



KICK STARTING THE AUSTRALIAN ECONOMY

A six step plan
for a housing
construction package

Construction stimulus package

Four key timber Associations, Frame and Truss Manufacturer's Association (FTMA), Timber Merchants Association (MGA TMA), Timber & Building Materials Association (TABMA) and Timber Trade Industrial Trade Industrial Association (TTIA) are calling on the federal and state governments, through the National Cabinet, to introduce a housing construction stimulus package to underpin the massive policy effort that will be required to drive economic recovery in the wake of the COVID-19 pandemic.

Our members of over 1000 businesses are extremely thankful for the strong leadership to date with the National Cabinet. The Job Keeper payment is a wonderful incentive to keep people employed, our only concern is the construction industry is heading towards a cliff.

At this stage our businesses are still operational, however, house sales are drying up, investors are getting nervous about proceeding with projects and there is an unnerving feeling of the future of the construction industry and we believe without Stimulus the construction industry will face enormous uncertainty and disruption.

Analysts are already warning that the national and global impacts resulting from economic shutdown in response to the pandemic will be more significant than the Global Financial Crisis and could be worse than the Great Depression.

As reported in The Financial Review on Wednesday 22nd April 2020; *"The latest new home sales figures released by the Housing Industry Association on Wednesday show a 23.2 per cent slump in March, a month only partly affected by the restrictions on movement and concerns about jobs and the economic outlook from the pandemic."* ¹

We understand there will be other Stimulus Incentives, such as the Western Australian Government's recent \$20 Million Stimulus for the construction industry and we welcome all of these ideas and programs.

In addition to increasing economic activity through the construction and construction materials supply chains, stimulus programs will result in increased employment which may have a material impact on forecast unemployment levels of as high as 15 per cent following the pandemic impacts. Structured properly, it can also be targeted to vulnerable small-to-medium-sized enterprises which are most at risk during the current social and economic lockdown.

Further, the measures outlined in our six-step plan will substantially improve access to housing and housing affordability for a large proportion of Australia's young, low income and vulnerable people.

Construction stimulus packages, particularly those aimed at increasing residential housing, have been an effective economic tool for Australian governments since post World War 1. This approach has significant positive pull-through and flow-on implications for the entire economy, reinforcing the commercial viability of deep and complex supply chains while also potentially improving access to affordable housing for hundreds of thousands of Australians – a necessary move in the current environment.

Significantly, the stimulus can be achieved using the resources of manufacturing businesses that are able to work through the COVID-19 restrictions – from forestry contractors, through to builders.

There is also considerable opportunity to address the need for community and disability housing, particularly in regional Australia, where the availability of adequate and affordable housing is already challenging.

We also note that successful delivery of an effective housing construction stimulus program needs to be accompanied by an appropriate removal of red-tape, such that the program is not hindered by unnecessary bureaucratic interference. While we are conscious that appropriate steps need to be in place to prevent problems such as were encountered with the pink batts stimulus, we believe that the industry is in good shape to manage risks.

FTMA, TABMA, TTIA and TMA have developed this six-step proposal for consideration by state and federal governments to introduce a meaningful, value-adding economic stimulus package that will benefit Australians for decades to come and will maintain the viability of Australian regional producers and manufacturers.

The six-step plan comprises:

1. Extend the first home owners grants program
2. Re-open display homes
3. Review stamp duty and land tax arrangements
4. Establish a national social housing program
5. National Disability Insurance Scheme Housing
6. Introduce a national rent-to-buy program

We urge the state and federal governments to consider and implement our proposed program and kick start the Australian economy.



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The six-step plan

Step 1: Extend the first homeowners grants program

What is it?

The first home owners grants program was first introduced in July 2000 as a partial offset to the impact of the newly introduced Goods and Services Tax. During the Global Financial Crisis, the Rudd Government extended and increased the program as part of an overall package of stimulus measures aimed at maintaining or enhancing economic activity in Australia. It is a national scheme administered and funded by the states under their own legislation. There are a range of different approaches and eligibility criteria, including both maximum home value and maximum grant size. Each Australian state and territory has a first home owners program in place.

Current situation

The application of the first home owners grants program varies considerably between state and territory jurisdictions.

State	Applicability	Maximum value (house and land)	Maximum grant
ACT	Buying or building a new, substantially renovated or off-the-plan home	\$750,000	\$7,000
NSW	Buying or building a new home (contracted or owner builder)	\$600,000	\$10,000
NT	Established home, new home or land to build a new home – stamp duty concession BuildBonus (limited to 600 applications) buying or building a new home		\$18,601 \$20,000
Qld	Buying or building a new home (contracted or owner builder)	\$750,000	\$15,000
SA	New homes	\$575,000	\$15,000
Tasmania	New or substantially renovated homes		\$10,000
Victoria	New homes	\$750,000	\$20,000
WA	Buying or building a new home (contracted or owner builder)		\$10,000

Extending the first home owners grant in all jurisdictions to all newly constructed houses, regardless of encumbered value, would substantially increase the effectiveness of this stimulus tool on construction and related economic activity. Extending it to \$20,000 for each jurisdiction would further support this activity.

Advantages

The first home owners grant has proved an enduring and effective economic stimulus tool that also facilitates housing market access for young Australians and is targeted at new houses, generating substantial construction activity.

Recommendation

That the National Cabinet agree to standardising the first home owners grant structures, removing the upper limit on house and land value and increasing to \$20,000 for all jurisdictions.

Step 2: Re-open display homes

What is it?

Display homes and display villages are one of the most critical marketing tools available to developers and the housing construction industry to access the new home builder market.

Current situation

With the current social isolation measures in place to address the COVID-19 pandemic, display homes and display villages are not available for inspection by potential new home builders (except by appointment only). This creates a significant commercial barrier for the housing construction sector to continue to provide the essential service of building houses to satisfy housing demand and also impacts the long-term viability of many small to medium sized businesses operating in the sector.

Safe access

Many retail and wholesale businesses throughout the economy have been able to remain open by introducing responsible social distancing and hygiene practices. For example, Bunnings has addressed the issue with in-store limits on visitor numbers and mandatory hand sanitising on entry and exit. It is highly unlikely that display homes and villages would experience the levels of visitation at any point in time that a Bunnings store would experience. It is our view that this could be achieved with no increased risk of disease transmission.

Advantages

The key advantages to reopening display homes and display villages include:

1. It allows the housing construction sector to reengage in marketing to stimulate new house construction which brings overall economic benefits.
2. It supports the additional measures identified in this six-step plan.
3. It instils confidence in the market.

Recommendation

That the National Cabinet formally allow the reopening of display homes and display villages across Australia, with strict rules in place to address any potential increase in the likelihood of disease transmission.



Step 3: Review stamp duty and land tax arrangements

What is it?

Stamp and land duties are a significant source of state and territory revenue and apply to all real estate transactions. They vary between jurisdictions.

Current situation

All of the states and territories, except for South Australia, have in place stamp and/or land duty concessional arrangements for first home buyers. The eligibility rules in relation to property value and eligible concession amount vary quite considerably and in some cases are quite complex. In the Northern Territory the stamp duty concession is also the first home owners grant.

Standardising a stamp and/or land duty concession for all new home construction at or above the most generous rates offered currently, regardless of property value would prove significant in encouraging new home construction.

Our view is that stamp duty concessions for new house construction should be set at 100 per cent for a period of five years in each jurisdiction, in order to provide a substantial stimulus for economic activity and improve affordable housing access for new market entrants.

Advantages

One of the main advantages of this approach is that most of the states and territories already have in place concession programs which can be quickly adapted to suit the purpose of further economic stimulus. Additionally, this approach would considerably improve new market entrant access for newly constructed housing and would further contribute to housing construction activity.

Recommendation

That the National Cabinet consider introducing a 100 per cent concession on all stamp and land duties for new housing construction, regardless of property value, for a five year period.



Step 4: Establish a national social housing program

What is it?

In many parts of Australia and, in particular, regional Australia, the demand for social housing is significant.

In our major cities, access to private market rental properties is increasingly constrained and, for many vulnerable and low-income Australians, simply inaccessible based on price.

In regional areas, there is often simply not enough housing stock available for rent, meaning many Australians in this category are forced to lean on family and friends, or settle for chronically sub-standard living conditions.

Extended low wage growth and continued housing market growth have significantly contributed to the challenge, as has a long-term absence of policy funding growth for social housing.

The current situation

A recent report in the Australian Financial Review, based on the 2016 census, indicated that the current national shortfall in social and affordable housing is some 650,000 homes which is expected to double over the next decade and a half. ²

Analysis of the 2016 census data indicates that the required total proportion of social homes (rented to people on social security), and affordable homes (rented to designated low income earners at about 80 per cent of market rates) will increase from its current four per cent of Australia's housing stock to 12 per cent.

However, if forecasts on the economic and employment impacts of COVID-19 are correct, that situation is now set to become significantly more problematic and could substantially exceed 12 per cent within a much shorter timeframe. Addressing this problem requires the construction of between 80,000 and 100,000 new homes per annum for the next fifteen years – representing an ongoing investment requirement of up to \$4 billion per annum.

Advantages

Housing affordability is an ongoing issue for many Australians and the need is likely to be exacerbated with the projected fall in full time employment as a consequence of depressed economic conditions following the COVID-19 pandemic. This is an urgent need that needs to be addressed by Australian governments.

A stimulus package aimed at a considerable increase in social and affordable housing construction would also provide vital support for the residential construction sector, additionally creating jobs that are likely to improve the employment and income-earning prospects of many of those affected.

Recommendation

The Federal Government consider the introduction of a significant social and affordable housing construction funding package of up to \$4 billion per annum for the next five years and furthermore, tender out jobs to builders with an income of less than \$5 million.

Step 5: National Disability Insurance Scheme Housing

What is it?

The National Disability Insurance Scheme (NDIS) has in place a \$700 million per annum funding package to support the construction of Specialist Disability Accommodation (SDA) for eligible NDIS participants. It is intended to assist NDIS participants who are living in inappropriate settings due to a lack of support to move back into their home or back into the community. In some cases, NDIS participants have had to be housed in aged care residential facilities, or remain in hospital post recovery, due to the absence of appropriate living arrangements. The SDA funding is intended to assist with home modifications, to make homes accessible, or for the construction of new, appropriate stand-alone housing.

How does it work?

SDA funding can either be applied for by individuals or families of individuals with a disability. The funding arrangements also allow for investors to take responsibility for construction, with guaranteed rental returns which are backed by the Federal Government through the NDIS housing program – returns are between 5 and 12 per cent.

Where is it currently at?

Nationwide, there is an enormous backlog of NDIS housing to be constructed. The SDA program is expected to support an estimated 28,000 people, or six per cent of all NDIS participants. There are currently some 17,500 people already in this form of housing. However a study reported by La Trobe University in 2018 identified an additional 33,200 people with very high support needs who may be in need of SDA housing, including some 6,200 people under the age of 64 who were living in residential aged care facilities, as well as a large number of people living in group accommodation.³

Additionally, the report notes that much of the existing SDA housing stock will need to be redeveloped in order to meet contemporary standards and national and international obligations to care of disabled persons. Currently much of the SDA housing stock is geared towards people with an intellectual disability. However, the demand for SDA housing for people with physical or neurological disabilities is not being met and is expected to grow.

Advantages

In addition to providing much needed appropriate living spaces for people with disabilities, a boost to SDA housing construction will result in freeing up much needed space in both hospitals and residential aged care facilities.

Supply requirements are expected to increase by 60 per cent, with the ACT and New South Wales most needing increased activity – this represents significant new construction activity with multiple social welfare and economic stimulus advantages.

Recommendation

The Federal Government to immediately develop a program to accelerate the construction of SDA housing to meet increased and changing demand profile.

Step 6: Introduce a national rent-to-buy program

What is it?

The ACT Government runs a land rent scheme which is aimed at providing affordable housing options for households earning under \$160,000 per annum. The scheme allows new homeowners, whether acquiring an existing home or building a new home on newly released land, to lease the land component. This reduces mortgage stress for new home buyers and allows them to save to acquire the land (or Crown lease in the case of the ACT) at a later stage, if they desire.

How does it work?

In the case of existing homes, participants can choose to have the Crown lease converted to a land rent lease. In the case of newly released land in the ACT, home builders can choose the land rent option from the outset. Owners are still responsible for land duties and rates but rent the land at a rate which is cheaper than purchase, thereby relieving mortgage stress. In the case of newly released land, private financial institutions are accredited to implement the scheme.

Homeowners can choose to rent the land in perpetuity or revert to ownership on the improved value of the land at a later point. However, it is important to note that the land rental provides equivalent legal protections as though the homeowner owned the land – therefore the land rent lease cannot be unreasonably removed to the detriment of the homeowner.

Broader application

Cost of housing pressures apply in all of Australia's major cities and many regional areas as well. Housing market entry is a significant challenge for many younger and low-to-medium-level salary earners in Australia. Nevertheless, there is continued pressure for new housing, even without new immigration boosting population levels.

While the land ownership structures in the ACT are unique (all land is owned by the Commonwealth and residential land is acquired through a perpetual Crown lease), there is still significant scope to apply this approach across the other Australian states, with either the state or federal governments owning the land, or the establishment of a scheme where accredited developers own the land with strict conditions and legal structures to protect the interests of the homeowner.

Advantages

The primary advantage of a rent-to-buy scheme is that it improves access to housing for a substantial proportion of the population in an affordable fashion that reduces long-term mortgage stress.

Additionally, a rent-to-buy scheme would result in a major increase in new housing starts across the country, which would be a significant step towards addressing the predicted housing construction cliff.

Recommendation

The National Cabinet implement a standardised national approach to a rent-to-buy scheme to operate in all states and territories, based on the successful ACT model.

Views of the sector

The timber manufacturing and retail supply chain has experienced a variety of impacts as a consequence of the current social and economic lock down. Some member quotes are presented below.

“ The concern we have is the period after June - where reports are that there isn't as much work and new starts are stalling or being postponed. In short, mad rush to finish existing jobs and tie off unfinished work in the thought that Stage 4 could come (unlikely) but unease about the back half of this FY. ”

Melbourne metro timber and hardware retailer

“ I do fear a slowdown sometime in the future though, Builders are reporting very few inquiries for new work at the moment. ”

Victorian regional timber and hardware retailer

“ My concern is that the construction industry due to the time frame of a house sale to construction means that we will have had the work to carry on during the isolation period or most of it depending on how long it last. Then as the current effected businesses return to normal trading the construction industry falls off, will we be forgotten or not supported as the COVID-19 virus becomes more controlled. ”

South Australian frame and truss fabricator

References

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- ² Bleby, M. (2019, 13 March). Australia will need 1 million more social, affordable homes by 2036. *Australian Financial Review*. <https://www.afr.com/property/australia-will-need-1-million-more-social-affordable-homes-by-2036-20190312-h1cb89>
- ³ Taleporos, G (2018, 21 March). NDIS shortfall in disability housing. *La Trobe University*. <https://www.latrobe.edu.au/news/articles/2018/release/ndis-shortfall-in-disability-housing>