34, 52% 35-44, 54% 45-54, 59% 55-64).

Physical confidence is only slightly higher among those looking to purchase an apartment. Just over two in five (43%) strongly or somewhat agree apartments are constructed to withstand local weather conditions (Figure 1.3). Close to half of prospective buyers (47%) believe a lot of apartments in NSW have defects (Figure 1.4), however, this is more likely to be a key consideration (63%), rather than a complete barrier to purchase (33%) for this group (Figure 1.5).

Prospective apartment buyers in the focus groups also expressed concerns about the general quality of apartment buildings that are being built today. While this may not deter them from purchasing apartments altogether, it does create a general wariness and sense of caution when making their purchasing decision.



You just have to be very careful with what sort of apartment you are buying. There are a lot of poor quality apartments. We've seen a lot of apartments in Sydney with homeowners left short-changed like in Sydney Olympic Park and Mascot. Definitely lots of question marks around it.

Figure 1.3 - Question: To what extent do you agree with the following statements when thinking about purchasing an apartment in NSW: Apartment buildings in NSW are constructed to withstand weather particular to their local environment.

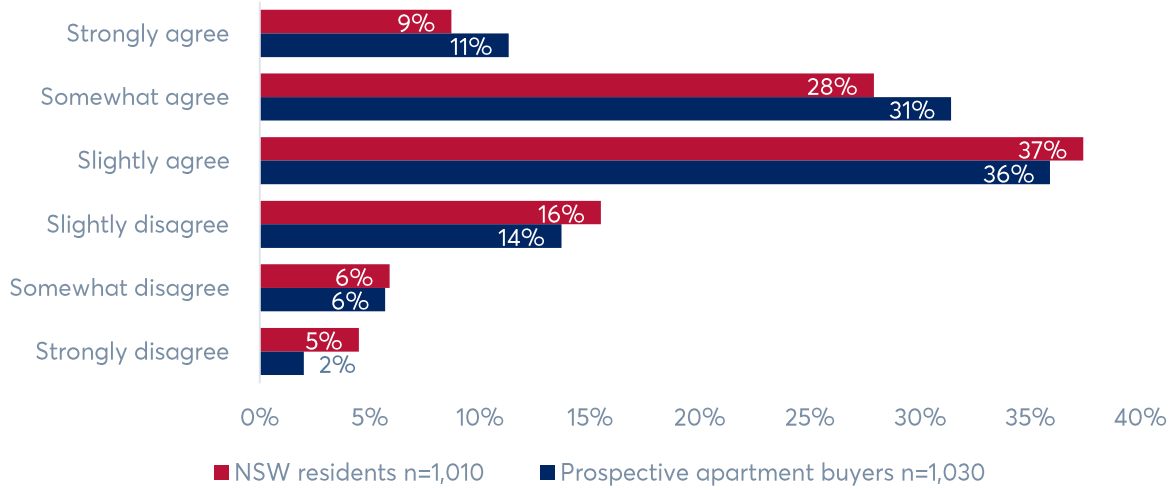


Figure 1.4 - Question: To what extent do you agree with the following statements when thinking about purchasing an apartment in NSW: A lot of apartment buildings in NSW have defects.

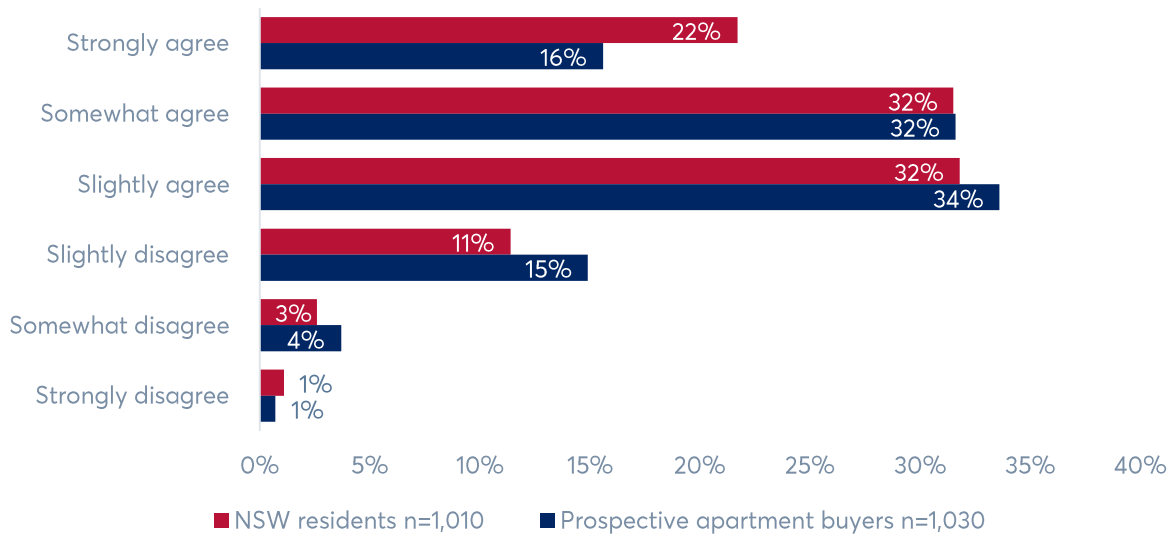
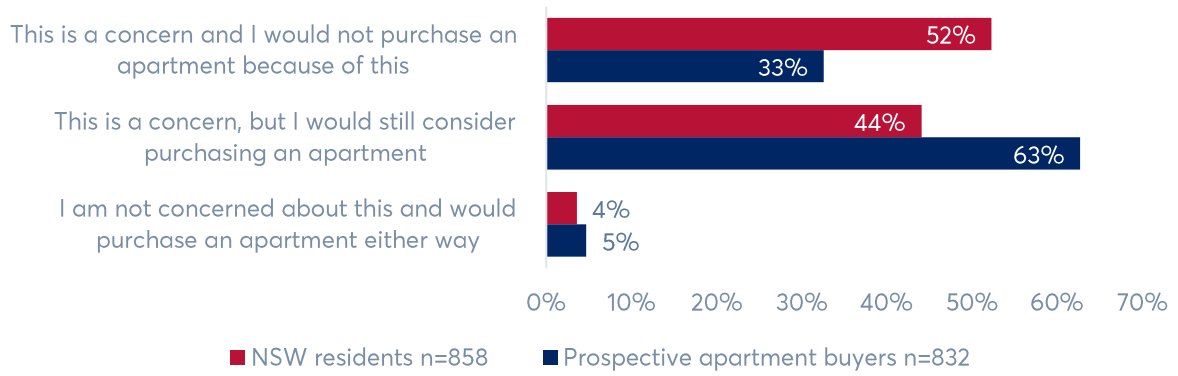


Figure 1.5 - Question: How much does the following impact your willingness to purchase an apartment: A lot of apartment buildings in NSW have defects



4.2 Affordability is the greatest driver of low confidence, however, the trustworthiness of apartments is also a concern

NSW residents and prospective apartment buyers unanimously agree the market being unaffordable has the greatest influence on why they have low confidence to purchase an apartment in NSW (50% NSW residents cf. 58% prospective apartment buyers) (Figure 1.6).

It's no surprise that affordability is what's driving low confidence for NSW residents as 72% strongly or somewhat agree that the market has become unaffordable (Figure 1.7).

There is also a lack of trust in the trustworthiness of apartments. Low confidence among NSW residents is driven by a distrust of developers (31%) and a belief that apartments are not well constructed (24%) or are not built to last (15%). This lack of trust is further enhanced by negative media stories, with 14% indicating this has impacted their confidence (Figure 1.6).

The negative media is not, however, completely stopping NSW residents from considering apartments. For those who agree there are a lot of media stories about defects, 51% see it as a concern but would still consider buying an apartment, 42%, however, would not buy an apartment because of this (Figure 1.8).



4.2.1 Not knowing where to go for information is a challenge

Another driver of low confidence for NSW residents is not knowing where to find helpful information about purchasing an apartment (11%) (Figure 1.6). This was also a key challenge for those in the focus groups, particularly the lack of trustworthy information about the quality of the construction.



[I have low confidence because of] structural considerations. With a house you can get an engineer to look at your property. If you're buying a unit, you can get a review but not necessarily of the building, just your unit.

More than half of NSW residents (54%) believe there is not enough information available on buildings to make an informed decision (Figure 1.7) and for these people, 50% would not buy an apartment because of this (Figure 1.8).

Younger prospective buyers are more likely to have low confidence because they don't know where to find helpful information about purchasing apartments (22% cf. 15% 25-34, 13% 35-44, 11% 45+). Prospective buyers aged 45+, however, are more wary of developers, as they are the most likely to not trust developers (34% cf. 18% 18-24, 23% 25-34, 27% 35-44).

Figure 1.6 - Question: Which of the following are the main reasons you have low confidence to purchase an apartment in NSW?
Please select up to three.

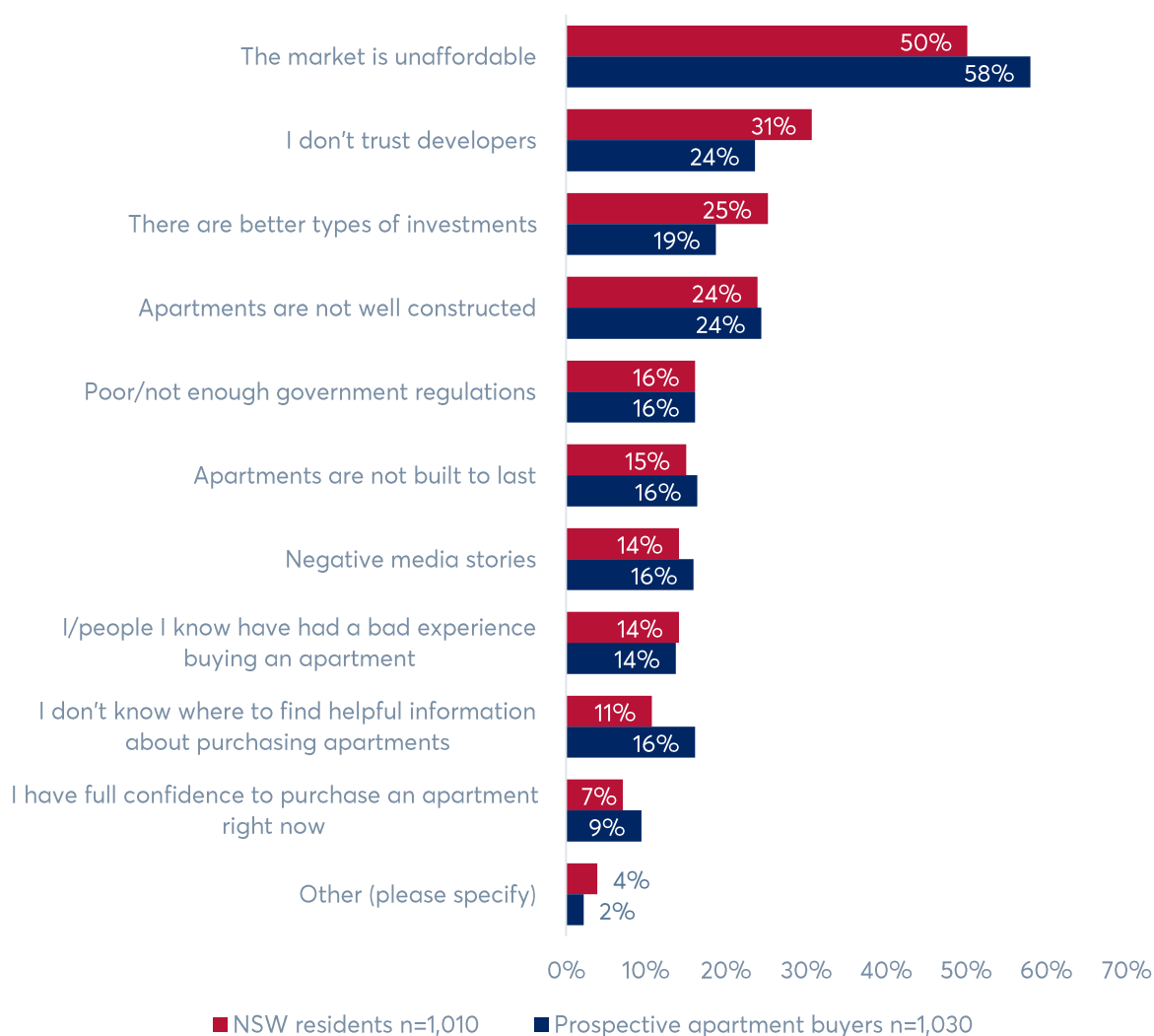


Figure 1.7 - Question: To what extent do you agree with the following statements when thinking about purchasing an apartment in NSW?
NSW residents n=1,010

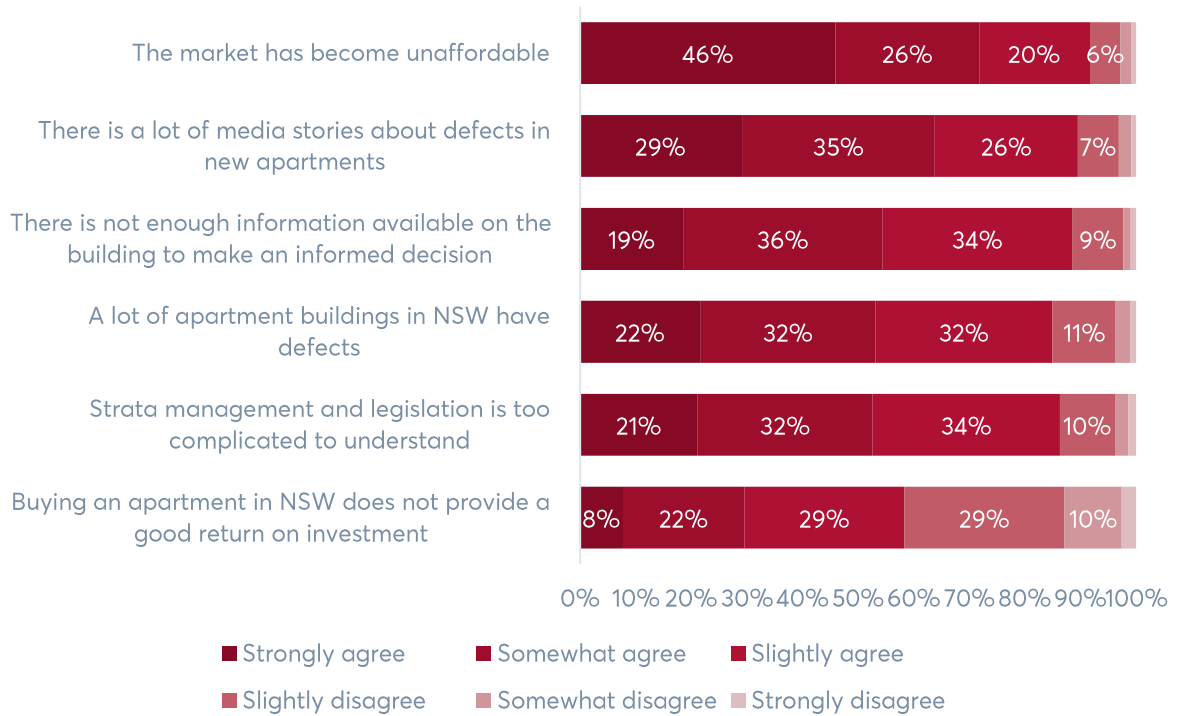
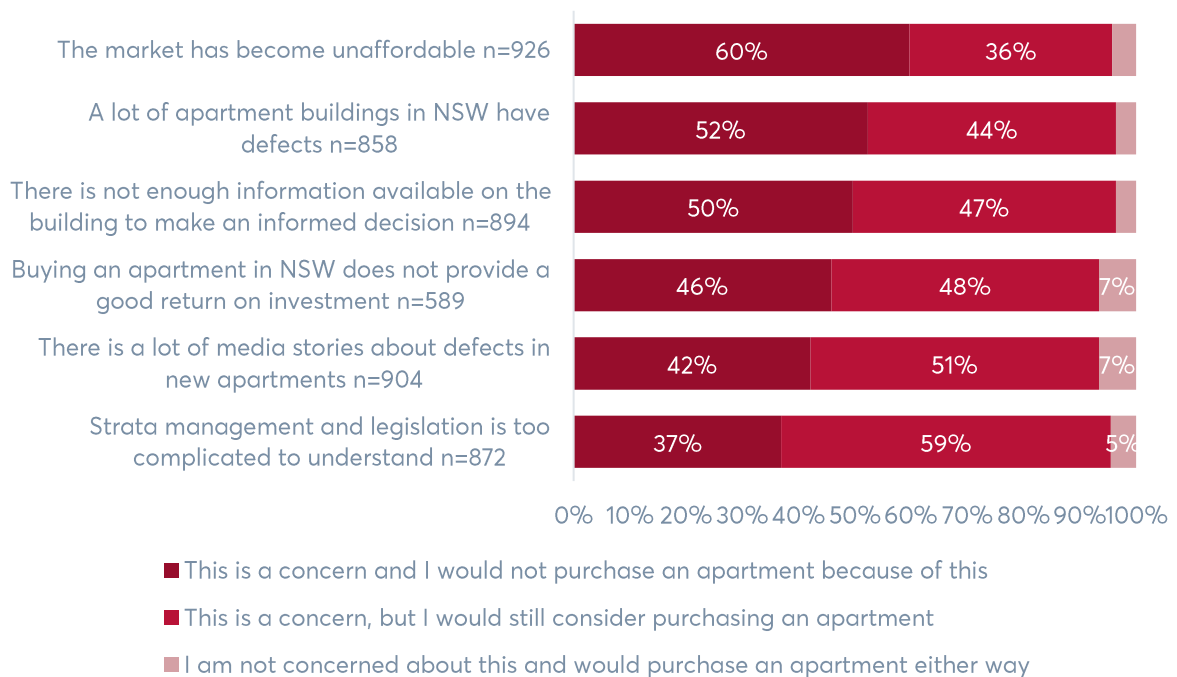


Figure 1.8 - Question: How much do each of the following impact your willingness to purchase an apartment?
NSW residents whose who agree with the following statements



4.3 There is an openness to buying apartments

Half of NSW residents (50%) are definitely/maybe looking to purchase a residential property within the next two years (Figure 1.9). Of those looking to buy, the greatest proportion (60%) are looking to buy low density housing (i.e. a detached or stand-alone house), followed by 42% who are considering medium density (i.e. a semi-detached or townhouse) (Figure 1.10). One in three (35%) are considering purchasing high density (i.e. a unit or apartment). Of prospective buyers, 58% are also considering buying medium density and 43% would also consider low density housing.



4.3.1 Apartment buyers are interested in being owner-occupiers

Prospective apartment buyers are more likely to be looking to buy as both an owner-occupier and investor (28%) (Figure 1.11). This could mean they are looking to live in the property for a while before eventually renting it out and treating it more as an investment. Almost half of prospective buyers (47%) are looking to purchase as just owner-occupiers and 24% are looking to buy just as investors.

Younger prospective apartment buyers are more likely to be looking to purchase an apartment as both an owner-occupier and investor (35% 18-24 cf. 27% 25-34, 30% 35-44, 16% 45+). Those aged 45+, however, are more likely to be interested in buying just as an investor (40% cf. 17% 18-24, 24% 25-34, 25% 35-44).

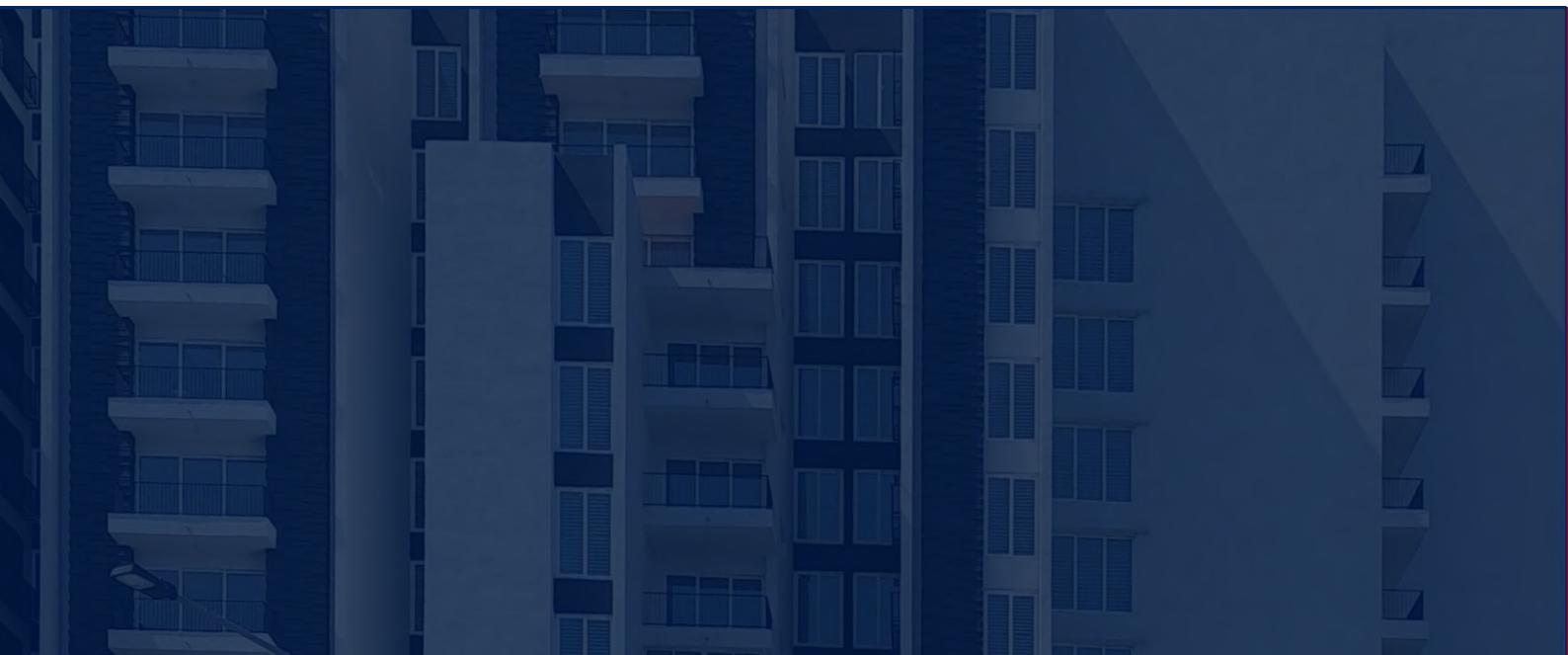


Figure 1.9 - Question: Are you looking to purchase a residential property within the next two years?
NSW residents n=1,010

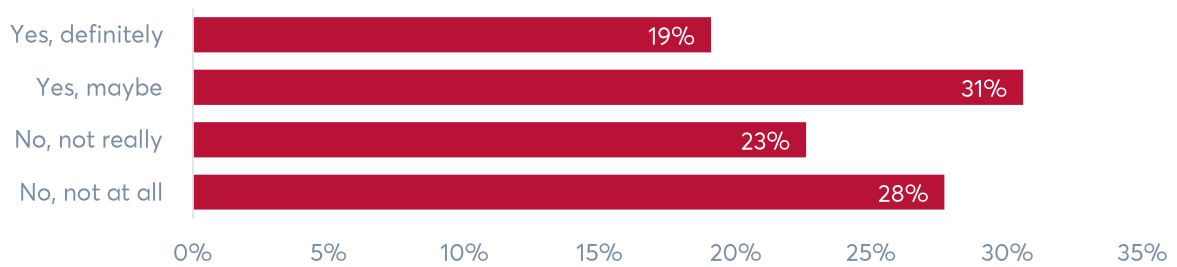


Figure 1.10 - Question: What kind of residential property types are you considering purchasing in the next two years?
Please select all that apply.
Those looking to buy residential property in the next two years

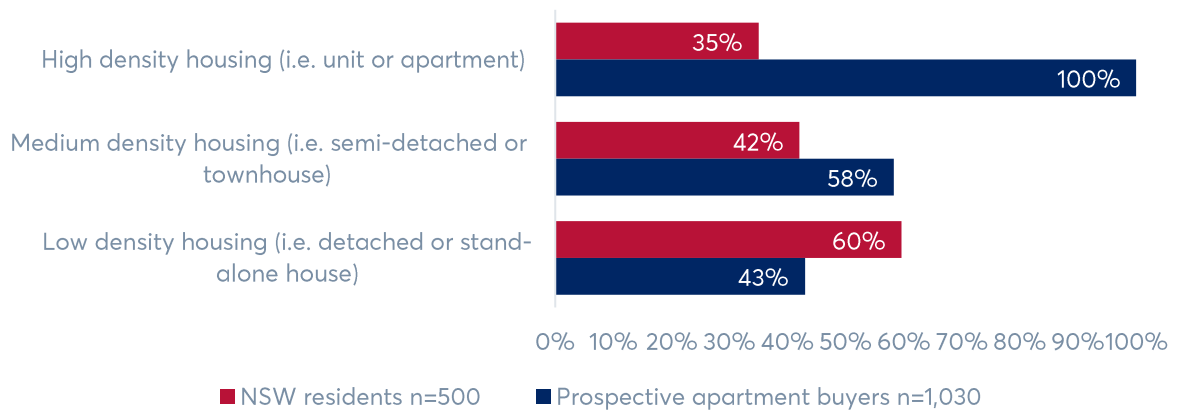
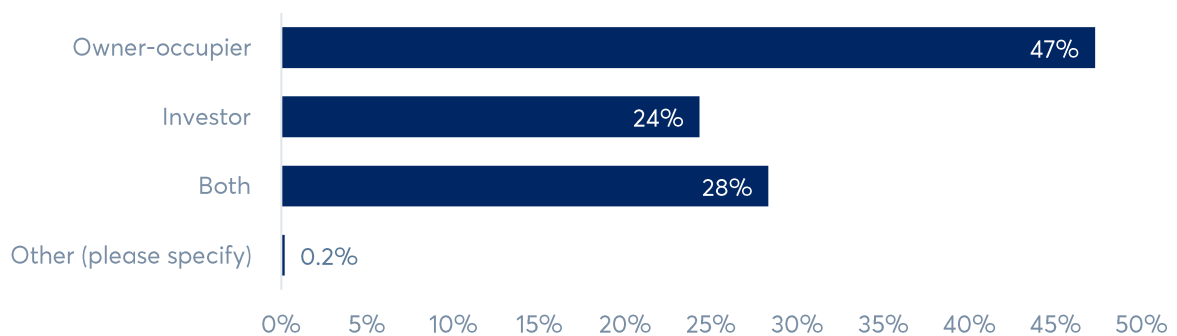


Figure 1.11 - Question: Are you looking to purchase an apartment as an owner-occupier or an investor?
Prospective apartment buyers n=1,030



4.4 Three in ten NSW residents are confident to buy an apartment currently

Three in ten NSW residents (30%) strongly or somewhat agree they would be confident¹ buying an apartment in NSW in the current market (Figure 1.12). Unsurprisingly, confidence is higher for prospective apartment buyers, with almost half (46%) strongly or somewhat agreeing they would be confident to purchase an apartment in the current market.

This is positive as confidence was previously low with almost half of NSW residents (46%) strongly or somewhat agreeing they may not have been confident to purchase an apartment in NSW two years ago (Figure 1.13). Prospective apartment buyers had even less confidence with 52% agreeing they wouldn't have been confident then.

Confidence is expected to continue increasing in the future (Figure 1.4). After seeing some of the reform changes that the government have implemented since 2020, many believe their confidence towards buying an apartment in NSW is set to increase. Almost two in five NSW residents (37%) strongly or somewhat agree they will be more confident to buy an apartment in the next two years. This jumps even further for prospective apartment buyers, where 62% believe they will be more confident in two years' time.

Interestingly, prospective apartment buyers who are extremely or very likely to consider buying off the plan are much more likely to strongly or somewhat agree they are confident to buy an apartment in the current market (60% cf. 39% somewhat likely to buy off the plan, 38% slightly likely to buy off the plan, 33% not at all likely to buy off the plan).



- **46%** were not confident to purchase two years ago
- **30%** confident to purchase in the current market
- **37%** will be more confident to purchase in two years' time

NSW residents n=1,010

¹ Before answering questions about confidence, survey respondents were shown the following description of confidence: 'This survey explores your levels of confidence towards purchasing an apartment. In this context, confidence refers to your level of trust that you are purchasing a good product. It is not about your desire to purchase an apartment or your ability to afford an apartment.'

Figure 1.12 - Question: To what extent do you agree with the following statement: I would be confident buying an apartment in NSW in the current market.

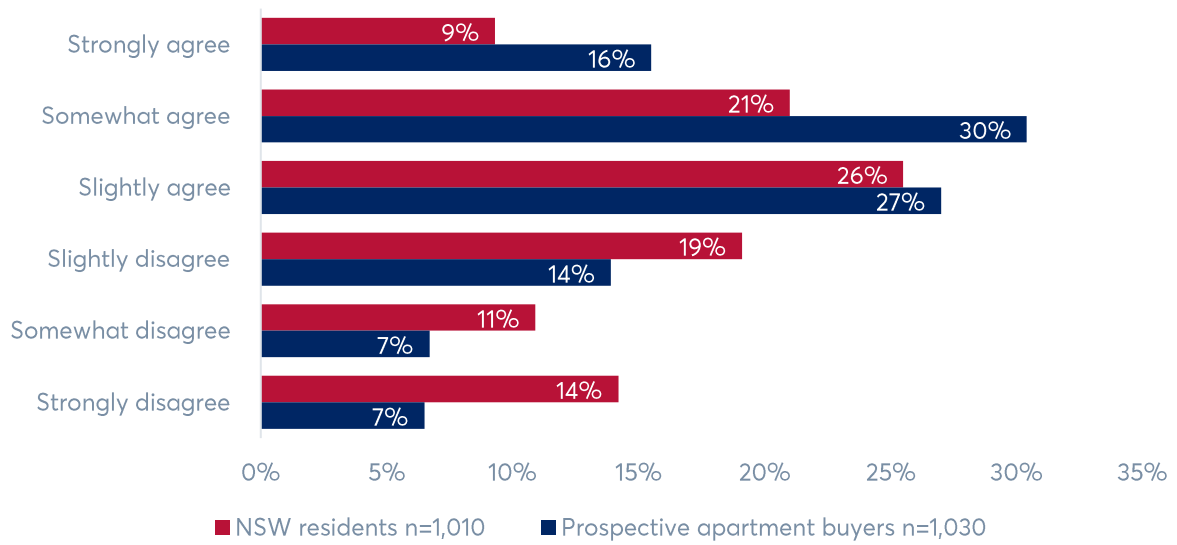


Figure 1.13 - Question: To what extent do you agree with the following statement: Two years ago, I may not have been confident to purchase an apartment in NSW.

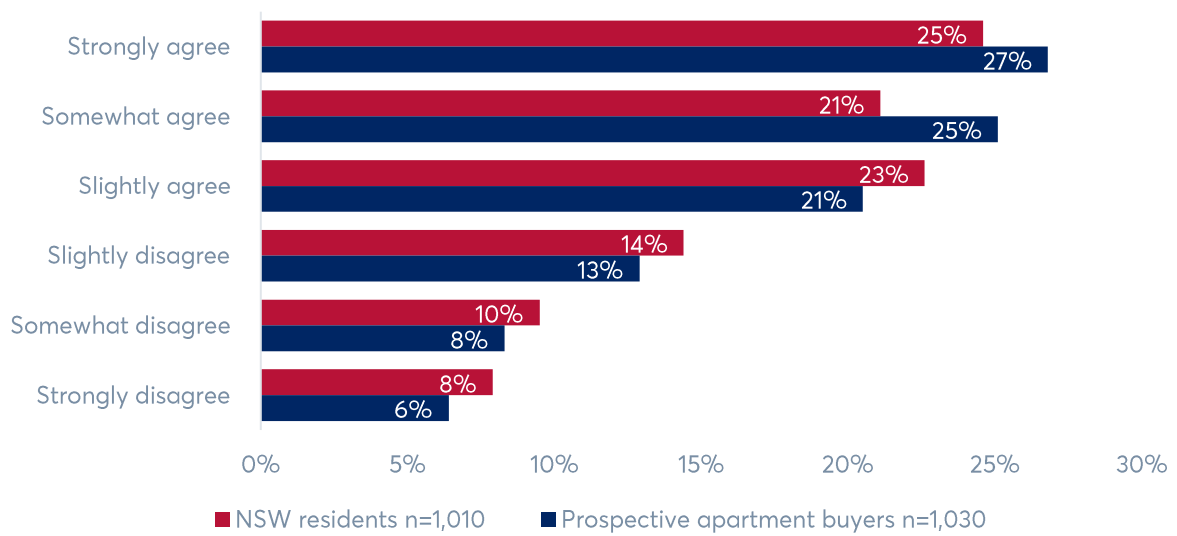
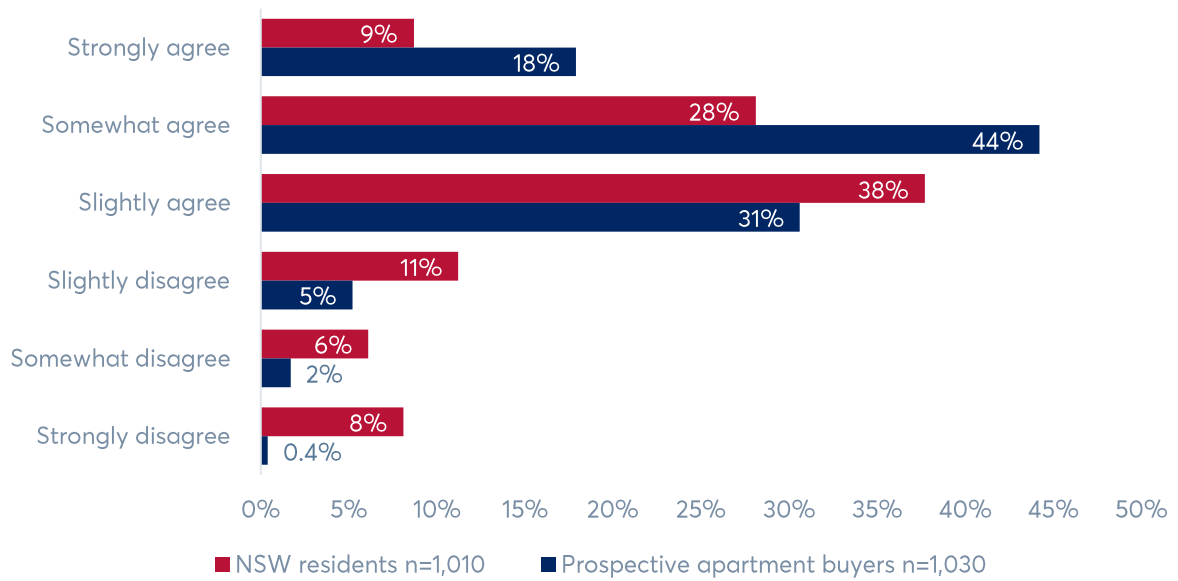


Figure 1.14 - Question: Looking ahead to the next two years, to what extent do you agree you are likely to be more confident about buying an apartment in NSW?



5. Boosting consumer confidence

5.1 Finding reliable and trustworthy information is a key challenge

When thinking about what the greatest challenges are when purchasing an apartment, not knowing whether a building has defects is one of the greatest challenges for prospective buyers (60%) (Figure 2.1). Not having enough information on the building and who was involved in the construction is also a key challenge (49%). Almost half find it a challenge that buildings don't have a risk or quality rating (46%) and a similar proportion find it challenging that developers and builders don't have a risk or quality rating (45%). Many prospective buyers also believe it's a challenge not having a reliable warranty (39%).

Prospective buyers (28%) are least likely to find the lack of information on the environmental sustainability of the building to be a challenge.

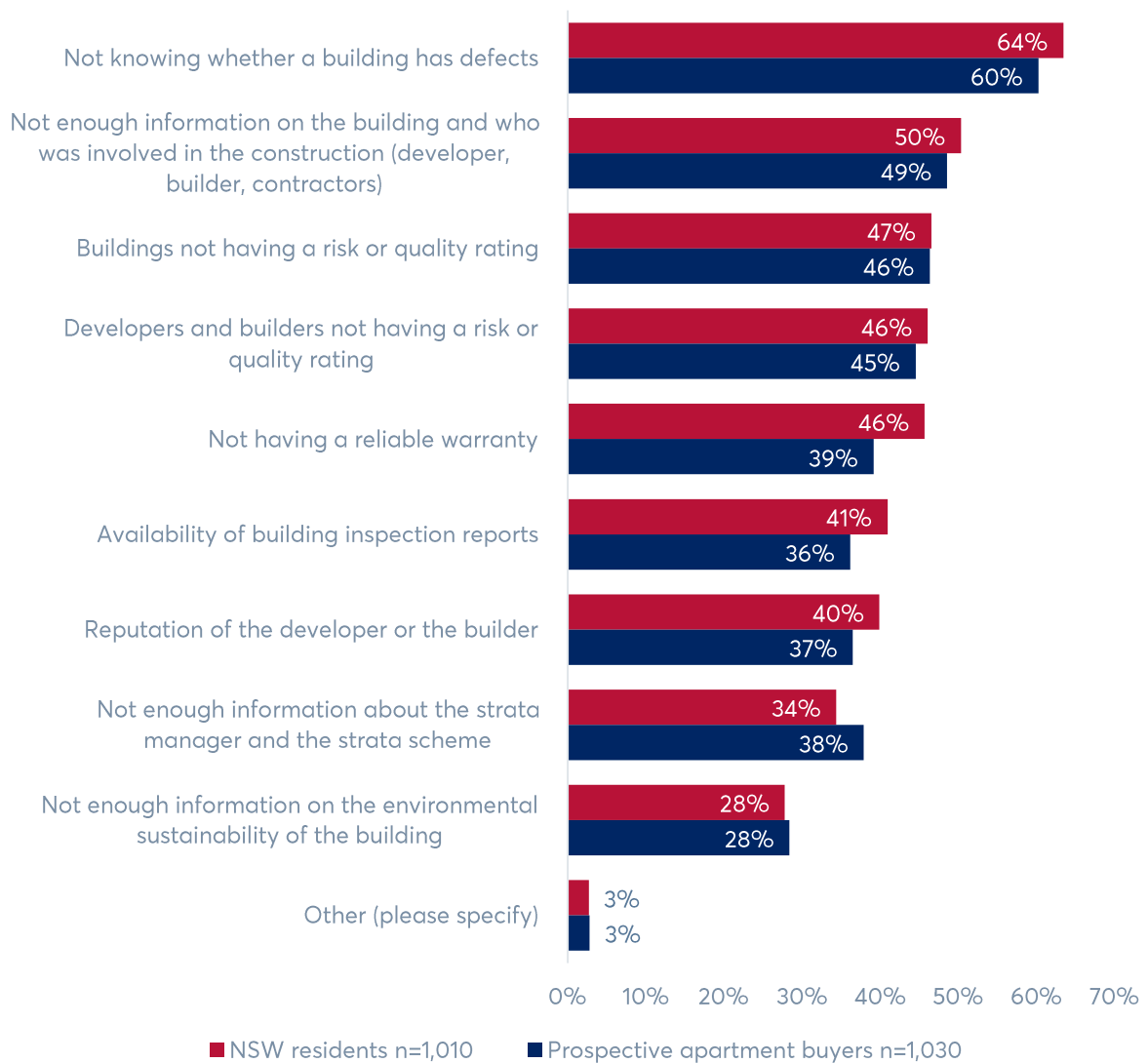
Female prospective buyers are more likely than males to find not knowing whether a building has defects to be one of the greatest challenges when purchasing an apartment (68% cf. 49%).

Older prospective apartment buyers are more likely than younger buyers to believe not having a reliable warranty is a challenge (47% 45+ cf. 35% 18-24, 37% 25-34, 45% 35-44).

Many of these challenges come down to not having either the right, enough, or reliable information to assist consumers in making an informed decision when buying an apartment. More can be done to help support consumers with the challenges they face when buying an apartment.



Figure 2.1 - Question: What do you believe are the greatest challenges when purchasing an apartment in NSW?
Please select all that apply.



5.2 Trust is often determined through building inspections

When thinking about how prospective apartment buyers would determine whether an apartment building is trustworthy, 76% would rely on building inspections, usually done by an external provider (Figure 2.2). This is followed by those who believe the reputation of the builder (64%) and age of the building (64%) helps to determine trust. Visual inspections, likely done by looking over the property themselves (62%), and information from the developer (52%) are also key. This shows trust is first and foremost garnered from building inspections, which many consumers would not be looking into until they are closer to making a decision to purchase. This highlights it would be valuable to have a source of information that could determine trust and be easier to use earlier on in the purchasing journey.

The way prospective buyers use many of these sources to determine trust was further expanded on in the focus groups. For example, when it comes to the age of the building, prospective buyers are looking for something not too new because it might not have been built correctly, but not too old to avoid issues such as concrete cancer.



I think buildings aren't built as well as they used to be, but also, they're different now. Whilst it's potentially cheaper to buy an older building, the problem is then you get concrete cancer and other things. Whereas, if you go too new, you're going to have other issues such as shoddy workmanship because at the end of the day, we all want the cheapest price possible but for this, the builder has to cut corners.

When discussing the reputation of the developer, prospective buyers highlight the challenge of knowing what to believe. Even if a developer had a good reputation in the past, if the company has been sold since then, or has just dropped standards this reputation may no longer be valid.



Track record is a good indicator (of whether you can trust a builder/developer). The biggest problem with track record is that companies build up their name to a good reputation and they sell their name. This throws you out with your research. You might think they have a good track record and they've been taken over by someone else. You're on the slippery dip with it.

One person mentions they believe the materials used can be useful in determining the trustworthiness of a building, however, this information can be a challenge to find. They also suggest it would be helpful to have a government resource that could help consumers determine trust. Others highlight the struggle of trying to collate information from many sources to determine trust. This positions the government well to create a resource to help consumers determine the trustworthiness of one building in comparison to another.



There's a lot of issues at the moment, getting more and more traction around building materials used in the last decade or two, whether they are fire resistant... Some of those things are hard to find out. The annoying thing is that when you're buying a unit, you are often repeating exercises that others have done (to investigate the quality of a building). It would be great if there was a government registry so we don't have to reinvent the wheel.



[There is] so much information, you don't know how to tailor it in and draw it all together. I developed a bit of a calculator and plug all my figures into that and condense the information.

5.2.1 Prospective buyers find searching the internet for information to be helpful

Many in the focus groups are determining the trustworthiness of properties from their own research. This includes scouring the internet for any information they can find, doing their own visual inspections, or going through the strata reports themselves. With some prospective buyers relying on their own research to guide their decision, this further highlights the potential for a single source that can help consumers determine trust between apartments.



I put the address in Google and see what comes up - news stories, previous selling in the building, updated work, older real estate.com ads for the property.



I examine the strata reports and minutes, looking at the accounts to see how much is in the sinking fund. A lot of it's to do with knowledge of the area, if I've bought units there previously, you do your research on realestate.com and domain.

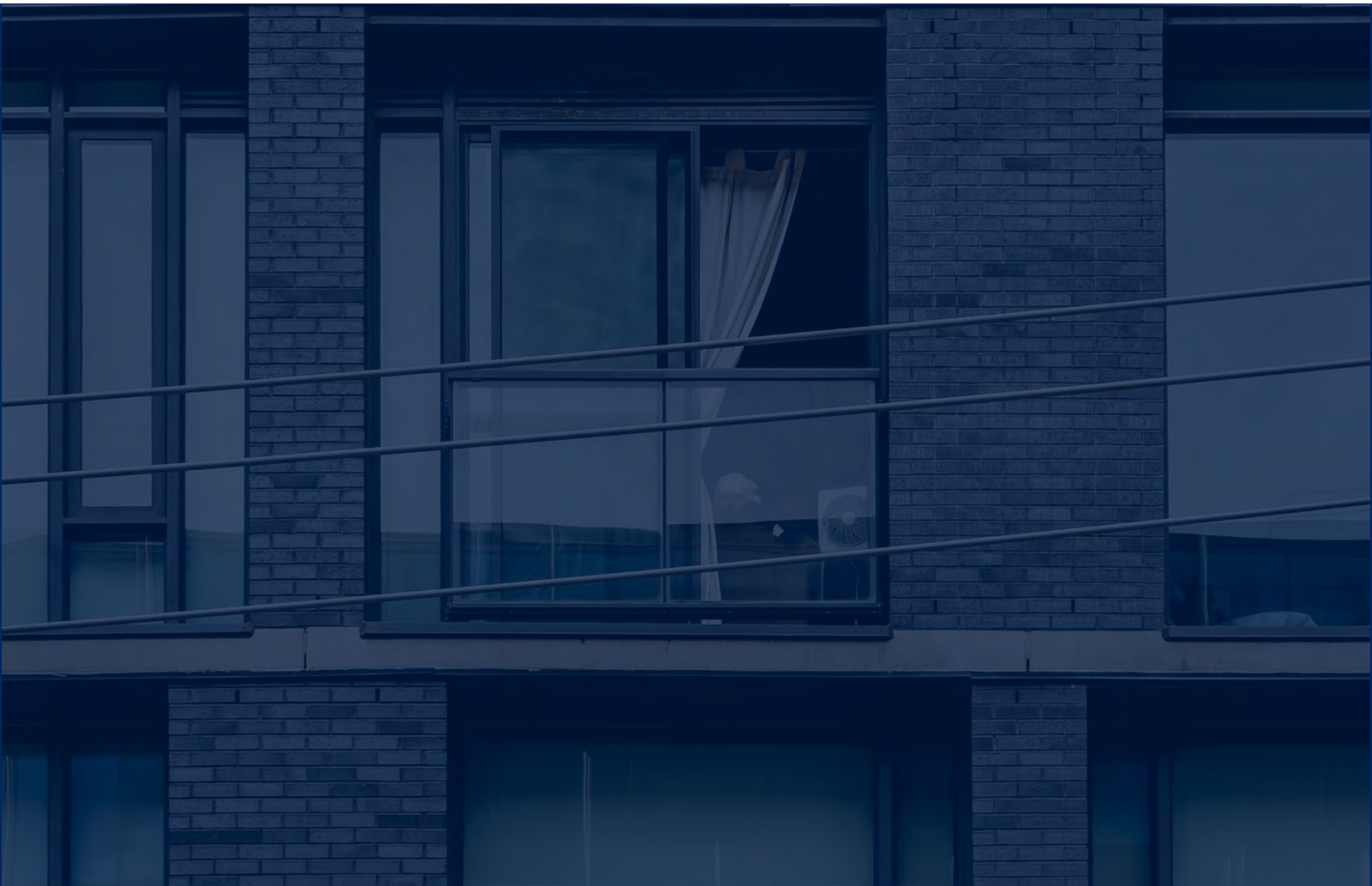
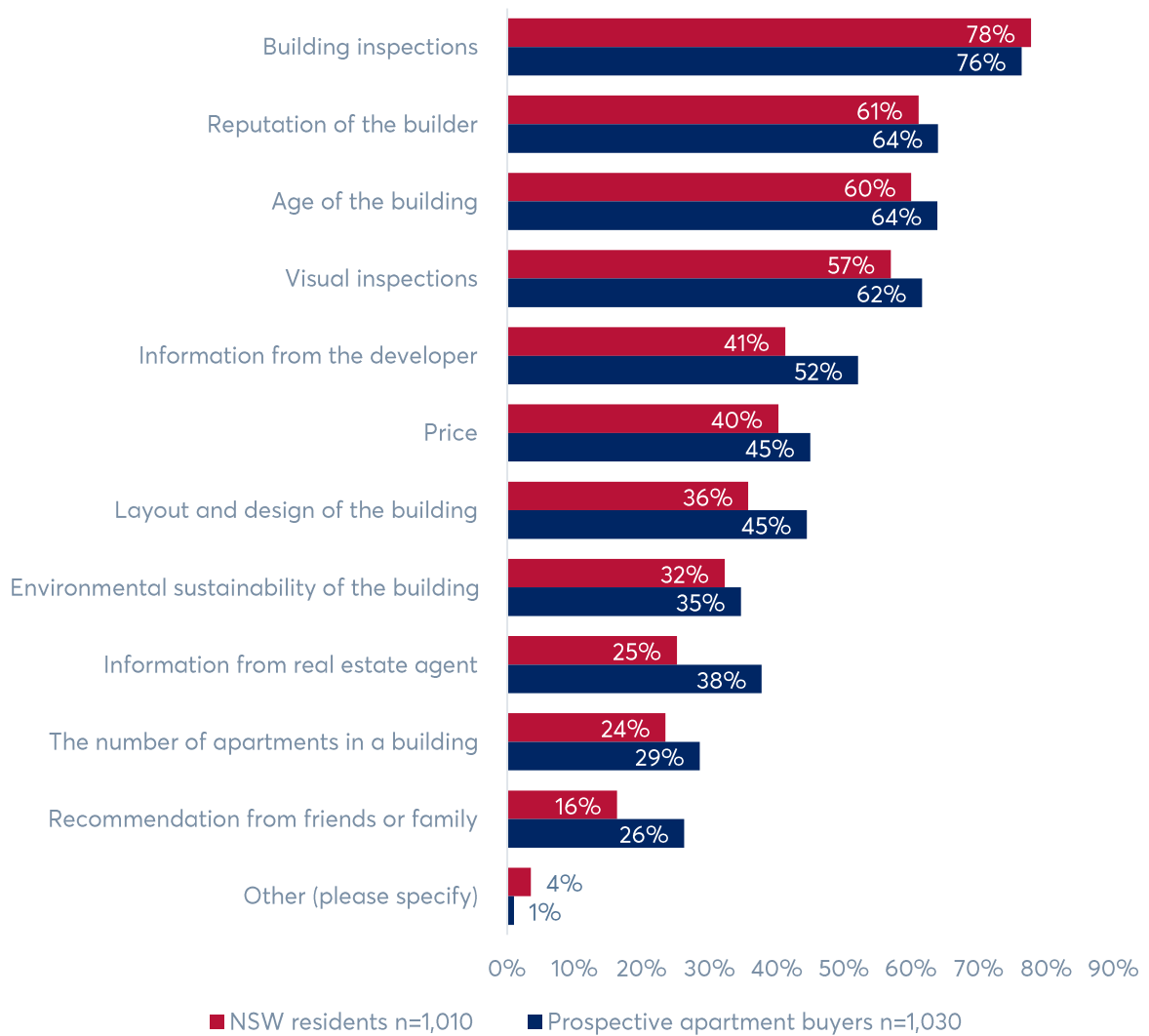


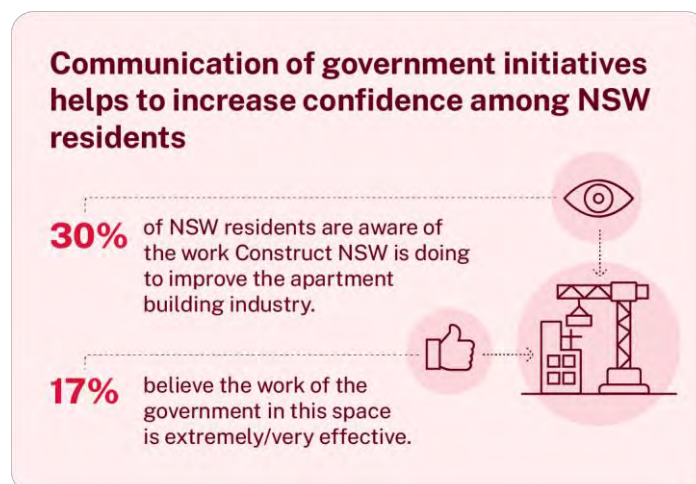
Figure 2.2 - Question: How would you determine whether an apartment building is trustworthy?
Please select all that apply.



5.3 Three in ten are aware of Construct NSW's work but just 17% believe it's effective

Construct NSW has already established reforms to restore confidence among NSW consumers². Three in ten NSW residents (30%) are aware of the work Construct NSW is doing to restore confidence in the NSW apartment building market. This is similar for prospective buyers (32%). Just 17% of NSW residents believe the work is extremely or very effective in improving the residential apartment building industry. Positively, prospective buyers are more likely to believe the government's work is effective (26%).

NSW residents who are aware of the work being done to restore confidence are more likely to believe the government's work has been extremely or very effective compared to those who aren't aware (28% cf. 12% who are not aware).



² In the survey, respondents were shown the following text to explain some of the recent measures introduced by Construct NSW before answering questions about their awareness of this work and their belief in its effectiveness. 'NSW Government has introduced new measures in the last 18 months to restore public confidence in the NSW building industry and to stop defective buildings entering the market. The goal of this is to ensure people looking to enter the property market will have peace of mind that their home will be designed and built in compliance with the Building Code of Australia.'

The NSW Building Commissioner was appointed in 2019 and has been leading the implementation of the new laws and will focus on the investigation and improved regulatory enforcement.'

5.3.1 Hearing about what the government is doing helps to raise confidence

Despite an initial sense from the public that what the government is doing may not be very effective, after hearing more about the new measures introduced over the last few years by Construct NSW³, confidence levels grow. After hearing about these measures, almost half of NSW residents (47%), strongly or somewhat agree these will give them greater confidence to purchase an apartment in NSW.

Hearing more about the work of the government improves confidence for an even greater proportion of prospective apartment buyers as 62% strongly or somewhat agree these measures give them greater confidence. Male prospective buyers are more likely to strongly or somewhat agree that these new measures give them greater confidence (67% cf. 58%). Older prospective buyers are also more likely to agree that the measures introduced give them more confidence to buy an apartment (70% 45+ cf. 61% 18-24, 59% 25-34, 63% 35-44, 65%).

This demonstrates that communication to the public about what is being done to support consumers in their purchasing decision is likely to help rebuild confidence in the current market.



³ Survey participants were provided with the below information and then asked how this impacts their confidence. 'New measures have been put in place by the NSW Government to protect consumers and restore public confidence in the NSW building industry. This is to reduce defective buildings entering the market and holding developers and builders to account. The measures include:

- From 10 June 2020 – owners of residential apartment buildings will benefit from a new statutory duty of care to avoid economic loss caused by defects on all new buildings, including buildings up to 10 years old.
- From 1 September 2020 – new compliance and enforcement powers will allow NSW Fair Trading to stop an occupation certificate from being issued, order developers to rectify defective buildings and issue stop work orders.
- From 1 July 2021 – new requirements for designers and builders to declare they have designed and built in accordance with the Building Code of Australia and Australian Standards.'

5.4 There is interest in a building compliance measure and other new initiatives

There is an expectation among consumers that the NSW Government should do more to support their apartment purchasing journey to help them make informed decisions. When thinking about what could be done to help improve confidence and rebuild trust, many prospective buyers believe it would be beneficial to see more regulations, or they're expecting the government to do more to ensure apartments are being assessed correctly and to a high standard.



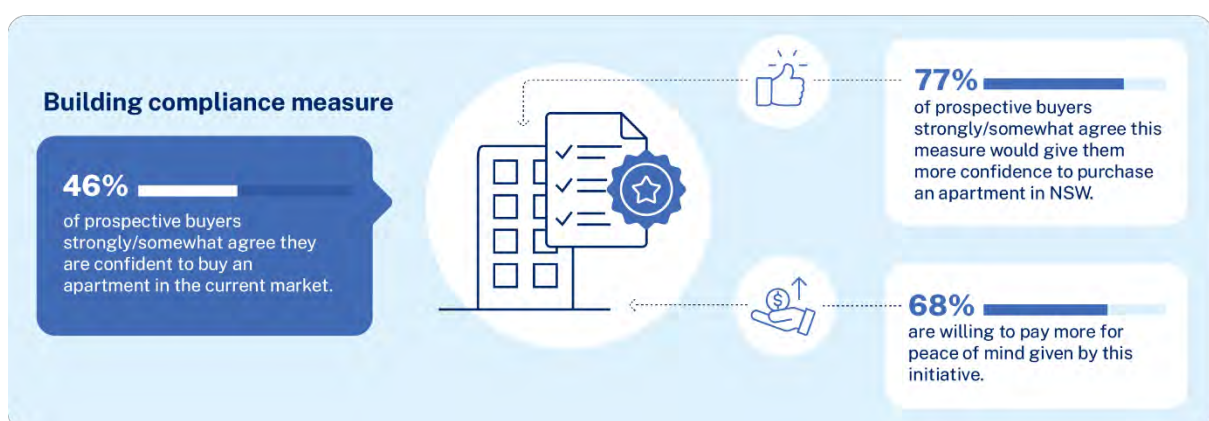
The regulations could be a lot tighter, that would make me a lot more confident.



Regarding the people who do the quality control, a lot of these are private certifiers which is half the problem. It needs to be properly certified. This would give me the assurance that everything has been properly vetted by Australian standards. I would lean on the government to do this. Isn't that the state government's job - to make sure everything is above board?

A new initiative by Construct NSW reveals that even more so than the new measures introduced since 2020, the introduction of a building compliance measure⁴ would increase confidence for three in five NSW residents (62%). This has a greater impact on prospective buyers as three in four (77%) strongly or somewhat agree the new tool would give them greater confidence. This shows there could be a real interest in the market for something like this and may be key in addressing concerns and expectations of consumers for the government to improve the apartment market.

NSW residents aged 25-34 are most likely to strongly or somewhat agree that the introduction of a building compliance measure would give them greater confidence to buy an apartment (76% cf. 68% 18-24, 54% 35-44, 61% 45-54, 55% 55-64, 60% 65+). This could be, as the findings have indicated, that younger people find it more of a challenge to find helpful information.



⁴ Survey participants were shown the following description for the building compliance measure: 'The NSW Government is looking to introduce a new building compliance measure to help improve the trustworthiness of apartment buildings. The aim is for customers to have assurance of the building not having serious defects in the future. The building compliance measure would take into account the standard of materials used, traceability of the building certification process and who provided the certificate, as well as incorporating a developer/builder risk rating from a credit rating agency.'

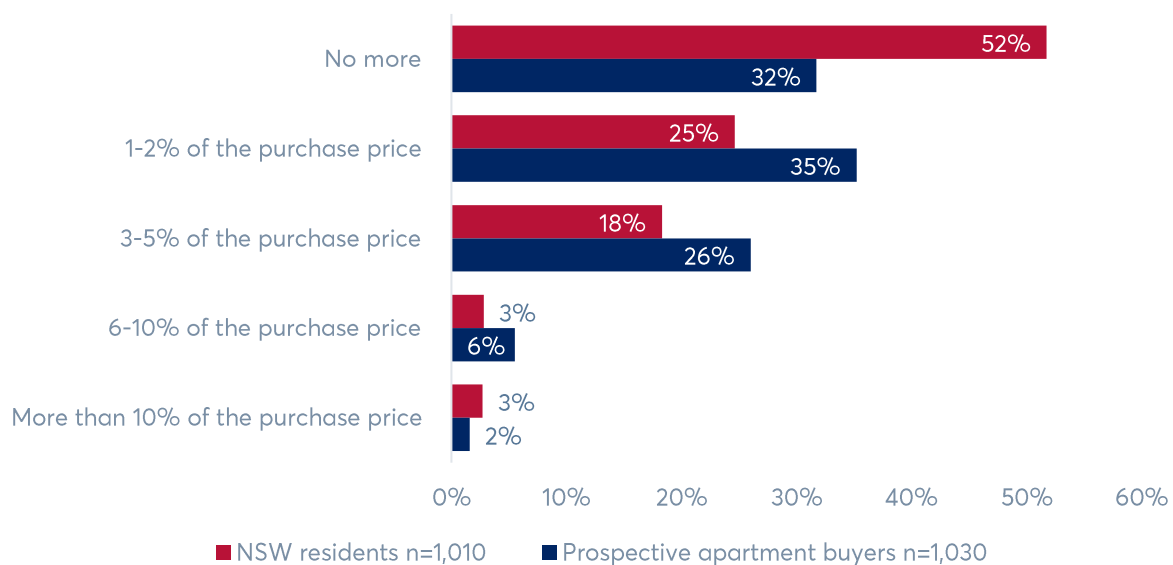
5.4.1 Half of NSW residents are willing to pay more for peace of mind

The public are willing to pay more for an apartment that receives a positive score in the building compliance measure (Figure 2.3). This shows peace of mind is something valuable to consumers as 48% of NSW residents and 68% of prospective apartment buyers would be willing to pay an additional amount on top of the purchase price.

Older NSW residents are much more likely to not want to pay any more for an apartment that receives a positive score in the building compliance measure (74% 65+ cf. 16% 18-24, 34% 25-34, 51% 35-44, 56% 45-54, 67% 55-64).

One in three prospective buyers (35%) are willing to pay an additional 1-2% for a positive score in the building compliance measure. A quarter (26%) are willing to pay an additional 3-5% and 7% are willing to pay 6% or more on top of the purchase price.

Figure 2.3 - Question: How much more would you be willing to pay for an apartment that receives a positive score in the building compliance measure?



5.5 There is an interest in 10-year liability insurance

The concept of 10-year liability insurance⁵ was also tested in the survey to get a gauge on how this might impact confidence. 10-year liability insurance also has a positive impact on consumer confidence with 60% of NSW residents strongly or somewhat agreeing that the introduction of 10-year liability insurance would give them greater confidence to purchase an apartment in NSW. 10-year liability insurance is most likely to increase confidence for NSW residents aged 25-34 (67% cf. 57% 18-24, 62% 35-44, 65% 45-55, 54% 55-64, 57% 65+).

Three in four prospective apartment buyers (74%) agree it would increase their confidence. Similar to the introduction of a building compliance measure, the introduction of 10-year liability insurance may help to grow confidence in consumers over and above their current confidence levels.

Many prospective apartment buyers like the concept of having 10-year liability insurance. Some, however, question who is going to pay for this. Will it be insurance companies, developers, the government or consumers? Some are concerned that this extra cost may have a negative impact on the market.



In principle it sounds like a good idea, but I have a couple of concerns.

Insurance companies could go broke, dodgy ones set up. The government is trying to look at affordability, so is this liability insurance going to increase the cost? Absolutely peace of mind comes at a cost but how much will it increase?



Just a bit worried that cost is going to be fairly substantial, taking insurance for a huge building. That cost to the developer to pay in advance is going to be pushed back on the purchase price. This is just for new blocks, to buy a new property will now cost another \$20,000 or \$30,000.



Who is going to administer it? Who determines whether it's a problem? Does the developer say they'll fix it up when they won't? It could act as an incentive for builders to do a good job. We have had these policies in the past but they haven't worked as well.



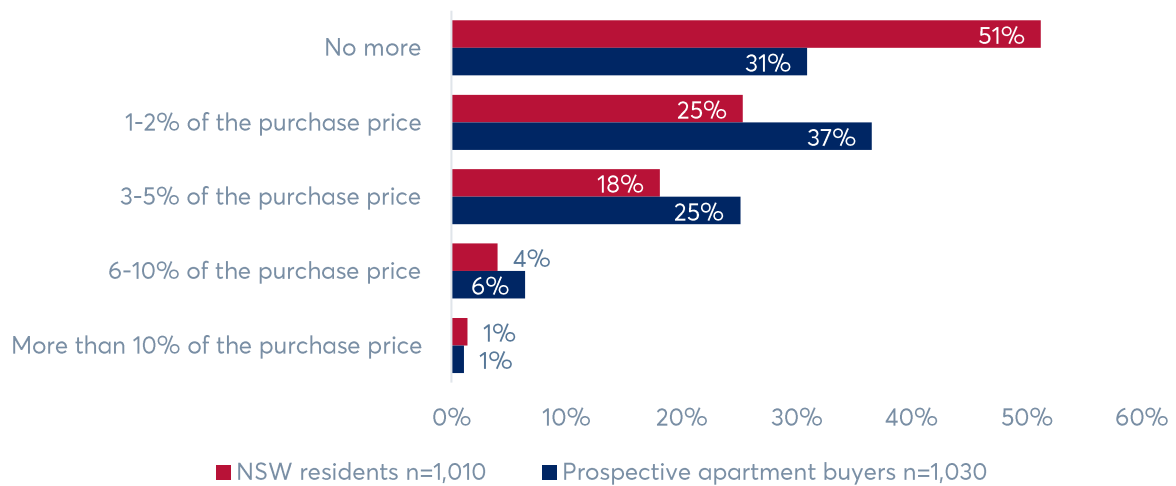
⁵ Survey participants were shown the following description for 10-year liability insurance: 'NSW Government is proposing to introduce a 10-year liability insurance scheme as part of the new building reforms. This will provide consumers greater protections and confidence in the construction industry.

A 10-year liability insurance is a form of insurance taken out by a developer or builder, for a period of ten years following the completion of a building, in favour of future owners of the building. 10-year liability insurance is effected and maintained to cover any potential costs incurred by an owner in the event the building totally or partially collapses, or the building contains structural defects that affect the building's stability or safety.'

5.5.1 There is an openness to pay more for 10-year liability insurance

A similar proportion are willing to pay more for a building compliance measure as are willing to pay more for 10-year liability insurance (Figure 2.3). Almost half of NSW residents (49%) and 69% of prospective apartment buyers are willing to pay more for an apartment that has a 10-year liability insurance. One in four NSW residents (25%) would be willing to pay an additional 1-2% of the purchase price (cf. 37% prospective apartment buyers). This is followed by 18% who would be willing to pay 3-5% more (cf. 25% prospective buyers) and 5% who would be willing to pay 6% or more on top of the purchase price (cf. 8% prospective buyers).

Figure 2.3 - Question: How much more would you be willing to pay for an apartment that has 10-year Liability Insurance?



5.6 Openness to buying off the plan increases when introduced to the building compliance measure and 10-year liability insurance

Currently, NSW consumers show hesitancy towards buying off the plan, however, certain improvements can help to lift consumer confidence. Just 16% of NSW residents are extremely or very likely to consider buying an apartment off the plan, while 49% are not at all likely to consider buying off the plan (Figure 2.4). Prospective apartment buyers are, however, more likely to consider an off the plan purchase, with 38% being extremely or very likely and only 12% not at all considering an off the plan purchase.

Likelihood to purchase off the plan increases when consumers are introduced to the concept of the building compliance measure (figure 2.5). After hearing about the building compliance measure, 30% of NSW residents and 54% of prospective buyers are extremely or very likely to buy an apartment off the plan. Male prospective buyers are more likely to be open to purchasing an apartment off the plan if there was a building compliance measure (59% cf. 51% females).

While the building compliance measure was more likely to increase confidence for consumers to purchase an apartment in general, the introduction of 10-year liability insurance makes consumers more likely to purchase an apartment off the plan in comparison with a building compliance measure. Confidence to buy off the plan similarly increases with the introduction of a 10-year liability insurance where 35% of NSW residents and 57% of prospective apartment buyers are extremely or very likely to buy off the plan (Figure 2.6).

In the focus groups, prospective buyers don't believe 10-year liability insurance would increase their openness to buy off the plan because some still believe the risks outweigh the benefits, even if there was more certainty around defects in the building.



(How 10-year liability insurance impacts off the plan) Wouldn't hurt it. It would help but not sure if it's enough. I'm very cynical about off the plan.



(How 10-year liability insurance impacts off the plan) Not going to help me because I don't want the risk. Even if someone could assure me it's going to be protected from a building perspective, all the other risks are still there.

Despite hesitancy to purchase apartments off-the-plan, government initiatives could help to increase openness



38%

of prospective buyers are extremely/very likely to purchase an apartment off the plan

% extremely/very likely to buy after hearing about the following



54%

Building compliance measure



57%

10 year liability insurance

Figure 2.4 - Question: How likely are you to consider purchasing an apartment off the plan?
Off the plan means buying a property that hasn't been built yet or is still under construction.

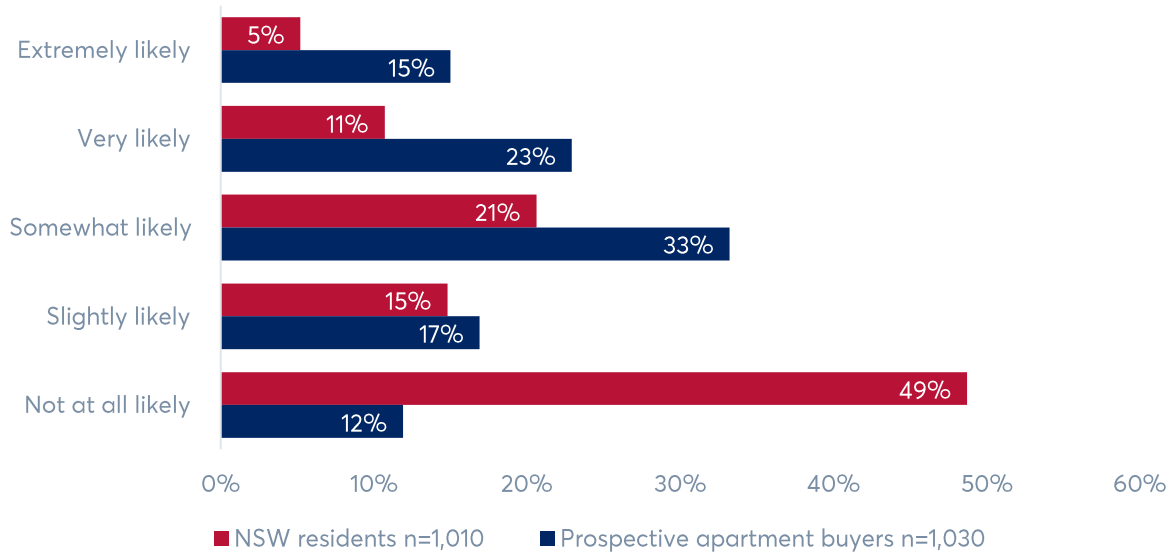


Figure 2.5 - Question: If there was a building compliance measure, how likely would you be to purchase an apartment in NSW off the plan?

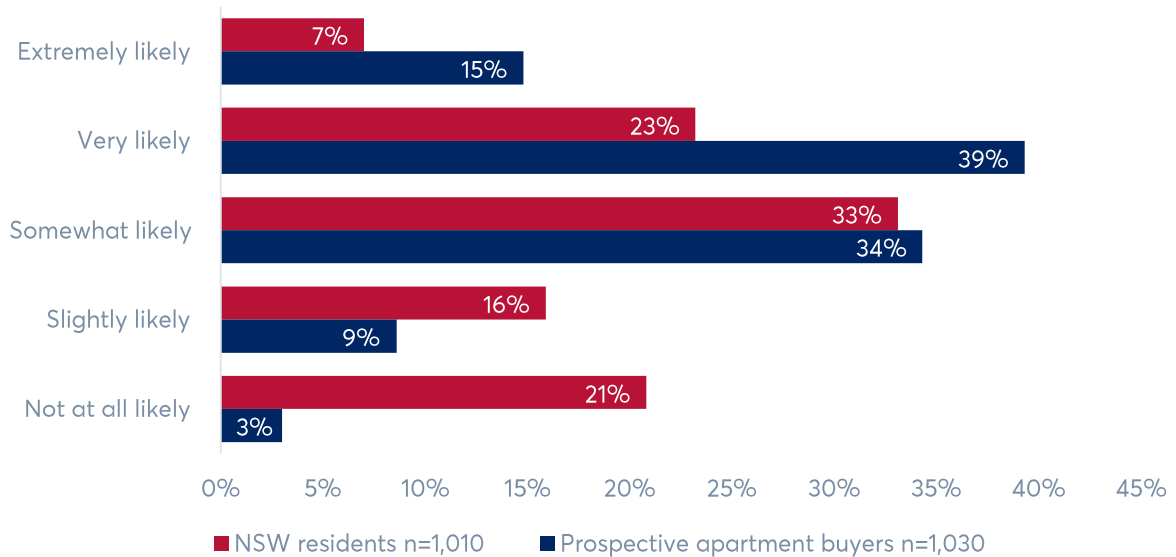
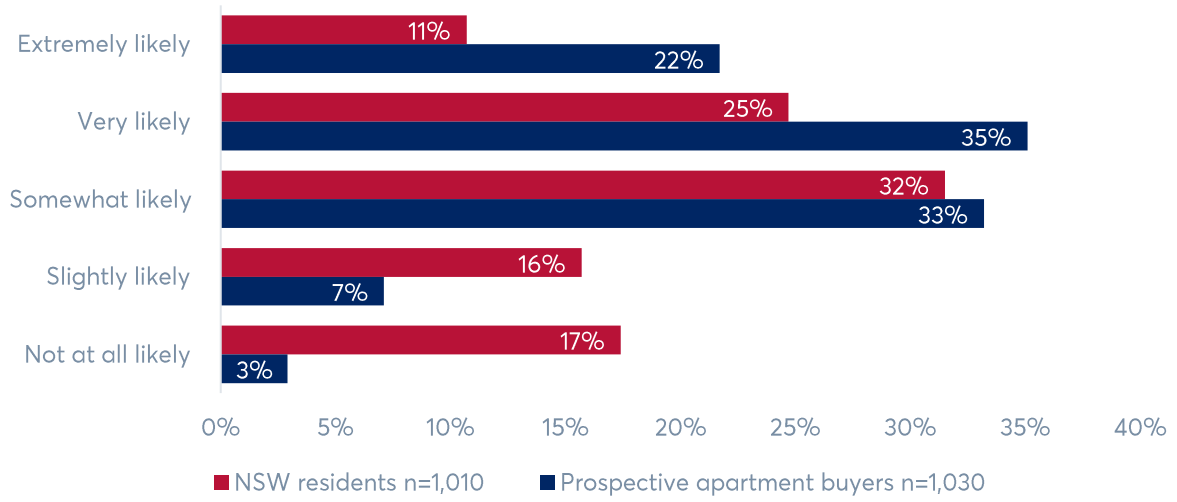


Figure 2.6 - Question: If there was a 10-year Liability Insurance, how likely would you be to purchase an apartment in NSW off the plan?



5.7 The public care about the environment and believe an embodied carbon rating is worthwhile

Half of NSW residents (53%) are extremely or very concerned about the impact of climate change in Australia. Further to this, 82% believe the NSW Government should tackle climate change issues in Australia.

More than one in three NSW residents (36%) and more than half of prospective apartment buyers (56%) would be extremely or very likely to purchase an apartment using an embodied carbon rating⁶.

Younger NSW residents are showing their passion for the environment by being the most likely cohort to be extremely or very likely to purchase an apartment using an embodied carbon rating (55% 18-24 cf., 44% 25-34, 42% 35-44, 41% 45-54, 21% 55-64, 19% 65+).

5.7.1 An embodied carbon rating is appreciated, but not a key factor for decision making

Prospective apartment buyers feel like an embodied carbon rating is a nice to have, but ultimately feel that it wouldn't have a large impact on their purchasing decision. There is a perception that environmentally friendly products often cost more, and when property affordability is already a challenge, they wouldn't necessarily pay more for an apartment with an embodied carbon rating. While some are happy to pay more for an apartment that has a better impact on the environment, for many, this is a lower priority. Some believe it would garner more interest if there was a financial incentive to help support this initiative.



To me, it's not a priority. If it's there it's nice, but I don't want to pay more for it. I don't think a lot of rental tenants are looking for this, they just want the cheapest, nicest apartment. If it doesn't cost a lot more to have it, I'm happy for it be there.



I'm going to speak for first home buyers, it's a nice to have. The first priority is price and then the reliability of the developer. Maybe if there was some incentive, I would be more interested but otherwise no.

⁶ Survey participants were shown the following description for an embodied carbon rating: 'Building and construction is responsible for 39% of all carbon emissions in the world, with operational emissions from energy used to heat, cool and light buildings accounting for 28%.

NSW greenhouse gas emissions represent about one quarter of Australia's total emissions, while NSW is home to around one third of Australia's population. NSW Government has developed the Net Zero Plan and Electricity Strategy within the Climate Change Policy Framework for NSW.

Embodied carbon, which is the carbon emissions created when we make construction materials like aluminium, concrete and steel, is expected to become the largest source of emissions in the building sector in the coming years. That's why the NSW Government is developing a world-leading embodied carbon rating to measure and certify embodied carbon for new buildings.'



Cost is a factor too. You've got to balance it out. I don't know how they're going to package it. If I can save myself ongoing costs, like having solar panels, I'd be willing to pay more upfront for it. When you save money and you save the environment, it's a win-win. It has to be smartly packaged.



It would influence me if I was buying a new apartment, I'm very into environmental factors but I don't think normal people would think of it. If there was some sort of economic incentive to having it (it would be more appealing). Would you reduce stamp duty or council rates?



5.8 The building compliance measure and 10-year warranty may become important features of the apartment purchasing journey

When thinking about what the most important features are when purchasing an apartment, almost half of NSW residents believe the building compliance measure (45%) and buildings with a 10-year warranty (45%) are important to them (Figure 2.3). These features are similarly important to prospective buyers (buildings with a 10-year warranty 45% and buildings with a building compliance measure 42%). Prospective buyers who are older are slightly more likely to believe a building compliance measure (47% 45+ cf. 37% 18-24, 44% 25-34, 39% 35-44) and a building with a 10-year warranty (51% 45+ cf. 47% 18-24, 42% 25-34, 46% 35-44) are important features to them.

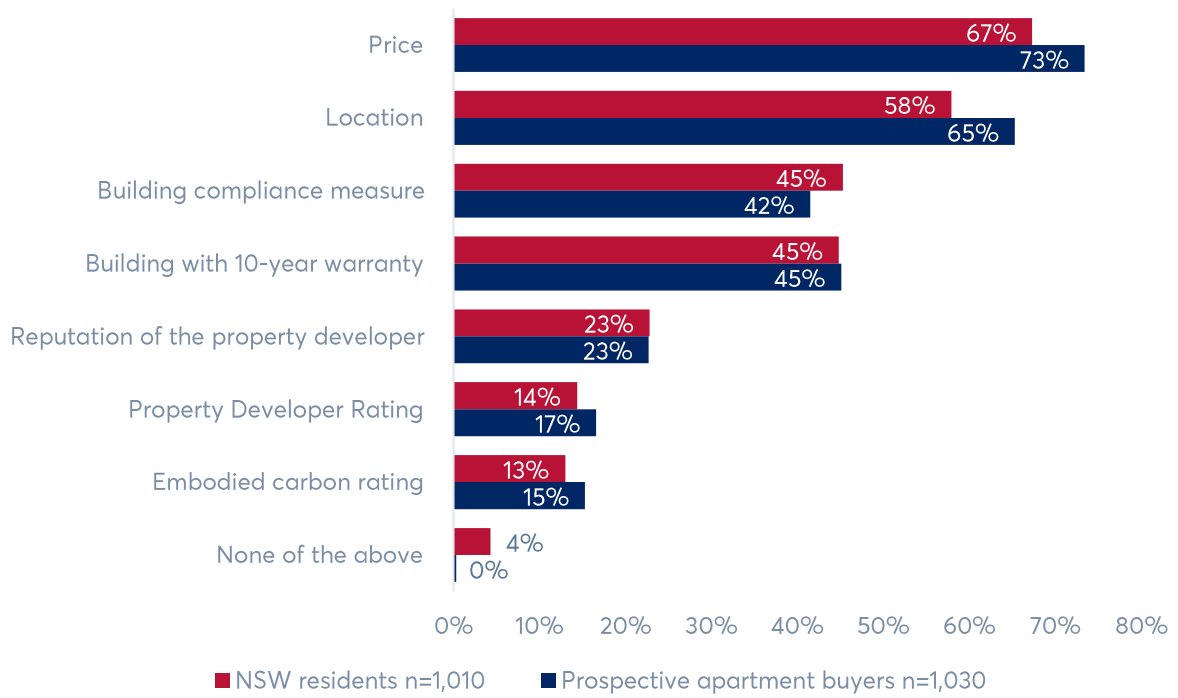
Despite consumers indicating they are more likely to buy an apartment with an embodied carbon rating, when provided with a list of features that are most important to them, apartments having an embodied carbon rating is the least important at 13% for NSW residents and 15% for prospective buyers.

Despite this interest in these new initiatives, at the end of the day, when consumers are thinking about what features are most important in their decision making, price (67%) and location (58%) come out on top for NSW residents. This is very similar for prospective apartment buyers, where price (73%) and location (65%) are still the most important.

This shows that while sentiment and confidence may increase with the introduction of new initiatives, price and location will continue to be the key factors that will weigh into the decision. These new initiatives will be helpful guides that will further assist consumers in their purchasing journey.



Figure 2.3 - Question: When thinking about purchasing an apartment, which of the following are the most important features for you?
Please select up to three.



5.9 Economic impact of Construct NSW initiatives

These results clearly demonstrate that buyer confidence is likely to increase with the introduction of the building compliance measure and 10-year liability insurance.

In the economic impact study (Appendix), Dr Neville Norman has conducted economic analysis to understand the magnitude of how these measures could impact the sale of apartments.

Assuming an increase in apartment sales activity between 3% and 8% over a 12-month period (reflective of historical trends where apartment sales have increased, and we could expect to see with an increase in confidence), the total number of apartments sold in NSW could increase by 690 - 1,840 in the year that follows the introduction of the building compliance measure and 10-year liability insurance (Table 1.0, page 49 – Economic impact study by Dr Neville Norman).

This is estimated to increase the total property value of NSW's apartments by \$450 million - \$1.2 billion, directly translating to \$10.9 - \$28.9 million in government revenue through transfer duty (stamp duty).

This will also support employment growth of an additional 550 - 1,250 people in the real estate and property management sector.

With the increase in apartment sales activity, the value of property could also expect an increase of up to 2.5 percentage points after 12 months.

While the above impact is only short-term, if the increase in apartment sales activity is sustained, external factors notwithstanding, the positive economic impact of building compliance measure and 10-year liability insurance will be far greater for NSW in the long term by orders of magnitude.

6. Engaging with the building compliance measure

6.1 Hosting the building compliance measure on the NSW

Government website could help to build trust

NSW residents believe it would be most helpful to see the building compliance measure on the NSW Government website (72%) (Figure 3.1). This is the same for prospective apartment buyers (71%). Affiliating the measure with the government may help to build trust to know it's supported by the government.



[It would build] more confidence if it was on a government site. That says it's unbiased, everything is weighed up, it's not favouring the builder or the developer. It's got the consumer focus if the Government are putting their name on it.

Almost three in five prospective apartment buyers (58%) also believe it would be helpful to see the building compliance measure on real estate apps or websites, followed by half (52%) who believe it would be helpful to see it on a purpose-built website. Still, 42% believe it would be helpful to see it in marketing brochures for off the plan builds.

When it comes to using the score, in the focus groups, prospective buyers suggest it may be helpful to see it on the regularly used sites, like the various real estate websites, and to be able to click on the score to be taken to another website where further details are provided. One person even suggested it could be helpful to have a built-in comparison tool within this to make comparing properties even easier. Another person suggested it could be useful to have it included in already existing apps from the Government, like the Service NSW app.



[I would] probably [want to see it] on the real estate ad, like a logo you can click on and it takes you to somewhere with comparisons. You could put one or two properties in and get a comparison of the pros and cons.



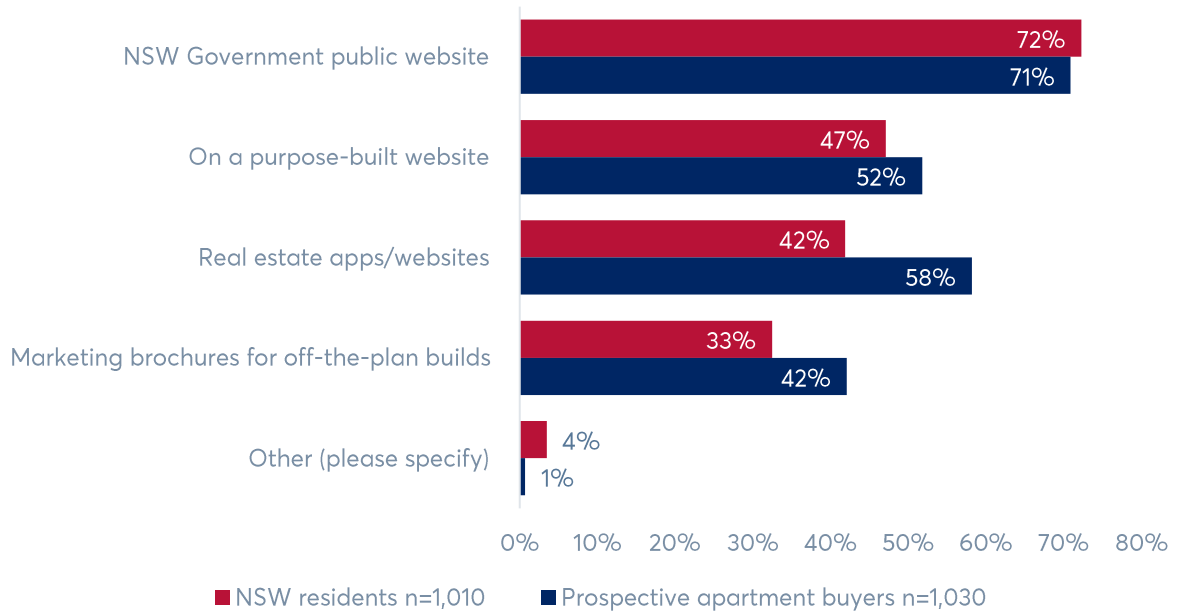
I'd like it to be mandatory on the builder's/developer's website. If you're looking for a Meriton property, [it should be] mandated that they have to show it on their website.



Just have it in the Service NSW app, instead of downloading another app.

Figure 3.1 - Question: Where would be the most helpful place to see a building compliance measure if you were looking to purchase an apartment?

Please select all that apply.



6.2 Prospective buyers want detailed information on the score

Prospective apartment buyers would want to see a breakdown of the key measures that are going into the overall score, such as the materials, compliance certificates, etc. This can help consumers make an informed decision about why a building might score high or low and they can make a decision from there about what, if anything, they might be willing to compromise on. This can also help prove the measure is robust.

Some prospective buyers feel that a star rating without any additional information would be too simplistic and could come across as superficial. Even if they don't use and read the details, to know they exist and have been thought of helps to instil trust.



I would be looking for the information to be broken down... You could have sub scores and an overall score...Like holidays when you're looking for somewhere to stay and they break it down by location, value etc.



I would definitely want a more in-depth view, as someone who doesn't know anything about apartments.



A 1-5 rating might be a little bit superficial. Might need more discrimination within that. Something in your contract that your solicitor can help you with.

Some might want to wait to rely on a score like this until it has been around for long enough to determine its trustworthiness.



When these ratings come out, they'll be under scrutiny if the data is not of sufficient strength. If it doesn't get good reviews, people will lose confidence then they taxpayer will have paid for that mistake.



Could be helpful. Wouldn't make a decision based on what it says. If it's a new thing, you would need three to five years of it being a trusted source.

Prospective apartment buyers are also interested in knowing whether the score will be continuously updated. There is a concern that scores could become outdated and unreliable if they are only applied once. On the other hand, some raise concern that the value of their property could go down in the future if scores are continually updated.



It would have to be current (regularly updated).



How often would the ratings be reviewed? I imagine if it's something that is standardised it's going to affect the value of [your property]. In ten years, will your rating change? Or will you be a four out of five for ever?

Consumer confidence in the apartment market



50% of NSW residents are definitely or maybe looking to purchase a residential property within the next two years.

17% are looking to buy an apartment in the next two years.



3 in 10 NSW residents (30%) strongly/somewhat agree they would be confident to buy an apartment in the current market.

Drivers of low confidence to purchase apartments for prospective buyers



58%

The market is unaffordable



24%

I don't trust developers



24%

Apartments are not well constructed



16%

Apartments are not built to last



16%

Negative media stories

Finding trustworthy information is a key challenge when purchasing an apartment

Top 5 challenges when purchasing an apartment for prospective buyers



Communication of government initiatives helps to increase confidence among NSW residents

30% of NSW residents are aware of the work Construct NSW is doing to improve the apartment building industry.

17% believe the work of the government in this space is extremely/very effective.

Once building reforms by Construct NSW are explained...

42% strongly/somewhat agree the government is improving the quality of apartments

47% strongly/somewhat agree they have greater confidence to purchase an apartment in NSW

Increasing consumer confidence to purchase apartments

Building compliance measure

The building compliance measure

Construct NSW is looking to introduce a building compliance measure which would provide a score consumers can use to make an informed decision when purchasing an apartment. This score would take into account the standard of materials used, traceability of the building certification process and a risk rating for the builder/developer.



77% of prospective buyers strongly/somewhat agree this measure would give them more confidence to purchase an apartment in NSW.



68% are willing to pay more for peace of mind given by this initiative.

46% of prospective buyers strongly/somewhat agree they are confident to buy an apartment in the current market.

10-year liability insurance

10-year liability insurance

A form of insurance taken out by the developer to cover a building for ten years for costs incurred by an owner in the event there are problems impacting the common property of the building.



74% of prospective buyers strongly/somewhat agree this insurance would give them greater confidence to purchase an apartment in NSW.



69% are willing to pay more for peace of mind given by this initiative.

Despite hesitancy to purchase apartments off-the-plan, government initiatives could help to increase openness



38% of prospective buyers are extremely/very likely to purchase an apartment off the plan

% extremely/very likely to buy after hearing about the following



54%
Building compliance measure



57%
10 year liability insurance



METHODOLOGY

Survey conducted by McCrindle of NSW residents (n=1,010) and prospective apartment buyers (n=1,030). In field 22nd of Feb - 9th of March 2022.

7. Appendix – Economic impact study

Background to economic impact computations

This section of the report details the economic impacts that both the building compliance measure and 10-year liability insurance may have on consumer confidence. This has been produced by Neville R. Norman, MA (Econ) BCom (Hons) (Melb); PhD (Cambridge), HFEconSoc (Aust).

The task

I am briefed as an academic and consultant economist to study the McCrindle survey data for this project. I have accepted its precepts and extended the findings to relevant economic consequences for the apartment market of NSW ('market') and relevant economic impact variables, per brief. I am bound by the research and ethical codes of the Universities of Melbourne and Cambridge. I have made inquiries to understand and explore the sample survey, the results of which are the responsibility of the surveyors themselves.

Economic Impact analysis

The psychological role in purchasing has been prominent in the work of economists for centuries, and a Journal of Economic Psychology has existed since 1896. [A seminal work by George Katona, Psychological Economics (Elsevier, 1975) testifies to the longevity and value of this activity within economics.] Sentiment surveys starting at the University of Michigan have spawned similar surveys worldwide. I have been much involved in their construction and interpretation in Australia, the UK and USA.

For economic-impact analysis, economists use a framework running from causative factors (including confidence indicators) through models, parameters/coefficients and assumptions to impact variables, typically volumes, prices and values of production, profits, to employment and to tax revenues, inter alia, as selected by the client or policy maker representing society values. The links are based on long traditions and evidence, and in this case, we require relationships between factors impinging on buyer confidence and their decision to purchase apartments in NSW. Many factors are interactive, including buyer purchasing power, finance and finance terms, tax incentives, investment or housing alternatives, all long studied in the economics of property purchasing. I make explicit in this appendix the research procedures and assumptions I have adopted, most of which enable the user/reader to adopt variations therein to suit different parametric data. My methods permit such alternative scenarios at all times.

The foundation generators (drivers) are the postulated policy measures that were put to respondents in the McCrindle survey. There is a baseline scene for the NSW apartment-purchasing market ('market') encapsulated in the conditions of the market presently and in the minds of respondents when the survey was taken. That scene includes the property prices, interest rates, tax and economic conditions, including embodied Covid effects in NSW during 2021/2022. The object of my work has been to chart what difference the proposed policy changes would make, if any, to further economic effects. The analysis must, at all times, accept that 'none' might be an outcome and the onus is there to show what 'any' might be a credible outcome. The survey itself answers part of this question.

The survey results clearly show a significant prospect of the measures boosting confidence, removing psychic buying barriers and enhancing the demand for apartments in NSW. My task is to provide some quantitative dimension to the next stage: impacts of the NSW Government

policy changes on volumes and prices of purchasing. At no stage do I make any judgment on whether the measures are recommended, as that will depend on a fuller cost-benefit analysis (not performed here in the time available) and ultimate political decisions, as all policy matters akin to these will.

With those caveats I discuss the quantitative estimates I have made.

The survey data show quite significant reticence in purchasing apartments in NSW, not just from pecuniary factors (price relative to income and borrowing capacity, financing expectations) but also from concerns about ongoing risks arising from feared prospective construction defects that may not be fully covered/compensated by insurance and other payments from governments.

The survey shows a significant proportion of the sub-set of respondents who ARE actively likely to purchase (or re-purchase) an apartment in future who would be much more likely to do so, if the measures were in place or were more fully known or understood.

I have asked for cross-classification data confined to the subset of prospective apartment buyers who are already likely to purchase to show how much more likely they are to purchase under the adoption of the building compliance measures. We have a striking 59% of these respondents strongly agreeing that they would be more likely to purchase with the compliance measures in place, and 57% more likely with the 10-year liability insurance.

These numbers do not directly translate into what rate or percentage increase in apartment sales in NSW would occur in, say, an annual period that was under the confidence-boosting influences of the measures.

My judgment is to take the survey data as clear validation that such number would increase, and with knock-on effects to estate agent commissions, fees to ancillary property-transfer employees, property managers and of course State property transfer revenue.

I have made some estimates, based on the starting data that I have assembled below.

I have taken volume [number of apartments] increments of 3%, 5% and 8% and computed the economic/financial direct impacts in the table below:

Table 1.0

	3% sustained boost:	5% sustained boost:	8% sustained boost
Additional apartments sold per year (baseline 23,000 apartments)	690	1150	1840
Additional value of properties sold (baseline of \$15b)	\$450m	\$750m	\$1.2b
Increased Transfer duty revenue per year	\$10.9m	\$17.7m	\$28.9m
Additional people employed in real estate and property management	550	850	1250
Apartment prices after one year	Similar	Up 1% pt	Up 2.5% pts

Note: '1% pt' (one percentage point) means that if property prices would have risen by 5%, otherwise, then the policy inclusive impact would be 6%; if they would have fallen by 4%, the result would be the lesser fall of 3%, as computed.

Ratio analysis: For 3%, 5% and 8% boosts, respectively, the ratio of increased transfer revenue to enhanced property sales is $10.9/450 = 2.4\%$ to 3% which as an average tax rate in a progressive rates schedule seems credible, given also the much lower typical transactional value of apartments relative to houses. These are standard data-consistency tests.

In economic terms, we cannot presume that apartment prices will remain unchanged after a demand boost and I have included some estimates for that. Equally, there are multiplier effects (secondary increases in income and spending) from the employment and income boosts that must be counted. I simply flag them at this stage as subject to further investigation, but they stand as further economic effects (the State may say, benefits) of the confidence-based boost in apartment sales.

The caveat has to be raised that these are 'net' or 'partial' effects of the measures and stand in the context of other determinants of apartment demand in NSW that are prospectively forces to increase or reduce apartment demand. These forces are well identified in the McCrindle survey and include boost factors such as the general economic recovery from Covid lockdowns and the partial recovery in consumer and business confidence generally, together with the demand-curbing factors of actual and prospective interest-rate increases in Australia. It is commonly found in surveys like this that respondents under confidential cover do profess concern for the natural environment in general ways, but when pressed, give primacy to pecuniary/materialistic considerations such as price, financing terms, prospective maintenance costs and location.

Computation section

I estimate the annual (2021/22) value of properties sold in NSW as \$182bn [NSW Communities and Justice data derived from property transfers reported at 'sales-tables-september-2021'] showing \$1.07m as the mean (arithmetic average) price at number of units transacted 39,034 in that quarter, making an annual equivalent of \$182bn of which some 8% by value, I estimate, to be apartments, making an annual transaction value of $.08 * 182bn = \$15bn$.

I estimate 15% of the annual property sales in NSW by volume/number are apartments, so 15% of 156k, makes some 23,000 apartments transacted annually in NSW. [<https://www.nswlrs.com.au> Dealing-Statistics report 203,000 transfers handled by the State land Registry in 2020/21, but this is too aggregated to drill down into apartment numbers.]

The NSW Treasury reports an estimated \$11.45bn revenue from property transfer duty (formerly called stamp tax/duty), a progressive duty with a much lower ratio of price for apartments, which I have taken into account in my computations. Using the rate schedules, I estimate some 6% of the transfer duty arises from apartment sales, or just over \$680m annually to the NSW revenue. [Data from NSW Budget 2021/22, table 4.4 and explanation to these tables.] Given the progressive rate schedules and lower value of apartments cf. houses I have use escalators of 1.6%, 2.6% and 4.4% for the 3 considered volume boosts in apartment purchasing.

There were, in 2021, some 20,500 real estate agents in NSW (out of some 65,000 in Australia) (Property Council) but the property sector includes considerable indirect employment in advertising and ancillary property-selling sectors. I have estimated the property selling and management sector of NSW at around 190,000 employees, of which about 30,000 are specifically apartment related.

Any boost to apartment sales will demonstrably increase employment in the short term in property transfer/sales activities and immediately in transfer revenue to the State Government, and if sustained in the construction of new apartments. I have not assumed linearity, so more moderate boosts than the sales values base are inserted into the data. I have built short-term productivity improvements that are found in a growth phase: meaning, jobs increase more slowly than apartment sales.

These data give some demonstration for the starting point in any more sophisticated analysis of the policy measures considered in this report, given fuller time for that analysis to be done.

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Hon. Professorial Fellow and Associate Professor, at The University of Melbourne, formerly President Economic Society of Australia, consultant to companies, governments and institutions, inter alia.

Report dated 8th April, 2022

