

The Deposit Gap Dilemma

The Impact on Key Workers

April 2019



Report prepared by
PwC Australia

Genworth 

**TEACHERS MUTUAL
BANK LIMITED**

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1. Basis of this Report

This Report examines the ‘deposit gap dilemma’ facing Key Workers in Sydney and Melbourne. It explores the possible consequences of Key Workers in these cities being unable to save a 20% deposit to buy a home, near their place of work, within a reasonable time frame (deposit gap dilemma). It does not provide commentary on issues Key Workers may be facing with renting in these two cities.

This Report has been commissioned by Teachers Mutual Bank Limited and Genworth and has been prepared by PwC Australia on the basis of:

- Findings of a survey undertaken by CoreData (on behalf of Teachers Mutual Bank Limited and Genworth) in November 2018 of 1,084 respondents, comprised of 506 Key Workers and 578 members of the general population, evenly divided between Sydney and Melbourne (**CoreData Survey**);
- Desktop research and analysis undertaken by PwC Australia; and
- Individual interviews with Key Workers undertaken by PwC Australia.

This Report builds upon the University of Sydney report titled “Key Worker Housing Affordability in Sydney” commissioned by Teachers Mutual Bank, Firefighters Mutual Bank, Police Bank and My Credit Union in 2017 (**Sydney University TMB Report**).¹

Who constitutes a “Key Worker”?

Key Workers are defined in this Report as teachers, nurses, ambulance officers, paramedics, fire and emergency workers. Those surveyed for this Report represented a range of age groups and included both home-owners and non-home-owners.

The CoreData Survey investigated participants’ attitudes towards home ownership, whether they think home ownership is achievable for them, strategies they are using to save towards home ownership, and obstacles they have encountered along the way. Some respondents to the survey also participated in interviews which expanded on their responses and provided additional insights.

The PwC Australia analysis looks at both:

- Single income Key Worker households on a median Key Worker salary; and
- Dual income Key Worker households assuming two median Key Worker salaries.

Why Key Workers?

This Report focuses on Key Workers due to their importance in ensuring the day-to-day running of essential services in our major cities in particular our hospitals, emergency services, schools and fire stations.

The housing market plays a significant role in determining these individuals’ choices about where they work, and consequently their career paths.

While Key Workers are not the only group affected by high home prices in Sydney and Melbourne, the issue facing other median-income workers doesn’t impact the essential services of these cities in the same way.

Median Home Prices

For the purpose of this Report, the following median values have been derived from the Australian Bureau of Statistics Residential Property Prices index data:

- Sydney house (\$969,000)
- Sydney unit (\$713,250)
- Melbourne house (\$746,000)
- Melbourne unit (\$546,375).²

The following values have been derived from CoreLogic ‘Mapping the Market’ data:

- Inner City Sydney house (\$2.17 million)
- Inner City Melbourne house (\$1.39 million).³

Lastly, rental values have been derived from the respective State Government reports as follows:

- Rental unit in Sydney (\$520 per week)⁴ and Melbourne (\$470 per week).⁵

¹ Nicole Gurran, Peter Phibbs, Catherine Gilbert and Yuting Zhang, (2018) The University of Sydney “Key Worker Housing Affordability in Sydney”. A report commissioned in 2017 and prepared for Teachers Mutual Bank, Firefighters Mutual Bank, Police Bank and My Credit Union

² ABS (September 2018) Residential Property Price Indexes: Eight Capital Cities

³ CoreLogic (September 2018) Mapping the Market

⁴ Data NSW (December 2018) Median Weekly Rental Report

⁵ Victoria State Government (June 2018) Rental Report

2. Executive summary

Sydney and Melbourne consistently rank amongst the world's most liveable cities. However, to maintain their status as global cities to thriving populations and growing economies, investment in essential services is vital. This investment should not be limited to building new schools, hospitals and fire stations; it must also take the form of an investment in the Key Workers themselves.

Key Workers (teachers, nurses, ambulance, paramedics, firefighters, police and emergency workers) are people whose role in society is paramount, and whom we rely on to care for us when we are sick or injured, protect and rescue us from danger, and educate our children. Retaining Key Workers is crucial for the functioning of essential services in large metropolitan cities such as Sydney and Melbourne.

Due to rising house prices and the consequent challenge of saving a 20% deposit to secure a home loan, Sydney and Melbourne are experiencing an increasing mismatch between where demand for essential services is greatest and where Key Workers can afford to live.



Population growth and the gentrification of inner city areas over the last few years in Sydney and Melbourne has pushed the stock of affordable housing for Key Workers to the urban periphery. The Sydney University TMB Report found a net loss between 2% and 14% of Sydney's inner city Key Workers, as they are 'pushed out' to the city fringes.⁶



⁶ The Sydney University TMB Report, page 24

The CoreData Survey augments the Sydney University TMB Report. The survey found that:

-  Whilst home ownership is vitally important for nearly all (94%) Key Workers surveyed, **79% believe that home ownership is not achievable.**
-  High median house prices in Sydney and Melbourne have led to **Key Workers being priced out of the market.**
-  Whilst the majority of **Key Workers** surveyed, are comfortable with their ability to service a home loan, they are **concerned about the time it will take to save a 20% deposit.**
-  This is resulting in **Key Workers paying a high personal cost to achieve home ownership** with 47% of those surveyed working overtime, 29% delaying starting a family and 23% moving in with family or friends.
-  Due to housing affordability pressures, up to **1 in 7 Key Workers surveyed are looking to relocate** away from Sydney and Melbourne and **8% are considering changing professions.**
-  This has serious implications for both cities given that **the majority of the public surveyed believe that there is currently a shortage of Key Workers** in Sydney and Melbourne.
-  **Importantly, 80% of the public surveyed want the Government to do more** to retain experienced Key Workers in these two major cities by introducing policies that assist them in buying a home sooner.



PwC Australia estimates that it will take single income Key Worker households approximately 12.3 years to save a 20% deposit to buy a median priced home in Sydney and approximately 9.5 years in Melbourne.

Recent home price depreciation in Sydney (12.3%) and Melbourne (8.7%) from a July 2017 peak,⁷ has not been significant enough to make a meaningful reduction in the number of years it will take Key Workers to save a 20% deposit.



According to PwC Australia's analysis, house prices would need to fall at least another 60% in Sydney and 50% in Melbourne to enable single Key Worker households to save a 20% deposit within five years.

Overseas policies (such as the Key Worker Living Scheme in the UK) aimed at helping Key Workers access home loans sooner with less than a 20% deposit, have been effective in retaining experienced Key Workers in major metropolitan hubs.

To ensure the viability of essential education, health and emergency services in Australia's two most densely populated cities, it is imperative that governments act to prevent a potential shortage of experienced Key Workers by supporting their access to home ownership. This Report outlines some possible policy options to retain experienced Key Workers in high demand catchments in Sydney and Melbourne by helping them secure a loan and buy a home sooner.

⁷CoreLogic (January 2019) Index Results: <https://www.corelogic.com.au/news>





3. Introduction



Snapshot

Median Sydney house price (\$969,000) is 11.7 times the annual pre-tax household income



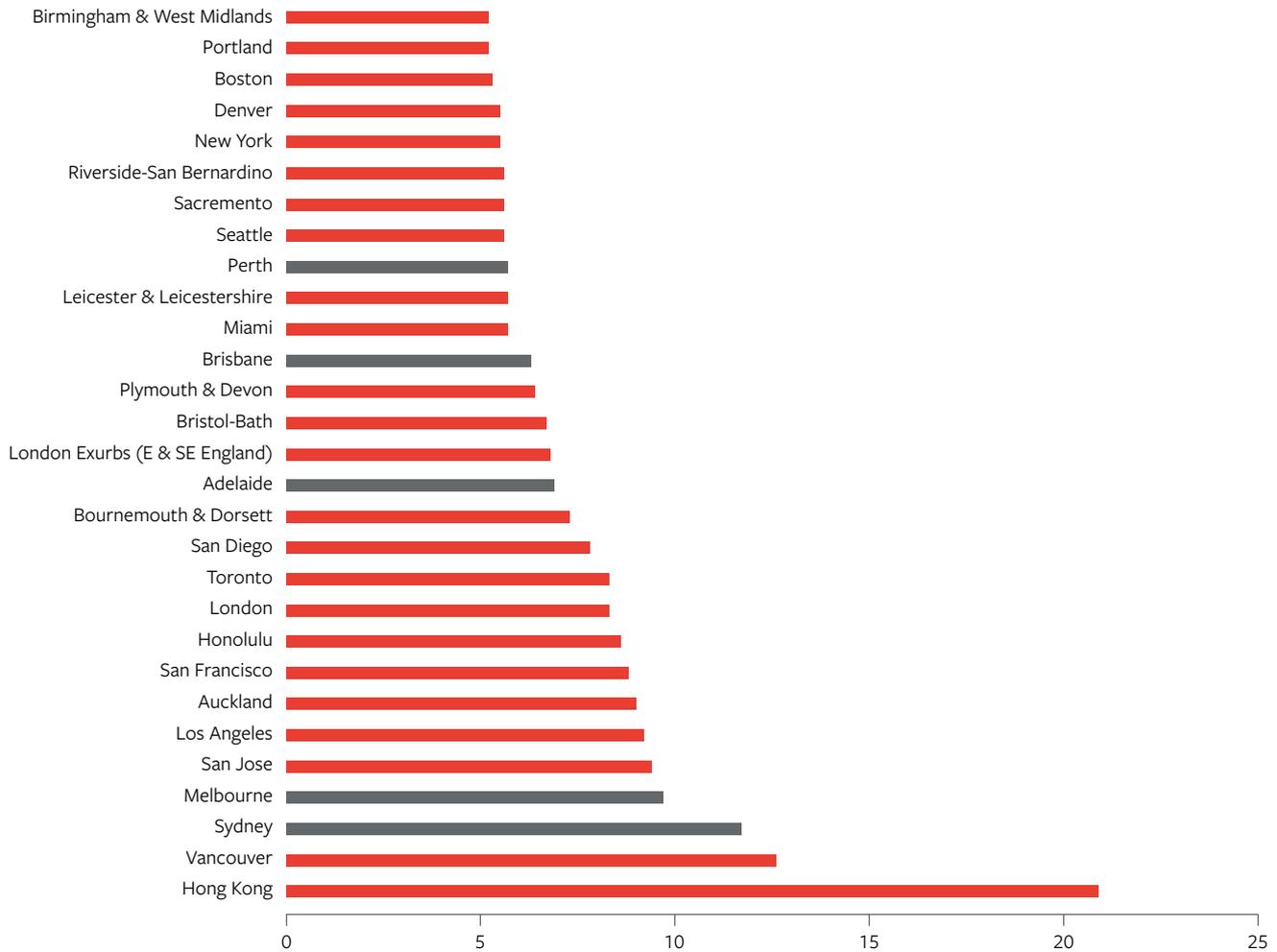
Median Melbourne house price (\$746,000) is 9.7 times the annual pre-tax household income

Although housing affordability has been in decline in Australia's capital cities since the 1980s, the decline has become much steeper in the last 10 years.

The median house price in the Sydney greater metropolitan region was \$969,000 in 2018 (unit: \$713,250)⁸ and in Melbourne it was \$746,000 (unit: \$546,375).⁹

Of the 91 markets analysed in the Demographia International Housing Affordability Survey,¹⁰ Sydney and Melbourne are ranked in the top five least affordable cities (see Figure 1). This survey concluded that the median house price in Sydney is 11.7 times the annual gross median pre-tax household income, and 9.7 times in Melbourne.

Figure 1 – Median house price divided by median annual gross pre-tax household income for the 15 least affordable cities (lower score = more affordable)



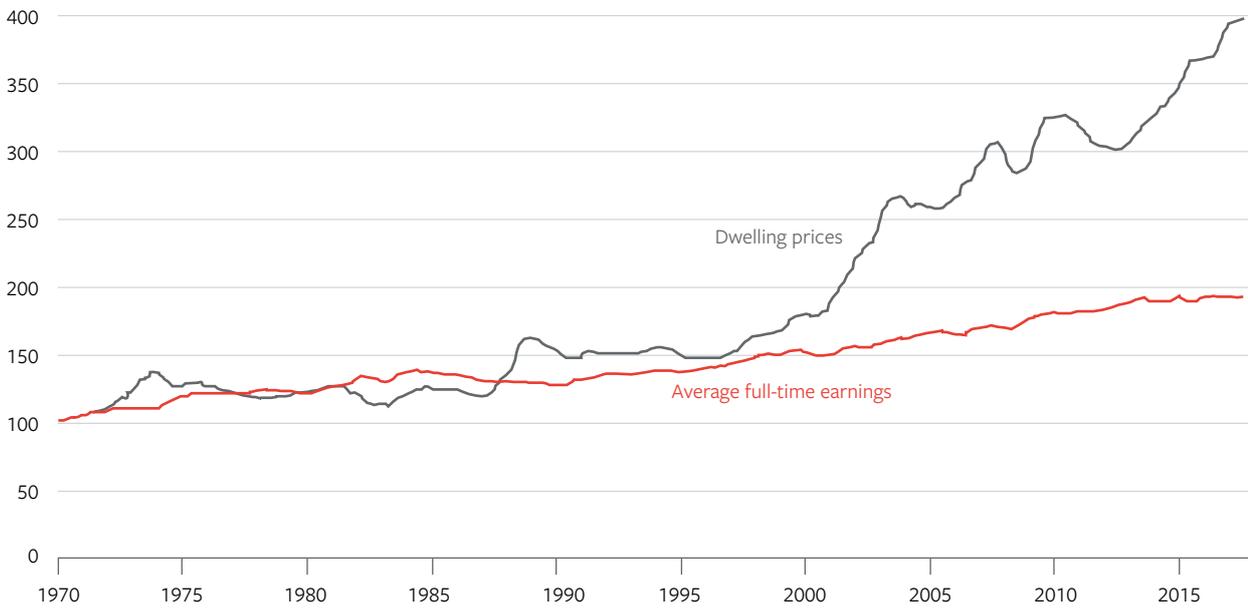
⁸ ABS (2018) Residential Property Price Indexes: Eight Capital Cities

⁹ ABS (2018) Residential Property Price Indexes: Eight Capital Cities

¹⁰ Demographia (2019) 15th Annual Demographia International Housing Affordability Survey (2018: 3rd Quarter) p.11

Coupled with stagnant wage growth as shown in Figure 2, the rise in median Sydney and Melbourne prices is creating housing affordability issues for many Key Workers in these two cities.

Figure 2 – Real dwelling prices and full-time weekly earnings, 1970 – 2017¹¹



This is particularly the case in the Inner City suburbs of Sydney and Melbourne. CoreLogic data analysed by PwC Australia estimates the median house prices in Inner City Sydney suburbs to be \$2.14 million and \$1.4 million in Melbourne.¹²



Given the population density in Inner City suburbs, demand for Key Worker services is greatest in these catchments.

As an example, three of Australia’s 26 major trauma units are in the Melbourne CBD catchment. In Sydney, four of the city’s major hospitals are within a 10 kilometer radius from the CBD.



¹¹ Grattan Institute (2018), Daley and Coates, “Housing Affordability Re-imagining the Australian Dream”

¹² CoreLogic (2018) Mapping the Market





4. Housing accessibility and affordability

Key Workers, who provide essential services to the community, are feeling the sting of housing unaffordability and inaccessibility.

Snapshot



60% of Key Workers said 'saving a deposit' was a major barrier to buying a home



It takes single income Key Workers up to three times longer than the general population to save a 20% deposit



12.3 years for single income Key Workers to save a 20% deposit in Sydney



9.5 years for single income Key Workers to save a 20% deposit in Melbourne

Despite nearly all (94%) Key Workers surveyed saying home ownership is important to them, the majority (79%) do not believe that home ownership is achievable. The general population agreed, with 74% responding that Key Workers will not be able to achieve home ownership in Sydney and Melbourne.



This view was more pronounced in Sydney, with 92% of Key Workers, and 79% of the general population stating that home ownership is not achievable for Key Workers in this city.

In Melbourne 69% of both Key Worker and general population respondents said that home ownership is out of reach for Key Workers in that city.

The CoreData Survey found that Key Workers who do not currently own a home rate 'affordability' and 'difficulty in saving a 20% deposit' as the main barriers to buying their own home.

60% of Key Workers surveyed said that saving a 20% deposit is one of the top three barriers to buying a home. This was more pronounced in Sydney with two-thirds (66%) of Key Workers ranking 'time taken to save a deposit' as a major barrier to home ownership.



The CoreData Survey also revealed that it takes Key Workers up to three times longer than the general population to save a 20% deposit for a home in Sydney.

PwC Australia estimates that it takes single income Key Worker households 12.3 years to save a 20% deposit for a median-priced home in Sydney and 9.5 years in Melbourne.

The Sydney University TMB Research supported this finding, concluding that affordability barriers increase as Key Workers progress through their life stages, with single income Key Worker households saving for at least 12 years to afford a deposit on an average dwelling in Sydney.

Key Workers in Sydney and Melbourne are also spending proportionally more of their wage on housing than the general population.



More than half (52%) of Key Workers surveyed reported spending 30% or more of their post-tax income on housing costs, compared to 44% of the general population in these cities.

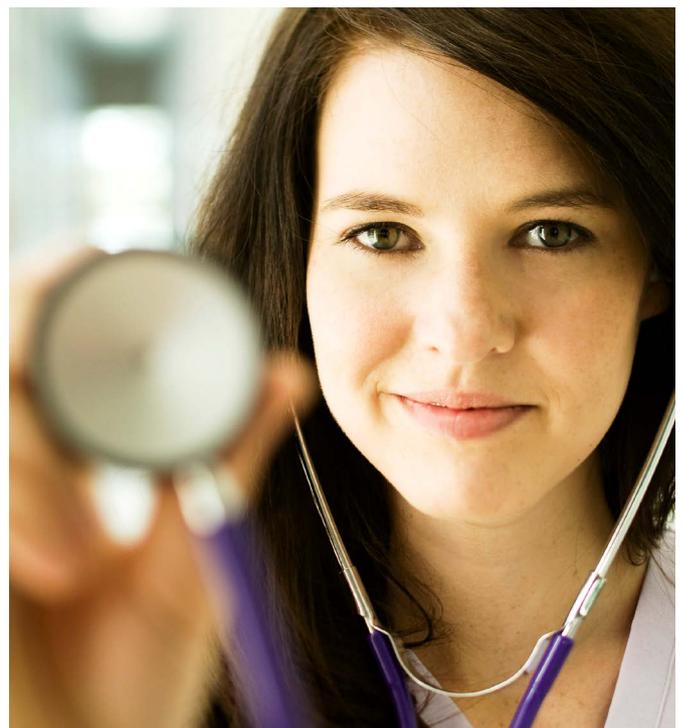


Figure 4 – Average key worker base salaries (2016)¹³ to the nearest \$1,000 – excluding shift work and overtime

	Average Salary (\$'000)	Weekly Income (\$'000)
Teacher	\$87,000	\$1,700
Registered Nurse	\$73,000	\$1,400
Enrolled Nurse	\$57,000	\$1,100
Ambulance Worker	\$80,000	\$1,500
Firefighter	\$84,000	\$1,600
Average	\$76,000	\$1,500

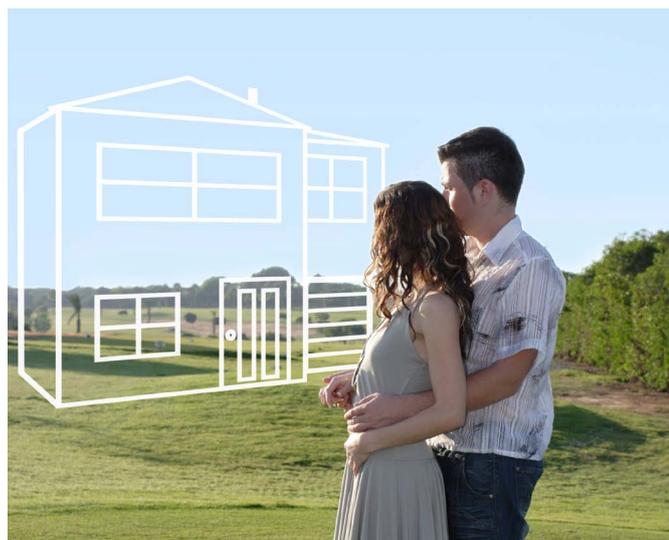
Figure 5 assumes that Key Workers are saving 20% of their annual gross income for a home loan deposit (base salaries only, excludes shift-work or overtime).

Figure 5 – Years required for an average key worker to save for a 20% deposit on a dwelling based on the median Sydney and Melbourne home prices¹⁴

	Time (years) taken to save 20% deposit		Time (years) taken to save 10% deposit	
	Dual household income	Single household income	Dual household income	Single household income
Median House (Sydney)	6.1	12.3	3.1	6.1
Median House (Melbourne)	4.7	9.5	2.4	4.7
Median Unit (Sydney)	4.5	9.0	2.3	4.5
Median Unit (Melbourne)	3.5	6.9	1.7	3.5
Inner Ring House (Sydney)*	14.1	28.2	7.0	14.1
Inner Ring House (Melbourne)**	9.0	18.1	4.5	9.0

*Based on CoreLogic 'Mapping the Market' – LGAs within 10km radius of the CBD, median of median prices, \$2,170,000

**Based on CoreLogic 'Mapping the Market' – LGAs within 10km radius of the CBD, median of median prices, \$1,390,785



Although house prices in Sydney and Melbourne have dropped by 12.3% and 8.7% from their respective 2017 peaks,¹⁵ the barriers to housing affordability for Key Workers are entrenched, and not significantly alleviated by price depreciation in this range.

PwC Australia estimates that house prices would need to fall by over 60% in Sydney and 50% in Melbourne to lower the number of years required to save a 20% deposit to five years for a single income Key Worker household in these cities.

¹³ The Sydney University TMB Report, Page 27

¹⁴ Key assumptions: key worker salary – \$78,866; salary for partner of key worker (double income scenario) – \$78,866; median house price in Sydney – \$969,000; median house price in Melbourne – \$746,825; median unit price in Sydney – \$713,250; median unit price in Melbourne – \$546,375; 'inner ring' price in Sydney – \$2,170,000; 'inner ring' price in Melbourne – \$1,390,785

¹⁵ CoreLogic (2019) Monthly Housing and Economic Chart Pack February 2019



5. Key Worker sacrifices to achieve home ownership



Snapshot



29% of Key Workers are delaying starting a family



47% of Key Workers are taking on overtime work



23% of Key Workers are moving in with family and friends

Key Workers in disproportionate numbers are making significant personal sacrifices to save a 20% deposit to secure a home loan.

The CoreData Survey reveals that housing unaffordability has resulted in 29% of Key Workers delaying starting a family.



This sacrifice is particularly significant given how highly Key Workers value being able to have a family.

Half of all Key Workers surveyed are keen to have families once settled in their own homes; this compares to 38% of the general population.

Forgoing work/life balance in the pursuit of home ownership is another sacrifice that Key Workers are making in greater numbers than the general population.



The CoreData Survey showed that Key Workers are nearly twice as likely as members of the general public to work overtime to save for a home deposit.

47% of Key Workers responded that they have elected to work overtime to supplement their wage and increase their saving power for a home deposit.

Working overtime, particularly during unsociable hours, carries many personal costs: studies have shown that working overtime on a sustained basis is correlated with social isolation, feeling less connected with friends and family, and poorer physical and mental wellbeing.

The NSW Nurses and Midwives Association for example recently warned the NSW Government that the lack of affordable housing close to workplaces is impacting nurses' and midwives' ability to be available to deliver healthcare where it is needed and is negatively impacting their health and relationships.¹⁶



The CoreData Survey also revealed that approximately one in four (23%) Key Workers felt they had no choice but to move in with family or friends to save for a deposit, thereby sacrificing their own space and choice of location.

Whilst this is an option for some Key Workers, others do not have this opportunity due to the requirements of their jobs.



Many Key Workers are required to be “on-call” and therefore have limited choice in where they live.

For instance, firefighters must be prepared to be placed at any station based on operational need, and to live within a short commute from that station for on-call duty.

Nurses and emergency workers are also often required to be “on-call”, and as such can be required to live within a 30-40 minute commute from their place of employment. This means that many Key Workers do not have the option of buying a home in the more affordable outer suburbs of Sydney and Melbourne.

¹⁶NSWNMA (March 2018) “Solutions sought on nurse housing”

Amy*, 28, a full-time registered nurse from Sydney who is trying to save to buy a place of her own, explained that she is restricted in her choice of where to live due to her job. Although she would like to move further from the city centre so she can buy a home, she is tied by her vocation to living on the cusp of affordability:

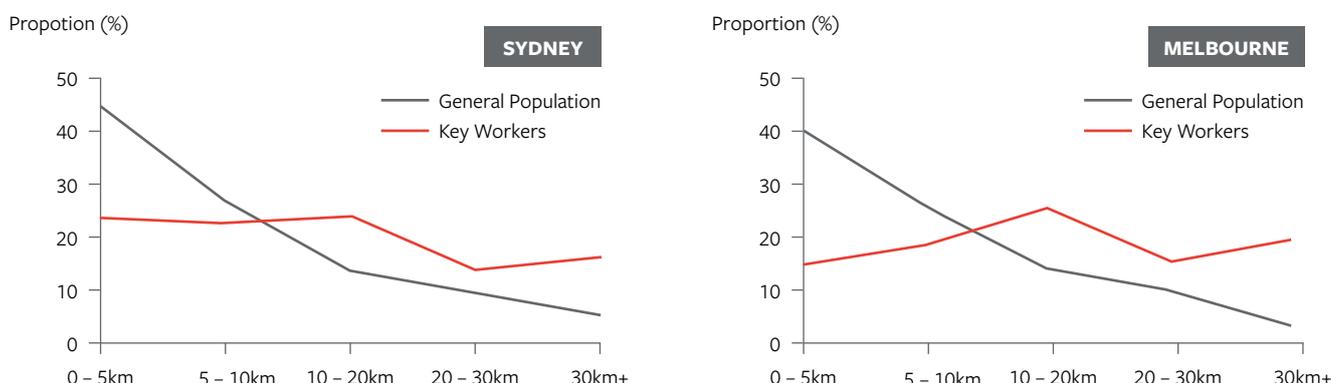
“ Our contract requires us to live 30 – 40 minutes from the hospital because we are on call – it is a requirement of the job. My colleagues and I live on the brink of the 40 minute mark; there is no way we could live any closer due to the cost of rent and homes in the centre... ”

Another Key Worker interviewed went on to explain that shared housing to save a home deposit is often not an option for those who work in emergency services. Kevin*, 34, a full-time paramedic from Melbourne reflected:

“ We do not have many options other than to not spend. Most people can reduce rental costs by living in a shared house—this is something I cannot do due to the hours I work, which are long and unsociable, and the need for peace and quiet to sleep during the day, since I work at night. My work inhibits a lot of what I can do in terms of saving on rental costs. Our standard shifts are 14 hours, and I tend to take on a lot of extra shifts to supplement my income. It results in a pretty stressful situation on top of an already stressful job... ”

Other Key Workers who are not “on call” and have more flexibility in relation to where they live (such as teachers) are, on average, living further from their place of work than the general population, both when they are renting and when they purchase a home. As shown in Figure 6, a notably greater proportion of Key Workers live more than 10 kilometers from their place of employment, compared to the general population.

Figure 6 – Distance of residence from place of employment¹⁷



Living a further distance from one’s place of work is undesirable for Key Workers due to increased transit time, which places additional strain on household budgets and wellbeing. Studies show that long distance commuting can be problematic given shift work is the norm for many Key Workers.¹⁸

¹⁷ ABS (2016) Census Data

¹⁸ VitalityHealth, Cambridge University, RAND Europe, Mercer (2017) “Impact of Commutes on Productivity and Wellbeing”

There are also negative societal impacts that result from longer commutes, necessitated by the lack of affordable housing close to inner city employment hubs. These include traffic congestion, urban pollution, and increased greenhouse gas emissions.¹⁹

Amy*, a nurse from Sydney, explained her concern over the long commute as a nurse working in Accident and Emergency (A&E) and the personal impact it had:

“ Living close to work is important to nurses as we are on-call a lot of the time. After a night shift I felt it was dangerous to drive home while sleep deprived. I could injure someone or myself, and therefore risk my job and my income. There is also a social aspect to consider—when I lived further away from work I was socially isolated and I really struggled to perform in my job. ”

¹⁹ BITRE (2015) “Traffic and Congestion Cost Trends for Australian Capital Cities”





6. Risk of Key Worker shortage

Snapshot



21% of Sydney Key Workers are considering relocating to another city, with another 7% considering a career change due to housing affordability pressures



9% of Melbourne Key Workers are considering relocating to another city, with another 9% considering a career change due to housing affordability pressures

The personal sacrifices and challenges Key Workers face in trying to buy a home are having serious repercussions.

The CoreData Survey found that 15% of experienced Key Workers are considering relocating out of Sydney and Melbourne. The trend is more pronounced in Sydney, where 21% of Key Worker respondents were looking to move to another city or regional area where housing is more affordable and conducive to family life.

The CoreData Survey also found that another 8% of Key Workers are considering changing professions due to housing affordability challenges in these cities.



This equates to a talent drain of 23% or nearly one in four experienced Key Workers potentially removed from essential services in Sydney and Melbourne.

This statistic is a cause for concern, given a number of Key Worker professions are already experiencing staffing pressures. Nurses are a prime example of an existing shortage that could be exacerbated by housing affordability pressures. The Commonwealth Department of Employment reports 40% of all employers across Sydney and regional NSW have unfilled vacancies of enrolled nurses.²⁰

²⁰ Australian Government Department of Employment (2017) Enrolled Nurse (ANZSCO4114-11) NSW (June)

Bella*, 29, a senior nurse from Sydney commented:

“ I would like to change my job location so I am not having to travel to the city centre. I'm always busting my gut trying to get there in time and I am practically spending all my wages on housing rent and transport to work. ”

These sentiments were echoed by Miguel*, 29, an ambulance worker in Sydney, who is currently saving towards a deposit for a home loan, and is looking to relocate his work to an outer branch as houses in the inner suburbs are too costly to buy. He commented:

“ Lots of my colleagues are [also looking to] move out of the inner suburbs to outer branches. Ambulance branches further out have quite an extensive list of people who want to work there. The younger, less experienced ambulance drivers tend to work in the city branches, mainly because they can live at home with their parents. ”

Whilst there is likely to be a supply of younger, inexperienced workers that gravitate to the city centres, it remains a critical question whether they can adequately meet the functional needs of the more demanding inner city. Inevitably as essential services start to feel the loss of the more experienced staff, it is likely to lead to increased workloads and stress for those that remain.

Jemma*, 36, an experienced firefighter of over 13 years living in Melbourne, is seeing inner city branches struggle to attract teams who have experience due to the inconvenience of getting to those locations, commenting:

“ If you have a family, and you can't afford appropriate housing within 15 – 20 minutes of the city, and so you're living 1 hour out of the city in a bigger home with enough space, then you're not going to want to work in an inner-city location. I do feel we lose out in that respect as we won't attract someone with as much experience for some roles. ”



7. Impact of Key Worker shortage

Snapshot



Population growth will drive increased demand for Key Workers



57% of the public surveyed believe a shortage of Key Workers already exists in Sydney and Melbourne



Failure to meet future demand could have a serious impact on essential services

The risk of Key Workers relocating out of Sydney and Melbourne or changing careers is particularly concerning in the context of projected population growth in Australia.

With population growth comes increased demand on essential services. A report issued by the Commonwealth Department of Jobs and Small Business in 2018 concluded that by May 2020, demand will increase for:

- ambulance workers by 25%;
- nurses by 16%;
- teachers by 12%; and
- emergency workers by 3%.²¹

A clear majority of the public who responded to the CoreData Survey believe that a shortage of Key Workers currently exists in both cities.



59% of the general population surveyed believe there is an existing shortage of Key Workers in Sydney and 54% in Melbourne.

Allowing an exodus of Key Workers from these cities to go unaddressed will exacerbate the issue as these cities continue to grow and become more densely populated. Importantly a failure to meet the growing demand for Key Worker services will have adverse consequences, including but not limited to:



Lower teacher-student ratios in schools, leading to poorer educational outcomes



Increased wait times in hospital Emergency Departments



Increased wait times for elective surgeries



Slower response times for medical and other emergencies (including ambulance and fire services), and



Increased hospital readmissions due to early discharge.

²¹ Department of Jobs and Small Business (2018), Labour Market Information Portal, 2018 Employment Projections – for the five years to May 2023





8. Public support for Key Worker home ownership

Snapshot



84% of Key Workers are comfortable with their ability to service a home loan



73% of Key Workers are saving for a home loan deposit



~80% of the general population believe governments should do more to help Key Workers buy a home

Key Workers, like most other Australians, want to own their own homes, provide for their families, and establish security, stability, and control in their lives. Enabling them to buy a home sooner, without waiting until they save a 20% deposit to secure a loan, is a tangible and significant way to retain Key Workers in Sydney and Melbourne and support the smooth functioning of vital services.



The CoreData Survey concluded that the majority (84%) of Key Worker respondents across both cities are comfortable with their ability to service a home loan however they are concerned about the time it will take to save a 20% deposit to secure a home loan.

73% of Key Workers surveyed who do not currently own a home are saving a deposit for a home loan, and 64% do not want to continue to wait for home prices to drop further.

Kevin*, a 34 year old ambulance worker from Melbourne, explained he has been a paramedic for most of his working life, but hasn't been able to afford to buy a home yet despite his efforts to save:



I would like to break into the housing market, but the reality is it just hasn't happened, despite me saving since I was 16 years old. The main barriers are a combination of already paying out high rent which scuppers my ability to save for a deposit at the same time, and the cost of general living expenses also rising. I have no exact timeframe for when I will buy... I just don't want to be paying off a mortgage when heading into retirement, so I am looking to relocate my work in order to buy a home.



There is strong support from the public for policy initiatives to assist Key Workers to buy homes sooner in Sydney and Melbourne.

79% of the general population respondents in the CoreData Survey stated they want the Federal and State Governments to do more to support Key Workers becoming home owners sooner in Australia's two largest cities.



9. Possible Government policy interventions

Snapshot



Overseas experience shows that government intervention can be effective in helping Key Workers access home loans (without a 20% deposit) and achieve home ownership sooner



Federal Government could allow Key Workers to deduct from their income tax the costs associated with securing a home loan with less than a 20% deposit – treating them the same as investors



Alternatively, the NSW and Victorian State Governments could allow Key Workers to offset the costs of securing a home loan with less than a 20% deposit against the stamp duty incurred upon purchase

To retain Key Workers in metropolitan centres where they are needed, governments could consider policy initiatives which ease the housing accessibility and affordability pressures they face.

The Sydney University TMB Report highlights that a number of localities in Sydney can be classed as posing a ‘small affordability gap’ of up to \$50,000 for median purchase prices,²² meaning in these locations, light intervention would bring them into affordability scope and potentially have a significant positive impact on Key Workers.

There is already international precedent for policies targeted at supporting Key Workers in buying a home sooner. Governments overseas have provided programs that have successfully alleviated critical Key Worker shortages by focusing on ensuring affordable, accessible housing near the relevant places of work.

* Deadweight loss is the cost to society caused by market inefficiency; when supply and demand are not in equilibrium

²² University of Sydney TMB Report, page 42

²³ UK Department for Communities and Local Government (2006) Evaluation of Key Worker Living



The main efforts to address the impacts of spiralling inner city home prices on Key Workers have been attempted in the United Kingdom (UK). In 2004, the UK Government invested £690 million to support Key Workers’ in accessing affordable housing in high-cost locations in central London as a way of addressing Key Worker shortages in the education, health and emergency sectors.

This investment involved the launch of the “Key Workers Homebuy Mortgage Program” (**Homebuy**) which enabled Key Workers to access home loans without a 20% deposit. Eligible Key Workers could approach lenders to provide a conventional mortgage for 75% of the cost of the property and then apply for a government funded equity loan to cover an additional 20%; the equity loan carried a zero per cent interest rate for five years. In effect, the scheme, which assisted around 8,000 households per year, enabled Key Workers to buy a home sooner, with a 5% deposit.

An evaluation of the Homebuy program²³ was overwhelmingly positive:

- 95% of Key Workers who utilised Homebuy were ‘very’ or ‘fairly’ satisfied with the program.
- The vast majority of Key Workers who accessed the program would not have been able to afford to buy a home without Homebuy. This meant there was little housing deadweight loss* (less than 6%).
- The Homebuy program had a material impact on the life and career decisions of a large number of the survey respondents. 33% of Homebuy recipients said that without it they would have left the local area; 25% said they would have left their place of work, and 10% of recipients claimed they would have stopped being a Key Worker.

This overseas example demonstrates the issues facing global cities where housing prices are outstripping the wage power of Key Workers. Whilst each global city faces unique circumstances, it is important to note that governments of different political persuasions consider housing affordability schemes that support Key Workers to be of critical importance in retaining essential services in metropolitan areas.



Due to the expense and lack of land, current supply solutions for Sydney and Melbourne are not resolving the issue. This Report canvasses two possible policy solutions that would help retain Key Workers in metropolitan areas by improving access to owning a home.

Federal Government

Allow borrowing expenses to be tax deductible against salary

Tax deductibility policies are already in place for property investors in Australia. These allow property investors to deduct the costs associated with buying a property (such as the cost of Lenders Mortgage Insurance (**LMI**), conveyancing costs, property searches and valuations etc.) from their taxable income.

The Australian Government could consider extending this tax deduction to Key Workers in Sydney and Melbourne looking to buy a home, to encourage them to remain in these cities, where demand for their services is greatest.

The objective of this policy would be to enable Key Workers to buy a home sooner by securing a home loan with less than a 20% deposit. Variable borrowing costs that enable borrowers to secure a home loan with less than a 20% deposit include an LMI premium or a low deposit premium. Figure 7 has assumed that Key Workers secure a loan with a 10% deposit utilising LMI.

Fixed borrowing expenses associated with purchasing a property are approximately \$5,000 for properties in the 2nd and 3rd quartile of house prices. These costs include:

-  conveyancing and legal fees
-  building and pest inspection
-  transfer fee
-  loan application fee, and
-  outstanding council rates.²⁴

Figure 7 – Tax deductibility of variable & fixed purchase costs

	Tax Deduction	Tax Refund (marginal tax rate 32.5%) ²⁵
Houses (Sydney)	\$26,366	\$8,569
Units (Sydney)	\$20,662	\$6,715
Houses (Melbourne)	\$21,382	\$6,949
Units (Melbourne)	\$14,441	\$4,693

PwC Australia estimates that the Federal Government would forfeit \$62.6 million in tax revenue if they were to introduce this policy (\$32.3 million from Sydney and \$30.3 million from Melbourne).

In this scenario, Key Workers could potentially halve the number of years they need to save for a deposit and reduce the number of years they would need to pay for rent. PwC Australia estimates that in addition to the tax benefits outlined above, if Key Workers were able to secure a home loan with a 10% deposit utilising LMI they could save:

- \$166,296 (\$520 p.w. x 52 weeks x 6.15 years) on rental costs in Sydney (single income Key Worker household)
- \$116,090 (\$470 p.w. x 52 weeks x 4.75 years) on rental costs in Melbourne (single income Key Worker household).

²⁴ Australian Taxation Office (2019) Rental property expenses deductible over several years

²⁵ Australian Taxation Office (2018-19) Individual income tax rates

State Government

Offset borrowing costs against stamp duty

Alternatively, the NSW and Victorian State Governments could consider a policy to assist Key Workers access to home ownership sooner by allowing them to offset against stamp duty incurred, the costs associated with:

- securing a home loan with a 10% deposit utilising LMI (LMI premium)
- buying a property (e.g. conveyancing costs, valuation costs, title searches etc.).

Assuming a 10% deposit and LMI is used to secure a home loan, PwC Australia estimates Key Workers could potentially offset the following amount against stamp duty:

Figure 8 – Amount offset against stamp duty



	Amount offset
Houses (Sydney)	\$26,366
Units (Sydney)	\$20,662
Houses (Melbourne)	\$21,382
Units (Melbourne)	\$14,441

Key Workers would still incur some stamp duty. For example, a buyer would pay \$12,729 on the purchase of a median house in Sydney, and \$7,678 on the purchase of a median priced house in Melbourne.

As was the case with the Federal Government policy suggestion, Key Workers would potentially halve the time taken to enter the property market and thereby benefit from not having to pay rent for the additional years needed to save a 20% deposit.

²⁶ Calculation based on the number of dwellings and the amount to be offset. 17.85% of dwellings in Australia were purchased by first home buyers – stamp duty concessions are already granted to these buyers. This has been excluded in the calculation.

²⁷ Freedom of Information Request (June 2018) NSW Office of State Revenue

²⁸ Victoria State Budget 2018-19

PwC Australia estimates the cost to State Governments of giving Key Workers this offset will be:

\$50 million per annum in Sydney, NSW.

\$47 million per annum in Melbourne, Victoria.²⁶

To put these estimates in perspective:

- In the 2017 financial year the NSW Government netted \$13.8 billion in stamp duty across the state and \$7 billion across Sydney alone.²⁷ In NSW, the assumed cost of the stamp duty concession for key workers would therefore be less than 0.36% of the total revenue netted by the NSW State Government through stamp duty.
- The Victorian Government expects to make \$7.5 billion in stamp duty in this financial year.²⁸ In Victoria, the cost of the stamp duty concession for key workers would be less than 0.62% of the total revenue netted by the Victorian Government through stamp duty.





10. Concluding remarks



The CoreData Survey and interviews conducted by PwC Australia for this Report, coupled with the earlier Sydney University TMB Report, clearly demonstrate that housing affordability is not only keenly felt amongst Key Workers, but is also a very stark reality.

Compared to the general population, our Key Workers currently face up to three times as long (10–12 years for a single income household and 5–6 years for a dual income household) to save a standard deposit on a home in Sydney and Melbourne.

Despite the recent advent of home price falls, such price movements are nowhere near enough to lower the unaffordability barrier to enable Key Workers to buy homes close enough to the metropolitan hubs that require their services.

The consequence, as demonstrated by the CoreData Survey, is that Key Workers are considering moving to other regional hubs where housing is less expensive. This exodus of Key Workers to the outer fringes due to lack of affordable homes could result in a Key Worker shortage in city centres. With the majority of the general population surveyed saying that they already feel there is a shortage, Melbourne and Sydney cannot afford to lose any more of these vital workers.

The CoreData Survey further shows that there is overwhelming support from Sydneysiders and Melburnians for governments to do more to help Key Workers buy a home sooner.



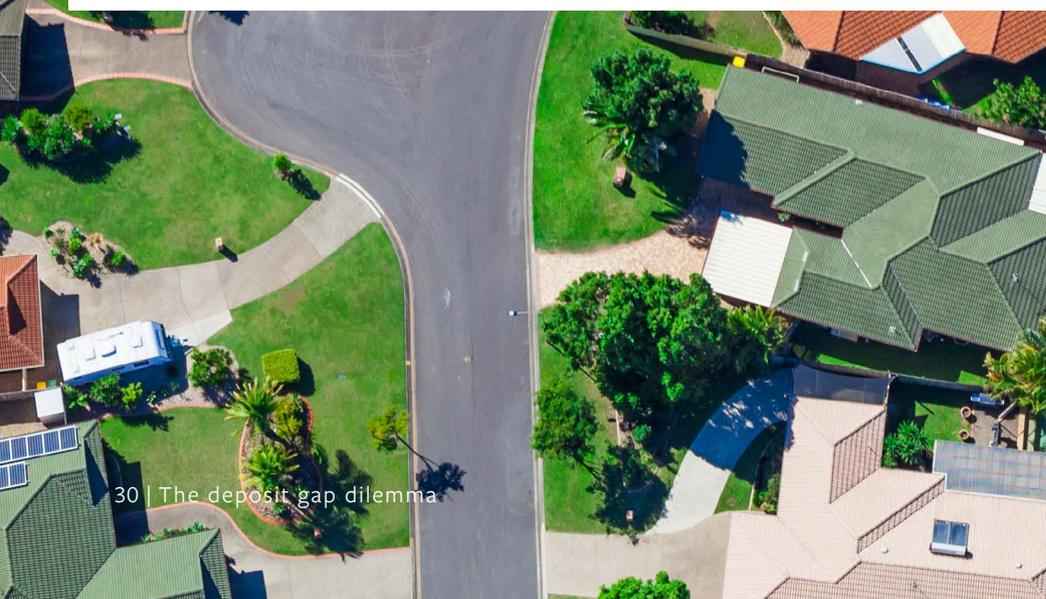
Supporting Key Workers' home ownership aspirations is essential for drawing people into these professions going forward.

As Miguel*, a Sydney ambulance worker interviewee commented:

“ The reason it is important that key workers can own a home is that we need to attract the right people into these roles. If young people see that the individuals who work these jobs are enabled to live reasonably well—then they will be more attracted into that job. We need key workers to be able to achieve their home ownership dreams, as that can act as a positive draw for others. ”

Key Workers in our major cities need and deserve the same opportunities as other workers to achieve home ownership. Wage levels and negotiations are outside the scope of this Report; it is clear however that measures can be taken at relatively small cost to governments to improve the chances for nurses, teachers, firefighters, police, ambulance and emergency service workers to buy a home sooner within a reasonable distance of where they must work.

To ensure the viability of essential education, health, and emergency services in Australia's two most densely populated cities, it is imperative that governments act to support them to access home ownership as early as possible.



Glossary

ABS:	Australian Bureau of Statistics
ATO:	Australian Taxation Office
CoreData:	CoreData Pty Limited Suite 7, Level 9, 66 Hunter St Sydney NSW 2000
CoreData Survey:	A survey undertaken by CoreData (on behalf of Teachers Mutual Bank Limited and Genworth) in November 2018 of 1,084 respondents, comprised of 506 Key Workers and 578 members of the general population, evenly divided between Sydney and Melbourne
CoreLogic:	RP Data Pty Ltd trading as CoreLogic Asia Pacific (ABN 67 087 759 171)
Genworth:	Genworth Financial Mortgage Insurance Pty Ltd a wholly owned subsidiary of Genworth Mortgage Insurance Australia Limited a public company listed on the Australian Securities Exchange
Homebuy:	The Key Workers Homebuy Mortgage Program introduced by the Government in London (UK) in 2004 to support Key Workers access affordable housing in high-cost areas in London as a way to retain experienced Key Workers in areas where demand for their services was greatest
Inner City:	In Sydney, this encompasses suburbs within Sydney's northern beaches, inner west, eastern suburbs and CBD. In Melbourne this encompasses suburbs within the CBD and inner eastern suburbs
Key Worker:	Nurses, teachers, paramedics, firefighters and emergency workers
LMI:	Lenders mortgage insurance
NSW:	New South Wales
PwC Australia:	PricewaterhouseCoopers Consulting (Australia) Pty Ltd
Report:	This report titled "The Deposit Gap Dilemma; Impact on Key Workers" commissioned by Genworth and Teachers Mutual Bank Limited and prepared by PwC dated April 2019
Teachers Mutual Bank Limited:	One of Australia's largest mutual banks comprising four brands Teachers Mutual Bank; Firefighters Mutual Bank; Health Professionals Bank and UniBank
The Sydney University TMB Report:	A report prepared by The University of Sydney titled "Key Worker Housing Affordability in Sydney" for Teachers Mutual Bank, Firefighters Mutual Bank, Police Bank and My Credit Union. Authored by Nicole Gurrán, Peter Phibbs, Catherine Gilbert and Yuting Zhang (2018)
UK:	United Kingdom
United States:	United States of America

