THE MCKELL INSTITUTE

Submission to the NSW Legislative Assembly’s Select Committee on Essential Worker Housing

Edward Cavanough & Max Douglass

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About the McKell Institute

The McKell Institute is an independent, not-for-profit research organisation dedicated to advancing practical policy solutions to contemporary issues.

For more information call (02) 9113 0944 or visit www.mckellinstitute.org.au

Acknowledgement of Country

This report was written on the lands of the Darug and the Eora Nations. The McKell Institute acknowledges Aboriginal and Torres Strait Islander peoples as the Traditional Owners of Country throughout Australia and their continuing connection to both their land and seas.

About the authors

Edward Cavanough is the CEO of the McKell Institute

Max Douglass is a Policy Analyst at the McKell Institute

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Dear Committee Chair,

Please see below the McKell Institute's submission into the Essential Worker Housing Inquiry.

The McKell Institute is a public policy think tank dedicated to advancing practical and progressive ideas.

In 2012, its seminal report, *Homes for All,* reflected a recognition that the Sydney and NSW housing market was structurally deficient when it came to providing housing for working people. Some 12 years later, the situation has only deteriorated.

The housing affordability crisis in Sydney, in particular, but across NSW has myriad negative social and economic outcomes. But perhaps chief among them is the increasingly inability for individuals who have done everything right — studied, found a good job, and worked hard to get ahead — are still not able to live in the communities they work in. Increasingly, NSW workers are unable to live in the communities that they serve in their work, leaving too many people unconnected to both the area in which they work, and the area in which they live.

It is now normal for a teacher working in one community to have an hour long commute to school; for nurses servicing patients in inner-city hospitals to spend hours after nightshift on the train home; for emergency service workers having to drive home long distances after spending their shifts protecting NSW residents.

These outcomes are the consequence of structural inequities in the state's housing market that have seen home ownership concentrated among smaller portion of NSW residents, while many working NSW residents are forced to rent in perpetuity.

Even those renting are no unable to afford to rent proximate to their workplaces.

This effects all lower- and middle-income workers, not just those deemed 'essential workers'.

This submission proposes seven actionable ideas for the NSW Government to consider to alleviate this challenge for working NSW residents.

It offers actions specific to the NSW Government and avoids proposing new measures that are out of scope for the NSW Government, or may be unfeasible or fiscally burdensome.

The proposals contained in this submission are informed by evidence of effective interventions in other jurisdictions and recognise that no single ‘silver bullet’ intervention will address the long term inequities inherent to the state’s housing system.

It also works to avoid ‘picking and choosing’ specific cohorts of workers for whom the proposals would benefit. Instead, this submission offers a number of market interventions that would work to diversify the availability of housing stock in the state, creating more options for both renting and home ownership for working NSW residents.

The McKell Institute looks forward to presenting its findings to the Committee in due course.

Yours sincerely

Ed Cavanough

CEO, McKell Institute

Recommendations in brief

This submission offers seven proposals aimed at improving housing access and affordability for workers in NSW.

Recommendation 1: Establishing 'community land trusts' for essential workers in key locations

Recommendation 2: Responsibly leasing latent NSW Crown Land at advantageous rates for the development of essential worker build-to-rent

Recommendation 3: Filling gaps in debt-financing which limit institutional investment in essential worker housing

Recommendation 4: Mandatory inclusionary zoning in areas of forecast high demand for essential workers.

Recommendation 5: Establishing a concessional loan facility geared towards essential worker housing development.

Recommendation 6: Investing in and continuing the effective 'Shared Equity Home Buyer Help' program

Recommendation 7: Doubling the portfolio of the Teacher Housing Authority by 2030, while improving the utilisation rate of existing stock

The housing affordability challenge for essential workers

Key Points

1. *Essential workers can't afford to live in Sydney, but also elsewhere in NSW.*
2. *This challenge is multifaceted, and can't be solved through any silver bullet proposals.*
3. *The housing affordability challenge will undermine community services, such as education, healthcare and public safety, meaning essential worker housing stress is a community-wide problem.*

Housing in New South Wales is increasingly unaffordable for workers on lower and middle incomes, including those doing essential, frontline jobs that all New South Wales residents rely on.

Between October 2020 and August 2024, combined weekly rents in Sydney have risen precipitously from $519 to $829—an increase of *almost 60 per cent*. Vacancy rates across the state remain at or around record lows, reflecting a desperately tight rental market.

Despite a minor downturn in 2022, the median established house in NSW is now approximately $1.35 million, having increased by 43 per cent since September 2020. Higher-for-longer interests rates mean that mortgaged households are spending much more on servicing their debt. They also mean that prospective homebuyers are stuck in the rental market (or at home) for longer as their borrowing capacity dries up.

All the while, full time weekly earnings across New South Wales have increased by barely more than 10 per cent.

Though statistics are common knowledge, they are important to underscore what should be considered one of the greatest policy failures in generations. What they disguise, however, is the human face, lived experience, and second-order effects of the housing crisis.

Sparse and unaffordable housing means declining family formation, it means long-term insecurity, it means entrenched homelessness, it means renting in retirement, and it means a whole generation risks ending up worse off than their parents for the first time in Australian history.

These effects are being reported first-hand. An April 2024 survey of over 1,500 individuals found that burgeoning housing costs are fundamentally changing the social and economic behaviour of households. For example, cope with housing costs:

- 52 per cent of respondents reported reduced energy use;
- 45 per cent of respondents reported avoiding essential appointments;
- 32 per cent reported skipping means; and
- 30 per cent reported falling behind on bills.[1]

The reverberations of the housing crisis are not, however, being felt equally. This is understandably so. Owner-occupiers who no longer hold a mortgage face effectively no housings costs, and simply see their assets appreciate in value. High-income earners, while subject to increasing variable costs, are much better able to insulate themselves than most.

Historically, the brunt of housing policy failure has fallen on the most vulnerable. Our present circumstance is no different. Women, the young, the elderly, the insecurely employed, the disabled, and Indigenous Australians are all suffering disproportionately.

What is alarming about our current crisis, however, is the ensnarement of cohorts of NSW residents who had previously typically been able to insulate themselves. Middle-class NSW residents in secure, well-paid, professionals jobs are suddenly finding themselves vulnerable. Essential public sector workers like nurses, firefighters, teachers and aged-care workers are increasingly forced to the urban fringe, and in some cases locked out of the housing market altogether.

The short-term forecast for housing in NSW remains dire. While the NSW Government is taking a number of steps in the right direction which should be commended—particularly with respect to social housing—broad-based reprieve over the short term remains unlikely. However, this does not, and ought not, deter the NSW government from making targeted and evidence-based investments in more immediate addressing unmet housing need among specific cohorts where necessary.

Policymakers need to be cautious in refining 'essential worker' scope

While the Committee's terms of reference leave the term 'essential worker' undefined, our submission will not attempt to parameterise the definition of essential worker. Many have—

often unfruitfully—attempted to do so. Though such a definition will necessarily be relevant in formulating any policy over the long term, it is not immediately desirable or useful to attempt an exhaustive definition for the purposes of our recommendations.

As intimated above, essential workers—like nurses, teachers, firefighters and aged care workers—are the new face of NSW's housing affordability crisis. These workers will, for the purposes of this submission, be considered examples of essential workers.

Policymakers should be cautious about selectively supporting one group of workers over another when it comes to the provision of housing; a suite of measures designed to improve access to housing for all lower and middle income NSW residents should be prioritised.

Rental unaffordability leaves lower- and middle income workers with few options in Sydney

Put simply, many workers cannot afford to live in Sydney. Based on applicable current Commonwealth Fair Work Commission and NSW Industrial Relations Commission awards and Sydney-wide rents as aof August 2024, the Table 1 details the proportion of after-tax income which rents take up among different essential professions and housing classes:[2]

Table 1: Proportion of gross Income for renters, selected professions, Greater Sydney					
	All Houses	**3 Bed Houses**	**Combined**	**2 Bed Units**	**All Units**
3rd Year Registered Nurse	68.9%	64.7%	55.7%	48.2%	46.6%
Qualified Firefighter	59.0%	55.4%	47.7%	41.2%	39.9%
Step 3 Qualified Teacher	56.1%	52.7%	45.4%	39.2%	38.0%
Aged Care Employee Level 3	100.6%	94.4%	81.3%	70.3%	68.0%

Even when we look to areas of Sydney which are comparatively cheaper, such as Western Sydney, the picture remains bleak. Indeed, there is not a single type of dwelling in Western Sydney in which any of the features workers would not pay less than 45 per cent of their after-tax income.

Table 2: Proportion of gross income for renters, selected professions, Western Sydney					
	All Houses	**3 Bed Houses**	**Combined**	**2 Bed Units**	**All Units**
3rd Year Registered Nurse	50.4%	45.5%	47.4%	43.7%	43.7%
Qualified Firefighter	43.1%	38.9%	40.6%	37.4%	37.4%
Step 3 Qualified Teacher	41.0%	37.0%	38.6%	35.6%	35.6%
Aged Care Employee Level 3	73.5%	66.4%	69.2%	63.7%	63.7%

Housing stress is defined as housing costs exceeding 30 per cent of gross household income for households in the bottom 40 per cent of the household income distribution.[3] Given that the average annualised full-time weekly earnings of a resident of NSW was $104,421 in May 2024,[4] it is almost certain that all four of our chosen essential workers would it in the bottom 40 per cent of households (assuming a single-income household). The upshot, then, is that none of these workers could *even afford to rent* a unit in the cheapest areas of Sydney without being in housing stress.

Purchasing is growing out of reach across the entirety of NSW

In an elevated interest rate environment, purchasing is even more far-fetched. The Tables 3 and 4 detail the proportion of gross income required to repay a 25 year mortgage with a 20 per cent deposit at market lending rates for owner occupiers, and demonstrate that purchasing is considerably more out of reach than renting in both Greater Sydney and Western Sydney.

Table 3: Proportion of gross income for purchasers, 20 per cent deposit at market lending rates, selected professions, Greater Sydney					
	All Houses	**3 Bed Houses**	**Combined**	**2 Bed Units**	**All Units**
3rd Year Registered Nurse	144.6%	126.2%	111.3%	66.9%	62.3%
Qualified Firefighter	123.7%	108.0%	95.3%	57.3%	53.3%
Step 3 Qualified Teacher	117.7%	102.8%	90.6%	54.5%	50.7%
Aged Care Employee Level 3	210.9%	184.2%	162.4%	97.6%	90.9%

Table 4: Proportion of gross income for purchasers, 20 per cent deposit at market lending rates, selected professions, Western Sydney					
	All Houses	3 Bed Houses	Combined	2 Bed Units	All Units
3rd Year Registered Nurse	91.9%	73.3%	77.4%	43.4%	44.7%
Qualified Firefighter	77.9%	62.7%	66.2%	37.1%	38.2%
Step 3 Qualified Teacher	74.2%	59.7%	63.0%	35.3%	36.4%
Aged Care Employee Level 3	132.9%	106.9%	112.9%	63.3%	65.2%

Purchasing is, however, materially different to renting. Notwithstanding secondary social, economic and psychological benefits of home ownership,[5] paying off principal is, effectively, a forced savings instrument for households. Australia's retirement system is fundamentally underpinned by the assumption of homeownership.[6] It minimises, or completely nullifies, ongoing housing costs later in life while simultaneously acting a source of equity to be drawn on or realised from downsizing. In other words, homeownership has become an economic imperative in modern Australia.

Yet even being in a position to obtain an increasing unaffordable mortgage requires a deposit. If we assume an incredibly aggressive savings rate of 20 per cent (the most recent household savings rate is 0.9 per cent) for a 20 per cent deposit, and static house prices and wages,[7] it would still take *decades* for the abovementioned essential workers to come up with a deposit in Sydney's *most affordable areas*:

Table 5: Years to save for 20 per cent deposit at 20 per cent savings rate, selected professions, Greater Sydney					
	All Houses	3 Bed Houses	Combined	2 Bed Units	All Units
3rd Year Registered Nurse	30.7	26.8	23.7	14.2	13.2
Qualified Firefighter	26.9	23.5	20.7	12.4	11.6
Step 3 Qualified Teacher	25.7	22.4	19.8	11.9	11.1
Aged Care Employee Level 3	41.9	36.6	32.3	19.4	18.1

Table 6: Years to save for 20 per cent deposit at 20 per cent savings rate, selected professions, Western Sydney					
	All Houses	**3 Bed Houses**	**Combined**	**2 Bed Units**	**All Units**
3rd Year Registered Nurse	19.4	15.6	16.4	9.2	9.5
Qualified Firefighter	16.9	13.6	14.4	8.1	8.3
Step 3 Qualified Teacher	16.2	13.0	13.8	7.7	7.9
Aged Care Employee Level 3	26.4	21.3	22.5	12.6	13.0

These unaffordability findings are corroborated by earlier research. A 2021 Australian Housing and Urban Research Institute (**AHURI**) paper, before the recent surge in rents and increase in interest rates, similarly found that a worker on $1,500 per week would simply not be able to afford to rent or purchase a home in Sydney.

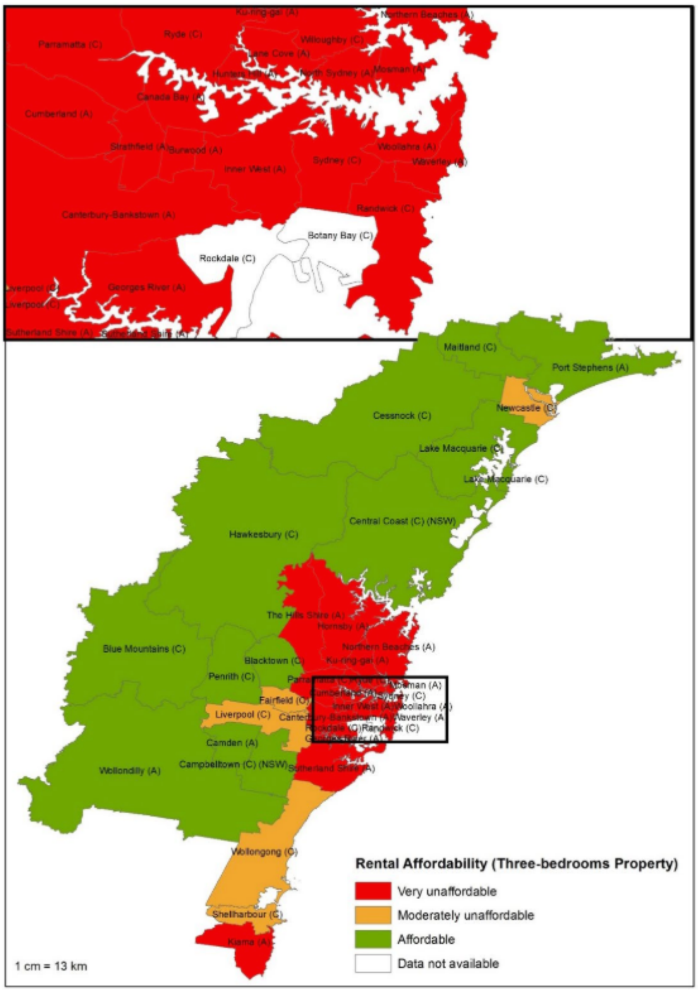

Figure 1: Affordability of median-priced rental property on $1,500 per week income[8]

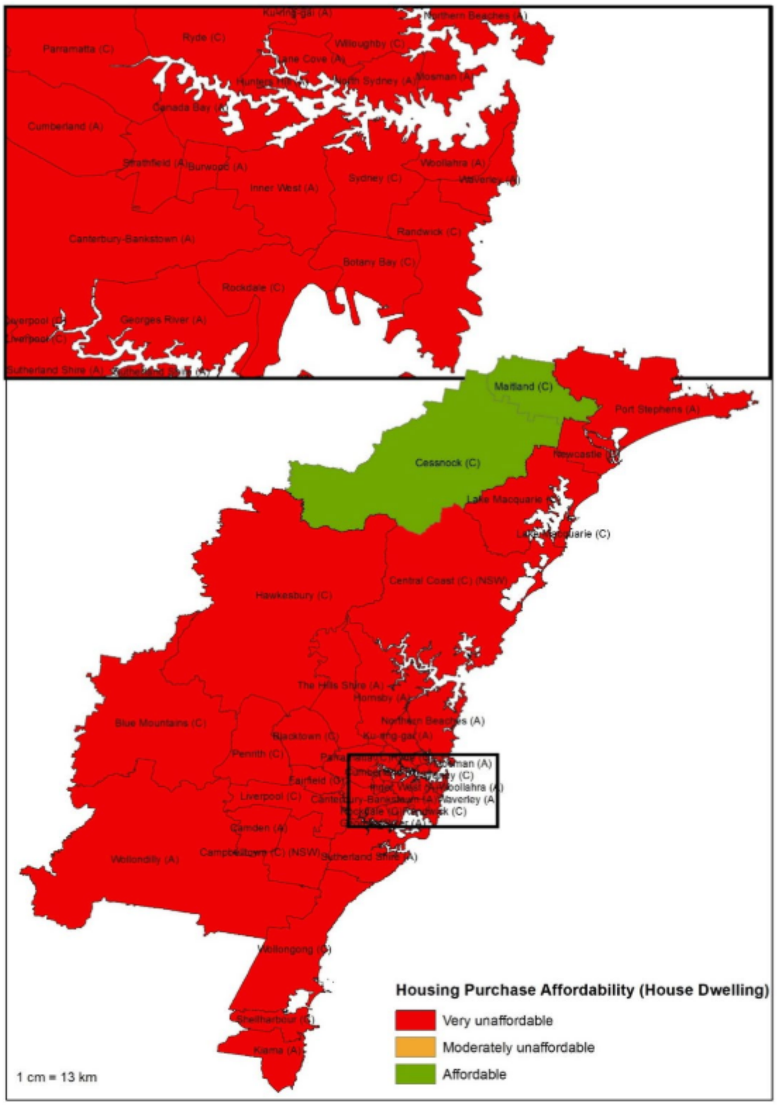

Figure 2: Affordability of median-priced house for purchase on $1,500 per week income[9]

Given these findings were made in 2021 before interest rates and rents began increasing, it is to be expected that affordability has since deteriorated further

The abovementioned 2021 AHURI study found that *20 per cent* of essential workers in Sydney were in housing stress, with 24 per cent living in overcrowded dwellings. Once again, it is likely that these figures have since appreciably increased.

This unaffordability is borne out in the data on how far essential workers actually *do* live from their place of work and surveys on current unaffordability.

The 2021 census, for example, recorded that almost 51.6 per cent of those in primary and secondary education travelled over 10 kilometres to work. This figure was 51.5 for aged care workers, and almost *68 per cent* for fire protection workers.[10]

Essential worker housing unaffordability is everyone's problem

The foregoing analysis makes it crystal clear that Sydney has simply become unaffordable for essential workers. Obviously, this state of affairs is unacceptable.

But the implications of this unaffordability crisis are not just confined to essential workers and their families. In fact, essential worker unaffordability affects all of us.

An inability to affordably house essential workers leads to 'spatial dislocations' of affordable housing from employment, decreasing the economic productivity of cities.[11] Unaffordable housing in high-cost metropolitan centres undermines recruitment and retention of essential workers, which in turn threatens the quality and reliability of essential services.[12]

Similarly, longer commutes for essential workers lead to fatigue and stress, and again risk the quality and reliability of essential services.[13]

Local communities also miss out when their essential workers cannot afford to live where they work. Essential services—such as education, health and emergency services—deliver better outcomes and more bespoke services when their workers understand and are ensconced in the communities they serve.

Recommendation 1: Establishing 'community land trusts' for essential workers in key locations

The idea in brief	The NSW Government should establish Community Land Trusts on Crown land in metropolitan and outer-suburban areas proximate to essential worker workplaces.
How it would work	The NSW Government would establish a Trust which owns the *land* on which essential worker housing is built. The workers themselves would own the dwelling and be able to sell *just* the dwelling to other essential workers subject to the Trust's approval. Instead of paying for land, residents would pay an annual fee based on a percentage of the unimproved value of the land and would retain an option to purchase.
Who it would benefit	Essential workers with access to the scheme would benefit from lower housing costs attributable to minimising land costs, while retaining the option to purchase the land when financially viable.

Community land trusts (**CLTs**) refer to a form of shared ownership of property in which the land is owned by a non-resident organisation, and residents either lease or own the dwelling. The Victorian Planning Authority (**VPA**) define CLTs as where:

> '[T]he land upon which the dwelling is located is held in a Trust. The payment for the occupation of the land is via a peppercorn lease. The land is held in a Trust for individuals, a not-for-profit or a private company to develop dwellings. Finance only needs to be sought for the built form and not the land – the savings are reflected in lower rents or purchase prices'[14]

Under a CLT model the trust, as the 'manager', effectively obtains and manages the land, and residents finance only the dwelling while paying a sum for land upkeep costs. How the original land is acquired will depend on the managing entity. In some cases government will donate Crown land to the trust (and act as a manager), whereas in others philanthropic funds will be donated for the initial acquisition.

CLTs can be, and frequently are, limited to specific demographics. Transfers are therefore overseen by and require approval from the CLT to ensure that the dwellings remain within the target demographic—in this case, essential workers.

As the VPA intimate, the primary advantage of CLTs is that the land cost is effectively removed from the upfront total cost of housing. Members of the specific demographic can therefore purchase without land costs being factored in in or can rent existing dwellings at below market rates. Owners of dwellings do not sell the land instead sell only the dwelling (while reaping the associated capital gain).

CLTs have a limited existence in Australia. For example, the ACT Government currently operates a 'Land Rent Scheme' in which low- to moderate-income households pay 2 per cent each year of the unimproved value of the land. To mitigate against steep appreciation in the price of land, annual rent increases are capped at wages growth. Transfers are limited to other low- and moderate-income households. Under the ACT scheme, tenants retain the option to convert their lease to ownership by paying the value of the unimproved land.[15]

Academic research suggests that CLTs are a viable pathway to decreasing housing costs among specific cohorts and to furthering long-term housing security. For example, in 2017 Felix Fernando and Robert Hearn studied essential worker housing affordability during a 'boom time' in a US resource town. and concluded that their 'fundamental cost analysis shows that the CLT model holds great potential for provision of single-family housing that it affordable to essential workers', noting capital cost savings of up of $80,000 USD per dwelling.[16]

Similarly, in 2012, the AHURI found that CLTs 'may have widespread potential application in Australia to address affordable home ownership concerns, increase the range of housing tenure options available, foster community development and social capital, and maintain a stock of perpetually affordable housing options'.[17] In 2022, Jeffrey Lowe and his coauthors concurred, finding that 'CLTs use innovative tools for placing land under social control and fostering long-term housing security'.[18]

Australian modelling supports these conclusions. A 2018 AHURI study supported the establishment of special CLTs for essential workers in Sydney, and calculated that a CLT could reduce the capital costs of an apartment by up to 25 per cent.[19] Obviously, given the contrasting land values between ACT and NSW (particularly Sydney) and the contrasting dwelling densities, any annual fee based on the unimproved value of the land would need to be tailored to the financial needs of the trust and ability of essential workers to pay.

Questions obviously remain as to how land under an essential worker CLT would be acquired and selected, and who would manage the CLT.

Given a paramount concern for essential worker housing is the unaffordability of metropolitan areas, it is likely that Crown land in inner suburbs or outer metropolitan areas would be the most suitable candidate. The simplicity and effectiveness of the ACT land rent scheme suggests that the NSW government, rather than a not-for-profit, should act as trustee.

But regardless of where the land is located, and who acts as trustee, the best evidence suggests that CLTs in NSW have the potential to soften the housing unaffordability crisis for essential workers, however defined.

Recommendation 2: Responsibly leasing latent NSW Crown Land at advantageous rates for essential worker targeted build-to-rent

The idea in brief	The NSW Government should lease Crown land to institutional investors, including superannuation funds, at advantageous rates in exchange for the construction of essential worker build-to-rent stock.
How it would work	The NSW Government would lease Crown land proximate to essential services to institutional investors at advantageous rates. Institutional investors would then construct build-to-rent stock exclusively for essential workers. Once the institutional investors have recouped capital and maintenance costs, plus a benchmark return, the land *and* dwelling stock would be returned to the NSW Government.
Who it would benefit	Essential workers would benefit from expanded exclusive supply of build-to-rent stock. Institutional investors would benefit from a safe asset class with a guaranteed long-term return.

The NSW Government maintains significant Crown land holdings that remain underutilised. Crown land can include land holdings that are already licensed for various uses; are deployed towards public use; or have existing development plans. There remain cases where Crown land is held that is effectively latent — where it isn't being deployed to an existing public use, and the NSW Government maintains ownership.

The NSW Government should work to identify Crown land that is latent, and work with institutional investors and the private sector to establish scaled housing stock that is affordable and accessible to NSW's essential workers.

Where possible, the NSW Government should partner with Australian superannuation to make essential worker housing (and housing more broadly) an attractive investment prospect.

The idea of superannuation assets being deployed into affordable essential worker housing is not new, but it has not yet taken off. For example, Aware Super, a not-for-profit fund in which a significant proportion of members are essential workers, have secured 15 sites to be provide affordable housing at below-market rent to essential workers.[20]

While most of the levers for making investment attracting are within the purview of the Commonwealth government (eg tax and superannuation law), there remain a number of ways in the NSW Government might attract institutional investment:

As discussed above in the context of CLTs, capital costs for land are a significant and increasing component of construction costs. Ground leasing operates in a similar way, where instead of purchasing land from government developers pay an ongoing fee for the right to use the land.

Following the Victorian example,[21] the NSW Government should consider leasing available Crown land in close proximity to essential services to a consortium of developers with the backing of superannuation investment to construct *essential worker build-to-rent* housing offered at sub-market rates. To avoid exposing the NSW Government to undue financial risk, such land should be lent only to large institutional funds who themselves contract out the construction of the dwellings.

Naturally, superannuation funds are required acts in the best financial interests of their members.[22] To willingly seek out a below-market return would likely constitute a breach of this obligation. As such, the NSW Government should lease the Crown land on the terms that the build to rent supply can be developed and retained until an acceptable benchmark return has been made, before releasing the land and constructed dwellings back to the NSW Government.

Recommendation 3: Filling gaps in debt-financing which limit institutional investment in essential worker housing

The idea in brief	The NSW Government should provide loan guarantees and concessional long-term loans to institutional investors seeking to invest in build-to-rent essential worker housing.
How it would work	The NSW Government would act as a guarantor for long-term financing for build-to-rent essential worker housing, and in some cases grant the loans themselves. While unlikely to affect the fiscal bottom line, the scheme would instil greater confidence among institutional investors.
Who it would benefit	Essential workers would benefit from an expanded long-term exclusive supply. Institutional investors would benefit from greater certainty in essential worker housing development projects.

It has been identified that one of the largest single limitations on institutional investment in housing (including essential worker and affordable housing) is the inability to secure long-term finance. The Interim National Housing Supply and Affordability Council (**INHSAC**) have noted that:

> ‘Institutional investors in Australia may have reduced access to finance for institutional housing, which is restricting the growth of the sector. Discussions with institutional investors and lenders indicate that loan terms are typically 3 to 5 years, in contrast to more established markets such as the United States, where financing terms of up to 30 years are available’[23]

They also noted that leverage permitted by Australian banks is comparatively low, and that Australian lenders demand a much higher risk premium than similar lenders overseas.[24] To address financing gaps where there is already demand for institutional housing investment (especially for essential workers), the NSW Government should provide loan guarantees and concessional loans for multi-decade terms for loans between large financial institutions and institutional investors seeking to deploy capital in essential worker housing.

These changes have been met with a positive response elsewhere. In 2012 the UK's Montague Review into the barriers to institutional investment in private rented homes found that activity in the sector was limited by 'the need to create greater confidence among investors in the availability of good projects showing acceptable, secure returns'.[25]

In response, the UK Government created the Private Rented Sector Guarantee Scheme (**PRSGS**) which provided long-term loan guarantees for large projects which met certain viability and capital requirements.[26]

In the 10 years following the Montague Review, institutional involvement in the UK's private rental sector increased by 339 per cent, with the institutional investment now an estimated 5.4 per cent of the residential rental sector.

While this change would not immediately attract institutional capital, it would instil confidence in investors to make multi-decade investments in essential worker housing and drive long term tailored supply.

Recommendation 4: Mandatory inclusionary zoning to areas of forecast high demand for essential workers

The idea in brief	Residential developments on Crown land in local government areas located near essential services should be required to sell/lease a fixed proportion of the development to essential workers.
How it would work	The NSW Government would make planning approval for large-scale residential developments subject to a mandatory requirement that a fixed proportion of the development be set aside for essential workers. The proportion may vary according to the area, and essential worker demand at the time of construction.
Who it would benefit	Essential workers would benefit from expansion of exclusive supply. Since supply would likely be sold /let at market rates, this proposal would focus on remedying acute shortages, rather than providing any specific price advantage.

Mandatory inclusionary zoning (**MIZ**) effective but often controversial. It refers to a practice of requiring developers to offer a fixed proportion of new developments as often 'social' and/or 'affordable' homes.

It occurs when 'a specified affordable housing contribution is required from a private developer as a condition for development consent on a market, housing (or other) project'.[27] There is an argument to be made that, for developments on Crown land in local government areas (**LGAs**) located near essential services, MIZ should be extended to essential worker housing at affordable rates. NSW already has MIZ for a limited number of LGAs, and South Australia (**SA**) currently has MIZ for residential areas on government land.[28]

The limited analysis on SA and NSW inclusionary zoning for social and/or affordable homes is generally positive, but it is sometimes observed that the programs are often too piecemeal compared to others around the world or make a serious dent in housing affordability.[29] For example Marcus Spiller and Mitra Anderson-Oliver found in 2015 that NSW's existing schemes 'would have negligible effects on housing markets and are likely to generate a substantial net community benefit. *They should therefore be supported as efficiency enhancing planning interventions*'.[30]

Modelling from the Constellation Project suggests that MIZ 'has the potential to provide between 32,000 and 160,000 *additional social and affordable rental homes in Brisbane, Sydney and Melbourne, alone*'.[31]

Academic studies on MIZ from around the world are strongly supportive at best, and agnostic at worst. Vinit Mukhija and his co-authors found in 2010 that in California that:

> 'Many of the mandatory programs are effective, if effectiveness is measured by comparing the affordable housing productivity of inclusionary zoning with other affordable housing programs. We found no statistically significant evidence of inclusionary zoning's adverse effect on housing supply in cities with inclusionary mandates'[32]

Similarly, a 2022 study analysed MIZ policies in 27 US states, being the 'largest scale empirical examination of [MIZ] ouctomes'. They found that:

> '[J]urisdictions with policies that were mandatory, older, covered the entire jurisdiction, or had more complex income requirements designed to reach lower income levels had significantly higher production of affordable units'[33]

This finding is of particular significance for a MIZ policy for essential workers. It suggests that a MIZ system with a more complex income requirement, such as being limited to essential workers, would be more productive of affordable units. Older and more long-term MIZ policies remain most effective. Jenny Scheutz found in 2011 that the amount of affordable housing produced under a MIZ program 'depends primarily on how long [it] has been in place'.

A long-term MIZ program in Sydney, targeted to producing affordable residential dwellings on crown land proximate to essential services would be an appropriate and effective MIZ policy. It would not solve immediate issues of unaffordability, but would contribute to ensuring that essential workers are offered priority, affordable housing close to their place of employment. As Sydney continues to expand westward, this will be particularly important in inner suburbs over the long term.

Recommendation 5: Establishing a concessional loan facility geared towards essential worker housing developments

The idea in brief	The NSW Government should establish a concessional lending facility specifically for projects to be sold or rented to essential workers.
How it would work	The NSW Government would establish a revolving fund specifically for lending to residential construction firms building essential worker housing. Loans would be provided on a per-residential unit basis, subordinated to other creditors, and on an interest rate pegged to the 30-year NSW treasury bond.
Who it would benefit	Institutional investors would benefit from lower financing costs for essential worker housing projects. Essential workers would benefit from feed-through discounts on the property's purchase price.

With commercial lending interests rates at their highest level in decades, access to capital is increasingly difficult (and risky) for private residential construction companies. Given NSW's (and Australia's) dependence on private housing development, the liquidity and viability of the private construction sector is of considerable public importance.

Accordingly, the NSW Government could establish a concessional lending facility specifically for projects to be sold or rented to essential workers. In this sense, the NSW Government could effectively backstop private borrowing on the condition that the funded residential development be sold to essential workers. Lending could be set at the 30-year NSW treasury rate plus a minor risk premium.

But given that the primary challenge facing essential workers is one of affordability rather than availability, this proposal by itself does nothing in and of itself to reduce the burden on essential workers themselves. Therefore, any residential construction funded by the concessional loan facility could be required to be sold to essential workers at a discount from the market price calculated by reference to the interest savings to the developer from the concessional loan.

Such programs exist overseas. For example, in Massachusetts, the 'Workforce Housing Initiative' provides subordinated debt to developers of up to $100,000 per residential unit at a rate of 0 to 3 per cent.[34]

Similarly, instead of loans, the Victorian Government currently offers co-contribution grants to private sector applicants seeking to 'provide housing or accommodation for 'key workers' and their families'. Funding is conditional on the housing being affordable and provided to key workers for at least five years following completion. The program is, however, currently limited to Victoria's regions and has not been expanded to any metropolitan areas.[35]

While certainly not a panacea, the NSW Government can and should leverage its borrowing capacity to ensure that private developers looking to build essential worker housing have the capital to do so. Private savings from concessional loans can then be passed onto essential workers via rental or purchase price discounts. Given the increasing uncertainty and bankruptcies in the Australian construction industry, such loans should be reserved for larger and more well-capitalised firms.

Recommendation 6: Investing in and continuing the effective 'Shared Equity Home Buyer Helper' program for essential workers

The idea in brief	The NSW Government should continue the Shared Equity Home Buyer scheme, with a specific focus on expanding its operation for essential workers.
How it would work	The NSW Government would continue with its Shared Equity Home Buyer Helper pilot. The scheme would continue to provide essential workers with access to extra upfront capital, reducing both ongoing repayments and deposit hurdles.
Who it would benefit	While highly limited, essential workers chosen to participate in the scheme would see lower ongoing repayments and deposit requirements.

NSW's 'Shared Equity Home Buyer Helper' pilot scheme closed in June 2024. Under the Helper Scheme, the NSW Government contributed up to 40 per cent of the purchase price for a new home, and up to 30 per cent for an existing home—minimising the upfront deposit required for purchase. Under the scheme, the NSW Government would proportionally reap any capital gain on the sale, or alternatively can be bought out by the owner over time.[36]

The Helper Scheme was limited to single parents with dependents, older singles, victim-survivors of domestic violence and, crucially, 'key workers employed as early childhood educators, teachers, nurses, midwives, paramedics or police officers'. It was also subject to both household income and property price limits.

Shared equity schemes serve simply as a leg up for low-to-middle income households who struggle to save for a deposit but are otherwise able to meet routine repayments. As the above analysis has detailed, these are typical characteristics of essential worker households.

There is a strong evidence base in support of such targeted shared equity schemes. They are popular, and given their narrow eligibility criteria, frequently have minimal impact on house price inflation.

For example, a 2023 University of Sydney study analysed geographic patterns of affordability change with a 30 and 50 per cent equity contribution for a 'moderate-income essential worker'. The authors found that generous shared equity schemes significantly increased purchase accessibility for suburbs closer to central Sydney:

> '[A] notional 30% equity contribution brings the LGA median price for a strata titled dwelling to within an attainable level in a few middle and outer ring LGAs and areas outside the Sydney metropolitan region'

Further:

> 'A larger, 50% equity contribution brings more LGA median prices for a strata titled home into the attainable range. In Sydney, this includes in the Inner West, Lane Cove, Parramatta and Ryde. However, the median price for a strata titled home still remains unaffordable in City of Sydney, the Eastern Suburbs and Sydney's north shore, and in Byron on the North Coast'[37]

The authors concluded that shared equity schemes' affordability impact could be deepened if 'paired with an affordable home ownership supply program, *particularly in high cost areas with concentrated essential worker employment*'.

While there is yet to be a comprehensive evaluation of the NSW pilot scheme, highly targeted shared equity schemes enjoy strong public and academic support.

In the Australian context, AHURI have concluded that '[a] shared equity arrangement provides both *a significant access and affordability benefit to first home buyers*'.[38]

A 2019 review of shared equity schemes by Meagan Ehlenz and Constance Taylor concluded that shared equity schemed target 'wealth barriers and promote homeowner investment and responsibility alongside community stewardship and education'.[39]

What is more, recipients of shared equity assistance have minimal default risk, and are more than able to meet repayments once assisted. For example, in the US, a 2018 review of nine shared equity programs found that shared equity recipients 'perform just as well on their mortgages as nonshared equity purchasers' and 'do not show appreciable differences in nonmortgage financial health measures compared with similar borrowers'.[40]

Assuming NSW dwelling prices do not fall, shared equity schemes are also effectively costless to government, and can even be profitable over the long term. The sole limiting factor is simply how much capital the government is willing to front up in the program's initial stage.

Shared equity schemes are not, and should not be, at large. A universally available shared equity scheme would only serve to increase general housing demand and drive up prices, while doing nothing for supply.

That being said, all evidence suggests that shared equity schemes are a crucial important tool for assisting specific demographics into homeownership who face downpayment constraints, rather than mortgage servicing constraints.

Recommendation 7: Doubling the portfolio of the Teacher Housing Authority by 2030, and improving the utilisation of existing stock

The idea in brief	The Teacher Housing Authority's portfolio should be expanded and better deployed across NSW.
How it would work	The NSW Government would provide additional resources to the Teacher Housing Authority to allow it to keep up with demand and set utilisation targets to ensure that the portfolio is effectively deployed.
Who it would benefit	Teachers in regional and rural NSW would benefit from expanded access to secure and affordable accommodation.

The NSW Teacher Housing Authority (**THA**) is a unique government organisation which supported teachers across NSW—especially in rural and remote locations—to access residential accommodation where the housing needs of staff cannot be met by the private housing market.

The THA portfolio consists of 1,391 properties across 204 towns in NSW. Yet the THA is both not able to optimally utilise its current portfolio, nor able to meet demand from teachers.[41]

In the 2022–23 financial year the THA received 964 applications for housing yet was only able to place 561 teachers into THA accommodation. In other words, the THA received 70 per cent more applications for housing than were approved.[42]

All the while, a significant proportion of the THA portfolio went unused: with the teacher utilisation rate being only 76 per cent. While this may speak to an undersupply in high-demand areas, it also shows that the THA's assets are not being deployed as efficiently as they otherwise could be.[43]

As the NSW regions continue to face housing supply shortages, the NSW THA property portfolio should be both considerably expanded to meet the unmet levels of demand, and better deployed to more suitable regional areas to ensure higher utilisation rates.

Conclusion

Essential workers have been left behind by NSW's housing crisis. Metropolitan Sydney is now simply unaffordable for essential workers, and even Sydney's outer suburbs are increasingly out of reach. Public sector wage data suggests that essential workers cannot rent in Sydney or Western Sydney without being in rental stress and must save for decades just to meet a deposit hurdle.

This unaffordability means that essential workers are increasingly being forced to live hours away from their places of work and are perpetually locked out of the social and economic security of home ownership. It also has broader effects on NSW's economy and the viability of its essential services. It undermines recruitment, reliability of services, productivity, and local communities.

Our submission proposes seven sensible, actionable, complementary and proven ways to ease the unaffordability burden on essential workers. While only long-term increases to supply will solve this crisis, our proposed interventions will insulate essential workers from the harshest effects of the crisis and drive tailored supply near essential services.

The least we owe to essential workers is a secure and affordable place to call their own. We commend these recommendations to the Committee

Endnotes

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