COVID and economic recovery: Housing Stimulus measures in Australia and New Zealand

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Key points

- Despite sustaining only relatively moderate economic damage from the COVID-19 pandemic, housing stimulus measures have been enacted in 2020 in both New Zealand and Australia
- In the main (and exclusively in the case of national government spending measures) Australia's 2020 housing stimulus initiatives have sought to incentivise private market – rather than social housing – investment and activity
- Small scale social housing stimulus measures have been enacted by most of Australia's state and territory governments
- Victoria's state government and the New Zealand Government have initiated social housing construction programs very large in scale by local standards.

Introduction

This briefing summarises housing stimulus measures enacted by Australian and New Zealand governments in response to the Covid-19 pandemic and the associated economic downturn. The single most important source for the briefing is the recently published Australian Housing and Urban Research Institute (AHURI) report 'Responding to the pandemic, can building homes rebuild Australia?'[1].

The various programs and initiatives must be interpreted within the context of the housing systems and governance structures of the two countries. They must also, of course, be viewed in relation to the pandemic impacts experienced in the two nations. Before analysing the measures themselves, therefore, the briefing first provides a short scene-setting introduction expanding on these two dimensions. We then examine the key housing stimulus announcements of 2020, focusing first on private market-targeted initiatives before moving on to consider social and affordable housing projects.

Context

Structures of government in Australia and New Zealand differ significantly from the UK, but also from one another. Australia is administered under a federal system where the national government is constitutionally responsible for social security and (most) tax policy but the eight state and territory governments are charged with land-use planning and housing regulation and delivery. Importantly, by comparison with their Federal counterpart, state and territory governments are constrained by limited tax-raising powers and sensitivity to the risk of credit rating downgrades that may result from growing indebtedness.

Under New Zealand's unitary system, by contrast, national government is primarily responsible for all of the above-named functions. Beyond development approval powers, in neither country does local government have significant housing responsibilities.

Both countries have market-dominated housing systems where social rental sectors are small, declining and highly residualised. OECD statistics show social housing in both cases equating to around 4% of all housing[2] – as compared with 17% in the UK (Scotland 23%). Similarly, in both countries social housing construction has run at minimal levels for most of the past 20-25 years. In Australia, for example, annual build numbers have typically ranged around 3-4,000 during this period (around 2% of all housebuilding) – barely above demolition and sale replacement rates. This is far below the 15,000 annual net additions estimated as required to even keep pace with population growth at pre-pandemic levels.[3]

1 Rowley, S. et al. (2020) Responding to the pandemic, can building homes rebuild Australia?, Final Report No. 341, Melbourne: AHURI https://www.ahuri.edu.au/research/final-reports/341

2 OECD affordable housing database http://www.oecd.org/els/family/PH4-2-Social-rental-housing-stock.xlsx

3 Lawson, J., Pawson, H., Troy, L., van den Nouwelant, R. and Hamilton, C. (2018) Social housing as infrastructure: an investment pathway, Final Report No. 306, Melbourne: AHURI https://www.ahuri.edu.au/__data/assets/pdf_file/0025/29059/AHURI-Final-Report-306-Social-housing-as-infrastructure-an-investment-pathway.pdf

Compared with many – perhaps most – other countries, both Australia and New Zealand have been relatively unaffected by the COVID-19 pandemic. Geographical isolation, internal and international border closures and comparatively effective infection control measures have limited the public health impacts – and, therefore, economic damage – in both nations, but especially in New Zealand. Indeed, New Zealand's Q3 2020 GDP had recovered to the level of a year earlier. In Australia, too, the economy began to recover towards the end of 2020 more quickly than had been expected mid-year. Nevertheless, while detached house planning approvals rose substantially during 2020, apartment approvals remained somewhat down on 2019. Unemployment is predicted to peak in mid-2021 at levels at least 50% higher than pre-pandemic.

The potential utility of housing stimulus measures in economic recovery

Adjustment of policy and expenditure levers to ramp up housing construction and repair activity is a time-honoured component of economic stimulus measures deployed by high income countries when required. In the UK case, for example, social housing investment was strongly ramped-up by central government following the downturn of the early 1990s and again after the 2008 Global Financial Crisis.

Extensive research evidence demonstrates that 'housing development not only generates economic activity across construction services, building material fabricators and professional services (developers, architects and engineers) but also industries related to house building such as manufacturing, raw materials and transportation'[4]. In the Australian context, according to the National Housing Finance and Investment Corporation (NHFIC), residential construction industry has the second-largest economic multiplier of all industries across the entire economy[5]. However, as demonstrated below, stimulus may be targeted at this sector in many different ways.

Housing stimulus actions in response to the Covid-19 pandemic

National pandemic recovery strategies

Given the relatively modest pandemic impacts experienced in New Zealand, and the rapid bounce-back from the country's Q2 2020 downturn, there has been less of an imperative for a wide-ranging economic recovery plan. Nevertheless, housing measures announced in the March 2020 budget – as detailed below – will have a stimulatory effect.

4 Rowley, S. et al. (2020) Responding to the pandemic, can building homes rebuild Australia?, Final Report No. 341, Melbourne: AHURI https://www.ahuri.edu.au/research/final-reports/341
5 NHFIC (2020) Building jobs: How residential construction drives the economy; Sydney: NHFIC https://www.nhfic.gov.au/what-we-do/building-jobs-how-residential-construction-drives-the-economy/

In Australia, meanwhile, the Federal Government's October 2020 'economic revival' budget placed heavy emphasis on incentives and concessions intended to foster a private sector-led recovery. By contrast, directly boosting the economy through stepped-up infrastructure investment was not a favoured option. Industry advocacy for a national social housing stimulus[6] similar to that successfully deployed in 2008[7] was accordingly dismissed. This stance has an even greater significance in Australia than would be the case in the UK because, unlike the UK, the 'status quo' position is that there is no national social or affordable housebuilding program. Rejection of calls for social housing stimulus is not a matter of resisting the expansion of an existing investment channel, it is confirmation that no such channel will be created – even during an economic downturn.

Two institutional measures arguably contributing to housing stimulus were, however, included in the 2020 federal budget, in each case extending existing schemes:

- A boost to officially under-written debt issued to not-for-profit housing providers by NHFIC, the Government's bond aggregator agency – NHFIC's cap on total guaranteed liabilities was increased by $1bn (£560m) to $3bn[8]
- An increase in the allowable number of beneficiaries under the first home loan deposit guarantee scheme[9].

As detailed below, the Federal Government policy choice to reject any direct social housing stimulus has not excluded the possibility of social housing recovery projects in various parts of Australia. Within the constraints noted above, state and territory administrations may choose to initiate such measures even when shunned by national government. However, given the inferior financial firepower of state/territory governments, the scale of such measures is constrained in these circumstances.

Private market housing stimulus measures

A range of initiatives to stimulate private housing development have been launched by Australian governments in response to the pandemic. These have included the Federal Government's HomeBuilder program which initially offered $25,000 (£14,000) grants to build a new home or substantially renovate an existing home[10]. Eligibility conditions include:

- Household income capped to $125,000 p.a. (£70,000) for individuals and $200,000 (£112,000) for couples
- For new home construction, property value must not exceed $750,000 (£420,000)
- Renovation contracts must range between $150,000 (£84,000) and $750,000 (£420,000) and the pre-renovation property value must not exceed $1.5m (£840,000).

6 Community Housing Industry Association (2020) Social Housing Acceleration and Renovation Program – SHARP https://www.communityhousing.com.au/wp-content/uploads/2020/05/SHARP-Program.pdf?x59559
7 KPMG (2012) Social Housing Initiative Review, Housing Minster's Advisory Committee, September 2012, KPMG, Australia, http://www.nwhn.net.au/admin/file/content101/c6/social_housing_initiative_review.pdf
8 Australian Government (2020) Budget 2020: Budget Paper No. 2 https://budget.gov.au/2020-21/content/bp2/index.htm
9 NHFIC (2020) First home loan deposit scheme; https://www.nhfic.gov.au/what-we-do/fhlds/
10 Treasury of Australia (2020) Economic responses to the coronavirus: HomeBuilder https://treasury.gov.au/coronavirus/homebuilder

Originally announced in June 2020, HomeBuilder was extended later in the year and now runs to 31 March 2021 – albeit with grant payment reduced to $15,000 (£8,000). With takeup having substantially exceeded initial Treasury projections the estimated overall cost of the scheme has grown from an initial $680m (£381m) to $2bn (£1.1bn)[11].

As it has turned out, in combination with both record low interest rates and with state/territory grant programs (see below), HomeBuilder is believed to have substantially enhanced demand for new housing construction. Although some of this may be 'brought forward demand' rather than truly additional, the scheme has been credited with being substantially responsible for the rise in house (but not apartment) development approvals and building starts seen during late 2020[12].

Stimulus measures on offer from Australia's state/territory governments have similarly focused largely on private housebuilding:

- First home buyer grants – usually $10-20,000 (£6-12,000) – payable in seven of eight jurisdictions
- Stamp Duty concessions – payable in seven out of eight jurisdictions
- State/territory supplementary payment to boost value of HomeBuilder – total grant entitlement up to $55,000 (£31,000) + stamp duty discount in two states
- Fast-track planning procedures to overrule local councils.

Social and affordable housing

A number of Australia's state and territory governments pledged additional funds for social housing as a component of pandemic recovery plans during 2020. In various combinations, these have involved newly approved spending on:

- Upgrading existing properties (accelerated repairs, energy efficiency improvements)
- New construction – typically involving demolition and replacement of existing public housing at higher density
- Headleasing programs – time-limited acquisition of private rental properties (usually on two-year terms) mainly to facilitate rehousing former rough sleepers and others temporarily accommodated in hotels during the pandemic to reduce infection risk.

Albeit with one major exception – see below – these programs have been modest or extremely modest in scale. This partly reflects the prevailing conventional wisdom that, unless Federally financed, state/territory investment in social housing is politically acceptable only when 'self-funded' through former public housing site privatisation (rather being 'taxpayer-funded' or underpinned by new debt on state/territory balance sheets).

11 ABC News (2021) "Homebuilder scheme" blows out to two billion dollars https://www.abc.net.au/news/2021-01-20/homebuilder-scheme-blows-out-to-two-billion-dollars/13075904?nw=0
12 Lenaghan, N. (2021) New home sales bolt ahead in December; Australian Financial Review 19 Jan https://www.afr.com/property/residential/new-home-sales-bolt-ahead-in-december-20210119-p56v7f

However, there has been one huge (by Australian standards) exception to the social housing investment picture outlined above. Victoria's State Government shocked the Australian social housing world with its November 2020 'Big Housing Build' announcement – a four-year $5.3bn social housing investment program[13]. This is a commitment of unprecedented scale for a state/territory administration unaided by the Federal Government.

Headlining the Big Housing Build is funding for 12,000 new social and affordable rental units, mainly to be developed, owned and managed by not-for-profit community housing providers. Most of this will involve newly initiated projects, in large part constructed on publicly owned land[14]. However, it will also include spot-purchase of existing dwellings and conversion of stalled shovel-ready developments originally intended for private sale. A scheme similar to (but much smaller than) this latter component of the package is part of the Western Australia Government's Social Housing Economic Recovery Package (SHERP)[15].

By Australian standards, Victoria's initiative is indeed huge. At the same time, with plans to build 3,000 units per year, the Big Housing Build remains limited in scale by international standards – or, indeed, in a historic Australian context. For example, it looks modest when set against the 6,000 social and mid-market rental housing units developed annually in Scotland in recent years[16]; this in a country with a smaller population smaller than Victoria's (5.5 million compared with 6.6 million) and where housing need – at least in terms of affordability stress – is probably less extensive. Moreover, since the Big Housing Build will see social and affordable rental housing construction peak at only 5% of all Victorian housebuilding (albeit up from 0.5%), there is little risk that the initiative will trigger wider build-cost inflation. For reference, public housing comprised 16% of Australia's total housebuilding from 1945-70[17].

Proportionate to population (4.8 million), the New Zealand Government's recently announced social housing investment boost is in a similar ballpark to the Big Housing Build – huge by local standards. The program to construct 8,000 units of public and transitional housing over 4-5 years was announced in March 2020[18]. In contrast with Victoria, however, this will extend rather than initiate a sizeable social housing investment program, taking total new homes pledged by the Jacinda Ardern government (originally elected in 2017) to 17,000 units.

With the country's economy relatively unaffected by the pandemic and with its housing market resuming its tax-concession-fuelled boom in late 2020 the New Zealand Government will likely have seen little case for private housing stimulus measures. On the other hand, with the private market's upward

13 Topsfield, J. and Millar, R. (2020) 'This will change lives': $5.3 billion social-housing construction blitz; The Age, 15 November https://www.theage.com.au/national/victoria/this-will-change-lives-5-3-billion-social-housing-construction-blitz-20201114-p56em5.html

14 Raynor, K. (2020) Victoria's $5.4 bn big housing build: it is big but the social housing challenge is even bigger https://theconversation.com/victorias-5-4bn-big-housing-build-it-is-big-but-the-social-housing-challenge-is-even-bigger-150161

15 Department of Communities (2020) Social Housing Economic Recovery Plan (SHERP), Government of Western Australia, Perth https://tinyurl.com/y8ylnkvg

16 Stephens, M. et al. (2020) UK Housing Review 2020, Table 20d; https://www.ukhousingreview.org.uk/ukhr20/compendium.html

17 Pawson, H., Milligan, V. and Yates, J. (2020) Housing Policy in Australia; A case for system reform; Singapore: Palgrave Macmillan

18 Rowley, S. et al. (2020) Responding to the pandemic, can building homes rebuild Australia?, Final Report No. 341, Melbourne: AHURI https://www.ahuri.edu.au/research/final-reports/341

trajectory quickly restored after the country's brief Q2 2020 lockdown, further social housing investment in response to the rapidly growing waiting list[19] can be presented as a rational choice, irrespective of stimulus considerations.

19 Cooke, H. (2020) Public housing waitlist grows by more than a thousand in a month to new record high; Stuff, 4 December https://www.stuff.co.nz/national/politics/300174971/public-housing-waitlist-grows-by-more-than-a-thousand-in-a-month-to-new-record-high

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