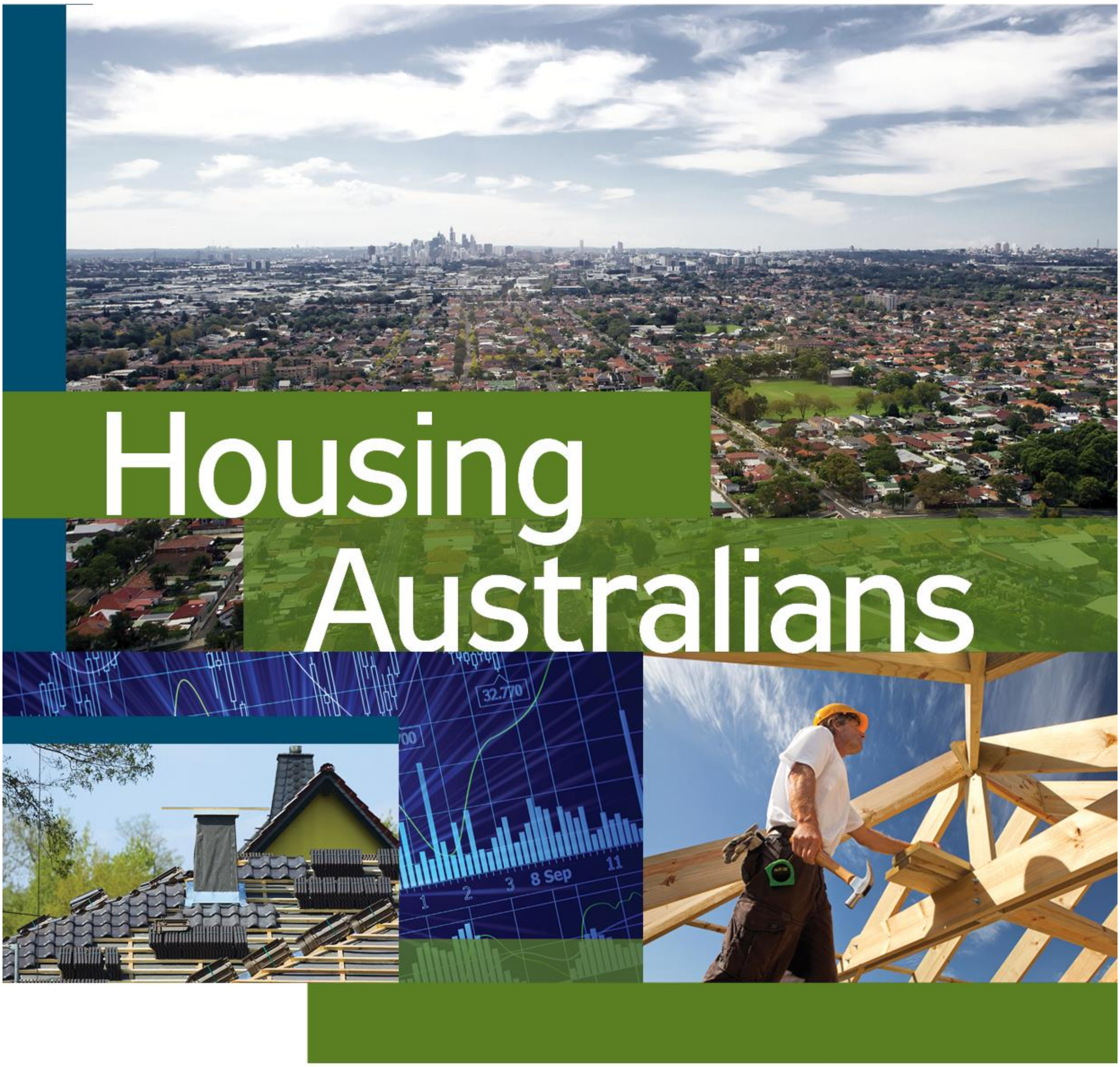
HOUSING INDUSTRY ASSOCIATION



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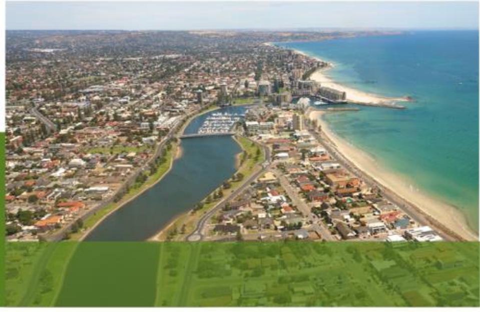

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ABOUT THE HOUSING INDUSTRY ASSOCIATION

The Housing Industry Association (HIA) is Australia's only national industry association representing the interests of the residential building industry, including new home builders, renovators, trade contractors, land developers, related building professionals, and suppliers and manufacturers of building products.

As the voice of the industry, HIA represents a membership of some 60,000 businesses throughout Australia. The residential building industry includes land development, detached home construction, home renovations, low/medium-density housing, high-rise apartment buildings and building product manufacturing.

HIA members comprise a diversity of residential builders, including the Housing 100 volume builders, small to medium builders and renovators, residential developers, trade contractors, major building product manufacturers and suppliers and consultants to the industry. HIA members construct over 85 per cent of the nation's new building stock.

HIA exists to service the businesses it represents, lobby for the best possible business environment for the building industry and to encourage a responsible and quality driven, affordable residential building development industry. HIA's mission is to:

> *"promote policies and provide services which enhance our members' business practices, products and profitability, consistent with the highest standards of professional and commercial conduct."*

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy. The residential building industry has a wide reach into manufacturing, supply, and retail sectors.

The aggregate residential industry contribution to the Australian economy is over $150 billion per annum, with over one million employees in building and construction, tens of thousands of small businesses, and over 200,000 sub-contractors reliant on the industry for their livelihood.

HIA develops and advocates policy on behalf of members to further advance new home building and renovating, enabling members to provide affordable and appropriate housing to the growing Australian population. New policy is generated through a grassroots process that starts with local and regional committees before progressing to the National Policy Congress by which time it has passed through almost 1,000 sets of hands.

Policy development is supported by an ongoing process of collecting and analysing data, forecasting, and providing industry data and insights for members, the general public and on a contract basis.

The association operates offices in 23 centres around the nation providing a wide range of advocacy, business support including services and products to members, technical and compliance advice, training services, contracts and stationary, industry awards for excellence, and member only discounts on goods and services.

1. THE IMPORTANCE OF RESIDENTIAL BUILDING

Shelter is a fundamental tenet of the well-being, opportunity and prosperity of all Australians. It is the residential building industry that provides the roofs over peoples' heads. The residential skilled labour force and the multitude of key industry links to core Australian manufacturers and suppliers has historically not received federal policy recognition commensurate with the fundamental role the home building industry plays in our society.

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- tens of thousands of small businesses, and
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As the home building cycle moves into a slowdown, the role of the federal government in providing stable policy settings for finance and taxation, oversight of land supply for new housing, support for the social and community housing sectors and ongoing assistance for industry based training is critical.

The residential building industry unquestionably forms a bedrock of Australia's economy and the federal government needs to continue to work with the industry to ensure new home building meets the underlying demand for housing year on year. Whilst other factors do impact housing affordability, as shown by the current home building cycle, improved affordability is fundamentally the result of achieving a balance in supply and demand.

HIA is disappointed that there remains no fully dedicated Minister for Housing within Federal Cabinet. There is also no federal agency tasked with coordinating and collating consistent planning and land data from states and territories regarding Australia's future housing requirements; nor is there any core research undertaken to consider the future housing requirements of the nation's growing and ageing population.

In improving the resources allocated to support long term residential building and the ongoing delivery of housing for all Australians, HIA encourages the Federal government to consider the initiatives set out below as part of the development of the 2019/20 budget:

2. AUSTRALIAN RESIDENTIAL BUILDING CONDITIONS

HIA has long been anticipating a downturn in new home building, but there is a risk it could develop more quickly and strongly than expected if additional restrictions are imposed on the market.

Since their respective 2017 peaks, dwelling prices in Sydney have declined by 11.1 per cent to December 2018, and by 7.2 per cent in Melbourne. Nationally, prices are down by 5.2 per cent. The change in the housing cycle had a direct impact on the flow of new residential building work entering the pipeline and creates a risk that the change in housing wealth may cause households to reduce consumption expenditure.

The November Housing Finance figures showed that the number of loans by banks for the construction of a new home fell by 2 per cent in the month of November to be 9 per cent lower than the previous year. The fall in lending in November is consistent with the decline over the course of 2018 and tells us that the volume of work builders have in their pipeline is continuing to fall.

This fall in lending is to a large extent due to the credit squeeze imposed by the banks as the impact of APRA's restrictions ceased to have a substantial impact on the market.

The credit squeeze started when APRA imposed a range of restrictions on the market. The restrictive lending environment is now occurring at the behest of the banks, which have tightened lending above and beyond APRA's requirements.

HIA research has found the time taken to gain approval for a loan to build a new home has blown out from around two weeks to more than two months.

New home approvals fell by 9.1 per cent in November last year to reach their lowest level since August 2013.

A total of 15,465 homes (seasonally adjusted) were approved for construction in the month of November 2018.

The monthly decline in total approvals was driven by multi-unit homes, which fell by 18.4 per cent, while detached house approvals declined by a more modest 2.3 per cent.

This weak result shows just how much the current credit squeeze is weighing on the home building sector.

A total of 54,803 dwellings commenced construction in the September 2018 quarter, which is down by 5.7 per cent in the quarter and down by 2.2 per cent against the same period a year ago.

Detached house starts were down by 4.5 per cent in the quarter but were comparable with the level of starts during the September quarter a year earlier.

Starts of 'other dwellings', primarily apartments, were down by 7.1 per cent in the quarter and down by 5.3 per cent on the year-ago level.

This was a material decline but it cannot be considered a poor result. It was still a strong level of starts and there is a large amount of residential building work underway.

As projects that are currently under construction reach completion there will be fewer new projects coming in behind them. This applies to both the detached house market and the market for higher density dwellings.

This slowdown, which remains modest, has affected a market that has experienced five consecutive years where the industry commenced over 200,000 homes a year, while 2018 will be recorded as a record year in terms of new dwelling completions.

This strong flow of new housing supply is one of the key factors behind the moderation in price pressures in housing markets across the country, which has ultimately improved housing affordability.

The other key factor has been the modest improvement in wages growth. Strong growth in employment over the last two years has boosted demand for workers. We are seeing the early signs that this tightening in the labour market is translating into rising wages.

The combination of declining home prices, growth in wages and historically low interest rates creates a situation where the HIA Affordability Index shows that affordability in six of the eight capital cities is more favourable than the 20 year average. Melbourne and Hobart are the only exceptions.

Despite the improvement in affordability over recent quarters, housing in Sydney and Melbourne remains far from affordable for average households. We will need to see wage growth continue to exceed home price growth in order to restore more appropriate levels of affordability.

The depth of this slowdown will remain modest while ever GDP growth remains at 2.8 per cent, unemployment around 5 per cent and population growth is still strong.

The response to questions of population growth by both the public and governments could have an impact on the medium term outlook for building activity.

Population growth has already slowed which should allay some of the concerns about further urban congestion. Population growth nationally peaked back in the March quarter of 2017 at 1.7 per cent per annum and has been tracking along at around 1.6 per cent throughout 2018.

The decline in the growth rate has primarily been due to a reduction in net overseas migration. During the 2017/18 financial year overseas migration contributed 26,000 fewer people than the previous year which represents a 10 per cent reduction.

The trajectory of growth varied amongst the states with prevailing trends expected to continue. Victoria and the ACT recorded the fastest population growth, both at around 2.2 per cent. Queensland and New South Wales were also growing at quite strong rates, with annual growth to June 2018 of 1.7 per cent and 1.5 per cent respectively. The other states were markedly slower by comparison.

3. SUPPORTING RESIDENTIAL BUILDING INTO THE NEXT DECADE

In supporting the ongoing delivery of housing for all Australians, HIA encourages the Federal government to consider the following initiatives in formulating the 2019/20 federal budget:

- Coordinating consistent data on the residential development pipeline and forecasting across all levels of government;
- Supporting the local manufacture of quality building materials and
- Enhancing the building regulatory framework;
- Supporting an advisory program for small business independent contractors;
- Supporting relevant and flexible skills programs that complement residential building apprenticeship arrangements; and
- Support residential infrastructure financing.

2.1 CONSISTENT DATA FOR EFFICIENT PLANNING FOR RESIDENTIAL DEVELOPMENT

There continues to be a lack of support and coordination at a federal level for the collection of timely housing information on land supply and housing approvals.

The *National Cities Performance Framework*, released in 2017 provided a benchmark against which the efficiency of our cities can be assessed, yet it did not include the standards for land supply information that is essential for metropolitan planning and infrastructure delivery.

To make improvements in the efficiency of the delivery of residential developments and new housing, more consistent and coordinated data is needed across the country. The timeliness of data availability is critical as is the level of detail available in crucial areas like immigration figures.

Building on this, consistent forecasting tools must be established to gauge the delivery challenges that governments and the residential development industry face.

HIA recommends the establishment of a joint government and industry mechanism to deliver these improved performance measurement and housing forecasting tools in the national interest.

To support this activity HIA proposes

- **an investment of $15 million to undertake the consolidation, forecasting and coordination of strategic planning and land information, including infrastructure to support residential development.**

2.2 SUPPORT FOR THE AUSTRALIAN MANUFACTURE OF BUILDING MATERIALS

Australia has a long history of manufacturing quality building materials and has also established a strong and growing export market.

In recent years the Australian building product industry has been subject to significant growth in competition from imported building products, not all of which have performed to the standards that government, industry and its clients expect. Some pressures on local manufacturing have also increased following tax reform measures in the United States.

The need for support to retain an Australian base in many areas of manufacturing has long been accepted by governments as important for Australia's economics performance.

In this regard HIA commends the government recently announcing an extension of the small business instant asset write off.

HIA recommends that the federal budget:

- **Provide immediate write-off of new plant and equipment for building materials companies investing in Australia (to match US tax reform): perhaps up to a limit of $50m per company per annum.**
- **Provide a 200 per cent write-off for the cost of having Australian made building materials tested against the National Construction Code and relevant Australian Standards.**

2.3 IMPROVING BUILDING QUALITY

Confidence in the quality of Australia's buildings has become a priority issue. The release of the Shergold-Weir Building Confidence report in 2017 sets an agenda for reform that requires national oversight and resourcing. The Australian Building Codes Board (ABCB) is well placed under its existing remit to manage administrative reforms bringing together the federal, state and territory agencies in a well-structure forum, with clear roles and responsibilities. To provide a sound footing for genuine reform the current operation of the ABCB should be enhanced and HIA recommends that the federal budget:

- **Commit $10 million to establishing the Australian Building Codes Board as an independent statutory authority allowing it to guide governments responses to the recommendations of Senate Economics Committee's inquiry into non-conforming building products and the prosecution of best practice building regulation following the completion of the Shergold-Weir Review of the effectiveness of the enforcement and compliance with the National Construction Code.**

2.4 IMPROVING INDEPENDENT CONTRACTOR COMPLIANCE

The regulatory environments at a federal and state level surrounding the obligations of independent contractors are extremely complex, especially for the small businesses that dominate the independent contractor population in the residential building industry.

HIA commits significant resources each year to supporting our members in understanding their obligations including the development of guidance material, one on one advice and training forums. With several federal agencies involved in setting the regulations which have an impact on independent contractors, it is considered appropriate that those agencies support the development and delivery of education for small businesses involved in residential building activities.

To minimise these compliance issues HIA recommends that:

- **$12 million be allocated to a national education program for independent advice to contractors about meeting their tax and other regulatory obligations. Contractors could be referred to the education provider by the ATO, regulators or seek out the educator themselves.**

2.5 SUPPORT FOR APPRENTICES

The skills required for the residential building industry will be in demand for years to come, but the challenge as approaches to technology and education change will make the apprentice system more complex. As the housing cycle slows down pressure will be placed on apprentices in the building industry to retain hosts and placements.

The ageing building industry workforce, new construction methods, changing attitudes to learning by young people and a conservative skilling industry all make for an uncertain future for the supply of the skills that the residential building industry will need to deliver the housing that our growing population will require for the foreseeable future.

Businesses that take on the responsibility to train young apprentices and provide 'on the job' training receive limited to no benefit for offering this training to young people. Young people also face challenges as they progress through the apprenticeship system, whether it be wages, transport costs or employment opportunities.

There consequently needs to be a more supportive environment for both apprentices and hosts to ensure appropriate on the ground training for the skilled labour that the residential building industry requires.

The Government has allocated $60 million over two years from 2017-18 to establish an industry specialised mentoring service to complement the existing In-Training Support services available under the Australian Apprenticeship Support Network program.

The mentoring service now supports up to 45,000 Australian apprentices and trainees, particularly in the first two years of training, in order to improve completion rates and support the supply of skilled workers in industries undergoing structural change.

As an industry mentoring body, HIA can attest to the benefits the scheme is having for young apprentices in the building industry. The Scheme is scheduled to end in the calendar year 2019.

The return on investment for Government by increased training completion rates and industry participation is significant. Ensuring continuity for apprentices entering the scheme who will still be continuing their apprenticeship past 2019, and offering this service long term for all new apprentices has merit.

- **Provide a further $60 million funding for the continuation of the Industry Specialist Mentoring for Australia Apprentices scheme until January 2022.**

Implementation of the Skilling Australian Fund has now progressed with six states taking up the opportunity to receive part of the $1.5 billion committed over four years from 2017-18. However the approach to implementation has become complex requiring industry groups seeking funding to approach individual states on a case by case basis.

The scheme rules should provide for the option to approach the Commonwealth directly for funding, particular where industry groups can offer national training solutions and are targeted at specific industries such as home building.

- **Retain the Skilling Australian Fund and amend the rules to allow industry bodies to seek funding directly from the Commonwealth.**

Through HIA's involvement in the ISMAA scheme and as a long term industry Group Training Organisation (GTO), it is evident that many young people entering an apprenticeship would benefit from literacy and numeracy training as part of their apprenticeship training.

Allowing industry GTOs to offer this additional training would increase confidence and completion rates for building apprentices, supporting their long term future in the industry.

- **Allocate $5 million towards a pilot program for literacy and numeracy training of 1st year residential building apprentices engaged by industry GTOs.**

Choosing the right people for the right occupation with the right employer is crucial to a successful apprenticeship. A trial period for both the prospective apprentice and employer to work together for a few weeks has been proven to be an effective tool for getting the right match. However this work experience time can come at a cost to both the apprentice and their potential employer. Financial support for this trial period could significantly improve both commencement and completion rates for apprentices in the building industry.

- **The federal budget should allocate $20 million to providing a $250 a week payment to employers to provide 6 weeks of pre-apprenticeship work experience for potential apprentices once they have been screened as suitable. This type of work experience has been proven in some trials to be a very effective and efficient way of identifying suitable people to learn the building trades;**

More than half of the people working in the building industry do not have formal trade qualifications. While this is sometimes a personal choice it is also a reflection that the system of indenturing an apprentice to an employer does not meet their needs or circumstances.

- **HIA recommends a $12 million pilot program to provide support for independent contractors to undertake training outside of the apprenticeship system that will lead to a trade qualification; a self-paced pathway.**

2.6 INFRASTRUCTURE TO IMPROVE HOUSING AFFORDABILITY

New home buyers are required to make a significant up front contributions to the funding of community infrastructure. As the cost of land increases, the tax take from these home buyer levies grows and in the last decade they have become one of the key barriers to delivering more affordable housing in all forms.

Fiscal pressure on state and local governments has been the main force behind these moves to pass down the costs of community infrastructure. However there are alternative methods for funding and delivering this infrastructure that could be trialled if there was an incentive for state and/or local governments to pilot these approaches.

The newly established National Housing Finance & Investment Corporation should be supported to offer low cost financing for key infrastructure projects that help to deliver new housing with minimal infrastructure charges and taxation.

HIA recommends that the federal budget support the National Housing Finance & Investment Corporation by:

- **Allocating ongoing funding to support cost effective delivery of infrastructure that facilitates the delivery of new housing; and**
- **Provide additional funding to allow the Corporation to investigate opportunities for the Commonwealth to underwrite state and local government innovative financing mechanisms for the delivery of residential infrastructure where they lower the home ownership entry cost by removing up-front home buyer levies for the identified infrastructure.**

4. CONCLUSION

With the residential building industry moving into the next phase of the housing cycle, 2019/20 will be an ideal time for the Federal Government to provide some limited financial support for improvements in the industry's efficiency.

This federal budget represents an opportunity to commit resources at a time when the pressures that often apply to the delivery systems of the industry and all levels of government are less stretched.

For a relatively modest investment HIA considers that the suite of measures that have been proposed can make a real and lasting difference to the productivity of the residential building industry and improve the affordability of its product for the home buying public.

HIA would be pleased to provide further detail about any of the proposals in this submission.