

**Submission
No 100**

OPTIONS FOR ESSENTIAL WORKER HOUSING IN NEW SOUTH WALES

Organisation: Unions NSW

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**Unions NSW
Submission to the Legislative Select
Committee on Essential Worker Housing:
A fairer share in our housing market for
more Australians and essential workers**

1. Unions NSW welcomes the opportunity to provide a submission regarding this important inquiry.

2. Unions NSW is the peak body for trade unions and union members in NSW. We have 47 affiliated trade unions and labour councils who collectively represent over 600,000 union members and essential workers in all industries in NSW.

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Introduction: What is 'essential worker housing'?

3. The term 'essential worker' entered mainstream use in NSW during Covid-19 lockdowns. While some workers were told to stay home to reduce the spread, many other 'essential workers' had to leave the safety of their homes to continue performing their duties for the community. The list of workplaces kept open was lengthy, from education and care providers, to groceries, to mines, local government, transport, and more. The challenging task of defining essential workers was approached differently by each state and the term was largely left undefined (Kampmark 2021, para. 8).
4. Unions NSW believes all workers are essential because 'no worker should ever be considered, or consider themselves, as "non-essential"' (Mortimer 2020, para. 21). This submission offers two complementary definitions for essential worker housing which can both be adopted in parallel.

Targeted essential worker housing

5. There is an opportunity for the NSW Government to develop targeted essential worker housing programs with the aim of addressing critical community and worker needs. The NSW Government should consider locations where housing affordability is contributing to a workforce shortage which reduces the availability of local workers to deliver a service important to a geographical community or the NSW public.
6. Part one of this submission explores criteria which can assist the NSW Government to develop targeted programs which respond directly to communities, occupations, geographies, and the type of housing required in each situation.
7. The targeted approach in **part one uses a definition of essential worker housing as affordable homes to meet the critical needs at the intersection of communities and their workforce.**
8. Unions NSW recommends the following targeted programs:

Metropolitan areas:

9. In metropolitan areas, Unions NSW proposes large-scale build-to-rent-to-buy (BTRTB) programs supported through,
 - a. incentives for institutional investors, such as industry super, and,
 - b. affordability measures for essential workers.

Regional areas:

10. In regional areas, Unions NSW proposes the expansion and renovation of Key Worker Housing, including new builds for more essential worker occupations and support to tenants to move from renting to buying a home in their local community.

Essential worker housing for all

11. All workers are essential and deserve a safe, secure and affordable home. Part two of this submission seeks to address this universal need by developing solutions to some of the root causes of the housing crisis. While this inquiry focuses on supply-side solutions, addressing both supply and demand via the recommendations in part two is key to improving general affordability and creating a housing supply affordable to all workers.
12. Consistent with this task, **essential worker housing is ambitiously defined in part two as the median priced housing in any NSW housing submarket that is affordable to essential workers.**
13. Unions NSW proposes disincentivising unhosted short-term rentals on platforms like Airbnb which drain the residential supply and make housing less affordable.
14. Finally, Unions NSW presents evidence indicating limits to negative gearing and capital gains discounts can significantly contribute to increasing affordable supply across the board.
15. Not only can this approach improve affordability, but limiting negative gearing to one additional property per owner will open the market to more Australians and give essential workers the opportunity to build wealth through an investment property.
16. While we acknowledge federal tax reform is outside the terms of reference of this inquiry, it is crucial and can supercharge NSWs' essential worker housing programs by unlocking institutional investment into them and generating revenue.
17. Our proposed essential worker housing definitions:

1. **Affordable homes to meet the critical needs at the intersection of communities and their workforce.**
2. **Median priced housing in any NSW housing submarket that is affordable to essential workers.**

Neither definition requires a hard limit on which occupations are covered.

Recommendation 1: The NSW Government should adopt definitions of essential worker housing which have the potential to include all workers

Summary of recommendations

18. Our recommendations are:

Recommendation 1: The NSW Government should adopt definitions of essential worker housing which have the potential to include all workers.

Recommendation 2: The NSW Government should gather and publish detailed vacancy data on its essential services to support the provision of targeted essential worker housing.

Recommendation 3: The NSW Government should develop large-scale build-to-rent-to-buy programs that provide affordable essential worker housing in metropolitan Sydney with a pathway to ownership.

Recommendation 4: The NSW Government should build a greater stock and variety of Key Worker Housing, especially in regional areas.

Recommendation 5: The NSW Government should renovate existing Key Worker Housing stock based on the needs of tenants.

Recommendation 6: The NSW Government should build additional homes based on the Key Worker Housing model for early education and care, aged care, and disability workers, especially in regional areas.

Recommendation 7: The NSW Government should support essential workers living in Key Worker Housing to buy a home in their community.

Recommendation 8: The NSW Government should improve housing access and affordability by implementing a tax on unhosted short-term rentals and limiting the length of short-term rental arrangements.

Recommendation 9: The NSW Government should call on the Federal Government to limit negative gearing to one property per owner and capital gains tax discounts to 25%.

Part one: Targeting essential worker housing projects at the intersection of communities and their workforce

Why housing is a problem for essential services

19. Evidence from essential workers and services demonstrates that barriers to housing lead to a range of workforce issues which cause problems for service delivery.
20. In September 2024, Unions NSW surveyed 810 frontline workers in NSW and found 78% were in housing stress (currently spending more than 30% of their income on housing).
21. When essential workers are unable to affordably live near their workplaces, this hurts the delivery of essential services. Central to this, many essential workers are concerned about the impact long commutes have on their personal and professional lives.
22. One survey respondent, a teacher working in Northwest Sydney and living 50km away in Southwest Sydney told Unions NSW,

'I am exhausted and wake up at 4 am every morning. I get no more than 30 hours of sleep Monday to Friday. No personal time and I am the burden in all my social groups. I've wanted to quit every year I work'

(Unions NSW, survey, September 2024).
23. A head teacher with a mortgage working in Western Sydney unable to recuperate after work, stated,

'I pay most of my DET [Department of Education and Training] to the bank so I need another job to survive living in Sydney especially since I am a single parent with dependents. No personal life as I need to drive straight to my second job'

(Unions NSW, survey, September 2024).
24. In the regions, access to housing impacts the ability of regional services to attract and retain staff. Almost 80% of workers who considered moving from Sydney to a region identified access to housing as a barrier to making the move (Unions NSW, survey, September 2024).
25. Teachers and principals at a recent industry roundtable in Armidale linked the lack of housing access to detrimental impacts on local services:

'a school's ability to attract and retain teachers at regional schools was vital to improving regional students' outcomes, with schools in the bush impacted by teachers struggling to find quality, stable homes close to their work'

(MEEL 2024, para. 3).

26. When Unions NSW (survey, September 2024) asked workers what impact affordable housing near their workplace would have for them and their workmates, many identified potential benefits.

27. One nurse who works in Randwick but lives 30km away said:

'I think it would do A LOT towards retention & staff vacancies, along with a pay increase and ratios'

(Unions NSW, survey, September 2024).

28. A librarian working in the Blue Mountains identified resilience against natural disasters, stating:

'Better able to attend work during extreme weather events, including bush fires'

(Unions NSW, survey, September 2024).

29. A community support and outreach coordinator working on the south coast stated:

'Services would dramatically increase as staff would be a lot happier facing less financial burden and less stress getting to and from work'

(Unions NSW, survey, September 2024).

30. There are many more examples of the impact housing is having on the delivery of essential services, but it is beyond the scope of this submission to detail them all. Below, Unions NSW provides criteria the NSW Government could use to identify and assess contexts/geographies where housing is causing an issue for essential services.

Identifying need and targeting programs for essential worker housing

31. To help assess the need for essential worker housing in different geographies and develop the most effective programs, the NSW Government could consider the following criteria:
 - a. Frontline occupations which must be on-site to perform their role,
 - b. Occupations for which residing in the community they serve is advantageous,
 - c. A community's need for more workers in an occupation,
 - d. The ability of essential workers to afford housing without housing stress,
 - e. The type of housing and services needed by essential workers in the community, including whether a pathway to ownership can be provided.
32. Consideration of the above criteria will assist in identifying the best opportunities for targeting essential worker housing programs.
33. However, there are exceptions for each of these criteria and they should not place a hard limit on which occupations should be covered.

Frontline occupations which must be on-site to perform their role

34. Frontline workers need affordable housing which enables them to live near their workplace.
35. However, it is also important to note some workers who are not traditional frontline workers may still need essential worker housing. For example, administrative workers may theoretically be able to work remotely but are still required on-site. These workers should not be excluded from considerations of essential worker housing.
36. One administration/project worker working in Western Sydney told Unions NSW:

'I'm restricted to where I can live. I can't decide to move regionally or interstate without the risk of losing my employment. If workers don't spend too much time on-route, they won't feel too tired and frustrated. This would make staff wellbeing positive and could positively impact on their attitude towards services provided by them.

It is important to have affordable housing particularly to employees who would be expected to pay more than 30% of their income on rent.'

(Unions NSW, survey, September 2024)

Occupations for which residing in the community they serve is advantageous

37. Certain frontline occupations can provide better services when workers live within the communities they serve. These occupations generally include care,

education, health, social and community services, and police and emergency services.

38. An essential worker who builds connections within the community they live in is more likely to have intimate knowledge of the geography, other community services, their workers, and can better advocate for or refer vulnerable community members. The value of workers to a community grows when they are trusted and have a deep understanding of its members, cultures, and shared challenges.
39. For example, the 'You should be a cop in your hometown' program encourages NSW police recruitment and retention by guaranteeing a position in an officer's hometown. One police officer remarked of the program:
'Local knowledge has been a big thing for me. [For example] simple things like knowing where you're going when you've got to get in a car and go somewhere in a hurry'
(Vaughen 2024).
40. However, it is important to note some occupations which are essential but do not have a community focus may still require affordable housing. For example, one school cleaner working in Southwest Sydney told Unions NSW (survey, September 2024), *'I am homeless'*. They should not be left behind.

A community's need for more workers from an occupation

41. When targeting essential worker housing programs, the most effective interventions may be achieved when the NSW Government can consider locations where certain occupations are in the greatest shortage and highest demand.
42. Analyses conducted by Jobs and Skills Australia (JSA) can assist with the consideration of occupational shortage and demand. JSA (2023) uses a variety of methods including data modelling, statistical analysis of the labour market, employer surveys, and broad stakeholder engagement to report on over 900 occupations in NSW.
43. JSA (2023) determines an occupation is in shortage when they estimate the ability of an employer to fill a vacancy is lower than 67%. Occupations are categorised as being in shortage, regional shortage, or no shortage (JSA 2023).
44. JSA also uses data to project future employment growth. The demand for each occupation is rated either above economy-wide average, at economy-wide average, or below economy-wide average (JSA 2023).
45. JSA makes findings on whether an occupation was in shortage and whether demand is growing in each year from 2021-2023. For example, JSA (2024)

found disability, early education and care, and aged care workers have been in shortage each year and projected to continue increasing in demand.

46. One disability support worker working on the Central Coast told Unions NSW about their need to be recognised as an essential worker:

'I am paying 79% of what I earn to rent. I'm a single parent. I pick up every bit of overtime I can which means my daughter is on her own far too much to be healthy. We are survivors of domestic violence and yet to see any assistance from the government since I've taken out AVOs.

How about the government begin to recognise support workers as key essential workers. Our industry is full of single mums trying to support their families on less income than other essential workers. It is the go-to work for single parents and survivors of domestic violence'

(Unions NSW, survey, September 2024). Information on worker shortages such as that found on JSA can support stories like these.

47. However, the utility of JSA's findings depends on the data they have access to, which may not be comprehensive. For example, while JSA (2024) finds there is no NSW police shortage, a shortage is publicly acknowledged by the NSW Government.

48. Additionally, while JSA can theoretically distinguish between statewide shortages and regional shortages, it does not identify more specific areas of NSW in shortage of certain occupations. For example, JSA does not find a shortage in emergency service workers, whereas Fire and Rescue NSW (FRNSW) acknowledges firefighter shortages in the regional towns of Balranald and Crookwell (Pavlich 2023, para. 7, FRNSW 2024).

49. This suggests that to more effectively target essential worker housing, the NSW Government should gather and publish vacancy data on essential services it provides, including in specific locations.

Recommendation 2: The NSW Government should gather and publish detailed vacancy data on its essential services to support the provision of targeted essential worker housing.

50. It is also useful to note consideration of community needs for the purposes of essential worker housing should not only be restricted to local areas. For example, a worker such as a truck driver may provide an essential service to the entire state of NSW but still need to live near infrastructure. A truck driver told Unions NSW (survey, September 2024) that housing impacts their personal and professional life 'a lot' and that affordable housing would lead to 'Better health and lifestyle'.

The ability for essential workers to afford housing

51. When considering how the NSW Government should target essential worker housing programs, prevailing wages versus housing costs are relevant.

52. Using publicly available salary and housing market data, the Mckell Institute (submission to this inquiry, October 2024) has developed the following tables regarding the ability for certain essential workers to afford housing in 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%

	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%

Source: IRCNSW 2023, p. 92, SQM Research 2024, In Mckell Institute, submission to this inquiry, October 2024.

53. Occupations in addition to those listed above and locations outside of Sydney should also be considered.

54. This type of wages versus house price analysis can also be made within specific geographies where essential workers are most in shortage. A program can then respond with the level of subsidy necessary to provide affordable housing.

The type of housing and services needed by essential workers in the community, including whether a pathway to ownership can be provided

55. The NSW Government should examine the type of housing available in a community versus that which is needed by essential workers. Essential workers need access to a variety of housing types depending on their household and individual needs, such as accessibility or number of bedrooms.
56. The need for services nearby should also be considered, such as proximity to healthcare and education. This includes a consideration of the community itself and whether the housing program needs to be supported by other services to be effective.
57. One key factor in housing type that will have a large impact on a program's effectiveness is whether the housing is rented or owned.

The importance of homeownership for supporting essential services

58. The NSW Government should also consider the need for homeownership amongst essential workers and the benefit this will provide to services.
59. Homeownership provides workers with stability and control through fixed housing costs and security of tenure. As an owner's equity increases, the home becomes a source of wealth for the worker and their family. By contrast, being trapped in renting means cumulative rent eventually exceeds what the worker would have paid to buy, but with no asset to show for it. The longer a worker is forced to rent before being able to buy, the higher their household's total housing costs will ultimately be.
60. In addition to benefiting workers financially, homeownership encourages a deeper connection to the local community, as owners are likely to stay in one place for longer periods than renters. This stability can be particularly valuable for essential workers, who benefit personally and professionally from strong local support networks. This is also valuable to the community they serve, which receives more stable and reliable services delivered by trusted persons who understand the community.
61. Because they have control over the space, workers can personalise it and make home improvements which create a more stable and nurturing environment to recuperate in after work.
62. For example, a disability support worker employed in Southwest Sydney told Unions NSW about the difference between renting and owning.

'I am renting. I need a house for my family to live in without being scared of homelessness when the owner increases the rent. I need safety living in my own shelter. Also, my children are growing up - they need stable shelter too. I am feeling anxious about the future, feeling homeless.'

If I have housing granted, then that will be my forever home. I will be happier and feeling more self-worth. I would feel protected, safe and being a human individual that had a place in this world'

(Unions NSW, survey, September 2024).

63. As essential workers age, their preference for homeownership often increases. This means that areas where ownership is unaffordable can experience a drain of the most experienced workers. This dynamic is apparent in the Sydney suburb of Darlinghurst where the NSW Nurses and Midwives Association has reported the difficulty St Vincent's Hospital has attracting and retaining experienced nurses because they are unable to access suitable housing.
64. While affordable rental housing can make an important difference in workers' lives, programs which offer a pathway to ownership will make a greater impact toward addressing current workforce issues faced by essential services.

Metropolitan areas – Incentivising industry superannuation to invest in build-to-rent-to-buy (BTRTB)

65. Unions NSW supports BTRTB programs in metropolitan Sydney that provide affordable housing to essential workers with a pathway to ownership.

The build-to-rent-to-buy model

66. In June 2024, the NSW Government announced a build-to-rent scheme that will provide at least 400 homes to essential workers in metropolitan Sydney at 80% of market rent (DPC 2024). For the workers with access, this scheme provides a more affordable housing option closer to workplaces.
67. Unions NSW supports build-to-rent programs that help essential workers live closer to their workplaces. However, the benefits of build-to-rent can be extended by also providing a planned pathway to ownership. Even a build-to-rent program with 80% market rent will not enable a nurse, putting aside their rental savings plus 10% of salary, to save for a deposit on a different home on the market (see IRCNSW 2023, p. 92 & SQM Research 2024, in Mckell Institute, submission to this inquiry, October 2024).
68. Build-to-rent-to-buy (BTRTB) programs, in contrast, enable a pathway for essential workers to own their home, unlocking the associated benefits to essential services. The nature of BTRTB programs is that they enable financial circumstances where purchasing will be achievable within a realistic timeframe. This includes lower income essential workers who may require additional support.
69. Another key advantage of the BTRTB model is that it can encourage investors to continue to reinvest in new builds, ensuring sustainability and growth of the stock.

Current examples of build-to-rent-to-buy

70. There are several working examples of BTRTB, also known as build-to-rent-to-own programs in Australia and overseas.
71. One Australian example is a pilot project in Canberra, where the National Housing Finance and Investment Corporation (NHFIC) partnered with the ACT Government and Community Housing Canberra (Housing Australia 2023). This initiative provides 22 affordable rental homes for vulnerable women, with a built-in option to buy the property after 10 years (Housing Australia 2023). Renters pay a reduced rent (around 75% of market rates) and, through a savings plan and a portion of the property's capital growth, can build up a deposit over time (Housing Australia 2023). This project highlights how the BTRTB model can offer a smooth transition from renting to homeownership.

72. Another Australian example is Assemble Communities, a commercial operator which builds homes that are rented for five years with an option to purchase at a price set at the beginning of the lease (Assemble [1] n.d.). This program has received backing from AustralianSuper, which chose to invest in Assemble's BTRTB model specifically because it provides a pathway to ownership (Assemble [2] n.d., Assemble & AustralianSuper 2024).
73. Assemble and AustralianSuper have said,
- 'AustralianSuper is proud to partner with Assemble in this unique housing model. As a signatory to the Housing Accord, we are committed to finding scalable solutions that deliver strong long-term returns for members while also responding to the housing supply crisis'*
- (Assemble & Australian Super 2024).
74. Internationally, similar schemes exist under various names. In the United States, there are several commercial schemes such as the Lease Purchase Program offered by Home Partners of America which buys an approved home chosen by the tenant and locks in rent and a purchase price over 5 years (HPA n.d.). In the UK, the Rent to Buy program is open to tenants able to save for a deposit on a home in the scheme after 2 years with a 20% rental subsidy (UK Government n.d.). The UK scheme also includes a shared equity option at the point of purchase (UK Government n.d.).
75. In New Zealand, the Rent to Own program offered by the Housing Foundation charity enables tenants to rent an eligible home for 5 years based on 30% of gross income (Housing Foundation n.d.). After 5 years, tenants can buy the entire home or enter shared equity. If the home has increased in value during that time, 25% of the increase is contributed by the scheme to the deposit (Housing Foundation n.d.). This method can help address 'run away' house prices.

The role of industry superannuation in build-to-rent-to-buy

76. BTRTB requires the purchase of multiple homes, with their leasing and sale to essential workers through a dedicated program. For this to occur at scale outside of direct government provision, large institutional investment must occur. Fortunately, there is a need amongst institutional investors for long-term assets with stable income streams (INHSAC 2023, p. 2).
77. Industry super has already invested in build-to-rent and BTRTB, and they are enthusiastic to do more. Representatives from Aware Super and HOSTPLUS recently spruiked their commitment to affordable housing at Sydney's Housing Now! conference in August 2024. The Shop, Distributive, and Allied Employees Association, the union connected with Rest Super, also sponsored the event.
78. Industry super is a particularly good candidate to take up BTRTB programs. Workers often organise through their unions to ensure their industry super

acts ethically while providing the best returns. This dynamic reflects the power that essential workers have over industry super. Industry super is therefore positioned as an ideal provider of essential worker housing because they are obliged to act fairly and sustainably to both tenants and investors, who to some degree will be the same people.

79. The participation of institutions in the housing market can also lead to industry benefits including innovation in design and construction, efficiencies in energy and maintenance, securer tenancies, and a more stable supply (INHSAC 2023, p. 3).
80. By developing a BTRTB scheme powered by industry super, the NSW Government can open the affordable housing market to essential workers through their super. This represents one lever for giving more Australians and essential workers a fairer share in our housing market.

Incentivising developers and industry super to establish build-to-rent-to-buy

81. BTRTB programs can be made viable to stakeholders including government, developers, institutional investors, and essential workers through mechanisms including,
 - a. A Concessional Loan Facility and Loan Guarantees for Industry Super Investing in BTRTB,
 - b. Leasing government land at advantageous rates,
 - c. Inclusionary zoning to incentivise or mandate BTRTB,
 - d. Topping up rent on BTRTB dwellings,
 - e. A deposit savings tool,
 - f. A shared equity pathway.
82. Many of these practical levers are explored by the Mckell institute in its submission to this inquiry.

A Concessional Loan Facility and Loan Guarantees for Industry Super Investing in Build-to-Rent-to-Buy (BTRTB)

83. **Concessional Loan Facility:** With commercial interest rates at their highest level in decades, the NSW Government should establish a concessional loan facility offering reduced-rate finance for industry super funds participating in BTRTB programs. This will help incentivise investment by lowering borrowing costs and increasing project viability.
84. The concessional loans should be provided at a locked-in interest rate, ensuring long-term stability for investors and insulating them against

economic fluctuations. Additionally, the NSW Government can potentially generate a return through interest repayments, making it a financially sustainable initiative.

85. **Loan Guarantee Scheme:** Alternatively, the NSW Government could act as a guarantor for long-term loans between large financial institutions and industry super funds. This would reduce the perceived risk for lenders, enabling industry super to access more favourable lending terms without direct financial outlays by the government.

86. To ensure financial sustainability and social value, both concessional loans and loan guarantees should be offered only to creditworthy investors and projects that demonstrate a strong commitment to Australian jobs and delivering essential worker housing.

Leasing government land at advantageous rates for BTRB programs

87. Capital costs for land are a significant and increasing component of housing costs. Instead of purchasing land from the government, under a ground leasing model owners would pay an ongoing fee for the right to use the land. This is sometimes referred to as a community land trust (CLT), defined by the the Victorian Planning Authority 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'

(VPA 2020, p. 17).

88. Under this model, essential workers would not own the land, but rather the dwelling, which they could sell to other essential workers by approval. By significantly reducing the cost of land, this can incentivise development and/or enable more affordable rental and purchase prices.

Inclusionary zoning to incentivise or mandate build-to-rent-to-buy

89. When zoning land for development, the NSW Government can incentivise or mandate BTRTB programs. This method can be an effective lever for developing essential worker housing on privately owned land.

90. The NSW Government can make it mandatory for all or some of a development to be BTRTB homes.

91. Alternatively, the NSW Government could incentivise BTRTB by either taxing non-BTRTB homes and/or subsidising tax on BTRTB homes.

Topping up rent on build-to-rent-to-buy dwellings

92. The NSW Government could incentivise investment in BTRTB by bridging some of the gap between the affordable rent on each dwelling and the market rate. This would promote profitability and sustainability of the program for investors.
93. Incentives should reflect what is necessary to ensure that the program will be affordable to the occupations (and award wages) that it targets. This could mean rent is priced and topped up differently depending on the resident's occupation.

Making build-to-rent-to-buy products more affordable to essential workers

94. There are also several methods which the NSW Government could adopt to improve the viability of BTRTB for essential workers.

A deposit savings tool

95. Rent could be invested to the benefit of workers and the NSW Government. Rent could be paid by the worker into an account managed by the government, tied to a stock market product (e.g. the ASX200), and backed by the government at a reasonable return, with any windfalls paid back to the government.
96. The interest raised through the savings tool would be available to the essential worker to spend on the deposit. This can make purchasing more efficient and affordable.
97. Meanwhile, the NSW Government would pay rent from a separate account to the dwelling owner. Once the essential worker purchases the home, the rent they paid into the deposit savings tool (less the interest) would be recouped by the government.

A shared equity pathway

98. To make ownership more affordable, especially for lower income essential workers, the NSW Government could offer to share the equity of the dwelling. This will make the deposit and mortgage more affordable. The government should permit essential workers to progressively buy-out equity in their home. The government can potentially profit if the home is sold.
99. Because this pathway applies to newly built homes in an essential worker BTRTB program, it will not adversely affect market prices.

A draft build-to-rent-to-buy program

100. While it may not prove necessary to utilise all the mechanisms proposed above, they are combined below to demonstrate how a BTRTB program can be profitable for investors, affordable to essential workers, and cost-effective for the NSW Government.

Step 1: Industry super partners with developer to begin construction

101. The NSW Government provides a concessional loan or guarantees a private loan to an industry super company which has committed to developing BTRTB homes. The government may profit from loan repayments.

102. **For government land**, the NSW Government leases land a low rate to the industry super company which partners with a developer to build the homes.

103. **Or, for private land** the industry super company partners with a developer and builds BTRTB homes on land zoned by the NSW Government as BTRTB.

Step 2: Industry super rents homes to essential workers

104. The industry super company rents the homes to essential workers at an affordable rate (in consideration of award wages) which may be topped up by the NSW Government.

Step 3: Essential worker's rent generates interest towards deposit

105. The NSW Government, in partnership with the super company, develops a savings plan with individual tenants to save for a deposit. This includes a deposit savings tool where rent paid by the worker generates compounding interest which contributes to the deposit. Any windfalls go back to the government.

Step 4: Essential worker buys home at reduced cost

106. After a certain period renting, the essential worker enters a shared equity pathway with the NSW Government. The worker pays a reduced deposit and mortgage and they and the government buy the home from the super company. The cost of the home is reduced partly due to lower land costs and incentives. The government may profit if the home is later sold.

Step 5: Superannuation company reinvests in more build-to-rent-to-buy

107. To maintain a balanced investment portfolio, the super company reinvests in new BTRTB projects, and the process continues to increase the supply of essential worker housing.

Recommendation 3: The NSW Government should develop large-scale build-to-rent-to-buy programs that provide affordable essential worker housing in metropolitan Sydney with a pathway to ownership.



108. In part 2 of this submission, Unions NSW proposes additional methods through tax reform that will help unlock institutional investment in BTRTB.

Regional areas – Expanding and renovating Key Worker Housing

109. Given the relative abundance of land in regional NSW for property development, there is an opportunity to continue to expand Key Worker Housing (KWH) programs through new builds in the regions.

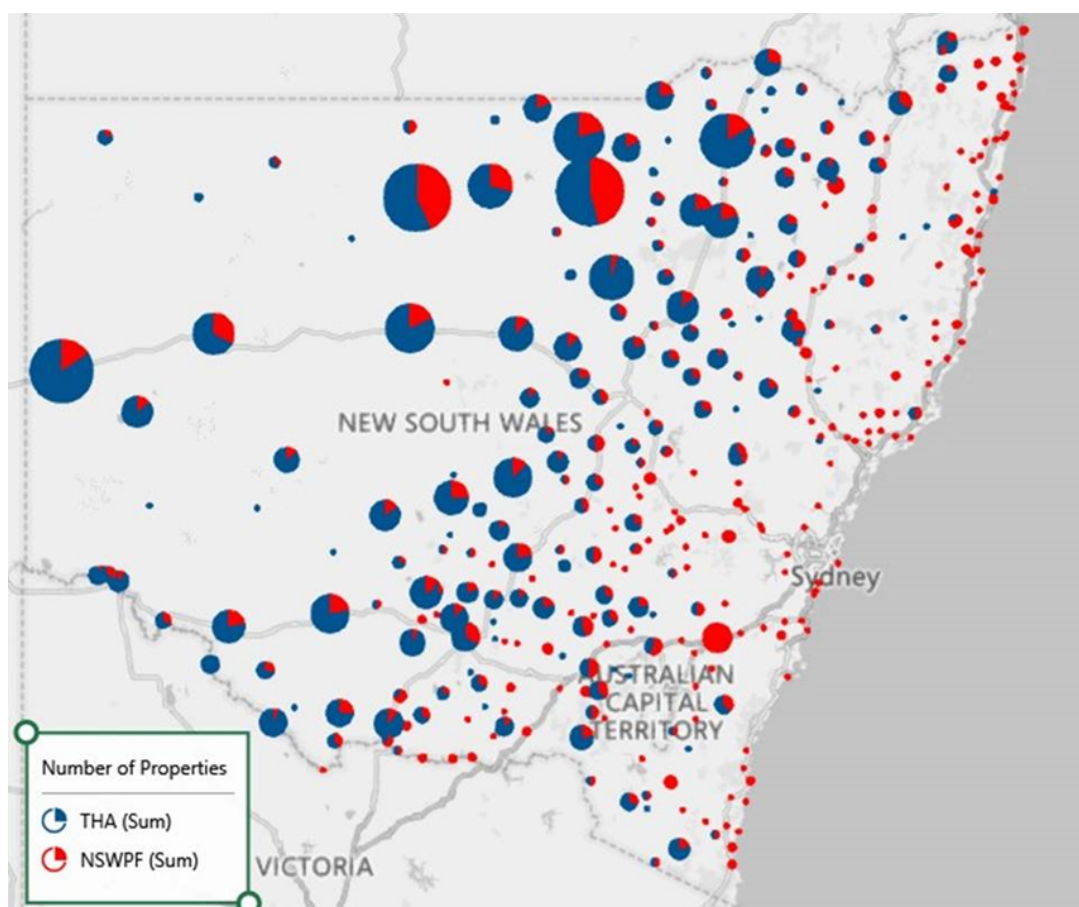
Current NSW Government provision of subsidised Key Worker Housing

110. The NSW Government already directly provides subsidised rental housing to some essential workers under the banner of Key Worker Housing (KWH). These programs include:

- a. 1360 Teacher Homes,
- b. 670 Police Homes,
- c. 990 Health Worker Accommodation (Homes NSW, PowerPoint presentation, 15 August 2024).

111. Teacher and police programs exist within the Homes NSW portfolio while Health Worker Accommodation is managed by the NSW Department of Health (Homes NSW, PowerPoint presentation, 15 August 2024).

112. Teacher and Police housing is represented by the following map:



Source: Homes NSW, PowerPoint presentation, 15 August 2024.

113. It is evident that KWH is concentrated in regional areas, particularly to the west of the Great Dividing Range.

Expanding and renovating Key Worker Housing in regional NSW

114. The NSW Government currently plans to invest \$174 million over 4 years (22-23 to 25-26) for regional key worker housing managed by Homes NSW (Homes NSW, PowerPoint presentation, 15 August 2024). The program will deliver 271 (221 teacher and 50 police) additional homes in the regions.

115. In health, the NSW Government has invested \$45.3 million into accommodation for health workers in Far Western, Murrumbidgee and Southern NSW. Additionally, \$200 million will support the recruitment and retention of over 500 health workers and their families in regional NSW through new worker accommodation (Homes NSW, PowerPoint presentation, 15 August 2024).

116. These are positive plans, however, they will still be insufficient to meet the demand for housing by essential workers and services. For example, in the 2022-23 financial year the Teacher Housing Authority received 964 applications for housing yet was only able to place 561 teachers into accommodation (THA 2023, in Mckell Institute, submission to this inquiry, October 2024).

117. More focus is also needed to ensure KWH is suitable for tenants. According to a survey by Homes NSW (PowerPoint presentation, 15 August 2024), only 35% of tenants said that KWH meets their needs. It is important that the NSW Government commit to providing more options for housing type.

Recommendation 4: The NSW Government should build a greater stock and variety of Key Worker Housing, especially in regional areas.

118. Additionally, the NSW Teacher's Federation has provided feedback to Unions NSW that KWH can be dilapidated or in disrepair, and this presents a barrier to teachers remaining in the region. Disrepair contributes to why 24% of teacher housing went unused in 2022-3 (THA 2023, in Mckell Institute, submission to this inquiry, October 2024).

119. Renovations can open current stock to tenants and adjust housing type based on need.

Recommendation 5: The NSW Government should renovate existing key worker housing stock based on the needs of tenants.

120. There are also other essential workers, not necessary in the public sector, who require housing in the regions.

121. One such group are disability, early education and care, and aged care workers, who have been in shortage each year from 2021-2023 and projected to continue increasing in demand (JSA 2024). They are frontline and community focused, so living close to their workplace will be effective in benefiting essential services. They are also generally low-paid (Hays 2024, pp. 73, 87, 90) and therefore have less access to housing than many others.

122. One early childhood educator working in Wollongong told Unions NSW,

'I have to live with my adult son because I can't afford to rent somewhere decent by myself.'

If they and their colleagues could live affordably near their workplace,

'More people would work there'

(Unions NSW, survey, September 2024).

123. A disability support worker living and working in Dubbo said,

'I struggle with my mortgage, strata, council and utilities payments apart from other living and household expenses'

(Unions NSW, survey, September 2024).

124. There is therefore an opportunity for the NSW Government to expand the KWH model with new builds for more occupations in need.

Recommendation 6: The NSW Government should build additional homes based on the Key Worker Housing model for early education and care, aged care, and disability workers, especially in regional areas.

Creating a pathway to ownership within Key Worker Housing

125. It is important that workers who access KWH are also supported with a pathway to ownership.

126. This can firstly be achieved by allowing the worker to buy their home from the NSW Government.

127. Alternatively, where the NSW Government prefers to retain ownership, homeownership can still be achieved by supporting workers, such as through financial planning and deposit savings tools, to purchase a different home in the community.

128. Unions NSW understands that other stakeholders in this inquiry may propose that KWH tenants' leases should be ended after a certain period to

free up housing for new workers to enter the community. This proposal would be more effective at supporting essential services if tenants are supported to purchase a home at the end of a lease.

Recommendation 7: The NSW Government should support essential workers living in Key Worker Housing to buy a home in their community.

Part 2: Increasing the supply of affordable housing to *all* essential workers

129. All workers are essential and deserve a safe, secure and affordable home near their workplace.

What should constitute supply?

130. Strategies to increase the supply of essential worker housing should not be limited to only creating new stock. Strategies should include making current stock more accessible.

131. Findings by the NSW Parliamentary Research Service support making current stock more accessible, noting the housing market is predominantly influenced by existing stock and there is limited evidence to suggest new constructions alone lead to lower house prices (Viforj and Leishman 2024, pp. 1, 27-28).

132. The nature of localised housing submarkets means supply in one place has a negligible impact on prices elsewhere (AFR 2024). To begin creating a supply of housing that is affordable and accessible to all essential workers across NSW, comprehensive policies are required which improve the general affordability of both new and existing homes.

Improving affordability by disincentivising unhosted short-term rental accommodation

133. There is an opportunity for the NSW Government to increase the housing supply generally or in specific locations by disincentivising unhosted short-term rentals. **Unhosted short-term rentals** are dwellings which are unoccupied by any permanent resident and are unlive in until they are booked on online platforms such as Airbnb. This differs from **hosted rentals** which are not self-contained and are occupied by a permanent resident who shares the dwelling with short-term renters.
134. As of March 2024, roughly 1.5% of Australia's 11.1 million dwellings, or around 167,955 dwellings, were listed as unhosted short-term rentals (Sigler and Zou 2024, para. 7). This presents a significant problem when considering that over the last 12 months in Sydney, one of Australia's most popular Airbnb destinations, Airbnb listings were booked on average for only 71 nights per year (IABNB 2024).
135. Low occupancy rates result from the profitability of sporadic short-term rentals, which often generate more revenue than traditional long-term rental agreements (Krause and Aschwanden 2020, p. 273). Hosts with properties in highly desirable locations may reap total profits far beyond what would be possible through a longer-term lease (Krause and Aschwanden 2020, p. 278).
136. The profitability of short-term rentals has increased the overall cost of housing. House prices rise more than rental prices on average in areas with strong short-term rental markets (Benitez-Aurioles and Tussyadiah 2021, p. 1). It has been estimated these price rises contribute to roughly one-seventh of the actual annual house price growth in an area (Barron et al. 2020, p. 1).
137. By acting as an additional lever on demand, short-term rentals create another barrier to home ownership especially in highly sought after areas where they are popular.
138. In a move against the corrosive effects of short-term rentals, the Byron Shire Council ruled landlords may not let their homes in this manner for more than 60 days a year (Brown 2024). This response came following community backlash against short-term rentals (Heidt et al. 2020 p. 65), with the council finding Byron Shire reported the greatest number of rough sleepers in NSW at 300 people, ahead of the City of Sydney with 277 (BSC 2023).
139. The impact that short-term rentals have on essential services was noted by the NSW Nurses and Midwives Association (2023, p. 7), which linked Airbnb to situations where healthcare workers seeking to relocate for regional work are forced to live in unsuitable conditions or turn down jobs, leaving rural healthcare understaffed.

140. Given this dynamic, the NSW Government should take steps to rebalance the profitability of renting back in favour of long-term leases. This can free up short-term rentals for purchase or long-term leasing and allow more essential workers into the market.

141. The NSW Government could achieve this by taxing the profits generated on short-term rentals to incentivise longer-term leasing. Additionally, the NSW Government could follow the actions of Byron Shire Council and limit the length of short-term rental arrangements. Both methods could encourage landlords to reconsider how they are renting their properties.

Recommendation 8: The NSW Government should improve housing access and affordability by implementing a tax on unhosted short-term rentals and limiting the length of short-term rental arrangements.

The impact of negative gearing and capital gains tax discounts on affordability

142. Unions NSW supports limiting negative gearing and capital gains tax (CGT) discounts to improve affordability and increase the supply of essential worker housing.
143. Negative gearing and CGT federal policies enable significant tax offsets through investment property ownership. In 1999, the federal government discounted the taxable portion of capital gains on investments held for more than 12 months from 25% to 50%.

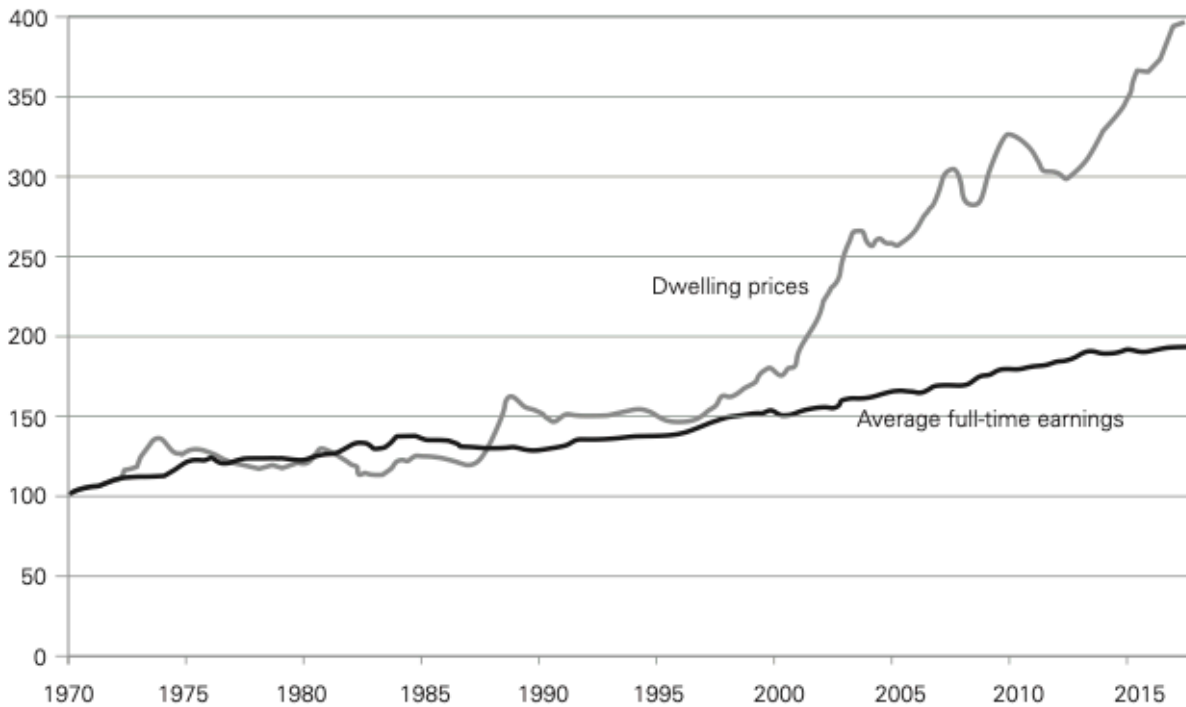
A refresher on negative gearing and the capital gains discount

Negative gearing: when an investor purchases a property with a loan, and the rent they get from it is less than the costs (including interest, rates and maintenance) of owning it. When this happens, the investor can subtract the net loss from their other income, reducing their taxable income.

Capital gains tax discount: capital gains on assets (this can include things like shares, as well as housing) are taxed like other forms of income when you sell them, but with a 50 per cent discount if they've been held for at least 12 months.

Source: Massola & Crowe 2024, box 1

144. Cuts to CGT in 1999 combined with the existing negative gearing policy to surge profitability and demand for investment housing. Their impact on affordability is shown through the increase in house prices relative to wages since the two policies combined forces.
145. From 1970 until 2000, Australian house prices remained at approximately 3.5 times the median wage (Kohler, 2023, p. 2). Since 2000 following the CGT cut, house prices have grown by 6 percent annually, outstripping wages which have only increased annually by 3 percent (Kohler, 2023, p. 2). Through this divergence, house prices have risen from being 3.5 times in 2000 to 7.4 times the median wage in 2024 (Wingerei, 2024).
146. While outside the scope of this inquiry, it is important to understand our tax regime is one of the root causes of our housing crisis, as witnessed in the marked decline in affordability over the past 24 years.



Graph 1: House prices and wages (full-time weekly earnings, index: 1970 = 100). Source: Business Insider n.d., Kohler 2024, p. 3.

147. Negative gearing and CGT discounts continue to place upward pressure on prices today. A recent study of residential investor behaviour in Greater Sydney demonstrated a positive relationship between the number of residential investors and capital gains and an inverse relationship between yield and the number of investors (Bangura & Lin Lee 2024, pp. 22-3).

148. This means investors are motivated by the prospect of capital gains, even if yields are low, as they can offset their losses through negative gearing and CGT discounts. These findings show our federal tax regime continues to drive investor demand.

149. This investor demand is problematic because it does not lead to commensurate supply increases (PRS 2024, pp. 7-9) and new supply does not necessarily improve affordability (Viforj and Leishman 2024, pp. 1, 27-28).

150. These factors combine to have a negative impact on the housing supply accessible to essential workers who are generally low to middle income earners.

151. If house prices and wages remained constant, it will take a nurse saving 10% of their income 32 years to achieve a deposit on a 2-bedroom unit in Greater Sydney (IRCNSW 2023, p. 92, SQM Research 2024). However, if their wage increases at 3% per year while the property price increases by 6% in line with national trends, *they will never be able to save the 20% deposit because the property price increases outpace the growth of a nurse's savings.*

152. Renting offers no reprieve. In 2024, no nurse, firefighter, teacher, or aged care employee can rent a unit in Greater Sydney without being in housing stress (Mckell Institute, submission to this inquiry, October 2024).

Affordability gains from limiting negative gearing and capital gains tax discounts

153. In 2019, the Australian Labor Party (ALP) proposed a policy to limit negative gearing and CGT discounts (PBO 2019). Under the policy, negative gearing would be grandfathered and only available on newly built homes. Additionally, the CGT discount would be reduced to 25%, meaning 75% of the capital gain would be taxed (PBO 2019). However, the proposal was never implemented.

154. The policy aimed to improve general affordability by reducing the demand for investment housing and using the market to incentivise the sale of housing to owner occupiers. The policy noted *'the average holding time for negatively geared investment properties is around seven years'* and projected that eventually all assets covered by the grandfathering provision would be sold off (PBO 2019, p. 2).

155. The 2009 Henry report indicated reform would likely reduce prices in the short term while stabilising over the long term as the market adjusts to tax changes (Treasury 2009, pp. 417-20). The Parliamentary Budget Office more recently concurred with this analysis through its modelling, stating,

'Immediately after the policy start date, investor housing demand would be likely to fall...Property prices would decline, while other asset prices, such as those of Australian shares, would increase. Over time, asset prices would be expected to return to their baseline growth levels, although there would likely be a permanent level shift in asset holdings'

(PBO 2024, p.3).

156. To examine the potential impact of reform in detail, we consider the housing market in some of Sydney's central suburbs, chosen because they are often of particular interest to essential workers (Rohe et al. 2012; Blumenberg & King 2024).

157. Consulting census data on the rental to ownership ratio in some of Sydney's central suburbs,

- a. In Glebe, 43.2% of households were renting privately. Only 34% of households were purchasing or owned their home.

- b. In Newtown, 54.2% of households were renting privately. Only 36% were purchasing or owned their home.
- c. In Surry Hills, 53% of households were renting privately. Only 30% were purchasing or owned their home.
- d. In Kings Cross, 62.5% of households were renting privately. Only 28% were purchasing or owned their home (ABS 2016 & 2021, in .id n.d.).

158. This data indicates a situation in which central Sydney house prices are unaffordable and renting is the only option for most households. If housing stocks were freed from tax discounts and sold at a more affordable price to owner occupiers rather than to investors, essential workers would benefit greatly from increased homeownership opportunities in central Sydney.

159. If only one third of existing rentals in these suburbs were sold off by investors, roughly 15% of the total available properties would become available for purchase. This could have a significant effect on affordability.

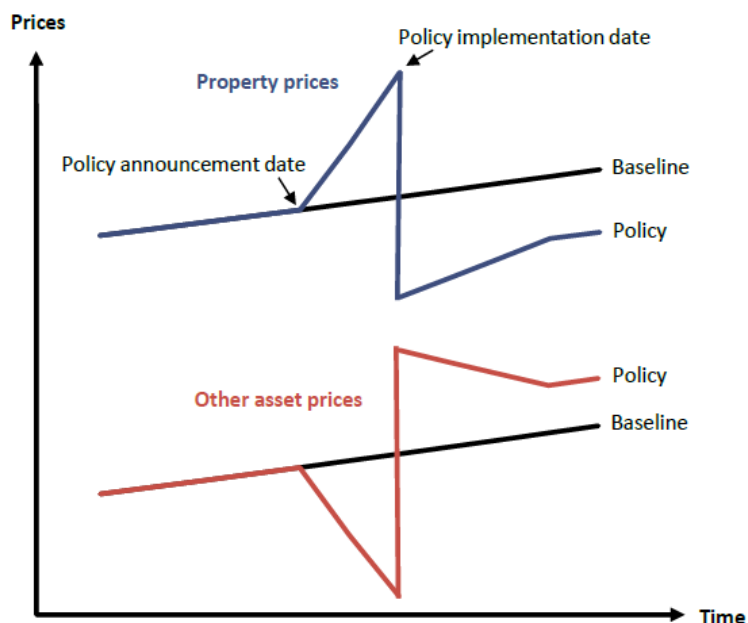
Creating a housing investment market accessible to more Australians and essential workers

160. While over 2 million Australians own an investment property (PCA n.d.), prevailing trends see the concentration of property ownership in the hands of a smaller, wealthier group of investors who are rapidly acquiring more properties (see RBA 2017, para. 8).

161. Unions NSW suggests an amendment to the ALP's 2019 policy to allow owners to negatively gear up to one property with an increasing taxation on subsequent investment properties. The initial reduction in demand followed by market stabilisation resulting from tax reform (Treasury 2009, pp. 417-20, PBO 2024, p.3) will enable more Australians, including more essential workers, to enter the market and build reasonable wealth from one investment property.

162. The tax reforms recommended in this submission seek to improve the housing market and make the aspiration of owning an investment property accessible to more Australians.

163. A further amendment to the 2019 policy would be to ensure if negative gearing arrangements were grandfathered for existing investments, the provision would sunset after 5 years. The sunset effect would be offset for most investors by their ability to negatively gear one property while ensuring a more reliable revenue stream and transfer of investment properties back into the market.



Graph 2: Illustrative changes in property and other asset prices around negative gearing and capital gains policy implementation date. Source: PBO 2024, p. 3.

Will rents increase if negative gearing is limited?

164. The idea that landlords will respond to tax reform by increasing rents, so they represent less of a loss compared to mortgage repayments, is a common opposition to limiting negative gearing. However, it is questionable to what extent this would occur in the current circumstances where renters are already stretched to the limit of what they can pay.
165. Rent increases across Australia and in Sydney have slowed in recent months (Malo 2024, Williams 2024). Some experts have attributed this trend to the realisation of a 'rent ceiling' within the market, with households currently dedicating 32 percent of their income to rent and unable to pay more (Malo 2024, para. 15, Williams 2024, para. 5). The rent ceiling has changed rental behaviour where younger people return home or remain at home for longer (Malo 2024, para. 16).
166. This does not necessarily mean rents will not rise at all in future. However, the inability for tenants to pay more creates an increasing downward pressure on rents. Landlords are already charging whatever renters can pay. It is foreseeable future rent increases may begin to trend more in line with wage increases than they have been in recent years.
167. Unions NSW believes there is an element of dishonesty when some landlords/organisations argue against limiting negative gearing on the basis it will cause rents to increase. If landlords increase rents to offset their losses from tax reform, it is questionable as to why some are so opposed in the first place.

168. Tax reform can enable more renters to purchase a home, decreasing demand for rental properties and subsequently reducing rental prices. This can help counteract the potential reduction in rental stock due to its sale by investors.

Accelerating affordable housing through additional revenue from tax reform

169. The 2019 ALP proposal was expected to generate almost \$2.8 billion in revenue over the subsequent year and increase as the assets covered by the grandfathering provision reduced (PBO 2019, p. 2). The Grattan Institute (2023, p. 35) has since estimated annual revenue savings of \$7 billion through tax reform.

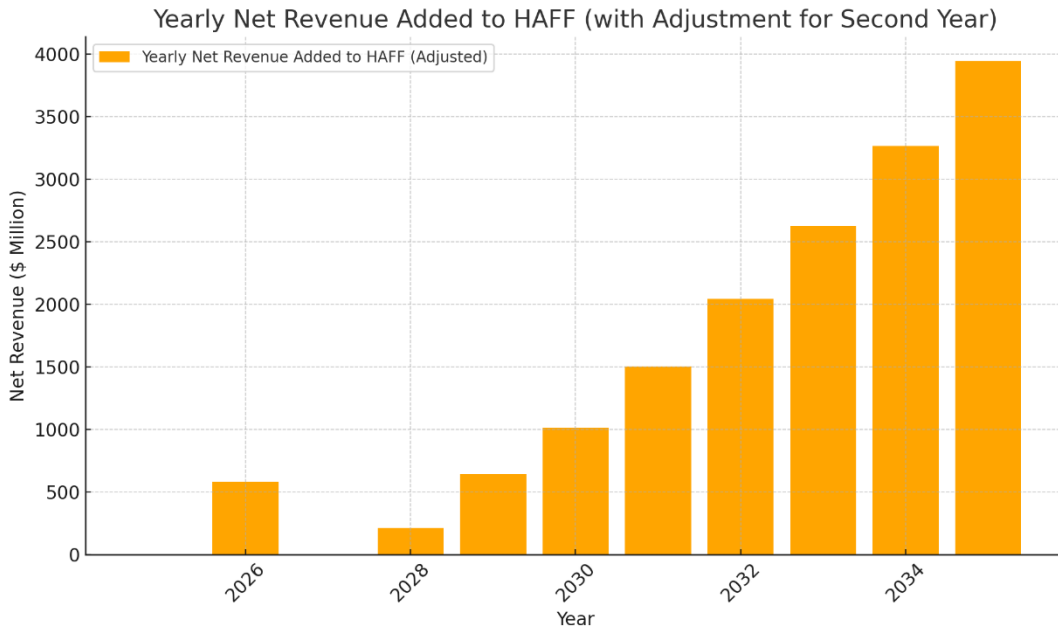
170. The Parliamentary Budget Office (2024) most recently performed an analysis based on several policy options regarding negative gearing and CGT reform. One option they considered was as follows:

Capital Gains Tax (CGT)	Negative Gearing
Remove the CGT discount for residential property assets purchased after 1 July 2024, with property assets purchased prior to this date to be grandfathered under existing CGT discount arrangements.	Remove negative gearing arrangements for an investor’s second or subsequent investment property interests and all vacant properties.
Provide a 25% CGT discount for new homes built after 1 July 2024, if these homes are held for longer than 3 years.	

(PBO 2024, p.1).

171. Based on the modelling done by the PBO (2024, p.12), if this policy was announced in January 2025 to take effect in 2027, it would attract billions of dollars per year in revenue.

172. These funds could be used to support impactful large-scale solutions to the crisis such as incentivising the development of more affordable housing. If tax revenue saved from limiting negative gearing and CGT were quarantined to expand the Housing Australia Future Fund (HAFF), it could double or triple from \$10 to \$30 billion and massively expand the supply of social, affordable, and essential worker housing.



Graph 3: Potential revenue added to the HAFF each year due to tax savings based on one PBO option.

Unlocking institutional investment through an equitable tax regime

173. Combined with essential worker housing programs such as build-to-rent-to-buy (BTRB) schemes powered by industry super, affordability results from tax reform could be even more substantial.

174. Institutional investors who want to invest in affordable housing, such as industry superannuation, have identified the tax regime as a barrier to their entry to the market. Because individual investors receive tax subsidies institutions do not,

- a. *‘individual investors are willing to purchase individual units at 1 to 1.5 percentage points lower yields than institutional investors would be prepared to accept. As a result, it is more profitable for developers of new large-scale housing projects to sell individual units to individual investors, rather than selling the entire project to a single institutional investor’ (INHSAC 2023, p. 46).*

175. This dynamic was identified in the *Henry Report*, which suggested a more neutral tax regime would reduce the crowding out of other potential investors (Treasury 2010, p. 419).

176. Affordable housing initiatives, like BTRB programs, for which industry superannuation have expressed a keen interest, are hamstrung by our inequitable tax regime. Limits on negative gearing and capital gains discounts can supercharge the BTRTB program proposed in part one of this submission, and many other programs.

177. Therefore, a strategic amendment to the ALP's 2019 policy would be to prohibit negative gearing on new builds as well as existing stock. This would incentivise new development backed by institutional actors.

Recommendation 10: The NSW Government should call on the Federal Government to limit negative gearing to one property per owner and capital gains tax discounts to 25%.

Conclusion

178. With housing at the top of public policy agenda and the high esteem in which essential workers are held, the NSW Government has a unique opportunity to act now and deliver effective solutions for workers and communities.
179. The NSW Government can target its essential worker housing programs to contexts where they will be most effective at improving essential services, especially if the government gathers and publishes vacancy data to support them.
180. To be most effective in supporting stable services which respond to the needs of our communities, programs should provide a pathway to homeownership.
181. In metropolitan Sydney, build-to-rent-to-buy programs incentivised by the NSW Government and powered by industry super offer an innovative and cost-effective means to providing affordable homeownership to many essential workers.
182. In the regions, the relative abundance of land provides the opportunity to expand and renovate Key Worker Housing and open it to more essential occupations in dire need, while supporting tenants to one day buy a home in their community.
183. Beyond the targeted approach, all workers are essential and deserve a safe, secure and affordable home to live in.
184. Unhosted short-term rentals such as Airbnbs represent an unreasonable drain on the supply of housing that is affordable to essential workers which the NSW Government can address, like Byron Shire has begun to do.
185. To realise the ambitious but critical right of housing for all essential workers, we need tax reform that strikes at the root causes of the crisis – negative gearing and CGT discounts.
186. Tax reform, when it targets the 2nd, 3rd, 4th, 5th, or 110th (see Foster 2024) owned investment property, will give more Australians and essential workers a fairer share in our housing market

187. This reform can increase affordability by reducing demand, while simultaneously opening our housing market to more Australians who can aspire to one day own an investment property.

188. Rather than stymie supply, tax reform can drastically increase it by pumping revenue into social and affordable housing programs and unlocking institutional investment into them.

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