

Please see below for my responses to the supplementary questions from members of the Legislative Assembly Select Committee on Essential Worker Housing.

**1. During the hearing, you used the term "missing middle" to refer to a cohort of essential workers who are unable to access affordable or social housing, or the private market due to their income levels (Transcript, p 53)**

**a. How would you define the "missing middle" in the context of essential worker housing in NSW? In particular, what specific income thresholds or characteristic features do you consider as part of this definition?**

I would define the 'missing middle' in the context of essential worker housing as those who—on a full-time salary in an 'essential worker' profession—do not earn a sufficient amount to purchase a home or secure a rental but earn too little to have a realistic prospect of accessing social housing.

I would concede that given the increasing prominence of double-income households in Australia, that this might be loosened so as to extend only to those who are unable to purchase a detached home with two 'essential worker' incomes.

On the definition of 'essential worker', we intentionally do not attempt to pose an exhausting definition. We would defer to the definition offered in UnionsNSW's submission.

I think it is difficult to assign any income threshold to this characterisation, given it is primarily a function of housing costs which have consistently outstripped earnings growth in NSW for the better part of 25 years. It is also highly dependent on geography and community need.

I also appreciate that this poses a very broad understanding of the 'missing middle', and that it would now place almost all NSW public sector workers within the ambit of the definition. I do think however, that this underscores the gravity of the crisis. That said, given the resources available to the NSW Government, I also appreciate that this poses difficult allocative questions.

**b. What are the risks and benefits of creating policy that specifically targets this cohort of essential workers, especially as it relates to the existing affordable housing products?**

The risks of specifically targeting this cohort are next to nil. I fail to see how housing policies targeting those who cannot afford housing can be framed as a 'risk'.

However, as I mention above, I do appreciate that a broad characterisation of 'essential worker' and 'missing middle' creates potential issues in relation to allocation of housing, and perceptions or assistance. These risks are largely attributable to the fact that the NSW Government simply does not likely have the fiscal capacity to house this entire cohort of legitimate need immediately.

An allocative risk may therefore be that the prioritisation of certain cohorts over others creates strong distortions in the labour market. One can imagine, for example, the NSW Government rolling out a specific highly targeted and effective housing concession for nurses. While obviously laudable, this would significantly increase the 'real' remuneration of nurses, and potentially distort labour market decision of individuals and outcomes in aggregate. It may also

act as a disincentive for individuals to change professions. Nonetheless, the alternative would effectively be a 'lottery' style assistance system which, in our belief, is unprincipled and unfair.

Another risk may be one of perception. While the McKell Institute does not offer a definition of 'essential worker' in our submission, we do acknowledge that the definition must be circumscribed *somewhere*. The contours of the definition will, naturally, feel quite arbitrary. It is foreseeable that providing housing concessions for workers at the margin of the 'essential worker' definition may create a perception of unfairness for workers who are not within that definition, especially if they earn a comparable salary and are unable to afford housing.

The benefits go without saying and are largely canvassed in our submission. They extend to both individual households, as well as to the communities which are served by essential workers.

**2. Do you anticipate that the transport oriented development (TOD) program will significantly increase the supply of affordable and essential worker housing in NSW?**

I think this question can be decomposed into two separate sub-questions: whether the TOD program will significantly increase supply generally, and whether it will significantly increase supply for essential worker housing.

*First*, I do believe that, if done well, the NSW Government's TOD program will significantly increase the supply of housing in NSW *generally*.

*Secondly*, I cannot be certain that increasing the supply of market TOD housing will significantly increase the supply of housing for *essential workers* in NSW without some more nudging from government on the demand-side or more aggressive essential worker-specific planning reform.

For example, the NSW Productivity Commission has estimated that the typical cost of building an apartment in NSW is approximately \$900,000. This challenges the narrative that supply-side planning policies alone can make housing affordable for essential workers in NSW when developers are seeking to break even.

As AHURI noted back in 2017, cost of development is a serious impediment to construction of affordable housing: 'The numbers indicate that there is a supply side problem for low-income households in that the private housing market is simply unable to deliver housing that is affordable to those on lower (and, increasingly, moderate) incomes because there is a *minimum cost of delivering housing* that meets community standards.'

As the cost of delivering housing continues to rise to levels which prospective owners and renters cannot afford, then it is hard to see how increases to supply under the TOD will assist essential workers at least in the short run.

**3. Based on your experience, how effective have past and current NSW housing policies been in alleviating housing shortages for essential workers?**

In aggregate, NSW housing policies have let down essential workers. As I noted in my opening remarks, 25 years ago most essential workers could afford shelter, and today they cannot. It is hard to see this outcome as anything but a most colossal failure in alleviating housing shortages for essential workers.

**a. Can you provide any specific examples?**

The broad-based failures of NSW housing policy which have contributed to this shortage are numerous, and do not need relitigating. They include, for example, sclerotic planning reform and inordinate reliance on demand-side assistance policies.

That said, some specific policies rolled out in recent years have contributed to heightened affordability for essential workers. The Shared Equity Home Buyer Helper has effectively assisted some of the most vulnerable essential workers in accessing housing, but it is evidently not scalable. The NSW Government's 2024 generational investment in social housing is also laudable, but its effectiveness will depend on the housing uplift which is yet to eventuate and the extent to which it can be accessed by essential workers.

**4. Your submission recommends community land trusts as one potential pathway to affordable homeownership for essential workers. (Submission 102, p 15)**

**a. What lessons could be learned from similar programs in other jurisdictions, and how might these be adapted for the NSW context?**

Our submission canvasses the experience of the ACT's Land Rent scheme, as well as some overseas research on the efficacy of other community land trusts (CLTs). In our view, several lessons fall out of the analysis for NSW.

*First*, there is a tension between the effectiveness of CLTs and providing pathways to ownership for essential workers. The premise of CLTs is that the subsidised housing is *conditional* on continued work in the relevant sector/geographical area. Given the dependency of Australia's retirement system on home ownership as well as its cultural significance, this may be difficult to adapt to the Australian context. It may require focussing more on ownership of the *dwelling* rather than the *land*, but this similarly presents risks in pricing the dwelling and ensuring the continued benefit of the discounted land for future essential workers.

*Secondly*, CLTs are no silver bullet and are not a substitute for structural reform in the housing market. For example, the American research cited in our submission was concerned with CLTs as a bulwark against short-term booms in dwelling prices, rather than long-term unsustainable growth. To that end, the best essential worker housing policy remains moderating price growth and increasing real wages over the long term.

*Third*, the land in CLTs must come from somewhere. For it to make fiscal sense, it would be best that the NSW Government use its own vacant land, rather than acquiring an expensive site. This, however, may not be compatible with where essential workers need to live to most effectively contribute to their communities. In other words, given the locations of vacant land in NSW and the price differentials across the state, there is an inherent tension between locating CLTs where they are most needed, and locating them where they are most fiscally viable.

**5. What impact do you expect the new federal "Help to Buy" shared equity scheme will have on helping essential workers in NSW buy a home?**

I anticipate that the new Federal Help to Buy scheme will significantly assist a relatively small number of essential workers in buying a home in NSW. As I note above, this is a targeted rather than blanket demand-side policy, which will do little to fix the structural issues in NSW's housing market.

**a. What are the risks of using shared equity schemes as a pathway to affordable homeownership for essential workers, and how might these risks be addressed?**

There are several risks to using shared equity schemes as a pathway to affordable homeownership for essential workers.

*First*, shared equity schemes are demand side measures. Consequently, they do nothing to contribute to the long-term broad-based solutions to NSW's housing challenges, which will only come from increased supply, moderated price growth, and higher real wages.

*Secondly*, such programs are not sufficient to meet the scale of the challenge for all essential workers in NSW. This means the NSW Government will, effectively, have to pick winners. Shared equity schemes make the picking of winners in this context more fraught because of the significant depth of assistance provided to the program's beneficiaries.

*Third*, it is clear that NSW dwelling prices have reached entirely unsustainable levels. The nature of Australia's housing and retirement systems, in addition to the fact that the NSW Government retains a stake in the house, creates perverse incentives for individuals and government. Especially if the program is rolled out widely, there is an incentive for the NSW Government to keep property prices high or otherwise suffer the fiscal consequences of seeing their stake in the property devalue if prices fall.

**b. Are there any changes to planning or policy that would help promote the development of shared equity schemes in NSW?**

I am unaware of any planning reforms which will help promote the development of shared equity schemes in NSW.

On the policy side, as I noted in my opening remarks, I think the NSW Government should resolutely avoid the toxic combination of private investor funds with shared equity schemes. Such a combination is structurally dependent on continued runaway house price growth, which will serve only to disadvantage more essential workers down the track. It is crucial to remember that the Committee's work is concerned with the plight of essential workers today but also the housing prospects of future essential workers.