



## ECONOMIC IMPACTS OF SOCIAL HOUSING INVESTMENT

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FINAL REPORT  
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Independent  
insight.

## Report Funders



Independent  
insight.



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# EXECUTIVE SUMMARY

The COVID-19 pandemic represents one of the most significant challenges to Australia’s economy. The social distancing restrictions are unprecedented, and the associated uncertainty means that Australia will experience the biggest contraction in Gross Domestic Product (GDP) since the Great Depression. Without international migration the demand for housing will fall dramatically during the 2021 calendar year. The Housing Industry Association (HIA) is forecasting new housing construction could fall by 50 per cent and place hundreds of thousands of jobs at risk. Action is required to support the economy as it deals with the shock of COVID-19.

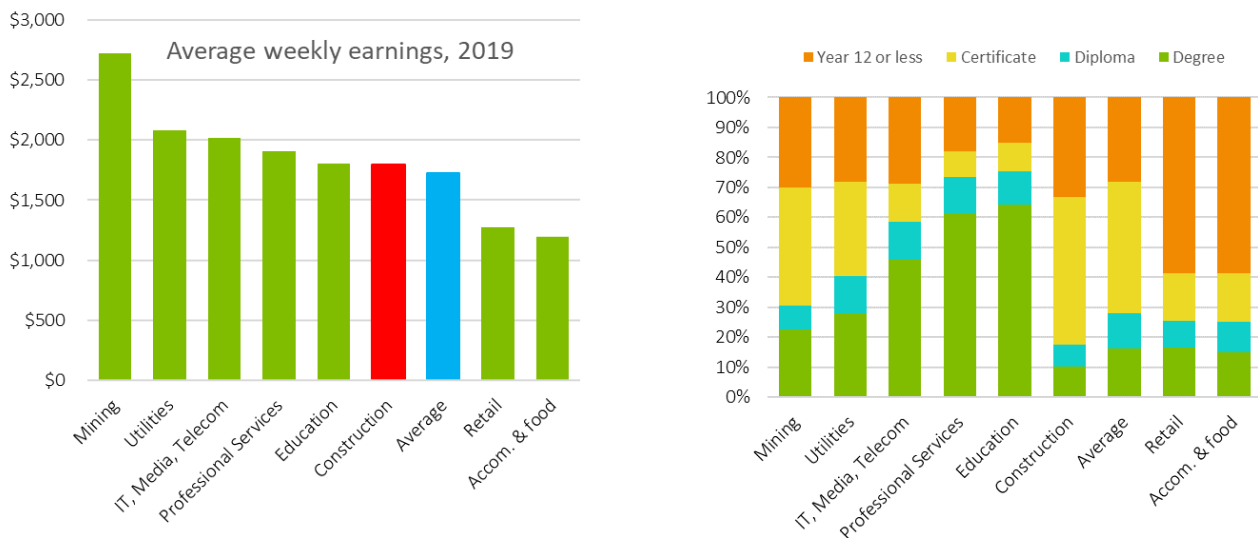
## The SHARP proposal

The Social Housing Acceleration and Renovation Program (SHARP) aims to build 30,000 social housing units over a four-year period, plus accelerate the maintenance and renovation of existing social housing stock. As well as the benefits of increasing social housing available to low income households, the construction process will provide much-needed jobs and economic stimulus Australia-wide following the Black Summer bushfires and the COVID-19 shutdown of a range of industries.

## Importance of the construction industry

In the year to December 2019, construction provided \$145.9 billion to gross value added<sup>1</sup>, or 7.8 per cent of total gross value added in Australia. In February 2020, 1.2 million people were employed in the construction industry, represent 9.1 per cent of Australia’s 13 million jobs.

### EARNINGS AND EDUCATION IN CONSTRUCTION



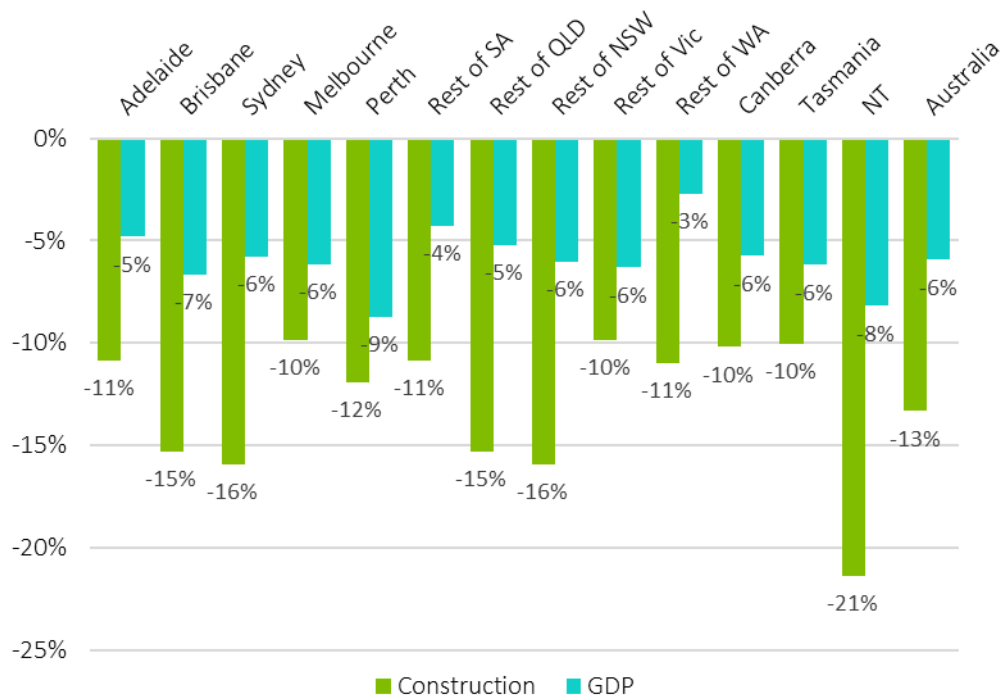
Source: ABS Labour Force Survey, Quarterly, Average Weekly Earnings

<sup>1</sup> Gross value added is the sum of wages and profits generated by an industry or economy.

The higher than average wages available in construction are unique as jobs in the construction industry do not require high levels of education. Just over a third – 34 per cent – of Construction industry workers – only have a Year 12 education or less. Fewer than 20 per cent of workers in the construction industry have a qualification higher than a Certificate III/IV, and only ten percent of construction workers have a degree.

The construction industry tends to be procyclical – when the economy is booming and employment is growing, construction employment tends to grow faster. Likewise, when the economy is in decline and employment is falling, construction employment tends to fall faster. This can be seen in the impact of COVID-19 on activity in the construction industry versus economy wide – while GDP Australia-wide is forecast to fall by around 6 per cent, the construction industry is forecast to decline by 13 per cent during 2020.

IMPACT OF COVID-19 IN ON CONSTRUCTION AND OVERALL ECONOMIC ACTIVITY



Source: SGS Economics and Planning calculations, 2020

## SHARP Impact

Social housing is distributed in line with the population, with greater concentrations of social housing where the greatest population is. It tends to be more common per capita in large cities compared to ‘rest of state’ areas, as capital cities tend to be where dwellings are more expensive, less affordable and there is a greater need for social housing.

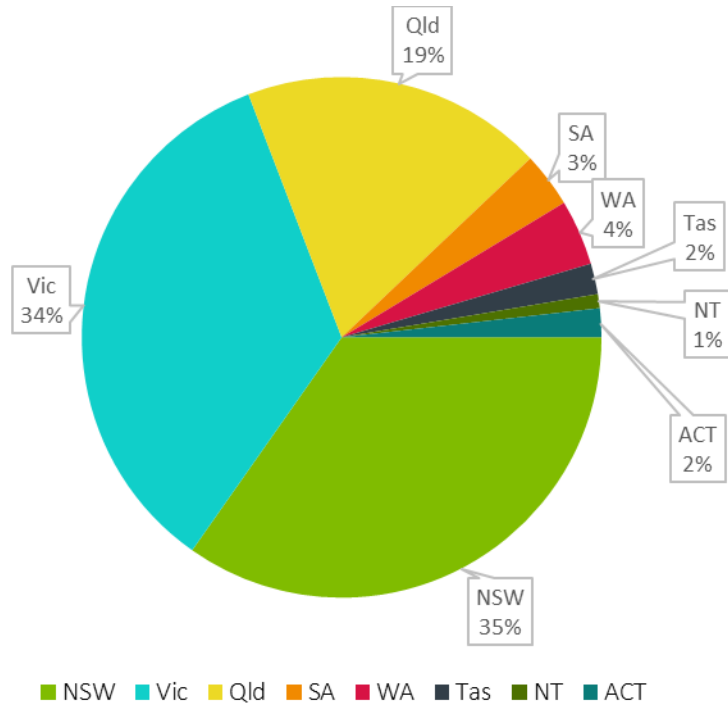
The distribution of new social housing was estimated by SGS to be similar to the current distribution, and costs of construction estimated based on average costs of construction by State/Territory for public housing.

Based on this distribution of costs and housing types, if we allow for a similar distribution of social housing to existing stock (based on need) we would expect the following distribution of social housing expenditure (see figure below).

It has been assumed that 20 per cent of the construction will take place in the 2020-21 financial year, 30 per cent in 2021-22 and 25 per cent in 2022-23 and 2023-24.



## SHARE OF SOCIAL HOUSING EXPENDITURE



Source: SGS calculations, 2020

## Direct and indirect economic impacts

Given the uncertainty around the economic outlook, a range of scenarios have been developed. On average over the four-year period, the SHARP would support between 15,500 and 18,000 full-time equivalent (FTE) jobs. This comprises both direct construction jobs and other jobs.

The peak number of jobs supported (between 21,000-24,500 FTE jobs) will be in 2021-22. This is when the economy is likely to be at its weakest and every dollar of stimulus presents a real opportunity to save jobs. Converting the FTE job figure into the actual number of workers means that the 21,000-24,500 FTE jobs could represent up to 30,000 individual workers whose jobs would be saved by the SHARP stimulus.

The job impact of the SHARP stimulus declines during the following years. This is due to the assumption that there is a return to more normal levels in international migration and economic activity returns. As the economy recovers the 'multiplier effect' is not as great. In 2023-24, between 13,800 and 15,900 FTE jobs will be supported by the SHARP.

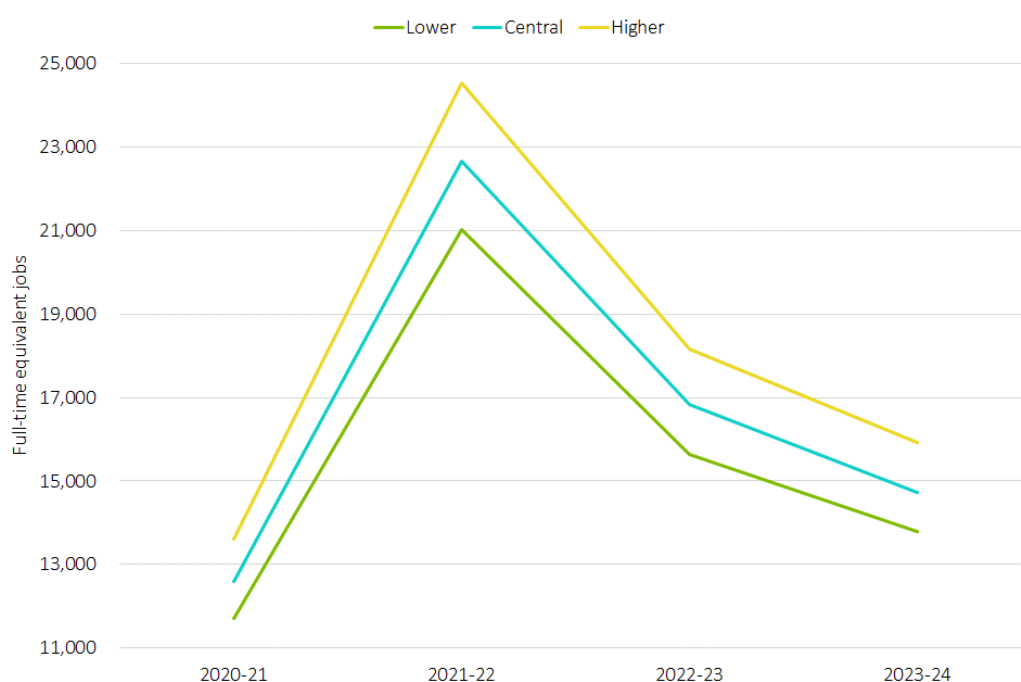
The SHARP is estimated to raise output in Australia by \$15.7 billion to \$18.2 billion in total over the four years of construction and increase GDP by between \$5.8 billion to \$6.7 billion.

### ANNUAL AVERAGE AUSTRALIA-WIDE ECONOMIC IMPACTS

Scenario	Output Effect (\$m)	Emp Effect (Jobs)	VA Effect (\$m)
Lower	\$3,940	15,540	\$1,450
<b>Central</b>	<b>\$4,230</b>	<b>16,700</b>	<b>\$1,560</b>
Higher	\$4,570	18,050	\$1,690

Source: SGS calculations, 2020

## NUMBER OF FTE<sup>2</sup> JOBS SUPPORTED BY SHARP STIMULUS



Source: SGS calculations, 2020

The largest employment and output impacts are expected to be in Sydney and Melbourne, where impacts on output are expected to be a total of \$10.4 billion and just over 10,500 jobs per capital city (around two-thirds of the economic impact nationwide).

### Potential for construction stimulus to fill economic gaps

Investment in social housing has the unique potential for a greater, more reliable economic stimulus than other potential investments. This is because:

- Generally, residential construction can still occur safely even if a second wave of infections requires social distancing measures to be put back in place
- The decline in residential construction activity will be large, which means there are many jobs at risk
- The ability of the housing construction industry to use workers across a range of skill sets provides opportunities for many types of workers
- Private housing oversupply could potentially be absorbed by the social housing sector.

Over the longer term, a greater supply of social housing can be expected to have flow on economic impacts, as:

- Modest income workers can live closer to their jobs
- Families can have security of tenure
- Children a more stable education
- Overall improvements to health and wellbeing from quality, affordable housing will increase the productivity of workers.

<sup>2</sup> Full-time equivalent



# 1. THE SHARP PROPOSAL

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The Community Housing Industry Association (CHIA) is seeking to develop 30,000 new social housing units over the next four years, to stimulate the economy following the impacts of COVID-19.

CHIA and its funders, Hume Community Housing Association, Bridge Housing Limited and Q Shelter are seeking to promote and gain support for their proposed Social Housing Acceleration and Renovation Program (SHARP).

This program aims to develop 30,000 additional social housing units, 75 per cent of which will be delivered within three years, along with accelerated maintenance and renovation of existing social housing stock.

## 1.1 Features of the program

The aim is for Australian Government investment to allow not for profit community organisations to build 30,000 housing units. Once these are constructed and rented out, housing organisations will be able to leverage against these units to raise private finance to invest in up to 5,000 additional housing units. Private sector builders would be used by organisations to construct the housing.

It is expected that this program can be rolled out quickly, as there is pent up demand for social housing and a backlog of maintenance work required on existing social housing.

## 1.2 Benefits of the program

The key benefits of rolling out construction of much-needed social housing units in the fallout of an economic downturn is:

- Replacing economic activity lost to the COVID-19 recession with construction activity
- Providing construction jobs to offset downturns in the sector and absorb unemployed workers from other sectors
- Potentially providing housing units and maintenance at lower cost, as demand created by SHARP will be absorbing excess capacity in the economy rather than driving up prices.

It is intended that this will emulate the successful Social Housing Initiative deployed by the Australian Government to mitigate the impact of the 2008 Global Financial Crisis, which generated an additional 20,000 housing units. This program was estimated to have created 9,000 construction jobs and a total of 14,000 jobs throughout the economy.

## 2. IMPORTANCE OF THE CONSTRUCTION INDUSTRY

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The construction industry is a major contributor to the Australian economy.

Housing construction has been able to continue under COVID-19 restrictions. However, the overall hit to the economy has resulted in new home sales and renovations falling. Some cancellations of sales have occurred as people who have lost jobs and businesses are no longer able to go ahead with projects.

The Housing Industry Association (HIA) has estimated that in the 2020-21 financial year, new home starts will fall 43 per cent from 2018-19 levels, to 111,500.

### 2.1 The macroeconomic importance of construction

The construction industry is a major contributor to Australia's macroeconomic wellbeing. In the year to December 2019, the construction industry provided \$145.9 billion to gross value added, of which \$74.5 billion was compensation to employees. This represents 7.8 per cent of total value added in Australia, and 8 per cent of compensation to employers.

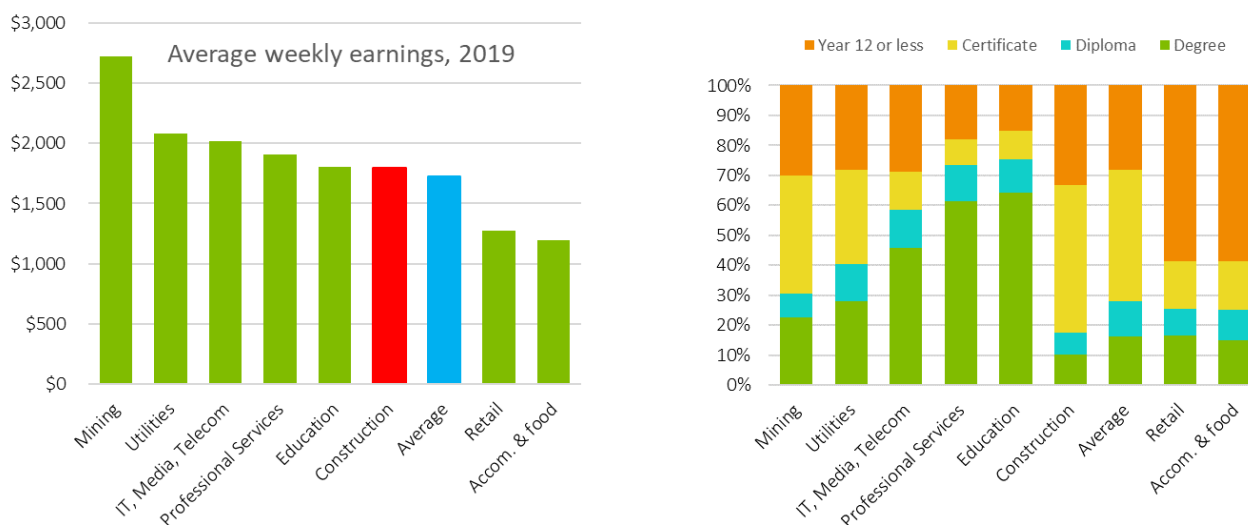
In February 2020, 1.2 million people were employed in the construction industry, representing 9.1 per cent of Australia's 13 million jobs. The construction industry is one of the largest in the country, with only Health Care and Social Assistance (1.8 million) and Retail Trade (1.3 million) employing more people.

### 2.2 High wages in construction

In November 2019, the average full time adult total earnings in Australia was \$1,722 per week, while earnings in the construction industry were \$1,800 per week. Construction was the ninth highest paying industry out of eighteen industries.

The high wages available in construction are unique as jobs in the construction industry do not require high levels of education. Just over a third – 34 per cent - of construction industry workers –have a Year 12 education or less. Fewer than 20 per cent of workers in the construction industry have a qualification higher than a Certificate III/IV, and only ten percent of construction workers have a degree.

FIGURE 1 EARNINGS AND EDUCATION IN CONSTRUCTION



Source: ABS Labour Force Survey, Quarterly, Average Weekly Earnings

This means that part of the demand for additional labour in the construction industry can readily be met by people without pre-existing specialised skills. They can start work as unskilled labourers if seeking short term work, or as apprentices if seeking a career path. This is not feasible in other average to high paying industries such as IT, Media and Telecommunications or Professional Services, which typically require high skill levels.

### 2.3 The construction industry is generally procyclical

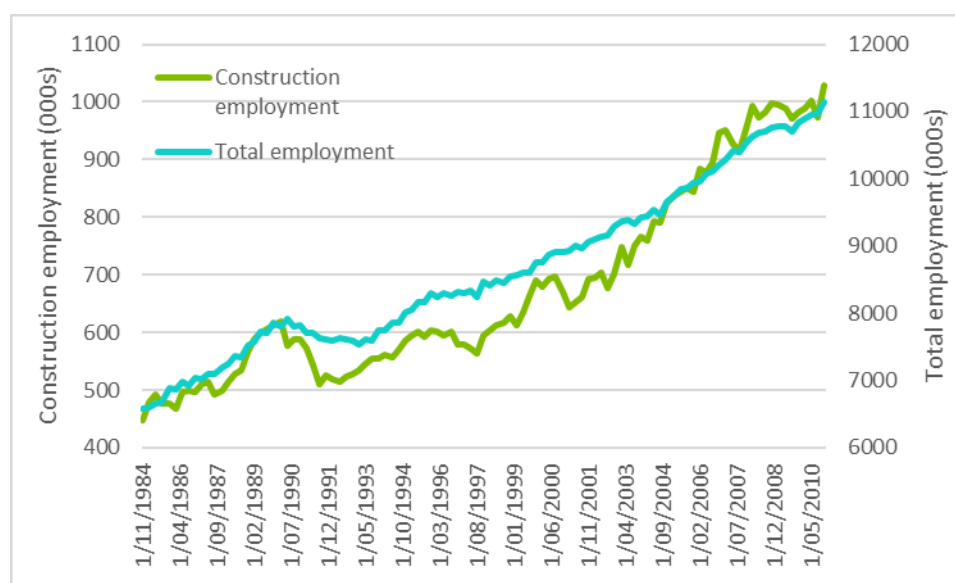
The construction industry is responsible for building residential dwellings, commercial and industrial buildings, schools, hospitals and other infrastructure such as roads, rail lines and so forth.

While public infrastructure investment tends to happen at any time in the economic cycle, private residential and business investment tends to occur at higher rates during economic boom times. In a boom, households have job security and high and growing incomes; it is easier to commit to taking on debt or drawing down on savings for a new home. Businesses sales are strong, demand is high enough to start stretching their capital inputs, and they have enough cash to invest in larger premises, factories and so forth. During a boom period, this results in higher prices for inputs into the construction process, which homebuyers and businesses are happy to pay.

This process reverses in an economic downturn. Wage and salary increases dry up, hours worked are reduced, and for some households, jobs are lost completely. Households who do not suffer a loss in income are wary of taking on major new expenses and drawing down savings, so households refrain from signing contracts for new houses and may fail to complete housing contracts already signed. Businesses see demand for their products drop, resulting in stockpiles building and the development of excess in their productive capacity. These businesses will not be investing in new commercial or industrial premises when they cannot full those they already have.

This means construction tends to follow procyclical employment patterns – the fluctuations in construction employment follow employment patterns in the wider economy, but the swings are larger. When employment rises, construction employment tends to rise faster; and when employment falls, construction employment tends to fall faster. Figure 2 shows the movements in construction employment and wider employment from 1984 to 2010.

FIGURE 2 CONSTRUCTION AND TOTAL EMPLOYMENT ACROSS THE BUSINESS CYCLE



The late 80s boom is clearly visible, with total employment rising 7.6 per cent from February 1988 to February 1990, while construction employment grew by 20 per cent. The crash was harder on construction, with an 18 per cent fall in total employment from February 1990 to August 1991, while total employment fell by three percent.

A similar fall is not visible during the GFC, because of the policies of the Commonwealth Government to spend its way out of recession. First Home Builders Grants, Building the Education Revolution and investments in social housing boosted construction employment and employment as a whole.

## 2.4 Impact of COVID-19 on construction

The impact of COVID-19 closures has affected the entire economy, even those industries that have not faced direct restrictions.

The hardest hit industries were:

- Arts and Recreation services, 37 per cent decline. This includes the closure of gyms, leisure centres and community sport, along with all live music, theatre, performing arts, museums, galleries and classes.
- Other services, 36 per cent decline. Many of these services were banned due to their need for close contact and/or non-essential nature, eg beauty therapy, massage, hairdressing.
- Accommodation and Food Services, 34 per cent decline. The virtual cessation of all tourism and the closure of restaurants for all but takeaway food caused this decline. To some extent, these declines have been offset by an increase in demand for takeaway and food delivery, and hotels used as quarantine for overseas arrivals.

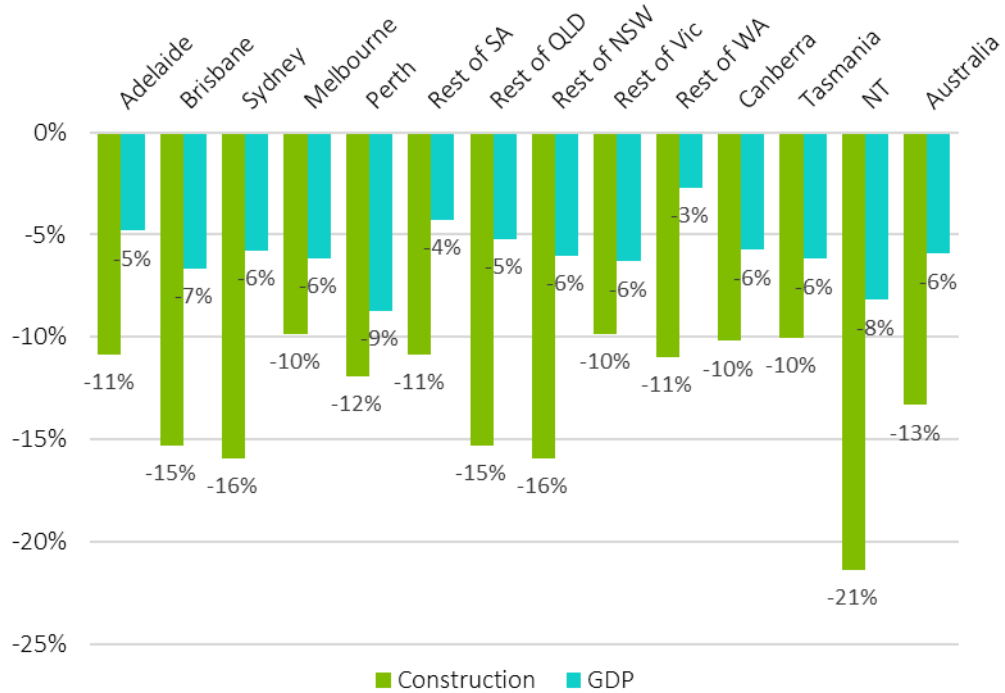
The industries that showed the lowest declines were:

- Information, Media and Telecommunications (1 per cent decline). The lockdown has increased reliance on internet connections, media streaming and so forth.
- Agriculture (3 per cent decline). Some areas of agriculture may struggle due to the supply of migrant workers drying up, but food is essential and most production can be conducted under social distancing.

- Mining (3 per cent decline). Most mines have been able to keep operating under changed work practices that allow for improved hygiene.

Construction showed a decline of 13 per cent Australia wide. While social distancing measures did not prevent existing construction from going ahead in most places, it put a hold on the establishment and development of new projects.

FIGURE 3 IMPACT OF COVID-19 ON CONSTRUCTION AND OVERALL ECONOMIC ACTIVITY

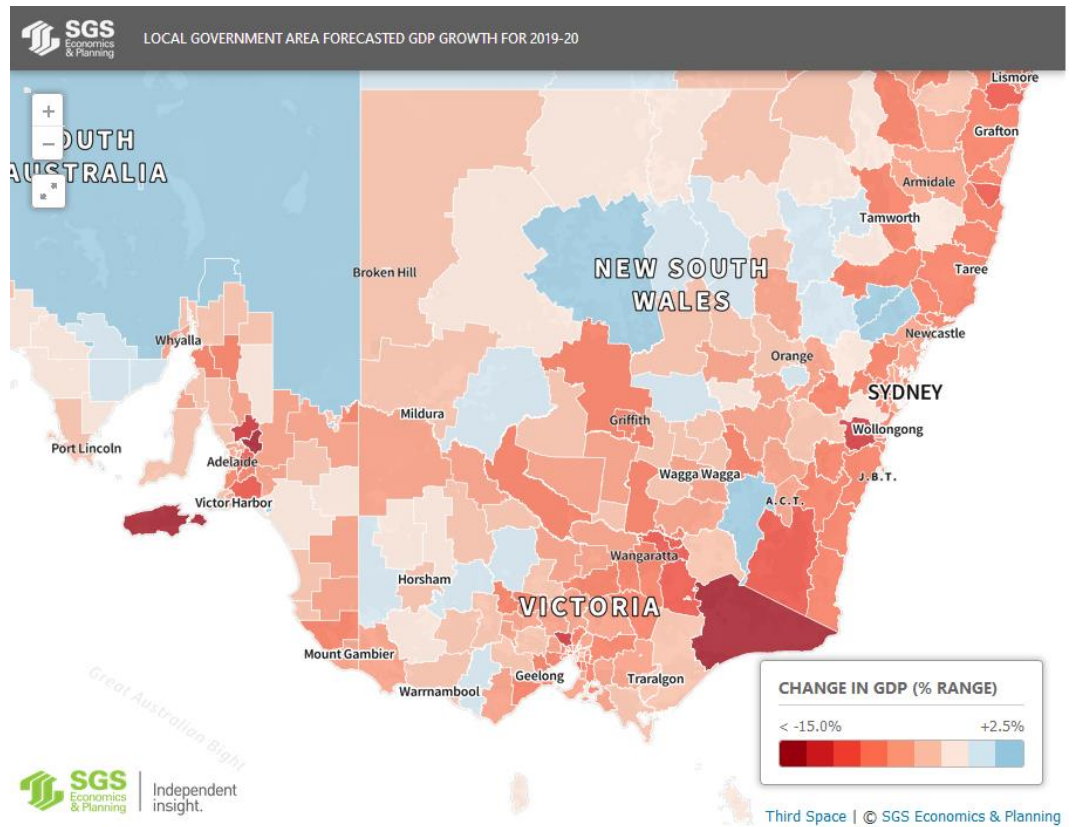


Source: SGS Economics and Planning calculations, 2020

The NT suffered the greatest hit to its construction industry, followed by Sydney/Rest of NSW and Brisbane/Rest of Qld.

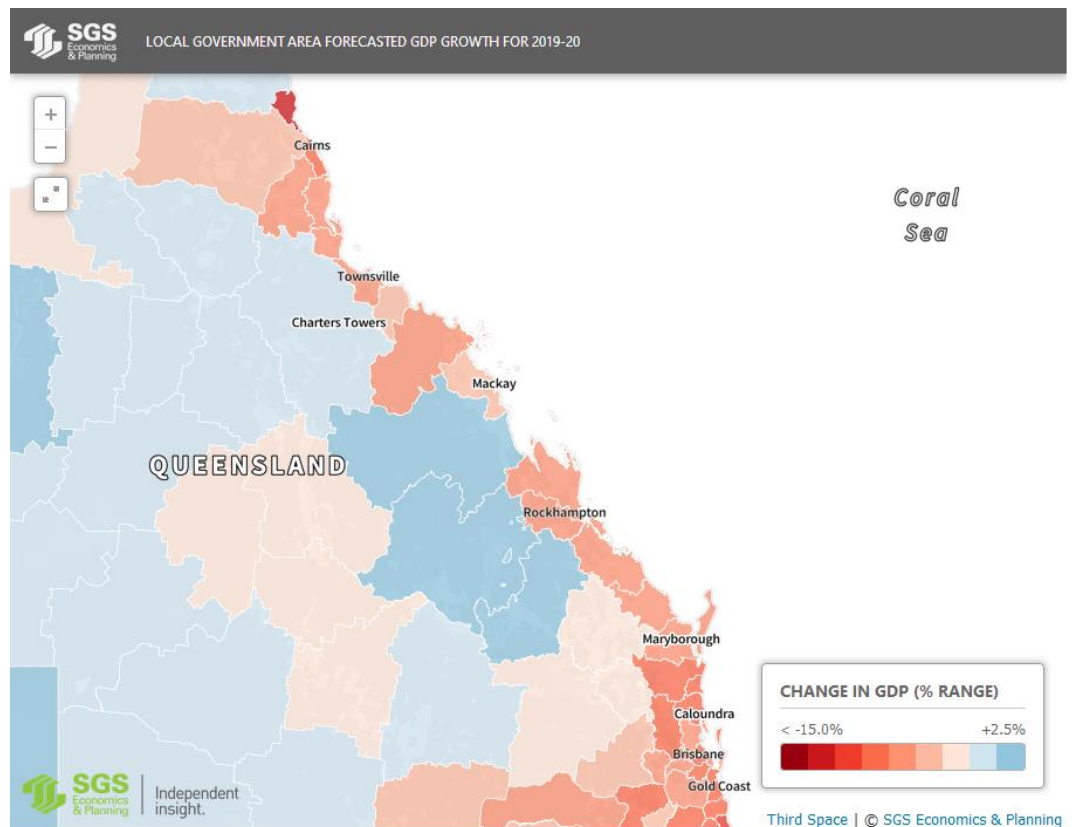
The charts below illustrate the regional impacts on GDP at the LGA level across Australia of the combined impact of COVID-19 and the Black Summer bushfires in the eastern States. These show a common theme – coastal areas, which tend to be at least at part dependent on tourism, took the hardest economic hit. Most notable are the areas that were directly burned – East Gippsland in Victoria and Kangaroo Island in South Australia, for example. In contrast, the inland LGAs away from major cities, which avoided bushfire this season and tend to be reliant on agriculture and mining, escaped significant economic impacts.

FIGURE 4 NSW, VIC AND SA IMPACTS OF BLACK SUMMER AND COVID 19



Source: SGS Economics and Planning

FIGURE 5 QLD IMPACTS OF BLACK SUMMER AND COVID 19



Source: SGS Economics and Planning



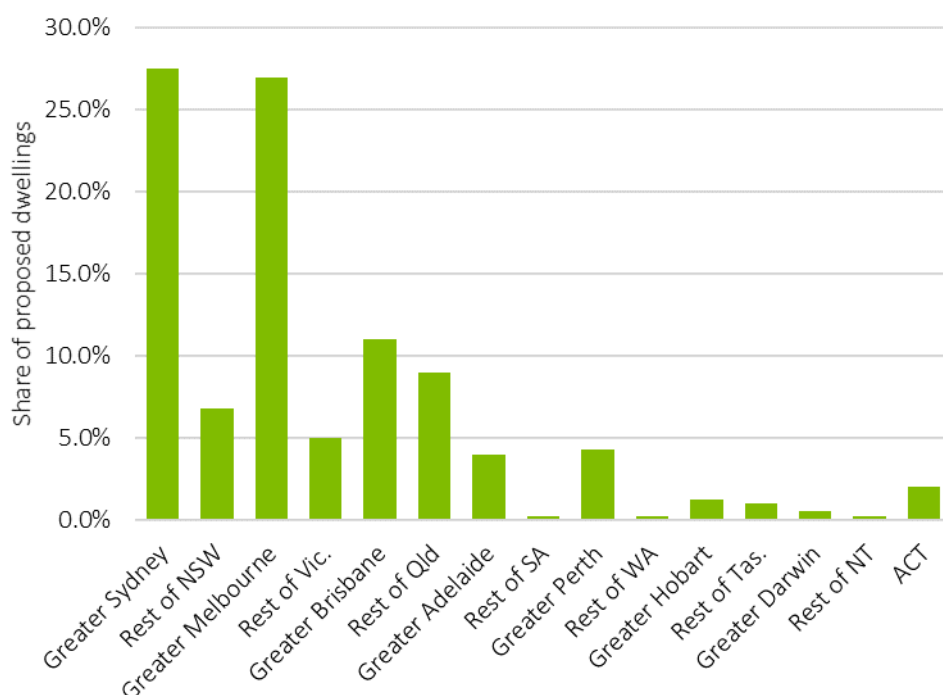
### 3. SHARP ECONOMIC IMPACT

The impact of the SHARP could vary significantly depending on when, where and how the construction of the social housing is rolled out.

Social housing more or less reflects the distribution of the population, with greater concentrations of social housing where the greatest population is. It tends to be more common per capita in large cities compared to rest of state areas, as capital cities tend to be where dwellings are more expensive, less affordable and there is a greater need for social housing. In regional areas, private sector housing tends to be more affordable for households on lower incomes.

Figure 6 below shows the current distribution of social housing across Australia. More than half of social housing is located in the capital cities of Sydney and Melbourne. Social housing is more evenly distributed between GCCSA and Rest of State in Queensland than other States.

FIGURE 6 DISTRIBUTION OF EXISTING SOCIAL HOUSING DWELLINGS



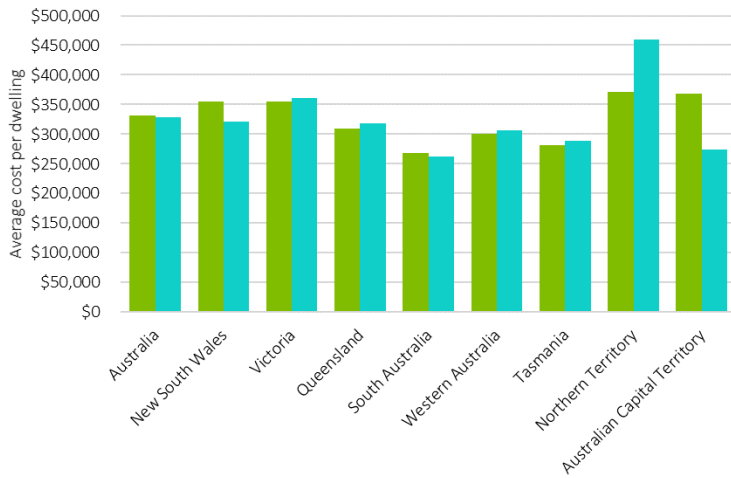
Source: SGS Economics and Planning

To estimate how much construction of new social housing dwellings could potentially cost, SGS used data from *Social housing as infrastructure: an investment pathway<sup>3</sup> report*. This was cross checked against the average cost of constructing new dwellings based on the ABS' *8731.0 Building Approvals, March 2020<sup>4</sup>* (this is shown in Figure 7).

<sup>3</sup> <https://www.ahuri.edu.au/research/final-reports/306>

<sup>4</sup> Average value of dwellings has been estimated by dividing the total number of dwelling units approved by the total value of residential dwellings approved for the two years from April 2018 to March 2020.

FIGURE 7 AVERAGE VALUE PER DWELLING



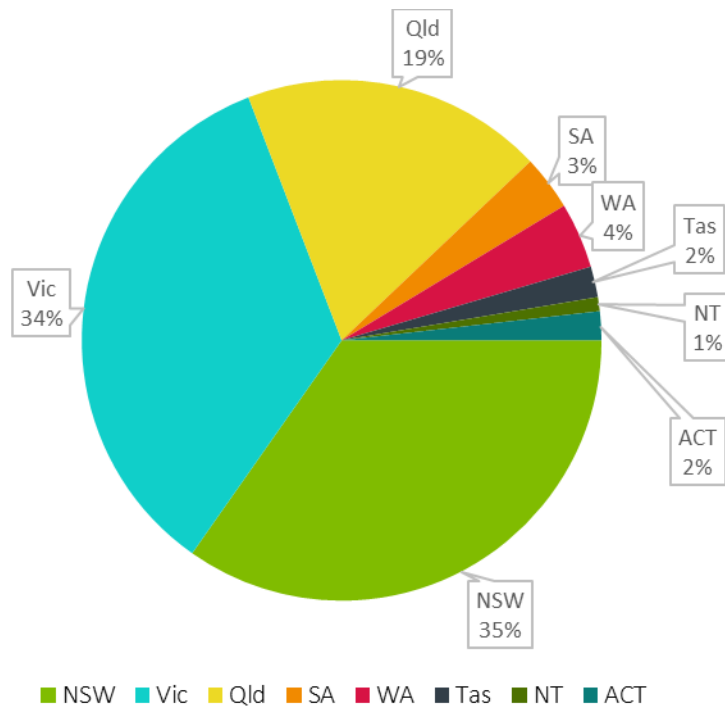
Source: Australian Bureau of Statistics, 8731.0 Building Approvals, March 2020.

### CONSTRUCTION COSTS

States with larger capital cities, such as New South Wales and Victoria, tend to have higher construction costs per dwelling due to higher density increasing the need for more expensive apartment towers. Northern Territory's high costs per dwelling are due to the need to build for cyclone resistance in building multi-unit apartments in Darwin and the high costs of construction in remote areas, which make up 1/3 of social housing in Northern Territory.

Based on this distribution of costs and housing types, if we allow for a similar distribution of social housing to the existing stock (based on need) we would expect the following distribution of social housing expenditure, as shown in Figure 8.

FIGURE 8 SHARE OF SOCIAL HOUSING EXPENDITURE



Source: SGS calculations, 2020

Social housing providers have the option of developing freestanding houses or attached dwellings, based on a number of factors including the availability of land, the demand for certain housing types, the speed of construction and the price of each type of dwelling. To test the sensitivity of these price estimates, SGS estimated 'higher bound' and 'lower bound' estimates of cost, assuming that housing providers went with the more expensive or cheaper option out of houses or apartments.

### 3.1 Modelling approach

Construction activities are supplied locally and lead to direct employment at sites and to inputs to activities on sites from local suppliers. For example, as equipment hire, waste removal and other construction services as sourced locally.

Increased local employment and extra sales for local suppliers will have positive multiplier effects through local and regional economies, as construction and local supplier employees spend their newfound wages at cafes, stores and so on.

SGS has developed and used region-specific input-output (I-O) models to assess the economic impacts of SHARP.

The I-O model is a tool which quantifies economic linkages between 114 industry sectors across the economy.

Multipliers derived from the model estimate the impact of the project on three key measures:

- **Output:** the value of goods or services produced by all the firms and industries involved in the construction of housing;
- **Value added:** the output minus intermediate inputs from suppliers in the production process, also known as Gross Regional Product (GRP); and
- **Full time equivalent (FTE) employment:** the labour required to produce the output above.

For each of the three measures above, the model further separates the impacts into:

- **Direct effects:** the change generated directly by the production of goods and services for the project; and
- **Indirect effects:** the flow on impacts from the project, including upstream and downstream linkages in the supply chain, and consumption-induced impacts through wages and salaries earned by workers in the production process.

To account for any potential overstated impacts, the I-O model has been calibrated in line with a Computable General Equilibrium (CGE) model results to ensure that capacity constraints and price impacts are captured.

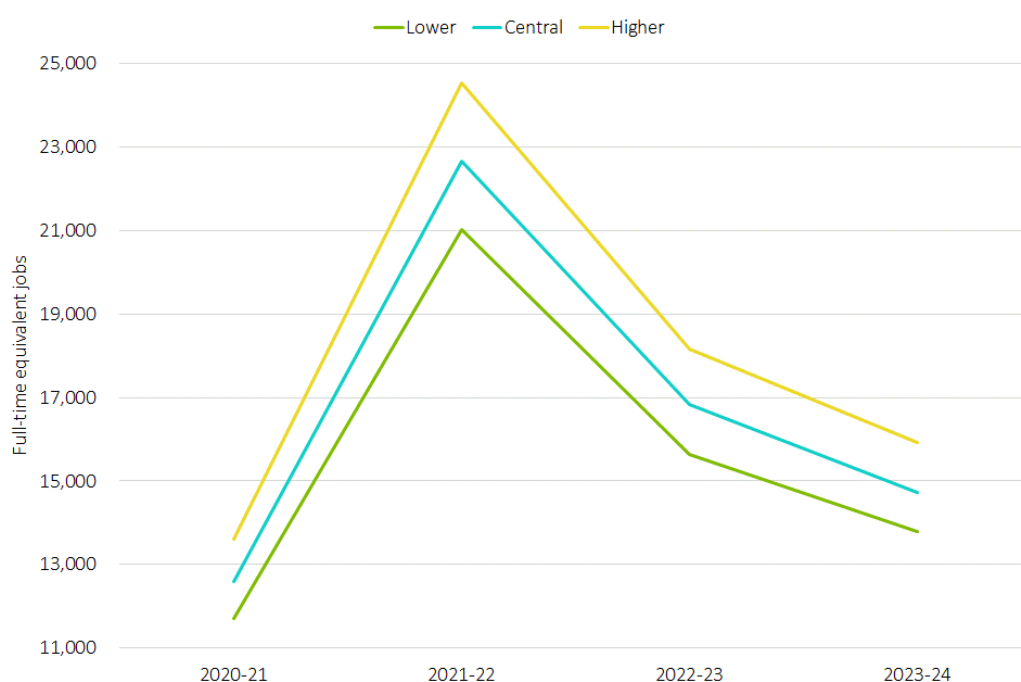
### 3.2 Estimated impacts

Given the uncertainty around the economic outlook a range of scenarios have been developed. On average over the four-year period, the SHARP would support between 15,500 and 18,000 FTE jobs. This is both direct construction jobs and jobs across other industries.

The peak number of jobs supported (between 21,000-24,500 FTE jobs) is in 2021-22. This is when the economy is likely to be at its weakest and every dollar of stimulus presents a real opportunity to save a job.

Converting the FTE job figure into the actual number of workers means that the 21,000-24,500 FTE jobs could represent up to 30,000 individual workers whose jobs would be saved by the SHARP stimulus.

FIGURE 9 NUMBER OF FTE<sup>5</sup> JOBS SUPPORTED BY SHARP STIMULUS



Source: SGS Economics and Planning

This FTE figure could represent up to 30,000 workers whose jobs would be saved by the stimulus in 2021-22.

The jobs impact of the SHARP declines during in the following years, as assumed return to normal in international migration and broader economic activity recovers the ‘multiplier effect’ is not as great. In 2023-24 between 13,800 and 15,900 FTE jobs will be supported by the SHARP.

SHARP is estimated to raise output in Australia by \$15.7 billion to \$18.2 billion in total over the four years of construction and increase GDP by between \$5.8 billion to \$6.7 billion.

TABLE 1 ANNUAL AVERAGE AUSTRALIA-WIDE ECONOMIC IMPACTS

Scenario	Output Effect (\$m)	Emp Effect (Jobs)	VA Effect (\$m)
Lower	\$3,940	15,540	\$1,450
<b>Central</b>	<b>\$4,230</b>	<b>16,700</b>	<b>\$1,560</b>
Higher	\$4,570	18,050	\$1,690

Source: SGS calculations, 2020

<sup>5</sup> Full-time equivalent

TABLE 2 REGIONAL ECONOMIC IMPACTS – CENTRAL SCENARIO

Region	Total Output Effect (\$m)	Average Emp Effect (Jobs)	Total VA Effect (\$m)
<i>Greater Sydney</i>	5,225	5,325	1,887
<i>Rest of NSW</i>	1,008	975	402
<i>Greater Melbourne</i>	5,204	5,205	1,921
<i>Rest of VIC</i>	770	740	278
<i>Greater Brisbane</i>	1,750	1,705	649
<i>Rest of QLD</i>	1,282	1,200	470
<i>Greater Adelaide</i>	502	480	189
<i>Rest of SA</i>	26	25	9
<i>Greater Perth</i>	552	530	236
<i>Rest of WA</i>	25	20	7
<i>Greater Hobart</i>	152	145	59
<i>Rest of TAS</i>	112	100	37
<i>Greater Darwin</i>	68	55	24
<i>Rest of NT</i>	29	25	11
<i>ACT</i>	208	190	70
<b><i>Australia</i></b>	16,912	16,700	6,248

Source: SGS calculations, 2020

The largest employment and output impacts are expected to be in Sydney and Melbourne, where impacts on output are expected to be a total of \$10.4 billion and just over 10,500 jobs per capital city (around two-thirds of the economic impact nationwide).

If lower economic impact scenario occurs, then 1,200 fewer jobs would be supported on average over the four years (see Table 3).

TABLE 3 REGIONAL ECONOMIC IMPACTS, LOWER SCENARIO

<b>Region</b>	<b>Total Output Effect (\$m)</b>	<b>Average Emp Effect (Jobs)</b>	<b>Total VA Effect (\$m)</b>
<i>Greater Sydney</i>	4,748	4,835	1,715
<i>Rest of NSW</i>	916	885	365
<i>Greater Melbourne</i>	4,928	4,930	1,820
<i>Rest of VIC</i>	729	700	264
<i>Greater Brisbane</i>	1,650	1,605	612
<i>Rest of QLD</i>	1,208	1,135	443
<i>Greater Adelaide</i>	470	450	177
<i>Rest of SA</i>	24	20	9
<i>Greater Perth</i>	524	500	223
<i>Rest of WA</i>	24	20	7
<i>Greater Hobart</i>	145	135	56
<i>Rest of TAS</i>	106	95	35
<i>Greater Darwin</i>	62	50	22
<i>Rest of NT</i>	27	20	10
<i>ACT</i>	182	170	61
<b>Australia</b>	15,742	15,545	5,817

Source: SGS calculations, 2020

Under the higher scenario 1,350 more jobs would be supported on average over the four-year period (see Table 4).



TABLE 4 REGIONAL ECONOMIC IMPACTS, HIGHER SCENARIO

Region	Total Output Effect (\$m)	Average Emp Effect (Jobs)	Total VA Effect (\$m)
<i>Greater Sydney</i>	5,757	5,865	2,079
<i>Rest of NSW</i>	1,111	1,070	442
<i>Greater Melbourne</i>	5,505	5,505	2,032
<i>Rest of VIC</i>	814	780	294
<i>Greater Brisbane</i>	1,875	1,825	695
<i>Rest of QLD</i>	1,373	1,285	503
<i>Greater Adelaide</i>	531	510	200
<i>Rest of SA</i>	28	25	10
<i>Greater Perth</i>	590	565	252
<i>Rest of WA</i>	27	20	7
<i>Greater Hobart</i>	163	155	63
<i>Rest of TAS</i>	120	105	40
<i>Greater Darwin</i>	84	70	30
<i>Rest of NT</i>	36	30	14
<i>ACT</i>	270	245	91
<b>Australia</b>	18,283	18,055	6,752

Source: SGS calculations, 2020

It should also be noted the once 30,000 dwellings are constructed and rented out, housing organisations will be able to leverage against these units to raise private finance to invest in up to 5,000 additional housing units. This would generate additional economic benefits beyond the next four financial years.

# 4. POTENTIAL FOR CONSTRUCTION TO FILL ECONOMIC GAPS

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The entire economy has taken a hit as a result of COVID-19, through the immediate effects of the lockdowns, human reactions to the threat of the virus and flow on impacts throughout the economy.

Investing in construction of residential housing has the potential to have a greater, more reliable stimulus impact than some other potential projects, both in the short term and the long term.

## 4.1 Benefits to the economy in the short term

### Construction can still operate under social distancing

Throughout the lockdown period, construction projects have continued to go ahead and were not subject to the lockdown. The nature of construction is that it is done out of doors and can be done by people standing well apart from each other. Combined with regular handwashing, possible mask use and limiting the sharing of equipment, it can continue relatively safely.

This makes the construction industry an ideal industry to invest in for growth, as in the event of a second wave requiring a reinstatement of lockdowns, the stimulus will still be able to operate productively.

### Ability to use surplus labour

Construction is procyclical, so in an economic downturn, both skilled and unskilled construction workers have a greater chance of being unemployed than workers in other industries. This means that counter-cyclical construction investment can provide jobs for pre-trained construction workers who would otherwise be unemployed, and draw unskilled labour from the unemployment pool. Not only does this reduce the number of unemployed, it doesn't create competition for construction workers that drives up building costs, as it would in an economic upswing.

The ability of the construction industry to use unskilled labour that earns good wages means that the flow on economic impacts per job created in construction are higher than jobs created in other industries.

### Potential to access private housing oversupply

In the event of a significant downturn in apartment prices, it is not uncommon for off the plan purchasers to renege on their purchase contracts if the market price of the apartment at the time of completion is significantly less than the contract price. For example, a purchaser who pays a 10 per cent deposit for a \$750,000 off the plan apartment in 2018, and finds the market price for that apartment in 2020 at completion of construction is \$600,000, is better off losing their \$75,000 deposit and buying a different \$600,000 apartment than to go ahead with their off the plan purchase.

If this happens at large across the apartment sector, developers can be left with dozens of unsold apartments that they cannot sell. Combined with distressed sellers of properties, this can lead to a snowballing crash in house prices. While substantially cheaper houses in principle could be beneficial, the costs of a housing crash include homelessness, increased reliance in welfare including the pension, and an extended period of lack of investment in housing.

Social housing organisations could potentially step in and negotiate with developers to ‘bulk buy’ unsold apartments at a discounted price from the developer. This benefits all parties involved:

- Social housing providers obtain dwelling units quickly and more cheaply than would otherwise be possible
- Other owners of apartments of the building have a floor put under their apartment price
- Developers can offload their unsold stock quickly.

#### 4.2 Economic benefits of social housing in the long term

The economic benefits of affordable or social housing in the long term can be significant. Some of the economywide costs of unaffordable housing are shown in Figure 11.

FIGURE 11 ECONOMIC COSTS OF UNAFFORDABLE HOUSING



Take the example of a child care worker with two children, whose job is in the CBD of a major city. The parent is good at their job, earns a good wage, is popular with children and co-

workers and the CBD has high demand for child care. The children are settled happily at a nearby public school. Housing costs are high in the centre of the city, and three bedroom homes close to the CBD are expensive. How is this family to manage the high costs of housing?

- **Incur higher occupancy costs:** They can move to any three bedroom home that is available. This may mean moving to a location with a long and expensive commute, or an old or poorly maintained three bedroom home which will face higher costs from poor insulation, ventilation and so forth.
- **Lower productivity from unfit housing:** They can move to a two bedroom or smaller home and share a bedroom. Crowding at home is likely to mean the children learn less at school and the parent is less rested, leading to lower productivity.
- **Loss of agglomeration economies:** The parent may decide to move to a different child care job away from the CBD, where childcare is less in demand, the parent earns a lower wage but the fall in wages is more than offset from much lower rents for housing away from the CBD. This means that workers cannot work in the jobs where they are most productive, as they cannot afford to live near those jobs.
- **Less money to stimulate the economy:** the family could simply pay an outsize share of their income on rent. This would mean that after-school activities, excursion, new clothes and holidays are simply unaffordable, which reduces living standards for the family. Economy-wide, it means less money available to stimulate the economy.
- **Risk of homelessness:** A high cost of housing means that the family is at greater risk of defaulting on rent and becoming homeless in the event of a shock, such as illness or job loss.
- **Intergenerational disadvantage:** The combination of these factors – inadequate housing, crowding, parents moving regularly to find cheaper housing, lack of family spending money and risk of homelessness increase the risk that children growing up in this situation will be disadvantaged themselves.

Providing a strong supply of social housing avoids these economic costs for families that can live in a social house. They can access housing that is close to work, affordable and good quality. Parents can be more productive at work if they have a reasonable commute. Children can go to the same school throughout their school career, rather than changing schools whenever Mum or Dad has to move because the lease wasn't renewed or the rent rise was too high.

Notwithstanding these clear benefits of a good supply of social housing, national investment in this form of community infrastructure has generally been on the decline over the past four decades, apart from a welcome spike in the post GFC stimulus period. A similar and sustained effort is required now.

FIGURE 12 TOTAL PUBLIC SECTOR DWELLING APPROVALS



Source: ABS 8731.0 Building Approvals, Australia

## 5. CONCLUDING REMARKS

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The COVID-19 pandemic represents the most significant challenge to Australia's economy in more than 80 years. The shutdown of large parts of the economy are unprecedented and Australia will experience the biggest contraction in GDP since the Great Depression. Without international migration the demand for housing will fall dramatically during the 2021 calendar year. This fall could be up to 50 per cent in the number of new housing starts and place hundreds of thousands of jobs at risk.

Action is required to support the economy as it deals with the 'shock' of COVID-19.

SHARP aims to develop 30,000 additional social housing units, 75 per cent of which will be delivered within three years, along with accelerated maintenance and renovation of existing social housing stock.

On average of the four-year period, the SHARP would support on average between 15,500 and 18,000 FTE jobs. This is both direct construction jobs and other jobs.

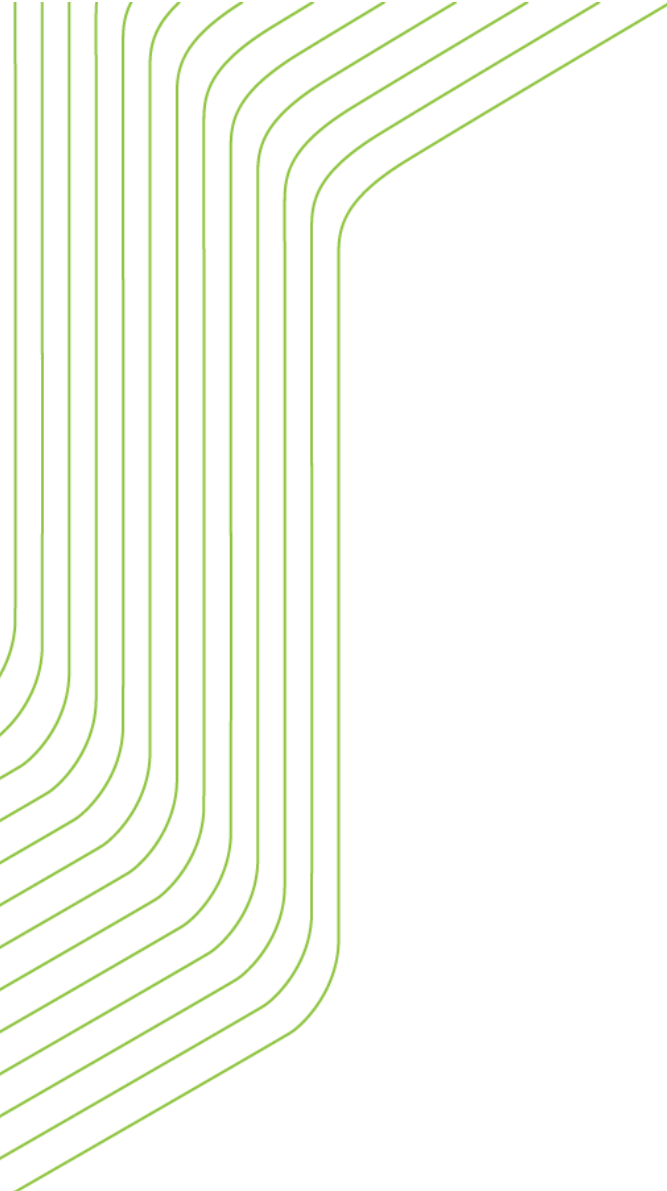
The peak number of jobs supported (between 21,000-24,500 FTE jobs) is in 2021-22. This is when the economy is likely to be at its weakest and every dollar of stimulus presents a real opportunity to save a job. This FTE figure could represent up to 30,000 workers whose jobs would be saved by the SHARP stimulus.

The job impact of the SHARP declines during the following years as assumed return to normal in international migration and broader economic activity recovers the 'multiplier effect' is not as great. In 2023-24 between 13,800 and 15,900 FTE jobs will be supported by the SHARP.

SHARP is estimated to raise output in Australia by \$15.7 billion to \$18.2 billion in total over the four years of construction and increase GDP by between \$5.8 billion to \$6.7 billion.

Investing in construction of residential housing has the potential to have a greater, more reliable stimulus impact than some other potential projects, both in the short term and the long term.





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