COVID-19
RESPONSE
EDITION

F2021

Australian Affordable Housing Report

STANDARD HOUSE ENVIRONMENTAL SCAN

PowerHousing Australia
CoreLogic

Contents

Foreword

"The concept of the standard house project was developed out of engagement between PowerHousing Australia, Simonds Homes and Community Sector Banking to determine what the impact would be on the residential construction workforce as Australia's record home building run wound back from 2018. CoreLogic has analysed the first three months of Australia's economic response to the COVID-19 pandemic with respect to housing data: this is vital to setting a baseline that helps form an understanding of what will happen next. Analysing the forecasts of the next year and recognising the importance of the residential construction workforce in terms of jobs is important, but the value of housing to our communities in this time cannot be understated as an output of this project. As the Standard three bedroom House analysis shows, we see 43 trades and subtrades gain employment when a stand-alone home is built. Our three organisations - one of the nation's largest residential builders, a supporting lender to the CHP sector and a CHP peak body - all recognise the importance of this to our social and economic resilience as a country. This document really speaks to people's livelihoods today and considers the homes needed for the lives of generations to come long after we have beaten this crisis."

Kelvin Ryan – CEO, Simonds Homes

Andrew Cairns – CEO, Community Sector Banking (Bendigo Bank)

Nicholas Proud – CEO, PowerHousing Australia

COVER IMAGE: Byfield, Standard House Design - Simonds Homes

01 Introduction

There are 25 million people in Australia living in over ten million homes: as renters; owner-occupiers with mortgages; and mortgage-free home-owners. Amongst these, there are 2.1 million people who own a rental property, which provides a home for others. During the COVID-19 crisis, most Australians have been able to retain the security of their housing situation and have kept a roof over their heads.

The residential property in which an individual or household lives has become more than just a home in the COVID-19 environment. A home has emerged as the first principle of stability if individuals (and, therefore, communities) are to be resilient in the face of ongoing economic and social challenges.

Housing is a necessity good – it provides one of the fundamental requirements for Australians - shelter. The COVID-19 crisis has highlighted the lack of social and affordable housing provision in Australia with uncertainty and pressure mounting for renters, investors and owner occupiers.

If in 2020 you are a renter living in one of the 2.8 million rental properties in Australia the financial constraints can be challenging and confronting. This is particularly the case for casual employees and the unemployed, a disproportionate amount of whom are renters. It is also a challenge for part time and full time workers. There is a big question mark over whether rent and living costs will be able to be covered in the immediate future economic environment.

A drop to the lowest interest rates in Australia's history has provided a reprieve for those owner occupiers (accounting for around three million dwellings). Of these, 429,000 families with a loan have had their mortgages deferred due to COVID-19 (totalling $153.5 billion[i]). Others have had payments reduced or held steady for up to six months with an extension of up to an additional four months.

For mortgage-free homeowners, the immediate challenge with COVID-19 has most likely been the impact that the volatility of the stock market has had on superannuation, and the weekly income derived from that source. The potential to downsize is an option that may provide livable and practical life choice options, but the decline in property values is expected to have a negative impact on the value of any residential property sale for at the least the next twelve months.

To counter the COVID-19 crisis, the Federal Government allowed for $10,000 of superannuation to be accessed in each of the 2020 and 2021 financial years for eligible individuals. Long Service Leave has been used and holiday accruals depleted to retain employment. JobKeeper payments have provided financial support for a period to support living and housing costs.

Understanding what will be an uncertain and unprecedented change in the housing market, rental conditions, and wage fragmentation is tough to pick apart. It is unclear whether the JobKeeper allowance, which has been vital in supporting the Australian economy, will continue past the end of September 2020. Balancing a new market equilibrium, with immediate property stimulus, that feeds into longer term new build programs is tricky to get right.

The HomeBuilder stimulus program is a first cog in the wheel of supporting one of Australia's most crucial industries – residential construction – but also of creating an environment where this industry can 'give back' to the economy in terms of the direct and indirect (multiplier) effects a boost to residential building has on demand, activity and employment on the broader economy.

Support for the provision of new social housing stock is equally important as any policy aimed at boosting demand for new private housing stock. The twin outcomes of economic and social benefit derived from boosting new social housing supply is not a feature of the HomeBuilder program. However, support for new social housing supply is a vital component of any recovery plan for the Australian economy.

Whilst most of the country began easing back COVID-19 restrictions, Melbourne went back into lockdown in early July. We see that the long term economic impacts and full stimulus required is not clear, but what creates confidence is to see housing activity locked in. This will be critical to be decided upon in the October and May Federal Budgets well before the real depth of the trough in housing activity and social impacts in F2021 and F2022 are realised.

City West Housing (NSW)

02 Executive Summary

Residential home building is a major driver of jobs and economic activity throughout the Australian economy. A strong and steady pipeline of new construction keeps people in jobs and helps prevent major price rises that occur when demand outstrips supply, as has recently been the case. But even more than that, access to housing that is affordable is the cornerstone of social and economic wellbeing for Australian families.

This report presents the outlook for Australia's residential housing sector, analyses the implications of current forecasts and presents policy options to address the looming challenges this analysis identifies.

And those challenges are substantial.

An existing downward trend in the supply of new housing has been exacerbated by the COVID-19 crisis. Once the tail end of the last home building boom finishes washing through the system, this could lead to a situation where new home supply effectively falls off a cliff, dealing a huge blow to employment and businesses along the housing supply chain. In the context of our steeply rising unemployment, this is a blow Australia can not afford.

As demonstrated in this report, every new home that is built provides employment for up to 43 trades and sub-trades in construction jobs across Australia's cities, regional and rural areas. It also delivers a significant boost to manufacturing and retail demand.

Similarly, National Housing Finance and Investment Corporation (NHFIC) recently released inaugural research report shows that residential construction has the second largest economic multiplier of all the 114 industries that make up the Australian economy.

Should Australia's build rate fall from 230,792 homes completed in 2008 to only 120,000 in F2021, which is one possible scenario suggested by the most recent data; this would see the loss of over 4.75 million trade type engagements as a result of the shortfall of 110,000 homes not being built.

This looming trough in new home construction is equivalent to the 'valley of death' faced by Australian manufacturers.

Critically, however, our analysis also demonstrates that it is not too late to intervene and alter this trajectory. Targeted government stimulus that harnesses the potential of affordable housing as an emerging asset class and the proven capabilities of the social and community housing sector could effectively bridge this gap in the market.

It is broadly expected that while around 180,000 dwelling completions will be reported for the period ending 30 June 2020, residential forecasts of around 120,000 commencements for 2020/21 are being made.

Whilst there has been some stability in house and rental pricing over the first quarter of COVID-19 from March to May 2020, there have been over 824,000 jobs lost with the unemployment rate reaching 7.1 per cent, its highest level since 2001, with real indicators the rate is actually currently closer to 11 per cent. At 927,600, the number of officially unemployed people has reached its highest level since December 1993, when the country was in the wake of the 1990-91 recession.

JobKeeper payments for 3.3 million Australians are costing up to $10 billion per month and if all were unemployed the rate would be in excess of 30 per cent.[ii]

There are clear buyer demand challenges which will require layers of residential stimulus policy. The difference between the COVID-19 crisis in 2020 and the Global Financial Crisis (GFC) is that the Australian economy is now in recession and the unemployment rate will peak at a far higher level than that reached during the GFC, while a pre-existing issue with underemployment is becoming a much larger problem.

Boosting and subsequently stabilising the new housing market beyond the immediate six month rental policies/JobSeeker/JobKeeper phase of recovery is crucial to the Australian economy. Social housing can act as a shock absorber to fill the primary gap in Federal and State/Territory funding in late 2020. Post the six month JobKeeper support period, subsidised wage and housing support will be needed for people if their job is just simply not there anymore.

A positive note for the overall economy is the retention of Australia's AAA credit rating (one of only 10 countries to do so through the pandemic), which reflects the stability required to mitigate the crisis.

While there are a variety of options to support the health and welfare of Australians through this difficult period, there is more that will need to be done in housing. Mobilising to drive new commencements and support the economy through the Federal Budget, which is less than four months away will be a given.

Social housing is a vital component of overall dwelling investment in an industry that accounts for around 5 per cent of GDP. In the last major economic downturn, social housing and affordable stimulus took up a lot of the slack when the market was unable to respond. This meant that the market was quick to reactivate the residential activity when new home buyers were not there.

If there are reports for the first half of 2020 of elevated stock levels not being sold then social and affordable stimulus may support the market if it is not capable of taking-up of any recently completed residential properties for sale.

Immediate repairs programs that are brought forward will keep improving the homes of tenants and also stimulate economic activity and jobs.

With elevated annualised ABS Building Approvals still coming through, new build activity can be activated for shovel ready projects that are today ready to get underway, that will flatten the housing supply trough and mobilise the construction and property industry at a time when it has never needed it more.

In particular, this opens the door for Government to incentivise the residential sector through longer term tax credits, government subsidies and grant/equity structures which will assist the throughput of the rental homes needed today, but also provide structure for the ongoing delivery of rental homes that will be needed as we come out of the crisis in F2021-F2022.

2020 St Kilda Apartment Sod Turn - HousingFirst (VIC)

03 Section A – The need and market for housing

In observing first quarter of COVID-19, it is clear the crisis has unequivocally hammered the Australian economy. Jobs have been lost, forecasts have been downgraded and expectations are low for economic recovery over the next two years.

A review of the current market for housing, and particularly rentals, is not showing the same distress with a sense of calm sitting in the market. In social housing, the additional support of programs such as JobSeeker and JobKeeper has seen arrears drop and Community Housing Providers seeing exceptional tenant payment behaviour.

The wash through of the tail end of the greatest housing boom in Australia's history will take place over the next financial period at the same time as elevated completion levels see the keys handed over to several hundred thousand new home buyers over the next year. But this won't last. Much will be

Southern Cross Housing (NSW)

made in this report of the fact that, pre-pandemic, Australia was already on its way to its most significant downturn in housing supply, but the forecasts as presented predict the downturn will be much more severe than anything previously forecasted.

While forecast new build rates are set to decline significantly, the picture to date shows positive signs that a major downturn in delivery has not yet taken hold. This means that an opportunity remains to circumvent the forecasts and deliver a different housing future for Australia.

"The housing sector has a pervasive impact on the Australian economy. It accounts for the bulk of household wealth, and around 6% of employment is related to the residential construction sector. The linkages to the rest of the economy through consumer spending, manufacturing, and the business service sector ensure that housing cycles are very closely related to the broader economic cycle in Australia"

Felicity Emmett, ANZ Senior Economist, June 2020.

A1. COVID Quarter One (Mar-May 2020)

Rental rates

Rental markets have remained relatively soft over the past few years with annual growth in capital city rents tracking well below the decade average. Based on data for the twelve months ending May 2020, capital city rents were up 0.5 per cent compared with the ten year annualised growth rate of 1.7 per cent growth.

Across the capital cities, over the twelve months to May 2020, Adelaide and Perth recorded the highest growth in rents, up 2.2 per cent and 1.8 per cent respectively, while at the other end of the spectrum, rents were down half a per cent in Sydney and 1.3 per cent lower in Darwin.

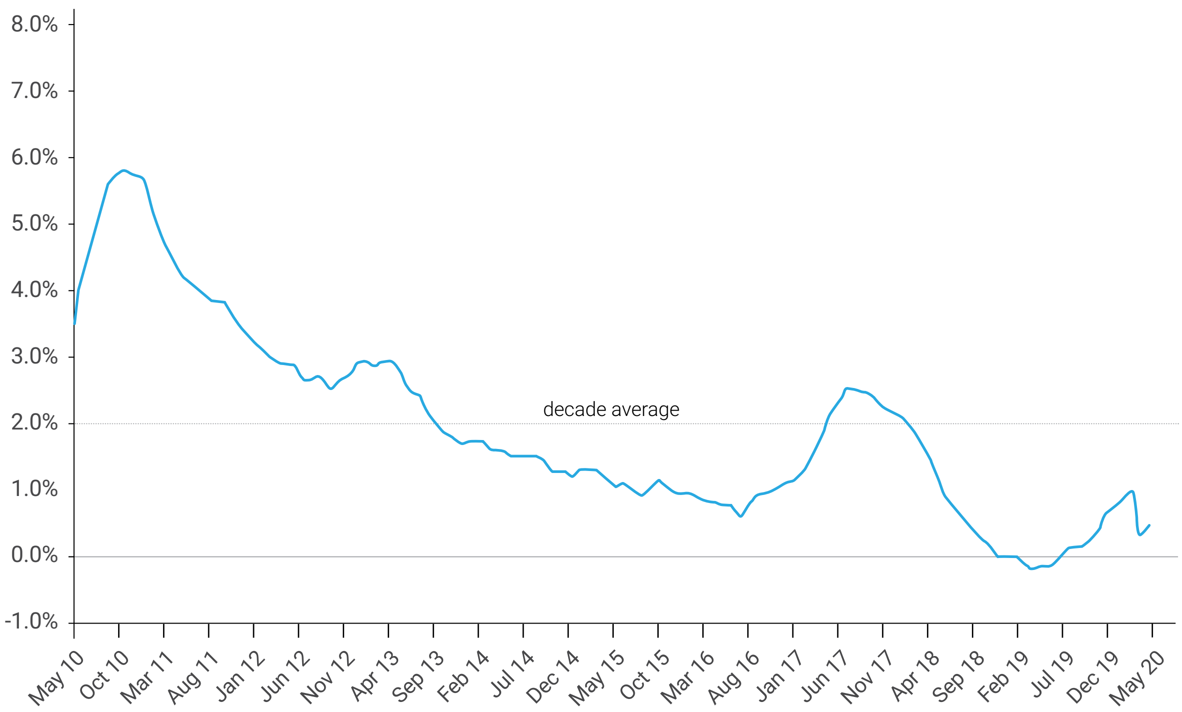
The annual change overcompensates for the more recent weakness in rental market indicators. Over the two months ending May 2020, rents have fallen across every capital city apart from Perth, where rents (from a low starting base) continued to show a subtle rise. The renewed weakness in rental markets can be attributed to both a rise in supply and reduction in demand.

On the supply side, anecdotal evidence has emerged of a transition from short term rentals to permanent rentals, as well as a recent construction and investment boom that has contributed to higher stock levels. While supply has risen, demand has been felt the impact of a combination of stalling overseas migration and falling foreign student numbers.

Additionally, the unprecedented plunge in jobs through April has had a larger impact across industry sectors such as the food and accommodation services. According to data reported in the April 2020 Financial Stability Review from the Reserve Bank of Australia (RBA), financially constrained people working in these sectors are more likely to be renting.

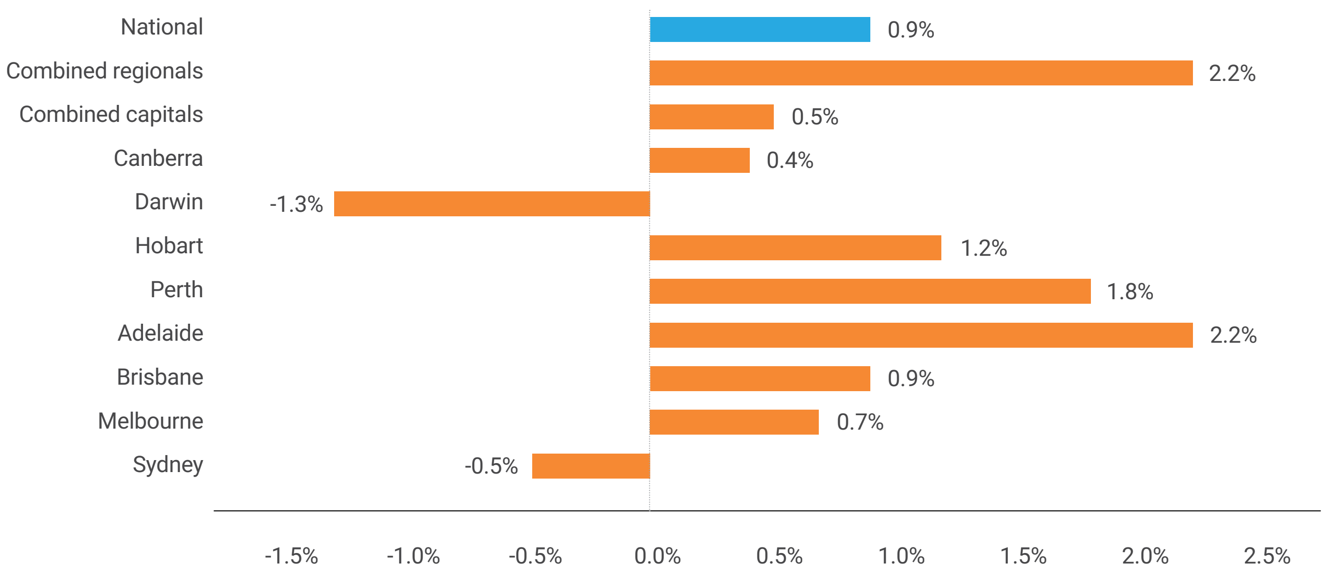
From a rental pricing perspective, the highest median rental rates for a detached house are in Canberra, at $608 per week, while Perth house rents are the lowest of any capital city with a median of $380 per week. Sydney shows the highest unit rents, with a median weekly price of $520, while Adelaide unit rents are the lowest with a median of $350 per week.

Graph 1: Annual change in capital city rental rates



Source: CoreLogic, June 2020

Graph 2: Changes in rents, 12 months ending May 2020



Source: CoreLogic, June 2020

Dwelling values

As indicated, Australian house prices across each capital city in Australia since 2009 have had a five year period where house prices grew at over 20 per cent per year on year, far outstripping wages growth.

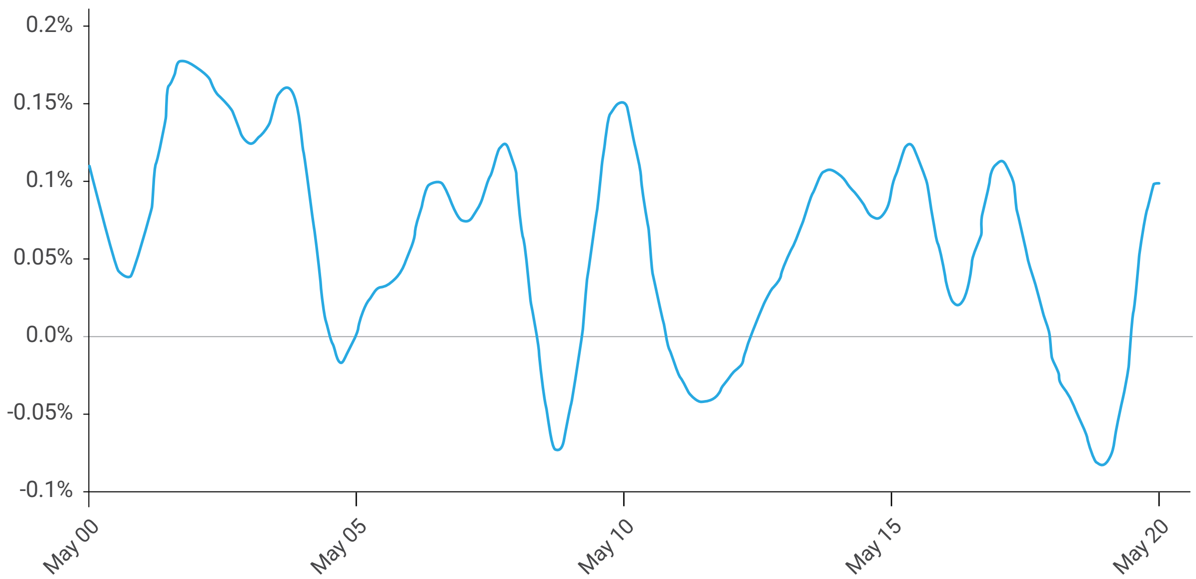
Whilst record supply of 230,000 home starts were completed at peak annual build rate to exceed population need and underlying market demand, the price finally stabilised and then dropped in the major capitals.

Housing values were well into a strong upswing prior to the COVID-19 pandemic. The second half of 2019 saw capital city home values surge 7.0 per cent higher, with significantly stronger growth in Sydney, where values were up 9.9 per cent over the same time frame, and Melbourne where values jumped 9.6 per cent. Most of the remaining capital cities recorded a lower but more sustainable pace of growth through the second half of 2019, however values drifted lower in Perth and Darwin; although both cities started to show a recovery trend towards the end of the year and through early 2020.

More recently, the trend in housing values has lost momentum. The pace of capital gains was already broadly slowing prior to the COVID-19 pandemic, as housing affordability became more challenging. Conditions slowed more sharply from mid-March as social distancing restrictions were implemented and borders closed.

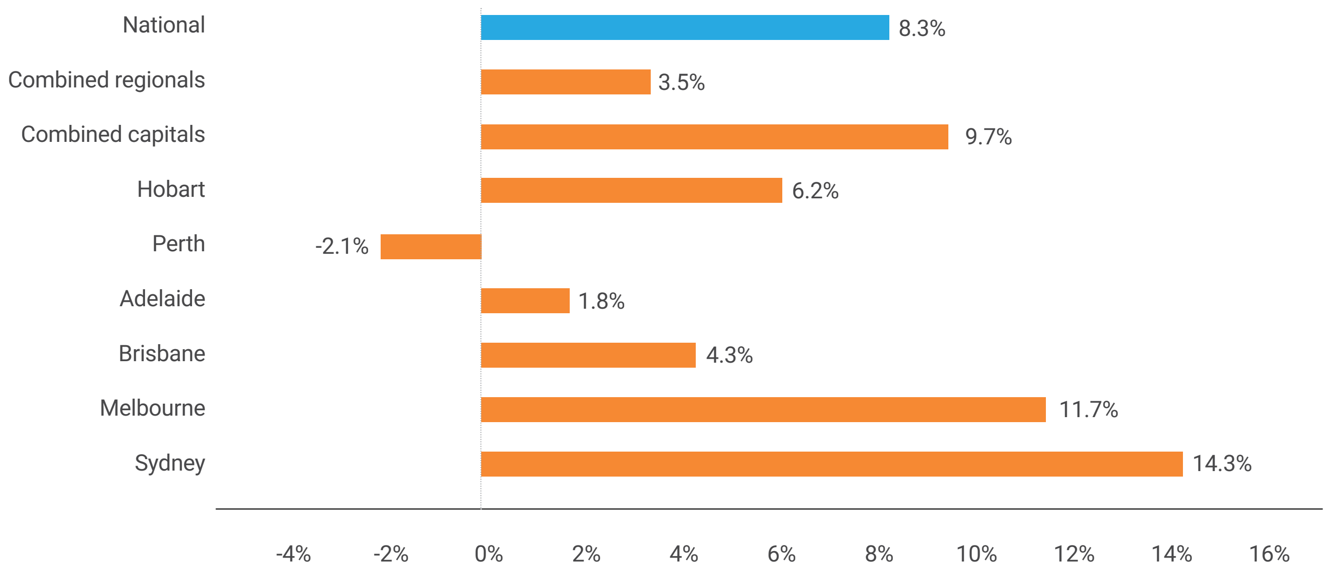
Housing values recorded their first month-on-month fall since June 2019 over May, down 0.4 per cent nationally. Considering the weak economic conditions and heightened uncertainty, the declining trend in home values looks mild to-date, however there could be additional downward pressure on home values later this year as stimulus measures are tapered or removed and bank leniency policies expire.

Graph 3: Rolling annual change in capital city dwelling values



Source: CoreLogic, June 2020

Graph 4: Change in dwelling values, 12 months to May 2020



Source: CoreLogic, June 2020

Opening of the Phil Brady Community Garden - Link Housing (NSW)

Dwelling values over the past twenty years

Over the past twenty years the median value of a capital city dwelling has risen by $462,350, or 252 per cent, with a larger 277 per cent lift in house values relative to units (+203 per cent).

On an annual compounding basis, capital city home values have been rising by 6.5 per cent per annum over this period, although inflation in home values was much stronger over the first decade (between 2000 and 2010, capital city dwelling values rose by +155 per cent) than the second (+38 per cent between 2010 and 2020).

Table 1: 20 year property value change

Median dwelling values over the past twenty years

Month	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Combined capitals	National
31/05/2000	$283,507	$189,872	$144,767	$127,405	$152,406	$107,446	$154,450	$160,861	$183,159	$159,215
5yr change	60.7%	56.1%	12.9%	20.2%	29.8%	6.2%	na	13.0%	38.9%	30.2%
31/05/2005	$432,004	$312,104	$304,248	$262,088	$288,646	$255,985	$252,431	$345,878	$329,482	$307,696
5yr change	52.4%	64.4%	110.2%	105.7%	89.4%	138.2%	63.4%	115.0%	79.9%	93.3%
31/05/2010	$502,694	$490,577	$441,843	$380,023	$486,501	$340,167	$496,764	$504,029	$467,689	$423,317
5yr change	16.4%	57.2%	45.2%	45.0%	68.5%	32.9%	96.8%	45.7%	41.9%	37.6%
31/05/2015	$747,010	$543,062	$458,134	$396,735	$521,936	$322,756	$514,978	$509,595	$565,172	$476,769
5yr change	48.6%	10.7%	3.7%	4.4%	7.3%	-5.1%	3.7%	1.1%	20.8%	12.6%
31/05/2020	$885,158	$686,798	$508,386	$441,184	$443,669	$486,056	$393,939	$637,279	$645,511	$557,817
5yr change	18.5%	26.5%	11.0%	11.2%	-15.0%	50.6%	-23.5%	25.1%	14.2%	17.0%

Median house values over the past twenty years

Month	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Combined capitals	National
31/05/2000	$291,390	$199,041	$144,213	$135,268	$156,535	$109,318	$161,051	$172,740	$180,196	$155,371
5yr change	63.6%	56.5%	12.9%	22.8%	30.3%	5.2%	na	20.9%	37.2%	29.1%
31/05/2005	$475,309	$336,233	$318,342	$278,652	$298,315	$264,983	$279,578	$368,381	$341,777	$314,128
5yr change	63.1%	68.9%	120.7%	106.0%	90.6%	142.4%	73.6%	113.3%	89.7%	102.2%
31/05/2010	$558,459	$532,988	$463,212	$401,811	$502,594	$356,965	$533,029	$540,446	$489,650	$433,995
5yr change	17.5%	58.5%	45.5%	44.2%	68.5%	34.7%	90.7%	46.7%	43.3%	38.2%
31/05/2015	$860,788	$619,731	$487,413	$424,858	$548,650	$343,716	$565,860	$552,634	$594,692	$485,568
5yr change	54.1%	16.3%	5.2%	5.7%	9.2%	-3.7%	6.2%	2.3%	21.5%	11.9%
31/05/2020	$1,016,726	$809,274	$559,975	$478,294	$461,366	$514,496	$473,861	$716,663	$680,577	$571,999
5yr change	18.1%	30.6%	14.9%	12.6%	-15.9%	49.7%	-16.3%	29.7%	14.4%	17.8%

Median unit values over the past twenty years

Month	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Combined capitals	National
31/05/2000	$275,870	$178,693	$146,527	$97,438	$129,242	$98,881	$143,325	$140,193	$191,309	$171,924
5yr change	57.7%	59.4%	12.6%	6.4%	24.6%	9.8%	na	-0.8%	43.6%	33.8%
31/05/2005	$380,874	$286,347	$255,823	$205,135	$234,242	$218,214	$185,682	$291,200	$302,521	$290,435
5yr change	38.1%	60.2%	74.6%	110.5%	81.2%	120.7%	29.6%	107.7%	58.1%	68.9%
31/05/2010	$457,858	$448,261	$380,773	$314,544	$404,941	$277,132	$415,333	$420,060	$424,942	$397,748
5yr change	20.2%	56.5%	48.8%	53.3%	72.9%	27.0%	123.7%	44.3%	40.5%	36.9%
31/05/2015	$658,616	$478,571	$393,140	$316,634	$444,454	$268,524	$447,450	$402,905	$515,691	$455,513
5yr change	43.8%	6.8%	3.2%	0.7%	9.8%	-3.1%	7.7%	-4.1%	21.4%	14.5%
31/05/2020	$772,204	$580,009	$388,894	$335,052	$355,576	$403,382	$272,648	$444,292	$580,239	$523,326
5yr change	17.2%	21.2%	-1.1%	5.8%	-20.0%	50.2%	-39.1%	10.3%	12.5%	14.9%

Source: CoreLogic, June 2020

Proportion of homes sold under $400k

The past five years has seen a reduction in the proportion of homes selling at a price point lower than $400k. Nationally, the proportion of houses sold under $400k reduced from 35.5 per cent in 2015 to 27.7 per cent in 2020, while unit sales under $400k reduced from 35.8 per cent to 32.0 per cent.

Table 2: Sales by price point, 12 months to May 2020

% sold under $400k	Houses		Units	
	2015	2020	2015	2020
Sydney	8.4%	3.6%	12.2%	6.6%
Melbourne	25.4%	2.7%	28.4%	17.8%
Brisbane	31.9%	23.6%	44.2%	52.0%
Adelaide	44.2%	35.9%	75.8%	68.2%
Perth	17.3%	33.7%	37.7%	56.8%
Hobart	61.2%	28.3%	78.6%	51.0%
Darwin	22.3%	29.8%	27.4%	76.4%
Canberra	16.8%	3.6%	44.5%	36.5%
Combined capitals	22.7%	15.0%	26.8%	23.5%
National	35.5%	27.7%	35.8%	32.0%

Source: CoreLogic, June 2020

Perth and Darwin, where housing values have moved through a sustained correction, were the only capital cities to record a rise in the proportion of houses selling under $400k, while across the unit sector, Brisbane can be added to the list along with Perth and Darwin.

Some cities have seen a material reduction in affordably priced homes, with house sales under $400k comprising the smallest proportion in Melbourne (2.7 per cent), Sydney (3.6 per cent) and Canberra (3.6 per cent).

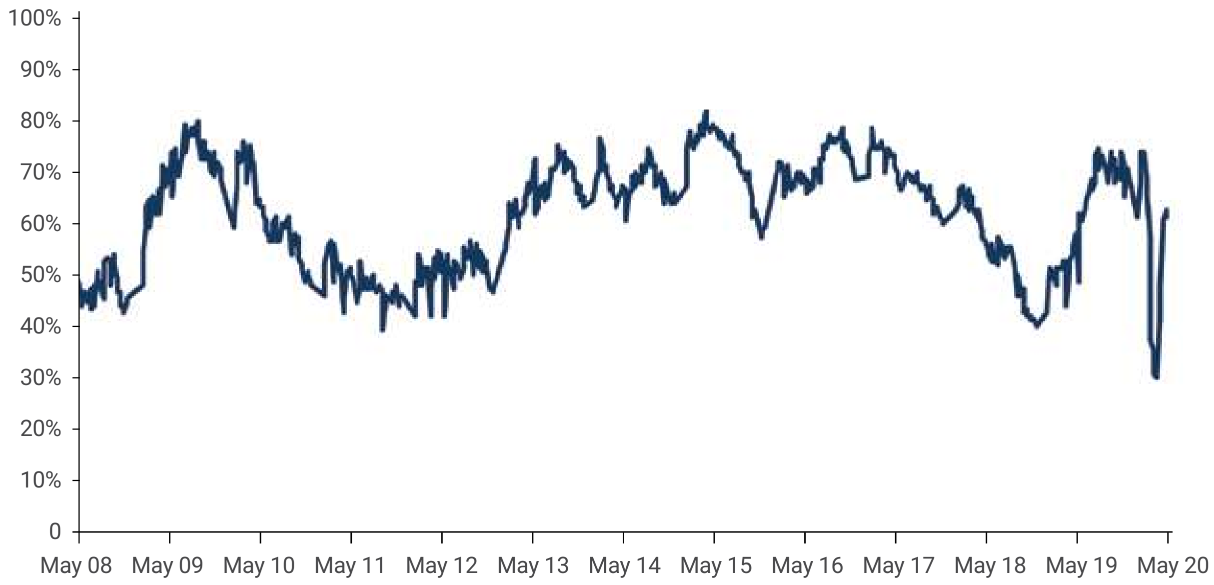
Every city shows the unit market with more affordable price points, however Sydney stands out with only 6.6 per cent of unit sales transacting under $400k over the past twelve months.

Auctions

In the four weeks prior to Australia's 100th confirmed case of COVID-19, auction clearance rates averaged 70.1 per cent across the combined capital cities. This reflected a market in which housing demand was strong.

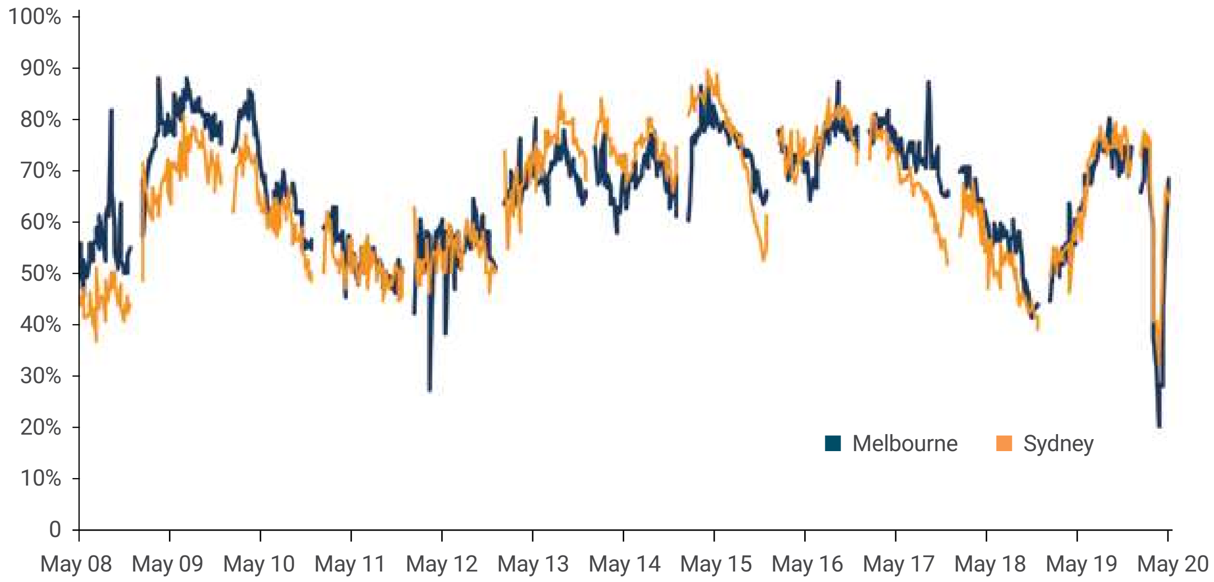
However, once housing-specific social distancing restrictions were implemented in late March, auctions markets were negatively impacted. With vendors unable to hold open homes or on-site auctions, a large proportion of scheduled auctions were withdrawn from the market, which skewed clearance rates to the low 30 per cent range.

Graph 5: Auction clearance rate, combined capital cities



Source: CoreLogic, June 2020

Graph 6: Auction clearance rate, Sydney and Melbourne

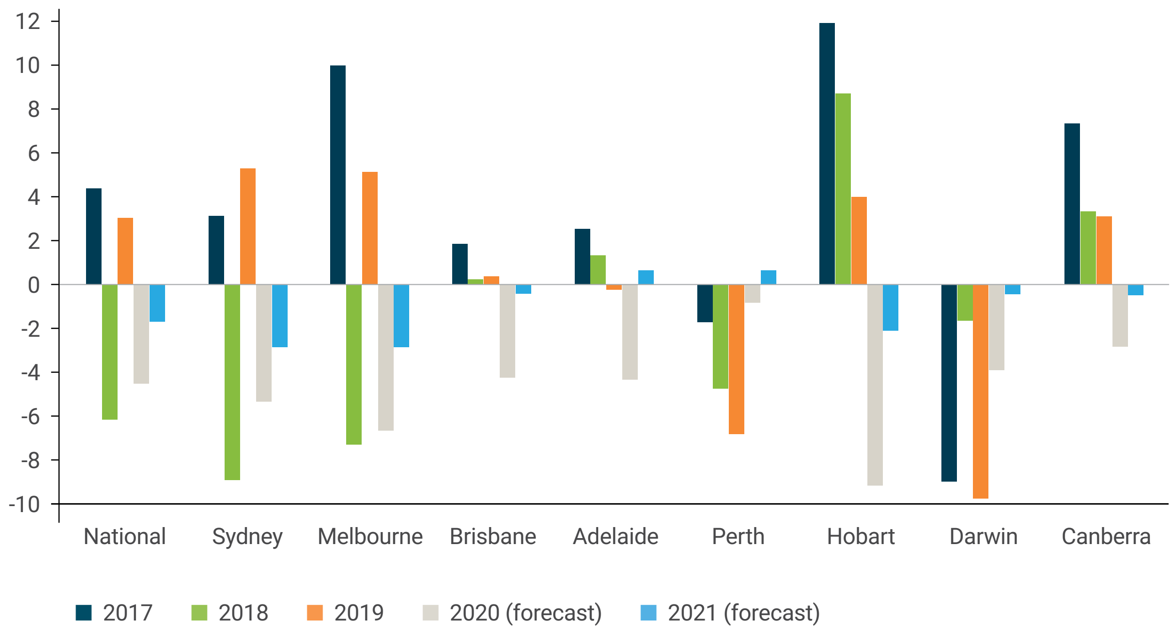


Source: CoreLogic, June 2020

House price forecast by capital city

CoreLogic and ANZ Research[iii] expects a peak-to-trough decline of 10 per cent on average across the capital cities, with the sharpest falls in Sydney, Melbourne and Hobart. ANZ Research expects the Perth market to perform the best with a decline of just 2 per cent expected. Prices in Brisbane, Darwin, Adelaide and Canberra are all expected to fall solidly.

Graph 7: Change in dwelling values, 12 months to May 2020



Source: CoreLogic, ANZ Research, May 2020

A2. RESIDENTIAL HOUSING FORECASTS

We learn less than usual from history in the COVID-19 environment. The outlook for housing starts is very uncertain, as is the case for the broader domestic and global economic dynamic. Recent new home sales fell by 22.8 per cent in the two months following the introduction of tough pandemic social restrictions, triggering a wave of project cancellations that could derail the economic recovery in 2021.[iv]

Builders and subcontractors were also forced to slash their rates and forgo profits as contract work dries up in the wake of the economic slowdown.[v]

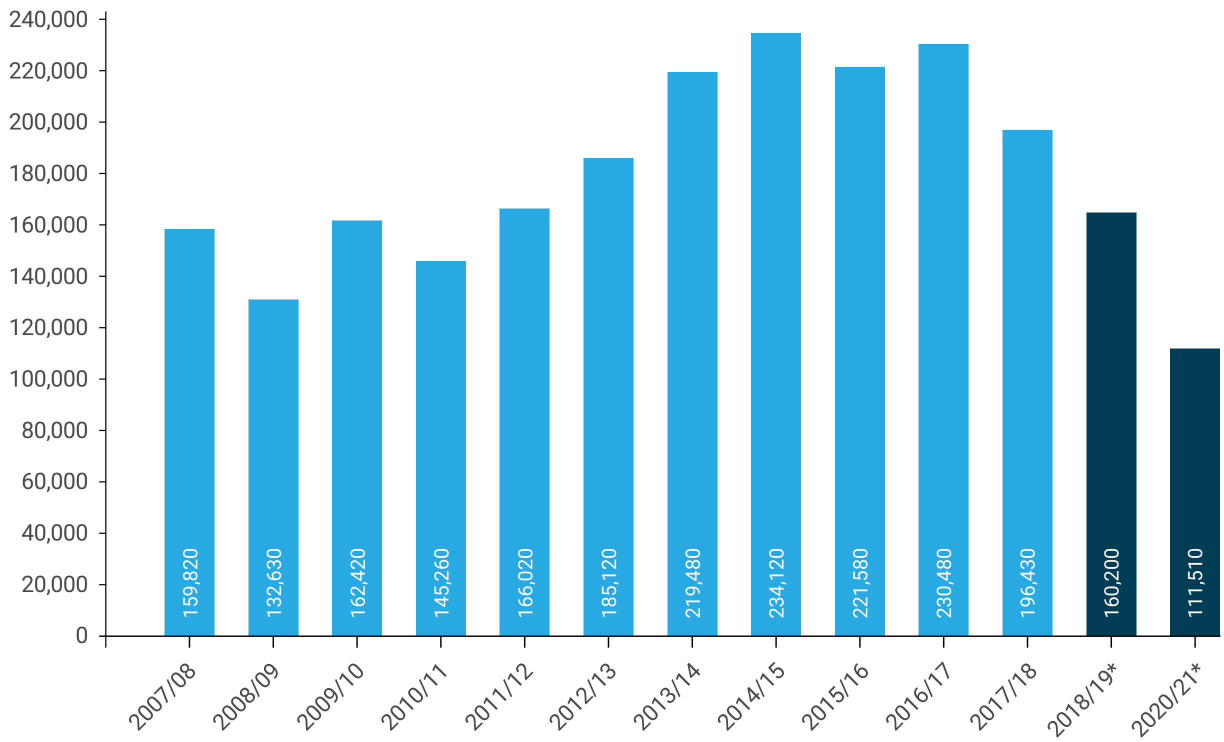
While these numbers present a mixed position for housing, the initial forecasts tell a different story.

Key forecasters provide low forecasts for new housing delivery

HIA F2021	111,510 commencements[vi]
MBA F2021	115,822 commencements[vii]
UBS F2021	100-120,000 commencements[viii]

Graph 8: New residential construction and HIA forecasts

Seasonally adjusted



Source: HIA, May 2020 * Forecast

UBS expects housing starts to fall to around 120,000 in the 2020 calendar year. Housing starts could well dip below 100,000 in coming quarters, which would be the lowest level since 1960. Investment bank UBS has already forecast new housing starts nationally – to fall below an annualised 100,000 in coming quarters, which is down to 1960s levels.[ix]

With the release of the HomeBuilder package and some state stimulus announcements from Tasmania, Western Australia and South Australia, the above forecasts could rise by 15-25,000 new dwelling commencements per year. The key point here is that new commencements could be activated based on Government investment and the intervention that has been made.

Whilst providing a trough projection, point projections of forecasts are much more difficult in the current environment as the situation is extremely fluid. The table developed by respected housing economist Harley Dale below provides four distinct scenarios as to where housing starts (and dwelling completions) may end up over the period to the end of 2020/21.

Table 3: New dwelling commencements and completions - scenario analysis

	Commencements							
	Worst Case		**Low**		**Medium**		**High**	
	Number	% change	Number	% change	Number	% change	Number	% change
2018/19	197,000		197,000		197,000		197,000	
2019/20	153,600	-22%	153,600	-22%	153,600	-22%	153,600	-22%
2020/21	98,300	-36%	112,000	-27%	127,900	-17%	135,704	-12%
	Completions							
	Worst Case		**Low**		**Medium**		**High**	
	Number	% change	Number	% change	Number	% change	Number	% change
2018/19	215,200		215,200		215,200		215,200	
2019/20	182,800	-15%	182,800	-15%	182,800	-15%	182,800	-15%
2020/21	96,345	-47%	96,345	-39%	96,345	-31%	96,345	-27%

Source: HDD Consulting, June 2020

The 'Worst Case' scenario presented in the table above would take new home building activity to an unprecedented low. **We are looking at a virtually unprecedented economic and social crisis, including the possibility of the lowest immigration levels since 1870 (World War One excluded).**

The 'Low' scenario is the most likely in the absence of government stimulus to the new home building sector. The 'Medium' scenario presumes some government stimulus, which we now have, but recognises that private demand for new housing may be constrained by broader economic factors. The 'High' scenario incorporates government stimulus which targets social housing, as well as broader new home stakeholders such as first home buyers (FHBs), at least partially offsetting the overall lack of private demand for new housing which will be evident for some time to come.

The 2009 Social Housing Initiative and grant boost to FHBs of new homes both played a significant role in safeguarding Australia from the most damaging impacts of the GFC. While an on-going exodus of residential investors will now leave a potential gap for FHBs and existing owner occupiers, broader economic constraints mean private sector housing demand may not be stimulated to the extent that occurred around the GFC. This assumption is incorporated in the figures outlined in Table 3.

The 'High' scenario also recognises the possibility that the economy begins to rebound faster than anticipated. By the time it becomes evident as to whether the Australian economy is performing better than expected in 2020/21 - but (inevitably) still not well - the time for housing stimulus will have come and gone.

All the industry forecast figures presented in the Table 3 are bleak, at best, by historical standards. In our view, properly targeted assistance to the new home building sector can mitigate the risk of Australia confronting the two worst scenarios outlined above and potentially bolster the final outcomes of the other two scenarios.

While the nation's leading economists were around 55,000 homes short of the 230,000 new homes commenced at the 2018 peak[x] (and it is hoped that forecasters in this case are overestimating the trough) this does provide a baseline from which to consider the future outlook, need and options for recovery.

2018-2021 from peak to trough

The historic requirement for new housing in Australia has changed markedly in recent years. This is a result of the unprecedented residential building boom which began in 2012/13 and plateaued from June 2016 to September 2018.

The boom was driven by a number of factors, which are important to recognise prior to considering projections for underlying housing demand and new residential construction activity from 2019/20 onwards.

Key factors include:

- Historically (very) low borrowing costs;
- Historically high levels of Net Overseas Migration (NOM), the majority of which was for temporary visa holders, but that also included high levels of permanent (skilled) migration;
- The strong recovery in new home building in New South Wales, which followed a decade of recessionary levels of activity for the state;
- Value of foreign investment approvals in residential real estate increasing from $36.5b in 2013-14 to $72.4b in 2015-16:
  - the massive spike in new housing starts was driven to a considerable extent by foreign investment. As the foreign investment component of a new development, particularly in the medium/high density space' saw 20-40 per cent of a development presold, then the remaining buyer groups from first home buyers, investors and owner occupiers purchased the rest;
- The sustainment of elevated levels of new home building in Victoria over an extended period, driven by a very high NOM rate of population growth.

This confluence of factors saw dwelling completions in Australia reach a record of 223,701 in the year to the March 2017 quarter. Completions remained above the annual level of 215,000 until the end of 2018/19.

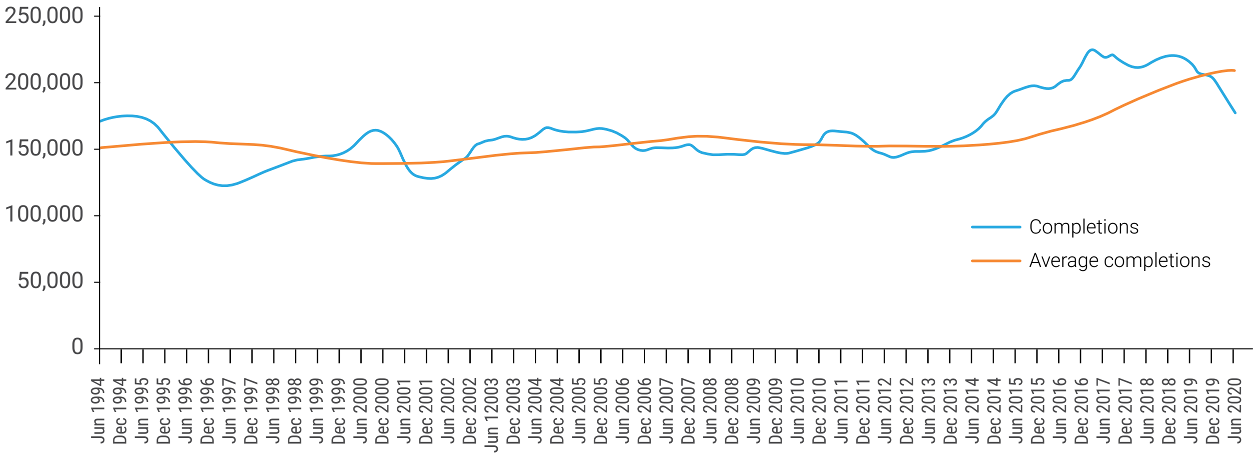
A reasonable starting point for considering Australia's unprecedented residential building boom underlying demand and future demand is the September 2013 quarter, when completions were running at an annual level of 150,488. These recorded figures start to bring the magnitude of the latest cycle to prominence, with the level of nearly 150,500 providing some one-third fewer new dwellings than the record two year peak plateau.

Dwelling completions averaged 197,516 per annum over the period from the September 2013 quarter to the December 2019 quarter. This level is 25 per cent higher than the average of 147,399 for the period over 1984/85 -2012/13. Dwelling completions in the December 2019 quarter were still running at an annual level exceeding 200,000.

While the actual data will not be released until ABS numbers arrive in mid October 2020, housing completions will be shown to remain bouyant at 180,000 for the twelve months ending 30 June 2020. These actual elevated numbers when presented will be out of step with forecast demand.

Graph 9: National Building Activity

Forecast to June 30,2020 (ABS 8752.0)



Source: ABS 8752.0, Property and Industry Analytics Australia

While this peak was a response to decades of undersupply, the huge tail of activity is still washing though the market in a time now where buyer capacity to purchase is forecast to fall dramatically.

Where to now for overall underlying housing demand and activity?

In such fluid times it is difficult for any organisation to look beyond 2019/20 with any reasonable degree of clarity.

Two factors that are readily apparent are: net immigration has impacts on both the demand for and supply of housing; the demand for housing historically reacts faster to crises than supply and large declines in net immigration will have a very big downward effect on the demand for housing. It is clear from early temporary visa data for the March 2020 quarter that levels of NOM are already in steep decline.

It may turn out that the relative success of Australia (and New Zealand) in combatting COVID-19 mitigates the substantial downward projection for NOM in 2020/21. That will depend on when international border restrictions begin to be relaxed, which it is too early to tell in mid-2020.

In a related manner, outcomes will also depend on the timing and duration of a recovery in labour market conditions. We know from history that when unemployment rises, NOM falls. Once the unemployment rate rises significantly it is (historically) very difficult to bring it back down.

Prior to the COVID-19 crisis, respected economic forecaster BIS Oxford projected an outlook where underlying demand (UD) averages 195,800 over the period 2019-2023. That is a level that is 3,426 dwellings fewer per annum than applied to the 2018 -2019 period.[xi]

For residential housing, any weakness in migration is a significant headwind. UBS estimates there will be a fall in underlying annual housing demand from around 200,000 to only around 130,000 in the near term – before recovering towards 190,000 by the end of 2022.[xii]

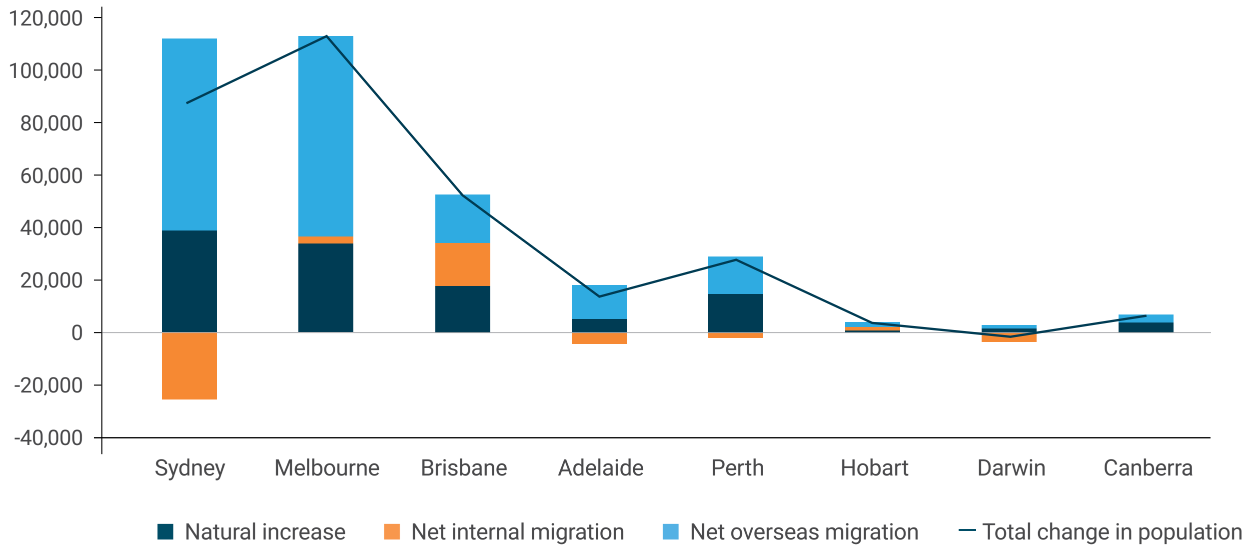
According to the ABS, Australia's population grew by 239,600 from NOM in 2018-19.

Australia's overseas migration intake is projected to shrink by more than 85 per cent on 2018-19 levels next financial year, due to widespread travel bans brought on by the coronavirus.[xiii] The government estimates long-term migration arrivals could fall by around 280,000 over the next 18 months, with a drop of 72,000 in the first half of this calendar year and another 204,000 in the 2020/21 financial year. This is a worst case scenario, but highly possible.

The Commonwealth Treasury expects Australia's NOM to fall substantially over 2019/20 and 2020/21. It projects a decline of 165,000 people in 2019/20 and a further decline of 65,000 people in 2020/21. Under this scenario, population growth would slow to 1.2 per cent per annum in 2019/20 and to just 0.7 per cent in 2020/21. Australia's population growth was previously forecast to have been 1.42 per cent at the end of 2019. A growth rate of 0.7 per cent would be the lowest on official records in forty years.[1]

Treasury's forecasts assume a largely steady rate of natural population growth. The rate of natural population growth feeds into estimates of underlying housing demand through the outlook for household formation rates. Given Australia's ageing population and historical evidence of a decline in fertility rates occurring during periods of recession, this assumption appears optimistic. In turn, that implies downside risk to Treasury's forecasts, as previously noted, which in mid-2020 are the best benchmark available.

Graph 10: Capital City Population Growth



Source: ABS, ANZ Research (May 2020)

This is because prior to the devastating economic and social impacts of the COVID-19 Pandemic, the trajectory for Australia's population growth was already in decline. The rate of population growth would have declined further, regardless of contemporary circumstances. It is now the magnitude of the impending decline that counts.

The impact on the underlying demand for new housing could see a level as low as 140,000 dwellings per annum. That would represent an unsustainably low level of new housing provision (see table below). Given the aforementioned constraints on private demand for new housing, the social housing sector can provide vital stimulus which provides both an economic and social benefit.

1 Excluding World War One, it would represent the lowest level in Australian history since 1870.

Table 4: Underlying demand for new housing in Australia – Average annual increase ('000)

Year ended June	Low	Medium	High	Total UD
2017-2018*	199.2	199.2	199.2	199.2
2019-2023	140.0	155.0	168.0	154.3
2024 2028	153.9	159.7	173.4	162.3
2029-2033	158.3	199.7	220.2	192.7

Source: BIS Oxford Economics; HDD Counsulting

Without further housing stimulus and a directed policy towards encouraging net overseas migration, when borders eventually open, the Australian economy will fail to recover as strongly and swiftly as Australia requires.

Projections for the Underlying Demand for Social Housing

The need for additional affordable and social housing is real and urgent. This important housing cohort will continue to grow, especially given that almost 600,000 people lost their job in April alone, following the nationwide COVID-19 restrictions implemented by all levels of government.

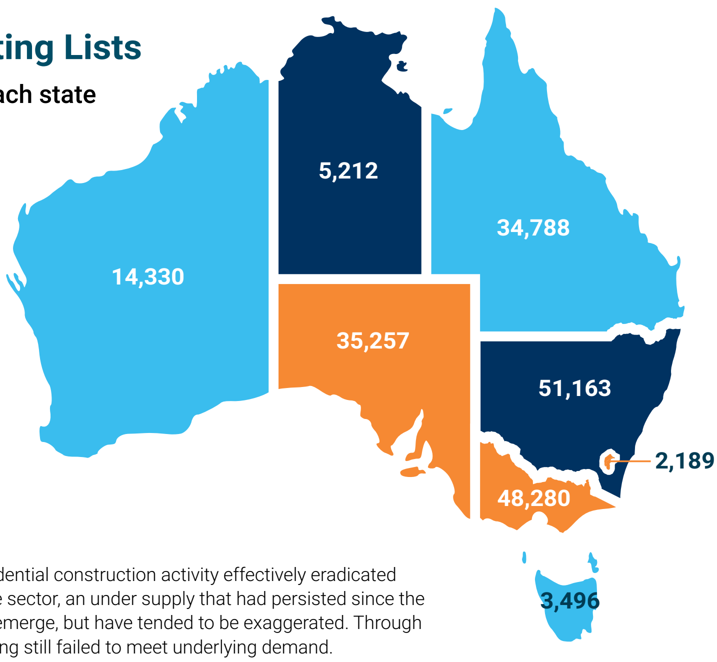
The overall implication is that the most direct approach to addressing the demand for new housing will stem from internal sources of 'market failure' which already existed, meaning there was a pre-existent lack of supply. Market recovery is unlikely to come from overall housing demand which is primarily driven by the private sector, as is outlined further below. The provision of social housing is a primary example of contemporary demand for new housing which reflects a pre-existing shortage of dwelling stock.[2]

Contributing to our social housing waiting lists are now the thousands of rough sleepers who had been placed in accommodation (often hotels) for protection during COVID-19 lockdowns. The NSW government, amongst others, is looking to find a solution for those in Temporary Accommodation, however the difficulty remains: a lack of dwelling stock.

Our Social Housing Waiting Lists

Number of applicants waiting in each state

Source: Australian Institute of Health and Welfare, 2019



2 The recent unprecedented boom in new residential construction activity effectively eradicated the excess demand for housing in the private sector, an under supply that had persisted since the early-mid 2000's. Pockets of oversupply did emerge, but have tended to be exaggerated. Through the building boom of the 2010's, social housing still failed to meet underlying demand.

Accessible Properties NZ and PowerHousing, 2019

Rental Stress

This lack of supply places increased demand on the rental market. In Anglicare Australia's recent *Rental Affordability Snapshot* (April 2020), almost 70,000 private rental listings were assessed for their affordability and suitability for low income households. Even in the wake of increased government subsidies due to COVID-19, the ability to find an affordable rental property is dire. With the high rental prices, people on lower incomes are also competing with people on higher incomes who are not themselves in homeownership.[xiv]

The Snapshot reported the following:

- Only 1.5% of rentals are affordable for a person on the new increased Jobseeker payment;
- Without the increase, not a single rental would be affordable for jobseekers in the major cities of Sydney, Melbourne, Adelaide, Darwin, or Canberra;
- 1% of rentals are affordable for a person on the Age Pension;
- 0.5% of rentals are affordable for a person on the Disability Support Pension; and
- 2.4% of rentals are affordable to a single person working full-time on the minimum wage.

PowerHousing partner Community Sector Banking's *Rental Affordability Index* echoes the same sentiment. Using data which predates COVID-19 by six months, the report illustrated the decreasing availability of affordable rentals for vulnerable groups, citing that more than a million households need some form of housing assistance.[xv] Coupled with Anglicare's *Snapshot*, the future looks bleak.

Fit for Habitation Rentals

In New Zealand, the government released Healthy Homes Standards for rental properties which became law on 1 July 2019. New Zealand CHP and PowerHousing Associate Accessible Properties is implementing the measures across two and a half thousand properties which has been best practice for our Australian Members. Like the NSW legislation, it aims to improve the quality of rental homes, leading to improved health of the residents, thus lowering medical costs and levels of hospitalisation. It is also anticipated that warmer and drier homes means that landlords are less likely to have issues with mould or mildew damage, therefore protecting their investment.

The standard of rental properties is varied, not only in the private rental market. Ageing rentals maintenance have been forced over COVID-19 to be placed on hold as issues (both scheduled and non-scheduled) have been backlogged as a result of COVID-19 lockdowns. Even before the pandemic, the standard of rental was under review and the NSW government introduced its Fit for Habitation requirements through its revised Residential Tenancies Act in March 2020 (enforced has been relaxed over COVID).[xvi] Both Queensland and Victoria are looking to follow suit, to ensure minimum living standards are reached in rental properties. The NSW legislation stipulates that all rental properties must:

1. Be structurally sound (a reasonable state of repair, no significant dampness, no water penetration, and structural elements not be liable to collapse because of rot or defects)
2. Have adequate lighting, either natural or artificial (except in storage rooms or garages)
3. Have adequate ventilation
4. Be supplied with electricity or gas with an adequate number of outlets for lighting and heating
5. Have adequate plumbing and drainage
6. Be connected to a water supply service or have infrastructure that's able to supply hot and cold water for drinking, washing and cleaning
7. Contain bathroom facilities that allow for privacy, including toilet and washing facilities.

Whilst these criteria seem fair and logical, it is the case that there are still rentals (both private and government) that exist with substandard living conditions in which our most vulnerable groups continue to reside.

The Fit for Habitation requirements are expected to soon be enforced as COVID-19 restrictions ease. Andrew Cox of Property Safe, which has over 50,000 tradies registered and maintenance contracts across Australia, has seen these trades pick their tools back up as backlog maintenance and proactive work is now underway in anticipation of the requirements being enforced in October. These tradies have been seriously grateful to be back out on site and this maintenance work will generate thousands of jobs in the coming months.

Case Study – Aaron now enjoying being at home

Newly housed Foundation Housing tenant Aaron says being offered a one-bedroom unit in a complex in East Perth during COVID-19 restrictions has been life changing.

Aaron, who is in his late 40s, moved in a week and half ago and says it's wonderful to have a 'forever home' he can make his own. Prior to becoming a tenant, Aaron was staying at a Men's Shelter operated by the Salvation Army and said he wasn't expecting his situation to change during COVID-19 as restrictions had put a 'stop on everything'.

While initially hoping to secure a room in a lodging house, he was delighted that his priority status on the joint housing waitlist enabled him to be offered a tenancy when the unit became available. Friends have helped him to furnish it and the former baker is now looking forward to hosting a mini housewarming to watch the footy over burgers (with homemade buns of course!) now that restrictions in WA are largely lifted.

While Foundation Housing moved rapidly to minimise all non-essential contact when COVID-19 restrictions came into place in March, they have continued to allocate homes in their mainstream portfolio to new tenants in order to house as many people as possible during this difficult time.

A3. WILL THE MARKET KICKSTART ITSELF?

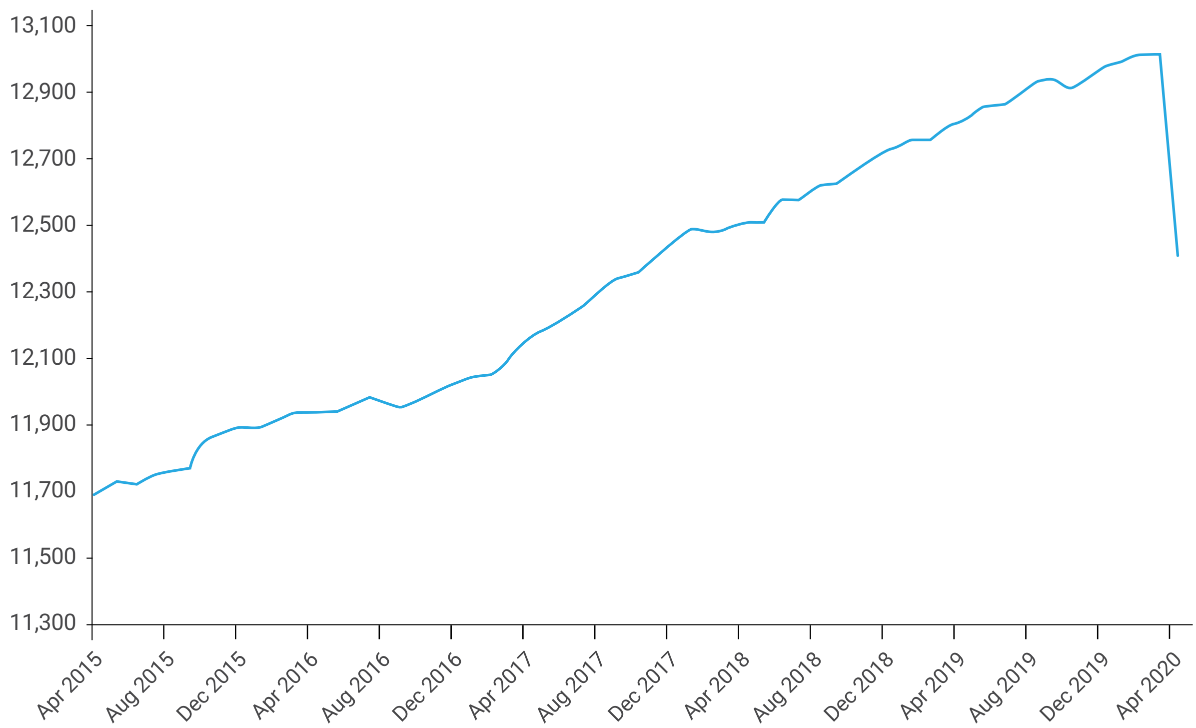
The challenge will be that the housing market may not be capable of being able to kickstart itself, a challenge that may last for many years, due to a combination of factors.

Since 22 March 2020, Australia saw the progressive introduction of social distancing and business-related operating restrictions to minimise the spread of COVID-19. In addition, a range of government support measures were announced, including changes to the JobSeeker program (announced on 24 March), the temporary suspension of the requirement for people to actively look for work, and the introduction of a JobKeeper wage subsidy (announced on 30 March).

To put the rescue package into perspective, the 3.3 million Australians and their employers supported by JobKeeper today costing around $10 billion a month. If these people were unemployed the unemployment rate would be above 30 per cent.

Clearly, the ongoing health and economic impacts of COVID-19 are prompting governments, business, NFPs and the wider community to rethink how society should, and could operate. Employment and housing are two themes in particular that have dominated discussion over recent months.

Graph 11: Employed People (Total)



Source: ABS 6202.0 Table 1 (Seasonally Adjusted)

Adding to this issue is the growth in the number of underutilised (a combination of unemployed and underemployed) workers - rising 6 per cent to 20 per cent in April alone. A reduction in work hours and wages will place further pressure on the affordable housing market, given that for many, the proportion of household income spent on housing will rise past 30 per cent - a common indicator of housing stress.

The ABS wage price index saw wages rise nationally at just 2.1 per cent for the year ending March 31 2020.[xvii]

Flatlining wages growth, decades of massive price increases for residential property and the looming largest decline ever in housing commencements set to emerge in the next calendar year, threatens to collectively have a very negative impact on the economy. That was always going to be a challenge in 2020, even prior to COVID-19.[xviii]

- The RBA expects that total hours worked will decline by around 20 per cent and the unemployment rate is forecast to rise to around 10 per cent in the June quarter.[xix]

Looking at the cumulative change between March and May, had the increase in the number of people who were not in the labour force (623,600) been a further increase in unemployment, then the number of unemployed people would have increased to around 1.55 million people (and an unemployment rate of around 11.3 per cent).[xx]

In terms of our economy the RBA estimates:[xxi]

- The Australian economy is expected to record a contraction in GDP of around 10 per cent over the first half of 2020;
- Headline CPI is expected to fall by around 2¼ per cent in the June quarter and headline inflation is expected to be negative in year-ended terms for the first time since the early 1960s.

The initial phase of the recovery is likely to be primarily driven by the easing in restrictions, which will lead to an improvement in employment outcomes as businesses re-open, as well as a pick-up in household spending. In the latter part of the forecast period, business investment decisions will more strongly shape the recovery. It is difficult to be precise about the magnitude and timing of these effects.

The Australian Banking Association recently released new figures which showed 429,000 mortgages had been deferred totalling $153.5 billion.[xxii] The figures take the total number of loans deferred to 703,000, worth a value of $211 billion. As we reach October, with a higher unemployment rate, the question will be how many of these loans will need to be deferred for a longer period of time.

House prices are forecast to drop

UBS expects house prices to decline at least 10 per cent in the coming year, in line with our 'full pandemic scenario'. Indeed, without an easing of mobility restrictions, and/or more direct policy support, the price falls will likely be larger.[xxiii]

Morgan Stanley's Australian equity strategists said this would flow through to house prices and they expected a decline comparable to the previous downturn of 10-15 per cent.[xxiv]

SQM predicted falls of up to 30 per cent in house pricing.[xxv]

Morgan Stanley joins major bank economists and investment house AMP Capital in taking a cautious approach to housing, with researcher SQM also predicting falls of up to 30 per cent.

> *"We expect a broad housing downturn, with the rental market in particular likely to weaken, as higher unemployment and a reduction in net migration both work to reduce housing demand, pushing vacancy rates higher and rental prices lower", Morgan Stanley, May 2020.*[xxvi]

> *"The deterioration in established housing market conditions is expected to prolong the decline in dwelling investment. Dwelling investment is expected to be significantly lower over most of the forecast period than forecast in the previous Statement. The trough in construction activity is now projected to occur in early 2021, half a year later than previously expected. The near-term downgrade to activity incorporates information from liaison citing significantly weaker demand for new dwellings", Reserve Bank of Australia, May 2020.*

The analysis points to the devastating impact that restrictions on mobility will play in the housing market, hampering not just resident Australians, but staunching the inward flow of migration, a key driver for the property market.

The market's expectation is that it will recover. But the depth and duration of the downturn and the flow on impact to employment in trades and subtrades is of deep concern.

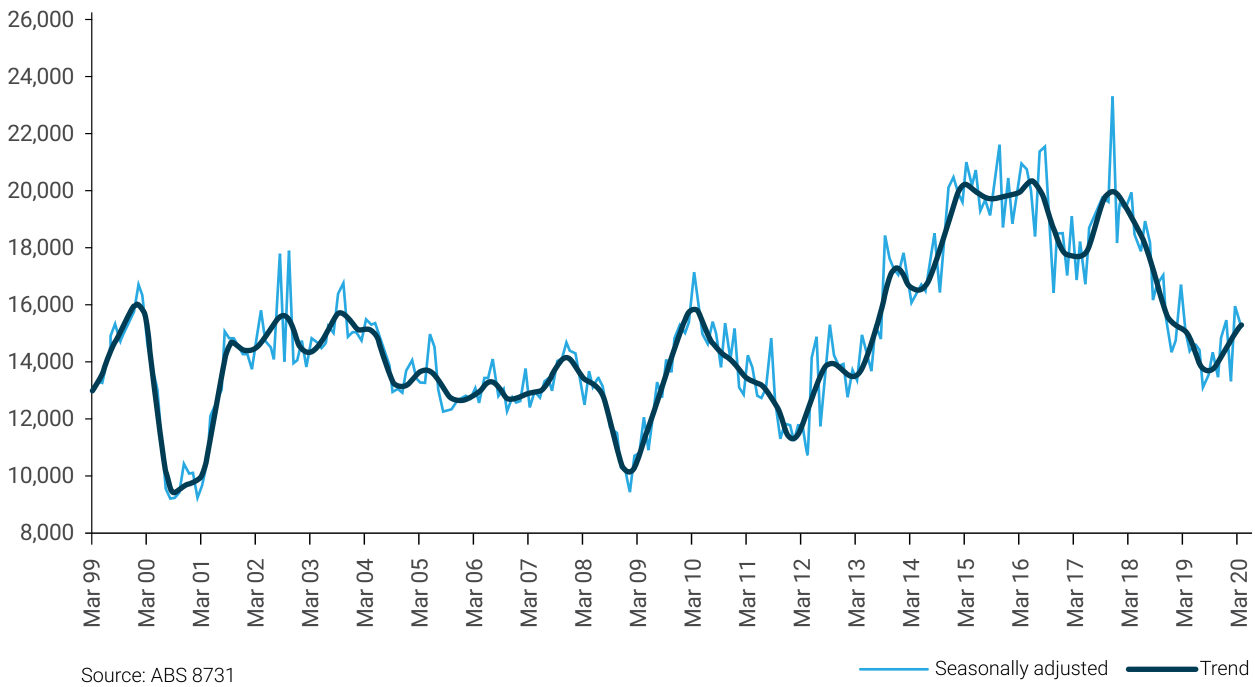
Future Pipeline

Two prominent leading indicators of new housing activity and intend to build new homes are ABS Building Approvals and ABS Housing Finance. Both indicators declined significantly from late 2017.

Building approvals peaked at a record annual level of nearly 226,000 in November 2016. Since that time approvals have fallen by 44 per cent, prior to mounting a very modest recovery over the nine months to March 2020.

ABS Building Approvals to the end of April equated to 173,802 dwellings approved for the past 12 months. The three months through Feb-Apr 2020 saw 46,000 dwellings approved alone which, would annualise to around 186,000 dwellings approved if carried forward.[xxvii] This shows a large potential pipeline that can still come through.

Graph 12: Monthly building approvals for Australia



Source: ABS 8731

This latest recovery is arguably unsustainable given the detrimental economic effects of COVID-19.

Building approvals are projected to display a substantial further step down. One possible scenario is that approvals fall to levels equivalent to those evident for the early months of 2012. That would mark a further decline of 30 per cent.

It is premature to consider the probability of a recovery in new home lending figures in 2020/21 or even 2021/22. The Building Approvals measure outlined above will be critical to observe whether there is a surplus of supply to demand. It will also be critical to watch for a bounce back in activity as monthly updates unfold.

Are people borrowing to build?

Westside Housing Company (SA)

Two components to ABS measures of housing finance are lending for the construction of a dwelling and lending for the purchase of a new dwelling. The latter measure captures the financing of: off-the-plan purchases of (primarily) medium/high density dwellings; and purchases of newly built dwellings not previously occupied.

Lending for construction has been in sharp overall decline since mid-2018. Lending for the purchase of a new dwelling mounted a strong recovery over 2019, but subsequently fell by 14 per cent over February and March 2020.

This decline in lending for a new dwelling reflects the early adverse effects of COVID-19. This type of financing is expected to drop further in the June quarter. Signs of any pick-up in lending volumes from mid-2020 would provide an early signal of a recovery in the demand for medium/high density dwellings, in particular.

As of March 2020, the number of loans for construction fell by around 20 per cent from their (July 2017) peak. A significant deterioration in the number of these loans may become evident over the June 2020 quarter or until HomeBuilder starts to have an impact. Any signs of stabilisation and recovery as Australia moves through the middle part of the year will signal the prospect of a turnaround in new home building activity as the nation enters 2021.

A third measure of new home lending is the financing of dwellings for rent. Lending for the construction or purchase of new rental dwellings fell substantially from the beginning of 2017. The decline continued into 2020. Between September 2019 and March 2020 the value of lending declined by a further 21 per cent.[3]

Lending for the purchase of existing rental properties fell to a considerably smaller extent over the 2017-2019 period. The latest profile shows lending falling by 15 per cent between September 2019 and March 2020.

Australia's residential rental markets are highly vulnerable to the negative economic impacts that will stem from COVID-19.

The outlook for rental property demand was already concerning in 2019. Rental yields were low in an environment where many markets were not experiencing growth in residential property prices. The risk for 2020 and 2021 is that even lower rental yields, falling rents (which is already happening), and a negative outlook for residential property prices will generate considerable fractures in rental markets. There will also naturally be broader economic constraints at play, largely but not solely relating to higher unemployment rates and slow employment growth. The supply of new private rental dwellings could fall markedly. Many landlords will face substantial financial pressure, as is already emerging.

With 429,000 home loans deferred, there are also question marks about the ability of banks to lend into any residential or stimulus efforts in the next two years.

3 The ABS changed the methodology used to measure residential lending in 2019. Consequently there is a break in the data series.

Byfield, Standard House Design - Simonds Homes

04 Section B – Standard House and its Impacts

When we consider housing purely in terms of numbers it is quite difficult to draw a connection between its impact on the economy, its role in creating jobs and what it provides to families.

Housing activity will be reconsidered in this next section, to draw a link between the drop from 230,000 home starts in 2018 that are forecasted to drop by 100-120,000 homes in the next year and its implications for real peoples' jobs. Focusing on jobs in construction, manufacturing and retail in particular, we can see the importance of flattening the housing trough to ensure that we land closer to longer term averages of completing 160-165,000 homes per year.

NHFIC's Building Jobs Report found that $1 million of output in residential construction supports a multiplier of 2.9 which is around $2.9 million of industry output and consumption across the broader economy.[xxviii] Construction is a powerful enabler of the economy.

And here is a comment on housing: "*The housing sector has a pervasive impact on the Australian economy. It accounts for the bulk of household wealth, and around 6% of employment is related to the residential construction sector. The linkages to the rest of the economy through consumer spending, manufacturing, and the business service sector ensure that housing cycles are very closely related to the broader economic cycle in Australia.*"

Not only do construction, manufacturing and retail jobs pick up and economic strength return with every home built, we see homes created where families live. We examine this latter point in greater detail to illustrate the benefits which go beyond the economic to the social. Behind the measures of jobs and case studies below there is a story of wellbeing that goes beyond personal financial comfort.

What COVID-19 has shown as much as anything is that just having a job creates wellbeing beyond financial, it creates purpose. Anecdotally, stopping on the way home on a Friday afternoon to pick up the pizza after a solid week's work on site, in the plant or facing the public in the hardware supplies shop is all the more sweeter.

B1. Construction

To illustrate the benefits, both social and economic, that new housing supply delivers to Australians, we've analysed 'standard home' designs from three of Australia's biggest and most well-known volume builders.

For the purpose of evaluating the materials and the Standard House we have considered the Byfield design built by scale national builder Simonds Homes. We have also considered a high volume Barton design 'standard house' by the nation's largest builder Metricon, and the equivalent design of Australian household brand AVJennings.

As displayed in the appendices, the Byfield and Barton designs are three-bedroom houses that both provide a well laid out home, well suited to meet the needs of Australian families.

At 179.67m2 it packs a lot of features within this compact design that could suit many Australian families and a similar style can be found across Australia and is the place where family memories are made.

But looking more closely, it is clear that the labour, manufacturing, production and supply of the materials that make up these homes provide value to the social and economic fabric of our communities that is truly remarkable.


Junction Australia (SA)

"Before a shovel hits the ground to construct a standard dwelling, there are many different professional services that see the phone ring and emails exchanged. The "front end" of the construction process covers planning and design of not only the dwelling, but also the infrastructure, place-making, urban design, landscape and services. These processes generally take longer than the construction period and employ many companies such as town planners, urban designers, surveyors, civil engineers, engineers, energy consultants, architects, interior designers and landscape architects. If that house doesn't get built these tasks, jobs and activity also drops off for a lot of people."

Matt Drysdale of the Office for Collective Design

A house such as the Byfield or Barton, provides construction jobs that are activated every time a new home is built: from the architects to the planners, para-professionals in services, earthworks, construction trades through to finishing trades. Further on in the project timelines landscapers and property services all find work.

A 'standard house' design is estimated to provide up to 31 trades, subtrades and para professional categories with a period of work from 1 day to 90 days. As there are multiple people performing a trade onsite concurrently, such as a carpenter or painter, the number of families with a home construction-related breadwinner is much higher.

If you consider that Australia in the 12 months to September 2018 commenced an extraordinary 230,792 homes, then using the scale builder estimates, this activity equates to around 6 million work engagements in a year for trades, subtrades and para-professionals.

"I am encouraged to see a report that documents the very tangible impact the construction sector has on Australia's economy. Based on Metricon's 44 years, I can confidently say that an active construction industry equates to a healthy economy. At Metricon, 1,800 employees and up to 10,000 Australians work on our build projects on any given workday of the year, and 6,000 individuals are indirectly employed through our supply chains. The livelihood of many Australians depends on the construction industry."

Mario Biasin, Chief Executive Officer and Co-Founder, Metricon Homes

PLANNING & DESIGN

ENGINEER
BUILDING ESTIMATOR
BUILDING SURVEYOR
ARCHITECT
BUILDING SUPERVISOR
PLUMBING INSPECTOR
BUILDING CERTIFIER
KITCHEN DESIGNER
BATHROOM DESIGNER

43

DIRECTLY ENGAGED

TRADES & SUBTRADES

CARPENTER	ROOFER
CONCRETER	PLASTERER
BRICKLAYER	RENDERER
JOINER	PAINTER
ELECTRICIAN	TILER
PLUMBER	CARPET LAYER
GAS FITTER	FENCER
CABLER	EARTH MOVING
LABOURER	WASTE REMOVAL
GLAZIER	ROOF PLUMBER
LANDSCAPER	AIR CONDITIONER

With forecast activity at the end of June expected to sit at around 180,000 dwelling completions for the previous 12 months, and the national residential peaks forecast to drop to only around 115-125,000 commencements for F2021, there are clear buyer demand challenges that will see many new homes completed but few new homes started.

In the scenario where Australia's build rate falls from 230,792 homes completed to only 110,000, this in simple terms would see the loss of over 4.75 million trade type engagements from the shortfall of some 110,000 homes not being built.

Outside of the tax and stamp duty implications, there will be a great many people less likely to derive incomes from this work stream for some time, until at least 2025.

Such a drop (as forecast earlier in this report) will have a detrimental impact on housing which could be counteracted by layers of residential stimulus policy.

In suburban communities, and particularly in smaller regional towns across the country, this home design creates a lot of jobs for families. In many cases, smaller builders quite often have a family member (many with small children as work from home parents) running the back of house for the business. This includes bookkeeping and supporting the logistical requirements of keeping the business going. It is fair to say that these business arrangements mean the number of jobs tied to each standard house increase substantially.

The local Builder

In the case of smaller regional builders, such as Dale Crawford from Upper Natone, near Burnie in North-West Tasmania, the number of trades on site drops significantly, but the periods of work and multi-trade expertise means that there is a bit more time on site.

Dale and his wife Julie have been in the building business as a partnership since 1982. Dale has had over 40 years in the industry and his wife Julie works mainly in office administration. Currently the business undertakes 2-3 new builds and 5 or so renovations per year, which allows them to employ around three carpenters and one apprentice at any given time. The business services areas all along the North West Coast with many subcontractors who support this longstanding business.

"Government stimulus for social housing generates employment and growth. A standard house can require an architectural draftsperson the equivalent of a day or so to amend the design to suit the site and assist planning through to the equivalent of three months full time employment generated for one of our architects for a new Special Disability Accommodation (SDA) home."

Aaron Stowe of Architecture and Access

AV Jennings – The Australian household brand

For many Australians, the images of thousands of Australians queuing outside Centrelink offices illustrated the potential economic impact of COVID-19. People of all ages, some with young families, feared they would not have a roof over their heads within a matter of weeks without support from the federal government. It reinforced how vital housing is. Not just as a fundamental need for shelter but because of the security and happiness it provides the occupiers and the flow-on benefits to society. Sir Albert Victor Jennings believed in this so much he started his own property development business in the depths of The Great Depression in 1932. He wanted as many people as possible to be able to have a house of their own and, almost 90 years and thousands of homes later, that remains the AVJennings company purpose today.

B2. Manufacturing Jobs and Housing Innovations

The Standard House, which is made up of many materials that are commonly found in this type of dwelling and its value to the social and economic fabric of our communities is not to be understated.

The economic activity generated from new home building doesn't end with the trade and subtrade employment opportunities but extends right down the supply chain.

Bricks CSR PGH Bricks


PGH Bricks - Albury Plant (NSW)

Construction of a home of the size of the Byfield or Barton requires around 5,000 bricks to complete the dwelling. In addition to the brickie who earns $1.50 for every brick laid, there is an Australian manufacturing plant providing employment for a significant number of Australians in regional towns to supply the bricks for new home construction.

CSR's PGH Bricks manufacture around 350,000,000 bricks for roughly 48,000 homes a year and has 10 brick manufacturing plants located in Victoria, New South Wales, Queensland and South Australia.

The PGH Bricks plant as featured provides 47 workers with a job in Albury. This plant which has been employing Australians for 40 years and many others like this plant see opportunities for employment when Australia builds 230,000 homes in a calendar year. As a further flow on, the plant almost exclusively employs local labour and sub-contractors for any maintenance and also tries to purchase all local products to fulfill needs.

Painting

Investment by the Australian Government directly relating to the stimulus of new housing stock would provide a tangible support for DuluxGroup's new housing related business segments, as well as many other Australian building product manufacturers.

The commencement of a tranche of say 10,000 units of housing stock in the Australian market would be seen as a significant step with broader positive impacts across the industry. Specifically, this equates to adding approximately 2,000,000 litres of decorative paint demand into the pipeline. This activity would support local manufacturing jobs within Victoria and Queensland along with broader distribution, retail and trade jobs nationally through the supply chain. As indicated by the Australian Paint Manufacturers Federation, the great thing here is that around 90 per cent of paint used in Australia is manufactured locally.

"A lot of trade painters who are often sole traders have already lost work or had jobs cancelled as a result of COVID-19...efforts to keep the construction industry working will be crucial for the economy, as any downturn in construction activity will impact jobs in many other sectors that support building activity in Australia (Pat Jones, Chairman Australian Paint Manufacturers Federation)".[xxix]

Framing/Truss systems

Timbertruss Victoria

The Standard House dwelling includes truss, wallframes and fully clad wall systems that are manufactured in Australia, by Timbertruss which has been in operation since 1989. When Penny O'Leary (General Manager) and Steve Collier (Business Manager) started in the business they had a staff of 19 and now have a total staff number of over 600 becoming one of the largest manufacturers of these building products. They operate out of Queensland and Victoria, and currently manage the largest and most automated house prefabrication facility in the world.

What does it mean when the housing market drops by 50 per cent over two years, naturally it means less truss systems and timber from plantations. What does it mean if large numbers of new homes are brought on line, in short, it's huge. With scale numbers of new homes coming through a stimulus program it means that economies of scale come into play and additional savings are available through repeat manufacture of exactly the same and multiple house types.

The immediate benefit to the Timbertruss workforce of increased production through affordable housing would give greater job security and certainty to a workforce who remain concerned as to the future. This directly means additional jobs in regional towns and major centres where they have manufacturing as well as their plant in Geelong (pictured) in Victoria.

Innovative manufacturing

Fibre cement James Hardie

Firstly, on the standard house plans, building a home in light weight James Hardie Fibre Cement, which is manufactured in Australia and has locally sourced raw materials, has many advantages as there is a sense in being able to support a differentiated product that can be built quicker, more economically and have great street appeal.

Faster build time: Building a home in fibre cement, the carpenter installs this cladding. This can alternate some or all of the need for a 'wet trade' such as the brick layer. With a diminishing number of brick layers this innovative product is not only installed faster per square meter, but also reduces the amount of waste.

Waste management: Our insights tell us that the dumping costs on each job are between $2,000 - $3,000 minimum. Really this figure is much higher due to inefficient design. By utilising a James Hardie solution in scale delivery of new homes can reduce waste, handling costs and deliveries to site due to the nature of estimating correctly, perfectly manufactured products and usage of offcuts.

Just these two points alone enable homes to be built faster and with less waste, reducing costs and time to completion which will ultimately contribute to greater manufacturing jobs and efficiencies in delivering homes at lower cost.

Solar energy


Allume Energy

Allume Energy is an Australian start-up that has invented and patented the SolShare, the world's first technology for sharing rooftop solar in multi-unit buildings. The SolShare unlocks the benefits of rooftop solar – lower electricity bills and bill shock and a reduced carbon footprint – to people that have previously been unable to access it because they live in an apartment building.

Over the past year, Allume has demonstrated the technology on private and community housing-owned apartment buildings in Victoria, New South Wales and Queensland with impressive results.

In one example, Allume was contracted by Housing Choices Australia to install a 66-kilowatt solar system on a 44-unit community housing building. The system was switched on in November and the residents have seen their electricity bills reduce by over 40 per cent. That's an average saving of $35 per resident per month: a significant amount of money especially for someone on JobKeeper or the minimum wage.

A housing stimulus constructing 10,000 dwellings with rooftop solar would see an increase in the production of the Australian-made SolShare, leading to over 50 new jobs in manufacturing and engineering in Victoria and 550 new jobs in electrical trades across the country.

Guttering

Eaves Water System Australia P/L is 100 per cent owned, operated and manufactured in Australia with 100 per cent recycled content made of Colorbond Steel and ASA Plastic Components. What is brilliant about this closed top guttering manufacturing innovation is that the guttering has reduced fire risk, less stormwater maintenance, greater rainwater harvesting, minimal property maintenance, and it is Australian made.

In 2016 Eaves Water System Australia was the recipient of a six figure Federal Government Commercialisation Grant, and the following year was issued with a "Deemed To Comply" confirmation from Land and Housing Corporation NSW.

Since this time Eaves Water System, has been extensively used on multiple sites by Community Housing Providers on both New Builds and Managed Properties, and would be taken up in greater volumes if there is a new build or maintenance program to stimulate the economy.

On the above basis an unmaintained Open Top Gutter with Mesh would last 15 years versus 40 years for Eaves Water System. Therefore at a cost of $5,807 (GST inc) per dwelling, 15 years for traditional gutter, or $2,173 for Eaves Water System when amortised over a 40 year lifespan. (Analysis/Data provided by SPM Assets).

In summary, for every dollar spent on Eaves Water system in lieu of traditional guttering methods the return on investment (ROI) to the Community Housing Provider (CHP) is $1.57 (157 per cent).

Eaves Water System notes that the above ROI analysis does not include other benefits and potential cost savings listed above.

B3. Retail Impacts

Hardware and Nursery Retail

Housing activity supports jobs throughout the build process for multiple local businesses such as local hardware outlets, with hundreds of thousands of people working in Hardware Retail situated in towns and cities right across the country. The people working in these stores have the opportunity to support and engage with tradespeople as they come in to research, learn about new products and shop for materials and consumables. But this is only a small part of the wider support network in place across the supply chain.

It often starts with Account Managers from the sales team working closely with builders on their projects to find out what they need, how they can best help with project planning and assisting with the design and specification of each build. This brings into play suppliers to the industry who have their own reps on the road to educate the market on their products, as well as support flow of stock through retail outlets. There are also reps visiting stores to manage stock orders and support the retailers and builders with any issues or challenges they might encounter.

Manufacturers and wholesalers receive orders which are fulfilled by warehouse management teams including forklift operators, warehouse and administration staff. The transport industry then gets involved through road and often rail transport to move goods around the country, delivering either to the retailer or direct to site.

From there receiving teams and replenishment teams move the stock through the stores making it available for customers to collect. In addition, teams of stock pickers collate orders for pickup or delivery to site on behalf of the builder, which are then delivered using road transport creating more opportunities for employment.

The build process is directly supported by tens of thousands of people across Australia, not to mention the thousands more in place to support the infrastructure and logistics required to keep all of this moving; transport mechanics, mobile plant sales and maintenance, cleaners, racking and store fixture manufacturers, facilities maintenance businesses, shopfitters, signage printers, IT companies, commercial builders, landscapers, line marking contractors and the list goes on.

Harvey Norman Commercial Victoria

The standard home project for PowerHousing Australia provides Harvey Norman Commercial Victoria with the opportunity to highlight the importance of the Community Housing & Social Housing Sector and the role of their business at this time to assist in supporting the wider economy.

As a trusted brand house and industry leader, Harvey Norman Commercial is an ASX Top 100 Company Worth $5Bil+ (HN Group sales) whose support behind a COVID-19 rebuild will support those construction jobs, but also drive the many thousands of retail jobs that delivering scale social and affordable housing can provide. Across the country, Harvey Norman Commercial Divisions directly employ over 1500 team members, and the Harvey Norman Group employs over 10,000 staff nationally. Their commercial business runs in strong correlation to new home creation and investment.

Each new social housing dwelling represents approximately $12,000 in direct and indirect procurement spend to Harvey Norman Commercial, of which they estimate 40 per cent of the value rests in our local supply chain, creating & maintaining jobs for Australians.

As we start to work our way throughCOVID-19, Harvey Norman Commercial the Victorian division of Harvey Norman Commercial, Australia's largest commercial sales provider of appliances, sanitary ware, audio visual and professional products looks to work with the Sector and Australian Governments where possible to support the construction activity that will be needed.

Flooring retail


Karndean Design Flooring and SGCH

Karndean is one of the nation's largest suppliers with their flooring found in Australian homes, new specialist disability accommodation dwellings, and retail stores such as Coles - Aldi and Subway. Karndean itself is an Australian run sales, supply and distribution business that has National reach and exposure, hiring staff all over Australia with a huge retail presence. Karndean are major suppliers to the largest flooring retail chains, independents and flooring installers across Australia, which supports thousands of city and regional businesses varying in revenue and staff size. Where a new home is built or renovated there is a retail transaction of approximately 146sqm of Karndean tile/plank required to be laid over the available floor space and this supports thousands of retail jobs across the country.

The Standard House project will no doubt deliver on the short fall of expected new builds but will also deliver the added benefit of employment within local and regional towns which Karndean have supplied and supported over the past 40 years. Karndean's Australian customer base of over 800 flooring retailer outlets conservatively employ well over 5,800 employees who are generally made up of local families working to build regional towns into thriving communities. Karndean is a proud family owned business who offer up expert advice and real flooring solutions that save on operating and replacement costs that can be an unforeseen financial burden, if the product is not chosen carefully. Karndean offers the only Lifetime Residential warranty, which equates to 35 years in the family home that can be fully transferable to the next owner.

In addition, there are thousands of vinyl installers who are fully qualified flooring installers that gain employment over the renovation/build process. Majority of flooring businesses and flooring installers are owned and operated by families who employ local sales staff and installer trades, which in turn re-invest profits back into the community.


Hume Community Housing (NSW)

Secondary impacts

The value of the trade worker stopping for a pie at lunch or a pizza at the end of the week keeps secondary retail going every day.

As indicated by the ABS Labour Force statistics for May, jobs losses are still rising. The retail and hospitality sectors are getting hit hard by the COVID-19 recession with 44 per cent of job losses hitting Australians aged under 25. Teenagers and young workers lost a stunning 100,000 jobs in the month of May alone – nearly half of all job losses. Over the first quarter of COVID-19 from March to May, over 824,000 jobs have been lost with the under 25s bearing the brunt and losing 329,000 jobs.

Small corner stores receive a boost from the Standard House or a new development getting underway with tradies coming in for a morning coffee or dropping in for a pie and a drink during lunch at the local bakery. This was the experience for J&R Bakery during recent building works in the local neighbourhood. Restaurants and retail get a boost as the tradie heads home at the end of the week and of course there is a multiplier to this that continues to help the economy.

J&R Bakery, Rivett (ACT)

05 Section C – Housing's renewed role in building resilient Australian Communities

There is a role social housing can play in mitigating the inevitable sharp decline in new home building activity, while supporting both housing and labour demand.

The current scenario for the immediate future is a further decline in the market, which ultimately means less construction activity, resulting in less expenditure in supply and labour chains and fewer jobs.

In the last major economic downturn, social housing and affordable stimulus took up a lot of the slack when the market was unable to respond. It was quick to reactivate the residential activity when new home buyers just weren't there.

Any stimulus in the residential sector through the vehicle of social and affordable housing can only provide the proposed immediate impact on activity (12-24 months) if it is not encumbered by any transactions reliant on private market sales.

Housing Plus (Regional NSW)

The need for additional affordable and social housing is real and urgent with significant waiting lists for public housing. This cohort will continue to grow, especially given that almost 600,000 people lost their job in April alone, following the nationwide restrictions implemented and supported by all levels of government following medical advice.[xxx]

The most recent AIHW National Social Housing Survey reports that at 80 per cent satisfaction levels, community housing tenants have higher levels of satisfaction, are more satisfied overall than those living in other forms of social housing, have better employment and educational outcomes and live in structurally better dwellings. The ability of Community Housing Providers (CHPs) to deliver best practice outcomes for tenants, and provide affordable housing services through a sustainable business model of reinvestment for social purpose, has helped the community housing sector to grow rapidly over the last decade.

PowerHousing Member Capacity

What is certain is that our member organisations are well positioned to play a key role for both current tenants and a significant number of new Australians that will not have job certainty in late 2020 as the temporary JobKeeper support winds down.

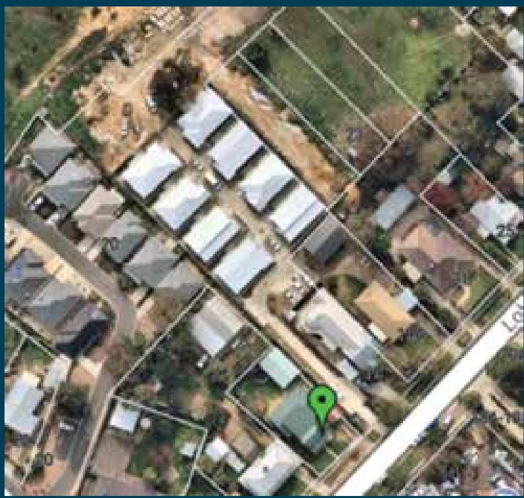
From member reports, staff are stepping up, our tenants are doing well and we are seeing stability in payments across the weekly statistics sent in by Members. This sends a strong message of our resilience and capacity in our unique and vital roles in the community.

One thing that makes PowerHousing member CHPs critical to the housing sector and sets them apart from other housing providers is that they are scale not-for-profits, focused on providing social and affordable housing for large numbers of moderate- to very low-income earners, and complement government policies to increase homeownership and reduce rental stress for all Australians. Affordable housing is an emerging international asset class for investment which has demonstrable characteristics and long-term investment for the communities and cities in which they operate.

Our CHPs are mostly located in or near the communities where they manage or hold affordable housing dwellings. This enables them to use a personalised approach to understand the needs of the community and assist individuals and families in accessing a wide range of services and facilities other than housing. CHPs also contribute to creating employment opportunities in the community, as workers and contractors for the management and maintenance of dwellings are usually sourced locally.

Our CHPs are both financially literate and responsible and this is evident by the expertise and career stories of the CEOs, CFOs, COOs, and development/ asset executives. They are capable of executing plans to achieve financial outcomes while at the same time adapting to and working with a rapidly changing political and economic environment.

Case Study – Haven: Home, Safe



Regional Victoria

- Lobb Street North Bendigo
- New Construction, North Bendigo, 8 x 2 bedroom dwellings,
- Local Contractor PCP Construction
- Due for completion August 2020

Representative of a typical infill site, with a small aggregation of units or townhouses, that can meet criteria around 100 per cent social occupation with due regard to density within the context of both operational site management by a CHP, and within a neighbourhood. There would be many opportunities to identify and secure many such sites in both regional and metropolitan locations, with or without planning. Enhanced planning mechanisms (such as those enacted during nation building) would be advantageous.

While providing a range of affordable housing options to vulnerable individuals and families at below market rate rents, CHPs continue to strengthen and expand on a housing delivery business model of sustainable and structurally efficient principles to increase investment. This demonstrates CHPs' commitment to increasing the provision of secure and affordable homes as well as helping tenants achieve socio-economic outcomes. As noted in the 2019 Report on Government Services, throughout 2017-18, 81.8 per cent of new community housing allocations were to those households in greatest need.

Report: Technology enabled targeted response

JLL undertook comprehensive demographic and socioeconomic research to support the development of YWCA Housing's National Housing Strategy. This included the collection and analysis of data on:

- Demographics: including population, dwellings, tenure, age, education attainment, employment and income
- Measures of socio-economic disadvantage
- Homelessness
- Gender pay gap
- Family, domestic, and sexual violence
- Housing market trends in specific locations

JLL also provided property-related advisory services, aligning the demographic insights with YWCA's strategic and operational priorities and broader property portfolio. JLL identified disadvantaged LGAs where YWCA has landholdings and overlayed demographic measures such as women's personal incomes, educational attainment, workforce participation, and household type to better understand each geographic location.

The report reviewed the regional women's needs and challenges across the following themes:

- ***Housing challenges:*** 1 in 3 women in unsuitable housing feel unsafe
- Managing finances: 87 per cent of women face financial stress, with 39 per cent unable to pay utility bills on time
- ***Experiences of homelessness:*** 1 in 8 women had been homeless in the last five years and a quarter of those women had hid their homelessness from others
- ***Support and assistance:*** 1 in 3 women said that access to more affordable housing would help them the most, and half of women saying a reduction, or subsidy on current housing costs would assist also
- ***Housing priorities:*** the key priorities identified in the report from regional women were: safety, independence & autonomy, security of tenure, access to facilities and reduced costs/financial pressures

The number of community housing dwellings has more than doubled between 2008-09 and 2017-18 from 39,800 to 87,800 dwellings, while public housing has decreased by 20,000 in the same period. [i] While CHP properties are increasing, overall, social housing stock has not kept pace with household growth, at 4.6 per cent of households in 2017- 18, down from 5.1 per cent in 2007-08.

This pace of growth has increased in 2019 with property transfer programs such as Family and Community Services transferring the tenancy management of around 14,000 social housing tenancies to CHPs, of which around 11,000 are to be managed by PowerHousing Members. As CHPs continue to work in partnership with different levels of government and the wider private sector, the community housing sector is destined to see greater growth and the appropriate housing of more Australians.

SHARP COVID Stimulus Policy

Along with other national leaders, PowerHousing Australia has backed the call for an immediate employment-boosting investment in the CHIA SHARP proposal to expand Australia's social housing by 30,000 homes as the country experiences a wave of job losses due to COVID-19. While the market for housing is going through an uncertain period, consideration of the options such as this proposal would help ensure a smooth pipeline of new dwellings and jobs activity estimated by SGS Economics.

The SHARP stimulus proposal[xxxii] calls for government investment for new build/ acquisitions and for the renovation of existing homes. Commonwealth contributions should be complemented by state/territory governments in the form of land and/or capital and local governments may also make a valuable contribution.

The SHARP suggests the following strategic objectives:

1. Increase the supply of social housing, predominately via construction of new social housing including within mixed tenure developments
2. New social housing to be primarily targeted at households who are homeless or at risk of homelessness. Specific cohorts such as older single women may be prioritised
3. Stimulate the building maintenance and construction industry
4. Support employment in regional and metro areas across all Australia. We anticipate activity will be predominantly in areas where unemployment has hit the hardest
5. Support the housing market by taking the opportunity to acquire quality sites at keen prices that either investor landlords or developers wish to sell
6. Upgrade social housing to enhance energy performance
7. Complement, rather than replace, existing initiatives and assist in the achievement of a viable and interconnected housing system.
8. Build capacity in not-for-profit CHPs and encourage innovation in construction quality and design
9. Maximise public value through CHPs combining their rental income with other government subsidies, tax benefits, partnership arrangements and private finance to provide additional, low cost, housing.
10. Be combined with other regulatory and tax reforms to encourage multi tenure developments with build to rent
11. Over the longer term maximise tenant, community and economic outcomes.

The proposal suggests that SHARP would be administered by a new arm of the National Housing Finance Investment Corporation (NHFIC) accountable to an oversight body reporting to National Cabinet.

In an underperforming market there is an opportunity to support additional homes coming online which will create multipliers in jobs and economic activity as supported by SGS Economics[xxxiii].

Maintenance

Immediate repairs and maintenance programs can continue to be brought forward to keep improving the homes of our tenants to also stimulate economic activity and jobs. Significant new housing coming online in September can support social and affordable housing outcomes. New build activity which provides 40 plus trades and subtrades with work drives significant economic activity that can support the growing numbers expected to need housing with some supports.

Maintenance could be broken up into State, Federal and CHP contributions to provide proactive maintenance to activate tens of thousands of social and affordable homes.

Repairs and upgrades might typically include:

- Kitchens / bathrooms
- Structural works /repairs
- Painting and aesthetic works
- Common area upgrades including lighting, power, security (CPTED), painting

State, federal governments and CHP share the upfront costs, and in return the CHP acquires a longer lease (eg. 20- 50 years) or a share of ownership. CHP then leverages cashflow for upfront work and for a subsequent new build program, as cashflow grows in the later years (similar to the UK Decent Homes Standard approach on transfers).

Bringing forward the planned and proactive maintenance would not just see thousands of homes renovated but would also see budgeted money brought forward for new home delivery.

New Build

PowerHousing Members have identified 3-5,000 lots that could be developed with opportunities to activate shovel ready projects and to work with suitable Development Approval lots to see developments mobilised.

Upfront capital grants are the most effective and financially efficient method to fund social housing. Availability payments (or enhanced rent subsidies) while similarly can solve the issue they represent a long term spread of funds that would be required over the period of a mortgage cycle.

There is also a role for shared equity (targeted at the affordable market cohort) in the mix of dwellings should a future program be considered of value for funding, that in essence is representative of a private sale that is missing from the market currently.

CHPs also have a real potential to be a new demand group that supports social and affordable housing delivery in larger greenfield or infill developments.

Shared Equity Option

We have witnessed an increased strain in Australia's housing market over the past few months. These challenges don't just affect the individual, they affect our communities and cause long term damage to our social and economic wellbeing. State governments are starting to see the scale of the housing issue in Australia and the already stretched supply.

Bendigo Bank through its Community Sector Banking arm, are working through potential shared equity scenarios, such as a new home buyer having the option to purchase a 60 per cent stake of a home in partnership with the government and or other organisations such as CHPs instead of having to provide a 20 per cent up front deposit.

We have seen shared equity programs run with the assistance of the state government in parts of Australia and internationally with positive results and will present options to the following needs:

- *With 180,000 home completions expected at the end of June, and forecasts of only 110,000 homes commenced in F2021 there is potentially a need for those picking up the keys to have short to long term options of support.*
- *429,000 deferred mortgages today may see elevated levels of deferral beyond the wind down of JobKeeper, there are a number of Australians who may need ongoing temporary support or options such as a shared equity with the possibility for it to be only for a 3-5 year timeframe.*
- *There are also a number of Australians that despite COVID-19 would like to get into a new home and can look to take a 60-80 per cent stake in a home through shared equity.*

With the need to stimulate activity and provide support for a short or longer term there are options being developed based on long standing models to see shared equity rolled out across Australia.

"There is clear need for more innovative thinking and responses not traditionally seen, such as our Shared Equity Program. It's these programs that can help strengthen our communities. They support economic wellbeing by ensuring people are provided access to safe and affordable housing which may never be available to them if these programs don't get off the ground and get the support they need. It's time we start focusing on new stimulus and homeownership retention programs to prevent the possible damage caused by COVID-19 to the country's housing market."

Andrew Cairns, CEO of Community Sector Banking (Bendigo Bank)

Case Study – Provision of new Affordable Housing, Box Hill Melbourne (2019-20)[xxxiv]

In June 2018, the State of Victoria introduced a Voluntary Affordable Housing Agreement. JLL's Strategic Consulting team was able to assist in negotiations with W hitehorse City Council to obtain planning approval in line with Victoria's Voluntary Affordable Housing Agreement.

Key outcomes:

- 7 new dwellings sold to Women's Housing Limited at a significant discount
- WHL to hold the assets for at least 15 years
- Heavily discounted body corporate fees

JLL's value add:

- Developer achieved greater density whilst providing much needed community benefits
- Successfully brokered agreements between all parties to deliver more affordable stock into the market
- Leveraged JLL's broader industry relationships and networks across local and state government, and community housing providers
- Demonstrated understanding of local and state government processes

Watch the video to find out more: https://www.jll.com.au/en/client-stories/negotiating-for-hf-property

Future Thinking – Affordable Housing Asset Class

Investment Appetite for Construction

There is a global wave of capital looking to invest in Australian residential housing with strong support from domestic and international investors for the community housing sector which was evidenced in June 2020 through the third bond issue. Since March 2019, NHFIC has issued nearly $1.2 billion of social bonds, making it the biggest issuer of social bonds in Australia. Issuing the third NHFIC impact bond today provides a boost for CHPs to channel low cost, long term finance into housing outcomes as we head into a time where more and more Australians will have never needed the support more.

With stock markets returning, there is a growing weight of capital that is looking for this type of long term, government backed, stable return investment in environmental social and governance options which avoid the periodic volatility that is a characteristic of other investment classes.

CHPs have embraced the current Federal and State government financial supports to deliver more social and affordable housing. However in doing so, CHPs are looking at options to take on more debt and so now the real challenge is how to create sustainable, long term financing structures to enable CHPs to deliver more homes. As considered by BFIN partner, Kirk Robinson, new Government financing support even at a low level can and will encourage Australian Superannuation funds and other local fund managers to invest in this sector by partnering with CHPs to create more social and affordable housing.

Longer Term Equity

In 2019, PowerHousing through its membership of the International Housing Partnership supported by Paxon Group, considered the emergence of a global investment class for affordable housing.[xxxv] This work identified that amongst other factors, there is a significant weight of institutional capital seeking quality, scaleable Environmental, Social and Governance (ESG) investments. The economic fallout of COVID-19 has also driven a greater focus on reliable yield investments with low volatility. These factors further enhance the desirability of social and affordable housing as an investment proposition.

Superannuation is a long-term investment and periods of negative returns are expected to occur from time to time. There is a lot of effort put into making sure fund members have diversified investment options as a buffer to volatility as pronounced as it is in 2020 which is likely to be prolonged.

Australian Super which has around 2 million members posted a .52 per cent return for the 2020 financial year. In regards to low and negative yield, Australian Super CEO Ian Silk recently commented "we generally say to members in a 20-year period you might expect four to five years of negative returns"[xxxvi].

As the economy grapples with COVID-19, it is likely there will be greater appetite for those investment classes that can 'ride through recessions' social housing investment has proven itself over the past 30 years. Despite the challenges of COVID-19, PowerHousing Australia's membership have shown stability across the first COVID quarter from March to May with arrears and bad debts being stable or improving.

In particular, this opens the door for Government to incentivise social and affordable housing investment through longer term tax credits, government subsidy and grant/equity structures that will assist the throughput of the rental homes needed today, but to also provide structure for the ongoing delivery of the rental homes that will be needed as we come out of the crisis in FY2021-F2022.

Supporting renters in a model that is government-backed will place a long-term base under the record decline in housing commencements and stimulate affordable housing and jobs which will be expected in the Federal Government's ongoing response to the pandemic later in the year.

Potential Fund Structure

There is potential for a longer-term fund to be established to provide equity to co-invest in CHP social and affordable housing projects which provides a stable recession proof return to superannuation members.

The fund would provide equity investments into social and affordable housing projects, with a market-return being earned commensurate with the risk profile of the asset class. Together with already available debt finance, this will be able to be leveraged to provide a significant impact. The fund would be administered through an appointed fund manager. It is envisaged that NHFIC may be an appropriate custodian of the funds who would either act as the fund manager or appoint appropriate fund managers on its behalf.

A role for Government

It is acknowledged that in Australia, the social and affordable housing asset class is still developing, and in context of a two year COVID-19 recovery phase there is not yet sufficient volume of projects aligned with the asset class definition underway within Australia to provide sufficient certainty to investors as to the pipeline for investment. To address this, the Federal Government could take an active role in establishing the asset class which would also leverage other policy or funding commitments.

The support could take two forms:

- Establishment funding to assist in the development and establishment of a fund and the appointment of a fund manager; and
- A small initial fund investment, to provide initial liquidity for the fund. It is expected that the fund manager would then seek matched funding from institutional sources.

This government investment is proposed as a commercial investment, with the government investment made for a term. Once the fund has been established, and a track record of projects established which facilitates sufficient institutional investment, the Commonwealth would be able to exit the fund. It is anticipated that this term would be five to seven years, allowing for establishment of sufficient projects. Initial examination of the fund concept demonstrates viability to support a stable investment return.

Role of CHPs

CHPs would take a lead role in identifying and progressing projects which access the fund. CHPs would assemble projects, including matching subsidy to outcomes using levers such as concessional land access, planning gains, tax concessions and (if and where available) revenue enhancement or support from Government.

CHPs would arrange senior debt, most likely through banks or through NHFIC loans, to form part of the capital structure alongside equity from the Fund.

State Governments could be encouraged, through engagement from CHPs and representative bodies, to contribute land or facilitate land access (including on concessional terms where beneficial outcomes to the State may be demonstrated).

While there are a variety of vital options to support the health and welfare of Australians today, there is a need to work through the options for supporting the growing housing needs for those with uncertain housing futures and to also structure for new build economic activity.

IN CONCLUSION

Understanding what will be an uncertain and unprecedented change in the housing market, rental conditions, and wage fragmentation is tough. Balancing a new market equilibrium, with immediate property stimulus, that feeds into longer term new build programs is tricky to get right.

Stabilising beyond the immediate six month rental policies/JobSeeker/JobKeeper phase in September to create long term stabilisation is where Government's best efforts can be placed now. This requires longer term, 2-5 year thinking for people needing subsidised wage and housing if their job has been temporarily lost to the economic downturn.

Stimulating the new home building market makes considerable sense as it can restore confidence and activity in the Australian economy. The experience of the GFC provides proof of this fact, where stimulus:


Foundation Housing (WA)

- generated direct construction jobs;
- supported significant aspects of the retail sector;
- turned casual employees into permanent employees in the manufacturing and supply industries;
- generated employment for new employees; and
- consequently contributed strongly to Australia's unemployment rate peaking much lower than a majority of people feared.

The COVID-19 pandemic changes the dynamic of the private new home building sector in Australia. The capacity for demand to meet housing supply is unknown. The demand for social housing does exist, though, and supply of this housing can be achieved. There are over a million 'workers' who can be project managers, or subcontractors (tradies), builders (most of them small business), that stimulate manufacturers, suppliers, and retail businesses.

The June 2020 announcement of the Morrison Government's HomeBuilder stimulus was welcomed as vital to providing an economic support to an ailing residential construction industry. But forecasts of a decimated housing market indicate social and affordable stimulus will be required if the market just isn't capable of taking up the offered stimulus.

For the struggle which is far from over, Australians will place a new value on the house they have, and not take for granted that it is there forever. Hopefully we all will have a new empathy for those in less fortunate circumstances.

ABOUT THE AUTHORS

Tim Lawless

Tim Lawless is widely regarded as one of Australia's leading property market analysts and commentators by business and the media. Tim's expertise across property markets has positioned him as one of the country's most experienced and popular property market analysts and commentators. His knowledge and expertise is sought after by myriad government entities and regulators as well as national and international corporate entities operating across property, banking and financial sectors.

About CoreLogic – CoreLogic Australia is a wholly owned subsidiary of CoreLogic (NYSE: CLGX), the largest property data and analytics company in the world. With Australia's most comprehensive property databases, the company's combined data offering is derived from public, contributory and proprietary sources spanning more than three decades of collection, providing detailed coverage of property information such as tenancy, location, hazard risk and related performance data. CoreLogic is the leading provider of property data, analytics and related services to consumers, investors, real estate, mortgage, finance, banking, insurance, developers, wealth management and government. CoreLogic delivers value to clients through unique data, analytics, workflow technology, advisory and geo spatial services. CoreLogic RP Data helps identify and manage growth opportunities, improve performance and mitigate risk.

Nicholas Proud

Nicholas Proud is the CEO of PowerHousing Australia. He joined the organisation in 2016 and has supported the Federal Budget establishment of a bond aggregator and the National Housing Finance and Investment Corporation. Nicholas previously has worked in senior Executive Director capacity with the Property Council of Australia, Housing Industry Association and the Construction & Property Services Industry Skills Council, to undertake housing outlooks and environmental scans over the last decade.

About PowerHousing Australia – PowerHousing Australia is a unique forum for peer-to-peer exchange and collaboration amongst housing professionals who are dedicated to improving lives through the provision of social and affordable housing. The organisation was established in 2005 by a group of CEOs who recognised the scale of emerging housing affordability issues and the enhanced capacity of organisations to make a difference if they collaborated to share knowledge and resources. Today the organisation has 36 of the largest scale community housing provider members who collectively manage over $20 billion in housing, and own or manage over 72,000 homes for over 120,000 people on low to moderate incomes.

OTHER CONTRIBUTORS

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Harley Dale is currently Principal at HDD Consulting, providing independent economic advice. This follows on from fourteen years at HIA Economics (including ten years as Chief Economist) and roles outside this time in skills, immigration and workforce development. During Harley's time as Chief Economist, HIA Economics firmly positioned itself as a leading forecaster of housing activity in Australia. Harley has worked in a wide range of economics - related roles throughout his career, including financial markets (with Westpac and CSFB), academia and extensive media engagement.

PowerHousing appreciates the following contributions to the report.

Residential construction:	Simonds Homes, Metricon, AVJennings, D&J Crawford Builders, Architecture and Access, Office for Collective Design
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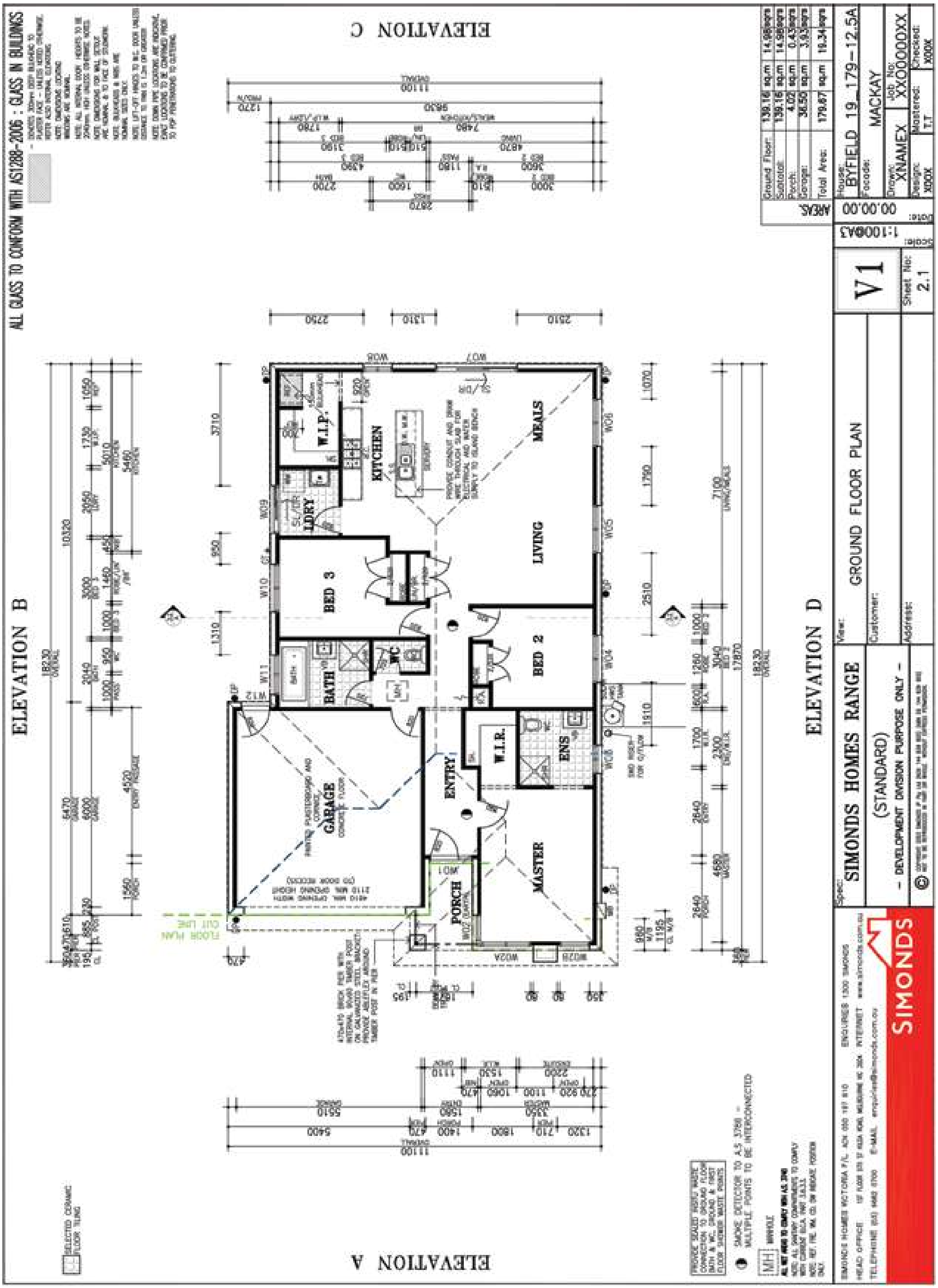
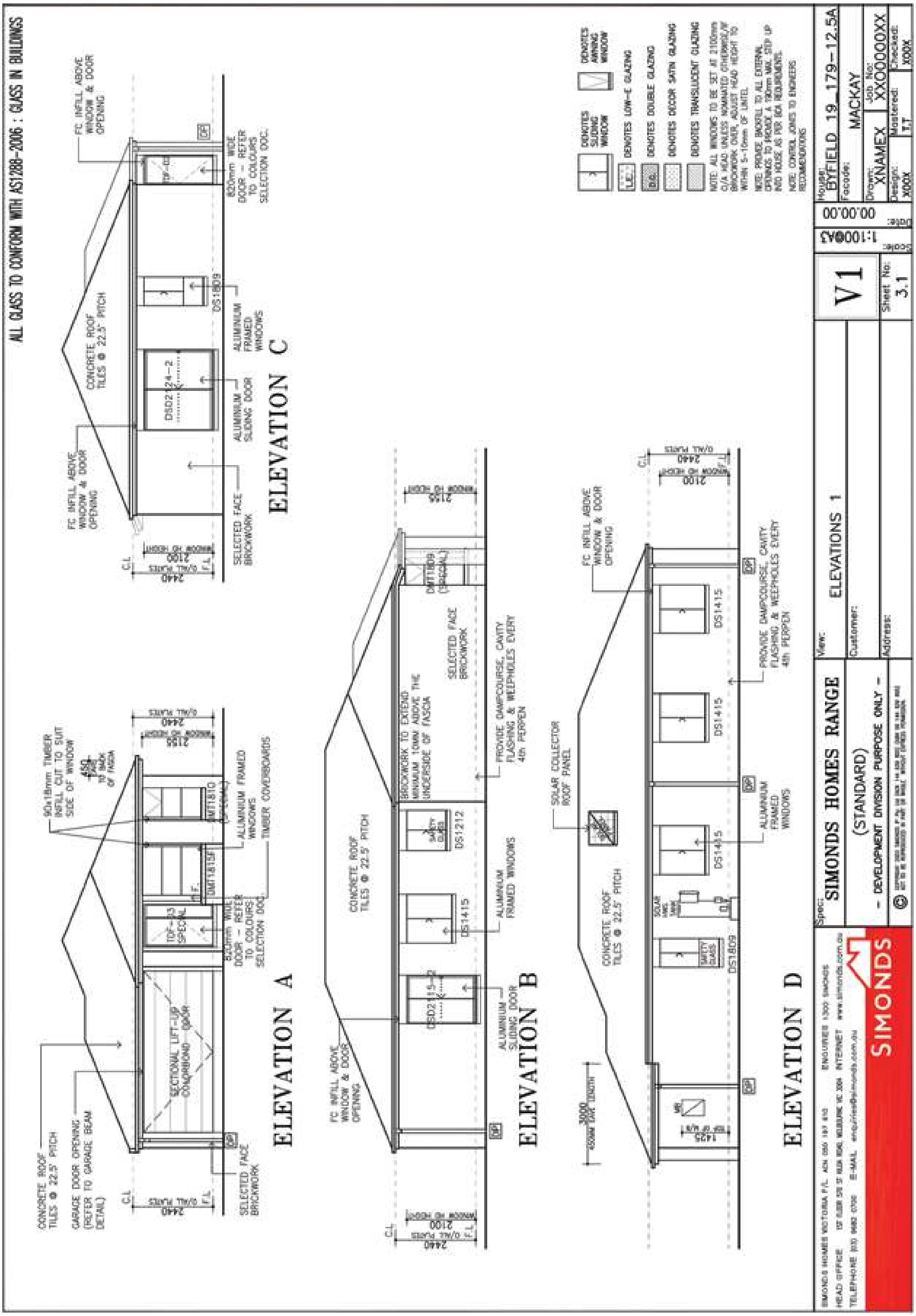
Property:	JLL, Property Safe
Finance:	Community Sector Banking (Bendigo Bank), ANZ, BFIN
CHP:	Access Housing (WA), Accessible Housing (NZ), Beyond Housing (VIC), BHC (QLD), CHC Australia (ACT), City West Housing (NSW), Foundation Housing (WA), Haven: Home, Safe (VIC), Housing Choices (VIC), HousingFirst(VIC), Housing Plus (NSW) Housing Trust (NSW), Hume Community Housing (NSW), Junction Australia (SA), Link Housing (NSW), SGCH (NSW), Southern Cross Housing (NSW), Westside Housing Company (SA), Unison (VIC), Unity Housing (SA), Womens Housing (VIC), YWCA National Housing (NAT).

Unity Housing (SA)

06 Appendix One

SIMONDS HOMES BYFIELD DESIGN

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ELEVATION B
ELEVATION C
ELEVATION D
SIMONDS HOMES RANGE
(STANDARD)
- DEVELOPMENT DIVISION PURPOSE ONLY -
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MACKAY
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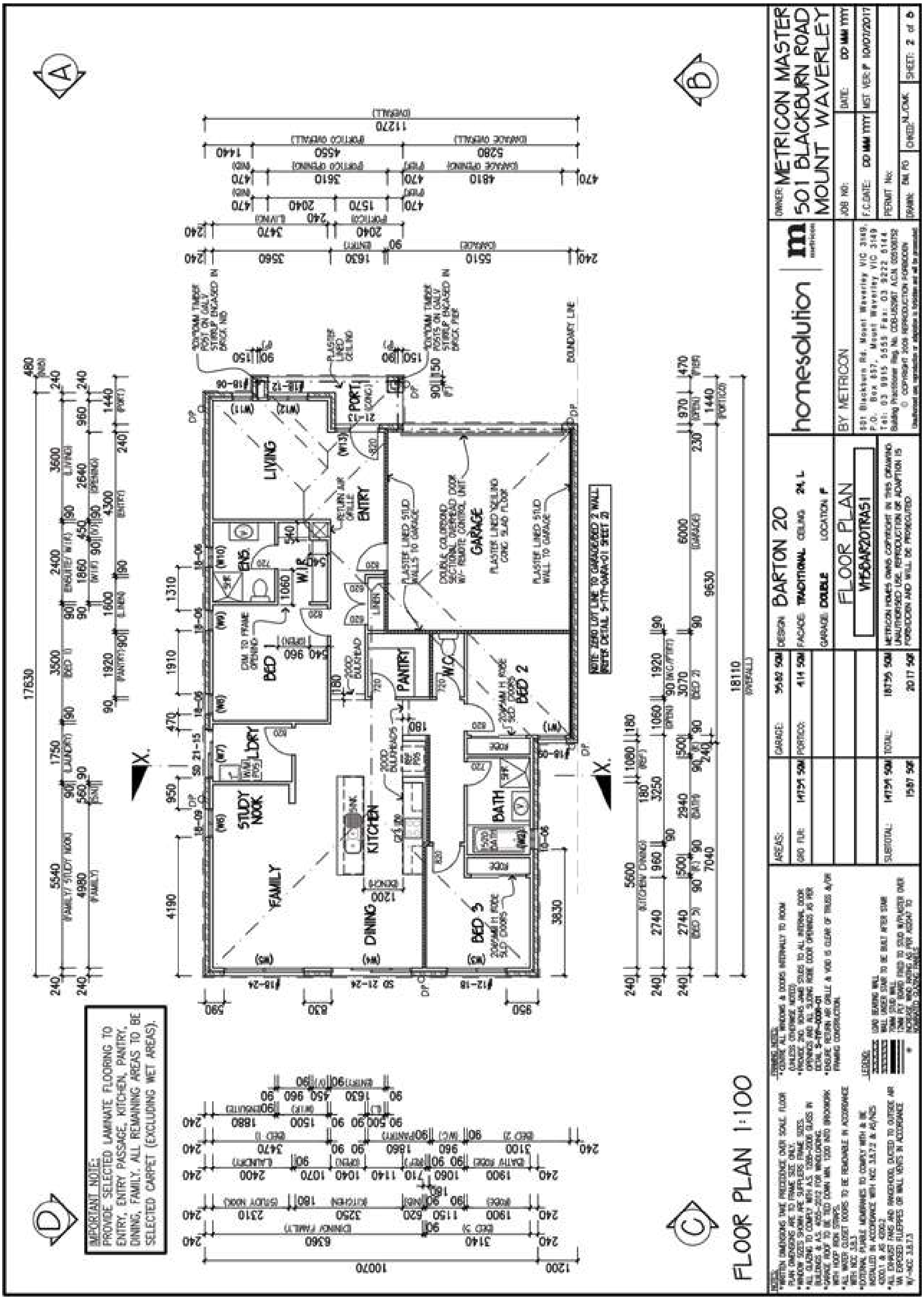
SIMONDS

METRICON BARTON DESIGN



07 Appendix Two

Foreign Investment Review Board – Foreign Investment Approvals

Foreign investment approvals in residential real estate have plummeted from 40,141 approvals in 2015-16 to 10,036 approvals in 2017-18, down from $72.4 billion in approvals to $12.5 billion over the same period.

This represents a reduction of $59.9 billion in the value of Foreign Investment Review Board approvals. Although it must be noted that not all investment approvals translate into actual purchases of dwellings, these figures suggest a huge decline in demand in residential real estate from foreign buyers particularly in the new residential space.

There is a significant drop from two years earlier from $65 billion in approvals for new dwellings down to $10 billion which represents the massive investment in new delivery that pushed the commencement rates of new housing supply to record levels. Most of the approvals granted in 2017-18 were for potential purchases in Victoria and New South Wales where population growth remains strong. China and the United States remain the largest foreign investors in Australia's real estate market.

Although this steep reduction in Chinese investment may be in part due to reduction in demand for Australian property, China has also put restrictions on the amount of capital flowing out of the country, whilst the Australian Federal Government as well as the banks have also tightened rules around lending to foreign investors.

Foreign Investment Approvals 2018-19

	2013-14		2014-15		2015-16		2016-17		2017-18		2018-19	
	No.	$b	No.	$b	No.	$b	No.	$b	No.	$b	No.	$b
Developed	7,920	7.5	9,247	11.5	5,877	7.3	2,008	3.0	1,615	2.4	1,313	1.8
For Development	18,284	29.0	27,594	49.2	34,264	65.2	11,190	27.1	8,421	10.2	6,074	12.9
Total	**26,204**	**36.5**	**36,841**	**60.7**	**40,141**	**72.4**	**13,198**	**30.1**	**10,036**	**12.5**	**7,513**	**14.8**

Source: Foreign Investment Review Board, 2018-19 Annual Report

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