



RESIDENTIAL DEVELOPMENT INDUSTRY ACTIVITY SURVEY
URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA
NOVEMBER 2020

Background

In September 2020, the Urban Development Institute of Australia (UDIA) lodged a submission with the Commonwealth Government seeking an extension and redesign of the successful *HomeBuilder* scheme.

The submission recognised the value the Scheme is providing in sustaining Australia's economy and residential construction sector through the early phases of the pandemic, but also highlighted research from Urbis that presented forward-looking forecasts resulting from low population growth projections influenced significantly by a drastic decrease in net overseas migration (NOM).

The submission made an economic case for an extension to *HomeBuilder* – given the industry contributes 7.5 percent of the nation's economic output and directly and indirectly generates over 750,000 jobs – as well as a series of recommendations designed to maximise its value.

In our submission from September, UDIA partnered with Urbis to quantify the risks to the economy from lower immigration and population growth, and its implications for housing markets and the economy.

The headline findings included:

- Australia's **total population growth will be 32 percent** lower than previously anticipated from 2020 to 2025;
- Net Overseas Migration accounts for 56 percent of Australia's total 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, with a larger reduction in the first three years due to the aforementioned population settings;
- **\$17.9 billion less direct gross value added (GVA)** being contributed to the Australian economy between 2020 and 2025 from the loss in construction.

The Urbis research also shows that even with the fall in NOM, there remains **strong levels of residual local demand** to sustain a level of construction activity, jobs and activity, including:

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

UDIA appreciates that at the time of our September submission, the implementation of *HomeBuilder* was still in its early phases and the Commonwealth would rightly want to assess its effectiveness as greater take-up occurred.

Simultaneously, UDIA commissioned ‘real time’ data and insights from industry participants – both to establish the state and trajectory of the market, as well as test the need for an extension and redesign of *HomeBuilder*.

Four Key Takeaways from Industry Research

- **55.3 percent of respondents saw their average monthly sales decline in the period from March-May 2020** (at the time of the initial COVID19 lockdowns), compared with the prior six months. **Another 19.5 percent stagnated**
- **91.4 percent of the industry saw an increase in average monthly sales from June to September 2020 once *HomeBuilder* was announced** – including over half of all respondents enjoying a jump of more than 50 percent
- The industry on balance **expects to sustain sales for the balance of calendar year of 2020** due to the upside of the Government’s stimulus measures
- Absent a continuation of *HomeBuilder*, **almost 66 percent of the industry anticipate a significant drop in sales volumes in 2021.**

In summary:

UDIA believes that a scenario in which housing construction stalls in 2021 represents a strong risk to the nation’s broader economic prospects.

The significance of these findings is reinforced by the scale and importance of the housing and construction sector’s role in fuelling economic activity. Independent research undertaken by EY on behalf of UDIA in 2019 found:

- **7.5 percent of the nation’s economic output** was generated by development construction (and this was higher at the peak of the construction cycle)
- **750,000 direct and indirect jobs** were created in F18-19 from new housing and construction, and
- The combination of direct and indirect output from new housing and construction alone equalled a mammoth **\$312 billion in economic output.**

That is why UDIA encourages the Federal Government to unveil funding for a further tranche of its successful *HomeBuilder scheme*, broaden its application and timeframes to capture a wider spectrum of housing typologies and ensure there are smooth transitional arrangements to sustain the industry, allowing stimulus of local demand to make up part of the shortfall from reduced migration.

UDIA’s recommendations are summarised overleaf. We look forward to discussing the findings of the report further with you.

Recommendations – Extending and Redesigning HomeBuilder

HomeBuilder has been a public policy success. It has pulled forward demand for new housing and in doing so, triggered a wave of jobs, wages and activity essential to temper the loss of economic growth during the second half of 2020.

The challenge remains though given subdued net overseas migration and population growth will linger well into 2021 (and arguably beyond). These trends will exact a broader economic cost, as well as dampen demand for new housing.

However, **there is still robust residual domestic demand for new housing construction that can be harnessed to support Australia’s economic recovery**. A second tranche of funding for *HomeBuilder* will have a positive and powerful effect and the building industry still has capacity to absorb and meet additional demand.

It will also work well in partnership with the Government’s First Home Loan Deposit scheme inclusive of its recent amendments, which had already helped to lift industry optimism (recognising that approvals and development pipelines were slowing pre-COVID).

That is why in our September submission on *HomeBuilder 2.0*, UDIA National made a series of recommendations to extend and redesign the scheme to maximise its impact and boost construction, jobs and activity.

Allocation

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

Timeframes

Adjust the timelines applying to the scheme to provide 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

[this would also enable a more orderly house contacting and construction timeframe for builders as many have or are approaching the stage of “closing their books” as they may not be able to guarantee contract execution by 31st Dec, 2020 given consumer finance approval and contract execution timeframes]

- Redefining ‘commencement’ to allow for flexibility which accounts for differences in staging and timing for detached, semi-detached and attached housing products
- 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 apartment projects) to have a new commencement timeframe of December 31, 2022.

Price and thresholds

Amending the definition of house and land prices 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 largely tailored 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 communities 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.

Transitional arrangements

To ensure 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 delay decisions).

THE SURVEY

In October 2020, UDIA National commissioned a survey of industry members via our state divisions to test the state of the market, benefits and effects of *HomeBuilder*, and future trajectory of the market.

The survey was designed to provide ‘real time’ data from across development and building companies for insights into the state and trajectory of the market, as well as the case for the redesign and extension of *HomeBuilder*.

The survey was completed by **47 member companies** – spanning land subdivision, medium density, and apartment developers, as well as detached home builders. The survey participants come from a range of small, medium and large developers across the country, accounting for the **construction of an estimated 24,340 new lots/dwellings in the 2020 calendar year**.

Respondents included representatives from each of the five mainland states, as well as the Northern Territory.

Participation Breakdown*

Land subdivision	33
Townhouses / Medium Density	14
Multi-unit / High Rise Apartment	13
Builder (detached dwellings)	7
TOTAL	47*

*NB: Some nominated two categories, where their business activities were evenly split

Victoria	14
South Australia	8
NSW	11
Queensland	10
Northern Territory	4
TOTAL	47*

We also note there were also 27 respondents from Western Australia – whom are not incorporated in the national survey results.

The WA Government has been unique in providing substantial additional stimulus through its *Building Bonus* grants with it being the sole state to respond positively to the Commonwealth’s call to undertake ‘heavy lifting’ in reviving the economy via home construction.

The presence of the *Building Bonus* grants gives the WA housing market and industry a distinct and separate trajectory from the rest of the nation – both during 2020, and into 2021.

As a result, UDIA excluded WA's results from the main part of the survey and as such, we have provided its specific results in the appendix to the main report.

THE FINDINGS

HEADING INTO COVID . . .

A clear majority of the industry saw average monthly sales collapse during the onset of COVID-19 and economic and health restrictions that accompanied the commencement of the pandemic.

How did your average monthly sales (not enquiries) perform in the period from March to May 2020, compared with your average monthly sales in the six months prior (September 19-February 2020)?

Down by 5-20%	10.6%
Down by 21-50%	28.6%
Down by >50%	17.0%
DOWN – TOTAL	56.2%
Up by 5-20%	8.5%
Up by 21-50%	12.8%
Up by >50%	4.2%
UP - TOTAL	25.5%
NEUTRAL	18.3%
TOTAL	100%

AFTER HOMEBUILDER KICKED IN . . .

An overwhelming majority of the industry saw a significant boost to sales volumes once *HomeBuilder* was announced on June 4 – with more than half of all participants recording an increase of 50 percent or greater

How did your average monthly sales (not enquiries) perform in the period from June to September 2020, compared with your average monthly sales for March to May 2020?

Up by 5-20%	19.2%
Up by 21-50%	17.0%
Up by >50%	55.3%
UP – TOTAL	91.5%
Down by 5-20%	6.4%
Down by 21-50%	0%
Down by >50%	2.1%
DOWN - TOTAL	8.5%
NEUTRAL	0%
TOTAL	100%

SUSTAINING THE INDUSTRY THROUGH 2020 . . .

A majority of the industry is poised to sustain positive or neutral growth for the rest of 2020 thanks to the presence of *HomeBuilder*

How do you anticipate your sales volumes will perform for the remainder of 2020, compared with June to September 2020?

Up by 5-20%	23.4%
Up by 21-50%	8.5%
Up by >50%	8.5%
UP – TOTAL	40.4%
NEUTRAL	17.0%
Down by 5-20%	23.4%
Down by 21-50%	19.2%
Down by >50%	0%
DOWN - TOTAL	42.6%
TOTAL	100%

FUTURE EXPECTATIONS ARE PESSIMISTIC . . .

The vast bulk of industry participants expect a significant drop in sales volumes in 2021 without an extension of *HomeBuilder*

How do you anticipate your sales volumes will perform in the 2021 calendar year, compared to the 2020 calendar year (assuming no extension to *HomeBuilder*)?

Up by 5-20%	4.3%
Up by 21-50%	2.1%
Up by >50%	0%
UP – TOTAL	6.4%
Down by 5-20%	19.2%
Down by 21-50%	38.0%
Down by >50%	8.5%
DOWN - TOTAL	65.7%
NEUTRAL	27.9%
TOTAL	100%

CONSTRUCTION AND APPROVAL PIPELINES TO SLOW . . .

The industry expects a noticeable drop in the construction and approvals pipeline without an extension of *HomeBuilder*

Industry participants were asked to forecast the number of dwellings or lots to be commenced in each of the 2020 and 2021 calendar years (assuming no extension to *HomeBuilder* in 2021)?

CALENDAR YEAR 2020

24340 NEW LOTS OR DWELLINGS

CALENDAR YEAR 2021

21794 NEW LOTS OR DWELLINGS

Industry participants were asked to provide the number of lots and dwellings currently awaiting planning approval prior to the end of the 2020 calendar year – and how many they anticipate submitting for approval in the 2021 calendar year (assuming no extension of *HomeBuilder*)?

CALENDAR YEAR 2020

7627 DWELLINGS OR LOTS AWAIT APPROVAL

CALENDAR YEAR 2021

6073 LOTS TO BE SUBMITTED FOR APPROVAL

CAPACITY STILL EXISTS ACROSS THE INDUSTRY . . .

Despite the surge in activity due to *HomeBuilder*, there is still headroom among building companies to take on more work – with only 20% having reached or nearly reaching the capacity limit under their Homeowners Warranty Insurance.

Industry participants were asked:

- If their business was near capacity or currently capped under Homeowners Warranty Insurance limits?

80% - NO

20% - YES

- If yes, when they expect to be able to execute new contracts and take on more projects?

40% - BY NOV-DEC 2020

40% - BY JAN-MARCH 2021

20% - BY JULY-DEC 2021

- If not capped or near the cap, do they anticipate reaching their cap before the end of 2020?

86.7% - NO

13.3% - YES

A snapshot of Western Australia

As outlined earlier, the availability of the Western Australian Government's *Building Bonus* grants acts as a powerful and unique complementary stimulus measure alongside *HomeBuilder*.

Western Australia has been alone in reinforcing and supporting the objectives of *HomeBuilder* and UDIA is continuing to press the case with other state governments that they should be unveiling their own stimulus measures – rather than leave the heavy lifting solely to the Commonwealth.

In WA, the survey had 27 participants – a mix of large metropolitan and regional developers that span the full spectrum of housing markets, ranging from detached to multi-unit housing.

However, there are headline findings still relevant to the future of *HomeBuilder*:

- The industry experienced a slump in construction **during the March 2020 quarter – with lots under construction falling by 29.4 percent** – as the economic effects of COVID-19 began to prevail
- The industry experienced a **122.9 percent increase in sales in the June 2020 quarter (from a low base)**, as the stimulus initiatives kicked in – or a **167 percent year-on-year increase**
- The total reported **lots under construction** (and due for release within six months) **surged by 188.8 percent during the same quarter** to 3050
- Current **construction commencements** during Calendar Year 2020 are on average **5-20 percent higher than previously forecast**.

About UDIA

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.