

**Submission
No 79**

OPTIONS FOR ESSENTIAL WORKER HOUSING IN NEW SOUTH WALES

Organisation: City West Housing

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To: Select Committee on Essential Worker Housing
Legislative Assembly

Dear Members

Consultation in relation to the Select Committee Inquiry on Essential Worker Housing

I refer to the Terms of Reference for the Inquiry by the Legislative Assembly Select Committee into Essential Worker Housing, as per below.

That the Committee inquire into and report on options for essential worker housing in New South Wales, specifically:

- (1) Establishing an appropriate definition for essential worker housing for the NSW Government to adopt including criteria for prioritising worker cohorts and geographical areas.*
- (2) Identify options to increase housing supply for essential workers, including but not limited to:
 - a. planning tools and reforms*
 - b. incentives for developments on privately owned land*
 - c. opportunities within developments on government owned land*
 - d. investigate reforms that promote fiscal sustainability, innovation and essential worker housing in-perpetuity*
 - e. other related matters.**

Who we are

City West Housing is a dedicated non profit affordable housing provider that has been developing, owning and operating affordable rental housing for 30 years in the inner City. It is also a registered Tier 1 Community Housing Provider.

City West Housing was set up by the NSW Government in 1994 in response to the introduction of the City West Regional Environmental Plan (REP) and the proposed renewal of Ultimo and Pyrmont. This change in planning controls was anticipated to substantially affect and increase the development potential and land values within the Ultimo Pyrmont area.

In recognition of the potential for gentrification of the area, the Government agreed to create a non-government non-profit housing management vehicle which would be independent from Government, could mix public and private funding, raise private finance and undertake the development of housing projects to ensure continued access to subsidised housing in the area.

City West Housing is now one of a number of non profit community housing providers in NSW who finance, develop, own and manage affordable rental housing.

What is affordable housing? There are different ways to measure housing affordability. The most common measure used in Australia focuses on housing costs as a proportion of household income. Since housing costs are a higher burden for lower and moderate income groups, affordability measures typically focus both on total household income as well as the amount spent by that household on housing.

In Australia standard policy metrics define "*affordable housing*" as housing which costs up to 30 per cent of household incomes across very low, low, and moderate (up to 120 per cent of area median) income bands. Furthermore, when very low, low, and moderate income households are paying more than 30 per cent of their income on housing, they are said to be in "*housing stress*".

Since its inception, City West Housing has been tasked with preserving a diversity of housing in the inner city, through housing a range of households on very low, low and moderate incomes. Rents are capped at 30% of gross household income (or 74.9% of market rent, whichever is lower) to ensure that no tenant is in housing stress. The housing we develop and operate is affordable housing in perpetuity.

Today City West Housing owns and manage ~900 affordable rental apartments across 21 buildings in the inner city housing some 1,600 residents. We also have a pipeline of development projects that will deliver another 700+ apartments in the inner and middle rings of Sydney.

As a long term operator in the City of Sydney City West Housing has become embedded in the local community and economy:-

- developing close relationships with major employment providers in the locality such as local health services, schools, vocational education providers and the local police command,
- acting as a commercial landlord leasing premises to a range of businesses, supporting productivity and the local economy,
- actively participating in local networks of services including in Pyrmont/Ultimo and Green Square,
- sponsoring local community events as well as funding activities and programs for CWH residents, and
- working closely with more than 15 local support services, including formal partnerships with WAGEC and Deadly Connections, to provide support to those CWH residents who need it.

To apply to live in one of our affordable apartments in the City, an applicant must not only meet the income eligibility thresholds (which are revised annually by the NSW Government) but must also demonstrate a connection to the area, either currently living **or working** in the Local Government Area.

City West Housing maintains a waiting list for its properties, with 1,200 eligible applicants currently waiting for affordable housing.

Our existing residents and approved applicants represent a broad cohort of households, from people working in retail, hospitality, health, education, emergency services and childcare to name a few, to retirees and households whose sole source of income is a statutory payment.

For those City West Housing households solely earning income from salaries and wages, the average annual salary at 30 June 2024 was \$82.4k, falling in to the low income bracket. Once we include all salary and wage earners, including those working part time/casually, the average income of salary and wage earners living in City West Housing properties drops substantially.

It is low income workers i.e. those earning between 50-80% (\$55,401 to \$88,599¹) of median household income in high cost housing markets who most rely on access to affordable rental housing to be able to afford to live close to where they work.

The jobs occupied by these low (as opposed to moderate) income workers are often less skilled, casualised, part-time and offer few career prospects.

Occupations dominated by casual or part-time employment may be less likely to be able or willing to travel long distances than are workers in occupations dominated by full-time employment.

Poorly paid workers unable to afford the expense of owning a car and in occupations dominated by shift-work are also less likely to be able or willing to travel long distances when public transport is not readily available.

A moderate income earner who currently can earn up to \$132,900 per annum² and still be eligible for affordable housing has significantly more choice in terms of what they can afford to rent. This is demonstrated by the fact that moderate income households currently only represent around 19% of all existing City West Housing households and 15% of the applicants on our 1,200+ household waiting list.

Essential Worker Housing versus "Affordable Housing"

The Committee's Terms of Reference include the following aspiration:

To establish an appropriate definition for essential worker housing for the NSW Government to adopt including criteria for prioritising worker cohorts and geographical areas

According to AHURI³:

"there is no consistent or universal definition of what constitutes a key worker, nor is the term universal, with 'essential worker' and 'frontline service provider' often having the same meaning. In Australia, and internationally, key public service workers, whose wages are typically set at a national or state level, including teachers, nurses, police and fire and emergency personnel, are often the focus. Some definitions encapsulate workers across the broader public sector; support / ancillary workers in healthcare, education and emergency services; workers who support the labour force (e.g. child care and aged care workers and ICT support professionals and technicians); and, low paid workers who are important for local economies, such as hospitality and retail workers".

¹ NSW Affordable Housing Ministerial Guidelines, 2023-24. NB These median incomes do not take into account household type (size and composition). Equivalised income for say a single person household in Sydney tops out at \$77,600.

² ABS, Median Income 2023/24 based on Greater Capital City Statistical Area boundaries

³ Nasreen, Z. and Gurran, N. (2021) Housing key workers: scoping challenges, aspirations, and policy responses for Australian cities, AHURI Final Report No. 355, Australian Housing and Urban Research Institute Limited, Melbourne.

Another and possibly more suitable definition is:

“people whose occupations are considered essential to the functioning of cities but who are typically on fixed, low to moderate wages⁴”.

This definition encompasses a much broader range of workers and occupations who are equally important for the functioning of cities.

Key workers (a subset of essential workers) typically (but not always) earn moderate (rather than low) incomes. Their incomes are set by public sector or industry award scales and range from an average annual income of between \$85-95k for a registered nurse to \$97k for a senior constable in the police force.

While affordability in the current housing market is still low for these workers, public sector occupations such as police or teachers face below average incidence of affordability problems relative to other ‘essential workers’.

Who does City West Housing house?

City West Housing has adopted the terminology *essential services workers* to refer to its residents who work in jobs that support the functioning and therefore the productivity of the City and the broader economy. However first and foremost they are affordable housing residents.

City West Housing does not differentiate between the nurse working in the local hospital, the hospital cleaner or the barista in the hospital cafe. We believe that all lower income workers make important contributions to the performance of cities when they can access affordable housing close to where they work.

Priority worker cohorts and geographies

A stated objective of this Inquiry is to *develop criteria for prioritising worker cohorts and geographies*.

Prioritisation

The question of which occupation groups could or should be prioritised is challenging. Occupations that are considered essential can and will differ between geographies. It is also evident that some ‘essential worker’ occupations experience worker shortages at higher rates than others.

For example research shows that commuter distances for lower paid employees for services which have long hours such as long day childcare, or operate at night such as the entertainment industry, is a major factor affecting those industries’ ability to secure staff.

What is irrefutable is that now more than ever many working households face significant challenges accessing and affording housing in the private market, in particular near to where they work.

⁴Yates, J., Randolph, B., Holloway, D., Murray, D., 2005, Housing Affordability, Occupation and Location in Australian Cities and Regions, AHURI Positioning paper NO. 84

While maintaining essential services has obvious and important public benefits, assisting particular occupation groups (over others) to access housing in a climate of wide reaching housing need raises questions about equity.

One solution is to take the view that all workers make important contributions to the performance of cities, consistent with the approach adopted by City West Housing, and work to significantly expand the supply of affordable housing 'and housing assistance rather than trying to prioritise certain occupations over others.

Limiting access to certain occupations over others seems to ignore the contribution of a wide range of workers to the overall productivity of an area.

By housing a broad range of local workers who may otherwise be unable to live near to their work City West Housing and other providers of affordable housing contribute to agglomeration economies, meaning that the local economy is supported with retail workers, educational workers and other (low income) providers of essential services to the local community.

Location

Most 'essential worker' jobs serve resident or visiting populations and therefore tend to be concentrated in areas that are more densely populated and/or have a higher number of daily workers or visitors, such as Sydney's central city areas and surrounding suburbs.

It is often these locations where there is greatest competition for housing and consequently pressure on house prices. These are also the areas where it typically costs the most to develop and deliver housing due to the high cost of land and the type of housing (eg apartments) delivered.

It is important to note that if workers are unable to access appropriate and affordable housing within the region or sub region in which they work, they pay the added financial and social costs of long commute times. This is particularly the case where households have to commute by private car (Dodson and Sipe 2008⁵). Absent access to well located affordable housing, the consequence is that these 'essential' workers are more likely to take up jobs in more affordable locations.

In addition to the cost of housing, the other factors that contributes to the migration of lower income workers away from areas of high concentration are age and household formation. For example there is often a move away from inner-city areas among workers aged 30-44 whose moves may be driven by factors like starting a family or a desire to buy a home rather than rent.

Increased housing supply

The Committee's Terms of Reference also seek to identify options to increase housing supply for these workers, including planning tools and reforms, incentives for developments on privately owned land, opportunities within developments on government owned land and to investigate reforms that promote fiscal sustainability, innovation and essential worker housing in-perpetuity.

⁵ Dodson, Jago and Sipe, Neil (2008). *Shocking the suburbs: urban location, homeownership and oil vulnerability in the Australian city. Housing Studies* 23 (3) 377-401.

Not for profit community housing providers:

There are a range of approaches that have been trialled in NSW over a number of years to develop a mature regulated non-profit community housing sector that is incentivised to develop and deliver affordable housing. This includes the 2007 Planning for the Future strategy, the Community Housing Industry Development Framework, the introduction of a statutory regulatory system for community housing and the Community Housing (Adoption of National Law) legislation, new contracting frameworks, vesting of Nation Building and Economic Stimulus homes to the sector to create Balance Sheets and facilitate borrowings and a range of grants and other programs to help fund new social and affordable housing through the community housing sector.

The community housing sector has demonstrated its ability to be nimble and innovate and is well placed to be the delivery vehicle for affordable / worker housing and to own and operate this housing in perpetuity where funding and policy levers make this possible. However the ability to scale the delivery of affordable rental housing in NSW through the community housing sector has been hampered by the lack of policy and funding certainty alongside adhoc approaches to statutory planning in different geographical areas.

City West Housing historically has had access to funding generated through developer contributions in the City of Sydney to help fund its delivery of affordable housing. Recent changes to the Company's governance arrangements and corporate structure means that it can now also leverage its Balance Sheet and cash flows through borrowing. However with debt sized against cash flows from (subsidised) rents, no ability to securitise the funds received from developer contributions as security for borrowing (due to uncertainty around quantum and timing of receipt of the funding) and the rapidly escalating costs of land and construction, development delivery is hampered. The Housing Australia Future Fund's proposed Availability Payments provides structural and funding certainty but only for as long as those payments are available, with the Commonwealth placing caps on the total number of properties to be funded.

If the right funding supports and planning mechanisms were in place (for example a long term 'availability' payment) and there was long term certainty the sector would be well placed to leverage their deep experience as landlords, their not-for-profit status and access to tax concessions and their Balance Sheets to deliver more affordable housing in well located areas close to jobs, including for 'essential workers'.

Other mechanisms

There are already a range of approaches outlined by the NSW Government that seek to utilise the planning system to deliver affordable rental housing. Government could consider embedding the need to plan for essential workers' housing needs in certain locations through planning policy. However it would be important to retain flexibility in how an 'essential worker' is interpreted to account for local economic contexts and labour recruitment / retention challenges.

Other specific policy approaches and strategies that the NSW Government can consider utilising to increase the supply, a number of which are already under consideration, include:

- using public sector land to deliver affordable housing for essential workers,
- allowing/encouraging employers to develop homes for essential workers (for example, by allowing housing in non-residential zones, but only for the purpose of affordable worker housing and ideally in partnership with the community housing sector),
- initiating inclusionary zoning requirements to deliver affordable housing for essential workers in priority locations such as health and education precincts,
- supporting/encouraging more superfunds to invest in housing for essential workers, as envisaged through the Housing Australia Future Fund and commitments under the National Housing Accord, and
- developing a government shared ownership program for properties delivered through some of the above mechanisms.

Thank you for the opportunity to provide input.

Kind Regards

Leonie King
Chief Executive Officer