Report to the Future Melbourne Committee

Agenda item 6.7

Key Worker Housing Definition

9 April 2024

Presenter: Jo Cannington, Director Homes Melbourne

Purpose and background

1. The purpose of this report is to seek Future Melbourne Committee approval of the proposed key worker housing definition (Definition) and next steps.

2. On 5 September 2023, the Future Melbourne Committee endorsed the draft key worker housing definition, requested Management complete an additional engagement process with industry partners (Phase 2 engagement); and report back a final policy position and implementation plan to Council in Quarter 1 2024.

3. The Definition adheres to the Victorian Governments framework for the voluntary delivery of affordable housing by the private sector and is modelled on the existing definition of affordable housing in the *Planning and Environment Act 1987* (the Act), therefore leveraging existing legislative instruments and implementation processes. Key worker housing will be considered a 'subset', rather than a 'new' type of affordable housing. The Definition will support government working in partnership with the property and development industry, with outcomes being secured during the planning permit process and formalised via Section 173 agreements.

4. City of Melbourne is committed to facilitating delivery of more affordable housing, understanding that it is essential infrastructure and is vital to the functioning of our city and economy. Key workers are critical, but with rental prices increasing faster than wages, those earning very low to moderate incomes are more likely to face housing stress and long work commutes. These barriers reduce access to employment for key workers and access to workforce for employers. Facilitating housing that is affordable for key workers is an action identified within the Affordable Housing Strategy and is listed in the Council Plan Major Initiative 44.

5. While the terms 'key worker' and 'key worker housing' are frequently used in public policy discussions, there is no accepted definition and many interpretations from different stakeholders. This creates risks in implementation and inconsistent approaches in the delivery of key worker housing. It can result in subsidised housing not targeting those who need it most.

6. Following Council's endorsement of the draft Definition in September 2023, Management has undertaken industry engagement with key stakeholders. Based on the feedback received, Management recommends Council endorse the final Definition with minor alterations to the draft Definition.

Key issues

7. Phase 2 of the engagement included the preparation of a research summary on how the draft Definition was developed, and an online survey hosted on the Participate Melbourne platform from October to December 2023. The survey was promoted through housing related forums, and direct emails to industry partners inviting them to complete the online survey. A Victorian Government roundtable was facilitated to highlight the existing policy gap and workshop the draft Definition.

8. A total of 36 submissions were received through Phase 2 of the engagement (refer Attachment 1). In total, 64 per cent of respondents were supportive of the draft definition, 11 per cent of respondents held neutral views, while 25 per cent of respondents were opposed. Management reviewed and considered all key feedback summarised below:

    8.1. The involvement of registered housing agencies, and whether registered charities or private companies could allocate or manage tenants. Some submitters sought further clarity on the proposed allocation and monitoring process. This issue is addressed further in points 9.1 and 9.2 below.

    8.2. The use of income ranges established by the Act, and whether higher income key workers should be eligible. Some submitters were concerned that key worker housing is likely to serve moderate income households, rather than very low income households where the need is greatest. High income households would not be eligible for key worker housing (or affordable housing) because they would not fall within these income ranges.

8.3. The ‘physical presence’ requirement in the draft Definition, rather than establishing a list of eligible key worker occupations. Some submitters suggested that priority occupations could be established, while others recommended that pandemic-era essential worker lists could be adopted.

9. In response to feedback received in Phase 2 of the engagement, management recommends a revised Definition to incorporate two key changes:

9.1. Firstly, the inclusion of registered charities as eligible housing providers (in addition to registered housing agencies). These organisations are registered by the Australian Charities and Not-for-profits Commission (ACNC), are required to set rents below 75 per cent of market value to qualify for Goods and Services Tax concessions, must be a not-for-profit entity, and must comply with ACNC Governance Standards to maintain their registration.

9.2. Secondly, the inclusion of the option for a housing provider to own the housing stock. This provides clarification that key worker housing could be ‘owned, or managed, or allocated and monitored’ by eligible housing providers. ‘Allocation and monitoring’ is a minimum requirement for housing models such as ‘build-to-rent’.

10. No changes are proposed in response to other matters raised in submissions. In relation to the proposed establishment of a list of occupations put forward by some submitters, Management considers that this is not necessary or functional at this stage. The supply of labour and labour markets are complex, influenced by many factors and are changeable over time, and the inclusion of occupations would require regular updating as labour market conditions change.

11. Implementing the Definition will involve three distinct steps that are linked to current Homes Melbourne work and can be undertaken within existing resources (refer Attachment 1).

11.1. ‘Planning’ will involve the preparation of a practice note with explanatory information, and creation of draft planning permit conditions for use in voluntary affordable housing agreements.

11.2. ‘Monitoring’ will involve tracking the delivery of key worker housing against Section 173 agreements, assessing regular reporting of tenant eligibility and rental affordability, and undertaking planning enforcement where necessary.

11.3. ‘Advocacy’ will involve including of the key worker housing definition in Homes Melbourne advocacy documents to other capital cities, the M9 group of councils, the Victorian Government, the Australian Government, and to relevant housing and industry partners.

12. The affordable housing policy context is evolving. If a relevant policy or definition is introduced by the Victorian or Australian Government, a review of the definition will be undertaken.

Recommendation from management

12. That the Future Melbourne Committee:

12.1. Approves the following key worker housing definition (Definition):

‘*Affordable rental housing that is appropriate for people who work within the City of Melbourne, who require a physical presence to perform their work, and whose household earns very low, low or moderate incomes. The housing must be owned, or managed, or allocated and monitored by a Registered Housing Agency or registered charity to the satisfaction of Council*’.

12.2. Requests Management implement the Definition through voluntary negotiations and advocacy as appropriate, and monitor implementation and progress.

12.3. Requests Management report back to Councillors in Quarter 2 of 2025 with findings from the initial implementation of the Definition

12.4. Updates Councillors in a timely manner, on any changes to Victorian and Australian Government policy or legislative contexts that many impact the use of the Definition.

Attachments:

1. Supporting Attachment (page 3 of 75)
2. Key worker housing definition presentation (page 4 of 75)
3. Key worker housing definition research report (page 44 of 75)

Attachment 1
Agenda item 6.7
Future Melbourne Committee
9 April 2024

Supporting Attachment

Legal

1. Section 173 of the Act provides a responsible authority may enter into an agreement with an owner of land in the area covered by a planning scheme for which it is a responsible authority.

2. A section 173 agreement is registered on the certificate of title for the relevant land and binds the owner and future owners of the land.

Finance

3. The implementation of the Definition change can be accommodated within existing budget.

Conflict of interest

4. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a material or general conflict of interest in relation to the matter of the report.

Health and Safety

5. In developing this proposal, no occupational health and safety issues or opportunities have been identified.

Stakeholder consultation

6. Phase 1 of the engagement process was undertaken to test findings in the data analysis, and to gain insights into the housing preferences of key workers. The online survey received 304 responses. 94 of the respondents were classified as key workers who would be eligible for key worker housing. The research found that key workers earning very low to moderate incomes are experiencing housing stress and are interested in moving to the City of Melbourne if rents were more affordable (refer Attachment 2).

7. Phase 2 of the engagement process included the preparation of a research summary on how the draft Definition was developed, an online survey, promotion of the draft Definition with industry partners, and facilitation of a Victorian Government roundtable. A total of 36 submissions were received through Phase 2 of the engagement, with 64 per cent of respondents supportive of the draft Definition (refer Attachment 2).

Relation to Council policy

8. Major Initiative 44 of the Council Plan 2021–25 requires Homes Melbourne to ‘facilitate more affordable housing for key workers’. Priority 3 of the Economic Development Strategy 2031 is to increase ‘the supply of housing for city workers’. Priority 5.4 of the Affordable Housing Strategy requires Homes Melbourne to facilitate affordable rental housing for key workers. There is currently no adopted definition of key worker housing in local or state government policy, despite being referenced in a range of documents.

Environmental sustainability

9. In developing the Definition, environmental sustainability issues are not considered relevant.

Defining Key Worker Housing

Rushda Halith
General Manager,
Community and City Services

9 April 2024

HOMES MELBOURNE

Project Background

Key worker housing: what is the problem we are trying to solve?

Why define key worker housing?

- Key worker housing is not defined in local or state government policy.
- CoM has more key workers than any local government area in Victoria.
- As rental prices are increasing faster than wages, lower income key workers face housing stress and long commutes.
- Without an endorsed position the State Government and development sector are using varying terms or approaches, creating inconsistency in the market.
- The research helps us identify where efforts should be focused for key worker housing.

Intended outcomes

- Support achievement of Council's objectives, including to inform development on CoM land, advocacy opportunities and planning permit approvals.
- Address a range of planning and housing policy aspirations.
- Facilitating affordable housing for key workers enables more productive, diverse, inclusive and resilient communities.
- Reduce commute times for key workers with resulting environment and health benefits.
- Provide more housing options for local workers who earn very low to moderate household incomes.

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4.2%

Growth in the Wage Price Index to December 2023

ABS, 2023

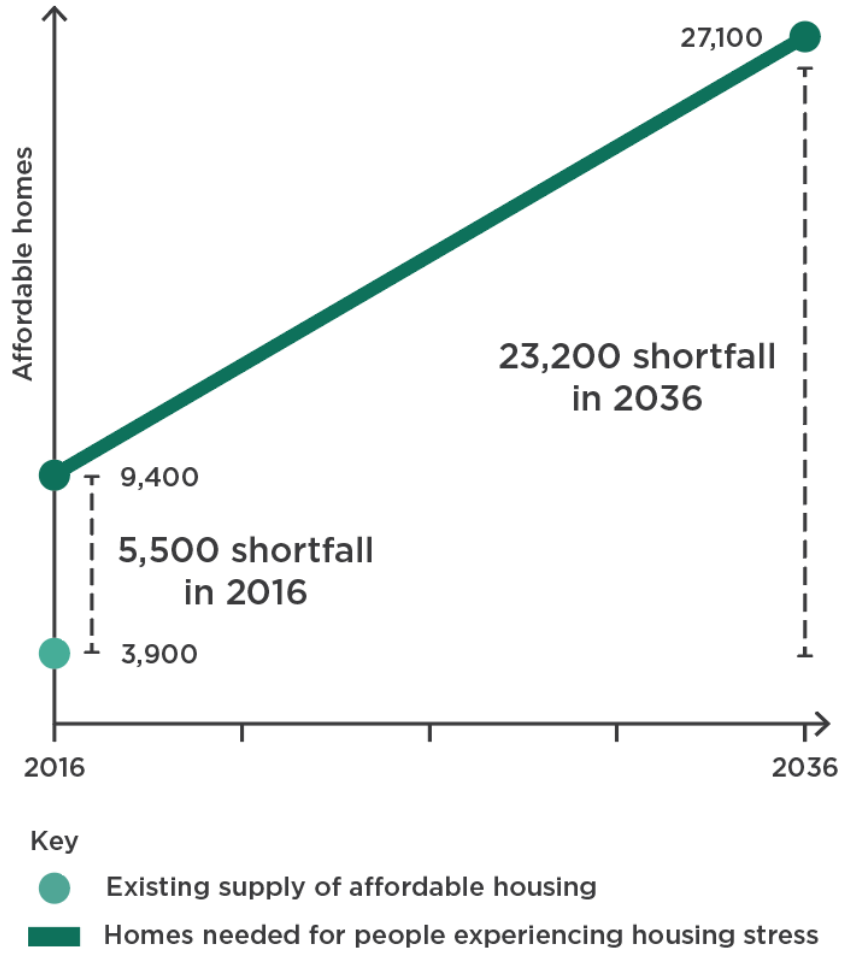
15.8%

12-month change in Melbourne rents to September 2023

Homes Vic, 2023

Wage growth is not keeping up with rental price increases. This is leading to significant rental stress, particularly for very low to moderate income households.

Existing and forecast demand for affordable housing in the City of Melbourne, 2016 - 2036



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Project timeline

Date	Input
June to July 2023	ABS data analysis undertaken to test initial thinking and demand
June to July 2023	Phase 1 community engagement process to source insights from workers
05 Sept. 2023	Draft key worker housing definition endorsed at FMC meeting
October to December 2023	Phase 2 industry engagement process to seek feedback on definition
April 2024	Consideration of final definition at FMC meeting

05 September FMC resolution:

That the Future Melbourne Committee:

- Approves the following draft key worker housing definition: *"Affordable rental housing that is appropriate for people who work within the City of Melbourne, who require a physical presence to perform their work, and whose household earns very low, low or moderate incomes. The housing must be allocated and monitored by a Registered Housing Agency."*
- Requests management to test and refine the draft definition and its application with the housing sector and relevant stakeholders.
- Requests management report back a final policy position and implementation plan to Council in Quarter 1 2024.

Data analysis and Phase 1 engagement

The ABS data analysis showed us:

- CoM has more key workers than any other Victorian LGA (approx. 142,000).
- 48% of CoM key worker households earn very low to moderate incomes.
- 20% of CoM key worker households earning very low to moderate incomes are in ‘housing stress’.
- ‘Traditional’ key workers such as paramedics, firefighters and teachers are less likely to be in housing stress.
- 22% of key workers are travelling more than 30km to CoM.

Phase 1 engagement told us:

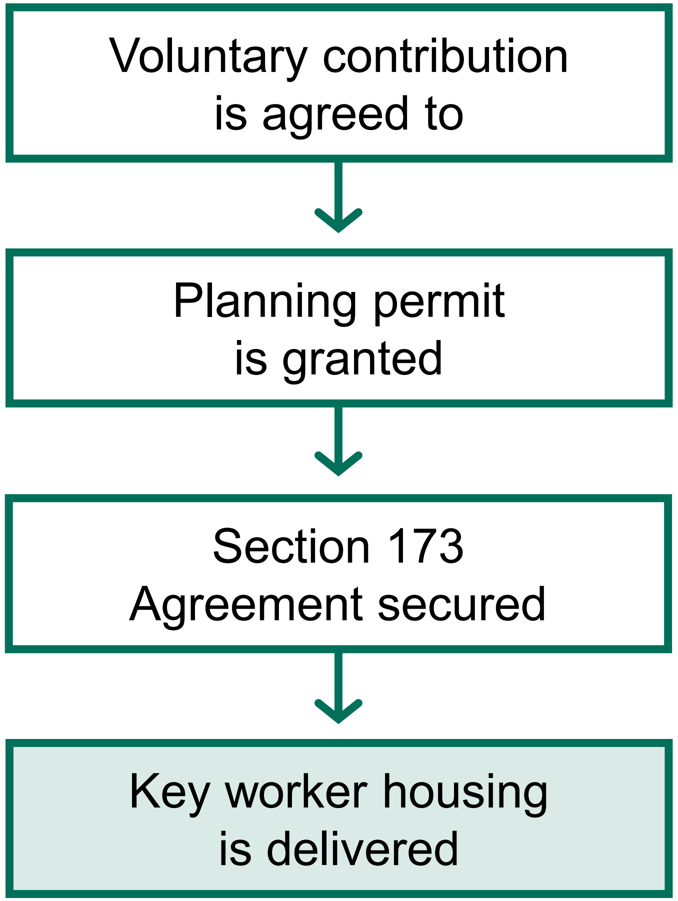
- Key worker respondents were more likely to have lower incomes.
- Key worker respondents were more likely to drive to work.
- The most common response for moving to CoM was for ‘more employment opportunities’.
- The most common response for not moving to CoM was the ‘higher cost of housing’.
- 64% of key workers were ‘interested’ or ‘very interested’ in moving to CoM.

Developing a draft definition of key worker housing

Policy alignment and implementation

- Key worker housing is a type of affordable housing.
- It would be facilitated in the same way as affordable housing, using existing planning processes and regulatory tools.
- All key worker housing contributions would be voluntary agreements.
- To assist with alignment, the key worker housing definition is modelled on the P&E Act affordable housing definition:

  “*housing, including social housing, that is appropriate for the housing needs of very low, low, and moderate-income households*”
- The role of CoM is to negotiate affordable housing outcomes and increase affordable housing supply, not to regulate lease terms or manage tenants.



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Phase 2 Engagement

Engagement Phase 2: Industry engagement

Survey uploaded and distributed

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36 submissions from industry partners

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State Government roundtable

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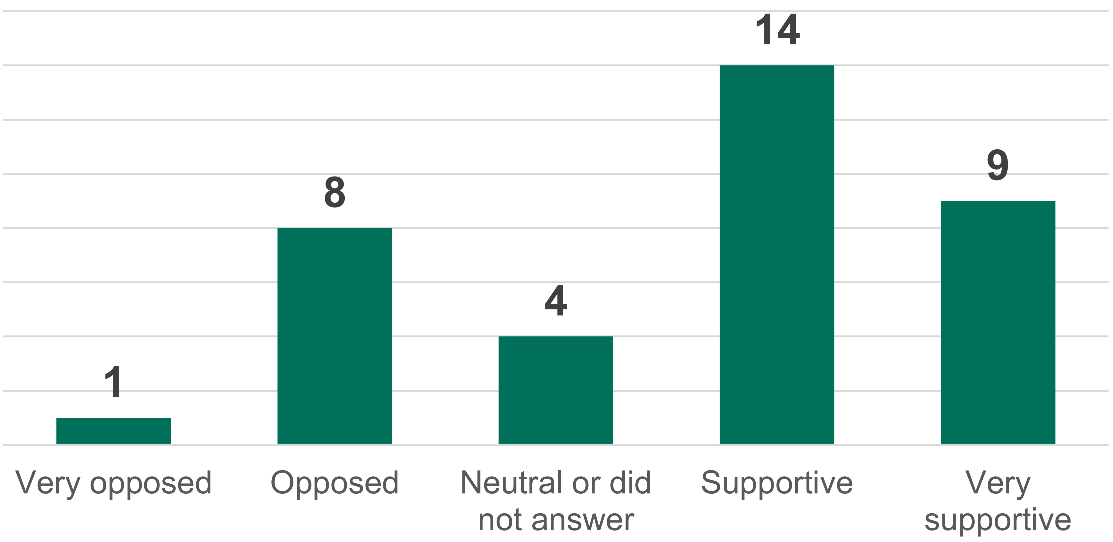
Refinements considered

64%
‘supportive’ or ‘very supportive’

25%
‘opposed’ or ‘very opposed’

Survey respondents level of support



Engagement Phase 2: Industry engagement

Supportive submissions

1. Requirement for oversight by Registered Housing Agencies (RHA).
2. Use of existing Planning and Environment Act income ranges is effective.
3. Broad eligibility for key workers in the current definition is inclusive.
4. Integration with existing affordable housing definition.
5. Recognition of the challenge and the importance of prioritising housing for key workers.

Opposed submissions

1. Concern regarding RHA oversight (suggestion to remove or widen to include all ACNC registered charities).
2. Housing support should be allocated on the basis of need, rather than occupation.
3. A list of occupations should be included.
4. 'Affordable' is not defined.
5. Definition is too constrictive and should be broadened (e.g. above moderate income earners, or homebuyers).

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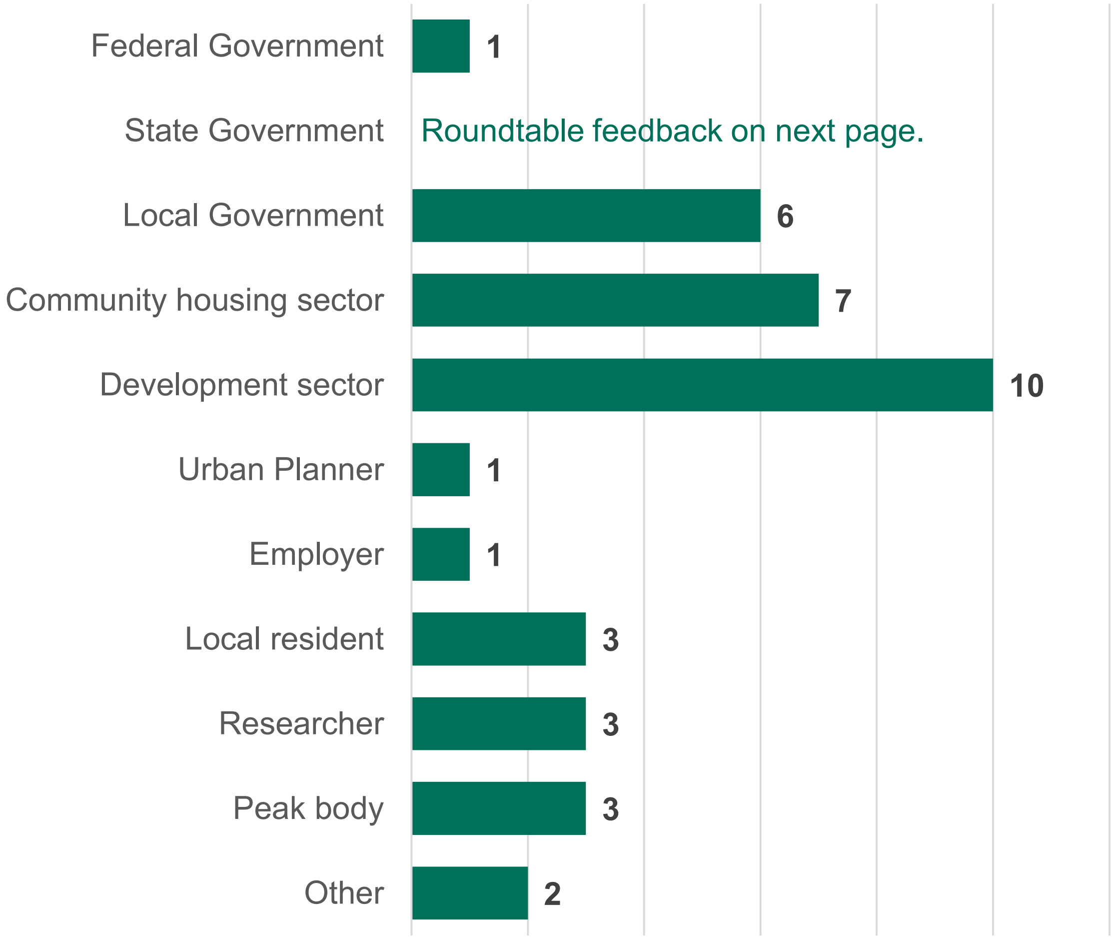
Engagement Phase 2: Industry engagement

Respondents by sector



Issues referenced by submissions

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The roundtable workshopped three themes raised through industry submissions with State and Federal Government Partners

RHA involvement

- Generally supportive of RHA involvement as this is a regulated sector with reporting and data collection requirements.
- Perceived risk that definition could be abused if there is no RHA involvement.
- Willingness to involve registered charities rather than just RHAs.

Income ranges

- Use of existing income ranges is appropriate.
- Provides clear eligibility guidelines for housing providers.
- Transparent income ranges would assist developers in assessing the value of voluntary key worker housing contributions.

List of occupations

- A list would require regular updating and may involve subjectivity, and less equity.
- New occupations are emerging all the time.
- Priority occupation lists could be established if necessary.
- ‘Physical presence’ requirement is an effective alternative for an occupation list.

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Refining the draft definition

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The draft definition of key worker housing

Affordable rental housing that is appropriate for people who work within the City of Melbourne, who require a physical presence to perform their work, and whose household earns very low, low or moderate incomes. The housing must be allocated and monitored by a Registered Housing Agency.

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The amended definition of key worker housing

Flexibility provided for oversight from both RHAs and registered charities

Affordable rental housing that is appropriate for people who work within the City of Melbourne, who require a physical presence to perform their work, and whose household earns very low, low or moderate incomes. The housing must be owned, or managed, or allocated and monitored by a Registered Housing Agency or registered charity to the satisfaction of Council.

Clarification on three options for oversight of key worker households

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Unpacking the proposed definition

Only local workers are eligible

Less than 30% of gross household income on rent

As defined by the Ministerial Notice (P&E Act)

Affordable rental housing that is appropriate for people who work within the City of Melbourne, who require a physical presence to perform their work, and whose household earns very low, low or moderate incomes. The housing must be owned, or managed, or allocated and monitored by a Registered Housing Agency or registered charity to the satisfaction of Council.

Cannot work from home

As defined by the Governor in Council Order (P&E Act)

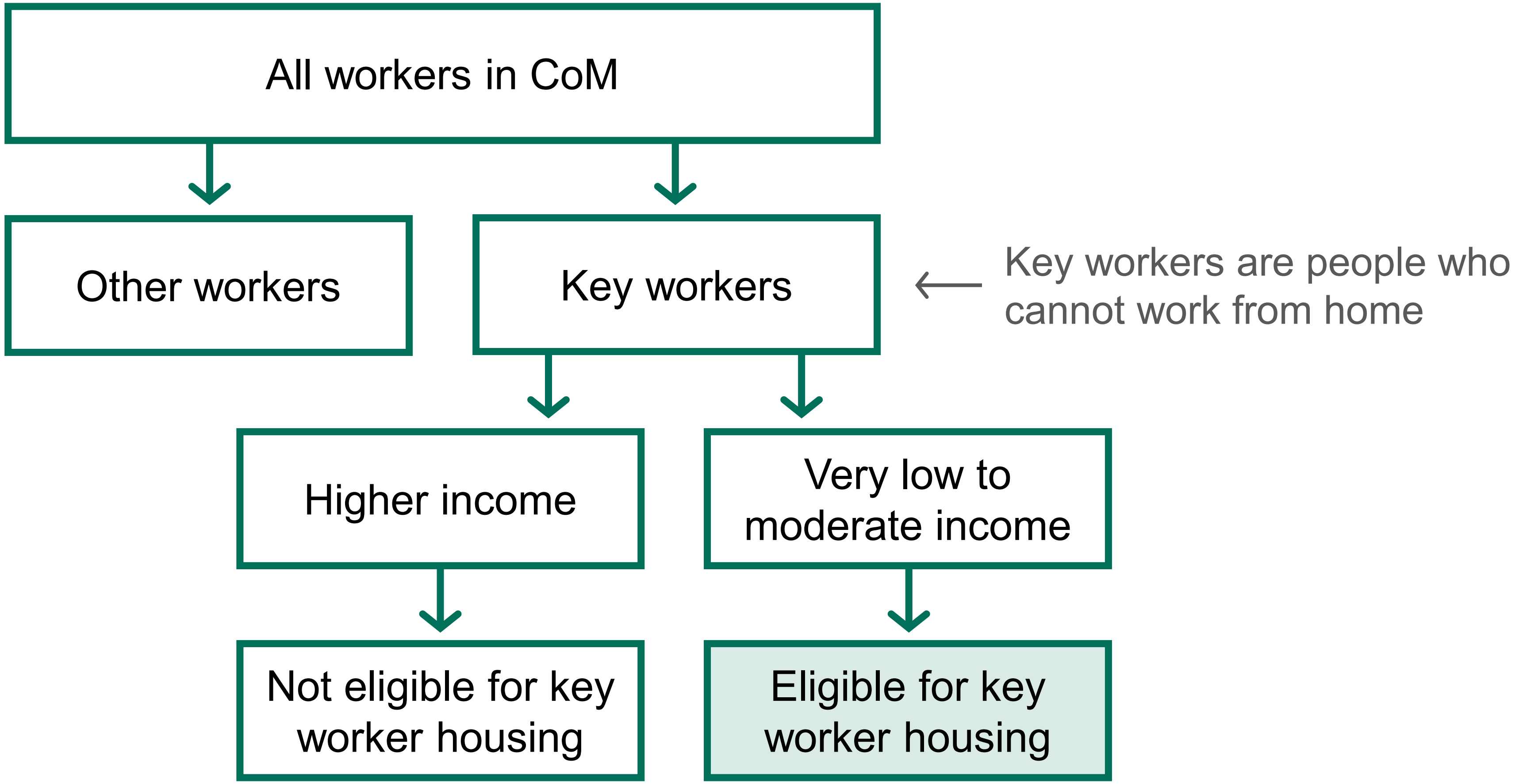
Income limit is tailored to household type

Can function within a build-to-rent model

Unpacking the proposed definition

'Affordable rental'	Focusing on rental housing is consistent with the Affordable Housing Strategy. 'Affordable' means that rents are set at less than 30% of household income.
'Appropriate'	This term is defined in the Ministerial Notice in the P&E Act. Includes allocation, affordability, longevity, tenure, location, integration and need.
'Who work within'	Only people who work with CoM are eligible. Community benefit is retained locally and commuting distances are reduced.
'Physical presence'	Key workers are typically unable to work from home to perform their work activity.
'Household'	Only one member of the household needs to be a key worker, but rental stress is tested through income eligibility being based on the household income.
'Incomes'	Defined in the Governor in Council Order in the P&E Act. This utilises an existing regulatory tool that is updated annually.
'Allocated and monitored'	At minimum, a housing provider must allocate tenants and monitor their eligibility. This utilises an existing regulated sector to achieve outcomes. Daily 'management' by a housing provider is generally not compatible with a build-to-rent model.

Eligibility for key worker housing



Implementation plan

Implementing the key worker housing definition

Key worker housing definition

Project	Partners and timing
Planning - Prepare practice note with explanatory information - Draft permit conditions	- Development Planning - City Strategy - FY 2023/24
Monitoring - Monitor housing outcomes - Undertake planning enforcement when required	- Development Planning - FY 2024/25
Advocacy - Incorporate in advocacy plan - Advocate to State and Federal Governments	- Stakeholder Engagement - City Strategy - FY 2024/25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Appendix

Background information

What is a registered charity?

- Registered charities in Australia are regulated by the Australian Charities and Not-for-profits Commission (ACNC).
- To be entitled to registration as a charity, an entity must:
  1. be a not-for-profit entity;
  2. only have purposes which are charitable purposes, and which are for the public benefit, or purposes which are incidental or ancillary to, and in furtherance of, a charitable purpose;
  3. be compliant with the Governance Standards and External Conduct Standards; and
  4. not be an individual, political party, or government entity.

- Registered charities must comply with the Governance Standards contained in the ACNC Regulation 2013.
- All charities must submit an Annual Information Statement to the ACNC, which includes some financial information and details of a charity's activities and beneficiaries.
- Registered charities are eligible for GST exemptions if rental prices are less than 75% of market rates.
- Various regulatory options are available to the Commissioner if charities do not meet these conditions, including revocation of their registration.

Eligibility for affordable housing (very low, low and moderate income ranges)

Affordable housing eligibility income ranges, June 2023

Household type	Very low income	Low income	Moderate income
Single	Up to $29,770	$29,771 to $47,630	$47,631 to $71,450
Couple	Up to $44,650	$44,651 to $71,450	$71,451 to $107,170
Family	Up to $62,510	$62,511 to $100,030	$100,031 to $150,030

Planning and Environment Act, 1987

Maximum affordable weekly rents for eligible households, June 2023

Household type	Very low income	Low income	Moderate income
Single	$172	$275	$412
Couple	$258	$412	$618
Family	$361	$577	$866

Planning and Environment Act, 1987

Key worker housing and the housing spectrum

Temporary housing responses

Secure long-term housing

Rough sleeping	Crisis accommodation	Rooming houses	Transitional housing	Public housing	Community housing	Private rental	Home Ownership

Key worker housing could be provided through community housing, or in the private market with oversight from a Registered Housing Agency

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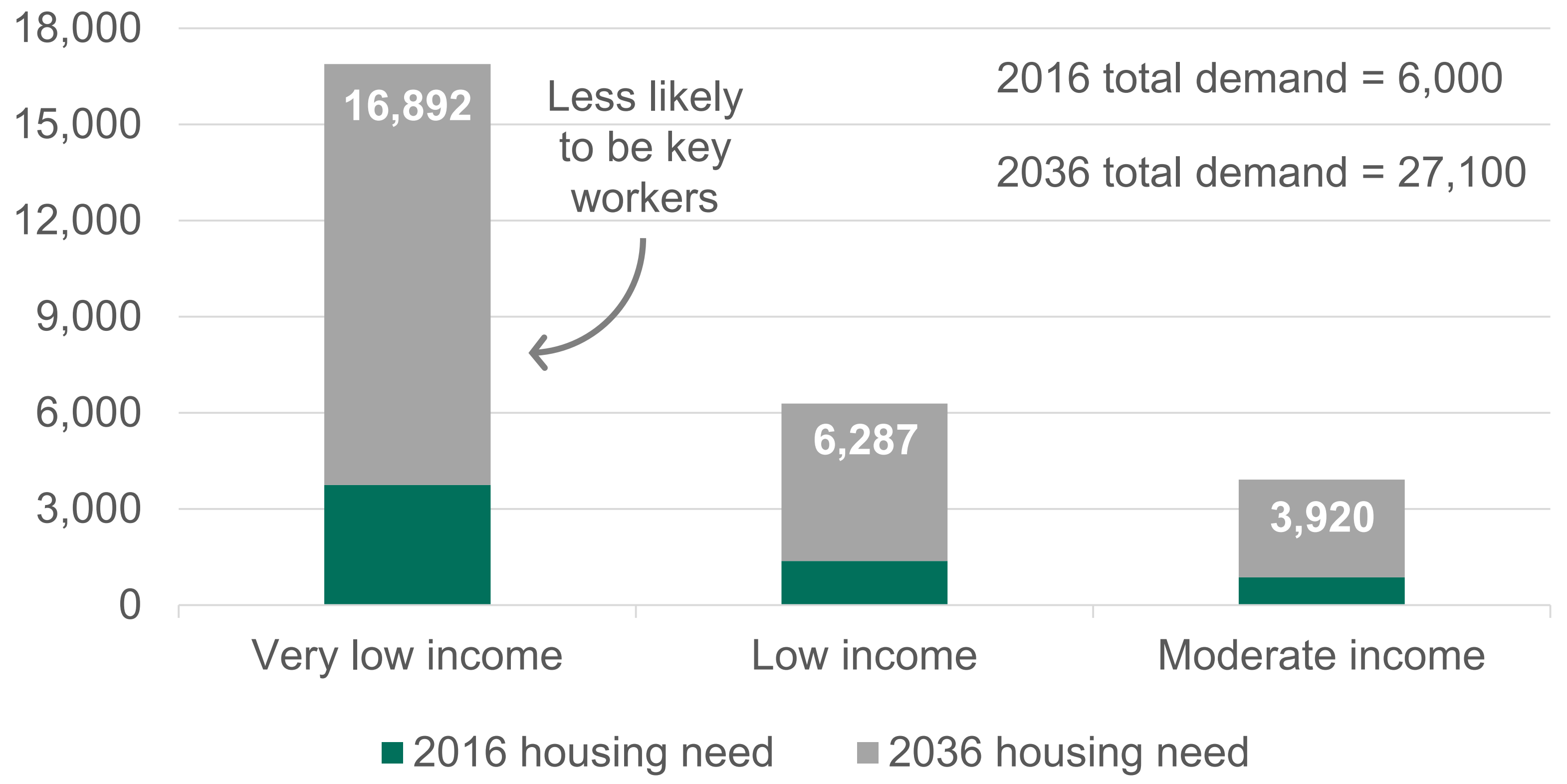
CoM Affordable Housing Demand

Forecast demand for affordable housing in CoM by income range to 2036



SGS Housing Needs Analysis, 2019

ABS data analysis

Summary of findings

ABS data analysis: findings and approach

500k
CoM workers

Key worker filter:

1. Included ‘typical’ key workers
2. Included all workers requiring a physical presence
3. Excluded all very high-income workers

208
occupations

Very-low to moderate income earners by industry, CoM 2021

Industry	Very low income	Low income	Moderate income	Total workers	# very low to mod. earners	% very low to mod. earners
Accommodation and Food	27%	20%	27%	21,842	16,163	74%
Professional, Scientific, Technical	4%	4%	8%	96,061	15,183	16%
Retail Trade	13%	16%	24%	16,496	8,746	53%
Health Care and Social Assistance	4%	5%	10%	41,418	7,743	19%
Financial and Insurance	2%	2%	6%	75,089	7,470	10%
Education and Training	9%	6%	10%	28,744	7,262	25%
Administrative and Support	9%	12%	21%	16,432	6,790	41%
Arts and Rec.	6%	8%	21%	13,910	4,873	35%
Public Admin. and Safety	1%	2%	5%	53,876	4,586	9%
Construction	4%	3%	8%	17,642	2,713	15%

ABS census of population and housing, 2021. NB: Only the ten largest industries in CoM are shown.

City of Melbourne key worker demographics

Demographics

Total key workers	142,000
Female	46.8%
Male	53.2%
Median age	36
Born overseas	48.2%

Socio-economic indicators

Individual weekly income	$1,280
Part-time workers	39%
Degree qualifications	51%
Long-term health issues	22%
Commute >20kms	40.8%

Housing Affordability

Very-low to moderate income earners	48%
In mortgage stress	12%
In rental stress	27%
Overcrowded dwelling	4.3%

Housing characteristics

Lone-person household	25%
Couple with children	33%
Renters	44%
Live in high-density unit	25%
Household median weekly income	$2,278

- The median age of CoM key workers (35.6) is younger than all CoM workers (37.5).
- There are more male key workers in CoM (53%) than female (47%).
- Female CoM key workers earn 22% less than male key workers.
- CoM key workers are more likely to be born overseas (48%) compared to CoM workers (44%).
- CoM key worker households were less likely to live in 'couple family with children' households (33%) than the typical CoM Worker Households (40%).
- CoM key workers were more likely to live in overcrowded homes (4.3%) than typical CoM worker households (2.6%).

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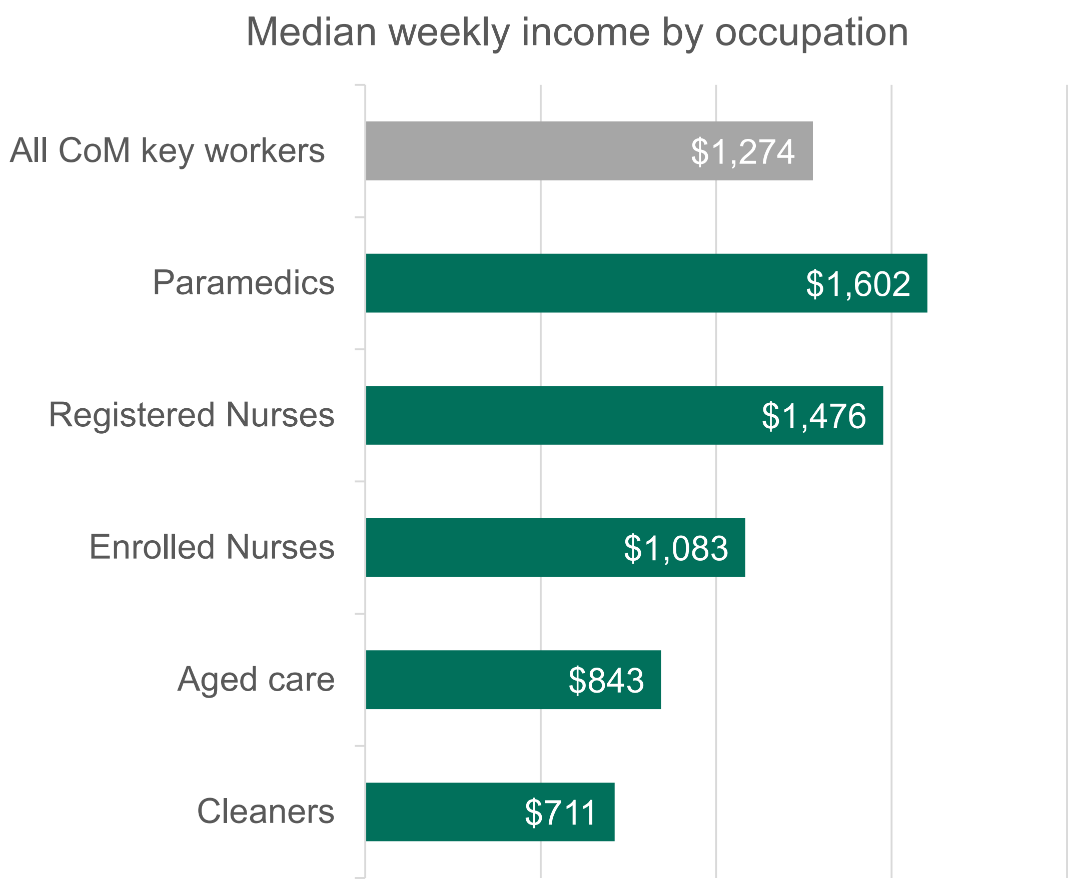
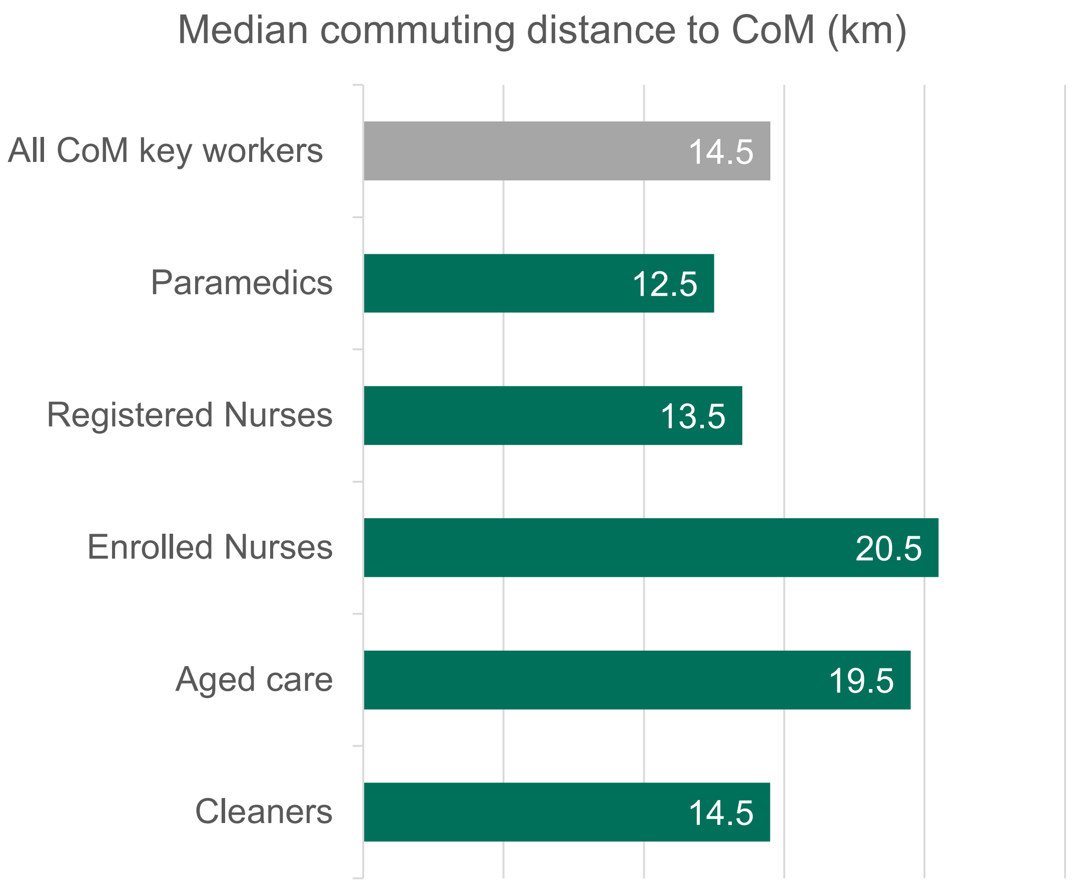
The healthcare industry





ABS census of population and housing, 2021.

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What is our conclusion from the ABS data analysis?

The research showed us:

- CoM has more key workers than any other Victorian LGA (approx. 142,000).
- 48% of CoM key worker households earn very low to moderate incomes.
- 20% of CoM key worker households earning very low to moderate incomes are in ‘housing stress’.
- ‘Traditional’ key workers such as paramedics, firefighters and teachers are less likely to be in housing stress.
- 22% of key workers are travelling more than 30km to CoM.

- The CoM context is unique in Victoria, and targeted affordable housing is required.
- There is a need for more Affordable Housing in CoM for key worker households.
- Housing stress for low income key workers cannot be solved by additional supply of market rate dwellings.
- A definition of key worker housing that incorporates income limits is required.
- Application of the existing Affordable Housing income ranges (very low to moderate) is appropriate.

Community Engagement

Phase 1 engagement results

Engagement Phase 1: community engagement

Survey uploaded and distributed

↓

304 responses from local workers

↓

Key worker filter

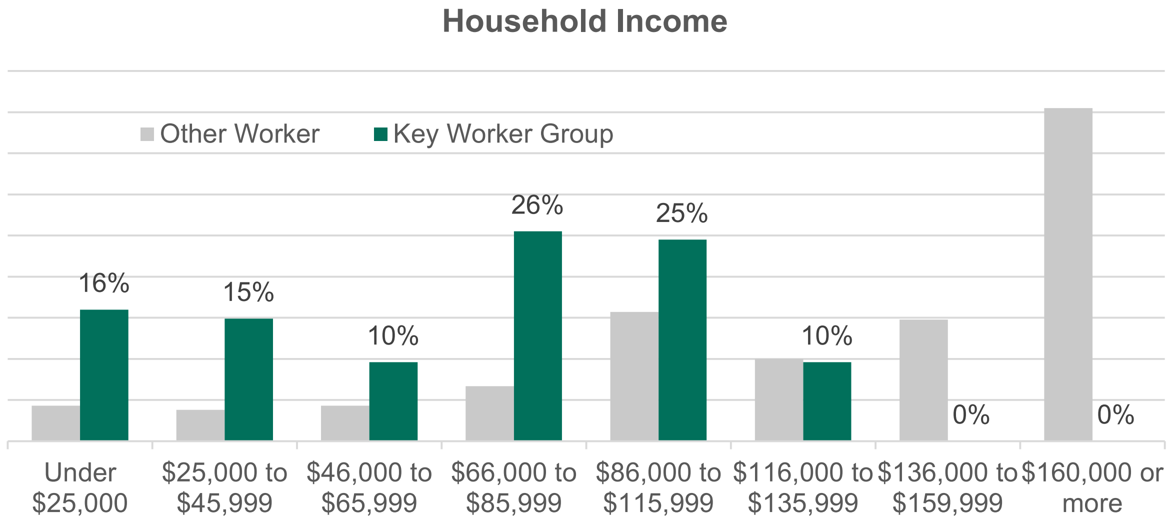
↓

94 key worker responses

- 304 online survey and intercept surveys were undertaken.
- Responses were consistent with the ABS data analysis.
- Key worker respondents were more likely to have lower incomes.
- Key worker respondents were more likely to drive to work.
- The most common response for moving to CoM was for ‘more employment opportunities’.
- The most common response for not moving to CoM was the ‘higher cost of housing’.
- 64% of key workers were ‘interested’ or ‘very interested’ in moving to CoM.

Survey results: Respondent household type and income

Household type	Other Workers	Key Workers
Living alone	13%	26%
Couple with no children	30%	20%
Group household or share house	13%	20%
Living at home with parents	7%	15%
Couple with children	32%	14%
Single parent with children	3%	4%
Extended family household	1%	1%

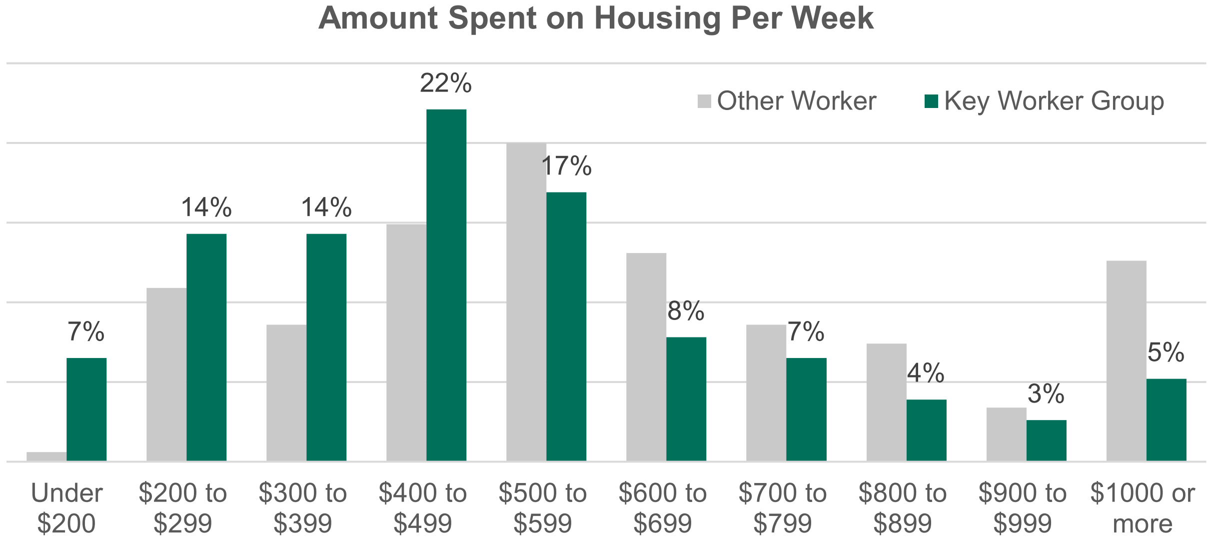


- Key worker respondents were more likely to live alone or without children than other workers

- Key worker respondents were more likely to have lower household incomes

Survey results: Respondent housing tenure and costs

Housing tenure	Other Workers	Key Workers
Renting	43%	63%
Paying off home (mortgage)	41%	19%
Own home outright	12%	9%
Not paying for housing	5%	10%
No fixed address or experiencing homelessness	0%	0%



- Key worker respondents were more likely to rent than other workers
- Key worker respondents spent less on housing costs than other workers

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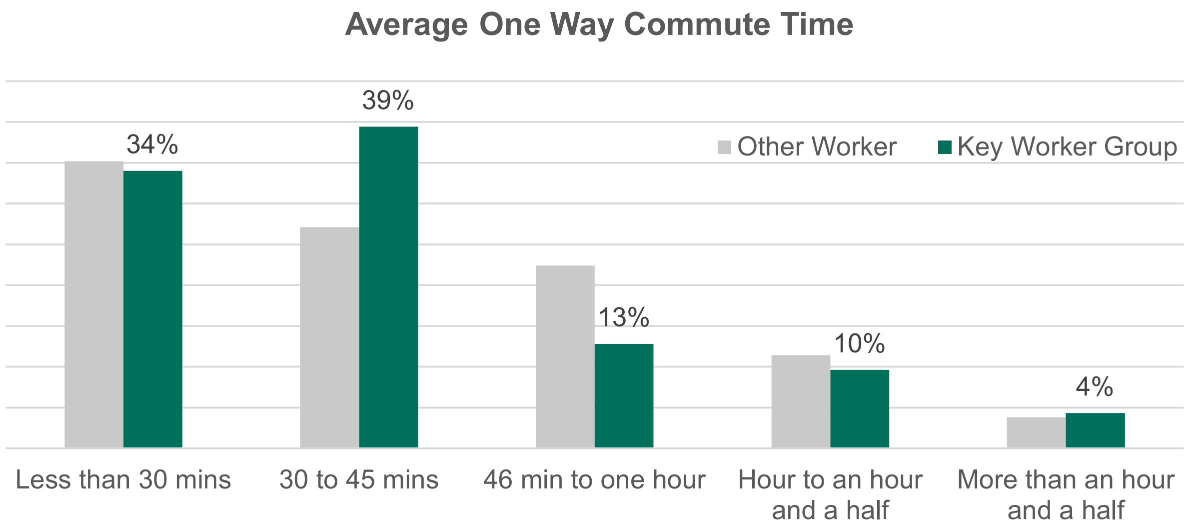
Survey results: Key worker commutes

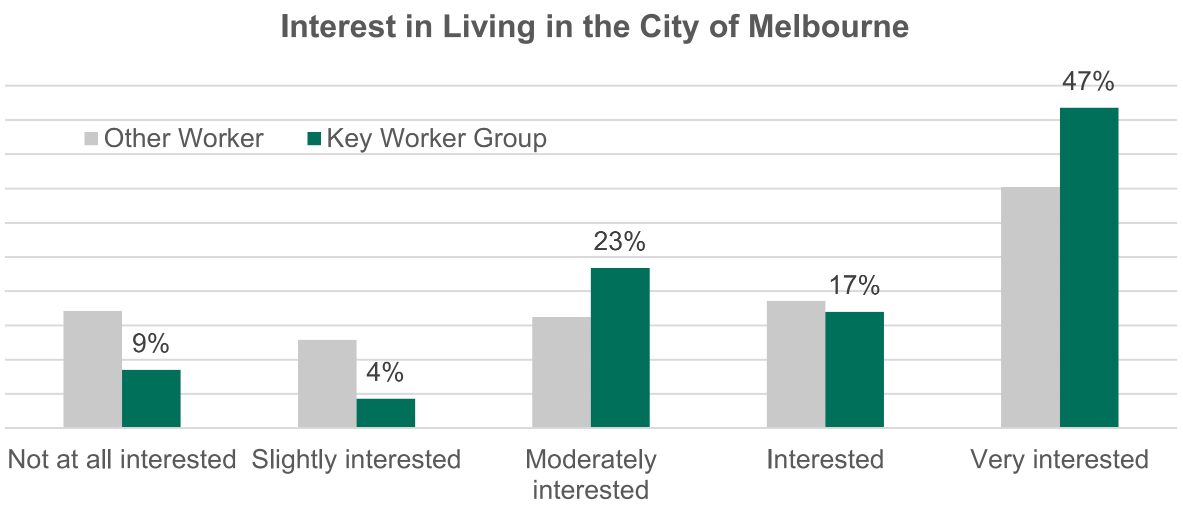
Main Mode of Commute	Other Workers	Key Workers
Motor vehicle (car or motorbike)	16%	36%
Train	33%	26%
Walk	27%	18%
Bicycle or electric bike	14%	11%
Tram	8%	6%
Electric scooter or similar	1%	2%
Bus	1%	1%



- Key worker respondents were more likely to drive to work than other workers
- Key worker respondents were more likely to commute 30-45 minutes than other workers

Survey results: Key worker interest in moving to the City of Melbourne

Main Reason for living in CoM	Other Workers	Key Workers
More employment opportunities	34%	43%
Less travel/commute time	17%	15%
Like living in city environments	17%	13%
Better entertainment opportunities	14%	12%
More accessible social activities	4%	4%
Lower cost of housing	3%	2%
Lower costs of living	1%	2%



- The most common response for moving to the City of Melbourne was for more employment opportunities

- 64% of key workers were interested or very interested in moving to the City of Melbourne, which was more than other workers (54%).

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Survey results: Willingness to spend on housing typologies in CoM

Maximum willing to pay	Stand-alone house	Townhouse	Apartment (<9 storeys)	Apartment (9+ storeys)
$900 to $999 per week	3%	3%	0%	1%
$800 to $899 per week	7%	3%	4%	4%
$700 to $799 per week	8%	8%	4%	3%
$600 to $699 per week	7%	8%	5%	4%
$500 to $599 per week	17%	12%	4%	5%
$400 to $499 per week	21%	23%	29%	23%
$300 to $399 per week	17%	23%	21%	23%
$200 to $299 per week	12%	14%	22%	23%
Under $200 per week	9%	7%	12%	13%

Maximum affordable weekly rents for 'moderate income' households, June 2023

Household type	Single	Couple	Family
Affordable rent	**$412**	**$618**	**$866**

- Most key worker respondents were willing to move to CoM if their rent was less than $500 per week.
- CoM one-bed unit median rents: $480 per week (Homes Vic, 2023)
- CoM two-bed unit median rents: $680 per week (Homes Vic, 2023)
- A discount of 27% from the median two-bed unit prices is needed to meet respondents willingness to spend on housing (<$500 per week).
- New units (and particularly BTR units) have higher market rents than the CoM median rental rates. Greater discounts are required when negotiating voluntary affordable housing agreements.

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Defining Key Worker Housing

Research and policy development report

April 2024

Contents

Acknowledgment

The City of Melbourne respectfully acknowledges the traditional custodians of the land, the Bunurong Boon Wurrung and Wurundjeri Woi Wurrung peoples of the Eastern Kulin Nation and pays respect to their Elders past, present and emerging.

We are committed to our reconciliation journey, because at its heart, reconciliation is about strengthening relationships between Aboriginal and non-Aboriginal peoples, for the benefit of all Victorians.

Homes Melbourne

Homes Melbourne is a branch of the City of Melbourne, created to reduce homelessness and increase safe, secure, and affordable housing in our city.

The City of Melbourne launched Homes Melbourne in early 2022, recognising that the complexity and extent of the housing crisis needed a comprehensive, targeted response. Homes Melbourne is helping to solve the affordable housing crisis and create pathways out of homelessness – at pace and scale.

For more information, please contact homesmelbourne@melbourne.vic.gov.au

Executive summary

Melbourne is experiencing an affordable housing crisis. Rents have increased by 15.8% over the last 12 months (CoreLogic, 2024), while wages have grown by only 4.2% (ABS, 2024). 67% of households in the City of Melbourne (CoM) are now renting, and there is a shortfall of over 5,500 affordable rental homes (SGS, 2019).

This research paper outlines the process undertaken to develop a key worker housing definition for the City of Melbourne. The research is based on detailed Australian Bureau of Statistics (ABS) data analysis and community engagement feedback from local workers and industry experts. It has been prepared by CoM Officers with specialist support from .id Consulting and Micromex Research.

The primary driver for this project is that key worker housing is not defined in local or state government policy. Without an endorsed position the state government and development sector are using varying terms or approaches, creating inconsistency through the planning process.

The key findings from the research are:

- CoM has approximately 142,000 key workers, more than any other local government area in Victoria. This workforce is forecast to grow to over 210,000 workers by 2041.
- The median CoM key worker earns 28% less than all CoM workers. Their income growth is also 16% lower than all CoM workers. CoM key workers are twice as likely to be on very low to moderate incomes when compared to all CoM workers.
- 86% of key workers commute to CoM, with most coming from the City of Merri-bek. 42% of key workers commute more than 20km, and this figure is growing over time. Lower income key workers who commute long distances are at risk of being lost to CoM.
- 20% of CoM key worker households are in rental stress, this is twice the rate of all CoM rental households. Unit rental prices in CoM are significantly higher than Greater Melbourne, and advertised unit rents are unaffordable to very low and low income key worker households.
- 64% of surveyed key worker respondents are ‘interested’ or ‘very interested’ in moving to CoM. A typical affordable housing subsidy could accommodate the location, housing type and pricing preferences of surveyed CoM key workers.

The intended outcomes of defining key worker housing are:

- Assisting with delivery of affordable housing for key workers to enable more diverse, inclusive and resilient communities.
- Providing housing options for local key workers who earn very low to moderate incomes.
- Informing future affordable housing projects on Council land, assisting advocacy opportunities with state and federal governments, and providing clarity to the development industry when negotiating affordable housing through the planning permit process.

After undertaking the research outlined above, the recommended key worker housing definition is: “Affordable rental housing that is appropriate for people who work within the City of Melbourne, who require a physical presence to perform their work, and whose household earns very low, low or moderate incomes. The housing must be owned, or managed, or allocated and monitored by a Registered Housing Agency or registered charity to the satisfaction of Council”.

1. Introduction

1.1 The context

The City of Melbourne is in the depths of an affordable housing crisis. Decades of under-investment in social and affordable housing combined with a growing population, rising housing costs, and the pandemic means there are not enough affordable homes. Only 2.5% of dwellings in Victoria are social and affordable housing. This is the lowest proportion of all Australian states and territories (.id, 2023).

The City of Melbourne is a city of renters. In 2021, 67% of households rented their home compared to just 30% in Greater Melbourne. While in the past, renting has largely been viewed as a steppingstone to home ownership, declining purchase affordability has contributed to a greater number of households remaining in the rental sector for longer periods of time, if not indefinitely.

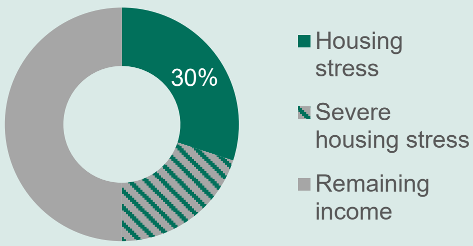
Rental rates are exceeding wages growth and are affecting very low to moderate income households most prominently. The *Homes Victoria Rental Report: March Quarter 2023* shows that median rental rates for a one-bedroom unit in CoM increased by 36% over the 12 months to March. Only 0.7% of new rentals in the CoM are affordable to low-income households (Homes Victoria, 2023).

Research commissioned for the CoM *Affordable Housing Strategy 2020-2030* found that in 2016 there was a shortfall of 5,500 affordable homes. Without intervention, this shortfall of affordable housing is likely to increase to 23,200 households by 2036. Up to 22% of all new dwellings built in CoM will need to be affordable rental housing to address the shortfall (SGS, 2019). At a nominal purchasing cost of $500,000 per affordable housing unit, addressing the 2016 shortfall would require a $2.75 billion investment.

When households on very low to moderate incomes choose to live in the municipality, they are more likely to live in inappropriate housing or forgo spending on necessities like heating or health care to pay the rent (SGS, 2019). This is not only damaging for these households, it also creates major costs for our communities. Mitigating the experience of housing stress offers the potential to create significant benefits for us all. It is an investment in both essential infrastructure and people that compounds over the long term.

Housing stress

Housing stress occurs when a very low to moderate income household pays more than 30% of their gross income on housing. Severe housing stress occurs when more than 50% of gross income is spent on housing.



1.2 Why define key worker housing?

There are substantial social, environmental and economic costs if we do nothing to address the forecast shortfall in affordable housing. In the shorter-term, the opportunity cost of not defining key worker housing in CoM could be significant.

CoM is progressing with the development of our own land for affordable housing pilot projects. Establishing a key worker housing definition could assist with the allocation process on these projects.

A key worker housing definition will also be utilised through the planning permit process to provide clarity to the development industry and ensure that key worker housing is targeted to income earners experiencing housing stress.

A key worker housing definition will also be a tool for advocacy. The Victorian Government is seeking to facilitate key worker housing through urban renewal precincts in CoM such as Arden. While the federal government is intending to fund housing for ‘essential workers’ through the proposed Housing Australia Future Fund. Without a functional definition of key worker housing, there is a risk that state and federal funding could miss the opportunity for maximum community benefit through the allocation of appropriate housing to key workers on very low to moderate incomes.

1.3 Existing research on key worker housing

Defining key workers

A key driver of this research was the Australian Housing and Urban Research Institute (AHURI) Report No. 355, *Housing key workers: scoping challenges, aspirations, and policy responses for Australian cities*. The report identifies that there is no commonly accepted definition of who is a key worker, but that key workers generally provide an essential service and earn low to moderate incomes. This income classification makes accessing appropriate housing for key workers a challenge in cities with high costs of housing.

The AHURI research found that many key workers across Melbourne are unable to access appropriate and affordable housing. Rates of housing stress and overcrowding were highest in the inner suburbs, and were most commonly experienced by those earning very low to moderate incomes. In response to these housing challenges, the inner suburbs of Melbourne experienced a net loss of key workers while outer suburbs are gaining key worker residents. The report indicates that key workers are more likely to commute to work by car and are more likely to commute longer distances when compared to other workers. The lack of available lower cost rental housing means that key workers have little incentive to relocate to, or continue living in, suburbs with high costs of housing.

AHURI found that there is growing recognition in planning policy of the housing challenges faced by key workers households. However, there are limited statutory tools and funding programs that would support the delivery of appropriate key worker housing. The report also calls for additional research to be completed at a finer spatial scale, for analysis to better understand the housing needs of specific occupations, and for the individual perspectives of key workers to be further explored. This Defining Key Worker Housing research paper seeks to resolve a small part of this further research.

Impacts of the Covid-19 pandemic

Key workers were at the centre of many policy debates throughout the pandemic. The language used to describe these workers changed to ‘frontline workers’, or ‘essential workers’ as we came to realise just how important they are to the function of our cities. Prior to the pandemic, key workers were mostly considered to be those in the public sector such as teachers, nurses or emergency service workers. At the height of the pandemic, our perceptions expanded to include those in the private sector who work in industries such as retail, transport and cleaning. As the recovery from the pandemic continues, our perceptions have expanded once again. Those who bring vibrancy and energy to the city such as musicians or chefs are just as critical in the economic recovery process.

Figure 1: Forecast shortfall in affordable housing, CoM 2016-2036

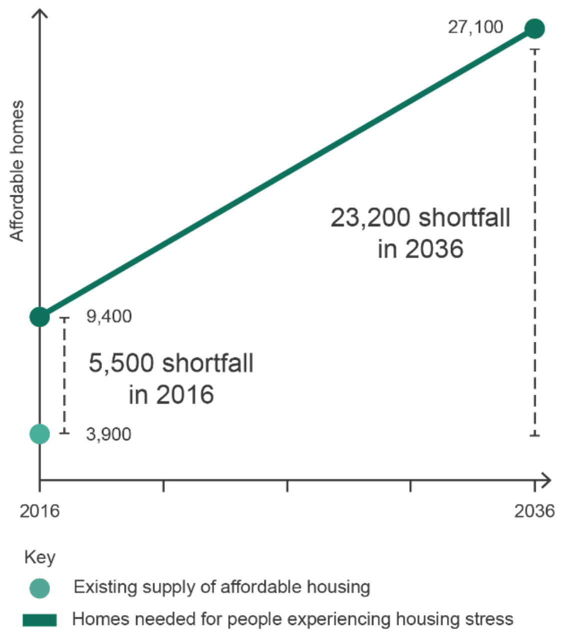
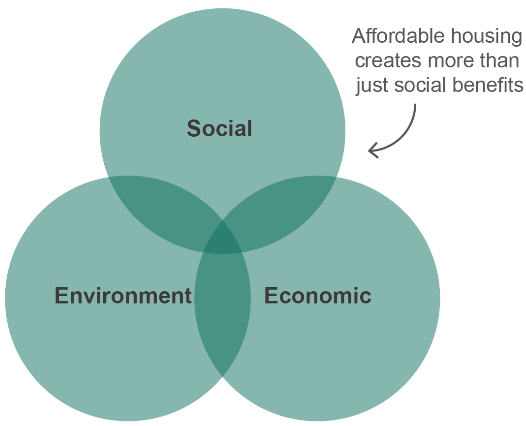


Figure 2: Benefits of investing in affordable housing



Delivering key worker housing in a time of crisis such as the pandemic is a compelling narrative for local, state and federal governments. While most investment in affordable housing is considered to be targeting primarily social outcomes, key worker housing is more commonly associated with social, environmental and particularly economic outcomes. However, research from SGS Economics and Planning shows that investment in all forms of affordable housing does create triple bottom line benefits. For every $1 invested in affordable housing, $3 worth of community benefit is provided (SGS, 2019). This return on investment is commonly more than double that of other essential infrastructure in Victoria such as road and rail projects. The rate of return on investment is so compelling, that governments would actually save money by investing in affordable housing (SGS, 2022).

The displacement of key workers

Providing rental homes for key workers is essential in creating an economically productive and resilient city with high quality services for all. The clustering of jobs within a city creates substantial productivity benefits through shared infrastructure, exchange of knowledge and access to employees. The intentional clustering of workers is a common planning policy decision in urban renewal precincts such as Arden or Fishermans Bend.

Without low to moderate income employees, workforce diversity and economic resilience can be significantly impacted (Van den Nouwelant et al., 2016). A 2019 analysis of North American cities found that Gross Domestic Product would be up to 13% higher if adequate housing had been constructed in areas with strong jobs growth (Coates, 2022). Cities are the key drivers of our economic growth. Yet a lack of mandatory affordable housing contributions in urban renewal precincts has reduced housing accessibility and will impact economic productivity.

Although key workers are critical to the functioning of our cities, the value of a key worker is generally not reflected in the wages they earn. Many key workers are associated with a high ‘positive externalities’ or ‘spillover effects’, meaning they create significant value beyond the core functions of their role (Lazarovic et al., 2016). Given the economic contribution of key workers is not truly reflected in their wages, some argue that key workers should be entitled to secure, subsidised rental housing to provide them with a greater return on their labour.

A spatial mismatch occurs when low to moderate income workers are priced out of central cities, to suburbs with lower rental prices. Areas with the most affordable rental prices (often outer urban suburbs), also tend to have the lowest stocks of appropriately sized rental units for smaller households. Renting might be theoretically affordable in certain locations, but affordable and appropriate private rental housing may not exist (AHURI, 2018).

Key worker housing case study # 1 - Moonee Ponds

In early 2020, First State Super completed their 55 unit key worker housing project on Homer Street, Moonee Ponds. First State is a superannuation fund that is targeted at healthcare workers. The project has a particular focus on reducing commuting distances to nearby hospitals. Research conducted by First State found that healthcare workers in Greater Melbourne commute 38% longer distances compared to healthcare workers across the state.

All 55 units in the project are available for rent at a 20% discount to market rates. First State defines key workers as those working in healthcare, aged care, disability services, teaching, law enforcement, emergency services, childcare and associated industries.

2. Methodology

Priority 5.4 of the Affordable Housing Strategy establishes the policy basis to facilitate affordable rental housing for key workers. Before any housing is delivered, it is important for us to define key worker housing so that any investment is targeted appropriately. The project methodology to develop a draft key worker housing definition is outlined below.

Figure 3: Project methodology and inputs

Date	Input
February 2023	Internal workshop with relevant Council officers
June/July 2023	Detailed ABS data analysis undertaken to test initial thinking and understand demand
June/July 2023	Community engagement process completed to source insights from local workers
August 2023	Preparation of draft key worker housing definition
October 2023	Industry engagement process completed to seek feedback on the draft definition

2.1 Early research and Council reporting

Early research on key worker housing started with a literature review and an analysis of community engagement feedback through the CoM 'Knowledge Bank'. This database includes more than 1,000 individual comments related to affordable housing that were submitted through engagement projects from 2020 to 2022. Analysis was also completed of existing case studies with variations in how key worker housing has recently been delivered. A selection of these have been included in this research paper.

Initial findings were workshopped with staff from across CoM in February 2023. While the project rationale and preliminary research has been discussed with colleagues at neighbouring and interstate local governments, as well as planning and delivery partners in the Victorian Government.

2.2 Data analysis and Phase 1 engagement

.id consulting were engaged to complete the additional ABS data analysis. This research analyses a range of occupations commonly understood to be key workers. Occupations were selected based on the AHURI Report No. 355 outlined above, but were expanded to include a wider range of professions based on the function of the local economy in CoM. Occupations were generally filtered by workers who require a physical presence to complete their work, who often work outside of daytime business hours and who more commonly earn very low to moderate incomes. The .id consulting report seeks to understand who is working in CoM, where they live, what they earn and whether these workers are facing housing challenges in the Greater Melbourne market. It also analyses data from the 2021 ABS census that was not available when the AHURI report was published.

As the .id consulting data analysis predominately uses ABS census data from 2021 it was decided to conduct a community engagement process to source more recent data, to test the findings of the ABS data analysis, and most importantly to pose the question – Do key workers want to live in CoM?

Micromex Research were engaged to assist with designing the online survey, conducting intercept surveys at strategic locations across CoM, and analysing the responses to extract key insights. The survey was live on the Participate Melbourne platform from May 24 to June 14, and received a total of 304 responses. Findings of the .id Consulting analysis and the Micromex Research engagement process are summarised in section five of this research paper.

2.3 Phase 2 engagement

Once a draft key worker housing definition was established, an additional engagement process was undertaken to seek feedback from industry partners. This process included:

- Preparation of a research summary on how the draft definition was developed, and an online survey hosted on the Participate Melbourne platform from October to December 2023.
- Promotion of the survey through housing related forums, and direct emails to industry partners inviting them to complete the online survey.
- Facilitation of a Victorian Government roundtable to highlight the existing policy gap and workshop the draft definition.

A total of 36 submissions were received through Phase 2 of the engagement. 64% of respondents were supportive of the draft definition, 11% of respondents held neutral views, while 25% of respondents were opposed. Based on the feedback received through this engagement, two amendments have been incorporated into the final definition.

Key worker housing case study # 2 - Kensington

In early 2022, Assemble completed their 73 unit rent-to-buy project on Macaulay Road, Kensington. Assemble has delivered 10% of these homes under their Key Worker Program, with rents reduced by 20% for eligible key workers over the five year lease period. At the end of the rental period, key workers have the opportunity to purchase their home.

Assemble has prepared a list of eligible occupations and defines key workers as ‘school teachers, medical professionals, carers, social workers, emergency services, arts and culture, and hospitality workers who work within CoM or in surrounding suburbs’.

3. Policy context

3.1 Policy alignment

There is currently no adopted definition of key worker housing in local or state government policy, despite being referenced in a range of documents. Major Initiative 44 of the Council Plan 2021-25 requires Homes Melbourne to 'facilitate more affordable housing for key workers'. Priority 3 of the CoM Economic Development Strategy 2031 is to increase 'the supply of housing for city workers'. While Priority 5.4 of the CoM Affordable Housing Strategy requires Homes Melbourne to facilitate affordable rental housing for key workers.

This research paper seeks to define key worker housing, rather than key workers. Instead of making an assessment of which workers are essential and which are not, this research aims to facilitate an increased delivery of affordable housing that is appropriate for eligible key workers. Ultimately this work aims to harness the social, environmental and economic benefits of housing key workers in CoM.

The key worker housing definition is designed to effectively operate alongside existing legislation such as the Planning and Environment Act 1987, the Housing Act 1983 and the Victorian Residential Tenancies Act 1997. The definition will also align with the Community Housing Regulatory Framework through the Housing Registrar. It is essential that any definition of key worker housing can be appropriately implemented and monitored by Registered Housing Agencies or registered charities. CoM is not intending to establish additional regulatory or reporting processes through this work.

Key worker housing case study # 3 - Caulfield North

In late 2022, Blackstone completed their 437 unit build-to-rent project on Station Street, Caulfield North. Blackstone is one of the world's largest corporate landlords. The site is covered by the Caulfield Mixed Use Area Incorporated Plan, which has an objective 'to provide affordable housing in the form of a social housing program'.

In response to this objective, Blackstone has delivered 5% of the dwellings as affordable housing for a maximum period of 10 years. The affordable housing is delivered at a 20% discount to market rents. As part of the application process, the affordable housing has since been rebranded as key worker housing. The P&E Act income limits are applied as part of the eligibility, but it is unclear what sort of workers are eligible for this key worker housing.

3.2 Defining affordable housing

There are a range of terms associated with affordable housing in Victoria. Despite legislated definitions existing, they are often applied inconsistently, which can lead to confusion and the ongoing misuse of specific terms.

The Planning and Environment Act 1987 (P&E Act) defines affordable housing as "housing, including social housing, that is appropriate for the housing needs of very low, low, and moderate-income households". These three household income ranges are updated annually in the Victoria Government Gazette and are outlined in Figure 4 below.

Figure 4: Affordable housing eligibility income ranges, June 2023

Household type	Very low income	Low income	Moderate income
Single	Up to $29,770	$29,771 to $47,630	$47,631 to $71,450
Couple	Up to $44,650	$44,651 to $71,450	$71,451 to $107,170
Family	Up to $62,510	$62,511 to $100,030	$100,031 to $150,030

Source: Planning and Environment Act, 1987

At the City of Melbourne, the Affordable Housing Strategy focuses on rental households as more than two-thirds of households in the city are renters, rental housing is more accessible than ownership for those in greatest need, and affordable rental housing is predominately managed by regulated registered housing agencies. In Victoria, affordable housing can also be for purchase through various policy programs, but the vast majority of affordable housing is rental housing.

Figure 5: Maximum affordable weekly rents for eligible households, June 2023

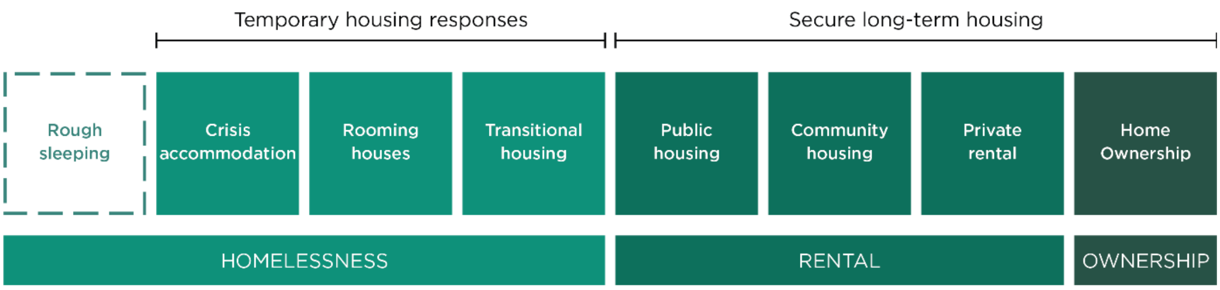
Household type	Very low income	Low income	Moderate income
Single	$172	$275	$412
Couple	$258	$412	$618
Family	$361	$577	$866

Source: Planning and Environment Act, 1987

The housing spectrum

The housing spectrum outlines a range of different housing types, from temporary housing responses through to secure long-term housing. Every household participates in the housing market at a point on the spectrum below. The housing spectrum was once considered a linear concept, where households were expected to progress toward the stability of home ownership. Given the state of our current housing markets, the aspiration has now broadened to include other forms of tenure and the focus has shifted to ensuring that all households have access to secure long-term housing. Key worker housing could be delivered through community housing, or in the private rental market with allocation and monitoring completed by a registered housing agency or registered charity (to the satisfaction of Council).

Figure 6: The housing spectrum



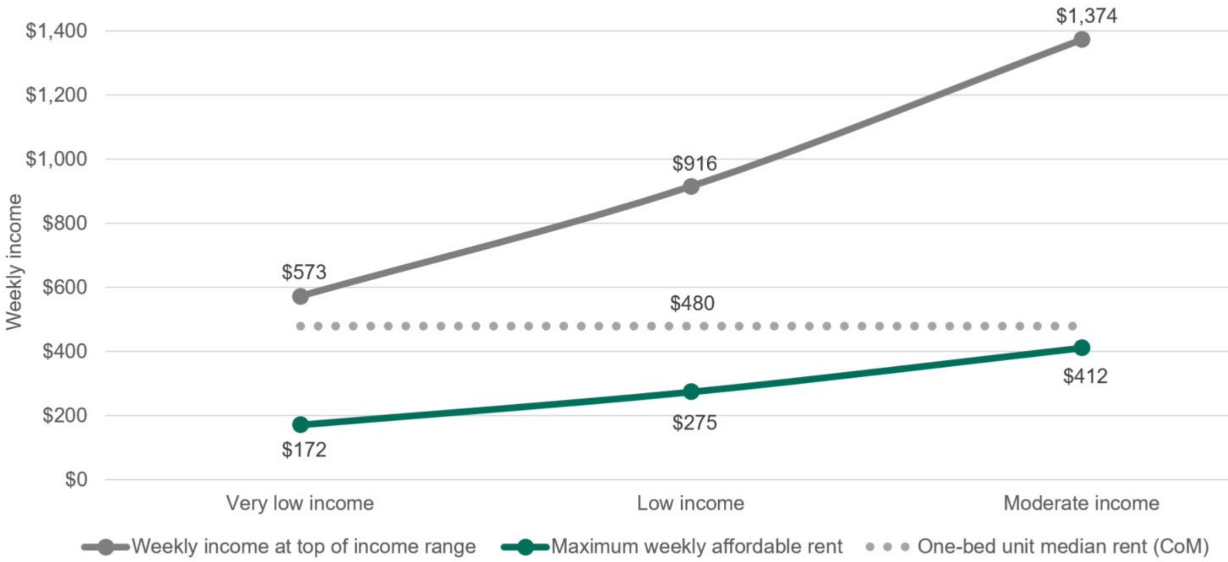
Source: CoM Affordable Housing Strategy, 2020

Affordable housing vs housing affordability

Much of the debate on the affordable housing crisis is centred on supply. The rationale is that if we build more housing, supply will exceed demand, and housing affordability will improve. Housing policy responses must be much more nuanced than this. The problem is not entirely one of housing supply, but a lack of affordable housing for households on very low to moderate incomes (Van den Nouwelant et al., 2016).

Planning policy may not be the primary barrier preventing the delivery of housing. With high numbers of dwelling approvals in CoM, local market conditions and the availability of finance or labour also impact the construction of new homes. Developers are for-profit businesses who time the release of new properties and mitigate the risk of flooding the market to optimise rather than reduce sales prices (Gurran, 2023).

Figure 7: Affordable rents for very low to moderate income single person households



Source: Planning and Environment Act, 1987

Despite recent construction booms and the dramatic increase in the number of dwellings in Melbourne, the shortfall of affordable housing continues to grow. The ongoing campaign for trickle-down housing is not delivering homes for very low to moderate income earners (Ong et al., 2017). The pursuit of increased supply isn't working for the 'mum-and-dad' investor class either. Since 1990, more than half of property investors would have achieved higher returns through their superannuation funds (Longview and Pexa, 2023).

Government subsidies or uplift mechanisms are essential in delivering affordable housing. The minimum cost of land, construction and profit means that appropriate housing for very low to moderate income earners cannot be delivered by the market alone. Figure 7 above indicates that a very low to moderate income earner cannot affordably rent a one-bedroom apartment in CoM. Resolving the housing crisis requires addressing the shortfall of affordable housing, not marginal improvements in housing affordability. Some level of subsidy is required.

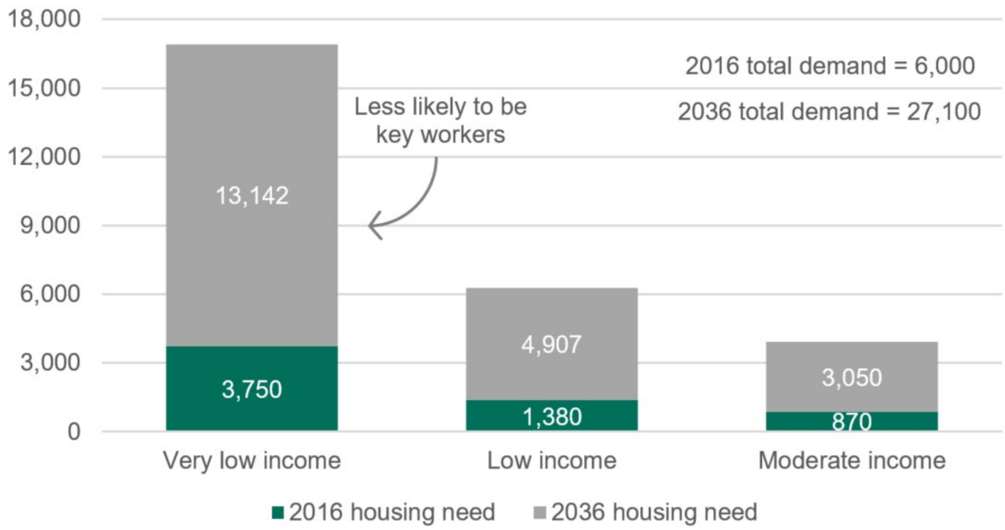
3.3 Very low income households

Key worker housing is a term that can work to unpack myths associated with who might be in need of affordable housing. It can be useful in illustrating that affordable housing is essential infrastructure that leads to substantial benefits for local communities. It is not just our most vulnerable community members who require affordable housing. But does key worker housing assist those in greatest need of affordable housing? Which key workers are most at risk of housing stress?

Key worker housing can be effectively delivered in mixed-tenure buildings with relatively limited services provided by registered housing agencies or registered charities to key workers on moderate incomes. However, very low income households may require additional wrap-around services to maintain their tenure, and their ability to pay subsidised rents may not be achievable in some mixed-tenure buildings.

As outlined in Figure 8 below, the largest current and forecast demand for affordable housing in CoM is from households earning very low incomes. This trend is reflected across Victoria. Homes Melbourne will continue to advocate for additional funding from state and federal governments, and explore using Council-owned land for housing that is appropriate for very low income households. Facilitating key worker housing is one small but important part of addressing the affordable housing crisis.

Figure 8: Demand for affordable housing by income ranges, CoM 2016 to 2036



Source: SGS Economics and Planning, 2019

Key worker housing case study # 4 – Bogong Village

In 2023, the Grollo Group subleased the existing Bogong Village for redevelopment into key worker housing. The village was originally built by the State Electricity Commission for construction of Kiewa hydro scheme. 200 key worker beds will be delivered across 27 cabins, with tenancies allocated before construction is complete through a pre-commitment process from Falls Creek businesses.

Grollo Group is intending to house key workers from a range of occupations that service the local ski fields and infrastructure. There are no income limits associated with these rentals.

4. What do we know about key workers?

This section of the research paper seeks to build upon the insights of AHURI report No. 355 by providing updated data from the 2021 ABS census, filtering findings by the City of Melbourne local government area, and including data sourced from key workers in a community engagement process.

4.1 Who works in the City of Melbourne?

Key insights

- CoM has approximately 142,000 key workers, more than any other LGA in Victoria.
- Sectors with the largest numbers of key workers are the Healthcare and the Hospitality industries. These industries employ 32.4% of all CoM key workers.
- Between 2021 and 2041, the number of CoM key workers is forecast to increase by 50% to over 214,000 key workers.

CoM is the engine room of Victoria's economy. There are almost 17,000 businesses and more than 500,000 people who work in CoM. The largest industries are 'Professional, Scientific and Technical Services' (100,077 workers), Financial and Insurance Services (77,762 workers) and Public Administration and Safety (55,954 workers).

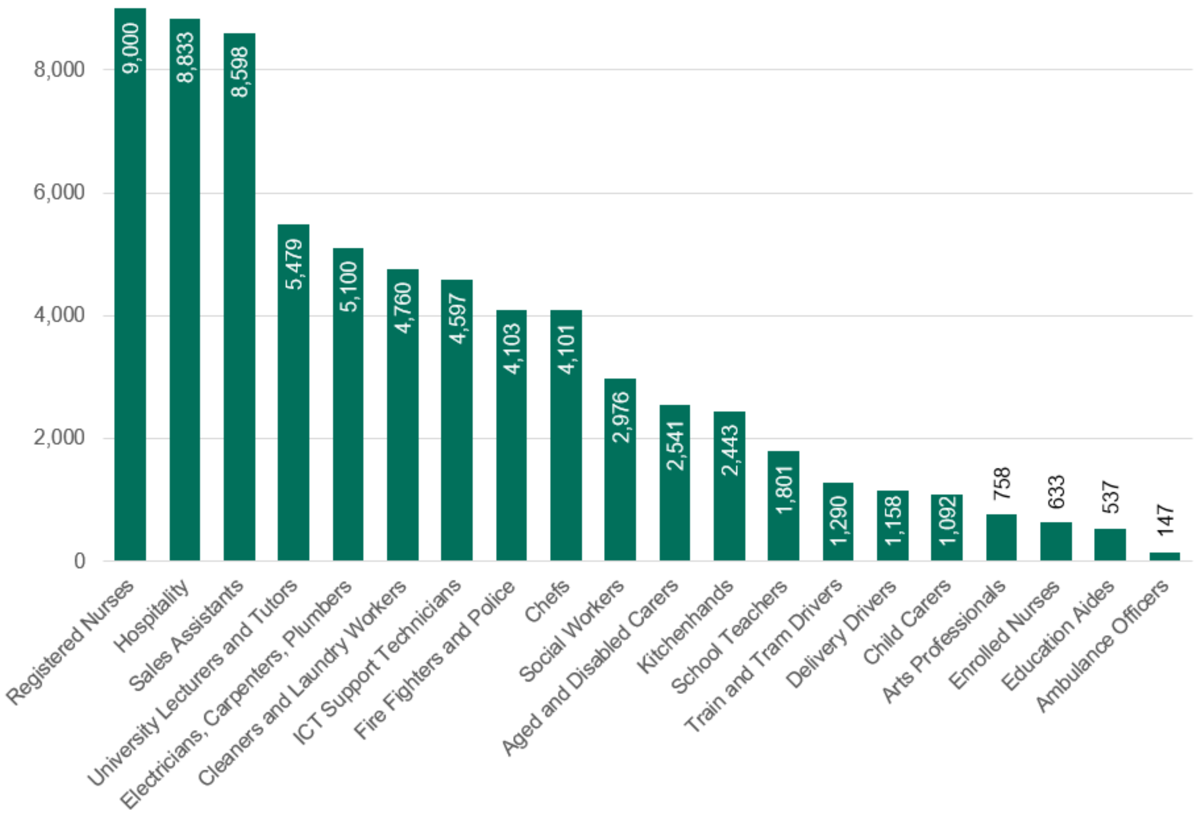
CoM is also a major centre for a diverse population of key workers. As of 2021, there were more than 142,000 key workers employed in CoM. This makes up 28% of the total CoM workforce, and 12% of all key workers in Greater Melbourne. Between 2021 and 2041, the number of CoM key workers is forecast to increase by 50% to over 214,000 key workers.

There are more key workers in CoM than any other Victorian local government area (LGA). Greater Geelong (70,211) and Greater Dandenong (60,690) employ the second and third largest number of key workers. Key workers are employed all across CoM, but there are distinct clusters around several employment precincts. The Royal Melbourne Hospital precinct (8,801 workers), The Alfred Hospital precinct (4,784 workers) and the Southern Cross Station precinct (4,708 workers) are the largest employment clusters for key worker roles.

There is a diversity of key worker occupations in CoM, reflecting the wide range of functions in the central city. A large number of CoM key workers are employed in the Healthcare and the Hospitality industries. In 2021, the two industries employed almost 46,000 key workers or 32.4% of all key workers.

The pandemic significantly impacted the number of CoM key workers. Between 2016 and 2021 the number of CoM key workers grew by 3,000 individuals, a growth rate of 2.1%. In contrast, the number of other workers in CoM increased by 63,306 workers, a growth rate of 21.3%. Key worker occupations with the greatest decrease in workers between 2016 and 2021 was sales assistants (-3,058 workers), Waiters (-1,992 workers) and Kitchenhands (-899 workers).

Figure 9: Number of CoM key workers by occupation, 2021



Source: Planning and Environment Act, 1987

4.2 What are the demographics of key workers in the City of Melbourne?

Key insights

- CoM key workers are more likely to be younger than other workers.
- CoM key workers are slightly less likely to identify as female, but this varies greatly across different occupations. 95% of Child Care workers identified as female, while only 2% of Electricians, Carpenters and Plumbers identified as female.
- 48% of CoM key workers are born overseas. 87% of Cleaners and Laundry Workers were born overseas.

In 2021, the median age of a CoM key worker was 35.6 years old, this was younger than the median age for all CoM workers (37.5 years) and for key workers in Greater Melbourne (36.4 years). CoM key workers are overrepresented in the 15-25 age group, when compare to all CoM workers. Workers in Hospitality had the youngest median age (24 years), while Train and Tram Drivers had the oldest median age (45 years).

CoM key workers were less likely to identify as female (46.8% of workers), compared to all CoM workers (48%). 95% of Child Care workers identified as female, while only 2% of Electricians, Carpenters and Plumbers identified as female. CoM key workers are more likely to be born overseas (48.2%), compared to all CoM workers (43.7%). 87% of Cleaners and Laundry Workers were born overseas, while only 13% of Firefighters and Police were born overseas. This data is also reflected in the language diversity of key workers. 41% of CoM key workers speak non-English languages at home, compared to 35% of all CoM workers.

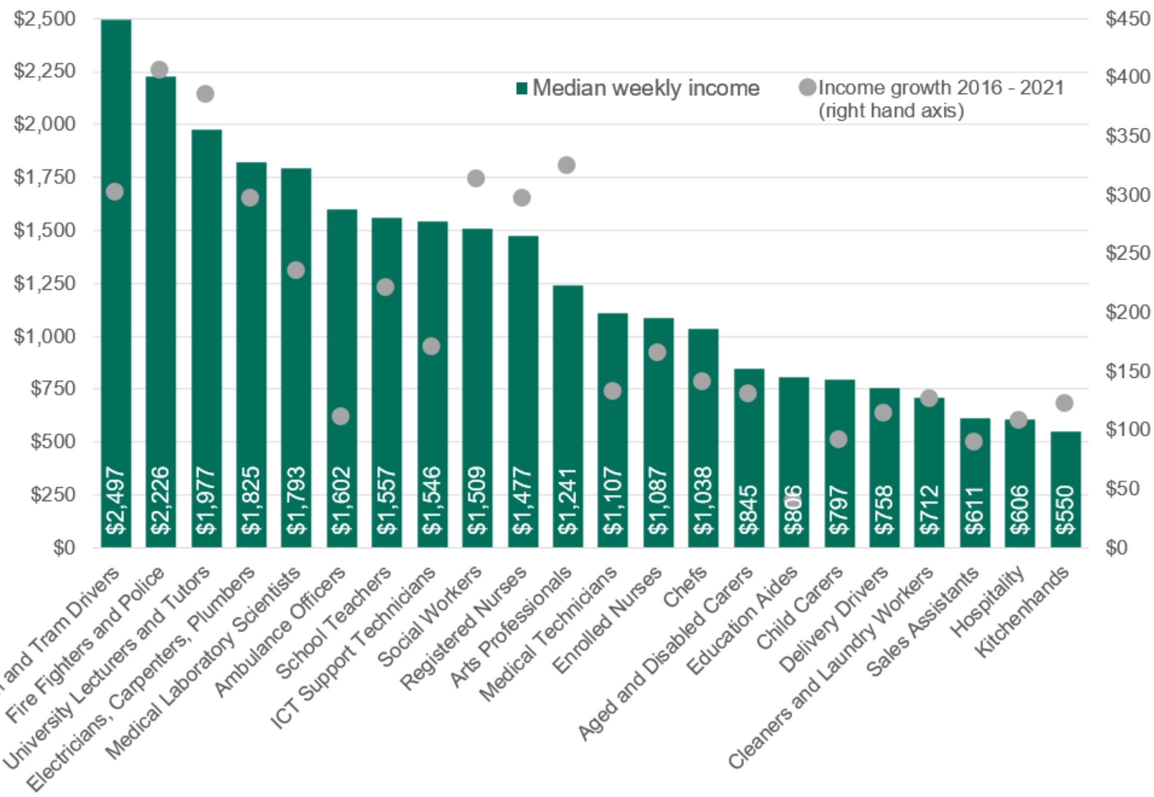
4.3 What incomes do key workers earn in the City of Melbourne?

Key insights

- CoM key workers earn less than all CoM workers, but more than Greater Melbourne workers.
- Income growth for CoM key workers is lower than all workers in CoM, but more than Greater Melbourne workers.
- CoM key workers are twice as likely to be on very low to moderate incomes when compared to all CoM workers.

The median income of CoM key workers at $1,274 per week ($66,248 per year) is more than 28% lower than all CoM workers who earn $1,758 per week ($91,416 per year). However, the CoM key worker median income is higher than Greater Melbourne key workers who earn $995 per week ($51,740 per year) and all workers in Greater Melbourne who earn $1,243 per week ($64,636 per year). Train and Tram Drivers had the highest median key worker income of $2,497 per week ($129,844 per year), while Kitchenhands had the lowest of $550 per week ($28,600 per year).

Figure 10: Median weekly income and income growth by occupation, 2021



ABS Census of Population and Housing, 2021

From 2016 to 2021, the income growth of CoM key workers ($283 per week) was 16% lower than all workers in CoM ($337 per week). The highest income growth of $406 per week was experienced by Fire Fighters and Police. The income of Education Aides grew by just $41 per week – without considering inflation, this represents annualised wage growth of just $8.20 per week or $426 per year.

The share of CoM key workers on very low to moderate incomes (37%) is more than double that of all CoM workers. The proportion of very low to moderate income earners varies greatly by industry (outlined in Figure 11 Below) and further by occupations. 99% of Kitchenhands were very low to moderate income earners, while just 9% of Train and Tram Drivers are moderate income earners, with no workers in this occupation earning very low or low incomes.

Figure 11: Very low to moderate income earners by industry, CoM 2021
NB: Only the ten largest industries are shown below.

Industry	Total employment	Number very low to moderate earners	% very low to moderate earners
Accommodation and Food	21,842	16,163	**74%**
Professional, Scientific, and Technical	96,061	15,183	**16%**
Retail Trade	16,496	8,746	**53%**
Health Care and Social Assistance	41,418	7,743	**19%**
Financial and Insurance	75,089	7,470	**10%**
Education and Training	28,744	7,262	**25%**
Administrative and Support	16,432	6,790	**41%**
Arts and Recreation	13,910	4,873	**35%**
Public Administration and Safety	53,876	4,586	**9%**
Construction	17,642	2,713	**15%**

ABS Census of Population and Housing, 2021

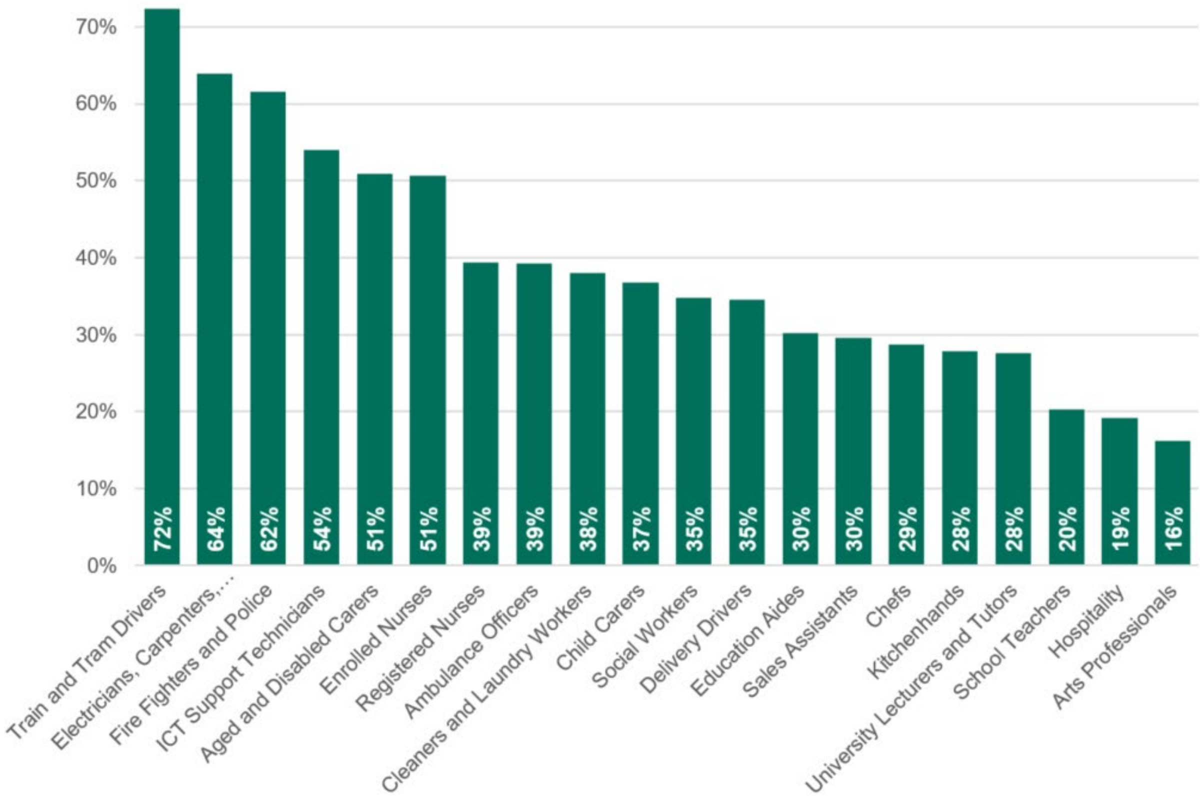
4.4 How do key workers commute to work in the City of Melbourne?

Key insights

- The majority of key workers commute to CoM, with most coming from Merri-bek.
- The share of key workers commuting more than 20km is high, and growing over time.
- Lower income key workers who commute long distances are at risk of being lost to CoM.

In 2021, approximately 19,650 CoM key workers (14%) lived and worked in CoM, compared to 10% of all CoM workers. The most common places of residence by LGA were Merri-bek (9,591 commuters), Wyndham (9,008 commuters) and Darebin (5,855 commuters). 58,668 of CoM key workers (44%) are commuting more than 20km to work.

Figure 12: Percentage of key workers commuting more than 20km to CoM, 2021



Source: ABS Census of Population and Housing, 2021

Between 2016 and 2021, the share of key workers commuting more than 20km increased by more 2.2%. The largest proportion of CoM key workers travelling more than 20km was Train and Tram Drivers at 72%, compared to just 16% of Arts Professionals. The median commuting distance of CoM key workers was 14.5km. The median commuting distance for Train and Tram Drivers was 29.5km, while for Hospitality workers it was 6.5km.

Figure 13: Key worker commutes to CoM, 2021

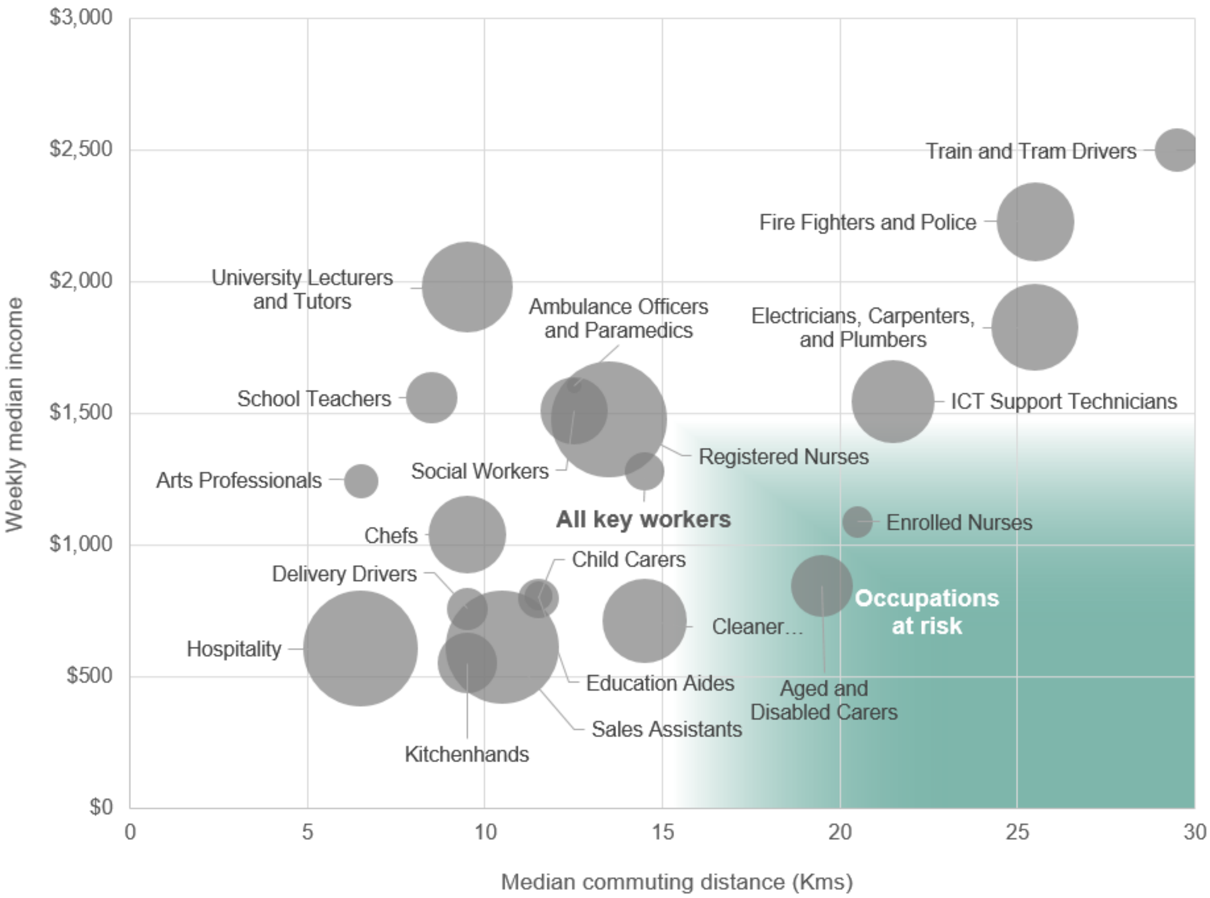
Distance	Key workers	Proportion
Less than 2.5 km	15,294	11%
2.5 - 5 km	11,923	8%
5 - 10 km	23, 247	16%
10 - 20 km	32,630	23%
20 – 30 km	28,036	20%
More than 30 km	30,062	22%

Source: ABS Census of Population and Housing, 2021

In 2021, a high proportion of healthcare workers travelled to work by private vehicle, including 90% of Ambulance Officers, 70% of Enrolled Nurses and 65% of Registered Nurses. Active transport modes were rarely used among this cohort, while less than 5% of these listed healthcare workers ‘worked from home' on census night. As the 2021 census was completed during pandemic restrictions, the journey to work data provides an insight into which occupations must commute to complete their work.

As outlined in Figure 14 below, very low to moderate income earners are more likely to have shorter commutes. However key workers such as Aged Carers, Enrolled Nurses and Commercial Cleaners all have lower incomes, but higher than median commuting distances. These workers are highly vulnerable and are likely to seek employment closer to home if their costs of commuting increase. There is a risk that services in this risk profile will be lost to CoM without the delivery of adequate key worker housing. Between 2016 and 2021, more than 7,000 key workers moved from an 'M9 inner-council' to outer suburban LGAs with lower housing costs such as Wyndham, Hume and Whittlesea.

Figure 14: Weekly median income vs median commuting distance by occupation, 2021
NB: Circle size represents the number of CoM key workers



Source: ABS Census of Population and Housing, 2021

4.5 Is appropriate and affordable housing accessible for key worker households?

Key insights

- Key worker households are more likely to live alone, and to rent in high-density housing.
- Key worker households were twice as likely to be in rental stress compared to all CoM worker households.
- Unit rental prices in CoM are significantly higher than units in Greater Melbourne, and advertised units were unaffordable to very low and low income key worker households.

This section of the data analysis is based on key worker households, rather than individual workers as previously outlined. A key worker household is one where the ‘reference person’ who was listed as Person 1 on their census form is a CoM key worker, while their home may be located outside of CoM.

Key worker household characteristics

As of 2021, CoM key worker households are more likely to be ‘lone person households’ and less likely to be ‘families with children’ households when compared to all CoM worker households. This household type significantly influences where key workers live. ‘Lone person households’ and ‘group households’ were more likely to live in CoM, while ‘families with children’ were more likely to live in middle-ring and outer suburbs.

CoM key worker households are more likely to rent (44% of households), compared to all CoM worker households (36%) and Greater Melbourne households (39%). Lower income key workers are even more likely to rent. 77% of CoM Hospitality workers rented their home, while just 22% of Emergency Services workers were renters. 55% of key worker households owned their dwelling outright or with a mortgage, compared to 63% of all CoM workers.

25% of CoM key worker households live in high-density housing (apartment buildings of four or more storeys), compared to just 13% for Greater Melbourne Households. Hospitality workers were most likely to live in high-density housing (56%), while Train and Tram Drivers were the least likely (8%).

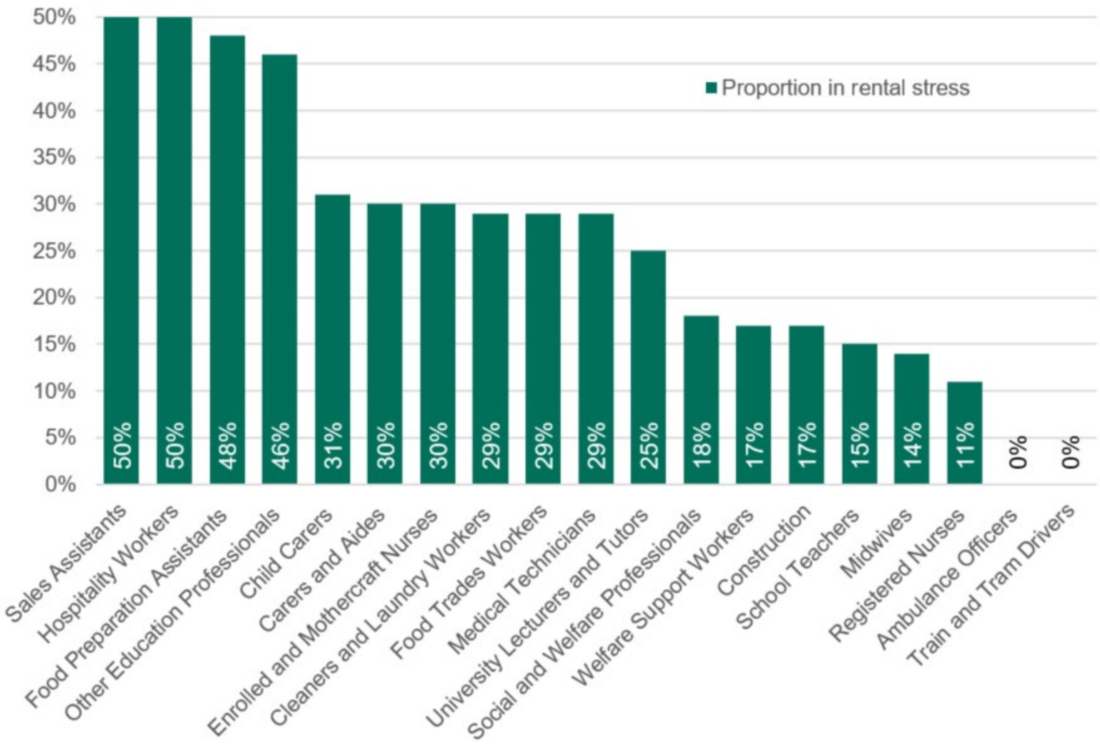
CoM key worker households were slightly more likely to live in overcrowded dwellings (4.3%) when compared to all CoM worker households (2.6%). However, overcrowding is particularly prevalent in specific industries. 15% of Automobile and Delivery Drivers, and 14% of Commercial Cleaners live in overcrowded conditions. This overcrowding was most likely to be occurring in dwellings within CoM, compared to the middle-ring or outer suburbs.

Key worker household incomes

CoM key worker households were more likely to earn very low to moderate household incomes (48%), compared to all CoM worker households (29%). Households most commonly earning these incomes were working in occupations such as Food Preparation Assistants, Hospitality, and Sales Assistants.

9,562 key worker households (20%) were in housing stress in 2021, twice the rate of all CoM households. 6,844 of these households (72%) were renters, with the majority earning very low or low household incomes. The highest rates of rental housing stress were amongst households headed by Sales Assistants (50%), Hospitality Workers (50%) and Food Preparation Assistants (48%). Of the CoM key worker households experiencing rental stress, 40% lived in CoM while just 20% lived in the outer suburbs.

Figure 15: Household rental stress by selected key worker occupations



Source: ABS Census of Population and Housing, 2021

Rental prices for key worker households

Many unit rental prices were substantially discounted through the pandemic. The median unit rental price in CoM fell by 38%, before returning to pre-pandemic levels by late-2022. As of December 2022, the median rental price of units in CoM is $550 per week and is 29% higher than the median price of units across Greater Melbourne. Some CoM key worker households such as Firefighters or Train and Tram Drivers can afford this median rent without experiencing rental stress. While other key workers such as Hospitality Workers or Sales Assistants would be placed into significant housing stress.

Through an analysis of all properties advertised for rent in CoM during 2022, just 2,146 (11%) were affordable to key worker households with very low incomes. 88% of these units were studios or one-bedroom dwellings. 12,345 advertised units (62%) were affordable to low income key worker households, and 18,867 units (95%) were affordable to moderate income key worker households.

4.6 Do key workers want to live in the City of Melbourne?

A community engagement process was undertaken to test the findings in the ABS data analysis outlined above. The online survey received 304 responses. 94 of the respondents were classified as key workers who would be eligible for key worker housing.

Key insights

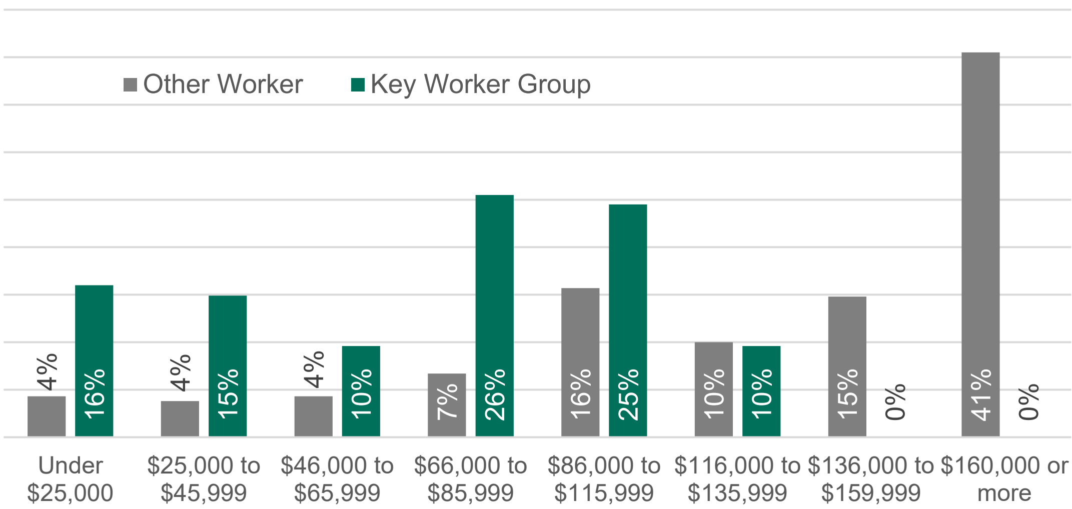
- Key worker respondents are more likely to be younger, to rent, and to live alone. They are more likely to commute by car, earn lower incomes and be in housing stress.
- Most key worker respondents are interested or very interested in moving to CoM.
- A typical affordable housing subsidy would accommodate the location, housing type and pricing preferences of CoM key workers.

The demographics of the key worker respondents generally aligned with that found in the ABS data analysis. Key workers were generally younger, with 61% of respondents aged under 35. They were more likely to rent, with 63% of respondents renting their home. Key workers were much less likely to have a mortgage (19% vs 41% for other workers) and less likely to own their home outright (9% vs 12% for other workers). Key workers were also more likely to live alone, with 26% of key workers in a sole person household compared to just 13% of other worker respondents.

They often worked outside of traditional business hours, 54% of respondents were shift workers compared to just 8% of other workers. 31% of key worker respondents were employed in the Healthcare industry, followed by 18% in Accommodation and Food, and 16% in Education. Other worker respondents were most likely to work in Professional, Scientific and Technical Services (19%).

Key worker respondents were much more likely to earn lower incomes when compared to other respondents. As outlined in Figure 16 below, there is a significant overrepresentation of key worker respondents in lower income groups from 'Under $25,000' per year through to '$86,000 to $115,999' per year.

Figure 16: Household income of survey respondents



Source: Micromex Research, 2023

Despite earning less than other workers, key workers only spent marginally less on housing per week. The median key worker respondent spent $499 per week on rent, while the median other worker spent $612 per week. The difference may be explained by the types of housing that key workers live in. Key workers were less likely to live in a detached house (39%) compared to other workers (43%). Key workers were more likely to live in apartment buildings taller than nine storeys (25%) compared to other workers (19%). Despite the relatively cheaper housing choices of key worker respondents, they were more likely to be in housing stress (spending more than 30% of their gross household income on housing). Key workers spend 48% of their income on housing compared to 28% for other workers.

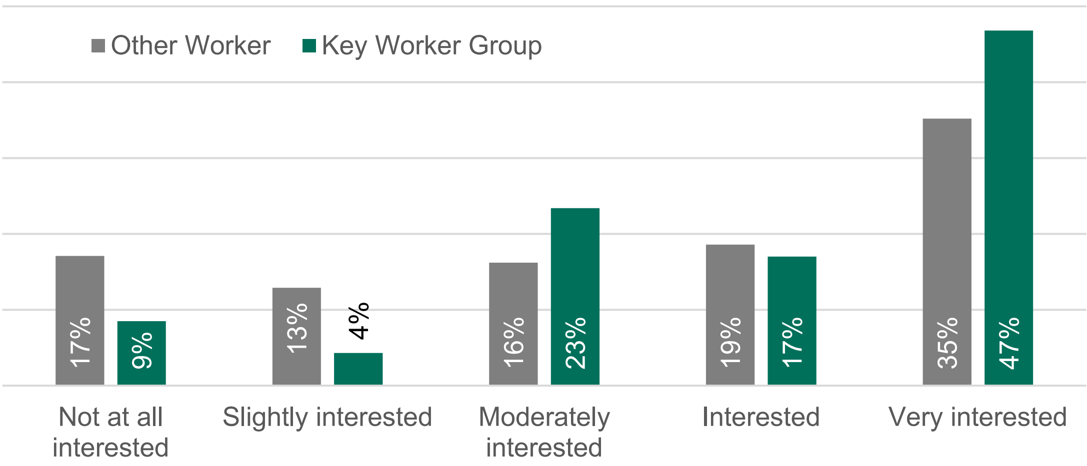
Key worker respondents were more likely to travel by motor vehicle (36%) compared to other workers (16%). Key workers were less likely to commute by public and active transport modes and spent more days per week commuting as they generally cannot work from home. As a result, key workers generally spent more income per week on commuting costs. 49% of key workers spent more than $50 per week commuting, compared to just 35% of other workers. Key workers were slightly more likely to commute for longer periods of time, with an overrepresentation of key workers (39%) commuting '30 to 45 minutes' compared to other workers (27%).

The primary purpose of this engagement process was to determine if key workers want to live in CoM.

- 64% of key worker respondents were 'interested' or 'very interested' in moving to CoM.
- 54% of other workers were 'interested' or 'very interested'.
- The most common reason provided for both groups was 'more employment opportunities', followed by 'reduced commute time'.

If they were to move to CoM, key workers were most interested in choosing a townhouse (62%) or an apartment building lower than nine storeys (56%). Most key workers respondents housing choices correlated with their existing housing typology (i.e. those already living in an apartment building nine storeys or taller were most likely to accept this as a future housing option). Key workers were willing to spend more on rent in a stand-alone house or townhouse than in an apartment building. There was limited difference between their willingness to pay rents in apartment buildings lower than nine storeys, compared to those that are nine storeys or higher.

Figure 17: Interest in living in the City of Melbourne



Source: Micromex Research, 2023

The median rents that key worker respondents were willing to spend was higher for stand-alone houses ($500 per week or 40% of household income) and townhouses ($450 per week or 36% of household income), when compared to apartment buildings ($400 per week or 32% of household income).

As of March 2023, the median rent for a one-bedroom unit in CoM is $449 (Homes Victoria, 2023). Registered housing agencies commonly discount rents by at least 25% for eligible tenants, reducing this median rent for a one-bedroom unit in CoM to $337 per week. Registered charities are required to discount rental rates by 25% in order to be eligible for GST exemptions. At a 25% discount, this median rent would be now be affordable for moderate income earners in single person households as defined by the P&E Act. Figure 18 below shows that a discounted rent of $337 per week is less than the median rent that a majority of surveyed key worker households are willing to spend in an apartment building in CoM.

The engagement process has illustrated that a 25% discount rate applied to key worker housing would accommodate the location, housing type and pricing preferences of CoM key workers. This discount would bring rents down to a percentage of household income that is appropriate for moderate income earners. Rent setting would be determined through the planning permit process for each development, depending on the location and the type of housing delivered.

Figure 18: Maximum rent that survey respondents are willing to pay by housing type

Maximum willing to pay	Stand-alone house	Townhouse	Apartment (<9 storeys)	Apartment (9+ storeys)
$1000 or more per week	1%	0%	0%	0%
$900 to $999 per week	3%	3%	0%	1%
$800 to $899 per week	7%	3%	4%	4%
$700 to $799 per week	8%	8%	4%	3%
$600 to $699 per week	7%	8%	5%	4%
$500 to $599 per week	17%	12%	4%	5%
$400 to $499 per week	21%	23%	29%	23%
$300 to $399 per week	17%	23%	21%	23%
$200 to $299 per week	12%	14%	22%	23%
Under $200 per week	9%	7%	12%	13%
% Household income estimate	**40%**	**36%**	**32%**	**32%**

Source: Micromex Research, 2023

4.7 What role can Build-to-Rent play in housing key workers?

Key insights

- Melbourne is considered to be the Build-to-Rent capital of Australia.
- Build-to-Rent units are commonly leased at a premium above market rates.
- A typical affordable housing discount is not adequate to make these units affordable to very low to moderate income earners.

Build-to-Rent housing (BTR) is not affordable housing. It is housing that is purpose-built, retained and managed as long-term rental stock, usually by a single owner. BTR is well established in the UK, US and Canada but is an emerging housing typology in the Australian market. Melbourne is considered to be the BTR capital of Australia with 63% of the national pipeline planned for the city (JLL, 2023).

BTR projects are most commonly higher density developments and are often located in urban areas with excellent access to transit and amenities. As they are retained by the developer during the operation period, the build quality is generally higher and sustainability features are enhanced when compared to a traditional ‘Build-to-Sell’ development (where units are strata titled and sold separately). Communal amenity features are also typically to a higher standard, with up to 5-6 sq. m of amenity area per apartment compared with 1 sq. m for BTS projects. An improved rental experience can potentially be provided for tenants with a large corporate landlord, while lease terms can be extended beyond a standard 12-month period (SGS, 2022).

This research identifies that there are significant benefits to delivering key worker housing in CoM through a BTR model. The best identified process to regulate this will require developers to partner with a registered housing agency or registered charity (to the satisfaction of Council) to allocate tenants and provide regular monitoring of tenant eligibility. As BTR units are leased at a substantial premium above market rental rates, a typical affordable housing subsidy of 25% may not be significant enough to make BTR units affordable for very low to moderate income earners as outlined in the tables below.

The appropriate discount to market rent would be determined through a voluntary affordable housing agreement for each site. Discounted rents in a BTR development must be tied to the household incomes outlined in the P&E Act in order to be appropriate and affordable for key worker households and to reduce rental stress.

Figure 19: Indicative weekly rents in a recently constructed BTR project in CoM

	Studio	One-bed	Two-bed	Three-bed
Weekly rents	$595	$660	$998	$1,420
25% discount	$446	$495	$749	$1,065

Source: Home Apartments, 2023

Figure 20: Maximum affordable weekly rents for moderate income households

Household type	Single	Couple	Family
Affordable rent	$412	$618	$866

Source: Planning and Environment Act, 1987

5. Defining key worker housing

5.1 Phase 2 engagement

Following Council's endorsement of the draft definition in September 2023, phase 2 engagement was undertaken with industry partners. Based on the feedback received through this engagement, some amendments have been incorporated into the final definition.

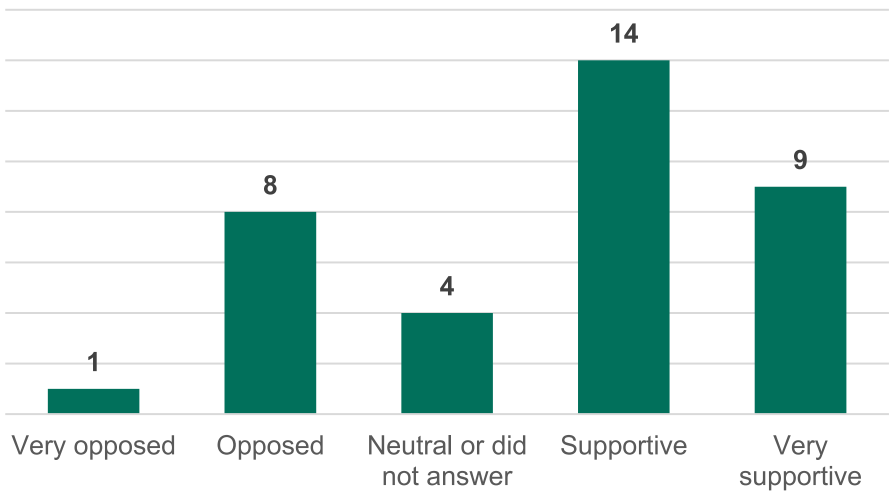
The draft key worker housing definition circulated for comment was:

Affordable rental housing that is appropriate for people who work within the City of Melbourne, who require a physical presence to perform their work, and whose household earns very low, low or moderate incomes. The housing must be allocated and monitored by a Registered Housing Agency.

Phase 2 engagement structure

1. Preparation of a research summary on how the draft definition was developed, and an online survey was hosted on the Participate Melbourne platform from October to December 2023.
2. Promotion of the survey through housing related forums, and direct emails to industry partners inviting them to complete the online survey.
3. Facilitation of a Victorian Government roundtable to highlight the existing policy gap and workshop the draft definition.

Figure 21: Phase 2 engagement respondent level of support for the draft definition.



Key feedback from Phase 2 engagement

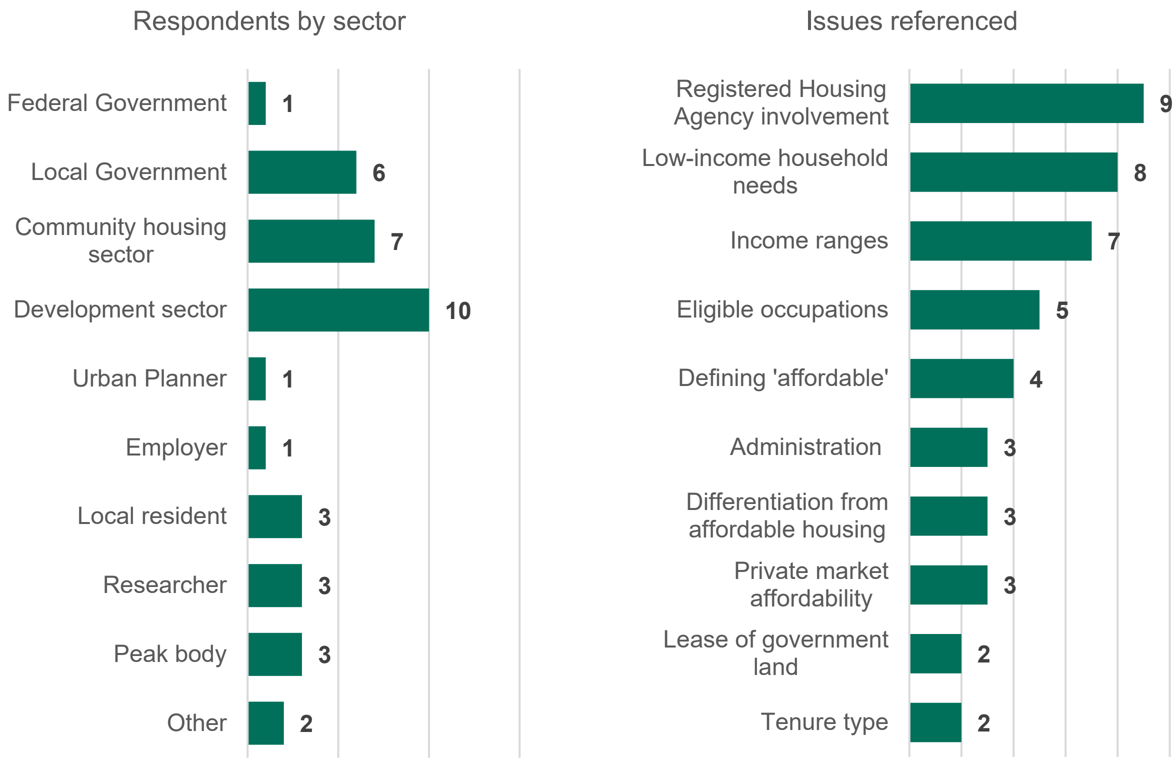
A total of 36 submissions were received through Phase 2 of the engagement. 64% of respondents were supportive of the draft definition, 11% of respondents held neutral views, while 25% of respondents were opposed. Key feedback included:

- The involvement of registered housing agencies, and whether registered charities or private companies could allocate or manage tenants. Some submitters also sought further clarity on the proposed allocation and monitoring process.
- The use of existing income ranges established by the Act, and whether higher income key workers should be eligible. Some submitters were concerned that key worker housing is likely

to serve moderate income households, rather than very low income households where the need is greatest.

- The 'physical presence' requirement in the draft definition, rather than establishing a list of eligible key worker occupations. Some submitters suggested that priority occupations could be established, while others recommended that pandemic-era essential worker lists could be adopted.

Figures 22 and 23: Engagement respondents by sector, and common issues referenced



Revisions to the draft definition

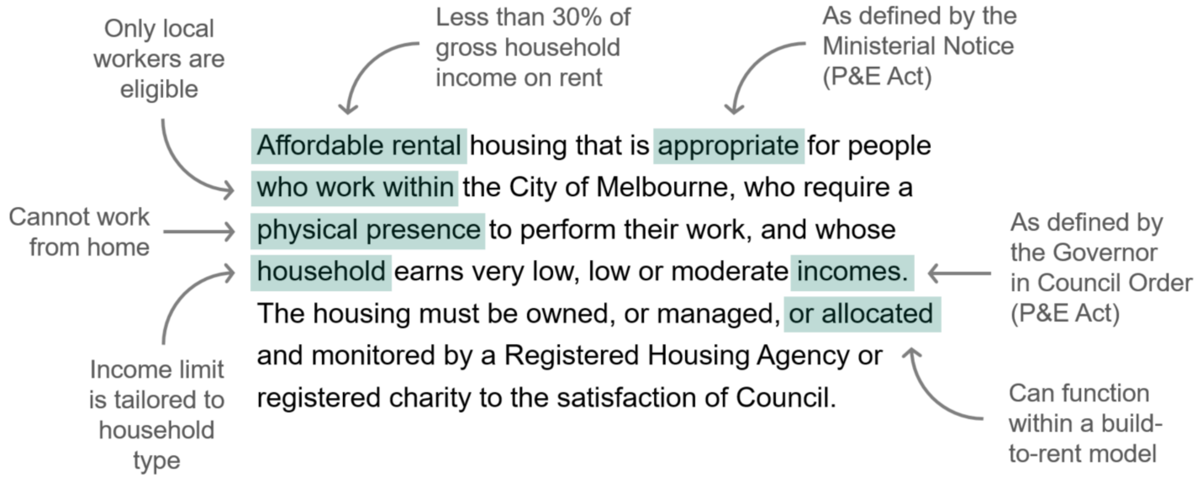
In response to Phase 2 of the engagement, the revised definition incorporates two key changes:

1. The inclusion of registered charities as eligible housing providers (in addition to registered housing agencies). These organisations are registered by the Australian Charities and Not-for-profits Commission (ACNC), are required to set rents below 75% of market value to qualify for Goods and Services Tax (GST) concessions, must be a not-for-profit entity, and must comply with ACNC Governance Standards to maintain their registration.

2. Clarification has been provided that key worker housing could be 'owned, or managed, or allocated and monitored' by eligible housing providers. 'Allocation and monitoring' is a minimum requirement of housing providers that intends to make key worker housing function in housing models such as 'build-to-rent'. Further detail on this model will be provided through the implementation process.

5.2 Key worker housing definition

After the initial research process, internal workshopping, more detailed data analysis and two rounds of engagement, the key worker housing definition and explanatory notes are outlined below.



Affordable rental

Consistent with the CoM Affordable Housing Strategy, the key worker housing definition focuses on affordable rental housing. 'Affordable' means that rents are set at less than 30% of gross household income. The community engagement process has indicated that a 25% discount to market rents could deliver affordable rental housing for households in the P&E Act income ranges depending on the location and housing type delivered.

There is a significant cohort of workers that are living in inappropriate rental housing conditions. The needs of these workers should be prioritised before those who are in a position to purchase their home. A range of first home buyer grants, discounted purchase programs and shared equity schemes are available with support from developers as well as state and federal governments.

Appropriate

Appropriate is a key component of the affordable housing definition in the P&E Act. This term is further unpacked in the Ministerial Notice that accompanies the P&E Act. It includes matters such as allocation, affordability, longevity, tenure, type of housing, location and integration.

Who work within

Only local workers are eligible for key worker housing. This ensures that the community benefit is retained locally, local services are maintained and commuting distances are reduced.

Physical presence

Key workers generally require a physical presence to perform their work activities. This does not relate to an employer who prefers to have their staff in the office, it requires that workers cannot complete their work activities from home. This measure seeks to house employees who commute every day, closer to where they work.

Household

Only one member of the household needs to be a key worker, but eligibility is based on the gross household income of all occupants.

Incomes

Income eligibility is determined by the Governor in Council Order that is linked to the P&E Act. This utilises an existing regulatory tool and is updated annually. The ABS data analysis showed that workers earning above moderate incomes were less likely to be in housing stress. Market intervention through subsidised rental housing is generally not necessary for higher income earners.

Allocated and monitored

A registered housing agency or registered charity (to the satisfaction of Council) must at a minimum allocate tenants and monitor their eligibility. Key worker housing could also be owned or managed by the housing provider. This utilises an existing regulated sector of the development industry to ensure appropriate outcomes are achieved.

The key worker housing definition is intended to function in both build-to-sell (where units are strata titled and sold separately) and build-to-rent asset classes. If the key worker housing is in a build-to-rent proposal, tenants must be allocated by a registered housing agency or registered charity (to the satisfaction of Council), with their ongoing eligibility monitored regularly. In line with their preferred management model, the daily management of tenant needs can still be carried out by the build-to-rent operator.

5.3 Implementation

Implementing the key worker housing definition will involve three distinct steps that are linked to current Homes Melbourne work.

1. ‘Planning’ will involve the preparation of a practice note with explanatory information, and creation of draft planning permit conditions for use in voluntary affordable housing agreements.
2. ‘Monitoring’ will involve tracking the delivery of key worker housing against Section 173 agreements, assessing regular reporting of tenant eligibility and rental affordability, and undertaking planning enforcement where necessary. Processes regarding the management of tenants is dependent on the operations of the registered housing agency or registered charity (to the satisfaction of Council) involved and is outside the scope of this work.
3. ‘Advocacy’ will involve including of the key worker housing definition where relevant in Homes Melbourne advocacy documents to other capital cities, the M9 group of councils, the Australian Government, to the Victorian Government, and to industry partners.

The affordable housing policy context is evolving and it is important that management test an endorsed key worker housing definition and its application. If a relevant policy or definition is introduced by the Victorian or Australian Government, a review of the definition will be undertaken.

Once key worker housing projects are delivered, a case study will be developed to test the implementation of this definition and the real world impacts of housing our key workers.

6. Conclusion

For decades Melbourne has seen substantial growth in the price of our housing for purchase and for rent, with the impacts of this exacerbated by the pandemic. While much of the debate continues to centre on purchase affordability and increased housing supply, there is generally little consideration of rental households earning very low to moderate incomes.

Housing stress is a longstanding and worsening issue for key workers in CoM. It is a systemic problem that requires critical intervention from all levels of government. With a growing spatial mismatch between areas with high job densities and suburbs with accessible affordable housing, inappropriate housing conditions and long distance commuting is likely to increase. This trend has significant implications for key worker wellbeing, the delivery of essential services and the functioning of our city.

Although key worker housing is an important part of the housing spectrum, the affordable housing crisis is so complex that it cannot be resolved by a single policy response. Beyond establishing definitions, a range of planning and financial measures must be packaged together by all three levels of government to address the affordable housing crisis.

Our research shows that key workers earning very low to moderate incomes are facing significant housing stress and are in need of support. A typical 25% discount from median rents would accommodate the location, housing type and pricing preferences of surveyed CoM key workers who are seeking to spend 30% of their household income on rent.

Delivering appropriate and affordable housing for key workers is not something that CoM can solve alone. There is demand for a holistic policy framework and collaboration with partners across the sector. By establishing a clear definition and robust evidence of demand for affordable key worker housing, this research paper seeks to provide clarity for the development sector, to act as a strong evidence base for advocacy to state and federal governments and to ensure that community benefit can be retained locally for households most likely to experience housing stress.

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