# Options to improve key worker access to home ownership

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# Summary

This report is the second of two reports on housing affordability for key workers in the Greater Metropolitan Region of Sydney, prepared by researchers at the University of Sydney for the Teachers Mutual Bank, Firefighters Mutual Bank, Police Bank and My Credit Union. The first report highlighted declining home purchase affordability for Sydney's key workers who have been priced out of inner, middle, and many outer areas of the metropolitan region. As a consequence, many teachers, police, emergency workers, and nurses are commuting long distances to get to work, or are living in unaffordable rental accommodation.

There are currently no provisions in NSW to support the production of affordable home purchase products through the planning system. Under NSW planning policy, affordable housing is defined as housing for rent only. This is in contrast to many cities and regions internationally. Moreover, current policies to encourage increased housing supply, high density development around transit and service centres, and grants and stamp duty concessions for first home buyers have not helped to make Sydney's housing more accessible to moderate income earners.

In this context, this report identifies opportunities to help restore housing options for key workers in Sydney through a series of potential market innovations and policy interventions. The focus is on home purchase opportunities. Like many Australians, home ownership has been a traditional aspiration for professionals working in key worker occupations. Historically, that aspiration has generally been achieved. Although on moderate wages, key workers have been able to service mortgages as owner occupiers (supported by stable employment conditions and steady incomes). However, very high house prices and large deposit requirements present new barriers, particularly for younger key workers.

In this report, five primary strategies for addressing the barriers to home ownership faced by Sydney's key workers are identified. These include:

- **Reducing the deposit gap faced by key workers** in seeking to enter home ownership. This may be achieved through a shared equity scheme where eligible households can purchase up to 75 per cent of the value of a property (reducing the overall mortgage size), and allowing for lower deposit requirements (for example, of 5 to 10 per cent).

- **Securing alternative development and financing models for keyworker housing developments**, to boost affordable purchase opportunities. This could be achieved by fostering 'deliberative development' models for key worker housing, under which purchase prices may be 10-12 per cent lower than for units delivered through the conventional multi-unit development model (McLeod 2016).

- **Establishing alternative tenure arrangements to enable affordable home ownership** for key worker households. Under the ACT Government's Land Rent scheme, for example, eligible households purchase a dwelling (with a conventional mortgage), but are able to rent the land at a marginal rate (2 per cent of unimproved capital value). This approach could be implemented in NSW through a community land trust model, potentially resulting in a capital cost savings of 25 per cent or more per dwelling.

- **Reducing development and or construction costs for affordable keyworker homes**, and passing savings on to purchasers or affordable housing providers. Cost reductions of 25 to 35 per cent, accrued through cost-savings designs, construction material and processes would equate to a savings of $75,000 to $100,000 for two to three bedroom units or townhouses.

- **Reducing land costs for affordable housing development** targeting key worker households through inclusionary planning requirements. If 20 per cent of new dwellings in all major new housing developments were required to be affordable home purchase products for moderate income earners including key workers, this could yield around 6,000-7,000 'startup' homes per year in Sydney.

These strategies and more detailed delivery options presented in the body of this report, are not exhaustive. Rather, the report aims to stimulate discussion about the range of potential opportunities to significantly improve housing affordability for key workers and moderate income earners in Sydney, particularly home ownership opportunities. The stable employment conditions and moderate incomes earned by key workers

mean that a number of strategies for improving access to home ownership **could be achieved with only small modifications to existing policy settings, and without the need for additional government subsidy**.

What is needed is a commitment to recognise the housing needs of Sydney's key workers, and to ensure that these are addressed when planning and delivering new homes and neighbourhoods.

# 1. Introduction

Key workers – such as teachers, nurses, ambulance officers, fire/emergency workers, and police – perform essential services for Australia's urban and regional populations. Across the Greater Metropolitan Region (GMR), 156,000 workers are employed in these occupations, equating to six per cent of the region's workforce (ABS 2017). However, high house prices and rents are placing intense pressure on essential workers in major cities such as Sydney. Younger key workers, in particular, are facing new barriers to home ownership which were not experienced by previous generations.

This is contributing to a growing spatial mismatch between where key workers live and work. Although key worker jobs are situated throughout the metropolitan area, and particularly in inner Sydney, the majority of the metropolitan region's key workers now reside in outer ring suburbs. Yet **unlike other world cities – such as London, New York, or San Francisco – Sydney lacks a coherent policy framework to address key worker housing needs.**

This report is the second of two reports for Teachers Mutual Bank[1], Firefighters Mutual Bank, Police Bank and My Credit Union on the issue of key worker housing affordability in Sydney. The **first report** examined housing affordability trends in the GMR (encapsulating the metropolitan region as well as the Illawarra, Newcastle and the Hunter), and the barriers to home ownership faced by younger generations of key workers.

In **this report** we outline a series of potential strategies for restoring home ownership options for key workers and moderate income households more broadly. These strategies and a set of more detailed delivery options are not meant to be exhaustive but rather are intended to stimulate wider discussion about the potential for modest market innovations and policy interventions to significantly improve housing outcomes for key workers in Sydney.

## Understanding key worker housing affordability

Key workers (often referred to as essential workers) are people whose occupations are considered essential to the functioning of cities.[2] However, key workers typically earn moderate rather than high incomes. Their incomes are set by public sector or industry award scales and range from an annual income of around $57,000 for an enrolled nurse to $98,413 for a senior constable in the police force.

These income levels are the primary determinant of housing affordability for key workers. In Table 1, these incomes are used as a basis for understanding housing affordability thresholds, using standard mortgage lending criteria and assuming that the household is able to accumulate a 20 per cent deposit. As shown in Table 1, key worker income scales translate to an affordable home purchase threshold of up to $641,750, with the average being $492,940[3] (Table 1). This compares to median sale prices (March Quarter 2017) of $1,110,000 for inner Sydney and $810,000 for Greater Sydney (NSW Government 2017).

[1] For over fifty years Teachers Mutual Bank has provided key financial services to Australian educators. Now, Teachers Mutual Bank Limited is one of Australia's largest mutual banks, comprising three brands: the original Teachers Mutual Bank, UniBank, and Firefighters Mutual Bank.

[2] Many occupations are important for a city's function and economic performance, but definitions of key worker occupations usually encompass education, health and emergency and policing services.

[3] Stamp duty tax relief for first home buyers of properties valued at up to $650,000 for the full concession, and $800,000 for a partial concession, may extend this affordability threshold.

**Table 1: Annual income and affordability threshold for key workers**

| | Annual income ($) | Affordable home purchase Price, single income key worker household ($) | Affordable home purchase price, dual income household with one key worker (no dependents) ($) | Affordable home purchase price, dual income household with one key worker (two dependents) ($) | Affordable weekly rent (i.e. 30 per cent weekly income) single income key worker household ($ per week) | Median rent for a 2 bed (Greater Sydney) (June Q. 2017) ($ per week) |
|---|---|---|---|---|---|---|
| Teacher (mid level graduate) | 86,570 | 554,560 | 884,380 | 712,500 | 499 | 540 |
| Senior Fire Fighter | 83,654 | 531,570 | 861,390 | 689,500 | 483 | 540 |
| Constable (Level 5) | 73,651 | 452,710 | 782,530 | 610,660 | 425 | 540 |
| Senior Constable (Level 6) | 98,413 | 641,750 | 971,570 | 799,690 | 568 | 540 |
| Enrolled Nurse (Year 5) | 57,013 | 321,550 | 651,370 | 479,490 | 329 | 540 |
| Registered Nurse (Year 5) | 72,764 | 445,720 | 775,540 | 603,670 | 420 | 540 |
| Ambulance - Paramedic Specialist | 79,997 | 502,750 | 832,560 | 660,690 | 462 | 540 |
| **Key workers (median)** | **78,866** | **492,940** | **822,760** | **650,890** | **455** | 540 |

Source: authors; median house price and rent data derived from NSW Government 2017

Since housing affordability depends largely on household income and circumstances, it is also relevant to consider the circumstances of dual income households where the primary income earner is a key worker, as well as households with dependent children. The hypothetical home purchase threshold for dual income households (where the secondary income earner receives around $50,000 per annum) rises to a median of around $822,760 (Table 1). However, this falls back to $650,890 if the couple has two dependents.

The median affordable weekly rent across all key worker groups is currently $455, but is as low as $329 per week (for an enrolled nurse). This compares to a median rent (June Quarter 2017) of $500 (one bedroom property) and $540 (two bedroom property) for Greater Sydney (NSW Government 2017). As discussed below, high rents not only affect a households' ability to find appropriate accommodation, but also the household's capacity to save for a deposit and eventually enter home ownership.

# Key worker barriers to first home ownership

Key workers and other moderate income earners face three primary barriers to first home ownership.

## The lack of affordable and appropriate homes for purchase in locations near key worker employment

Very few areas of the Greater Metropolitan Region have median sales prices which are affordable for key worker households (i.e. have median sale prices that are below the price thresholds shown in Table 1). Affordability is particularly limited for single income key worker households who are confined to the outer metropolitan fringe. For example, at the end of 2016, an enrolled nurse on a single income was unable to affordable a median priced home in any inner, middle or outer ring suburb. Affordability is somewhat greater for dual income key worker households, but is still poor for lower paid key workers and those with dependent children. A couple including a registered nurse and a second income earner earning 50,000 per annum with two dependents would only be able to afford a median priced home in three suburbs within the metropolitan region (all outer ring). The number of affordable areas also declined significantly between 2006 and 2016 (Report 1).

Recent increases in new housing production, including the trend towards higher density housing development near transport, has not resulted in more affordable home purchase options. A recent study published by the Australian Housing and Urban Research Institute (AHURI) found that most increases in housing supply have been within mid-to-high price segments of the market which are not affordable to moderate income earners. Nor is the new supply appearing to generate a "trickle down" effect where new dwelling stock encourages "upgraders" to release existing homes (Ong, Dalton et al. 2017). The researchers concluded that targeted government interventions may be needed to increase the supply of affordable homes in the major employment centres.

## The 'deposit gap'

The 'deposit gap' represents a significant barrier to first home ownership. Our analysis (Report 1) found that in 2016, single income key worker households would need to save for a minimum of 6.3 years to accumulate a deposit for a median priced home in the outer metropolitan region, and more than double that (over 13 years) to purchase a median priced home in Sydney's inner ring. For couple households, the deposit gap is around 5 years for the outer ring and between 6-8 years for middle and inner Sydney. The deposit gap has grown markedly between 2006 and 2016.

Consequently, housing market innovations or policy interventions which help to address the deposit gap, could support key workers to enter home ownership.

## The shortage of affordable rental homes near key worker employment, undermines the capacity for key workers to save for a deposit

Large differences have emerged in recent years between renters and those able to achieve owner-occupation. If these two tenure options are conceived as steps on a housing ladder, **the gap between the steps on that ladder have become a chasm.** For many renters on moderate incomes, the step into ownership has been **an impossible step to take**, particularly as paying high rents undermines the capacity for key workers to save for a deposit, and places wider pressure on the household. Our first report highlighted that rental affordability is particularly problematic for single income key worker households. It also found that key worker households with dependent children who therefore require a larger dwelling, also experience affordability constraints in the rental market.

Even when key workers are paying less than 30 per cent of their income in rent (the affordability threshold), the private rental sector offers limited tenure security. Frequent moves and or rental increases make it difficult to establish a long term savings strategy.

# Our approach to this report

In the following section of this report, we identify five primary strategies to improve key worker access to home ownership, along with operational mechanisms and supportive policies. In relation to each strategy we explore potential implementation mechanisms further by describing indicative options around affordable home ownership, design and construction innovation, as well as alternative tenure arrangements for key worker housing.

Our approach to identifying these options for key worker housing draws on and extends research that we have conducted in recent years on housing markets, affordability, urban planning, and residential development more widely (Gurran, Milligan et al. 2008, Rowley and Phibbs 2012, van den Nouwelant, Davison et al. 2014, Gurran and Bramley 2017).

We also learn from international policy and practice emerging in countries and cities which have sought to stimulate more affordable housing production or to offer pathways into home ownership for moderate and lower income earners. These examples can provide useful guidance in developing options for Sydney's key workers, but must be adapted to fit Australia's policy environment and specific housing development contexts in Sydney.

In this context, the following criteria guided our selection of key worker housing options.

- Options should address a key barrier to key worker home ownership, or overcome a system bottleneck in delivering affordable and alternative tenure products;
- Options should specifically target key worker groups, recognising that early and mid career key workers traditionally aspire to owner occupation, and often need homes which are suitable for dependent children;
- Options should enable market actors in the housing development or financial sector to create specific products or niche opportunities for key worker groups;
- Options may be informed by successful models used elsewhere in Australia or internationally, but must be transferrable to Sydney's specific housing market context and policy settings; and,
- Options should be consistent with current policy frameworks or require only minor adjustments.

# 2. Strategies for key worker housing affordability

## Policy context

Declining housing affordability is an issue which has concerned Australian governments for several decades, with house price inflation particularly acute in the major capital cities (Productivity Commission 2004, NHSC 2014, Parliament of Australia 2015). Overall, Australia's housing system is oriented towards home ownership as a basis for economic security, particularly in retirement, with the private rental sector viewed as a transitional tenure (Yates 2010). However, **policies** to assist moderate income earning first home buyers to enter the market, such as **grants** and **stamp duty** discounts, **have been unable to address falling rates of ownership in recent years.**

In this context, there is growing interest in how the planning system could be used to help deliver more affordable homes for low and moderate income earners, including key workers across a continuum of housing needs and options (Greater Sydney Commission 2017).

To date, however, the emphasis of this work has been on affordable rental housing, rather than home ownership options. In this sense, Sydney is out of step with other cities internationally which have sought to enable pathways to home ownership for key worker households, as illustrated below. Similar approaches might be incorporated within existing and potential initiatives in NSW to secure affordable housing opportunities through the planning process, while more innovative finance, and development and construction models could also help to support the delivery of key worker housing.

## Strategies and implementation options

To improve key worker housing options in Sydney, it is necessary to address barriers to home ownership, while also increasing the supply of new homes affordable to key worker households. In the sections below we identify five primary strategies for overcoming barriers to home ownership and for increasing affordable housing supply. We operationalise these strategies with a set of delivery options.

These delivery options include a shared equity scheme; collaborative finance and development models; a key worker community land trust; cost saving design and construction packages; and a first home ownership product targeting key workers, secured through the planning and development process.

The focus is on delivery options that are potentially feasible in NSW and require only minor policy reforms to enable their implementation. In describing each option we outline potential affordability outcomes, the key actors involved, as well as market innovations or supporting policies required for implementation.

### 1. Reducing the deposit gap faced by key workers seeking to enter home ownership

This strategy aims to make home ownership more accessible to key worker first home buyers, without exposing them to the risk arising from a low or no deposit home loan. The deposit gap may be reduced by a specialist loan product, designed specifically for the key worker cohort. In some parts of Australia, such as the ACT, South Australia, and Western Australia, government home loan schemes already assist eligible households to enter home ownership in this way.

**Shared equity models**, whereby an eligible home buyer (low or moderate income) shares the cost of purchasing a home with an equity partner, can also provide a way of overcoming the "deposit gap" for first home buying key workers. In schemes that operate in Australia and internationally, the equity partner is a non profit affordable housing company or other benevolent entity. The home buyer typically purchases up to 70 per cent of the value of the property, which they finance through a conventional loan, or in some cases, through a special loan product. Because the equity partner provides the remainder of the capital cost of the dwelling, the deposit and the scale of the mortgage are smaller than for an outright purchase. Home buyers typically have the option to purchase more equity over time. Importantly, any equity share not owned by the home buyer is repaid when the home is sold, and capital gains are also shared between the home buyer and the equity partner. The repaid equity contributes to a revolving fund which continues the scheme over time (for further details see Pinnegar et al 2009).

When supported by an inclusionary planning scheme which produces a pipeline of suitable affordable homes for purchase, the equity share approach can extend home ownership to key worker and moderate income earners with little or no financial subsidy.

**Table 2: Shared equity principle - example**

| **Factor** | **'Normal'** | **Shared equity** |
|---|---|---|
| House price | 600,000 | 600,000 |
| Deposit required | 120,000 (20%) | 24,000 (2%) |
| Loan to be funded | 480,000 | 576,000 |
| Mortgage #1<br><br>Mortgage #2 shared equity provider | 480,000<br><br>n/a | 403,000 (70% market value)<br><br>173,000 (30% of market value) |
| Affordability lever: | n/a | $96,000 less deposit |
| Affordability lever: | n/a | $77,000 lower mortgage |

Source: authors

## Examples

Shared equity models have long been used in the United Kingdom to help low and moderate income earners enter home ownership. According to the UK Council of Mortgage Lenders, there are around 200,000 shared ownership homes in the UK, with the highest concentration of shared ownership sales in London. The majority (75 per cent) of shared ownership purchasers rely on mortgage finance. In London, the UK's most expensive housing market, first home buyers of shared ownership products have an average income of £45,000 (about AUD 75,500) (Clarke, Heywood et al. 2016). In recent years, the UK government has sought to expand shared ownership by relaxing some of the restrictions on eligibility, including the household income limit, which is now £90,000 in London (UK Government 2017). In London, shared ownership is in an important component of the Mayor of London's 'intermediate' housing programme: First Steps to home ownership. Under the programme's shared ownership component, eligible households can purchase a minimum of 25 per cent of a property (and up to 75 per cent) and pay a rent of 3 per cent on the remaining share (Mayor of London 2017). Over time the household can purchase the remaining equity in the property from the affordable housing provider partner (who owns the balance), or repay it when the house is sold. Interested households can search for shared ownership properties, mortgage lenders for shared ownership purchases and solicitors specialising in shared ownership via the 'Share to Buy' property portal (https://www.sharetobuy.com).

**Figure 1: London Borough of Southwark where shared equity homes are being offered as part of new developments**


Source: Nicole Gurran

Shared equity models have also been an important component of the Western Australian government's affordable housing strategy and a mechanism for boosting the supply of new homes targeting moderate income first home buyers (Rowley, James et al 2017). Under this scheme, eligible households can purchase new or off the plan properties built by the Western Australian Housing Authority. Up to 30 per cent of the value of the home can be 'shared', enabling the households to **enter home ownership with a very low deposit ($2,000 or 2 per cent of the purchase price - whichever is higher**). Stamp duties and fees still apply, but first home buyers are eligible for stamp duty assistance and a first home buyer's grant towards the deposit. Households secure mortgage finance through the State Government lending agency, Keystart, through a 'SharedStart' loan product that does not require lenders mortgage assistance (Government of Western Australia Housing Authority 2016). In 2016-17, 253 'SharedStart' loans were granted, valued at $59 million (Government of Western Australia Housing Authority 2017). The scheme has had low numbers of defaults as eligible households have been vetted prior being accepted under the program.

**NSW option: shared equity superannuation fund scheme**

In this housing option, a different financing mechanism is used to reduce the deposit gap facing key worker first home buyers. This involves a second mortgage provided by a superannuation fund, potentially to its members. This mortgage – for instance, set at 25 per cent of the purchase value – is a capital mortgage with a low rate of interest. In return for the mortgage, the key worker assigns a share of their equity to the superannuation fund. In addition to the second mortgage, there is a first mortgage which is a traditional Principal and Interest Mortgage with a lower deposit (5 to 10 per cent). While lower deposit requirements might be considered risky for some low and moderate income groups, the risk is considered to be less for key workers owing to their comparatively stable employment and predictable incomes.

If the purchase price of the dwelling is $445,000 (with a $45,000 deposit), a typical outcome might be $100,000 in the second mortgage (with an interest payment of say 1 per cent) and a traditional Principal and Interest Mortgage from a bank for the remaining $300,000. If the key worker sells the property for $534,000 (a 20 per cent capital gain), the second mortgage holder would need to receive $120,000 to release the mortgage (100k plus 20 per cent capital gain). The scheme would include provision for the key worker to buy out the second mortgage after a defined period of time, such as five years.

**Table 3: Shared equity superannuation fund scheme - example**

| Factor | 'Normal' | Shared equity superfund |
|---|---|---|
| House price | 445,000 | 445,000 |
| Deposit | 90,000 | 45,000 |
| 1st Mortgage<br><br>2nd mortgage | 355,000 (at P&I rate)<br><br>n/a | 300,000 ( P&I rate)<br><br>100,000 (capital at nominal 1%) |
| Affordability lever: | n/a | $45,000 less deposit |
| Affordability lever: | n/a | $100,000 of mortgage at 1% |

Source: authors

*Affordability outcomes*

This is a model which could extend home ownership accessibility to a wide range of key workers along the income spectrum illustrated in Table 1.

The measure could also be combined with other strategies such as those providing cost and design savings. However, the main affordability benefit is enabling access to a homeownership product for key workers with a lower deposit gap and a lower servicing requirement.

The potential scale will depend on the interest of superannuation funds to joint venture with banks in this product.

*Implementation*

The main stakeholders and implementation arrangements are shown below:

- The **bank** would generate a traditional housing loan to a key worker who previously would have difficulty entering the market.
- The **key worker** would be enabled to access a home mortgage product with a lower deposit and a lower ongoing servicing requirement, albeit with a reduced ability to grow wealth through their home purchase.
- The **superannuation fund** would be supporting their members and building up an affordable housing asset class which could be readily valued for unit pricing purposes using organisations like Core Logic. This would also enable their members to invest in residential real estate without needing to purchase a whole dwelling.

The bank and superannuation fund would need to co-ordinate the documentation and various rules associated with each of the two mortgages. A marketing campaign perhaps through the superannuation fund would be used to advertise the scheme to key workers.

*Market innovation / policy support*

This scheme could be initiated by a bank/ financial institution, who would approach a superannuation fund to help design and market a joint product. This is likely to be an industry superannuation fund with members who are key workers. The superannuation fund would establish an asset class, 'affordable housing', and enable members to nominate an investment in this area. It is likely that members of the superannuation fund, particularly those with an affordable housing asset allocation, could receive preference as participants in the scheme.

The creation of an affordable housing asset class will also provide an option for superannuation fund members to hold a residential real estate investment without the need to invest in a whole property or to deal with property management and tenant relations.

Strategies for reducing land, construction, and development costs for affordable housing (i.e. homes to be offered for shared equity) through local planning targets and flexible zoning / development controls, would complement this option, helping to ensure a steady stream of properties.

## 2. Securing alternative financing and development models for affordable housing development

Key workers are increasingly opting to live in proximity to employment centres and transport options. This often necessitates that key workers live in a unit or apartment. The **predominant model for multi-unit housing** development in Australia involves a residential developer who will acquire the site, manage the project design process, and obtain planning approval and project finance. Multi-unit developments delivered in this way are most commonly predesigned for anonymous occupants with little, if any, potential for variation of internal planning or exterior appearance in construction or use phases. In this approach to new housing provision, the developer carries all financial and development risk, receiving no income until the project is completed, and seeks substantial profit reward for their risk exposure (i.e. the developer's margin) (Palmer 2016).

An **alternative model** that has emerged in recent years seeks to bring people together to develop a residential project in a "deliberative" way. The group collaborates to acquire a site, appoint an architect, and manage professionals through the planning and construction process. Under this model, groups are able to save on developer premiums and customise their apartment and building in ways that may also generate savings in both capital and recurrent costs.

As an alternative to self-organisation, specialist "deliberative" development firms have emerged, such as those sponsored through the Nightingale model in Australia (Nightingale Housing 2017).

**Examples**

Internationally, "cohousing" models facilitated by not-for-profit entities offer a viable alternative to speculative development. For instance, the German "Baugruppen" "self build" development model is now responsible for a significant share of Berlin's housing output (Hamiduddin and Gallent 2015).

**Figure 2: A 'Baugruppen' development in Berlin**

Source: The urbanist.org

**NSW option: collaborative development model for key worker multi-unit housing**

This option builds on the deliberative development model, leveraging cost savings by enabling key worker groups to organise their own housing provision in a collaborative way. This is an opportunity for firms with specialist expertise to 'scale up' the boutique deliberative development models currently emerging in Australia, targeting a lower overall price point.

The model would be facilitated by specialist firms, who would assist groups of key workers to acquire a site, appoint an architect, and manage professionals through the planning and construction process. Experienced community housing developers might also play this role, diversifying their business and own procurement methods.

*Affordability outcomes*

**It is estimated that at least 10-12 per cent of the total sale 'price' of a dwelling can be saved through a deliberative development model (McLeod 2016). For an apartment usually costing around $650,000, that would represent a saving of around $78,000.**

We estimate that this approach could potentially deliver around 15-30 units per project. The moderate scale of collaborative development projects reflects the difficulties of coordinating multiple households in designing and organising their housing development.

*Implementation*

To initiate the project, the specialist firm could call for expressions of interest for key workers interested in participating in a home ownership scheme. The key workers could have input into a number of group and individual apartment design decisions (for instance, decisions which might reduce costs by limiting car parking and/or sharing laundry space). Alternatively, key workers might self organise, then appoint a firm specialising in collaborative development projects.

A financial institution might develop an innovative construction loan for these schemes.

On completion, key workers would purchase the product using a traditional mortgage or potentially a lower deposit mortgage.

*Market innovation / policy support*

There is an opportunity for specialist firms to facilitate collaborative development models for key worker households, coordinating land acquisition, design, planning approval, and the construction process. A financial institution might develop an innovative construction loan for these schemes.

State and local planning authorities could support the emergence of collaborative development models, driven by groups of home purchasers rather than a commercial developer. Support might include flexibility on planning requirements, such as car parking, particularly if the group is able to demonstrate alternative arrangements such as the implementation of a car share program.

## 3. Establishing alternative tenure arrangements to enable affordable home purchase or stable, long term rental housing for key worker households

In recent years, large gaps have emerged between renters and those able to achieve owner-occupation. For key workers on moderate incomes, high rents and high purchase prices mean that making the step into home ownership is increasingly impossible.

Other jurisdictions have introduced **new tenure forms** to make this step smaller. The best example in Australia has been the ACT Land Rent scheme, introduced by the ACT Government as part of its Affordable Housing Action Plan (Rowley, James et al. 2017). **Under this scheme, qualifying households rent land from the government at a very low rate (2 per cent of the unimproved capital value) and** pay for a builder to construct a home on the lot, which the household owns**. This substantially reduces the size of the mortgage and deposit required for a first home owner.**

An alternative but similar type of product is a Community Land Trust. Under this model, the Government actor in the ACT case is replaced by a civic organisation – a 'Community Land Trust (CLT)' – which seeks to obtain land. The land can come from a variety of sources (often charities, governments or philanthropists), but it can also be acquired specifically to establish a land trust. Members of the CLT pay builders to construct dwellings on the CLT site, and pay a ground lease to the Trust to help cover running costs.

When members want to exit the Trust, a resale price formula that is part of their agreement with the CLT determines what they receive for their dwelling. The intention of the formula is to maintain affordability for new CLT members over time, while also providing a share of the capital gains to members as they exit the scheme.

**Examples**

In the United States, the CLT model is an important form of alternative housing tenure for many moderate income earners. The primary model separates land (collectively owned by the Trust) and dwelling titles (owned by the individual).

Differences between American and Australian property law means that the American CLT model cannot be directly applied in Australia. However, in Australia it is possible to adapt the model through a form of long term lease arrangement for members of the Trust; or an adapted form of share equity ownership (Crabtree, Blunden et al. 2013). The shared equity form of community land trust is prevalent in the UK.

The Champlain Housing Trust (CHT) in the State of Vermont is the largest CLT currently operating in the United States. It formed in 2006 from the merger of two CLTs that had been operating since 1984. CHT currently has 2,200 apartments and 565 owner occupied homes in its shared equity program where homes can be purchased by eligible households for approximately 65 to 75 per cent of the full market value, and no deposit is required (Champlain Housing Trust 2017).

**Figure 3: Community Land Trust homes in Vermont, USA**

Source: Louise Crabtree

The CLT model has more recently been adapted to the UK context. London's first CLT homes, situated on the St Clement's Hospital site, which was previously owned by the Greater London Authority, have recently been allocated. The 23 homes are being sold for £130,000 (AUD 222,000) for a one bedroom, £182,000 (AUD 311,000) for a two bedroom and £235,000 for a three bedroom, which is approximately one third of the market rate. The CLT homes are part of a 250 dwelling development which includes market-rate and social housing (London Community Land Trust and East London Community Land Trust 2017).

### NSW option: key worker community land trust

This option would establish a special community land trust model for key workers. Operationally, the scheme would be a version of a shared equity program, whereby the equity share (the land) would be held and maintained by the trust.

A sponsor organisation – possibly a trade union or an affordable housing provider, might call for EOI from key workers to see if they were interested in participating in a CLT. If a sufficient number of key workers were interested, a CLT could be established and a partner with and appropriate site for the CLT sought.

Construction finance would need to be organised and a bank would need to be found that would be willing to finance developments offering long term leases for key worker dwellings. With these elements in place, construction of CLT dwellings could commence on behalf of individual key worker CLT members.

*Affordability outcomes*

The main affordability advantage of a CLT product is that the key worker does not have to pay the capital cost of land – it is provided by another party. The key worker provides an ongoing payment (much like the ACT land rent scheme) but the dwelling has a capital charge usually secured through a long term lease. In an apartment building the CLT model is likely to reduce the capital costs by 25 per cent, with a larger saving in a separate dwelling.

The potential scale is likely to be reasonably small given the difficulty of accessing large tracts of urban land, although some Australian charities and local governments have expressed interest in the concept.

*Implementation*

The two main tasks for the CLT are finding land to assist in the establishment of the CLT and being able to interest enough key workers in a new housing product that is very different from the traditional Australian home ownership product.[4]

An affordable housing provider might be interested in participating in the project, taking its finance and project fee out in the form of ownership of a number of dwellings in the CLT for affordable rental housing.

*Market innovation / policy support*

The innovation in this option is in creating a viable CLT model involving key workers. Policy support is likely to be very important in delivering this type of scheme, for instance, by providing land (perhaps obtained through an inclusionary housing program), and by assisting in the establishment of shared equity arrangements.

Given that CLT participants would be identified at the outset of the project, the normal risks to developers around sales targets do not apply to CLT schemes. As a result, this type of building project would be well suited to development in the downturn of the building cycle (i.e. when the housing market is slower and there is less demand for private housebuilding). This would help to keep the building and construction sector operating when private market development is subdued.

## 4. Reducing construction costs for affordable homes, passing savings on to purchasers or affordable housing providers

Land is a major component in the cost of producing a new dwelling, but construction costs – materials and labour – exceed land by a factor of around two to one in multi-unit projects (Lawler and Phibbs, 2015). Therefore, strategies to **reduce construction costs** represent an important opportunity for cost effective affordable housing development.

For instance, alternative building technologies such as prefabricated (factory made) and modular approaches (prefabricated sections or modules) can offer savings in materials, labour, and time. A recent study of 66 building projects that used prefabrication in Auckland found that the approach, when compared to the traditional building system, resulted in, on average, a 34 per cent reduction in project time and a 19 per cent reduction in construction costs. Overall, the study found that the productivity gains from prefab were greatest for new homes (compared, for example, to construction of commercial and institutional buildings) (Shahzad, Mbachu et al. 2015). On larger scale projects, offsite construction (i.e. prefabrication and modularisation) have been found to produce net financial savings particularly by reducing project time, which reduces interest payments on loans as project revenue is realised sooner (KPMG 2010). In Australia, recent research by the ABS has found that builders are preferring to use prefabricated materials and building

[4] Market research conducted by UWS as part of the development process for Australian CLTs indicated very positive interest in the approach.

techniques for constructing attached housing and that this approach is reducing labour costs and reducing building timeframes (Australian Bureau of Statistics 2016), although the scale of these impacts is not known and likely varies across projects. Industry estimates suggest that Sydney construction costs for low-rise apartment buildings could be reduced by about 30 per cent using pre-fabricated construction.

Innovative or more diverse forms of housing may also offer cost savings through more **efficient and flexible design**. State governments and local planning authorities can help foster this innovation by providing flexibility in planning controls to enable smaller or flexible dwelling designs, subject to performance criteria that ensure high quality and demonstrated affordable outcomes for target first home buyers or affordable housing providers.

On private developments, a policy framework is required to ensure that cost savings from construction and design innovations are **passed on to eligible home purchasers** or renters in the form of affordable prices, rather than absorbed into developer or landowner profits. Purchaser restrictions are also required to ensure that affordable homes are only purchased by eligible households. Affordable housing targets and inclusionary housing requirements that require dwellings to be delivered at or below an affordable price benchmark, in conjunction with eligibility criteria, can work to ensure that cost savings achieved through construction and design innovation benefit moderate income purchasers.

**Examples**

*Construction innovations*

In New York City, the Carmel Place development in Manhattan (pictured below) was constructed in just four weeks using modular pieces that were prefabricated in Brooklyn. The nine storey building contains 55 studio apartments, 22 of which are designated affordable housing. The development achieved affordability for low and moderate income households partly by developing smaller units, but also from utilising the modular construction method, which significantly reduced the project timeframe. The development was made possible by a zoning change to enable development of apartments of less than 400 square feet (Kolson Hurley and Volner 2017).

Figure 4: Carmel Place in Manhattan, constructed using modular, prefabricated pieces


Source: Nicole Gurran

*Affordable housing through design*

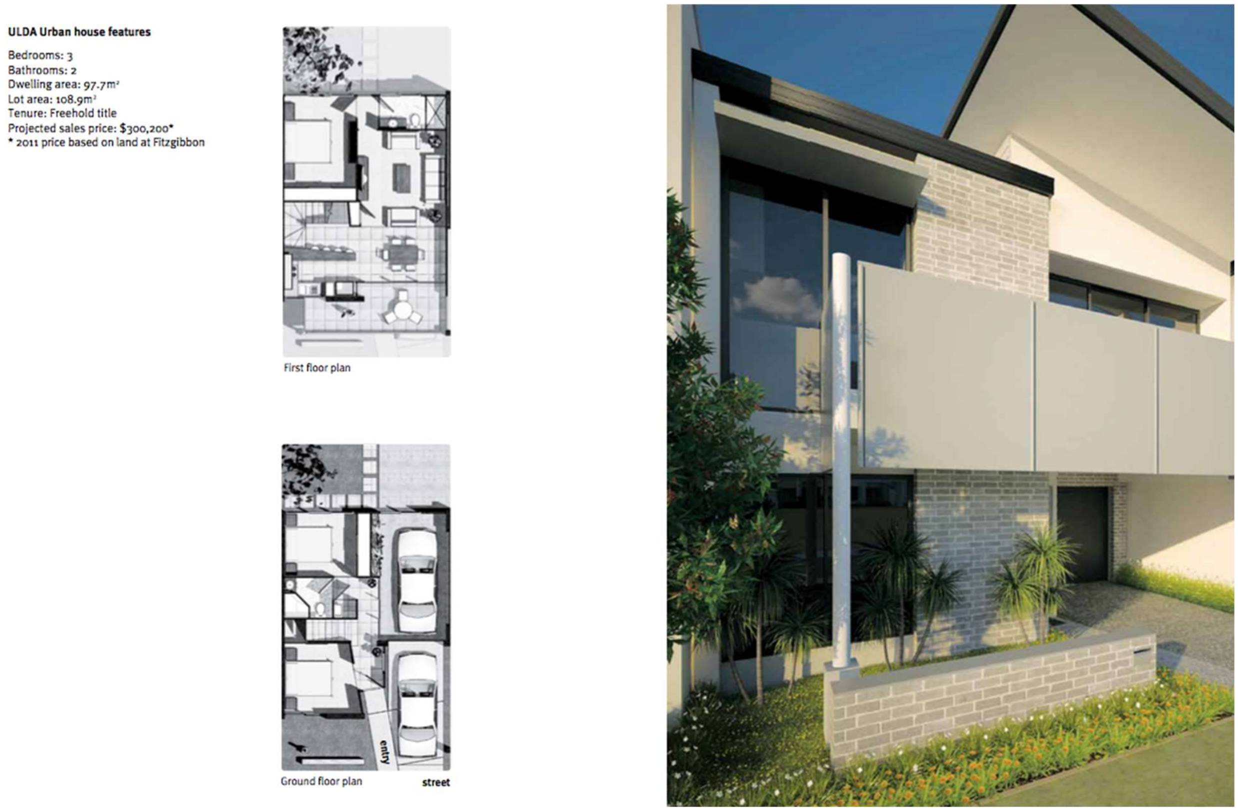
There have been specific initiatives in Sydney to promote more diverse housing development in Growth Centres, and through the potential introduction of a medium density housing code. However, without requirements for developers to pass on cost savings by targeting at least a proportion of new homes to key worker and moderate income earners, these savings are often outweighed by rising prices in a high demand sector of the market.

Secondary dwelling and boarding house provisions in the NSW State Environmental Planning Policy (Affordable Rental Housing) also provide an example of the ways in which planning controls have been altered to facilitate lower cost dwellings. However, these opportunities have been targeted towards low cost rental housing, or the adaptation of dwellings already occupied by home owners rather than offering opportunities that are suited to key worker households.

In other jurisdictions, such as **South Australia, Queensland and the ACT, significant** cost savings have been achieved by adapting local planning rules on subdivision and dwelling design, to facilitate new homes which are more cost effective to produce and therefore able to be sold at a target price point (set by government) for moderate income and key worker households. For instance, in major development areas of Brisbane (such as Bowen Hills, Northshore Hamilton, and Woolloongabba), development plans provide for developments to meet 25 per cent housing affordability targets by adopting smaller lot and housing designs (Economic Development Queensland 2016). Notably, this target explicitly addresses moderate income earning home purchasers. A similar approach was adopted by the ACT Government (Rowley, James et al, 2017).

The Queensland Government has published design guidelines for achieving smaller and more compact housing forms that can be constructed and sold at affordable price benchmarks while still allowing for a reasonable return to the developer. The images below are examples from a publication by the former Urban Land Development Authority on potential housing design innovations to achieve more affordable forms of market housing in line with the ULDA targets (Urban Land Development Authority 2012).

**Figure 5: Example of suggested design innovation for increased affordability (QLD)**




Source: ULDA 2012 p.36

Affordable housing providers such as City West Housing in Sydney and the Brisbane Housing Company in Queensland have also demonstrated leadership in this area, showing how good design can reduce wasted space in apartments and provide a better outcome in a smaller space, which is cheaper to build. When cost savings through design excellence are achieved by a not-for-profit affordable housing provider, those cost savings are also passed on to target groups through increased affordable housing yield.

**NSW option: cost saving construction and design packages for key worker housing**

This approach invites housing developers and builders to propose cost saving construction and design ‘packages’ to help reduce the costs of producing key worker and moderate income housing. The cost savings would be achieved through the use of prefabricated and modular construction techniques, as well as flexibility to adjust subdivision and or other development standards. These two methods would enable prototype starter homes or lower cost apartments to be demonstrated. Savings achieved through the construction and design packages would need to be passed on to eligible key workers through affordable home purchase or rental guarantees.

*Affordability outcomes*

**If construction costs per dwelling were reduced by between 25-35 per cent through a combination of construction and design savings, this could represent a total savings of around $75,000 - $100,000 in**

**the construction cost of a two-three bedroom unit or town house**. Smaller dwellings, or dwellings on very small lots, also achieve savings in the land component of the project. Critically, however, there must be a requirement that cost savings be passed on to the requisite number of target key worker households in the form of an affordable sale price. The same cost savings techniques could however be applied overall, allowing the market to price the innovative product.

*Implementation*

This is an opportunity for market players to package up potential savings in construction and design, for affordable housing. Specialist prefabrication design and construction companies are likely to take a lead with this type of approach. There are already a small number of Australian firms with detailed expertise in this space.

Crucially, planning or other concessions, where needed to enable the construction savings, would be negotiated with planning authorities (local or state) on the basis of a guaranteed key worker affordability outcome.

Since the housing is to target key workers, a diversity of housing types would be encouraged under this approach from small lot townhouses to medium density apartments. Micro studios are not considered to be an appropriate long term housing option for key worker couples or households with children, but might be suitable for earlier career workers.

*Market innovation / policy support*

The use of prefabricated construction methods is not well developed in apartment buildings in Australia (although a number of student housing buildings have been constructed). Therefore, opportunities to support market innovation in scaling up prefabrication and modular approaches for medium and high density housing should be identified.

Planning authorities can support these models by offering predictable, fast track approval processes and flexibility with planning controls where needed (e.g. minimum lot size requirements, landscaped area, and car parking requirements) to enable cost savings through smaller dwellings or dwelling typologies which offer more flexible or diverse housing types.

## 5. Reducing the land component of affordable housing development, through inclusionary planning mechanisms and or government land

Residential land values reflect the potential profit able to be made on a particular development. Well located residential land which is accessible to jobs and services, is inherently more expensive in high demand global cities such as Sydney. Therefore, strategies which operate to secure land for affordable housing development at a sub market (or "pre-zoned") value, or which result in land being dedicated to an affordable housing program, can deliver a significant benefit.

One example is when **government owned land** is either gifted or sold at a reduced price to allow for affordable housing development, specifically, or for mixed housing tenure projects involving homes for key workers.

Inclusionary planning mechanisms can deliver a similar outcome, particularly on privately owned sites. **Inclusionary planning mechanisms** aim to secure well located development opportunities for affordable housing at nil, or sub market cost. The key mechanisms are:

- **inclusionary zoning**, which requires development to include affordable housing, provided as units within the project or as a financial contribution;

- **exceptions mechanisms** which permit affordable housing on land where residential development might not otherwise be allowed; and
- **density bonuses or other planning system concessions** which increase the yield of a project, with increased profits helping to support an affordable housing outcome.

These are summarised in Table 4 along with examples of how these approaches apply in NSW and in other jurisdictions. Local councils are often the planning authority responsible for implementing inclusionary planning mechanisms. It is important that they are supported by a strong policy and legislative framework for using these mechanisms, where enabled. However, the management or sale of affordable housing units is often able to be handled by a special purpose affordable housing provider which is based in the local community, such as the City West Housing Company in central Sydney.

Table 4: Inclusionary planning mechanisms and examples of affordable housing products

| *Inclusionary Planning Mechanism* | *NSW Example* | *Other examples* |
|---|---|---|
| ***Inclusionary zoning*** - Requirements that development within a designated zone include affordable housing (or make a financial contribution towards affordable housing provision elsewhere) | Designated development areas in inner Sydney must provide between 1-3 per cent of development as affordable rental housing, or pay a fee in lieu[5]. | New housing developments in South Australia must include 15 per cent affordable housing, to be sold or rented at identified price thresholds |
| ***Exceptions mechanisms*** - which allow affordable housing on land which would otherwise prohibit residential development | NSW State Environmental Planning Policy (Affordable Rental Housing) (ARHSEPP) allows affordable rental development on some commercial lands, subject to a site compatibility certificate. | Affordable home purchase products permitted on non-residential land under English planning policy. |
| ***Density bonuses*** – which "create" additional land at no additional cost by permitting additional floorspace, in return for an affordable housing outcome. | ARHSEPP provides a density bonus where a proportion of the development is affordable housing i.e. rented at a 20 per cent discount or more on market rent for 10 years. | Density bonuses used in San Francisco, California, to deliver rental housing which is affordable in perpetuity. |

Source: authors

As outlined in Table 4, each of these approaches operate to a limited extent in NSW. The primary mechanism is the NSW *State Environmental Planning Policy (Affordable Rental Housing)* (ARHSEPP), which provides a density bonus for multi-unit schemes that include an affordable housing component, as well as other concessions to encourage affordable rental housing provision. Under the density bonus mechanism, 'affordable rental housing' must be offered to eligible households at 80 per cent of market rent for at least 10 years.

There are currently **no provisions** in NSW to support the production of affordable home ownership products through the planning system. In NSW planning policy, affordable housing is defined as housing for rent only. This is in contrast to other Australian and international jurisdictions (examples below) where inclusionary planning mechanisms are being used to secure affordable home ownership opportunities as part of new development.

[N]Note that under current planning law, Ministerial approval is needed to extend this approach through an amendment to Local Environmental Plans. Further, in NSW provisions for "affordable housing" enabled under the *Environmental Planning and Assessment Act 1979* and two specific State Environmental Planning Policies (SEPPS) are currently limited to affordable housing for rent, rather than home ownership models. SEPP 70 Affordable Housing (Revised Schemes) authorises collection of development contributions for affordable rental housing in the City of Sydney and in Willoughby; and the Affordable Rental Housing SEPP (ARHSEPP) provides a density bonus for developments including affordable rental housing, across NSW.

**Examples**

In most jurisdictions where inclusionary zoning provisions exist, affordable housing can be provided as either low cost rental accommodation or affordable homes for purchase by eligible households. Internationally, inclusionary planning schemes usually address a range of market segments, across a continuum of housing need from very low through to moderate income earners, including key workers. When the affordable housing obligation is provided as a 'fee in lieu' of onsite inclusion of affordable housing, a higher contribution requirement is usually required.

In South Australia, a target has been in place since 2005 for 15 per cent of homes in significant new residential developments to be affordable to low and moderate income earners. Applying to government land and privately owned sites that are rezoned for residential or higher density residential uses, the majority of homes that have been delivered under the policy have been affordable homes for purchase, with the balance being affordable rental housing. Affordable homes for purchase are offered to eligible buyers at or below affordable price thresholds that are adjusted annually.

Under the City of San Francisco's Inclusionary Affordable Housing Program, all developments of 10 or more dwellings are required to contribute to affordable housing (either in the form of units or a financial contribution to the City's Citywide Affordable Housing Fund). Affordable housing delivered under the program must be rented or sold to eligible low and moderate income households at affordable prices. The ownership component of the program targets moderate income first homebuyers, and units delivered under the program are required to be priced to be affordable to households earning 90 per cent of Area Median Income (AMI), on average (or not exceeding 70 per cent of AMI if units are delivered off-site). The Program is governed under the City's Planning Code, but is administered by the Mayor's Office of Housing (City and County of San Francisco 2013).

1400 Mission Street (Figure 6) was delivered through this program and includes 190 units of 'workforce housing', including 167 units for purchase that are affordable to households earning 90 to 100 per cent of Area Median Income (AMI), and 23 rental units affordable to household earning 150 per cent of AMI (HUD User 2017)[6].

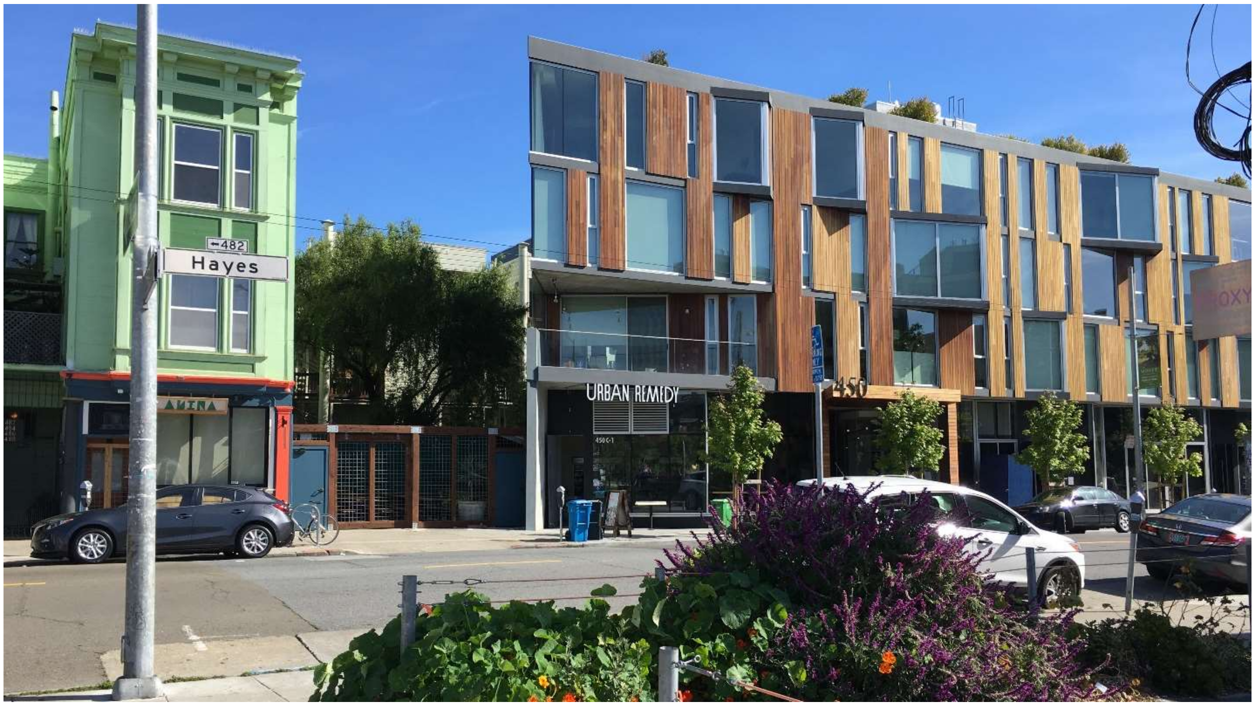
[6] The national housing agency (HUD) calculates the area median income (AMI) for each region in the USA. This is the "average" household income in the region – but the average is calculated using the middle or median income rather than a simple arithmetic average to remove the distorting effect of a small number of very wealthy households.
Households earning less than 80 percent of the AMI are considered low-income households by HUD. Very low-income households earn less than 50 percent of the AMI and extremely low-income households earn less than 30 percent of the AMI.

**Figure 6: Workforce housing delivered under San Francisco's Inclusionary Affordable Housing Program**


Source: Nicole Gurran

Fulton 555, recently development in the City of San Francisco's Hayes Valley District, includes 17 affordable ownership units (all one and two bedroom). Units were priced for initial sale at between USD 245,700–287,532 (no parking), (AUD 324,000 – 379,000) and USD 366,141–408,204 (parking included) (AUD 483,000 – 499,000). To be eligible for purchase, households had to have a median household income not exceeding 100 per cent of AMI (e.g. USD 71,350 for a single person (AUD 94,000) and USD 81,500 (AUD 107,000) for a couple) (Mayor's Office of Housing and Community Development 2017b).

Figure 7: The Hayes Valley District of San Francisco where affordable home ownership units are being delivered through the City's Inclusionary Affordable Housing Program




Source: Nicole Gurran

Overall, the City's inclusionary housing program, which has been in place since 2002 and was recently scaled up to seek higher contributions of affordable rental and ownership housing from larger projects (i.e. 25 or more homes), has delivered over 3,000 affordable units across the City (Mayor's Office of Housing and Community Development 2017a, San Francisco Planning Department 2017).

**NSW option: affordable startup homes for key workers**

In NSW, the Greater Sydney Commission has foreshadowed the introduction of inclusionary zoning style targets for affordable housing (Greater Sydney Commission 2017). As part of an inclusionary zoning framework, setting key worker housing targets in Sydney would ensure that a suitable proportion of new housing supply addresses local workforce needs.

Under this proposal, all new housing developments in Sydney would include housing which is affordable to key worker and moderate income earners. The proportion of moderate income and key worker 'startup' homes would be determined in relation to local housing need and any wider affordable housing contribution to be delivered by the development. **As a starting point, a target of 15-20 per cent affordable housing for moderate income households, including key workers, for developments over a certain threshold, would be consistent with international practice**. On government land, a much higher target for moderate income and key worker 'startup' homes could be achieved. This is because most key worker households can afford home purchase prices which cover construction costs as well as a moderate land component.

The key worker housing provided would be offered for sale at a price not exceeding specified affordability thresholds (e.g. between $490,000 - $651,000, depending on the key worker household income); or offered as a market discount product (e.g. 20 per cent below market value). In cases where the discount product still exceeds affordability thresholds, the housing could be paired with an equity share scheme, to extend accessibility (see description below).

Restrictions would be imposed on resale or letting of the properties to ensure that they provide genuinely affordable housing to target groups for a specified timeframe or in perpetuity.

*Affordability outcome*

This scheme would offer home ownership opportunities for key worker households on moderate incomes. These households would still need to save for a deposit and would incur the usual costs in securing and servicing mortgage finance.

The affordable purchase price should be sufficient to cover construction costs, land component, and a modest return to the developer, without needing additional subsidy.

**If 20 per cent of new dwellings in all major new housing developments were offered as affordable key worker or moderate income home purchase products, this could yield around 6,000-7,000 'startup' homes per year in Sydney.**

*Implementation*

To support this option, the NSW State government would activate a framework for local housing targets to meet a continuum of housing needs, including the need for key worker and moderate income housing. The targets could be specified at a local or district scale, for implementation through local planning and assessment processes.

- Housing developers of residential subdivisions and or multi-unit development would factor the targets into their land acquisition and project planning. They would design appropriate products to meet the local housing target for key worker / moderate income house price thresholds. These could include units, house and land packages, or building sites. These would be a low risk product, given demand at this sector of the market. However, to further mitigate risk to developers, the policy could be designed to enable developers to release dwellings for unrestricted purchase if not sold to an eligible household within a defined time period.
- Local planning authorities would need to assess the affordable component of applicable schemes as part of the wider development proposal, ensuring that the affordable homes fit within the wider scheme and are of appropriate design and quality.
- To implement restrictions and manage the resale of affordable properties, it may be necessary to involve a local affordable housing provider or to enable a special unit within the applicable local government to help administer the scheme.
- A financial institution or bank may assist in providing specialist mortgage finance for the affordable homes, if there are restrictions on their resale or lease.

*Market innovation / policy support*

With the certainty provided by local planning targets for key worker housing, and supportive planning controls to facilitate appropriate dwelling outcomes, housing developers and builders can design, or bring forward, innovative models for affordable starter homes.

# Summary of strategies, options, and policy support

Table 5 summarises the key worker housing options outlined above, in relation to the strategies and delivery mechanisms / potential policy support for implementation.

**Table 5: Summary of strategies, key worker housing options and policy support required**

| Strategy | Key worker housing options | Market innovation / policy support |
|---|---|---|
| 1. **Reducing the deposit gap** faced by key workers in seeking to enter home ownership | **Option:** Shared equity superannuation fund scheme | • Superannuation fund develops new shared equity product in partnership with a bank<br>• Inclusionary planning schemes which produce a pipeline of affordable home purchase dwellings, will make shared equity models more efficient.<br>• Eligible purchasers could purchase up to 75 per cent of the value of the home (reducing the mortgage size), and could also benefit from lower deposit requirements (e.g. 5 – 10 per cent) |
| 2. **Securing alternative financing and development models for keyworker housing developments** | **Option:** collaborative development model for key worker multi-unit housing | • Specialist firms facilitate collaborative development projects for key workers<br>• Finance institution creates specialist construction loan for key worker housing developments<br>• Potential cost saving on price of dwellings of 10-12 per cent (McLeod 2016) |
| 3. Establishing **alternative tenure arrangements** to enable affordable home purchase for key worker households. | **Option:** Key worker community land trust program | • Government land dedicated or sold at sub market price to establish a community land trust model for key worker housing<br>• Inclusionary planning schemes might secure land or a portion of a housing development which could be used for the Trust.<br>• Potential capital cost saving of 25 per cent or more for homes within CLT |
| 4. **Reducing development and or construction costs for keyworker affordable homes** | **Option:** Cost saving construction and design packages for key worker housing | • Construction industry innovators supported to scale up prefabrication / modular building techniques across different housing types, with savings passed on as affordable purchase prices<br>• Planning / building regulations enable innovative design approaches<br>• Policy initiatives / interventions which reduce development risk, such as clear planning assessment and approval timeframes for affordable housing projects<br>• Construction cost savings of 25-35 per cent (accrued through alternative design, materials and processes) could reduce the price of dwellings by |

| | | |
|---|---|---|
| | | $75,000 – $100,000 (for 2-3 bed units or townhouses) |
| 5. **Reducing land costs for affordable development**, to boost the supply of homes affordable to key worker households | **Option:** Affordable 'startup' homes for key workers | • Housing developer produces affordable lots / dwelling units for key worker home purchase<br>• Key worker housing target of 20 per cent embedded in local plans<br>• Inclusionary planning measures – inclusionary zoning, exceptions mechanism, and or density bonus to implement key worker housing target<br>• Requirement for 20 per cent of new dwellings in all major new housing developments to be offered as affordable key worker home purchase products could yield around 6,000-7,000 'startup' homes per year in Sydney. |

Source: authors

Across all of these options, local communities can take a lead in welcoming new housing projects which target opportunities for teachers, nurses, police and emergency workers in the community through their local plans and when engaging in consultation processes.

# 3. Conclusions – supporting key worker housing as part of a sustainable housing system

This report has canvassed a variety of strategies for improving the range of housing options available to key workers in Greater Sydney. In drawing attention to the housing needs of key workers, we recognise that policy interventions and government incentives must also support other groups with high and unmet housing needs, particularly those on very low incomes. However, sustainable housing systems should deliver a diversity of housing options to meet a continuum of needs across the income spectrum. At present, Sydney's housing market is failing in this regard. The chronic lack of appropriate and affordable housing options for key workers is forcing many to relocate further from employment centres or forgo the security of home ownership. This has the potential to significantly impact essential public services (education, healthcare and public safety) and, as a result, the social and economic functioning of the City.

The range of options to restore key worker housing affordability outlined in this report are not exhaustive. Rather, they are intended to stimulate discussion about opportunities to improve housing outcomes for key workers in Sydney by fostering market innovation, supported by well designed and targeted policy. These strategies and policy options are all potentially feasible as they require only minor modifications to existing policy and do not require significant government subsidy. The strategies and supporting policies described are also able to leverage wider benefits across the housing system, and represent sensible approaches to ensuring more socially and economically sustainable cities.

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