



MASTER BUILDERS
AUSTRALIA

DELIVERING THE HOUSING NEEDS FOR ALL AUSTRALIANS

February 2023

A fork in the road

2023 faces a difficult economic backdrop. Inflation is at its highest in over 30 years partly as a result of labour shortages and the cost of materials. This has resulted in the toughest phase of interest rate pressures since the early 1990s. While this represents a challenge, it also provides a real opportunity for bold reform to be advanced and for business and the communities in which they operate to be unshackled.

Housing costs typically absorb substantial shares of household income. Conditions around housing affordability have major implications for living standards and quality of life.

The dream of owning and investing in housing is underpinned by a fair and equitable desire to improve social, economic and productivity benefits for the nation. But in the current climate of economic uncertainty many are seeing this aspiration become too far out of reach with flow on effects across the economy.

Unfavourable housing affordability outcomes leads to increased demand for rental properties, further driving up inflation. It also makes it difficult to attract the migrants we need over the decades ahead.

Struggles around housing affordability have persisted over many decades but with state and federal governments committed to addressing the challenge, this key policy area needs to be at the forefront. To achieve better housing affordability outcomes in the future, changes need to be made to the way we do things, now and over the long-term.





An ambitious, coordinated plan from the top

The Federal Government has announced an ambitious plan for housing which is supported by Master Builders Australia.

The combination of the Housing Future Fund to finance investment in 40,000 new social and affordable homes, the National Housing Supply and Affordability Council to coordinate national research, reporting and advice, and Housing Australia to deliver the government's housing programs, embeds housing as a core infrastructure priority for the Federal Government.

The effective implementation of these measures will be imperative to delivering the National Housing Accord target of one million new, well-located homes over five years from 2024.

Master Builders is a member of the National Affordable Housing Alliance (NAHA) of peak bodies, unions, the superannuation and community housing sector. This alliance supports the objective of enabling a perpetual pipeline of investments that deliver annual additional supply of housing that leverages taxpayer and private investment.

NAHA identifies that to deliver on the \$290 billion investment and creation of 800,000 net additional dwellings by 2035 identified by the National Housing Finance and Investment Corporation (NHFIC) (soon to be Housing Australia) will require taxpayer and private investment. This would require between 12,000-15,000 new social and affordable dwellings per annum in addition to the forecast range of 1700,000 – 220,00 per annum in the mainstream market. The Federal Government has committed to delivering 40,000 social and affordable housing dwellings over five years.

Industry forecasts

Master Builders Australia has forecast the private housing market outlook for the next five years to 2026-27. Between 2022 and 2025, overall housing starts sit below the 200,000 per annum needed.

The segments measured are detached, renovated and medium/high density housing markets. Whilst detached housing and renovations are stable or steadily growing off the back of the COVID stimulus boom, medium to high density remains hardest hit. This segment is more sensitive to interest rate fluctuations and is still recovering from the absence of inward migration over the past three years. Even before the pandemic, higher density dwellings were in decline.

The challenge will be to make sure that obstacles to implementation are removed to support more favourable outcomes around the cost, quality and quantity of building and construction output.

At present these challenges relate to supply of housing, workforce shortages – particularly key trades, bottlenecks in the market for key building materials and products, whilst substantial industry transformation is underway to bring about a net zero economy, with an ageing population.

Master Builders Australia forecasts of total construction activity for Australia to 2026–27 (millions of 2019–20 dollars)

2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
\$213,366	\$211,925	\$215,104	\$211,280	\$210,967	\$216,668	\$222,451	\$231,982
No data	-0.7%	+1.5%	-1.8%	-0.1%	+2.7%	+2.7%	+4.3%

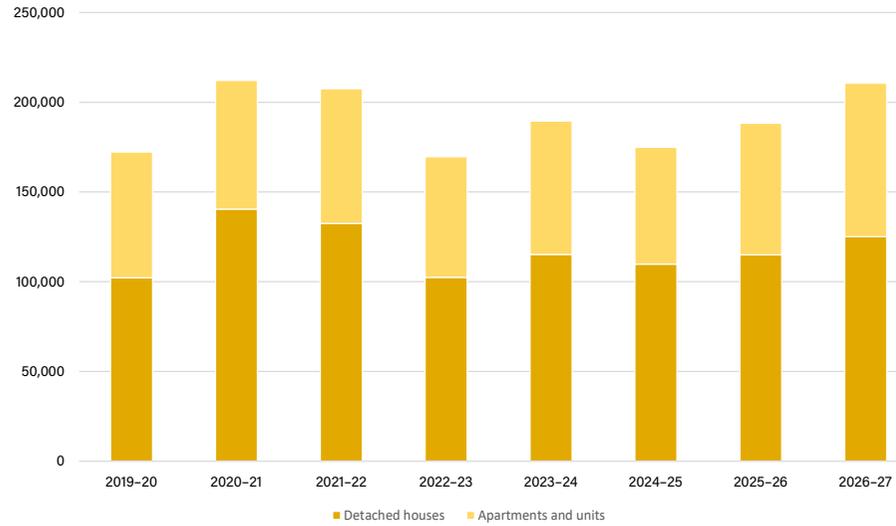
Source: Master Builders Australia–produced forecasts and analysis of ABS Building Activity (8752.0)

Master Builders Australia forecasts of total new dwelling starts for Australia to 2026–27

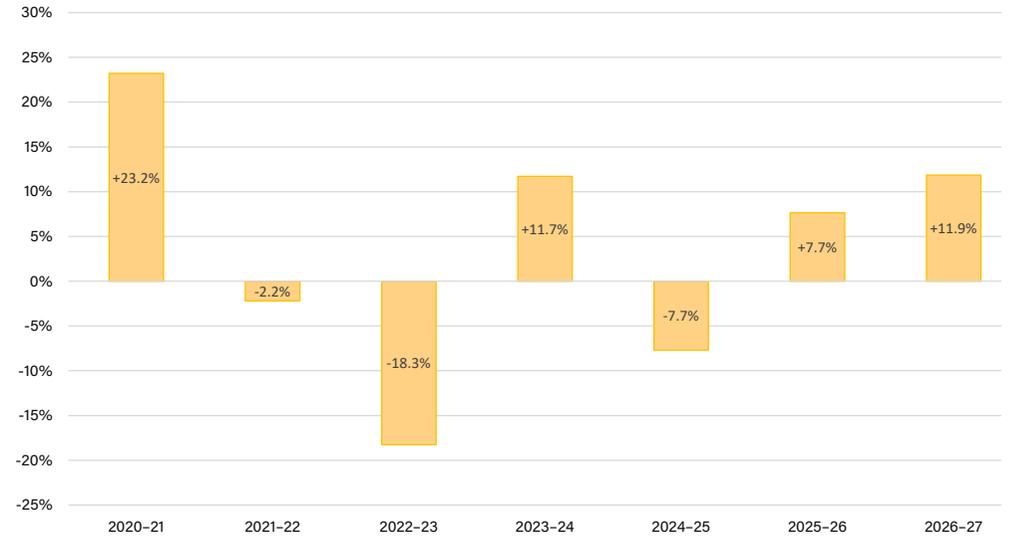
2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
172,193	212,175	207,501	169,630	189,480	174,930	188,320	210,660
No data	+23.2%	-2.2%	-18.3%	+11.7%	-7.7%	+7.7%	+11.9%

Source: Master Builders Australia–produced forecasts and analysis of ABS Building Activity (8752.0)

Master Builders forecasts of new dwelling starts by type to 2026-27



Forecast change in total number of new home building starts to 2026-27



Priorities for growth

To address these pressures, Master Builders recommends responses around housing supply, the construction workforce, supply chain risk and cost pressures, simplifying regulatory settings, and providing taxation settings that support investment in housing and productivity.

Unlocking housing supply

There are obstacles in place which are preventing many of the homes we need from getting built.

The homes that do end up getting built are often delayed by the many barriers encountered on their journey to final completion, including unnecessary planning impediments and the lengthy approvals process. These factors, plus taxes suffered during the development and building process, substantially inflate the final cost.

The focus on supply must be across the entire housing market that will facilitate movement through the housing spectrum, enabling lower-cost housing to become more affordable.

To make cities and regional communities maintain sustainable growth, all levels of government need to work closely to rollout continuous land supply through rezoning, planning and integrated land use.

Priorities

- More government held land should be released for the development of housing. We urge all levels of government to publish an inventory of its current land holdings and categorise it according to its suitability for future residential development.
- In future, financial payments from federal government to the states and territories should be linked to how much progress they achieve in boosting the supply of new housing. In particular, their performance with respect to planning reform, taxes and charges imposed on new home building, transparency, accountability and the improvement of data collection should be taken into account.
- The federal budget should also fast track the rollout of the Housing Australia Future Fund which is designed to create 40,000 new social and affordable homes over a 5-year period.
- The proposed redesignation of NHFIC as Housing Australia under whose remit the new National Housing Supply & Affordability Council offers considerable potential with respect to addressing the undersupply of new housing and consequent affordability problems. Spending allocations in the federal budget must support Housing Australia in tackling these issues as quickly and effectively as possible.
- Delivering an effective National Housing Plan that deals with the challenges in delivering affordable housing options for all Australians.
- Consideration should be given to measures to help expand the stock of new homes in regional areas so that migrant labour inflows can be accommodated more readily.
- Expand the size of Housing Future Fund capital investment from \$10 billion to \$20 billion.
- Introducing tax incentives to address the gap between risk and return for major institutional investors.
- Commit all levels of government to redirect one per cent of development taxes and charges to social and affordable housing.
- Continue community, city and regional focused infrastructure funding programs through genuine partnerships across levels of government and with industry. Embed and test housing targets more effectively in these programs.

Supporting the construction workforce

Across industries and skill levels the Australian workforce is experiencing critical shortages which are inhibiting economic recovery and productivity growth. There are a number of elements to these difficulties.

Attracting enough people to our industry to meet the demands of the coming decades is a major challenge. Policies around training, skilled migration, and industrial relations all offer opportunities for us to build a more productive labour force.

The construction industry attracts more male than female workers. Improving the attractiveness of the industry to women presents a massive opportunity to increase the pool of potential workers. To fill job vacancies in the current environment of full employment and high workforce participation this is critical.

Vocational and higher education are both integral parts of Australia's tertiary education system, but they are not equally valued. To level the playing field, we need to address the bias toward university, overcome misconceptions, and overhaul the quality, funding, and availability of careers education in secondary schools.

For the construction industry itself, achieving the training outcomes we need for new entrants is contingent on VET funding commitments

being sufficiently large as well as the distribution framework being attuned to the goal of maximising value for. Ensuring that our future construction workforce is large and productive enough to be able to deliver on our building and construction needs over the coming decades relies upon attracting and sustaining a steady flow of new apprentices to the industry each year.

Perhaps the biggest problem of all is that a large share of the apprentices are permanently exiting their training prematurely, often because immediate earning opportunities can be more attractive in other industries. With considerable numbers of older workers permanently retiring from the construction industry each week, the pressure to replace their decades of experience and upskilling is considerable.

Overseas migration represents the single most important source of new members of Australia's labour force. At present, their entry to the market is being impeded by a range of circumstances including lengthy visa processing times, the restrictive nature of current occupational migration lists and a cap on the annual number of work visas which is simply too low to meet current needs. The willingness of would-be migrants to come to Australia for work is strained by the exceptionally high visa fees they face as well as a lack of simplicity in the visa application process.

Priorities

- Funding a National Partnership Agreement on Quality Careers Education to improve the standard of careers education in secondary schools by ensuring that students have access to comprehensive, unbiased and up-to-date careers education.
- Developing an Apprentice Commencement and Retention Strategy to embed evidence-based learnings that will improve the consistency and outcomes of the Australian Apprenticeship System. The Strategy should assess the impact of government policy and program decisions on commencements and retention and draw on the findings of pilots and programs undertaken in recent decades.
- Tasking the National Careers Institute to lead a coordinated national campaign to dispel the myths and promote the value and potential of apprenticeship pathways to young people, their parents and advisers.
- Funding the development of a digital apprentice sign-up and onboarding platform to improve the efficiency of apprentice training contract execution and to free up Australian Apprenticeship Support Network resources to better support apprentices in the initial months of their journey thereby improving retention and completion rates.

- Leveraging the NCVER data to develop and publish VET quality indicators at the RTO level to enable prospective students, apprentices and employers to make informed decisions about their training pathway and training provider, to incentive RTOs to strive for excellence, and to inform decision making on funding for training delivery.
- Refocusing Australian Apprenticeship Incentive Payments to better achieve policy objectives.
 - Wage subsidies need to incentivise commencements and offset high supervisory costs in the first year. Wage subsidies currently spread across years one, two and three should be redirected and front-loaded to provide employers with a 30 per cent wage subsidy for first year apprentices.
 - Financial incentives for apprentices should target completion of the first year (when apprentices are most likely to drop out) and completion of the full apprenticeship. Financial incentives should be provided at six months, at 12 months and on final completion.
- Ensuring that implementation of the Australian Skills Guarantee does not impose unnecessary red tape on employers, does not duplicate reporting where state and territory arrangements already exist, and focuses on growing the total pool of under-represented workers (rather than implementing rigid targets that result in poaching).
- Continued funding for Women Building Australia to address the gender imbalance in the male-dominated construction industry by improving awareness of pathways, occupations and careers; supporting new female entrants into the industry; providing training and support to female-led businesses; and addressing unacceptable behaviour through education and a bullying and harassment hotline.
- Tasking the Department of Home Affairs, the Centre for Population, and Jobs and Skills Australia with developing a rolling ten-year migration plan to ensure migration levels are consistent with Australia's long-term needs.
- Increasing the permanent skilled visa cap to at least 200,000 in 2023-24 and 2024-25 with preference to employer sponsored visa applications to address acute workforce shortages and strengthen Australia's economic resilience.
- Simplifying the migration system by removing the requirement for labour market testing, reducing the proliferation of occupation lists, improving recognition of comparable international qualifications and pathways, and reviewing whether English language requirements are unnecessarily high.
- Expanding eligibility for the graduate visa and graduate visa extension to all AQF Certificate III and above qualifications to address acute workforce shortages and improve economic outcomes.
- Piloting an apprentice visa pathway for relevant occupations as a mechanism to address projected workforce shortages in occupations unable to attract sufficient numbers of Australians.
- Piloting a building and construction stream within the Pacific Australia Labour Mobility (PALM) Scheme to meet the government's commitment to improving opportunities for Pacific nationals in Australia and to assist Australian businesses and employers in delivering the Government's infrastructure pipeline.

Building resilient supply chains and minimising cost pressures

The pandemic has demonstrated limits in Australia's supply chain capability and exacerbated the challenges of managing risk and cost in construction.

The building and construction industry does not operate in an economic silo, depending on many other industries and parts of the economy such as manufacturing, professional services and local small businesses. Therefore, the strength of the building and construction industry can only be maintained by resilient and robust supply chains.

With Governments taking steps to support sovereign capability in some markets, there's opportunity to include areas of construction such as forestry and advanced manufacturing.

Prefabricated and modular construction is one way to ease cost pressures and risks. This method of construction is growing in the international market and is an untapped opportunity in the Australian market.

Priorities

- Federal government to offer flexibility in its contractual dealings with building and construction companies whose operations have been hampered by cost spikes, labour shortages and other supply chain complications.
- Resources should be made available to federal government entities, including the ATO, in order to facilitate a sensitive approach to the recovery of debt from businesses experiencing difficulties in their operating environment.
- Over the longer term, the federal government should allow for the National Reconstruction Fund to be fully leveraged to help expand Australia's onshore manufacturing and distribution capacity with respect to key building materials like timber, steel and modern manufacturing output.
- Consideration should be given to widening the jurisdiction of the Modern Manufacturing Strategy to include the building materials industry.



Reducing regulatory burdens

Regulations play an important role in ensuring high standards, safety and effective processes for businesses. However, while some degree of regulation is necessary and welcome, there are some rules and restrictions which has negative consequences.

Building and construction businesses are drowning in red-tape and it is getting worse. For those in the industry, some mandatory regulations have proven to restrict the way in which work can be performed. This means that more efficient and more cost-effective ways of completing projects may have to be dropped in favour of significantly more expensive techniques. The regulatory framework may also have the effect of preventing the delivery of some projects for which there is a willing market and would add to the supply of new homes.

This is compounded by the fact that regulations are frequently changing with each change sparking off yet another round of costly and productivity-sapping modifications to the business models underpinning their operations.

Priorities

- Improve productivity through more efficient administrative frameworks.
- The Federal Government commences a real de-regulation agenda that will have a meaningful impact.
- The Federal Government introduces a mechanism by which any proposed new regulation is rigorously tested and alternatives considered before the regulation is introduced.
- Future regulatory changes including those related to building regulation need to be evaluated with respect to the total aggregate cost of regulation in the event of their introduction, rather than just the marginal cost of the proposed regulations.
- Regulatory transition to better quality, energy-efficient, resilient, accessible housing needs appropriate risk mitigation measures developed and provision of free content for industry and consumer education. Reasonable transition periods for implementation of building code reforms also need to be provided.
- Cost impacts are minimised, potentially through grants and subsidies.
- Funding under the ABCB Intergovernmental Agreement should be increased by \$5 million per year (to a total of \$13 million) to allow for all of the Australian standards which are embedded into the National Construction Code (NCC) to be accessible to builders completely free of charge.
- In addition, construction-related Standards are referenced widely in a multitude of other instruments including WHS legislation, Modern Awards, Enterprise Agreements and SWA Model Codes of Practice. We strongly urge the federal budget to allocate appropriate funding to cover the costs of purchasing referenced Standards so as to ensure that they are available at no cost to building companies.
- Improving access and reliability of regulation through clear and concise communication of regulatory outcomes.
- More budgetary resources need to be provided to facilitate the transfer of all building product chain responsibilities completely away from the builders using them.

Taxation settings that support investment in housing and productivity

Conditions that support business success, underpinned by productivity, support higher levels of employment and wages.

There are more small businesses in building and construction than any other part of the economy. With around 450,00 small businesses it represents around 17 per cent of total small businesses in Australia.

They are a key driver of innovation and industry entrepreneurship, train more apprentices than big business, and where jobs are created. Reductions in business taxation levels will drive investment and boost jobs.

While an essential source of financing for public services, the detrimental impact of some taxes on economic activity is well documented. With productivity growth across the economy in need of sharpening, it is possible that the tax system could be skewed in a way that allows for productivity-enhancing building work to be incentivised.

Priorities

- For a temporary period, enhanced depreciation allowances should be provided to non-residential building work financed by the private sector and shown to be productivity boosting in nature. This could include education, IT, distribution, agricultural, industrial and commercial projects, amongst others.
- The existing Technology Investment Boost and Skills and Training Boost for small businesses should both be extended to the end of June 2025 and adapted to ensure that non-employing entities like sole traders and partnerships are able to fully avail of the benefits. Given the sharp rise in costs since the announcement of the schemes, consideration should be given to lifting the maximum annual deduction from \$100,000 at present to \$110,000 to \$120,000 going forward.
- Incentives to business, particularly small business, including tax breaks for productivity enhancing investment in digital and IT systems; and more generous treatment of capital building works.
- Extend cuts to company tax for businesses over \$50 million turnover.





Building and construction industry overview

Master Builders Australia

Master Builders Australia (Master Builders) is the nation's peak building and construction industry association. Master Builders' members are the Master Builder state and territory associations.

Over 130 years, the movement has grown to over 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors of the industry – residential, commercial, and engineering/civil construction.

Australia's building and construction industry

Australia's building and construction industry Building and construction is one of the largest sectors in Australia.

Latest ABS figures indicate that the total value of building and construction work done over the year to September 2022 totalled \$238.7 billion in value, an amount directly equivalent to 10.0 per cent of total GDP.

Our industry packs its biggest punch when it comes to the provision of full-time employment and support for small business. During November 2022, there were 1.29 million people employed in the building and construction industry. About 86 per cent of these jobs were full-time in nature, a far higher proportion than in the rest of the economy. This means that construction has consistently been the economy's largest provider of full-time jobs over many decades. During November 2022, there were 1.12 million full-time jobs in the construction industry – more than every sector of the economy outside of health and social services.

During the 2021-22 financial year, it is estimated that construction businesses paid out a total of \$66.1 billion in wages and salaries to its employees, with gross operating profits in the industry amounting to \$35.3 billion over the year. Industry turnover was \$384.2 billion during 2021-22, a sum which includes sales from construction businesses to other construction businesses.

The most up-to-date ABS data indicate that as at 30 June 2022, there was a total of 445,081 construction businesses in operation across Australia. This is more than every other sector of the economy. The most striking feature of our industry's construction businesses is their size: of the total, the overwhelming majority (98.7 per cent) are small in size with less than 20 employees.



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