

**Submission
No 111**

OPTIONS FOR ESSENTIAL WORKER HOUSING IN NEW SOUTH WALES

Name: Dr Ronald Silberberg

Date Received: 3 December 2024

Ms Liza Butler

18 November 2024

State Member for South Coast

1/57 Plunkett Street, Nowra

Dear Liza,

Thank you for the opportunity to make a Submission to the Inquiry into Options for Essential Worker Housing in New South Wales.

In preparing the Submission it has been beneficial to be able to access recently published information subsequent to the closing date for the lodging of submissions as well as publicly available submissions.

The attached Submission seeks to place affordable housing for Essential Workers within an inclusive Affordable Housing Strategy.

There are 23 recommendations in the Submission, which encompass federal, state and local policies and activities.

With more than 35 per cent of people living in regions outside of Sydney with distinct housing and infrastructure issues, Local Councils have a pivotal role to play in working with and being supported by State agencies in developing and overseeing housing affordability actions on the ground. The decision by Shoalhaven City Council to form a representative Housing Affordability Action Task Force hopefully will provide a model for its adoption by other Local Councils.

Strong increases in immigration have had significant impacts on the demand for government services, the cost of which is being borne by the NSW Government. With the prospect of sustained high levels of immigration ad hoc funding by the Commonwealth of State infrastructure should be replaced by a formal Commonwealth-State Community Housing Infrastructure Agreement.

As State Public Sector Agencies employ most of the traditional Essential Workers there is a demonstrable need for those organisations to work closely with the Public Sector Unions in identifying the housing needs, intentions, and housing outcomes for their workforce. The provision of financial relocation support and advisory services to Essential Workers considering a move from Sydney or interstate to regional areas needs to be ramped up.

Rental stress is at a crisis level. The Federal Government has increased Commonwealth Rental Assistance to the 1.3 million individuals and income-sharing households, but public housing tenants are excluded. The extension of CRA to public housing tenants is long overdue, which would assist HomesNSW to renovate and increase public housing stock.

Financial incentives to increase affordable rental housing should be directed more to low-rise diverse housing in regional areas, where single family, townhouse, dual occupancy and villas are preferred, particularly for Essential Workers with children.

Experience overseas reveals that the most successful schemes to address affordable housing for Essential Workers involve a balance of rental and home ownership options. Market research

in Australia shows that home ownership is valued highly by Essential Workers but for many younger households they are losing hope.

Several State Governments and private organisations have introduced alternative home ownership products, such as Land Rent, Regional Builder Affordable Housing programs and co-investment home purchase, which are deserving of closer assessment.

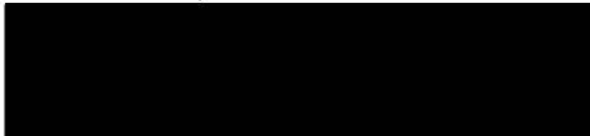
Private sector investors that receive financial support from government should be building Accessible homes based on Universal Living Design principles.

There are many State Departments, Entities, and Agencies involved in the planning and housing space. Obtaining a picture of how these agencies are performing and connecting is particularly difficult to ascertain. The recent announcement by the Premier of the high-level, Housing Development Authority to streamline the approval of large-scale residential projects indicates that the planning and infrastructure approval system is not fit for purpose.

The Premier's Department is the appropriate body to cohere and oversight the effectiveness of affordable housing policies and programs in a 'whole of government' approach, similar to the handling of Regional Coordination of major investments in regional development.

I would be very pleased to discuss the Submission with you.

Yours sincerely



Ron Silberberg



OPTIONS FOR ESSENTIAL WORKER HOUSING IN NEW SOUTH WALES

Submission to:

NSW Legislative Select Committee on Essential Worker Housing

Prepared by:

Dr Ron Silberberg AO

Contact:

[REDACTED]

mobile: [REDACTED]

PO Box 33 Vincentia NSW 2540

TABLE OF CONTENTS

	Page
Summary and Recommendations	1
1. Introduction	8
2. Who are the Essential Workers?	10
3. The Challenge to Recruit and Retain Essential Workers	11
4. Coordination of Affordable Housing Policy for Essential Workers	12
5. Delivery Affordable Housing for Essential Workers	13
5.1 Using Surplus Government Land for Affordable Housing	14
5.2 Regional Affordable Housing Initiatives	15
5.3 Regional Affordable Housing Action Task Force	16
6. Delivering Affordable Housing in the Private Rental Sector	17
6.1 Commonwealth Rent Assistance	18
6.2 The Suppliers of Private Rental Housing	18
6.3 Build-to-Rent	20
7. Home Ownership is Important to Essential Workers	23
7.1 Shared Equity Homeownership	24
7.2 Land Rent Schemes	24
7.3 Rent-to-Buy	25
ATTACHMENT: NSW Departments and Agencies with Housing Responsibilities	

OPTIONS FOR ESSENTIAL WORKER HOUSING IN NSW:

SUMMARY AND RECOMMENDATIONS

Attempts to address Affordable Housing for Essential Workers or Key Workers will demand an unprecedented level of co-operation between the Commonwealth, State and Local Government.

It has been customary to designate public sector employees, such as nurses, police, and teachers as Essential Workers. But a rigid approach to segmenting Essential Workers is less appropriate in a dynamic economy, experiencing changes in the demand for skills and occupations, with marked regional differences and where households' circumstances can change due to for example, ill health, family loss, divorce, or separation.

Moreover, people who are supporting the work of traditional Essential Workers are vital to the effective workings of an economy and community, many of whom are vulnerable to housing affordability stress.

Recognising that housing affordability challenges have distinct regional issues Local Councils have a pivotal role to play in cohering practical responses to addressing housing affordability on the ground.

The NSW Government, departments and agencies should devolve responsibility to Local Councils to determine the type and extent of affordable housing services to be delivered to their communities. Central agencies can play a valuable role in providing development, technical, legal, and financial advice to Local Councils.

The Shoalhaven Council has established an Affordable Housing Action Task Force to implement and oversight housing reforms. The Task Force will be chaired by the Mayor, with representation from the local State and Federal Members of Parliament and a cross-section of community and business representatives. The inclusion of the local State and Federal members in the Housing Action Taskforce can provide a conduit to both the Federal Government and the State Government, where local needs for affordable housing and supporting community infrastructure can be communicated directly to responsible Ministers.

Evidence-based policy relies on readily accessible and timely information on local housing market conditions and indicators, much of which is collected by national and state agencies as well as by private sector organisations. However, the data collections are disconnected and consequently difficult to source and access without extensive time involved in searching.

The NSW Government is making a concerted effort to support the provision of more social housing and private rental accommodation for low-income tenants and Essential Workers. There is heightened urgency and activity across State agencies and authorities to deliver affordable housing accompanied by significant funding commitments.

The separation of responsibilities for the planning and delivery of community infrastructure and affordable housing needs to be coordinated on a 'whole of government' basis to avoid possible fragmentation and potentially duplication of scarce resources. The NSW Premier has formed a high-level task force, the Housing Development Authority to expedite the approval of large-scale housing projects.

Experience overseas suggests that effective responses to affordable housing for Essential Workers requires a balance between rental and home ownership plans. Furthermore, the housing requirements of Essential Workers should be integrated into an Affordable Housing Strategy that focuses on housing need.

State Public Employers as the biggest employers of conventional Essential Workers, should collaborate with the State Public Sector Unions in identifying the housing requirements, preferences and housing outcomes of their workforce, a workforce that comprises the members of the Public Sector Unions.

New investment in public infrastructure in growing regional areas, such as hospitals and schools, increases the long-term requirement for Essential Workers and should be linked to planning for the additional provision of affordable housing and relocation incentives for Essential Workers.

The NSW Department of Health and NSW Police provide support with relocation costs for staff to move to rural and remote areas. These incentives should be extended to regional cities, towns, and areas. The NSW Government provides Essential Workers with access to a range of service providers and private sector networks. The information services that target public sector Essential Workers should be extended to people seeking to move to a regional area.

The functions of Homes NSW, which manages social housing, homeless services, and key worker housing, could be expanded to undertake the delivery of housing services on behalf of the major State Public Sector Employers, based on the highly successful corporatised model of Defence Housing Australia. The Teacher Housing Authority and Police Housing NSW would move to Homes NSW from the Department of Planning, Housing and Infrastructure. Seed funding from the Commonwealth and the NSW Government would be needed to enable Homes NSW to build its human resource and infrastructure capacity.

Service NSW, is a customer centred organisation and could become a one-stop shop for consumers seeking access to information on Federal and State Government housing assistance programs, including regional incentives and support services for Essential Workers planning to move to regional areas.

Available market research underlines the priority for home ownership among Essential Workers, a preference for detached dwelling living and a strongly held view that the Federal Government and the State Government should be doing more to assist Essential Workers into home ownership.

Most States and Territories have a suite of home ownership programs, including first home buyer grants, shared equity schemes and transfer duty concessions.

Some State Governments and the ACT Government are providing alternative home ownership options, such as Land Rent schemes and Regional Builder Affordable Housing initiatives, which could be suitable for take-up by NSW. In addition, there are private promoters of innovative home ownership and community housing Rent-to-Buy schemes that are receiving the backing of major banks and superannuation funds. There is potential for Homes NSW and Local Councils to access existing Rent-to-Buy schemes.

Demand-side housing assistance measures, such as first home grants and shared equity have been criticised for feeding into higher housing prices. Demand-side housing initiatives can be effective in stimulating new housing supply when housing market conditions are depressed. However, in tight housing markets, government responses are better directed to facilitating increases in the supply of new housing.

It should be recognised that exceptionally high levels of net overseas migration since the end of the pandemic have added to demand pressures, impacting particularly on the availability and cost of rental housing. The demand pressures on rents have been acute in Sydney, where most migrants initially settle.

While surging immigration has helped to keep Australia out of recession, at the same time it has increased the demand for government services and Essential Workers, the costs of which fall mainly on State Governments, especially NSW and Local Councils. Despite announced reductions in the targeted level of net overseas migration, immigration is likely to be sustained at historically high levels. Reform of infrastructure funding between the Commonwealth and the States must be addressed through a Commonwealth-State Community Infrastructure Agreement.

Surplus land and property owned by the Commonwealth, State and Local Government has long been identified as a potential source of additional supply of lower-cost housing to alleviate pressures on the private rental sector and to facilitate housing for Essential Workers and first home buyers.

The NSW Government has an ongoing audit of State-owned property, which is uploaded onto the Government Property Register. Surplus Local Council land and property should be included in the Government Property Register.

Some surplus land identified by Local Councils in regional areas could be offered to attract new businesses, generating jobs, and helping to diversify the economic base of the region.

The acquisition by the NSW Government of Local Council land should be consistent with the housing and community objectives of the Local Council and bought at a fair market price to enable Councils to utilise the sale proceeds to improve community services and/or to reduce debt.

Most low-income tenants, many of whom are in housing stress will remain in the private rental sector, a sector that is dominated by small-scale investors. There is considerable volatility in the turnover of rental dwellings and switching of stock with the owner-occupier sector. The number of investors reporting rental income has been in steady decline since 2017 and fell by 100,000 between 2021 and 2022.

In Australia, investment in rental housing is mainly through the churning of existing dwellings which are exempt from the GST. Builder/developers of new housing have shown a preference to build for sale instead of building to hold for rent. One of the reasons building to retain for rent is less popular is investors in new rental housing, unlike building for sale cannot claim back GST paid on building materials and labour services.

In the United Kingdom, new dwelling investment typically, is zero rated under the 20 per cent Value Added Tax and in the United States there is no federal goods and services tax. Any change to the GST in Australia, as it applies to newly built rental housing raises intractable problems. However, both the Federal Government and the NSW Government should consider additional financial incentives to stimulate investment in new rental housing.

In a bid to inject long-term stable capital into the private rental sector, both the Federal Government and the NSW Government are providing financial and planning incentives to encourage institutions to invest in high rise Build-to-Rent apartment blocks with an allocation of units for low-income tenants and Essential Workers. To date, institutions such as superannuation funds have preferred to invest in commercial and retail space.

In the United States and the United Kingdom institutional investment in rental housing is very modest (less than 1 per cent of rental housing stock in the UK) while Build-to-Rent is still a relatively new and small market segment. In the United States Build-to-Rent represents about 5-6 per cent of all dwelling starts.

It is worth mentioning that the Build-to-Rent model in Australia is quite different from the approach in the United States where Build-to-Rent comprises predominantly single-family (detached) dwellings and townhouses in large communities that provide lifestyle features and characteristics of home ownership but for rental.

In Australia, high-rise Build-to-Rent apartments can service a segment of Essential Workers but are not the preferred long-term accommodation for families with young children and in regional areas where the cost and the availability of land are less of a restraint.

Soft market conditions have seen the number of DA approved apartments and medium-density dwellings in NSW decline to the lowest level in more than a decade. Many of the DA approved projects held by builder/developers have stalled due to sale prices of existing apartments falling 20 to 30 per cent below the cost of putting new apartments on the market. A resurgence of the apartment market could be some years off.

The NSW Government has allocated \$450 million to Landcom to acquire privately-owned sites for Essential Worker housing. Some of the dormant DA approved apartment sites in Sydney could be suitable acquisitions for Landcom and the NSW Land and Housing Corporation.

Industry stakeholders claim the cost to build an apartment is 3 to 4 times more expensive than a townhouse or detached house, which indicates that efforts to increase affordable housing, particularly in regional areas would be more cost-effective to focus on low-rise diverse housing.

Financial incentives offered by the Federal Government and the State Government for Build-to-Rent apartments should be made available to private investors offering some affordable housing in smaller-scale rental projects, subject to legally enforceable contracts and compliance checks.

Dwellings built with the financial assistance of Federal and/or State Government should be Accessible and meet at least the Silver level of Universal Housing Design principles.

Social Housing accounts for a modest 5 per cent of all occupied dwellings in NSW and 16 per cent of all rented dwellings thanks to an expansion of the Community Housing sector. The incidence of rental stress in the private rental market is marked with the waiting list for social housing increasing to more than 60,000, including 10,000 applicants assessed as high priority. The NSW Government has committed in the 2024-2025 budget more than \$5 billion for Homes NSW to renovate and build more public housing.

The main source of federal government assistance for low-income tenants is Commonwealth Rent Assistance (CRA), which in 2022-2023 amounted to \$4.7 billion paid to more than 1.3 million income units, of which 413,000 were in NSW.

Tenants in Community Housing are eligible for CRA but tenants in Public Housing are excluded, which severely limits the capacity of Homes NSW to renovate and add to the public housing stock. Commonwealth Rent Assistance should be extended to eligible public housing tenants at an estimated cost of \$1.1 billion nationally. The allocation to public housing tenants in NSW would be about \$350 million.

Recommendation 1: Policy proposals to address Affordable Housing for Essential Workers should form an integral part of an overall Affordable Housing Action Strategy.

Recommendation 2: The NSW Government should aim to achieve a balance between meeting the housing needs of Essential Workers and low-income private renters.

Recommendation 3: There should be flexibility in Affordable Housing policies and eligibility conditions to allow public sector agencies and Local Councils to respond effectively to unique regional differences.

Recommendation 4: Local Councils should be encouraged to establish an Affordable Housing Action Task Force, comprising the Mayor, the local Federal and State Member

and representatives of Community Housing, Ratepayers, Local Business, and private Builder/Developers.

Recommendation 5: The NSW Government Property Index, which provides a register of all State-owned land and property should be expanded to include all Local Government land and property.

Recommendation 6: Landcom could be tasked to assist Local Councils to increase the availability of Affordable Housing by consolidating fragmented ownership of privately owned properties suitable for re-development.

Recommendation 7: Regional Local Councils should provide surplus land at below-market prices to attract new and existing industry from Sydney and interstate to invest in plant and equipment, generating jobs and expanding and diversifying the economic base of the Region.

Recommendation 8: The NSW Government should encourage and support the re-location of businesses to Regions through reductions in Transfer Duty and Land Tax.

Recommendation 9: State Public Sector Employers should increase and extend financial support to Essential Workers relocating to regional towns and cities beyond rural and remote areas.

Recommendation 10: NSW Government consumer advisory services should be readily available to Essential Workers in the private sector seeking employment in regional areas.

Recommendation 11: The NSW Department of Planning, Housing and Infrastructure should be collecting and collating data on a local-area basis, land and housing prices, rents, sales activity, demography and building activity from organisations such as the Australian Bureau of Statistics, Office of the Valuer-General, PEXA, the Australian Taxation Office, the Rental Bond Board, and private organisations. The statistical series should be open access.

Recommendation 12: The NSW Government should establish a time-limited inquiry to evaluate the effectiveness of existing housing initiatives and administrative arrangements for the effective delivery of Affordable Housing programs.

Recommendation 13: The Premier's Department should initiate a 'whole of government' approach to the coordination and oversight of Affordable Housing initiatives to measure and report on the achievement of goals and targets and where necessary identify the need for remedial action.

Recommendation 14: The NSW Government should undertake an evaluation of the pros and cons of home ownership initiatives, such as Rent to Buy and Land Rent Schemes and consider adopting consumer safeguards for privately promoted schemes based on the legislation in Victoria.

Recommendation 15: Policies to boost home ownership for Essential Workers need to proceed with actions to increase the supply of housing to avoid adding undue pressure to housing prices.

Recommendation 16: The Commonwealth is funding \$32 billion of housing specific programs of which at least \$10 billion should be dedicated to a Community Infrastructure Fund, payable to the States and Local Government for urban and regional infrastructure.

Recommendation 17: State Public Sector Employers should work with Public Sector Unions in conducting jointly surveys of the housing needs, housing occupancy and costs and intentions of their Essential Workers to target housing initiatives.

Recommendation 18: The Essential Worker functions of Homes NSW could be expanded to service the delivery of Affordable Housing on behalf of the Department of Health, the Department of Education and NSW Police.

Recommendation 19: Defence Housing Australia, the housing service delivery arm for the Department of Defence could provide a model for Homes NSW to adopt.

Recommendation 20: The Commonwealth and NSW Government could provide seed capital to enable Homes NSW to expend its operations to service the housing requirements of Essential Workers on behalf of the major State Public Sector Employers.

Recommendation 21: Commonwealth Rent Assistance should be extended to all eligible public housing tenants at an estimated cost of about \$1.1 billion a year.

Recommendation 22: The NSW Government should support a study of the private rental market, covering the characteristics of rental investors, sources of funding, reasons for investment and future investment intentions.

Recommendation 23: Landcom should investigate the potential to acquire apartment sites with development approval that would be suitable for Essential Workers and lower-income tenants.

Recommendation 16: The Federal and NSW Government should extend financial incentives, such as the proposed 4 per cent depreciation allowance to smaller-scale rental housing projects that provide for accessibility and an allocation of below market rental units for low-income renters and Essential Workers.

OPTIONS FOR ESSENTIAL WORKER HOUSING IN NSW

1. Introduction

Declining real wages in the face of steep increases in housing prices and rents have sharpened attention on the acute shortage of Affordable Housing. Although the deterioration in housing affordability accelerated during and following the pandemic, housing affordability has been in decline for more than 30 years.

Accessing housing in Sydney has always been expensive and will continue to be so. Sydney is a cosmopolitan city with a very high incidence of non-English speaking households. Housing policies tailored for Sydney are far less relevant to regional NSW.

Acute housing cost pressures on households in Sydney have been pushing many residents to consider moving to regional areas. With more than 35 per cent of NSW's population in regional areas and expected to increase significantly, policies, and programs to facilitate regional development will become an integral part of Affordable Housing Strategy, including for Essential Workers or Key Workers.

With marked differences in housing conditions across NSW, a greater emphasis should be placed on localised delivery of housing responses, and flexible housing solutions.

There is a long list of factors impacting on housing affordability at the national, state, and local level. Efforts to address housing affordability require unprecedented cooperation and action on many fronts, embracing three levels of government and stakeholders.

At the national level, mention must be made of net overseas migration, which has exceeded more than 500,000 a year since the pandemic, putting pressure on the availability and cost of housing and government services. The Humanitarian program, which is separate from the immigration program adds further to the need for immediate accommodation.

Since Sydney is the major destination for migrants, the city has been the epicentre of housing affordability pressures, particularly for rental housing, where most recent arrivals settle. Both the NSW Government and Local Councils are having to deal with increased demand for Essential Workers as well as physical and social infrastructure (roads, hospitals, schools) arising from the surge in net overseas migration.

Although the Federal Government (and Coalition) has foreshadowed substantial reductions in immigration, the level of net overseas migration has exceeded the announced target of 395,000 for 2023-2024 and according to migration specialists is likely to overshoot the target of 260,000 for the 2024-2025 financial year.

State and Local Government cannot be expected to shoulder most of the cost of delivering affordable housing and infrastructure linked to sustained high levels of net overseas migration. **Commonwealth funding of urban and regional infrastructure must be an integral part of an Affordable Housing Strategy.**

Despite strong population increases, lifting the underlying requirement or notional demand for new dwellings, higher interest rates since May 2022 have squeezed effective demand for housing in NSW. Home buyers, both owner-occupiers and investors have not been able or willing to pay the prices builders and developers require to make projects financially viable.

Housing for Essential Workers has been on the public policy agenda from at least the early 2000s. But the sharp deterioration in housing affordability in the past four years has amplified the focus on the affordability gap facing Essential Workers and low-income households.

Essential Workers are earning too much to qualify for social housing but not enough to manage the cost of private housing, particularly home ownership. The gap between the housing aspirations of Essential Workers and their housing outcomes has lacked a sound evidence base and analysis, leading sometimes to *ad hoc* government responses.

Policy proposals and responses have been developed largely in isolation from the factors affecting the decision-making of Essential Workers. Most of the policy proposals have centred on Affordable Rental Housing, including for Essential Workers.

Increased densities, particularly apartments proximate to workplaces have been identified as a solution for bridging the affordability gap. Notwithstanding, **the experience in other countries underlines the significance of Public Sector agencies making available both rental and home ownership support.**

Many Essential Workers aspire to home ownership and cost-effective home ownership policies must form part of the Affordable Housing Strategy for Essential Workers.

Both the Federal and the NSW Government have programs to assist First Home Buyers, including shared-equity, home loan guarantees and the exemption of transfer duty for first home buyers. These schemes operate on the demand side of the housing market.

Since new housing makes a small contribution to the overall stock of housing in the shorter term (about 1.6 to 2 per cent a year) demand-side housing incentives tend to stimulate demand for established housing, adding to pressures on existing housing prices in over-stretched markets. Programs to stimulate housing demand and home building are more appropriate when housing market conditions are depressed. In the face of high population growth, the policy priority should be channelling housing initiatives to increasing the supply of housing.

In addressing Essential Worker housing, it is critical to identify and facilitate the adoption of long-term solutions, particularly for home ownership, without losing focus on people in profound housing need.

The challenge is to strike a balance between home ownership policies and efforts to increase the availability of affordable rental accommodation, both public and private. In formulating policy initiatives, it will be important that efforts to boost affordable housing for Essential Workers are not at the expense of support for those less fortunate. The benefits of an awareness campaign on the contribution Essential Workers make to communities cannot be underestimated.

Commonwealth Rent Assistance (CRA) must continue to play a central role in the provision of income support for low-income tenants in the private sector. The extension of CRA to eligible tenants in public housing authorities is a long overdue reform.

With continued pressure on the budgets of the State and Local Government, it is critical that government agencies seek cost-effective innovative solutions to address Affordable Housing. To make inroads in boosting the supply of affordable housing, the NSW Government should support Local Councils to identify how private financing of Affordable Housing can be tapped into.

State Public Sector agencies, such as the NSW Department of Health and the NSW Department of Education have land and property holdings that potentially could be utilised for Essential Worker accommodation, both for rent and home purchase. Partnering between the Public and Private Sector, particularly on surplus government land could offer opportunities for the delivery of Essential Worker housing.

2. Who are the Essential Workers?

The focus on key workers became elevated during the COVID-19 pandemic, underlining the dependence of the nation on so many people working in all parts of the economy. The National Cabinet adopted a comprehensive list of Essential Workers during the pandemic.

The purpose of establishing a workable definition of Essential Worker is intended to first, quantify the number of low and modest-income Essential Workers experiencing housing cost stress and expected into the future and secondly, provide a framework for prioritising access to affordable housing.

Typically, Essential Workers or key workers have been identified as public sector workers, such as nurses, teachers, law enforcement, and firefighters, who are front-line workers.

People contributing productive work may not meet a traditional definition of Essential Worker, but their contribution is vital to the effective workings of an economy and society. On these grounds, the term Essential Workers should be broadened to include support roles for people facing service providers, such as ambulance drivers, aged and childcare workers, medical receptionists, hospital cleaners, hospital administrative staff, prison and probation officers, police dispatchers, teacher assistants and the list goes on.

There may be occupations that are essential to the effective working of a local or regional economy. Regional areas dependent on a narrow economic base, such as tourism and hospitality, can experience severe shortages of skilled and semi-skilled workers who would be deemed by local employers to be essential workers.

Although it has been common to segment Essential Workers from those eligible for social housing, people's circumstances can change due, for example to retrenchment, ill health, family loss or separation, divorce, and remarriage.

The range of Essential Workers is dynamic and there should be flexibility for Public Sector agencies and Local Councils to reflect regional differences in their approaches to addressing Affordable Housing.

In its submission to the Select Committee, Shelter NSW writes: "We see the need for a large and widespread Affordable Housing program accessible to low-to-medium income households, regardless of occupation type." (p.3).

Accommodation for Essential Workers should be treated as an integral part of an Affordable Housing policy.

The Victorian Government embarked on an engagement with the community and industry stakeholders to help shape a feasible definition of Essential Worker within the City of Melbourne and to develop an Affordable Housing Strategy for Essential Workers. The research involved on-line surveys and stakeholder roundtable meetings.

Based on community and business feedback, the scope of Essential Worker was expanded to encompass people “who provide an essential service to the community”, such as “cleaners, childcare workers, and chefs.” (*Participate.Melbourne.vic.gov.au*, 5 September 2023).

The approach adopted by the Victorian Government could provide guidance for developing a practical framework for NSW public sector agencies as well as for Local Councils.

3. The Challenge to Recruit and Retain Essential Workers

The pressure from housing costs on household budgets elevates affordable housing as an integral part of an Essential Worker recruitment and retention strategy for both Public and Private Sector Employers.

Both public and private sector employers face limitations on their ability to raise real wages, leaving many employers, particularly small businesses struggling to fill key worker roles. The challenge of attracting and retaining essential workers will vary across regions, cities, and towns.

The affordability chasm is far more challenging in Sydney than in regional areas. Starting wages and salaries for public sector essential workers are the same across the State, but housing prices and rents are much higher in Sydney than in regional areas.

As State Public Sector Departments and agencies, such as the NSW Department of Health, the NSW Department of Education and NSW Police are very large employers of traditional Essential Workers, those agencies should be pro-active in identifying the housing requirements and issues affecting their workforce.

State Public Sector Employers should collaborate with Public Sector Unions in determining the housing needs and aspirations of their people, particularly since the workforces of State Public Sector Employers are the members of Public Sector Unions.

By State Public Sector Employers taking greater responsibility for the well-being of their own workforce it should mitigate criticism of housing support for Essential Workers competing against other State Government efforts to address the housing needs of seriously disadvantaged households, most of whom are in the private rental market.

Large public sector employers and public sector unions should work together in undertaking structured surveys to establish how the availability of affordable housing is impacting on decisions to apply for and maintain employment.

A starting point for developing a recruitment and retention strategy for major public sector employers should be to find out the key drivers for employment decisions of Essential Workers, including housing preferences for home ownership or rental.

The survey should identify the nature of work, travel time to work, location and type of housing accommodation, household composition, household capacity to meet housing costs. The research could prove effective in matching housing initiatives to the circumstances and intentions of different cohorts of Essential Workers.

The survey results should provide the basis for converting data into valuable lessons and practical responses. By utilising evidence-based surveys it should be possible for major public sector employers to respond more effectively to the needs and aspirations of existing and potential Essential Workers.

Planning for new or extensions to Public Hospitals and Public Schools should proceed in tandem with the planning and delivery of housing for Essential Workers. Synchronisation of investment in accommodation for Essential Workers with investment in large-scale public infrastructure must be on the critical path of project planning and delivery.

4. Coordination of Affordable Housing Policy for Essential Workers

The NSW Government under the National Housing Accord has committed to ambitious housing targets over a five-year period. While the Government can control the number of public dwellings to be built, most new building is undertaken and owned by the private sector, over which the levers available to government are much less direct. Consequently, the objective of government interventions in the private market should focus on how investment by the private sector can help to achieve the government's housing policy objectives.

Many initiatives and funding commitments have been announced by the NSW Government to facilitate an increase in the supply of serviced land and dwellings, particularly for low-income households and key workers.

The previous NSW Government's, *The Regional Housing Task Force* (October 2021) reported stakeholders "indicated that a lack of coordination between State agencies was resulting in divergent rather than shared infrastructure priorities and misaligned across government plans and strategies, the result of which was that the delivery of enabling infrastructure was out of sync with planning approvals." (p.18).

The separation of functions and responsibilities for Affordable Housing risks fragmentation and inertia in market responses. The Attachment provides a list of Departments and Agencies with responsibilities for planning, development, housing, and household assistance.

The NSW Premier has formed a high-level panel, Housing Development Authority (HDA) to speed up approval processes and to remove blockages to clear the way for large-scale residential land and housing developments. It has been reported that 13,000 new dwellings have been freed up to proceed to commencement (The Daily Telegraph, 14 November 2024, p.7). The HDA will be able to sign off on land and housing developments valued at more than \$60 million in Sydney and \$30 million in regional areas (The Daily Telegraph, 16 November, pp. 8,9).

The initial reaction from the Local Government Association was apprehensive about the approach to be adopted by HDA. Concerns of Local Councils might be assuaged if HDA consults with Local Councils on proposed large-scale projects to identify concerns and to explore the potential for builders and developers to incorporate an allocation of affordable housing and a diversity of accommodation.

A whole of government approach to Affordable Housing suggests that the Premier's Department is the appropriate agency to oversight progress in meeting targets and goals. There is a precedent with the Premier's Department assuming responsibility for the Regional Coordination of major projects in regional areas, which took effect from 1 July 2024.

As a first step, an evaluation of current programs and administrative arrangements should be undertaken, possibly by an independent appointee. The Review should be time limited.

The terms of reference of the independent review should be to document the cost effectiveness of existing programs and services directed at the provision of Affordable Housing. Where

appropriate, the Review should identify the potential for the simplification and streamlining of administrative arrangements.

The successful implementation of programs depends on access to timely and relevant information against which housing targets and key performance indicators can be assessed. There needs to be coordination and collation of data on local housing market conditions, such as construction activity, demography, housing prices and rents, movements in rental stocks, transactions of property, employment conditions and land availability.

Local Area land and housing data collected by Federal and State Government agencies, such as the Australian Bureau of Statistics, the Australian Taxation Office, the Office of the Valuer-General, the NSW Land and Housing Corporation and private sector organisations should be assembled and collated by the Department of Planning, Housing and Infrastructure and made available publicly.

5. Delivering Affordable Housing for Essential Workers

Homes NSW combines housing and homeless services of the NSW Department of Communities and Justice with the NSW Land and Housing Corporation and the NSW Aboriginal Housing Office and Key Worker housing.

The key worker housing functions of Homes NSW could be expanded to service the Department of Health, the Department of Education and NSW Police.

The successful operation of Defence Housing Australia (DHA), the housing service arm for the Department of Defence, could provide a model for Homes NSW in an expanded role.

DHA is involved in the purchase, sale and leasing of existing properties, house and land packages and individual lots for new detached houses, townhouses and apartments. The authority provides rent allowances to defence personnel on property leased in the private market and interest-free loans to assist with rental bonds and advance rent payments. Transfer Duty can be reimbursable.

DHA offers private owners of approved property a guaranteed rental income on long-term leases and make-good provisions at the end of the lease period. It manages more than 17,000 properties across Australia, mainly detached houses as well as townhouses and apartments. DHA has net assets of \$1.7 billion and produced a net profit of \$53.9 million in 2022-2023.

The UK National Health Service makes available rental dwellings for its workforce (save for doctors and dentists), The rent covers water, gas, electricity, WiFi and cleaning of communal areas. Interestingly, the length of tenancy agreements is very flexible depending on the requirements of the tenant. Rent can be debited from salaries.

Both the Commonwealth and the NSW Government could provide some seed capital to enable Homes NSW to expand its operations to service the housing requirements of Essential Workers on behalf of the major State Public Sector Employers.

Public sector employers, such as the NSW Department of Health and NSW Police should be pro-active in facilitating affordable housing for their employees, particularly where they have surplus land. Where appropriate, Landcom could acquire sites for essential workers under the guidance of the main departments.

State Government grant funding for Affordable Housing ideally, should have a provision for Essential Worker Housing that achieves an appropriate balance in the provision of support for those most in need for affordable housing,

With Budget constraints ever present, governments need to identify innovative ways to alleviate gaps in the availability of affordable housing.

With the Commonwealth bearing responsibility for income support, Homes NSW through the NSW Land and Housing Corporation could focus on renovation and stock acquisition for social housing. Similarly, State agencies employing Essential Workers should be a key driver of affordable housing for their workers.

5.1 Using Surplus Government Land for Affordable Housing

Dedicating surplus land for Essential Worker accommodation owned by public sector agencies, such as the NSW Department of Health and the NSW Department of Education offers an effective way to deliver more affordable housing for their key workers in proximity to their employment.

The NSW Government has commenced an audit and register of State-owned land and property and placed a hold on State agencies selling off surplus property pending the outcome of the audit. The audit is ongoing. Land and property owned by Local Councils is not included.

Public sector agencies with surplus land and redundant property should be incentivised to work with community housing associations and accredited private builder/developers to build as well as convert existing property for affordable homes for Essential Workers.

While the State Government called on state agencies to suspend the sale of land and property pending an audit of property holdings, local government was not included. Some local councils are disposing of own land to reduce external borrowings.

There may be merit in the State Government acquiring Council land suitable for affordable housing thereby increasing the availability of long-term Essential Worker housing while enabling Local Councils to reduce borrowings or help to fund other community services.

The NSW Government Property Index provides a register of State-owned land and property. So far, the audit has identified 44 unutilised sites. The NSW Government has announced the release of surplus land found in the audit to yield 21,000 dwellings for Essential Workers to rent.

Homes NSW and Landcom have the first choice of identified sites for the delivery of social housing, affordable housing for Essential Workers and market housing. Other sites can be made available for development by the private sector.

The NSW Government Property Index should be extended to include Local Government property. Identified sites should reveal zoning and the potential yield for a diverse range of dwellings. The register of Council-owned land could be accessed by groups and individuals in developing proposals for Local Councils.

A State agency, such as Landcom could assist Local Councils by consolidating fragmented ownership of property suitable for affordable housing.

There could be surplus Local Council land that would be suitable to attract industry, generating jobs and potentially diversifying the local economy. Regional Councils could make relocation of businesses from Sydney and interstate attractive by providing land at below market prices. The

State Government could play its part too, by offering savings on Transfer Duty and Land Tax to business relocating or setting up in regional areas.

Despite surveys revealing that households typically prefer detached housing policy makers consider that most key workers are seeking high-rise apartments in proximity to workplaces.

5.2 Regional Affordable Housing Initiatives

More than 35 per cent of the population of NSW lives in regional cities, towns, villages, and rural areas. McCrindle Research indicates that two thirds of Sydney residents were considering moving to a regional area seeking more affordable housing and lifestyle benefits provided by living in a regional area (*Australia towards 2031*, 2021).

Although Sydney is the major destination for international migrants, the city loses population to regional NSW as well as interstate. Approximately 40,000 to nearly 50,000 Sydneysiders a year move to regional areas within NSW (based on *ABS Migration, Australia and Internal Migration*). Large shifts in the movement of population to regional areas will have far-reaching impacts on the demand for accommodation and government services.

The NSW Government's Essential Worker Attraction Program supports Essential Workers to relocate to regional areas. There are two components of the program:

- The Welfare Experience; and
- Make the Move.

The NSW Government's *The Welcome Experience* provides a 'free' service to support essential workers in the public sector relocating for employment to regional NSW. The service which is undertaken with service partners provides practical advice on housing, child-care, schooling, employment opportunities for partners, social services, and recreational activities.

It would be advantageous if access to The Welcome Experience was extended to Essential Workers in the private sector seeking employment in regional areas.

The Welcome Experience is under the Department of Communities and Justice. The initiative is undergoing expansion to additional regional areas.

Make the Move also encourages Essential Workers to move to regions. It spotlights stories of Essential Workers who moved from Sydney to regional NSW.

Under the Rural Health Workforce Incentive Scheme, health workers employed by the Department of Health can be eligible to receive \$20,000 to assist with the costs of moving to rural and remote locations. The incentive applies until 30 June 2025. Mid-wives can receive a \$20,000 sign on bonus to relocate from Sydney or interstate.

The NSW Police Force Regional Incentives package provides lump sum payments of up to \$36,000 a year for five years for police officers to relocate to a remote location.

The NSW Government has in Service NSW, a 'front door' agency that is providing a range of consumer-facing services, such as licence renewal, vehicle registration, assistance with employment, housing, health, cost of living and child support.

Consideration should be given to incorporating The Welfare Experience and Make the Move within Homes NSW or Service NSW under the Department of Customer Service. Service NSW enjoys strong brand recognition, particularly in regional areas and processes consumer enquiry in a highly efficient and professional manner. Staff knowledge of available services is exemplary.

Both the Rural Health Worker Incentive Scheme and Police Force Regional Incentives package could be extended to include regional cities, towns, and villages.

Local authorities can reserve some allocations for Public Sector Key Workers on Council land and property.

5.3 Regional Affordable Housing Action Task Force

While Sydney is the epicentre of housing stress, regional areas are also affected by housing shortages and affordability pressures.

Providing cost-effective responses to closing the gap on Affordable Housing calls for unprecedented co-operation between the three levels of government and including local community, business and investors and not-for-profit organisations.

Local Councils can take a lead in establishing an Affordable Housing Action Task Force, as is being undertaken by Shoalhaven City Council. The Task Force will be chaired by the Mayor, with invitations to the Federal Member for Gilmore and the State Member for the South Coast. In addition, there is likely to be representation of community housing, ratepayers, local businesses, and private builders/developers.

The purpose of the Task Force will be to identify practical responses to the endorsed recommendations contained in the 2024 Shoalhaven Council Affordable Housing Strategy. The inclusion of the Federal Member and State Member should provide a conduit to the responsible Federal and State Ministers, which could pave the way for carefully targeted responses to address local housing and infrastructure needs.

The strengthening of collaboration by the Federal Government and the NSW Government with Local Councils and regional stakeholders could improve the identification of economic and social infrastructure to underpin increases in Affordable Housing, particularly in relation to water and waste, roads, and electricity.

Participation by Federal Government and State Government members would help to provide broader perspectives relating to population trends, immigration, financial conditions and at the same time feedback loops for the Federal and State Government.

By nudging the dial from highly centralised delivery of housing programs and services, Local Councils can play a key role in the tailoring of local initiatives that more closely match with regional housing and community requirements. Processes for the approval of Federal and/or State planning and financial contributions should be afforded a high priority while ensuring transparency and adherence to high standards of probity.

Both the Federal and State Government should identify how they can support Local Councils undertaking innovative approaches to the supply of affordable housing.

Local Councils with a substantial estate might need assistance in managing the effective use of land and property assets. An example might be legal and accounting guidance on the

establishment of unit trusts that can attract private sector capital, such as superannuation funds as well as individual investors.

The SA Government has established Regional Builder Panels to undertake the construction of affordable housing. Regional Councils could adopt a similar approach, selecting a panel of builders to deliver affordable housing for Essential Workers. Selected builders would have to be well capitalised and able to demonstrate a proven track record of quality building and customer service. Affordable housing projects should provide for Accessible features, such as reinforced walls in bathrooms and wider entry and passageways.

While it might be attractive for Local Councils to enter joint ventures with private investors for the development of affordable housing, the Public-Private Partnership provisions in the Local Government Act might be a barrier to such arrangements. Legal advice should be sought.

A commitment by private investors to provide a dwelling for sale or rent below market prices, should be formalised through a legally binding contract, such as a land management agreement. The agreement covering below market rentals would be assessed annually to ensure compliance with the original undertakings.

Partnering between Local Councils and Landcom provides another path to the development of Affordable Housing.

6. Delivering Affordable Housing in the Private Rental Sector

The incidence of housing stress is marked in NSW where 335,404 (35.5 per cent) of renting households were paying more than 30 per cent of their gross income in rent based on the 2021 Census. Steep increases in rents since 2021 will have increased the number of renting households experiencing rental stress. Renting Essential Workers have fared better than lower and modest income households renting from private landlords. Even so, about 10 per cent of Essential Workers in NSW would be spending more than 30 per cent of their gross income in rent.

The pressure on private tenants has seen the waiting list for social housing in NSW increase to more than 60,000 with over 10,000 applicants deemed a high priority (September 2024, Department of Communities and Justice).

The high incidence of rental housing stress reinforces the view that affordable housing for Essential Workers should form an integral part of a comprehensive Affordable Housing strategy.

While the rate of owner-occupancy at 66 per cent of all households is the dominant housing tenure nationally and in NSW *albeit* lower at 64 per cent, about 27 per cent of all households in NSW were renting from a private landlord, according to the 2021 Census. In the UK, the rate of owner-occupancy is 65 per cent, while 19 per cent of households are in the private rented sector.

Social housing in NSW accounts for a modest 5 per cent of all occupied dwellings, and about 16 per cent of all rented dwellings. In the UK, social housing plays a much larger role with 16 per cent of all households in the social housing sector (Department of Levelling Up, Housing and Communities, 14 December 2023).

Within the social housing sector in NSW, 95,765 dwellings or 62 per cent of the social housing stock are public housing dwellings and 49,275 or 32 per cent are community housing dwellings and 10,222 (about 6 per cent) are indigenous community housing dwellings (*Social Housing*

Residential Dwellings Dashboard, Department of Communities and Justice, June 2024). While the number of community housing units has increased slowly over time, the number of publicly owned dwellings has declined (Australian Institute of Health and Welfare, *Housing Assistance in Australia*, July 2024).

The NSW Government committed \$5 billion in the 2024-2025 Budget to fund 8,400 social dwellings. In June 2024, the NSW Government announced the allocation of \$450 million for Landcom to acquire four sites to develop new apartments for Essential Workers. In September 2024, the NSW Government announced 10 government-owned properties would be developed to deliver 1,100 affordable new dwellings.

6.1 Commonwealth Rent Assistance

The main source of federal assistance to low-income tenants is Commonwealth Rent Assistance (CRA) which is a supplementary payment to recipients of a social security payment. CRA payments in 2022-2023 amounted to \$4.7 billion. As of 30 June 2023, more than 1.3 million income units (individuals and income-sharing households) were receiving CRA, of which 413,000 were in NSW.

After receiving CRA, more than 40 per cent of recipients remained in rental stress. While tenants in community housing are eligible to receive CRA, public housing tenants are not eligible to receive CRA, which the Commonwealth seeks to justify on the grounds that public housing tenants typically receive a substantial discount on their rent.

The exclusion of public housing tenants from CRA, by significantly reducing the income to state housing authorities, impairs the capacity of the states to maintain, renovate or add to the stock of public housing.

The Federal Government should extend Commonwealth Rent Assistance to all eligible public housing tenants. It is estimated that the annual cost would be in the order of \$1.1 billion nationally and \$350 million for NSW. Payments could be made direct to state housing authorities provided the agencies maintained below market rents for eligible tenants.

While both federal and state governments have been supporting the development and expansion of the community housing sector, most vulnerable renting households will continue to be domiciled in the private rental market. The operation of the private rental market deserves a lot more attention than it receives, particularly in relation to the drivers of private rental investment.

6.2 The Suppliers of Private Rental Housing

The private rental market is dominated by small-scale investors. While there are investors with large holdings of rental property, corporate and institutional investment accounts for a small part of the overall stock of rental housing.

About 70 per cent of the private rental stock is owned by individual investors with one rental dwelling. By contrast in England, only 20 per cent of private rented dwellings is owned by landlords with one rented dwelling. Nearly half of the private rented stock in England is owned by property owners with more than five rental properties (*English Private Landlord Survey 2021* Updated 10 September 2024, Department of Levelling Up, Housing and Communities).

In Australia, post-war, baby boomers, aged 59 to 78 are the largest holders of rental property, followed by 50-to-59 year-olds. (Michael Read, "Australia has passed peak property investor numbers" *The Australian Financial Review*, 29 October 2024).

There are substantial information gaps on the key drivers of private rental investment, which inhibits the formulation of suitable policies. It is nearly 30 years since the publication of a national survey of private rental investors (ABS, *Household Investors in Rental Dwellings Australia*, June 1997).

The NSW Rental Bond Board records information on rental lodgements at a local level. **The NSW Government should engage a property analyst, such as CoreLogic to undertake a study on the characteristics of rental investors, sources of funding, reasons for investment and future investment intentions.**

There is a substantial churn of properties in the private rental market. Research by AHURI revealed that more than half of rental properties added to the rental stock after 2015 in Sydney had been removed from the supply of rental housing by 2020.

Since rental dwellings, particularly detached houses are near substitutes for owner-occupied housing, there is likely to be substantial switching of dwellings between the rental and owner-occupier markets, and particularly among first home buyers. About 7 per cent of first-time buyers of property have opted for an investment property instead of owner-occupancy. More than 40,000 first home buyers have taken this path in the past five years (ABS, *Home Lending to First Home Buyers*).

Volatility in the private rental market, characterised by a high turnover of stock, particularly at the lower end of the housing market, imposes significant costs on low-income renting households. The NSW Government has legislated to prohibit no cause evictions, which does not apply to rental dwellings listed for sale.

The change in taxation of capital gains from indexation of the capital base to a 50 per cent discount on capital gains in September 1999 encouraged shorter-term investment activity relying on debt funding.

It should be noted that the ABS Lending series on Investor Housing Finance bundles loans for the purchase of dwellings intended for sale and for rental. The ABS should take steps to have lenders separate Investor Lending by Dwelling Purchases (new and used) for Sale and new and existing Dwelling Purchases for Rental Investment.

With rental vacancy rates at historically low levels, it has been possible for rental owners to pass through some of the higher costs of investing, particularly increased borrowing costs as well as steep increases in Land Tax, property rates and insurance.

The marked increase in private rents has increased the focus on rental housing affordability. It has led to calls for rent freezes, caps on rent increases, no cause evictions and a curbing of negative gearing and the capital gains discount. The legislative changes and speculation about further regulatory restrictions change the risk profile of rental property investment.

Despite the media attention on the 'taxation subsidies' of negative gearing and the capital gains discount, the number of taxpayers declaring a rental income has been in steady decline since 2017. The number of private rental investors fell by 100,000 in the two years 2021-2022.

Both the Federal Government and the Opposition have ruled out changes to negative gearing and the CGT discount on the grounds that the taxation changes would not increase the supply of housing.

With yields on private rental housing falling below the returns available on risk-free bank term deposits it is not surprising that investors are considering where to place their savings. CoreLogic estimates that the gross yield on private rental property has been running at about 3.7 per cent, while net yields would be much lower. The August 2024 Westpac Housing Pulse Survey estimated the gross rental yield for investment dwellings in NSW at 4.5 per cent. The typical gross yield on a detached dwelling is much closer to the CoreLogic estimate of 3.7 per cent in regional areas but higher for yields on duplexes and dual occupancies.

Enormous increases in housing prices, have raised the barriers to entry for smaller-scale investors. Consequently, rental investment has been narrowing to a smaller pool of cash positive boomer retirees. It has been estimated from records of PEXA that nearly 30 per cent of housing purchases by owner-occupiers and investors have been cash based.

The deterioration in rental affordability has led to increased interest by governments in alternative forms of private rental housing, including Community Housing and especially, Build-to-Rent high-density apartments.

6.3 Build-to-Rent

Build-to-Rent or BTR is large-scale purpose-built rental housing that is held in long-term single ownership, typically by large corporations or institutions and professionally managed.

In the United Kingdom, investment in Build-to-Rent has been increasing strongly, but only about 1 per cent of the UK's housing market is owned by institutions (FT Adviser 18 September 2023). In the United States, about 3-4 per cent of the housing stock is owned by institutional investors.

Unlike the United States, the Australian Government and the NSW Government are leveraging Build-to-Rent high-rise apartment blocks as a vehicle for Affordable Rental Housing, including for Essential Workers. In Sydney apartments account for nearly 32 per cent of the occupied dwelling stock. In contrast, apartments are 6 per cent of occupied dwellings in the Rest of NSW.

McCrindle Research reveals that apartment living appeals to many Sydneysiders who work in or near the City, but the overwhelming preference of younger people is for home ownership and being able to buy any type of home (*Sekisui House Report* by McCrindle Research). It provides a salutary reminder that one size does not fit all.

The US Build-to-Rent model is relatively new and very different from the approach being pursued by governments in Australia. In the United States, Build-to-Rent communities have 50 or more properties that have the characteristics of owner-occupied single-family homes but built for renters who seek lifestyle features not typically offered in high-rise apartments. On-site property managers handle leasing, landscaping, repairs, and maintenance for the entire community.

BTR homes in the United States do not have any units attached above or below them, unlike apartments. BTR is akin to a segment of the single-family rental market (CBRE, *Build to Rent Residential Market Overview*, 16 October 2024). About 80 per cent of the US BTR market is townhouses or attached horizontal dwellings with attached garages and private gardens (*Builder Magazine* 13 November 2024).

Following a rapid run-up between 2021 and 2022, BTR starts in the United States have declined due to increased vacancies, lower rent growth and tighter lending conditions. Annual commencements of BTR dwellings account for about 5 to 6 per cent of all dwelling starts.

The NSW Government is providing financial and planning incentives to encourage institutional investment in Build-to-Rent apartment blocks. The NSW Government introduced a floor space bonus of up to 30 per cent and a height bonus of up to 30 per cent provided at least 10 per cent of units are allocated for affordable housing. In addition, the NSW Government is offering a 50 per cent reduction in Land Tax.

At the federal level, the Government has BTR legislation before the Senate which provides for an increase in the 'depreciation' allowance on capital invested from 2.5 per cent to 4 per cent. Withholding Tax on Managed Investment Trusts is to be halved to 15 per cent to encourage foreign investment in BTR. The BTR investor must hold the apartment complex for 15 years, allocate about 10 per cent of units for affordable housing and offer leases for a minimum period of 3 years.

BTR projects supported by Federal and State Governments should incorporate Accessible housing features (reinforced walls in wet areas and level entry and wider hallways) based on the Silver Level of Universal Housing Design principles.

Large superannuation funds are holding back from investing in Build-to-Rent apartments for affordable housing, perhaps reflecting uncertainty about the cost of managing the stock and the stability of rental returns. This has led to calls for the federal government to underwrite the long-term returns on affordable rental housing.

Institutional investors are much more active in commercial, retail, and industrial property (*Barriers to Institutional Investment, Finance and Innovation in Housing*, Interim National Housing Supply and Affordable Council, July 2023). Some of the superannuation funds claim that as a major shareholder in the banks, they have indirectly a substantial stake in the residential property market.

One of the factors holding back institutional investment in residential rental projects is the treatment of new rental housing under the GST regime (Clayton Utz *Insights* 26 September 2024).

Although residential rents are not subject to GST, GST incurred on the acquisition of land and building for residential development (as well as alterations, conversions, repairs, and maintenance) cannot be claimed as an input tax credit. The 'leakage' of GST by increasing the cost base of a rental housing projects acts as a major impediment to investment in new residential rental developments, relative to investment in commercial property. GST incurred on commercial property can be claimed back, which alters the scales on investment between residential rental property and non-residential investment. In its 2023 Report, the National Housing Supply and Affordability Council (now Housing Australia) did not address the issue of GST on new rental housing.

While excluding residential rent from the GST in the 2001 new tax arrangements ensured equal treatment with the exemption of GST on 'imputed rent' of owner-occupancy, it has never been clear why the GST on capital expenditure committed to new residential rental property was not treated as a taxable supply in the same way GST applies to income-producing commercial and industrial property. In the United Kingdom, investment in residential building is typically zero

rated under the 20 per cent Value Added Tax and in the United States there is no federal goods and services tax on new housing investment.

Changes to the application of GST to property raise a host of issues for which there is little political appetite. **In the absence of changes to the application of GST to new rental investment, governments can expect investors to advocate for increased financial support to undertake Build-to-Rent high-rise development.**

The \$84 Billion Cbus fund has embarked on investing in “luxury” apartments in North Sydney with affordable units to be offered at 75 to 80 per cent of market rental. However, Cbus currently is not committing to Build-to-Rent instead opting for Build for Sale (*The Australian* 29 February 2024).

Major developers contend that the prospect of undertaking large-scale apartment projects is being held back by a lack of financial viability, due to soft demand, high pre-sale requirements, elevated building costs and skill shortages. Multi-unit builders/developers contend the price of putting apartments on the market is 30-40 per cent higher than the price potential purchasers are prepared to pay.

Approvals for apartments and medium-density dwellings in NSW in 2023-2024 were a meagre 19,204 the lowest annual total since 2011-2012. While there might be a high latent demand for apartment living in established areas of Sydney, a recovery in high-rise apartments is some time off.

According to major developers a new apartment costs three times as much per square metre as for a well-appointed townhouse and four times the cost of a detached house in an outer suburb. The apartments that exceed a hurdle return are boutique luxury apartments targeted at high, net worth individuals.

KPMG (*Construction sector crunch stalls new home progress* 22 October 2024) revealed that by 30 June 2024, 12,000 approvals for houses, apartments and townhouse projects in Sydney had been approved but not yet commenced, an increase of nearly 18 per cent compared with the number on 30 June 2023. More than 9,900 apartments and townhouses (82 per cent of the total) had not been commenced. The KPMG study revealed that nearly 5,000 dwellings in regional NSW had been approved but not commenced by 30 June 2024, representing an increase of more than 40 per cent over 12 months.

Projects that have received development approval have stalled due to a lack of financial viability, high costs of building and critical labour shortages (“This is why new housing isn’t getting built” by Robert Harley *Australian Financial Review* 31 October 2024).

Although the rental vacancy rate in Sydney has increased slightly during 2024, at 1.7 per cent the rental vacancy rate is still very tight. There is an oversupply of listings in Sydney with vendors dropping prices and the expected delay in cuts to official interest rates is dampening both owner-occupier and investor demand.

The revitalisation of apartment building will depend on a stabilisation of building costs, increased sale prices for existing stock, lower interest rates and increases in real incomes. While new home buyers might be prepared to pay a premium for a new dwelling, the substantial gap between the cost of new housing and similar established dwellings, means the gap will need to narrow considerably to shift market demand to new stock.

Recent changes to the National Construction Code have increased the cost base of new dwellings according to the MBA by about \$30,000 on an average build. One of the main contributors to the increase in building costs has been the requirement to meet a 7-Star Energy Efficiency rating. However, winding back the uplifted energy efficiency requirements on new builds is not feasible. The new energy efficiency standard is more likely to accelerate the importation of energy efficiency building products, particularly double-glazed windows and doors as well as higher-rated insulation products.

Proposals to leverage planning obligations to include allocations for affordable housing or cash contributions from developers may seem to be attractive. However, with the financial handbrakes on apartment projects, the dedication of units for affordable housing will further depress expected returns, likely leading to demands for additional subsidies from government.

The Federal Government and the NSW Government are offering incentives to facilitate the expansion of Build-to-Rent high-rise apartments. Large-scale high-rise development has far less applicability in many regional areas.

In view of the far more favourable costs of medium-density housing over high-rise apartments, both the Federal and State Government should extend financial incentives for smaller-scale developments that provide for an allocation of stock to low-income tenants and Essential Workers.

Some financial incentives could include a discount or exemption of Land Tax and Transfer Duty relief for producers of affordable housing medium-density housing. The Federal Government could extend the proposed 4 per cent capital or depreciation allowance to new private rental housing where rents are set at 70 to 75 per cent of assessed market rent. The administration of the scheme could be handled directly between a local provider and the NSW Government under legally binding agreements providing for annual reviews of compliance.

7. Home Ownership is Important to Essential Workers

An April 2019 study by PwC for Genworth Mortgage Insurance and Teachers Mutual Bank (*The Deposit Gap Dilemma-The Impact on Key Workers*) revealed that 94 per cent of respondents ranked home ownership as “vitally important”. However, 79 per cent of Key Workers in Sydney and Melbourne reported that home ownership was out of reach, particularly in saving for a 20 per cent deposit.

Increases in home loan interest rates since May 2022, will have increased deposit gaps. A 2023 Report from ANZ and CoreLogic found that it would take a householder in Sydney 15.7 years to save a 20 per cent deposit on the median income level.

The PwC study showed many Key Workers striving to save a deposit had to work multiple jobs, take on overtime, delay starting a family, and move in with family or friends. Other Key Workers were planning a move to the outer suburbs or a regional area.

McCrindle Research (*The Future of Housing in Australia*) found that “the number one hope” of under 30s “is to own a home”, noting the challenge is to save a deposit and service a home loan in a low wage growth era. The decline in home ownership among younger households and increase in those renting has been linked to house prices increasing much faster than wages as well as deferred entry into the workforce due to higher education participation.

McKinnon Poll (25 October 2024) showed that more than three-quarters of non-owning households wanted to own their own home, but less than half considered it was likely to happen. Among young people, 93 per cent were keen to become homeowners (Understanding attitudes towards housing in Australia).

A study by Infrastructure Victoria (*Our Home Choices*, March 2023) found that most households strongly preferred detached houses over apartments, particularly those looking to buy a home (p.19). Among owner-occupiers and renters, 68 per cent wanted a detached house if they had to move, compared with 32 per cent preferring a townhouse or apartment (p.24). High-rise apartments were not the accommodation of first choice for most households.

Market research reveals the importance of home ownership to Essential Workers, a preference for detached-dwelling living and a belief that both Federal and State Governments should be doing more to assist Essential Workers into home ownership.

7.1 Shared Equity Home Ownership

The Federal Government and State Governments have identified shared equity as a useful financial innovation for low-and modest-income earners. In August 2022, the NSW Government allocated \$780.4 million for the launch of a two-year pilot shared equity scheme to assist 6,000 single parent, older singles, and key workers to buy a home.

Shared equity is emerging in the private sector. One organisation, HOPE Fund which commenced in late 2022 is assisting Essential Service Workers to purchase a home through a co-investment arrangement. Focusing initially on Greater Sydney, home buyers decide what and where they want to buy and make an equity contribution of at least 50 per cent by way of a deposit and mortgage loan. HOPE Fund provides the balance of the purchase price from an allocation of pooled funds raised from the wholesale market and investors.

The co-investors contribute to a pooled fund and HOPE Fund allocates invested funds to individual properties within a diversified residential portfolio in exchange for an equity stake. Returns to investors depend on capital appreciation through sales turnover. By offering equity investment, the scheme is seeking to attract superannuation funds to become a co-investor.

The liquidity of the residential property assets is an obvious issue if investors want to cash out their investment. However, as the Fund expands its investments in residential properties, a secondary market for unit trusts could emerge, enhancing liquidity by allowing investors to trade units of a trust and thereby providing a more flexible exit strategy for investors.

State Public Sector Employers should be encouraged to consider partnering with home loan providers and shared equity investors in developing alternative home ownership products.

In 2023, Police Bank was included in the Federal Government's First Home Guarantee Scheme where the Federal Government guarantees 18 per cent of the assessed property valuation on low-deposit home loans, saving the home buyer the front-end cost of mortgage insurance. The Teachers Mutual Bank (includes the Health Professionals Bank, the Firefighters Mutual Bank, UniBank and the on-line Hiver), which has 230,000 members and more than \$10 billion in assets could possibly follow the lead of Police Bank.

7.2 Land Rent Schemes

A Land Rent Scheme allows a household to build their home on vacant serviced land upon which the lessee pays a rent to the owner of the land. By eliminating the cost of purchasing the

land as well as stamp duty, lower-income households can substantially reduce their loan payments to build their dwelling.

The ACT Government provides a Land Rent program on its land lots, where the annual land rent is set at 4 per cent of the assessed Net Land Value. A rapid run-up of land prices as has occurred, can expose the household to a marked increase in rent payable. In the ACT only single dwellings can be built on land rent blocks.

Some large-scale developers are offering Land Rent and Build agreements in areas where land sales are slow.

Local Councils should consider the feasibility of offering a Land Rent option to Essential Workers and first home buyers on surplus Council land to be developed for housing.

In NSW, setting the annual rent at the equivalent rate applying to Land Tax (\$100 plus 1.6 per cent of Net Land Value under \$1,075,000) would be more appropriate. For example, the annual rent on a property with a Net Land Value of \$400,000 would be \$6,500, compared with \$16,000 based on the ACT scheme. The lessee would not be responsible for property rates and charges. The annual land rental would be indexed to either the CPI or Wage Price Index.

The land rent property agreement could be long-term and extendable. The property would be transferrable prior to the expiration of the lease.

The Land Rent Scheme should be available to low-to-moderate income earners, key workers and first home buyers.

7.3 Rent-to-Buy

Rent-to-Buy schemes (also known as Rent-to-Own) offer low and modest-income households an opportunity to lease a dwelling while saving to buy the property at an agreed fixed price built into the initial agreement. A Rent-to-Buy scheme can appeal to tenants who want to buy but have little savings for a deposit and difficulty meeting the credit assessment for a home loan.

Ownership of the property rests with the promoter and the tenant pays rent and an annual fee for the option to buy the property at the end of the lease. There are various forms of Rent-to-Buy schemes operating in Australia with different terms and conditions and fee structures.

The industry has evolved with some promoters of Rent-to-Buy schemes receiving the backing of some major banks and superannuation funds. Examples of Rent-to-Buy plans include:

- Australian Super has committed \$500 million to a Rent-to-Buy scheme with Assemble Communities developing apartments in Kensington in Melbourne.
- Sydney based, OwnHome has a Rent-to-Buy platform backed by CommBank's X15, global capital firm Square Peg and industry superannuation fund Hostplus.

The Federal Government was involved in a small pilot Build-to-Rent-to-Buy scheme in the ACT, partnering with a community housing provider to assist women at risk to become homeowners.

Rent-to-Buy schemes carry some risks for tenants if property prices fall below the agreed fixed price or the tenant is unable to obtain a home loan to proceed to purchase of the property. The title does not transfer to the tenant until the settlement of the purchase at the pre-set price.

ATTACHMENT: NSW Departments and Agencies with Housing responsibilities

Landcom

Develops land and property increasing the supply of affordable and diverse housing on surplus government land and by transacting with private landowners.

As a State-Owned Corporation Landcom is a commercial business generating a financial return for the NSW Government.

Landcom partners with a number of project builders that include accessible housing options in their packages.

Landcom has the goals of expanding to regional NSW; delivering of 1,800 new affordable homes by 2029; Build-to-Rent pilots in Regional NSW

Land and Housing Corporation (LAHC)

LAHC owns and maintains 125,000 social housing properties across NSW. Properties are leased to tenants by the Department of Communities and Justice. LAHC also leases properties direct to Community Housing Providers. The Corporation is self-funded.

LAHC partners with developers and Community Housing Providers to deliver small and large-scale developments providing affordable housing and communities.

Managing agents are helping teachers and law enforcement officers find housing in rural and remote areas.

Homes NSW

Brings together the housing and homeless services of the NSW Department of Communities and Justice with NSW Land and Housing Corporation, the NSW Aboriginal Housing Office and Key Worker housing under one agency.

Homes NSW has been “tasked with turbocharging the construction, maintenance and repair of social and affordable homes” across NSW.

Applications for teacher or police housing through Housing Services.

Department of Planning, Housing and Infrastructure

Property and Development NSW

Property and Development NSW, within the Department of Planning, Housing and Infrastructure is the central property agency for the NSW Government. It is responsible for the management and delivery of large-scale real estate projects, transactions, workplace strategy, design, and delivery, including the management of the NSW Government’s significant property portfolio.

Teacher Housing Authority

THA is part of the Department of Planning, Housing and Infrastructure

The principal object of the Authority is to provide and maintain adequate housing accommodation for teachers.

Increase the availability of new supply through renewal and development.

Provide guidance for THA in the design of acquisition programs.

Construction and project delivery are outsourced to NSW Public Works as well as project and construction organisations.

Department of Communities and Justice

Service NSW

Provides information for renters, home builders and buyers and people seeking accommodation support services.

Revenue NSW

Administers First Home Buyer assistance schemes

Department of Primary Industries and Regional Development

The Welcome Experience

Making the Move