

**Submission
No 62**

OPTIONS FOR ESSENTIAL WORKER HOUSING IN NEW SOUTH WALES

Organisation: Urban Taskforce

Date Received: 13 September 2024

13 September 2024

Mr Alex Greenwich MP
Chair
Legislative Assembly Select Committee on Essential Worker Housing
Parliament House
Macquarie St
SYDNEY NSW 2000

Dear Mr Greenwich

Re: Select Committee on Essential Worker Housing

At a superficial level, clearly the provision of housing for essential workers in locations near their workplaces is desirable. However, the devil is in the detail of how a government goes about achieving this goal.

If the Government is to progress with a new category of housing for essential workers, this must be explicitly defined and the rationale for who gets this support, and who pays for it, clearly articulated and debated.

Essential Worker Housing must be precisely and separately defined from social housing and affordable housing.

Essential Worker Housing is best provided through a change to the permissibility of use in a more affordable housing type.

The Government would need to establish and promote an Essential Worker Housing program that can be used to educate the broader community.

One benefit to support such a program would be the opportunity for the development community to use this feature within their housing stock to positively promote any Essential Worker Housing within the respective development.

Any requirement for Essential Worker Housing must be directly linked to a substantial planning gain (increased yield) and be offered at a market rate commensurate with the smaller affordable housing type of dwelling or at only a modest discount to market rent.

Any Essential Worker Housing (or other social/affordable housing) contribution must be supported by a detailed Regulatory Impact Statement (RIS) as required by the NSW Productivity Commission recommendations and must demonstrate no adverse impact on general housing affordability.

This must be proven (with industry acceptance) to be feasible and reasonable, with involvement from NSW Treasury.

Options should be retained for either a cash or in-kind GFA dedication (in-perpetuity) or a higher proportion of Essential Worker Housing being retained by the developer and managed via a CHP. As noted above, from a funding and management perspective, a cash contribution that directly funds housing delivery by Homes NSW is often preferred. As a benchmark, 15% affordable housing for 15 years is equivalent to 3% cash payment (or in-perpetuity GFA dedication) to a CHP (via a Council or the NSW Government).

The location and provision of Essential Worker Housing within a building must be at the complete discretion of the developer with advice sought from the Community Housing Provider on dwelling types.

If the Government is concerned about the capacity of Essential Workers to afford homes close to where they live, the Government should pay those essential workers more money!

One option would be to define essential workers, many of whom are employed by government, and pay them more so they can afford homes close to their place of employment.

That is how the private sector has to deal with shortages in the labour force (which are often caused by failures in immigration policy or government training programs).

For the successful functioning of a city, it is critical that essential workers have homes located in relatively close proximity to their workplaces, particularly where those workers are on a 24/7 shiftwork roster.

It needs to be recognised that this too, is all a problem of government's making (planners in particular). Restrictions on zoning and planning have meant that housing supply has not kept up with demand. This has pushed up prices and thus made homes unaffordable for many on even medium level incomes.

Long commutes raise concerns for the health, safety and wellbeing – but this is particularly problematic for shift workers like nurses, fire fighters, ambulance officers, prison staff and other “essential workers”.

The former government made a series of deliberate changes to the Housing SEPP to make boarding houses less feasible and to restrict the permissibility of boarding houses, despite their high quality in recent manifestation, in large swathes of Sydney.

This had a particular impact on the provision of affordable homes close to the new Northern Beaches Hospital at Frenches Forest.

Before mandating essential worker or affordable housing in development sites, it is critical that the cost imposed on the purchasers of the other dwellings in the development be considered.

That is why it is critical that a full economic evaluation is undertaken to ensure that the uplift in dwelling yield is sufficient to pay for the including of essential or affordable housing.

For example, in the recent case of TOD Tier 1 accelerated precinct developments in Crows Nest and St Leonards, where an affordable housing contribution has been proposed (albeit in draft at this time) of between 10% of gross floor space and 15% of gross floor space, in perpetuity, the cost of a 15% levy is detailed below:

Affordable Housing contributions made in perpetuity are a massive burden on the remaining new dwelling purchasers

At a recent Urban Taskforce conference, Clover Moore recently noted that the City of Sydney (the local government area with the highest amount of delivered affordable housing), they have found only levels between 2-3% of GFA to be delivered in perpetuity.

There is no fat in the margins of those companies involved in the property sector. ASIC data shows that bankruptcies and insolvencies in our sector comprise over 40% of all insolvencies in Australia, despite the fact that we represent only 10% of companies and employment in the economy.

The result of this is any requirement for a new "contribution" to a social or government goal, like affordable housing or essential worker housing, must be funded through increases in the sale price for the balance of purchasers.

This conundrum is clearly explained in Case Study 1 - see below.

What is an "Essential Worker"?

It is worth considering what other jurisdictions consider an "essential worker" category to comprise:

- **Australia:** A person with specific skills or is involved in the production of goods or the delivery of services, where the skills, goods or services are essential in responding to an emergency. ([Australian Government - Guides to Social Policy Law, Paid Parental Leave Guide, July 2024](#)).

Case Study 1

New Affordable Housing tax will increase the cost of a typical 2-bedroom apartment by over \$200K

The value of a 15% affordable housing contribution (in perpetuity) on a residential apartment building containing 100 apartments, based on a modestly appointed 2-bedroom apartment (80-85 sqm) in a nominated Tier 1 TOD precinct locations, is circa \$1.2 million before this new tax is applied. That represents a new tax of $15 \times \$1.2 \text{ million} = \18 million .

That assumes that there is demand for new 2 bedrooms apartment at that price. In many of these precincts, that is not affordable, therefore the development is not feasible, even before the new Affordable Housing tax is applied. In other locations, the cost of land and levies will make the same price needed for a feasible development such higher than this.

Nonetheless, this hypothetical case would see 15 apartments (15% of 100 apartments built) dedicated to a CHP in-perpetuity for the purpose of providing affordable housing supply.

This is assuming a conservative (low) construction cost and a modest land price.

If the total yield before the new tax was going to generate $100 \times \$1.2 \text{ million} = \120 million .

The loss of \$18 million in gross revenue must be recouped from the other 85 market sales.

This is a massive imposition of the feasibility of any project, with or without any bonus in yield.

That pushes the price of apartments that will be sold to the market up from \$1.2 million to \$1.411 million. An increase in the cost of new homes of \$211,000.

A \$211,000 new tax on housing, because of this affordable housing in-perpetuity provision.

- **United States:** Defined by the Department of Homeland Security, essential workers include those in healthcare, law enforcement, food production, transportation and emergency services ([US Department of Homeland Security - Cybersecurity and Infrastructure Security Agency - Memorandum on Identification of Essential Critical Infrastructure Workers During COVID-19 Response - March 2020](#)).
- **United Kingdom:** The UK government defines essential workers as those in critical sectors like health, education, food supply, public safety and utilities ([UK Government - Children of critical workers and vulnerable children who can access schools or educational settings - January 2022](#)).
- **European Union:** Essential workers are identified as Health and care workers, Cleaners and refuse workers, Transport workers, Food system workers, Manual workers, Protective services workers, Education workers, Scientists and engineers, Office workers, Managers and legislators, ICT workers ([European Union - Job quality in 11 essential worker categories, EU27, 2021 - May 2024](#)).

Defining 'Essential Worker'

Defining an "Essential Worker" is both fraught and vexed.

If workers are essential, and there are not enough of them in a particular location, government should look to rectify this by adjusting their wages or providing a housing allowance, not taxing market housing purchasers who are already struggling with high interest rates and building costs with the additional impost of funding subsidies for the housing of these essential workers.

Broadly, essential workers are defined as those that are critical to enabling a government response to an emergency situation. This should be the limit of any definition of essential worker.

Planning Tools

A maxim that must be considered during any consideration of changing the regulatory arrangements is: taxing the supply of housing reduces supply.

There is no delivery of essential worker housing (or affordable housing) on a project that does not start because it has been taxed into unfeasibility. This is one of the main reasons why DAs are often not acted upon. By the time a DA gets through the planning system, costs have increased or yield has been dropped through the process, and it is not feasible for the DA to progress to construction. Adding a new tax is a sure way to destroy feasibility and lower housing supply.

Planning instruments are heavily linked to both development costs and yield.

One recently implemented successful scheme here in NSW is the In-fill Affordable Housing Bonus Scheme, where projects could opt in for up to 20-30% additional height and density in return for the provision of 10-15% affordable housing, to be managed by a CHP, for a 15-year period.

The uplift was balanced against the burden of the provision of affordable housing and the capital gain over the 15 years assisted in covering the subsidy through that period.

The point here is that the amount of essential worker housing must be proportional to the increased height and floor space ratio allowed and should be offered for a limited period of time. There must be a bonus in height and density to attract investment and the provision of the housing must be for a fixed period so the capital gain can offset the provision of those affordable homes at a discount to market rent.

Amending planning controls to permit low-cost accommodation for essential workers or affordable housing generally in commercial zones with height and density bonuses would also make a significant difference to the delivery of

affordable housing and key worker housing in many locations across Greater Sydney and regional cities across NSW.

Essential workers have been priced out of many locations because planners have effectively excluded them by zoning entire areas of greater Sydney in such a way as to preserve privilege at the expense of people who can not afford the mandated housing type. This must change.

In response to this, the NSW government amended the Housing SEPP to allow for a 10% bonus applicable to co-living dwellings is not enough to provide development proponents with the margins needed to develop in this category.

Implementing a height and density bonuses for essential worker housing with substantial uplift, in line with, or exceeding, the In-fill Affordable Housing Scheme Bonus for no more than 10-15 years would create additional essential and market housing delivery.

Part 5 of the Environmental Planning and Assessment Act 1979

Under this part of the Act, infrastructure agencies and councils are allowed to carry out certain activities, including housing developments, without requiring the development approval process that applies to private developers.

Developments can occur on or adjacent to their own land.

These powers should be used to select viable land for essential worker housing and then contract the private sector to deliver and manage that housing 'on behalf of' the agency or council.

Clear guidance should be issued to encourage agencies and councils to use Part 5 rather than a development approval process for low-risk housing with the Apartment Design Guide or other specific design guidance to be considered where appropriate.

This would be highly appropriate for build-to-rent housing near hospitals, schools and emergency services. It would bring this mechanism into the minds of agencies and councils and begin decision makers thinking about housing on their land, allowing more feasible co-living projects in more places.

Site Compatibility Certificate

Site Compatibility Certificates (SCCs) were adopted in the mid-2000s as an amendment to the Seniors Living SEPP (now incorporated into the Housing SEPP where SCCs have been abandoned) which attempted to ensure that proposed development sites located on the urban fringe were suitable for seniors living

residential development. It was a fast-track mechanism for DPE – (then DPIE and now DPHI) to quickly determine strategic merit and progress housing supply for a growing cohort of people. The former Government abandoned this initiative as it was not popular with some on the urban fringes of Sydney, leaving a massive gap in the provision of seniors living. The point is, if there is a need for a particular type of housing for a particular cohort of people, provide incentives, don't increase taxes.

SCCs were an example of the utilisation of a planning tool for the delivery of Senior's Housing on the fringe of urban development where zoning did not otherwise permit that housing type. There was an incentive to meet demand for that much needed and growing cohort of residents (in this case, ageing Sydneysiders).

Simple statutory adjustments can provide opportunities for particular typologies of housing. For instance, under the *State Environmental Planning Policy No 65—Design Quality of Residential Flat Development*, Seniors Living and Aged Care on golf courses became permissible and projects appeared across Greater Sydney.

Similar adjustments could be made to make essential worker housing permissible adjacent social infrastructure, on E and SP zones, or on land adjacent to Infrastructure. Affordable housing types, including co-living and boarding house typologies, should be allowed on this land.

Low and medium density should be permitted regardless of zone or location. Further to this 'co-living' should be permitted where build-to-rent or boarding houses are permitted. Co-living, build-to-rent and residential flat building typologies should also be permitted in SP2 zones if it is targeted at essential workers.

Consideration by Treasury

Provisions should be made for Treasury to require infrastructure agencies to "consider" housing needs of their workforce as part of any business case with the basic assumption that new infrastructure should provide housing on site. Linear infrastructure should have a housing strategy, which may include temporary housing.

Minimum lot sizes

In examining options for affordable housing and key worker housing, we must consider the factors that drive up the cost and price of housing. As Peter Achterstraat has noted in his Review of Housing Supply challenges and policy options for NSW (August 2024) reducing the minimum lot size and minimum apartment sizes, or increasing the FSR and height, or reducing the setbacks from the street, would all produce the result of lowering the cost of housing for essential workers (or any worker for that matter).

Essential Worker Home Buyer Guarantee

Some Urban Taskforce members have suggested that the NSW Government consider providing an Essential Worker Home Buyer Guarantee, essentially duplicating the first home buyer guarantee mechanism from Housing Australia.

Please see here: [Regional First Home Buyer Guarantee from Housing Australia](#).

The NSW Government could work with the Commonwealth to allow salary sacrificing for home interest repayments to allow essential workers (as defined) to pay off their homes (or pay the rent) with pre-tax dollars.

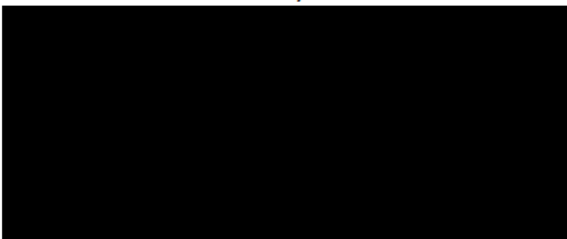
Please see the Advantage salary packaging available for remote workers as an example.

Conclusion

Legislative Assembly Select Committee on Essential Worker Housing's inquiry into and report on options for essential worker housing in New South Wales should be used to position NSW to positively leverage the private sector to deliver housing supply generally through increasing the permissibility of affordable housing types in all locations and land zone areas.

Should any Committee member wish to discuss matters relating to this submission, please contact our Policy, Planning and Research Analyst, Benjmain Gellie on [REDACTED] or via email: [REDACTED]

Yours sincerely



Tom Forrest
Chief Executive Officer