MASTER BUILDERS AUSTRALIA

UNLOCKING SUPPLY

Keeping home ownership within reach of all Australians

May 2017

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FOREWORD

Homeownership is a part of the Australian way but it's becoming harder for many Australians to attain.

Master Builders believe the most effective and sustainable solution to keeping homeownership within reach is building more new homes to meet demand but the industry has been faced with increasing land costs and delays that create roadblocks to increasing supply.

Master Builders has continuously advocated for policies to pare back the costs, red tape and regulatory creep that are impediments to increasing supply and which drive up house prices — it's estimated by as much as 30 to 40 per cent.

We believe that the Federal Government can play a role by providing financial incentives to state and local governments and increasing infrastructure spending — both to be used as levers to remove structural and cost barriers to building more new homes. This approach has been the centrepiece of our housing affordability policy.

In the 2017-18 Federal Budget, the Treasurer announced a Housing Affordability package that reflects our push for resolving the supply bottlenecks.

Economic modelling, commissioned by Master Builders, and carried out by Cadence Economics, shows that these measures will substantially increase the housing supply, create new jobs, boost construction activity and deliver substantial economy wide benefits.

This is great news. We now seek effective implementation of these announcements so we can get on the job and build more houses to keep the Australian dream of homeownership alive.

EXECUTIVE SUMMARY

We know that a shortage of 'shovel ready' land, combined with embedded regulatory and tax costs can amount to 30-40 per cent of the cost of a new home — putting a floor under house prices. Therefore, in order to boost supply which helps housing affordability policy reforms must address both the cost and availability of land for residential development.

The Government's housing affordability strategy, announced in the 2017 Budget, endeavours to directly address the factors which are preventing a more efficient supply of housing and which push up house prices.

At its centre is a $75 billion transport infrastructure package, complimented by an additional $1 billion for investment into infrastructure bottlenecks in residential developments areas.

Master Builders commissioned Cadence Economics to examine what this new infrastructure funding means for housing supply, affordability and the economy between now and 2020-21.

Together, investment funding in the Budget forward estimates is forecast to support the construction of up to 93,000 additional new homes by 2021, boosting supply by 41%.

Housing supply is expected to receive an additional boost from the Government's City Deals programme, with local councils in Western Sydney first up to receive financial incentive payments to support housing sector reforms.

Federal infrastructure funding is forecast to support an additional $5.6 billion in activity in the building and construction industry and create up to an additional 4,200 permanent building and construction jobs on average each year.

Households are expected to be $3.2 billion better off, equal to $330 for each and every household in Australia over the next four years. The latter translates into a boost to GDP of close to $2 billion over the period to 2021.

UNLOCKING HOUSING SUPPLY

Budget 2017: Master Builders analysis of Budget infrastructure investment...

93,000 extra homes by 2021

Impact on housing affordability by 2021

- The $75 billion transport infrastructure package to support the construction of up to 75,000 extra homes
- The $1 billion National Housing Infrastructure Facility to support the construction of an extra 18,500 new homes
- Housing supply to be as much as 41% higher as a direct result of new government funding into better housing and transport infrastructure
- Release of surplus Commonwealth land for residential development
- Relieving supply side pressure on house prices

Supporting...

4,200 extra construction jobs

- $75 billion transport infrastructure package to create 3,800 extra fulltime jobs each year
- $1 billion National Housing Infrastructure Facility to create an extra 400 extra fulltime jobs each year

$4.5 billion in extra construction

- $75 billion transport infrastructure package to boost building and construction activity by $4 billion in the next four years
- $1 billion National Housing Infrastructure Facility to boost building and construction activity by $500 million in the next four years

$3.1 billion extra for households hip pocket

- Reducing living costs pressures by an equivalent of $330 per household
- $1 billion National Housing Infrastructure Facility to make households $400 million better off
- $75 billion transport infrastructure package to make households $2.7 billion better off

Adding $2 billion to GDP over the next four years

BACKGROUND

Federal Government investment in infrastructure

"Nothing increases the supply of well-located land like good transport links." (Phillip Lowe, RBA Governor, 2017)

The 2017-18 Federal Budget delivers a significant investment in infrastructure.

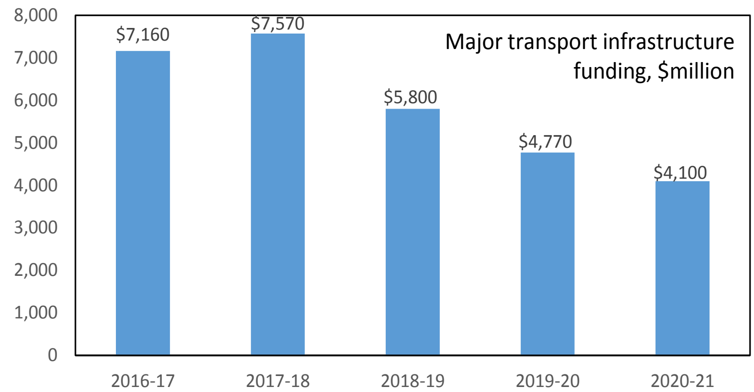
At the centre of the Government's infrastructure investment strategy is a commitment of $75 billion in funding and financing from 2017-18 to 2026-27 for critical road, rail and airport infrastructure, led by a $20 billion commitment to upgrade Australia's passenger and freight rail.

An extra $1 billion has also been put aside to establish the National Housing Infrastructure Facility to address infrastructure choke-points that are impeding housing development in critical areas of undersupply.

To address rising input costs which reduce land affordability, the Government under the City Deals programme, will offer incentive payments to State and Local Governments to support planning and zoning reform, while an additional $300 million will be offered under a newly established National Partnership on Regulatory Reform which has been set up to fund "reforms that drive Australia's eco performance and living standards".

Suitable surplus Commonwealth land, starting with 127 hectares of Defence land in Maribyrnong, should support up to 6,000 new residential dwellings, and could further boost supply.

Chart 1: Major Transport Infrastructure Funding, Budget 2017-18



Source: Federal Budget, Budget Paper No. 3, 2017-18, Master Builders Australia.

Note: includes funding for all major infrastructure projects listed in Budget Paper No. 3 2017.

Building more new homes

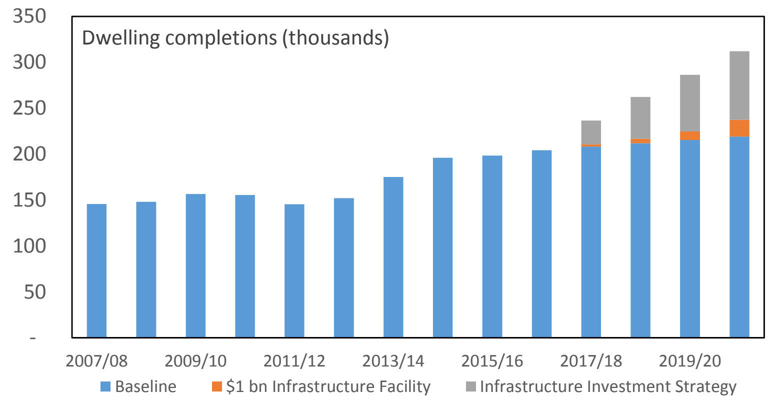
We know that a shortage of 'shovel ready' land, combined with embedded regulatory and tax costs can amount to 30-40 per cent of the cost of a new home — putting a floor under house prices. Therefore, in order to boost supply which helps housing affordability, policy reforms must address both the cost and availability of land for residential development.

"Dwelling construction fell short by 165,000 over the last decade, causing house prices to be higher than they need to be." (Master Builders Australia, 2017)

At its centre is a $75 billion transport infrastructure package, complimented by an additional $1 billion for investment into infrastructure bottlenecks in residential developments areas.

Master Builders commissioned Cadence Economics to examine what this new infrastructure funding means for housing supply, affordability and the economy between now and 2020-21.

Chart 2: Impact on housing supply



Source: Federal Budget, Budget Paper No. 3, 2017-18, Master Builders Australia.

Note: includes funding for all major infrastructure projects listed in Budget Paper No. 3 2017.

Broken down by the two programmes, the $1 billion National Housing Infrastructure Facility is expected to support the construction of an additional 18,500 homes by 2021 (shown above in orange) as a result of targeted investment into areas where infrastructure bottlenecks are limiting future development opportunities.

The expected contribution of the Government's $75 billion infrastructure package for this period is $30 billion and shown above in grey. It is expected to support the construction of up to 74,000 extra new homes by 2021.

Not captured in the chart above is the Government's plan to release suitable surplus Commonwealth land, or the financial incentives for State and Territory Governments to meet housing supply targets.

Under the City Deals programme, the Government will offer incentive payments to State and Local Governments to support planning and zoning reform.

The supply of affordable rental housing will receive direct support through the National Housing Finance and Investment Corporation to operate an affordable housing bond aggregator to provide cheaper and longer-term finance for the community housing sector.

Other measures, including changes to foreign investment rules, which now provide tax incentive for foreign investors into social housing, and changes which allow Managed Investment Trusts to acquire, construct and redevelop social housing, will also support a greater share of private foreign investment into the social housing sector.

Master Builders believes that the supply measures in the Government's Housing Affordability Package should help to unlock supply and reduce land costs on city fringes, improve connectivity in the regions through better transport infrastructure and support a greater level of private investment into community housing to help reduce the waiting list for social housing of 190,000 and growing.

Macroeconomic contribution — economy wide benefits

Infrastructure investment benefits the whole economy through promoting productivity and increasing efficiency and connectivity in our cities and regions.

Federal infrastructure funding in the Budget forward estimates is forecast to support an additional $4.5 billion in activity in the building and construction industry and create on average, an additional 4,200 permanent building and construction jobs each year.

Households are expected to be around $3.2 billion better off, equal to $330 for each and every household in Australia over the next four years. The latter translates into a boost to GDP of close to $2 billion over the period to 2021.

Table 1: Budget Infrastructure Funding Macroeconomic Contribution, 2017-18 to 2020-21

$ millions	2017/18	2018/19	2019/20	2020/21	Total
Construction	790	1,090	1,240	1,340	4,450
Construction Jobs*	3,020	4,140	4,670	4,970	4,200
GDP	210	380	550	780	1,920
Households	480	720	900	1,080	3,180

Source: Federal Budget, Budget Paper No. 3, 2017-18, Master Builders Australia.

Note: includes funding for all major infrastructure projects listed in Budget Paper No. 3 2017. *Construction jobs total presented as an average number of jobs created per year between 2017-18 and 2020-21.

$1 billion National Housing Infrastructure Facility

The Government's National Housing Infrastructure Facility will take $1 billion out of the cost of providing urban infrastructure.

Modelling by Cadence Economics, commissioned by Master Builders, shows this $1 billion investment would unlock a significant amount of new residential land and support the construction of an additional 18,500 new homes — creating an additional 650 permanent building and construction jobs in the economy, each and every year to 2020-21.

With every $1 the Government spends under the National Housing Infrastructure Facility, the household hip pocket should be better off by $1.40.

Or, put another way, the programme is slated to support an additional $1.2 billion in GDP over the next four years, including $1.1 billion in additional building and construction revenue.

But to be successful in achieving its objectives, the funding must be targeted but accessible to ensure local councils are able to take up the opportunity to supplement funding of local urban infrastructure.

$75 billion transport infrastructure package

Correctly targeted 'city shaping' transport infrastructure can effectively boost the supply of housing land ... Such expansion in effective land supply for housing can place downward pressure on house prices." (National Housing Supply Council, 2013)

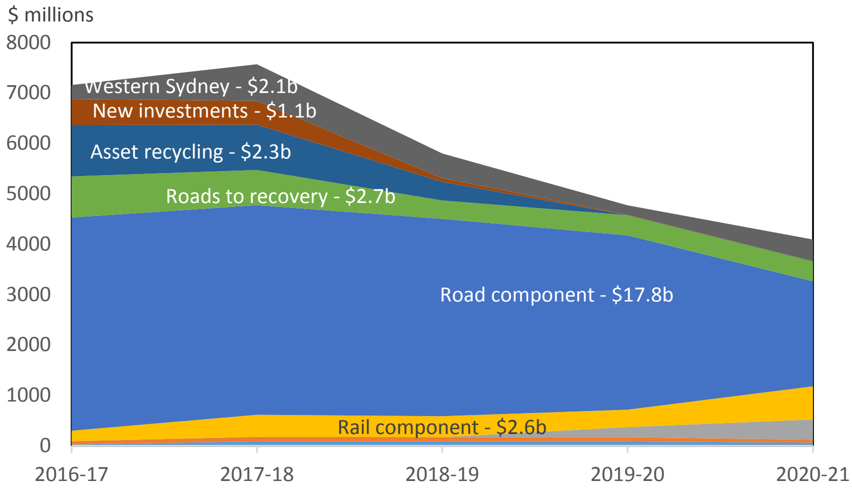
The 2017-18 Budget commits $75 billion in infrastructure funding from 2017-18 to 2026-27.

Of this, the Budget papers include more than $30 billion in funding, this year and over the next four years for critical road, rail and airport infrastructure, forming a centre piece of the Government's economic growth strategy and an important part of its housing affordability strategy.

Major transport infrastructure project funding in the Budget forward estimates is forecast to support the construction of an additional 75,000 new homes by 2021, increasing revenue into the building and construction industry by over $4 billion, and supporting an additional 4,000 permanent building and construction jobs in the economy each year for the next four years.

Households should pocket an extra $2.7 billion over the next four years as a result of better access to housing and more efficient transport links. GDP is expected to be $1.5 billion better off as a result of direct economic contributions from greater transport infrastructure investment.

Chart 3: Budget Major Infrastructure Project Spending



Source: Federal Budget, Budget Paper No. 3, 2017-18, Master Builders Australia.

Note: includes funding for all major infrastructure projects listed in Budget Paper No. 3 2017.

APPENDIX

Modelling Details

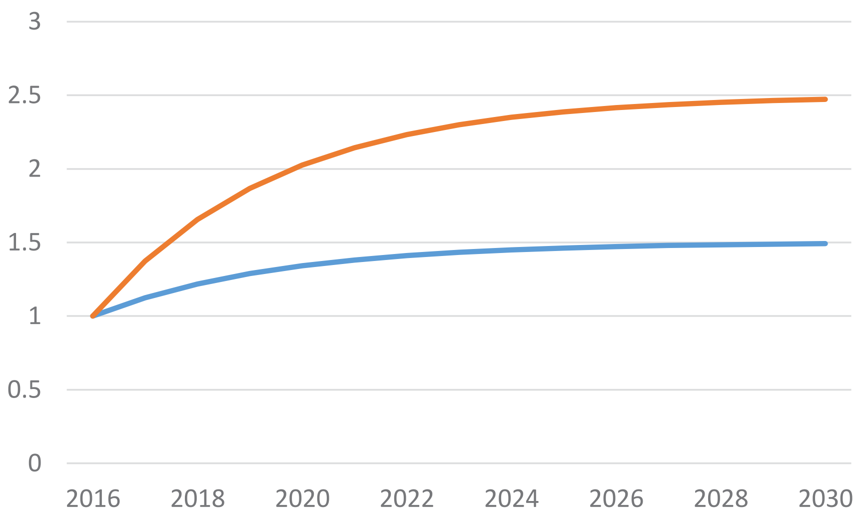
The analysis undertaken in this report relies on a combination of two separate models. The first is the Alonso-Muth-Mills model adapted from the Reserve Bank of Australia's research discussion paper "*Urban Structure and Housing Prices: Some Evidence from Australian Cities*" (Kulish, Richards and Gillitzer, RDP 2011-03). The functional structure of the model is unchanged from that used by Kulish, Richards and Gillitzer, with a detailed description of the model provided in Appendix A of that paper.

The second model used is the CEGEM model, Cadence Economics' in-house Computable General Equilibrium (CGE) model. CGE models are widely used and accepted, having been applied by Australian governments at the state and federal levels for policy issues including the impacts of trade liberalisation, carbon pricing and for taxation efficiency analysis.

The CEGEM model is used to estimate the indirect and economy wide impacts of the specific housing market impacts revealed by the Alonso-Muth-Mills model.

Set against the reference case scenario is a 'scenario projection'. This scenario represents the impacts of imposing a policy shock. The impacts of the policy change are reflected in the differences in the variable at time T. It is important to note that the differences between the reference case and policy intervention scenario are tracked over the entire timeframe of the simulation.

Dynamic simulation using CEGEM



UNLOCKING SUPPLY

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