



EXECUTIVE SUMMARY

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Responding to the pandemic, can building homes rebuild Australia?

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Executive summary

Key points

- Stimulating the housing industry is an effective way of boosting an economic recovery. This research demonstrates that non-residential construction, followed by residential construction, and then infrastructure spending has the highest multiplier effect to those industry sectors hardest hit by the pandemic.
- Government stimulus measures directed at the housing industry have been largely demand side based, offering consumer incentives to build new dwellings with additional state level initiatives around social housing, planning and tax settings.
- Internationally, a number of countries have announced measures to stimulate their housing industries through large-scale, direct housing related expenditure. Many initiatives are linked to funding refurbishment and delivery of social housing and improving the environmental sustainability of new and existing housing stock.
- There was widespread support for the Australian Government and state/territory government demand side stimulus measures from the 25 industry stakeholders interviewed during this research. Cash grants increased new land and house sales significantly in Western Australia (WA) and South Australia (SA), which will feed through into new building work, sustaining jobs.
- In terms of an overall economic stimulus, the various stimulus programs are too small to have a big impact. The level of stimulus funding is insufficient to create new employment on a large-scale and therefore provide a major boost to the economic recovery.

- **Further stimulus measures are likely to be required into 2021 as the impact of the first round of demand side measures end. We therefore recommend the Australian Government and state/territory governments adopt the following stimulus measures, targeted at households and local markets where it is most needed:**
 - Large-scale funding of social housing development and refurbishment similar to the Social Housing Initiative response to the Global Financial Crisis (GFC);
 - Market specific demand side incentives that are tailored to the characteristics of individual markets and the specific support required. Not all markets will require further intervention;
 - Investment to prepare for a market recovery, responding to potential shifts in consumer demand;
 - Immediate reform of tax settings to encourage institutional investment in affordable housing and build-to-rent developments.

Key findings

The construction industry has long been held up as an ideal mechanism for delivering economic stimulus in periods of recession and stagnation. This reflects the labour-intensive nature of the industry, the high 'propensities to consume' of skilled and unskilled workers, and the extensive connections between the construction sector and other sectors of the economy (manufacturing, mining, resources, retail, transportation and logistics, and support industries). When combined, these factors give rise to a high economic multiplier effect, meaning that government spending on construction projects leads to an increase in economic output several times the size of the initial spend, dependent on the type of house building activity. For example, a recent National Housing Finance and Investment Corporation (NHFIC) report estimated that private house building could deliver a multiplier of just under three (NHFIC 2020a). Analysis for this project finds non-residential construction, followed by residential construction, and then infrastructure spending has the highest multiplier effect to those hard hit industry sectors, such as tourism and retail.

Government at the federal and state levels acted quickly in response to the pandemic. The \$680 million Australian Government HomeBuilder program was designed to stimulate the housing industry by creating consumer demand. Various state level stimulus initiatives have supported HomeBuilder, such as implementing planning and tax reform. Some state/territory governments have also delivered funding for the refurbishment and development of social housing. There have been numerous industry reports suggesting the most effective ways to stimulate the housing industry. Most of these reports suggest large-scale, multi-billion-dollar demand side measures, while a number recommend massive investment in social housing. Internationally, a number of countries have announced measures to stimulate their housing industries through direct housing expenditure and infrastructure spending. Many initiatives fund improvements to the environmental sustainability of new and existing housing stock.

There was widespread support for the Australian Government and state/territory government demand side stimulus measures from the 25 industry stakeholders interviewed during this research. Cash grants have already increased new land and house sales significantly in WA and SA, which will feed through into new building work, sustaining and creating jobs. In NSW, the HomeBuilder policy settings were not expected to have much of an impact due to the \$750,000 price cap. Refurbishment stimulus spending through HomeBuilder was viewed as unlikely to have a massive impact on building activity given policy settings.

Interviewees believed demand side grants would create some new demand as the opportunity was considered 'too good to miss' by many households, as well as pull forward considerable activity. There were concerns the industry would face significant job losses when stimulus measures are wound back and demand dropped off in the face of elevated levels of unemployment and low population growth. Planning reform was seen as the most important government response outside direct grants. Other suggested policy interventions included altering tax settings, particularly stamp duty, and direct funding of new social housing. The broad view was additional stimulus measures would be required to underpin the new building housing market through 2021.

Policy development options

This research asks whether stimulus measures introduced to combat the impact of COVID-19 have been successful so far, and whether they are likely to boost the economic recovery. In terms of the HomeBuilder and associated state grants, if the purpose was to quickly create new home building activity, and its associated employment benefits, then the stimulus has been successful in most states. In terms of an overall economic stimulus, the various programs are too small to have much of an impact. This is particularly clear when the \$680 million federal funding of the HomeBuilder program is compared to the Australian Government's response to the GFC. The response to the GFC included the \$5.6 billion Social Housing Initiative (SHI), which delivered almost 20,000 social housing units, and another \$5 billion for the first home owner boost and energy efficient homes package. Indeed, the Community Housing Industry Association (CHIA) has called for a \$7.7 billion federal stimulus package to expand Australia's social housing supply by 30,000 homes (CHIA 2020). Master Builders Australia (MBA) has called for an even larger, \$10 billion fiscal stimulus to facilitate the construction of over 30,000 new social housing dwellings (MBA 2020b; 2020d).

A number of industry organisations have produced forecasts of dwelling commencements following the impact of COVID-19 and the stimulus measures. The Housing Industry Association (HIA) (2020b) estimates the number of home starts in 2020-2021 at 139,700, down from over 200,000 in 2018-2019. Recovery to 2019-2020 levels (173,000 starts) is not expected until late 2023. The Master Builders Australia (MBA) (2020d; 2020f) forecast is even more pessimistic, with the number of new home building starts predicted to fall to 124,550 during the 2020-2021 financial year.

It is worth noting all these organisations were expecting a contraction in dwelling starts prior to COVID-19, with the pandemic accelerating the downturn. None predict that HomeBuilder and state level schemes will make a massive difference to Australian dwelling commencements. However, forecast levels would have been even lower without HomeBuilder and associated state programs. So, at best, these programs will have been successful in supporting existing jobs, rather than creating new jobs in the majority of states/territories.

The project interviewed 25 key industry stakeholders in NSW, WA and SA and almost all interviewees believed there would need to be further stimulus of the housing industry to protect jobs through 2021 and at least until population growth recovers. Interviewees were focused on stabilising activity rather than significant growth. While some believed it would be necessary to stimulate new-build demand again, once the first round of stimulus measures worked through the system, others believed a different type of stimulus would be necessary. This is because much demand would already have flowed through the market so demand side measures would be less effective the second time, unless targeted at a different market segment.

There was support for additional funding of social housing delivery that would create jobs within the industry. This was seen as a critical component of a stimulus package alongside—not instead of—demand side measures. Certainly, international stimulus measures have incorporated significant national spending on new social housing and refurbishments. Even the market facing the United Kingdom (UK) Government has committed to new affordable housing supply. Although, this is more on the market rather than social end of the affordable housing continuum.

Many interviewees believed the time was ripe for major changes to tax settings, particularly around stamp duty. These changes would create activity in the established market, delivering the associated economic benefits. There were positive comments about the NSW Government working with industry to deliver settings required to facilitate build-to-rent developments. Similar reforms should be adopted within other states.

This title of this research asks: *can building homes rebuild Australia?* The answer is yes. But current stimulus measures are not delivering on the scale required to make a real difference to the economic recovery. While HomeBuilder and related state grants have boosted demand, homebuilding activity is still expected to be at levels well below those of 2019. To make a real difference and leverage the multiplier effect to boost the economy, investment on a massive scale is required to create thousands of jobs and stimulate real growth. This investment should be targeted where it is most needed, which is social and affordable housing across the country, and then specific market sectors across states/territories.

Funding social housing development

While state/territory governments have announced spending for the delivery and refurbishment of social housing, there has been nothing of the scale of the SHI which successfully delivered almost 20,000 dwellings in 2009-2010 and helped grow the community housing sector. In order to stimulate the construction industry and deliver an essential supply of social housing, it is recommended that the Australian Government commit funding to deliver 30,000 new social housing dwellings and work in partnership with the states/territories and community housing sector to ensure the most efficient and effective distribution and management of these dwellings. Such spending is an efficient and equitable use of public funds. Government should finance refurbishment of social housing (and some states have already committed to this), incorporating features that will reduce running costs for tenants, improving affordability and environmental standards.

State specific demand stimulus measures

Government should work closely with industry to ensure existing stimulus measures are as effective as possible in stimulating the housing industry over a sustained period. Government should also work with industry to deliver a second round of demand side stimulus measures to protect and create jobs in the housing industry on the back of sustained uncertainty around future market conditions. These measures should take into account local housing market conditions, such as prices and the nature of dwelling stock. This way, policy settings can be tailored to help those parts of the industry most in need of support. There may need to be different types and levels of support for different states/territories and within different parts of a state/territory (regional versus Greater Capital City for example).

While it was necessary to introduce the HomeBuilder program very quickly, problems around timing and implementation inevitably arose. A more carefully designed stimulus program will take time to develop but should be implemented in early 2021. It is possible not every state will require additional, sustained support as markets will recover at different rates. It is therefore essential the Australian Government and state/territory governments carefully consider market activity and respond quickly to changing pressures, removing support where a market is no longer in need of intervention.

Tax settings to encourage institutional investment

COVID-19 could well prove a catalyst for institutional investment in affordable housing. Affordable housing offers a stable cash flow in even the most uncertain times and the stability of the returns is perhaps becoming more important than the actual level of return. If state/territory governments are prepared to work with community housing providers (CHPs) and provide access to free or low-cost land, affordable housing investment becomes a viable option. The NHFIC has already improved access to finance for the community housing sector and should play the lead role in connecting institutional investors with this sector.

The NSW Government has taken the lead in creating conditions for the private sector to deliver build-to-rent housing by reducing land tax liabilities. Other states should follow the example. Partnerships between state/territory governments and the private sector to deliver build-to-rent housing could prove effective and could also deliver an element of affordable housing if structured correctly. Stamp duty is another tax setting due for reform and in the current climate of change, it seems now is as good a time as ever to remove the inefficient tax.

Preparing for a market recovery

In a period of unknowns, markets are likely to recover at different rates. Some markets will recover very quickly, while others will recover more slowly, depending on the existing stock profile and how consumers and investors react in a post-COVID-19 environment. Supply needs to respond quickly to changing demand. Governments need to be proactive and flexible, releasing and preparing land and working with developers to accelerate relevant development activities.

The study

This research project is based around the following research questions:

- **RQ1:** What policies would be most effective in utilising the housing development industry to stimulate the economy?
- **RQ2:** What was the pre-crisis capacity of the housing development industry and how quickly could the industry scale up in different parts of the country to deliver an economic stimulus?
- **RQ3:** What are the gaps in availability of skills and trades, training programs and apprenticeships, and what does this imply for scalability within the development industry?

The first stage of the research involved a rapid review of a variety of policy documents produced by various industry bodies to assess their position on stimulating the housing industry. The review was extended once the Australian Government, and then state/territory governments, announced the various stimulus measures introduced, such as HomeBuilder. A review of international housing based stimulus responses was also conducted covering the United Kingdom, Ireland, European Union, New Zealand and Canada. A review of past policy settings designed to stimulate housing markets and their impact on economic activity, particularly around the GFC, was also undertaken.

Semi-structured interviews were conducted to address the three research questions noted above. Twenty five interviews were conducted with key stakeholders in New South Wales (8), South Australian (8) and Western Australia (9). Organisations covered included the major property industry bodies (Property Council, Urban Development Institute of Australia, Master Builders Australia, Housing Industry Association), state development organisations (Landcom, Development WA), and representatives from private sector developers and community housing providers (CHP). Initially, these interviews were designed to uncover what policy settings stakeholders thought would be most effective in stimulating the housing market. With the various Australian Government and state/territory government stimulus measures announced during the interview process, interviews also covered the impact of those measures and likely scenarios when the measures are wound back or come to an end. Questions were also asked around the industry's capacity to respond to the stimulus measures and whether existing training programs were able to quickly increase capacity if required.

Industry capacity to respond to a boost in demand resulting from stimulus measures was assessed through examining recent patterns of dwelling commencements and construction employment using Australian Bureau of Statistics (ABS) data (ABS 2020a; 2020b). This permitted an assessment of whether there were likely to be capacity constraints given recent dwelling supply trends.

This report starts by examining the various policy settings within Australia and internationally used to try and stimulate the housing industry, and thus the economy. It is followed by an assessment of industry capacity and also input-output analysis to identify what impact stimulus measures could have on those industries most affected by the COVID-19 pandemic, for example, tourism and hospitality. Chapter four assesses the impact of the current stimulus measures based on outcomes to the end of August and the interview data and also discusses alternative measures that may be required when current policy settings are wound back. Training and future-proofing the industry from demand shocks is the subject of chapter five and the report concludes with a look at policy recommendations resulting from this work which could help governments plan for the potentially challenging housing market conditions over the next 12–24 months.



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