HOMEBUILDER MARK 2

UDIA Plan for an Extended HomeBuilder Scheme

UDIA
Urban Development Institute of Australia
NATIONAL

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CONTENTS

ABOUT UDIA NATIONAL

UDIA is the development industry's most broadly representative industry association with more than 2,500 member companies – spanning top tier global enterprises and consultants to local governments and small-scale developers.

UDIA has a long history of engaging positively with the Federal Government and its agencies on issues critical to the property industry – spanning tax, population, infrastructure and land use planning.

UDIA advocacy is defined by our state-representative National Council and informed by a diverse membership base, extensive network of state councils and committees and businesses on the frontline of housing and city development around the country.

Our voice is backed by real experience and quality research designed to support good policy making and dialogue with governments, oppositions and the bureaucracy.

EXECUTIVE SUMMARY

The Commonwealth Government has done a great deal in its world-leading response to COVID-19 - introducing health, social and economic support measures to spare the nation from the worst ravages of the pandemic.

However, Australia now faces an extended economic downturn due to the lingering consequences of COVID-19 - a situation exaggerated by the elongated lockdown in Victoria.

The nation has now entered a recession, unemployment is forecast to peak at 10 percent, Victoria's lockdown will drain more growth from the economy, and dwelling construction will slow significantly.

These elements are influenced in large part by the need to shut international borders and the secondary effects of closed internal borders.

Immigration is a crucial fuel for the economy with Net Overseas Migration (NOM) accounting for approximately 60 percent of population growth needed to sustain a vibrant economy, and all its elements.

It is also essential to underpin demand for new housing construction - which accounts for approximately 7.5 percent of national output, 750,000 direct and indirect jobs and over $300bn in economic output. [1]

The Implications of Lower Immigration and Population Growth for Housing

We can now quantify the risks to the economy from lower immigration and population growth. The Urban Development Institute of Australia (UDIA) National has partnered with Urbis to test the effects of reduced demand arising from lower NOM and population growth, and its implications for housing markets and the economy.

The headline findings include:

- Australia's **average annual population growth will reduce by approximately 32 percent** until 2025
- Net Overseas Migration (NOM) accounts for 56 percent of Australia's dwelling demand, with **natural domestic population increases accounting for 44 percent**
- **An average per annum reduction of over 50,000 homes per year** will occur in the number of new homes being constructed over the next five years
- **$17.9 billion less direct gross value added** (GVA) being contributed to the Australian economy between 2020 and 2025 in total from the loss in construction.

These dramatic numbers reinforce previous analysis of the economic benefits of robust immigration. “Shaping the Nation” – a report published by Treasury and the Department of Home Affairs in 2018 – states:

“There is considerable evidence pointing to the role of migrants in sustaining or fostering strong economic growth over the longer term. The 2015 Intergenerational Report estimated that, over the 40 years to 2015, population factors contributed almost 18 percent of the 1.7 percent annual average growth in GDP per person. This suggests that migration helped the economy successfully weather the Global Financial Crisis and the slow global growth and poor economic conditions that followed.”

[1] EY: November 2019, commissioned by UDIA National

Also, the Productivity Commission's 2016 report, "Migrant Intake into Australia" found that a business as usual case on NOM added 0.15 percent to growth each year over a zero NOM scenario.

The Need for Extended Stimulus

The Government rightly recognised the robust contribution housing and construction make to the national economy when it introduced HomeBuilder - its flagship initiative to stimulate jobs, wages and activity across the housing and construction sector.

HomeBuilder was an essential pillar in the Government's swift response to the economic effects of COVID-19 - alongside its broader package of measures to sustain capital markets and liquidity, strong lending, income support and efforts to support businesses across the nation.

However, with the prospect of extended border closures and deterioration in economic forecasts, **the time is right for the Government to commit to an extension to HomeBuilder** that has the benefit of:

- Supporting the residual domestic demand for new housing construction - which still provides for 44 percent of demand in a business-as-usual market until such a time when NOM returns to more sustainable levels
- Ensures there is no risk of a new 'cliff' in the market emerging in 2021 - when Australia is still trying to inch its way back to economic normality
- Provides for an opportunity to capture a fuller spectrum of the new housing construction market, including by housing type, construction method and geography, and
- Underpinning an industry that adds 750,000 direct and indirect jobs to the Australian economy.

A renewed commitment to HomeBuilder can help the nation close the gap on economic growth, jobs, wages and housing affordability through a sustained pipeline of projects that run into 2022.

Under the COVID-Adjusted Population Projections for Australia, Urbis forecast:

- *45,600 additional detached dwellings will be required by 2025*
- *100,000 additional semi-detached dwellings will be required by 2025*
- *171,700 additional attached dwellings will be required by 2025.*

While these figures represent a 26-43% decrease (depending on dwelling type) compared to the no-COVID scenario, it is clear that there is still forecast to be significant domestic-driven demand for housing over the next five years.

"The property industry can and must play a central role in powering the nation's economic revival. As an industry that generates jobs, wages and activity up and down supply chains, new housing construction can help fill the gap caused by closed borders and slower growth.

We know HomeBuilder is already working to boost confidence and trigger new projects. An extended application of the stimulus measure - matched with smart design solutions that maximise the breadth, reach and application of HomeBuilder - will give Australia the new housing, jobs and confidence our economy desperately needs."

- Simon Basheer, UDIA National President

The Current Constraints of HomeBuilder

HomeBuilder met its original goal of addressing an expected significant reduction in housing starts for the second half of 2020 as the COVID-19 pandemic first began. The design of the scheme, however, contained certain constraints which restrict its potential to provide even greater benefit for the market and the economy.

The current design of the package largely limits its application to house-and-land packages, primarily on lots which are already titled or soon to be titled – and effectively prevents its application to a large swathe of other housing products (eg apartments and townhouses) which make up some 60% of all new housing stock.

UDIA believes the pricing thresholds – particularly given the inclusion of land value in new housing construction – will limit its applicability in large tracts of Sydney and Melbourne. Given these are the cities where housing affordability is its most challenging and the depth of underlying demand is greatest, encouraging more stock in these markets is important.

There is a similar need to consider the income thresholds that apply to the scheme. They duplicated the income thresholds in the Government's First Home Loan Deposit Gap Scheme, where they were relevant. However, first home buyers account for approximately 25 percent of the owner-occupier market, and in the interests of maximising the benefits and activity generated by the scheme, there is a case to case widening its reach to a broader pool of homebuyers.

In addition, the contract signing and commencement components of the scheme is also both limited its application within the market and led to large differences in administration in different states. This constrains a range of housing typologies including:

- New stage land development, given developers will be reluctant to bring forward projects that need lead time of up to 12 months in most jurisdictions to gain development approvals, obtain development finance, and construct new land stages that will then meet the scheme's commencement definitions (noting that they vary in most states);
- Townhouse and multi-story apartment projects where the current timeframes for commencement and completion of construction are unsuitable for the vast bulk of these sorts of projects (as well as the need to meet pre-sales hurdles to gain construction finance for a project to commence);
- Land lease communities, where the multiplier benefits of construction still applies, which are excluded due to their inability to obtain a certificate of title that is currently required under the scheme;
- Swathes of Sydney and Melbourne, where underlying land values mean few built-form projects can access the scheme due to the price thresholds (inclusive of land value for new dwellings) - unlike renovation projects, which do not have to account for land costs.

Given the current economic environment Australia now faces, there is a strong case for addressing the design of the scheme moving forward.

Simon Basheer

Simon Basheer
UDIA National President

UDIA Recommendations

Allocation

Allocating an additional $1.25bn funding stream to support the construction of 50,000 new homes with an anticipated economic stimulus of at least $3 billion into the Australian economy.

Timeframes

Adjust the timelines applying to the scheme to provide for greater participation by apartment, townhouse and land development projects that more appropriately mirrors housing demand within Australia by:

- Extending the timeframes for building contract signing (or split or two-part contracts) or sales contracts (for 1-part contracts) to be entered into from December 31, 2020, by six months to June 30, 2021
- Extending the construction timeframes, depending on the nature of the project, with:
  - Detached housing to have a new commencement timeframe of December 31, 2021
  - Semi-detached and attached housing (ie: townhouse and apartments projects) to have a new commencement timeframe of December 31, 2022, and
- Redefining "commencement" to allow for flexibility which accounts for differences in staging and timing for detached, semi-detached and attached housing products.

Price and thresholds

Amending the definition of house and land price thresholds to remove land costs and in doing so, provide parity between new housing construction and renovation projects.

Increase the income thresholds of the scheme to capture a wider range of buyers, given the current limits reflect an approach tailored largely to first home buyers who make up a small fraction of overall demand.

Land lease communities

Providing for the construction of manufactured homes to be used in land lease community to be captured by the scheme, recognising their current exclusion due to requirements around certificate of title.

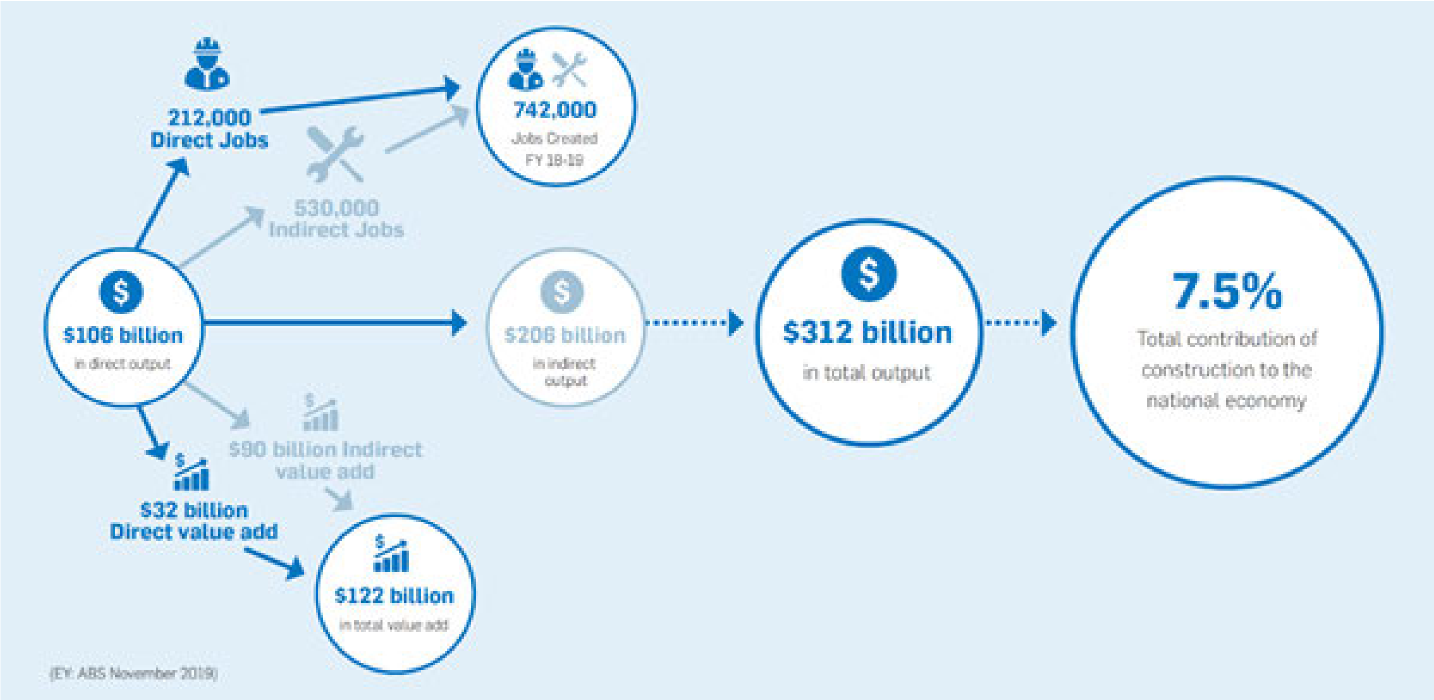
Victoria

Extend the current grant’s availability from December 31 2020 for a further six months and allow for a subsequent extension of the start of the construction phase for a further six months in recognition of the effects of the severe, extended lockdown currently in place.

Transitional arrangements

To ensure that there is no dislocation in the market, any new arrangements to the scheme’s application should be applied immediately from the date of announcement (rather than a latter date, which would risk seeing homebuyers freeze or delays decisions).

ECONOMIC CONTEXT



The critical role that construction and new housing development plays in fuelling economic activity is evident in independent research undertaken by EY on behalf of UDIA National which was released in November 2019. The research shows that:

- *7.5 percent of national economic activity is generated by development construction – this was higher at the peak of the housing construction cycle;*
- *750,000 direct and indirect jobs were created in FY18-19 from new housing and construction;*
- *The combination of direct and indirect output from new housing and construction alone equalled a mammoth $312bn in economic output (not including associated infrastructure).*

The fluidity and rapid decline in forecasts around Australia's national economic trajectory for the next 12 to 24 months underscore the case for governments to continue to apply stimulatory policy settings.

In the Government's Economic and Fiscal Update, released in July 2020, some of the headline forecasts and assumptions included:

- A return to positive economic growth in the September quarter (based on a continuous easing of restrictions across the states);
- Victoria's lockdowns, then at Stage 3 level, to last no more than six weeks and easing to begin in early September;
- The unemployment rate to peak at 9.25 percent in December 2020, and remaining above 8 percent for the rest of the financial year;
- Dwelling investment to fall by 16 percent in F21 (despite the beneficial effects of HomeBuilder and other initiatives).

ECONOMIC CONTEXT

These forecasts placed a context around the challenges; but the subsequent deterioration of the pandemic in Victoria in particular - and flow-on economic effects - have since magnified them.

National accounts show Australia's economy fell into recession during the June quarter, contracting 7 percent and the vast bulk of forecasts predict negative growth will remain during the September quarter, exacerbated by the extended shutdown in Victoria.

The Reserve Bank, in its Economic Outlook released in August, revealed its pessimism around the trajectory of the nation's economy. For example, it forecast:

- Unemployment to rise to almost 10 percent over the next six months, and not reduce to below 8 percent until 2022;
- The more severe restrictions imposed in Victoria will likely shave two percent of GDP over the September quarter;
- The Australian economy will only rebound 5 percent, rather than the previous forecast of 7 percent, in 2021;
- Dwelling investment is expected to decline in the near term, and while HomeBuilder will support activity in the detached housing market, the outlook for higher-density or commerical activity is weak.

These forecasts - and the fact they remain subject to strong fluctuations from the broader capacity to effectively manage the pandemic - illustrate the scale and breadth of the economic challenge facing Australia.

The property and construction sector will play a crucial role in supporting and sustaining the recovery, when buttressed by good policy settings.

New housing construction has the benefit of creating confidence-boosting activity, consumption, wages and jobs up and down supply chains. The National Housing and Finance Corporation (NHFIC) estimates that:

- Residential Building Construction has the second highest multiplier of all industries.
- On average, $1 million in output in residential construction supports $2.9 million in output and nine jobs across the economy.
- Every new home supports three jobs.

POPULATION CONTEXT

Almost 60 percent of Australia's population growth - which fuels its economy, housing demand and other vital indicators - stems from Net Overseas Migration, which is now poised to stall for at least 18 months.

Australia has always been a net importer of capital - both people and funding - to help sustain its economic and social prosperity. The recent outbreak of COVID-19 has forced governments to effectively close international borders and cease usual immigration programs.

This manifested itself across the board, from international students to skilled migration to the full menu of programs that provide a pathway for migrants to come to Australia. This has materially and directly affected a host of industries; while for others, the effect has been more indirect.

Regardless, the analysis UDIA commissioned from Urbis found Net Overseas Migration (NOM) has historically been the key driver of total population growth in Australia. Natural growth has been relatively flat in comparison.

In the early 1990s and 2000s, Australia recorded average population increases of 1.1 percent per annum. However, since 2006, the average population increase has averaged 1.6 percent. This was fuelled in large part by higher NOM which accounted for approximately 60 percent of population growth.

	5-Yr Average (2015-19)		10-Yr Average (2010-19)	
	No. of Persons per Annum	*% Share*	No. of Persons per Annum	*% Share*
NOM	224,800	*60%*	215,050	*59%*
Natural	151,570	*40%*	151,540	*41%*
TOTAL GROWTH	**376,370**	***100%***	**366,590**	***100%***

Urbis' analysis also found NOM also has an inverse relationship with the labour market – historic recessions have had sustained periods of lower overseas migration. Birth rates have also been lower when the economic outlook is weak.

The loss of immigration and population growth due to closed borders is one element of the downturn; but it is likely to have an extended tail as the drag of higher unemployment suppresses growth.

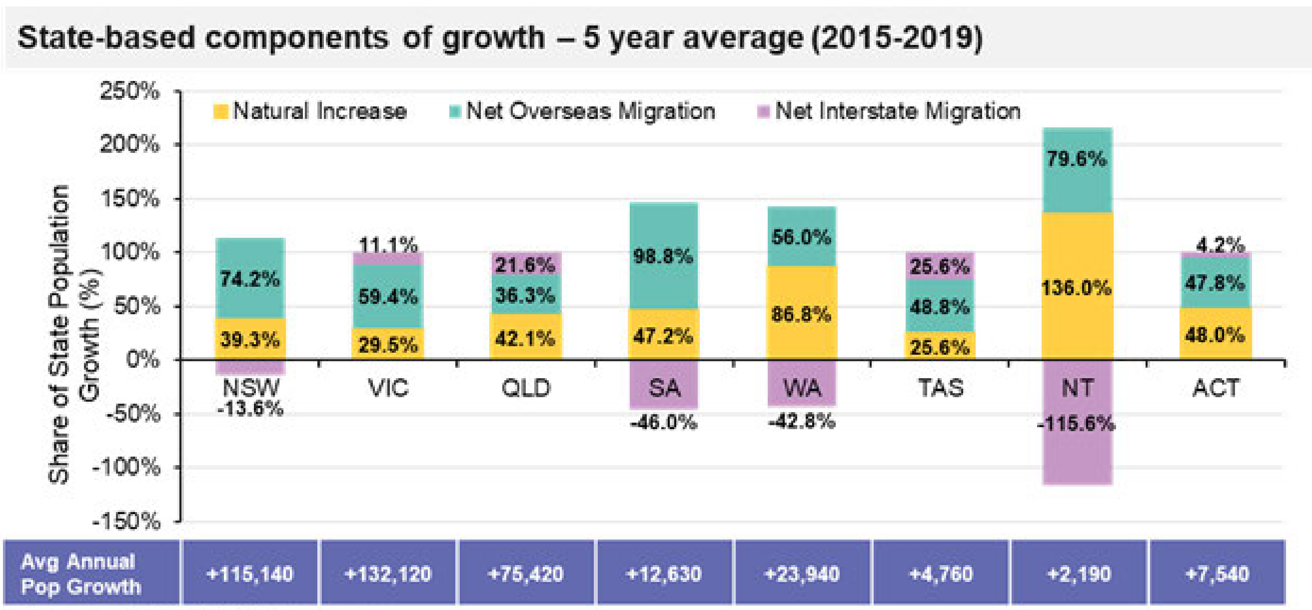
This will leave Australia's economy - and housing markets - more dependent than ever on domestic demand in the short to medium terms.

Geographic patterns

Once arrived in Australia, overseas migrants tend to initially settle in NSW and Victoria which accounted for an annual average of 23% and 21%, respectively, of Australia’s total NOM between 2015 and 2019.

Regardless, NOM is the main driver of population growth in every state. The share, however, is substantially affected - and in some cases all but offset - by the state-based rates of natural increase and net interstate migration.

The quantum tells a different story - with Victoria enjoying the largest average annual increase over the past five years, at 132,120 people per annum, NSW followed at 115,140 and Queensland at 75,420. These fall primarily in the greater capital city metropolitan areas, including broader SEQ, and lend themselves to design principles that deal with constraints in the current scheme to ensure the stimulus can satisfy the broadest pool of demand, and maximise the jobs benefit of the package.



* NT based on 2014/15-2016/17 3-year average
Source: ABS; Urbis

POPULATION CONTEXT

COVID-19 related projections

Urbis was tasked with seeking to assess the anticipated impacts of COVID-19 on population growth in each State and Territory between 2020 and 2025.

It did so by using the assumptions for NOM in the Government's Fiscal and Economic Update released in July. It then compared these to the Series C (low range) Population Projections published by the ABS in November 2018.

Under the Urbis projections, UDIA expects that reduced NOM and lower birth rates will have the following state-based impacts on population growth:

- Big falls – NSW, VIC, NT, ACT
- Medium impacts – QLD, WA, SA
- Low impacts – TAS.

UDIA also anticipate shifts to internal migration patterns, including:

- NSW - reduced outflow and higher retention
- VIC - reduced interstate intake and higher outflow
- QLD - continued relatively high
- WA - reduced outflow and higher retention and higher inward migration due to strength of resources sector.

Overall, the Urbis analysis projects average annual population growth will drop to 252,100 additional persons per annum between 2019 and 2025, compared to the ABS projection of 371,680 additional persons per annum.

This represents a decrease of c.32 percent at a national level, with various impacts state by state.

	Projected Average Annual Population Growth, 2019-25 (No.)			
	ABS	Urbis	Change	
	No. of Persons	No. of Persons	*No. of Persons*	%
NSW	116,487	68,050	-48,437	*-41.6%*
VIC	119,063	78,517	-40,546	*-34.1%*
QLD	75,707	60,400	-15,307	*-20.2%*
SA	11,773	8,750	-3,023	*-25.7%*
WA	36,005	27,950	-8,055	*-22.4%*
TAS	2,285	2,583	+299	*+13.1%*
NT	3,556	1,350	-2,206	*-62.0%*
ACT	6,698	4,583	-2,115	*-31.6%*
Other Territories	106	-100	-206	*-194.3%*
AUSTRALIA	**371,680**	**252,083**	**-119,596**	**-32.2%**

Source: ABS; Urbis

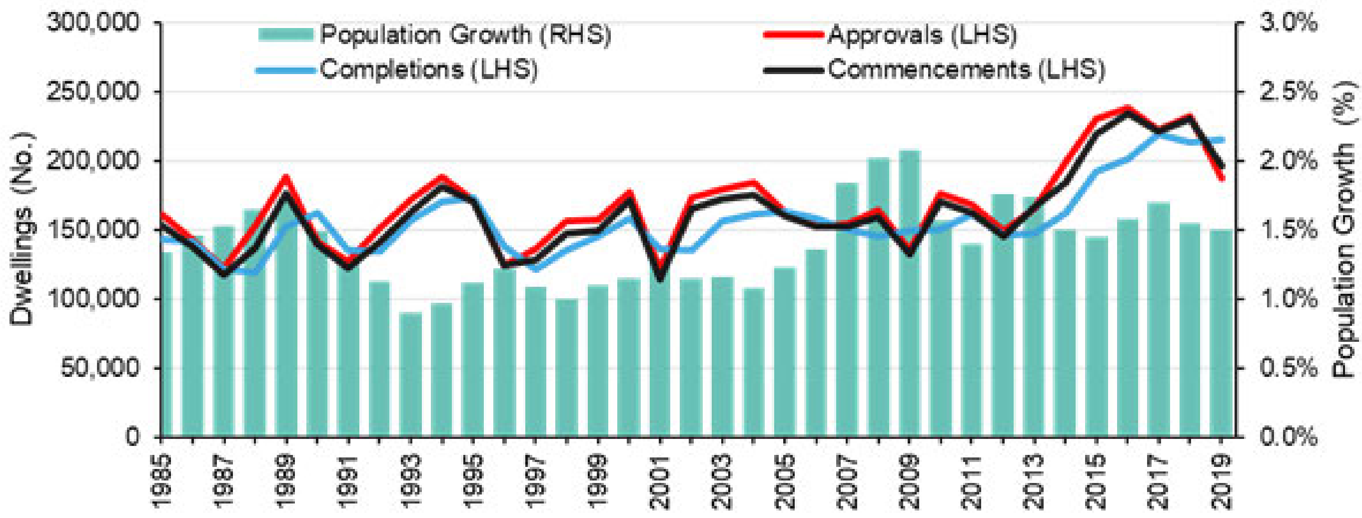
DWELLING COMMENCEMENTS AND DEMAND

Throughout the 1990s into the mid-2000s, population growth in Australia averaged 1.1 percent per annum. Over the same period, around 150,000 new dwellings were being completed each year.

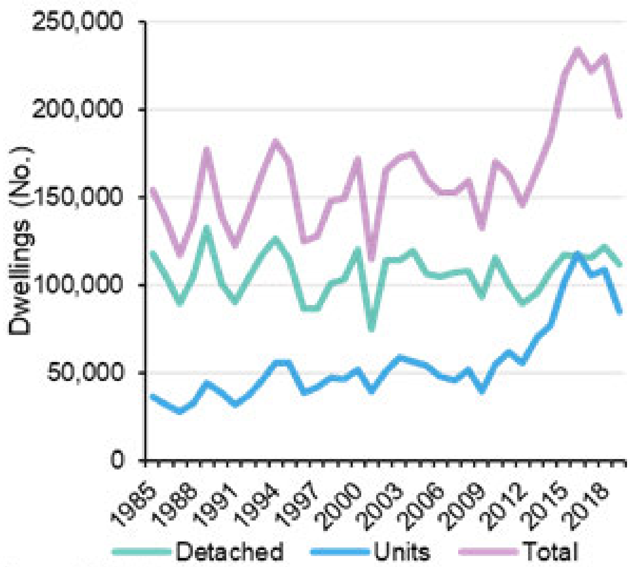
From 2006 the rate of population growth increased to an average of 1.6 percent per annum. However, a corresponding increase in construction activity did not occur until 2013.

This boom in housing construction activity was primarily driven by an increase in the development of attached dwellings (i.e. units), while detached dwelling construction activity remained relatively unchanged.

Dwelling Construction vs. Population Change, Australia (1985-2019)



Dwelling Commencements by Type, Australia (1985-2019)



Source: ABS; Urbis

DWELLING COMMENCEMENTS AND DEMAND

Population growth has been steady across all states and territories over the past 35 years although construction activity has varied significantly, particularly in:

VIC

- Experienced a slowdown during 1990-1999 as completions dropped despite population continuing to grow strongly.
- A steady recovery was made from 2000 onwards at an average of 21 percent for each five year period, more in line with population growth average increase of 9 percent.

NSW

- Construction activity experienced a slow down during 2000-2014 with completions declining despite population continuing to grow strongly.
- A strong recovery was made in the 2015-19 period as completions increased by 91 percent from the 2010-14 period, with population only increasing by 8 percent in this period

QLD

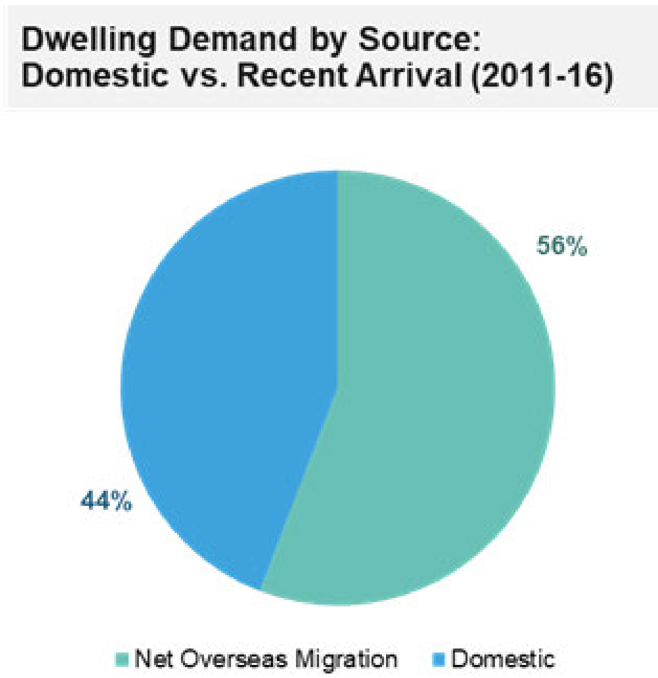
- Experienced its biggest shift in construction activity in 2010-14, with completions dropping by 17 percent from the previous period followed by a 37 percent recovery in 2014-19

Urbis has estimated the share of dwelling demand across Australia between 2011 and 2016 that was attributable to NOM was 56 percent of total dwelling demand based on:

- Historical NOM data by State (ABS)
- Historical housing type preferences of recent overseas migrants (Census)
- Historical average household sizes by housing type of recent overseas migrants (Census)
- Increases in the number of occupied private dwellings between 2011 and 2016 (Census)

The remaining 44 percent of dwelling demand was attributable to natural increases in the domestic population.

This indicates that while NOM is forecast to decrease over the next five years, natural domestic population growth will continue to drive demand for additional housing.



DWELLING COMMENCEMENTS AND DEMAND

State-based demand by dwelling type

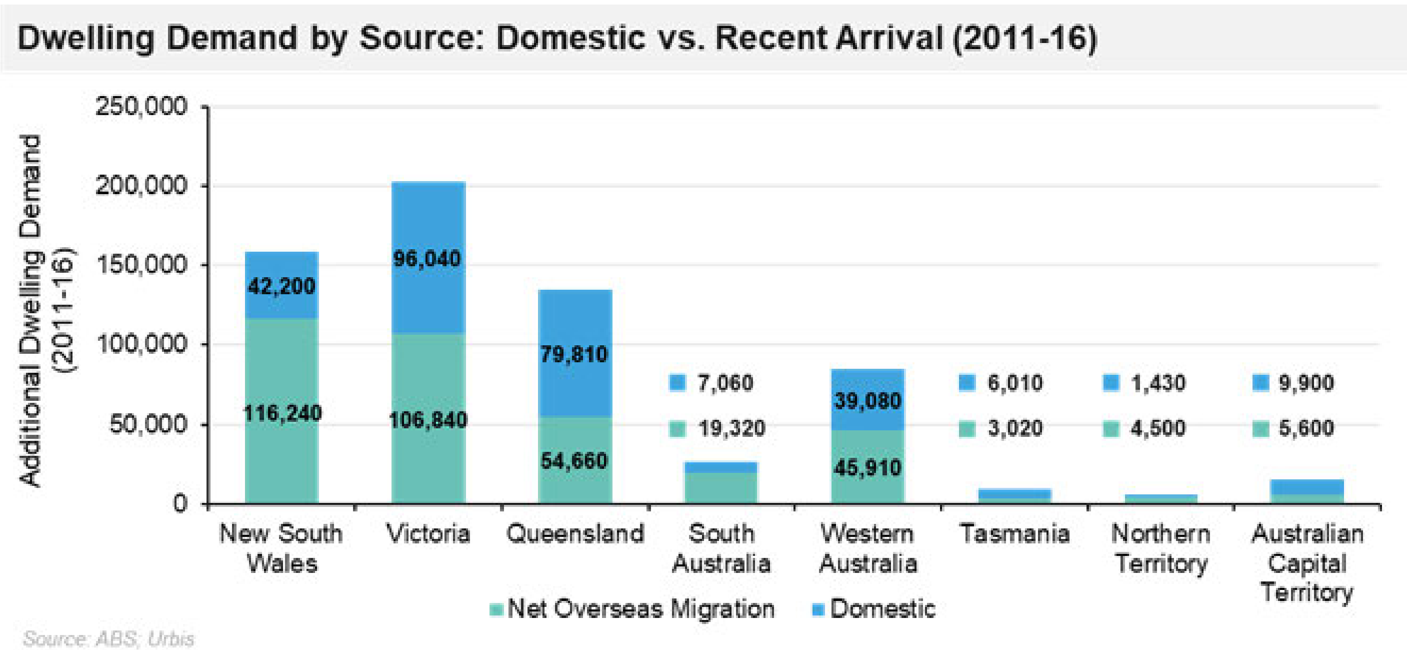
To estimate the share of dwelling demand by State between 2011 and 2016 that was attributable to NOM, Urbis first took the ABS Historical NOM data by State and apportioned it into categories for each housing type (Detached, Semi-Detached, Attached) based on housing type preferences of recent overseas migrants sourced from the 2011 and 2016 Censuses.

Urbis then converted this population by housing type data into dwelling demand by applying appropriate average household sizes sourced from the Censuses.

This resulted in an estimate of additional dwelling demand from NOM between 2011 and 2016 by State. Urbis then compared this estimate to the increase in occupied private dwellings observed in each State between the 2011 and 2016 Censuses to calculate the share of additional housing demand that was attributable to NOM.

Urbis estimates that, between 2011 and 2016, NOM accounted for:

State	Additional dwelling demand
NT	76%
NSW	73%
SA	73%
WA	54%
VIC	53%
QLD	41%
ACT	36%
TAS	33%



DWELLING COMMENCEMENTS AND DEMAND

Dwelling Demand Outlook

Urbis has forecast the demand for detached, semi-detached and attached dwellings in each State between 2020 and 2025. In doing so, two scenarios were forecast:

1. Based on the ABS Series C Population Projections
2. Based on the Urbis COVID-Adjusted Population Projections.

To convert the population projections into dwelling demand forecasts, Urbis applied appropriate housing type preferences and average household sizes for each component of population growth (i.e. NOM, interstate, natural) based on historical trends (sourced from the last three Censuses).

This approach provides an indication of the quantum of additional dwellings likely to be required over the next five years (i.e. Urbis Population Projections) compared to a no-COVID situation (i.e. ABS Population Projections).

Under the COVID-Adjusted Projections for Australia overall, Urbis forecast:

- *345,600 additional detached dwellings will be required by 2025*
- *100,000 additional semi-detached dwellings will be required by 2025*
- *171,700 additional attached dwellings will be required by 2025.*

This represents a 26-43 percent decrease (depending on dwelling type) compared to the no-COVID scenario and domestic demand will drive growth over the next 5 years - approximately 615,000 dwellings.

DWELLING COMMENCEMENTS AND DEMAND

Dwelling Demand Forecasts by State and Type, 2020-2025

		ABS		Urbis		*Change*	
	Dwelling Type	Additional Dwellings (No.)	Avg Annual Growth (No.)	Additional Dwellings (No.)	Avg Annual Growth (No.)	*Additional Dwellings (No.)*	*Avg Annual Growth (No.)*
NSW	Detached	112,080	18,680	70,700	11,780	-41,380	-6,900
	Semi-Detached	36,120	6,020	20,510	3,420	-15,610	-2,600
	Attached	141,370	23,560	74,990	12,500	-66,370	-11,060
VIC	Detached	149,430	24,910	103,540	17,260	-45,890	-7,650
	Semi-Detached	60,380	10,060	38,280	6,380	-22,100	-3,690
	Attached	90,100	15,020	53,390	8,900	-36,710	-6,120
QLD	Detached	110,370	18,400	93,800	15,630	-16,570	-2,760
	Semi-Detached	30,650	5,110	22,650	3,780	-8,000	-1,330
	Attached	47,170	7,860	30,620	5,100	-16,560	-2,760
SA	Detached	22,760	3,790	17,820	2,970	-4,940	-820
	Semi-Detached	2,140	360	1,220	200	-930	-150
	Attached	4,430	740	2,430	410	-2,000	-330
WA	Detached	56,410	9,400	46,560	7,760	-9,850	-1,640
	Semi-Detached	20,560	3,430	13,870	2,310	-6,690	-1,120
	Attached	10,820	1,800	6,210	1,040	-4,610	-770
TAS	Detached	4,030	670	4,910	820	+870	+150
	Semi-Detached	910	150	880	150	-30	0
	Attached	1,460	240	1,320	220	-140	-20
NT	Detached	4,070	680	2,070	340	-2,000	-330
	Semi-Detached	1,370	230	310	50	-1,070	-180
	Attached	2,690	450	330	60	-2,360	-390
ACT	Detached	8,820	1,470	6,400	1,070	-2,420	-400
	Semi-Detached	3,620	600	2,310	390	-1,300	-220
	Attached	4,380	730	2,460	410	-1,920	-320
TOTAL AUS	**Detached**	**467,990**	**78,000**	**345,620**	**57,600**	***-122,370***	***-20,400***
	Semi-Detached	**155,750**	**25,960**	**99,990**	**16,670**	***-55,760***	***-9,290***
	Attached	**302,410**	**50,400**	**171,720**	**28,620**	***-130,680***	***-21,780***

Source: ABS; Urbis
Note: Detached includes separate houses, semi-detached includes terrace houses and attached townhouses, attached includes apartments or units

HOMEBUILDER - AN OVERVIEW

The Commonwealth Government announced HomeBuillder on June 4 with the stated objective of filling the gap in construction activity in the second half of 2020 due to the effects of the pandemic.

In announcing the scheme, the Government anticipated that:

- While uncapped, the anticipated funding for the scheme would support construction or renovation of approximately 27,500 new homes;
- The new home and home renovation elements would combine to spread the benefits of activity and employment across supply chains and professional sectors;
- The initiative would work in concert with existing and expanded state-based stimulus initiatives to fortify the housing and construction sector.

The early indications are that HomeBuilder has worked to pull forward some demand, though there is a substantial variation between states. For example, the Housing Industry Association found that as at July, new home detached sales increased 64.4 percent compared to the previous two months. Across the states:

- **NSW**: up 9.6% previous two months, lower than months prior to pandemic, likely due to higher house prices limiting applicability based on HomeBuilder price thresholds;
- **VIC**: 39.5% higher than previous two months, (though this pre-dates stage four restrictions at beginning of August);
- **QLD**: 42.4%, lower land prices, more eligibility, greater proportion of titled or near-titled stock;
- **SA**: 142.1%, purchasing decisions drawn forward;
- **WA**: 170.6%, combination of HomeBuilder, building bonus scheme, greatly improved confidence, support employment in this market into 2021.

Trend Analysis of New Detached House Sales by State, July 2016 – July 2020

	Trend July 2016 – Feb 2020	COVID Impact March 2020 – May 2020			HomeBuilder Boost June 2020 – July 2020		
State	Average Monthly Sales	Average Monthly Sales	Change from Trend No.	Change from Trend %	Average Monthly Sales	Change from Trend No.	Change from Trend %
NSW	969	776	-193	-19.9%	857	-112	-11.6%
VIC	1,904	1,418	-486	-25.5%	1,947	+43	+2.3%
QLD	1,000	650	-351	-35.1%	904	-96	-9.6%
SA	337	232	-105	-31.2%	471	+134	+39.8%
WA	734	692	-42	-5.7%	1,945	+1,211	+165.0%
Total	**4,943**	**3,767**	**-1,176**	**-23.8%**	**6,124**	**+1,180**	**+23.9%**

Source: HIA; Urbis

HOMEBUILDER - AN OVERVIEW

Overall, Urbis found the announcement of HomeBuilder appears to have boosted monthly sales above the trend in June and August 2020. However, this boost will need to continue through to September in order to fully recover the loss in sales activity between March and May.

Despite its success upon announcement, there will need to be sustained momentum built in the market to recover lost activity, counteract the effects of the Victorian Stage 4 lockdown, and provide a durable pipeline of activity to boost the economy in the medium term.

The Current Constraints of HomeBuilder

Whilst HomeBuilder appears to have been initially successful, there are design constraints that are restricting its potential to provide greater benefit and a sustained housing-led recovery beyond COVID for the market and economy.

The current design of the package largely limits its application to house-and-land packages, primarily on lots which are already titled or soon to be titled – and effectively prevents its application to a large swathe of other housing products (eg apartments and townhouses) which make up some 60 percent of all new housing stock.

This spans a range of housing typologies including:

- New stage land development, given developers will be reluctant to bring forward projects that need lead time of up to 12 months in most jurisdictions to gain development approvals, obtain development finance, and construct new land stages that will then meet the scheme's commencement definitions (noting that they vary in most states);
- Townhouse and multi-story apartment projects where the current timeframes for commencement and completion of construction are unsuitable for the vast bulk of these sorts of projects (as well as the need to meet pre-sales hurdles to gain construction finance for a project to commence);
- Land lease communities, where the multiplier benefits of construction still applies, which are excluded due to their inability to obtain a certificate of title that is currently required under the scheme;
- Swathes of Sydney and Melbourne, where underlying land values mean few built-form projects can access the scheme due to the price thresholds (inclusive of land value for new dwellings) - unlike renovation projects, which do not have to account for land costs.

Given the current economic environment Australia now faces, there is a strong case for addressing the design of the scheme moving forward.

THE VICTORIAN EXPERIENCE

The building, construction, development and property industry is a fundamental plank of the Victorian economy and employs more than 300,000 Victorians. The industry contributes to over 45% of the state's taxation revenue, particularly from the purchase and sale of new housing.

On August 2, the Victorian Government gave effect to Stage 4 restrictions across metropolitan Melbourne. The Chief Health Officer's Directions included sweeping limitations on personal, civic and business activity across the city.

For the housing and construction sector, these included limits which constrained the number of people on sites, movements of personnel between sites, on-site density restrictions and other protocols.

There were nuances to each type of project (ie: land release vs high density), but overall - t<u>he effect was to limit the number of workers on most sites to approximately 25 percent of pre-restriction capacity</u>.

The building, construction and development industry worked diligently with the Victorian Government to work through the specifics of the rules which have been in place since 8 August 2020 and will continue until at least 28 September 2020.

A key part of the building, construction and development industry's positive track record in keeping the impact of COVID-19 to a minimum has been the strong, collaborate approach between employer associations and unions, the continued evolution of widely accepted Worksite Guidelines which have proven effective in reducing the risks of on-site transmission.

UDIA Victoria continues to work proactively with the Victorian Government, in collaboration with industry and union representatives, to chart the processes and protocols that should apply as restrictions are progressively scaled back from 28 September 2020.

Overall as a result of the current extended restrictions in Victoria, the building, construction and development industry will bear significant costs and delays, and ongoing uncertainty remains regarding the timing of the recovery in line with the Victorian Government's Roadmap to Reopening.

Across small-scale construction, activity has declined significantly, with feedback from domestic home builders estimating up to a 66 percent reduction in productivity. The reduced rate of housing production will result in a slowdown of economic activity into 2021 and beyond.

These negative impacts will be amplified by increased land holding and construction costs, disruption to civil contracting sequencing and major delays to land release and apartment projects.

THE VICTORIAN EXPERIENCE

A key concern has been the extended closure of display homes, land sales offices, sales suites and open-for-inspections. In accordance with Stage 4 restrictions, display homes, land sales offices and sales suites have been closed completely in Metropolitan Melbourne since 8 August 2020 and are open by appointment only in regional Victoria.

Under the Roadmap to Reopening announced on 6 September 2020, these settings cannot reopen until November at best. With Spring being the strongest selling season, and December and January traditionally soft, this puts the future construction pipeline for the 2021 year under extreme threat.

For example, Victorians looking to make use of the HomeBuilder Grant and sign a contract prior to December 31 will now be required to view and purchase a home online. Generally speaking, it takes between 8-12 weeks to contract a new home once interior and exterior selections are considered. This will ultimately lead to less HomeBuilder Grant sales and stimulus for Victoria at a time when we desperately need it.

As a result, the tight timeframes applied to the HomeBuilder scheme will be exacerbated by the practical limitations of the Stage 4 restrictions on purhcaers, as well as the more depressed economic outcomes to be anticipated in Victoria.

Accordingly, UDIA recommends that given the unique circumstances in Victoria, the Commonwealth and State Governments apply additional flexibility to allow for:

- Extending the grant's availability from December 31, for six months; and
- A subsequent extension of the start of construction phase for a further six months.

HOMEBUILDER MARK 2 - THE CASE FOR

There are seven clear pillars that inform the case for an extension to and redesign of HomeBuilder to sustain new housing construction and employment in the sector. These are:

1. Australia's economic prospects . . .
   are deteriorating, with higher unemployment, slower growth and the extended effects of Victoria's elongated lockdown dampening economic growth

2. Lower immigration levels . . .
   are predicted to shave 32 percent off population growth needed to fuel economic growth and housing markets

3. Subdued dwelling demand . . .
   stemming from lower immigration and population growth is poised to strip more than one-third from dwelling demand - or an average of over 50,000 fewer homes per year

4. Housing construction serves as a multiplier . . .
   with the National Housing Finance and Investment Corporation finding residential building construction is the second highest multiplier of all industries – and every new home supporting three jobs

5. Lost jobs and investment across housing markets . . .
   with $17.9 billion in lower direct gross value add across the economy already lost due to lower growth from an industry that sustains 750,000 direct and indirect jobs

6. Residual domestic population growth . . .
   still represents 44 percent of the demand for new housing construction, and can be harnessed to stimulate additional housing construction activity across the nation

7. A broader pool of projects . . .
   can be leveraged to sustain HomeBuilder and new housing construction by redesigning HomeBuilder to capture more staged land development, townhouse and apartment projects.

> *"HomeBuilder was a centrepiece of the Government's economic response to COVID-19. By partnering with a crucial sector of the economy to extend and redesign the scheme, the Government can foster a durable and sustainable pipeline of projects that help resolve the economic dilemma and challenges facing Australia."*
>
> \- Simon Basheer, UDIA National President

HOMEBUILDER MARK 2 - UDIA RECOMMENDATIONS

UDIA National recommends reforms to the design and implementation of HomeBuilder to extend its application both in timeframes, as well as making it more accessible to a larger share of the new housing construction market.

Our design recommendations will ensure a seamless transition and limited market dislocation between the first and second phase of HomeBuilder, and ensure Australia emerges from the downturn with a strong and sustainable pipeline of new housing and construction jobs.

Allocation

- Allocating an additional $1.25bn funding stream to support the construction of 50,000 new homes based on continuing the $25,000 grant, with an anticipated economic stimulus of at least $3 billion into the Australian economy.

Timeframes

- Adjust the timelines applying to the scheme to provide for greater participation by apartment, townhouse and land development projects that more appropriately mirrors housing demand within Australia. This covers:
    - Extending the timeframes for building contract signing (or split or two-part contracts) or sales contracts (for 1-part contracts) to be entered into from December 31, 2020, to June 30, 2021
    - Extending the construction timeframes, depending on the nature of the project, with:
        - Detached housing to have a new commencement timeframe of December 31, 2021, and
        - Semi-detached and attached housing (ie: townhouse and apartments projects) to have a new commencement timeframe of December 31, 2022.
    - Redefining "commencement" to allow for flexibility which accounts for differences in staging and timing for detached, semi-detached and attached housing products.

Price and income thresholds

- Amending the house and land price thresholds to remove land costs and in doing so, provide parity between new housing construction and renovation projects

- Increase the income thresholds of the scheme to capture a wider range of buyers, given the current limits reflect an approach tailored largely to first home buyers who make up a small fraction of overall demand.

Land lease communities

- Providing for the construction of manufactured homes to be used in land lease community to be captured by the scheme, recognising their current exclusion due to requirements around certificate of title.

Victoria

- Extend the current grant’s availability from December 31 2020 for a further six months and allow for a subsequent extension of the start of the construction phase for a further six months to adjust for the effects of the severe, extended lockdown currently in place.

Transitional arrangements

- To ensure that there is no dislocation in the market, any new arrangements to the scheme’s application should be applied immediately from the date of announcement (rather than a latter date, which would risk seeing homebuyers freeze or delays decisions).

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