

Opportunities for housing industry stimulus in response to COVID-19



Based on AHURI Final Report No. 341: Responding to the pandemic, can building homes rebuild Australia?

What this research is about

This research assesses how the housing industry can help rebuild the Australian economy both during and after the COVID-19 pandemic. It includes a review of government measures to the end of August 2020.

The context of this research

The construction industry has long been held up as an ideal mechanism for delivering economic stimulus in periods of economic recession and stagnation.

A National Housing Finance and Investment Corporation (NHFIC) report shows that housing construction generates the second largest economic multiplier of all industries within the Australian economy, and that every \$1 million injected into the residential building industry returns \$2.9 million in GDP.

This research provides evidence 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. It is clear government spending on construction or infrastructure projects leads to an increase in economic output several times the size of the initial spend.

The key findings

Commonwealth Government pandemic response

There was widespread support from the industry stakeholders interviewed during this research for the \$680 million Australian Government HomeBuilder program.

The program is designed to protect the housing industry by creating consumer demand, providing eligible applicants grants of \$25,000 to build a new home or substantially renovate an existing home. The scheme has stimulated new build activity and will protect jobs into 2021 but there are concerns the grants have brought forward a lot of activity and will leave a demand “vacuum” in 2021.

Recent announcements around additional funding for NHFIC and an extension to the First Home Loan Deposit scheme are positive for the housing industry.

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State and territory government response

State and territory governments have released a suite of housing-related fiscal and policy measures structured to revive economic activity, including home buyer incentives (which largely align with HomeBuilder) and tax concessions, as well as a range of programs and planning reforms to fast-track housing and infrastructure development projects. Several jurisdictions have also announced, or brought forward, funding for the purchase, construction and upgrade of social housing. The table below shows the demand side incentives available to consumers designed to increase demand for new housing and create more construction activity.

Table 1: State and territory home buyer incentives

	WA	NSW	VIC	TAS	SA	QLD	NT	ACT
Federal HomeBuilder grant	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Home building boost	\$20,000	N/A	N/A	\$20,000	N/A	N/A	\$20,000	N/A
First home buyer grant	\$10,000	\$10,000	\$10- \$20,000	\$20,000	\$15,000	\$15-20,000	\$10,000	N/A
Stamp duty concession	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Total government grants available (excluding stamp duty concessions)	\$55,000	\$35,000	\$45,000	\$45,000*	\$40,000	\$45,000	\$55,000	\$25,000

Source: AHURI Final Report No. 341.

*Note: In Tasmania, existing First Home Owner Grant of \$20,000 cannot be used in conjunction with the Tasmanian HomeBuilder boost, meaning \$45,000 is total grant available.

Housing industry plans for economic stimulus

Since March 2020, various housing, construction and welfare advocacy groups have released action plans calling on the Australian Government to introduce stimulus measures targeting the residential construction industry. Of the various action plans released to-date, centrepiece features include proposals for homebuyer incentive grants with a volume of \$2.5–\$5.2 billion, well in excess of current government commitments. Large scale, multi-billion dollar social housing construction and maintenance schemes are a key component of many plans (see below).

Additional measures proposed by the housing industry include, but are not limited to: fast-tracking programs for land release and high-priority housing and infrastructure projects; planning reform; housing upgrade and energy efficiency schemes; taxation reform (including stamp duty and build to rent); superannuation investment reform and population growth programs.

Additional measures for economic stimulus proposed by the housing industry



Social housing construction

The Social Housing Initiative (SHI) in response to the Global Financial Crisis injected over \$5.5b into the social housing sector delivering 20,000 new units.

To increase the supply of social housing creating short-term construction benefits and positive long-term housing outcomes, industry groups have called for direct federal capital investment.

Under the Community Housing Industry Association's (CHIA) proposed Social Housing Acceleration and Renovation Program (SHARP), a government commitment of \$7.2 billion would facilitate the construction of 30,000 new properties.

According to recent economic modelling, an investment of this amount would raise construction output by at least \$15.7 billion over four years, generating an increase of \$5.8–\$6.7 billion in GDP, and supporting over 30,000 jobs.

CHIA and the Master Builders Association among others, contend that large-scale, upfront government investment in social housing would increase the leveraging capacity of CHPs to deliver up to 5,000 additional social housing units, stimulating further economic activity while generating a pipeline of growth in the sector.

Fast-tracking programs

The majority of the economic recovery plans reviewed called for the initiation of various fast-tracking programs related to land release, shovel-ready housing and infrastructure projects, as well as accelerating planning approval timeframes. Planning reforms have already been announced in many jurisdictions to accelerate development approvals.

COVID-19 economic recovery: Taxation and regulatory reform

Industry bodies have called for overarching tax system and regulatory reform including a reduction or removal of stamp duty tax on all property conveyances; calls to expand the scope of negative gearing to enable property investors to claim for significant refurbishments to rental properties; removal of foreign investor taxes and surcharges; and tax reform to support Australia's emerging build-to-rent (BTR) sector.

COVID-19: International stimulus initiatives

A range of countries have introduced housing based stimulus measures in response to the economic turmoil resulting from the pandemic. In Ireland funding for the refurbishment of existing social housing stock and measures to aid first home buyers such as grants and help to buy schemes have been announced with expectations around the delivery of 50,000 new social housing dwellings by 2026. In New Zealand almost \$NZ450m has been announced for major housing and urban development projects while housing related measures, particularly around sustainability, are a key component of the European Union's €750 billion recovery instrument.

Canada announced a CAN\$2.2bn investment in public infrastructure projects such as transport, roads, bridges, airports and brownfield redevelopment and the Scottish government created a £100 million emergency loan fund to support small and medium-sized (SME) housebuilders experiencing liquidity issues.

In the UK, to incentivise new home buying, the Johnson-Government has removed stamp duty for house purchases under £500,000 in England and Northern Ireland and also launched a £2 billion Green Homes Grant Scheme, enabling homeowners and landlords to receive up to £5,000 in government grants to cover up to two-thirds of the cost for energy efficiency improvements to residential dwellings. The Prime Minister's 'Build, Build, Build' press release on June 30, also included a repackaged £12.2bn Affordable Home Programme to deliver 180,000 low-cost housing units for purchase and rent over the next eight years.

What this research means for policy makers

This research asked whether 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 maintain a production pipeline with the associated employment benefits, then the program has been successful in most states. In terms of overall economic stimulus, the various programs are too small to have much of an impact.

While HomeBuilder and related state grants have boosted demand, home building activity is still expected to be at levels well below those of 2019.

To make a real difference to the economic recovery, the level of intervention would need to be much greater, returning dwelling commencement activity to the sort of levels seen in most states in 2018.

In 2018–19, there were around 200,000 dwelling commencements across the country; forecasts for 2020–21 are around 70,000 units lower. Therefore, to stimulate the housing industry to deliver the 2018–19 level of commencements would require an intervention far greater than HomeBuilder, targeted at both the multi-residential and detached sector, coupled with at least 30,000 units delivered directly by government.

Policy makers could consider the following options:

Funding social housing development

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

To stimulate the economy, Government should 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 be 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). 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 housing. 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 recovery 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. Government needs to be proactive and flexible, releasing and preparing land and working with developers to accelerate relevant development activities.

Methodology

The research involved a rapid review of a variety of government stimulus measures and policy documents produced by various industry bodies to assess their position on stimulating the housing industry. A review of international housing based stimulus responses was also conducted covering the United Kingdom, Ireland, European Union, New Zealand and Canada.

Twenty five interviews were conducted with key stakeholders in New South Wales (8), South Australian (8) and Western Australia (9) to uncover what policy settings would be most effective in stimulating the housing market. 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.

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