



Prepared for:	Parliament of New South Wales Legislative Assembly on Essential Worker Housing
Purpose:	Response to Supplementary Questions from the Select Committee on Essential Worker Housing
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1. **Can you elaborate on how feasibility tests are causing developers to ‘dilute’ their affordable housing commitments as part of the transport oriented developments (TODs)? (Transcript, p 30).**

Feasibility tests play a key role in developers' decisions on the amount of affordable housing in transport-oriented developments (TODs). These tests assess financial viability and, unfortunately, often lead to a dilution of affordable housing commitments.

1. **High Land Costs:** TODs are typically located near transportation hubs, which increases land value. To maximise profits, developers often are much keener to prioritise market-rate housing or commercial space over affordable housing, as the latter offers lower returns, given the need to maintain lower rents, etc.
2. **Profit Margins and Incentives:** While NSW Government TOD program may require a certain percentage of affordable housing, developers will conduct their own feasibility tests where it will be hard to refute the numbers as they will want to show that adding too many affordable units risks profitability. Developers will argue that meeting affordable housing requirements would reduce profits and seek regulatory changes or variances to scale back affordable housing commitments.
3. **Risk Aversion and Market Conditions:** Developers will argue that given the uncertain economic times or when construction costs rise, they are more risk-averse. Affordable housing typically involves longer payback periods, leading developers to push back on the NSW TOD policy and keen to reduce the number of affordable units. Evidence of this is in the UDIA commissioned report undertaken by Astrolabe (see below) which focused on the TOD Tier 2 Program, demonstrating the costs associated with the final price of a typical apartment site meant contributing to affordable housing commitments would not be financially feasible.

N.B Feasibility tests typically focus on the short-term profitability of a project. This can therefore be at odds with the long-term social objectives of TODs, which aim to create sustainable, mixed-income communities that offer mobility and accessibility to a wide range of residents, including essential workers. Developers will downplay the long-term community goals to meet their short-term financial objectives and lobby hard to reduce their commitment to affordable housing as a result. However, despite this pressure, the NSW Government should

not back down on its TOD accelerated precinct or Tier 2 program and its commitment to affordable housing. Developers' short-term financial goals should not dictate the future of these communities. The feasibility spreadsheets they rely on, with their complex and opaque calculations (a 'dark art'), should not overshadow the broader social objectives of TODs. The Government must stand firm, ensuring that affordable housing remains a cornerstone of its development plans, prioritising long-term benefits over short-term profits.

<https://www.udiansw.com.au/groundbreaking-research-on-how-to-make-tods-work-in-nsw-launched-today/>

<https://www.udiansw.com.au/wp-content/uploads/2024/06/Making-TODs-Work-June-2024.pdf>

2. Do you anticipate that the TOD program will significantly increase the supply of affordable and essential worker housing in NSW?

The Transport-Oriented Development (TOD) program in NSW has significant potential to increase the supply of affordable housing for essential workers, though its success will depend on how effectively several key factors are addressed.

Positive Potential for TOD in NSW

- **Proximity to Transport Hubs:** TODs are located near transport corridors, making them an attractive option for essential workers who need to live close to their workplaces. This is particularly beneficial for those in sectors like healthcare, education, and retail, who often face long commutes and high housing costs.
- **Mixed-Income Communities:** TODs aim to create mixed-use, mixed-income developments, offering a variety of housing types. This approach could provide affordable options for essential workers who may not qualify for deeply subsidised public housing but also cannot afford market-rate housing.
- **Government Support and Policy:** The NSW Government has made strides in promoting affordable housing through the TOD program, with incentives and inclusionary zoning policies. These efforts can ensure affordable housing is a key component of TOD projects.
- **Land Use and Density:** TODs focus on higher-density development, which can increase the overall supply of housing in areas of high demand. By utilising underdeveloped land near transport hubs, TODs can provide additional units, some of which could be designated for affordable housing or essential workers.

Challenges to Achieving Affordable Housing for Essential Workers (see 1. Above)

- **Land Costs and Profitability Pressures:** High land costs in prime TOD locations may incentivise developers to prioritise market-rate or luxury housing over affordable options. Feasibility assessments may indicate that incorporating affordable housing would reduce profits, unless supported by substantial government incentives or subsidies.
- **Feasibility and Market Demand:** The financial feasibility of TODs depends on the market demand in each area. If demand is high, developers will want focus on luxury

units to maximise returns and push back. Strong policies are therefore needed to enforce affordable housing quotas and ensure developers meet these commitments.

- **Competition for Land:** TODs often redevelop existing urban areas, increasing competition for land. This can result in the displacement of current residents or a focus on higher-end residential developments, limiting the amount of affordable housing included.
- **Policy and Regulation Gaps:** The delivery of affordable housing within TODs will be contingent on NSW Government's robust and consistent policy enforcement. Without clear regulations, developers will exploit loopholes, reducing their affordable housing commitments.
- **Long-Term Affordability:** While TODs may increase affordable housing in the short term, to maintain affordability for essential workers in the future, these units must be retained in perpetuity and not be sold at market value after a set period, such as 15 years.
- **Locational Feasibility Variation:** There may be significant locational differences in the feasibility of providing affordable housing across TODs. In more central and eastern parts of Sydney, TODs are likely to be financially viable, making it easier to incorporate affordable housing. However, in areas like Western Sydney, developers may argue it is less feasible to provide affordable units due to higher land costs and lower returns, unless supported by additional incentives or subsidies (see UDIA report).

In summary, the TOD program has the potential to significantly address affordable housing needs for essential workers in NSW, but this will require ongoing government commitment, strong policy enforcement, and targeted support to ensure developers prioritise affordable and essential housing within TOD projects. If these measures are maintained, TODs could play a key role in providing well-located, affordable housing for those who need it most.

3. Can you provide more details on how state subsidies for shared equity/ownership schemes work in the UK model?

a. Are they primarily driven by private investment or state-run programs?

The UK's shared equity and shared ownership schemes are designed to help first-time buyers and those struggling to afford homes on the open market. These state-run initiatives are primarily government-backed but often involve private developers and financial institutions to make them more financially viable. These government-backed schemes play an essential role in helping first-time buyers and essential workers access homeownership. While the UK has made significant strides with these initiatives, there are notable regional variations in the delivery and specifics of the schemes, particularly in England and Scotland.

Shared Ownership allows buyers to purchase a share of a property (usually between 25% and 75%) and rent the remaining share, typically owned by a housing association or private developer. Over time, buyers can "staircase" to increase their ownership until they eventually own the entire property.

- **State Subsidies:** The government supports shared ownership primarily through housing associations, which receive subsidies to make homes affordable for low- and moderate-income households. The government also helps by reducing the cost of the initial purchase. Buyers only need to secure a mortgage for the percentage they own, significantly lowering deposit and mortgage requirements.

- **Private Investment:** Private developers play a role in constructing shared ownership homes. These developers sell a portion of the property to the buyer while retaining ownership of the rest. The partnership between private developers and housing associations, with government funding, makes the scheme financially accessible. Alternatively, larger UK housing associations build shared ownership properties directly, cross-subsidising these from the owner-occupied housing they develop alongside on the same scheme.

The **Help to Buy** equity loan scheme offers a government loan of up to 20% of the property's value (40% in London). This loan is interest-free for the first five years, allowing first-time buyers to reduce their borrowing from banks or mortgage lenders.

- **State Subsidies:** The government provides the equity loan, which reduces the amount buyers need to borrow. The scheme is state-run and was funded by billions of pounds in government support to make homeownership more accessible.
- **Private Investment:** Private developers play a key role in building the homes purchased through Help to Buy. Buyers also secure a mortgage from private lenders for the remaining cost of the home.

The **Help to Buy ISA** was a tax-free savings account where for every £200 saved, the government added £50, up to a maximum of £3,000. While this scheme is now closed to new applicants, those who opened an account can still use it until November 2029.

- **State Subsidies:** The government provided a bonus on the savings, making it easier for first-time buyers to accumulate a deposit for purchasing a home.

The **Lifetime ISA** provides individuals aged 18 to 39 the chance to save up to £4,000 annually with a 25% government bonus (up to £1,000 per year). The savings can be used to buy a first home or for retirement.

- **State Subsidies:** The government contributes 25% on savings up to £4,000 annually, making it easier for younger people to save for a home.

The **Mortgage Guarantee Scheme**, launched in April 2021, provides government-backed guarantees for lenders offering 95% mortgages on homes up to £600,000, allowing buyers to purchase a home with only a 5% deposit.

- **State Subsidies:** The government guarantees part of the loan, reducing the risk for lenders and enabling buyers to access 95% mortgages.

In Scotland, the **Shared Ownership** scheme is also available, albeit with different rules compared to England. Buyers can purchase between 25% and 75% of a property and pay rent on the remainder. However, eligibility criteria and funding structures may differ between the two regions.

While these schemes have helped many buyers, concerns have arisen regarding increasing service charges for some homeowners in shared ownership schemes. In some cases, charges have risen by up to 400%, leading to financial strain. This has raised questions about the long-term affordability of these schemes. It's crucial to be aware of these potential hidden costs before committing to a scheme. See articles e.g., from The Guardian and The Scottish Sun.

Useful references:

- UK Government, Affordable home ownership schemes
<https://www.gov.uk/affordable-home-ownership-schemes>
- UK Government, Help to Buy: <https://www.gov.uk/affordable-home-ownership-schemes>
- Government of the UK, Lifetime ISA: <https://www.gov.uk/lifetime-isa>
- Scottish Government, Shared Ownership: <https://www.mygov.scot/shared-ownership-homes>
- The Guardian, Recent article on shared ownership issues:
<https://www.theguardian.com> (specific article link)
- The Scottish Sun, Article on shared ownership concerns:
<https://www.thescottishsun.co.uk> (specific article link)
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<https://journals.sagepub.com/doi/abs/10.1177/0042098017700792>
- Clarke A, Heywood A and Williams P (2016) Shared Ownership: Ugly Sister or Cinderella? Council Mortgage Lenders
https://www.cchpr.landecon.cam.ac.uk/system/files/documents/DownloadTemplate_11.pdf

4. What reforms or changes would help ensure that increasing and maintaining a supply of essential worker housing would not divert resources from other vulnerable population groups?

Ensuring that the supply of essential worker housing is increased and maintained without diverting resources from other vulnerable population groups requires a balanced and targeted approach. Essential worker housing is a subset of affordable housing, designed specifically for those whose roles are critical to the community, such as healthcare workers, teachers, police officers, and other frontline workers. However, it is important that the push for essential worker housing does not come at the expense of the broader affordable housing needs, including social housing for low-income households, people with disabilities, the elderly, and those experiencing homelessness.

To achieve this balance, several key reforms are necessary:

1. Clear Policy Framework and Evidence-Based Planning

A coordinated, research-driven housing strategy is essential for ensuring that the housing needs of essential workers, as well as broader social and affordable housing needs, are met simultaneously. This framework should encapsulate the full spectrum of housing needs, ensuring that both essential worker housing and social housing for vulnerable populations are prioritised equitably. A transparent strategy, grounded in up-to-date evidence and data, will help guide the allocation of resources without negatively impacting one group over another.

2. Increased Investment in Affordable and Social Housing

Adequate and sustained investment in both affordable housing and social housing is crucial to meeting the needs of all groups. Investment must support both essential worker housing and the broader needs of vulnerable groups, such as low-income households, the elderly, and those

with disabilities. This funding should remain consistent, free from the fluctuations of political cycles, to ensure long-term stability and progress in addressing housing needs across the board.

3. Dedicated Funding for Essential Worker Housing

To prevent essential worker housing from competing with other housing needs, separate and dedicated funding streams should be established. This will ensure that resources for essential worker housing do not detract from the funding available for social housing and other vulnerable groups, thereby maintaining a fair distribution of resources.

4. Affordable Housing Mandates in TODs and other Mixed income Developments

The NSW TOD program can play a key role in ensuring that essential worker housing is developed without taking away from other affordable housing and social housing or other vulnerable groups. By establishing clear housing quotas and transparent monitoring systems, we can ensure that affordable housing within the NSW Government's TOD program and other mixed-income projects, such as those on state-owned land, benefits essential workers and vulnerable populations, while minimising competition for resources.

These reforms, grounded in evidence-based research, will create a sustainable housing strategy that meets the needs of essential workers while ensuring that other vulnerable groups, including those requiring social housing, are not overlooked or disadvantaged.

5. What financial eligibility criteria (e.g. percentage of median income) would you recommend for essential worker housing programs across the housing continuum?

For essential worker housing programs, I recommend setting financial eligibility criteria based on a percentage of the area's median income. Essential workers should be eligible for housing if their combined household income falls between 60% to 120% of the area's median income. This ensures that those who are crucial to the community's functioning but may struggle to afford market housing are prioritised, while also preventing over-subsidisation for higher-income households. The criteria should be flexible and regularly reviewed to reflect changes in local housing markets and income levels.

In cases of dual-income households, both incomes should be considered when determining eligibility. However, if one partner has a significantly higher private-sector income, the household may exceed the income threshold and be excluded from the program, ensuring that resources are directed to those with a genuine need.

In the UK, the Help to Buy scheme is one of the few housing programs specifically mentioning key workers in its eligibility criteria. It supports first-time buyers, including key workers such as healthcare staff, teachers, and police officers, who struggle to afford homes on the open market. The income limits for key workers are set at £80,000 annually (or £90,000 in London). The scheme applies to new-build properties, with price caps of £600,000 in London and £437,600 elsewhere in England. Though not exclusively for key workers, the scheme prioritises them in high-demand areas, such as London, making it a vital option for essential workers.

For further details, see the UK Government's official page on Help to Buy: UK Government. (2023). "Help to Buy: Equity Loan Scheme."

Available at: <https://www.gov.uk/affordable-home-ownership-schemes/help-to-buy-equity-loan>

Eligibility for shared ownership and other affordable housing schemes in the UK is typically based on income limits, which are set according to the affordability of housing within a specific geographic area. For instance, applicants must have a household income below £80,000 (or up to £90,000 in London) for shared ownership schemes. These thresholds ensure housing is targeted at households with a genuine need, especially those unable to afford market-value properties.

For reference on the UK's shared ownership and affordable housing eligibility, see: UK Government. (2023). "Affordable Home Ownership Schemes."

Available at: <https://www.gov.uk/affordable-home-ownership-schemes>

6. What should be the role of each for each level of government (local, state, federal) in addressing essential worker housing needs?

In addressing essential worker housing needs, each level of government plays a crucial and complementary role.

The **Federal Government** should set national policies and frameworks for affordable housing, provide financial support through funding and incentives, and establish overarching programs like national affordable housing targets. It should also offer financial incentives to developers to encourage the construction of essential worker housing, ensuring that such initiatives align with broader housing goals. Programs like the National Housing Accord should provide a collaborative platform to align federal, state, and local governments' efforts to increase affordable housing supply, including for essential workers. This would ensure cohesive and coordinated efforts across all levels of government.

The **State Government (NSW)** should take the lead in designing and implementing housing policies tailored to the specific needs of essential workers. This includes allocating funding, managing programs, and integrating housing strategies into state-wide urban development initiatives. NSW has key responsibilities in zoning, land-use planning, and ensuring that essential worker housing is incorporated into long-term housing strategies. Specific policies such as Housing SEPP can be critical in securing affordable housing contributions from developers. The state government should work closely with the federal government to administer national programs and introduce specific state-level initiatives that address local needs, ensuring that the inclusion of affordable housing is a core aspect of urban development planning.

The **Local Government** should focus on zoning, development approvals, and community engagement. Local councils are responsible for ensuring that essential worker housing is integrated within local communities, meeting both housing targets and community needs. They should conduct housing needs assessments to determine the specific level of need for essential worker housing in their areas. Local councils must ensure that developments comply with the specific Community Strategic Planning Statements, which should incorporate affordable housing provisions. The Local Environmental Plans (LEPs) and Development Control Plans (DCPs) should be used to define and guide affordable housing requirements in development projects. Additionally, Voluntary Planning Agreements (VPAs) can be used to secure

affordable housing contributions from developers. Local governments should work closely with the state and federal governments to implement policies and ensure that housing developments align with local planning priorities, ensuring that affordable housing is delivered in line with community needs and broader housing goals.

N.B In the UK, securing affordable housing is made mandatory through Section 106 Agreements, which legally require developers to include affordable housing as part of their developments. NSW Government should consider similar mechanisms to ensure the inclusion of affordable housing in all relevant projects.

See UK Government. (n.d.). *Section 106 affordable housing requirements: review and appeal*. Retrieved from <https://www.gov.uk/government/publications/section-106-affordable-housing-requirements-review-and-appeal>

Morrison, N., Burgess, G. Inclusionary housing policy in England: the impact of the downturn on the delivery of affordable housing through Section 106. *J Hous and the Built Environ* **29**, 423–438 (2014). <https://doi.org/10.1007/s10901-013-9360-7>

a. What are the risks and/or benefits of establishing a centralised advisory board or authority to coordinate the provision of essential worker housing?

A centralised advisory board or authority to coordinate the provision of essential worker housing could offer both benefits and risks. One of the main benefits would be creating a unified strategy for addressing the diverse needs of essential workers, including healthcare professionals, teachers, police officers, and other public sector employees. Such a body could streamline decision-making and help allocate resources efficiently across various sectors.

A centralised advisory board would have a more comprehensive scope compared, for example, to the Teacher Housing Authority of NSW, which is specifically focused on the housing needs of teachers. A broader board would not only address teachers' housing needs but also incorporate other essential worker groups, which would allow for more coordinated policy across the board. For example, healthcare professionals, police officers, and other emergency workers often have overlapping needs for affordable, accessible housing, especially in high-demand urban areas. Having a central authority for all these sectors could lead to a more holistic approach to housing policy, ensuring that resources are shared fairly and that no group is overlooked.

The composition of the advisory board is also critical to its effectiveness. It should include independent experts such as academics, urban planners, housing policy specialists, and economists. These experts would bring valuable research insights and objective perspectives, ensuring that decisions are based on evidence and not solely influenced by political considerations. Additionally, representatives from local and state governments, housing developers, and community organisations should be included to ensure that the strategies developed by the board are practical and align with the needs of various communities and stakeholders.

Moreover, such a body could help ensure that the essential worker housing programs are sustainable and adaptable to changing circumstances. For instance, independent experts could provide valuable data analysis and research-driven guidance on where to build new housing or

how to allocate resources effectively. In turn, the board would be able to identify trends in housing demand across different sectors and make recommendations that best serve all stakeholders involved.

While the establishment of a centralised board could improve coordination, there are also potential risks. These could include bureaucratic delays, the challenge of balancing the needs of various worker groups, establishing eligibility criteria and waiting lists for essential workers, and the risk that a central authority might not fully address local nuances or community-specific needs. A careful structure, along with clear communication channels between local, state, and federal agencies, would be essential to mitigate these risks and ensure that the allocation process is fair, transparent, and responsive to the needs of both essential workers and local communities.

In summary, a centralised advisory board for essential worker housing would have the potential to create a more coordinated and comprehensive approach to addressing housing needs for these workers. By including a range of independent experts and stakeholders from various sectors, the board could ensure that housing policies are both evidence-based and inclusive of all essential worker groups.

In exploring the potential benefits and risks of a centralised advisory board for essential worker housing, we can also look to international examples, such as the UK's efforts to provide affordable housing for key workers. One of the most significant programs in the UK, the Key Worker Living Program, highlights how housing initiatives for essential workers can be coordinated at a national level, offering useful insights into the approach and challenges of managing such programs. This initiative, which was introduced in 2004, aimed to provide affordable housing options to public sector employees, such as healthcare workers, teachers, police officers, and social workers, who were unable to afford housing close to their workplaces. The program was designed to ease the pressure on key workers, helping them secure accommodation near their places of employment and thereby improving service delivery across critical sectors. The Key Worker Living Program offered various housing support mechanisms, including grants and subsidies, to help key workers purchase or rent homes in areas where housing costs were typically high. To manage these provisions, zone agents were appointed to oversee different regions. These agents played a vital role in managing the waiting lists, assessing eligibility, and ensuring that housing allocations aligned with local demand.

However, the programme was officially closed in 2011, and since then, alternative schemes and policies have been introduced to support key workers, such as the First Homes scheme, which aims to help first-time buyers—including key workers—access affordable housing.

In 2021, the UK government launched the First Homes scheme, which targets key workers and local residents, offering discounted homes to help them enter the property market. This new initiative is intended to replace older programs like the Key Worker Living Program and offers long-term benefits, such as discounted homes for first-time buyers, including essential workers. Although the Key Worker Living Program was phased out, its legacy continues to influence current policy, and its core idea remains embedded in the government's approach to supporting essential workers in securing affordable housing.

References:

- UK Government. (2021). *Discounted homes for key workers and local residents as flagship First Homes scheme launches*. Retrieved from <https://www.gov.uk/government/news/discounted-homes-for-key-workers-and-local-residents-as-flagship-first-homes-scheme-launches>
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- **Morrison** N (2003) 'Assessing the need for key worker housing: a case study of Cambridge' *Town Planning Review* 74 (3) 281-300