

# Charter Insight

## The Federal Government HomeBuilder Scheme: Who benefits?

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The Federal Government introduced its *HomeBuilder* scheme on 4 June 2020 – a \$25,000 cash grant to new home purchasers and renovators aimed at supporting new construction and construction jobs that are threatened by the COVID-19 induced residential market downturn.



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### HomeBuilder Eligibility

In contrast to grants in the past that have only been available to first home buyers, HomeBuilder is available to all owner-occupiers (but not investors), although they must meet the following eligibility criteria:

- You are a natural person (not a company or trust);
- You are aged 18 years or older;
- You are an Australian citizen;
- You meet one of the following two income caps:
  - \$125,000 per annum for an individual applicant based on your 2018/19 tax return or later; or
  - \$200,000 per annum for a couple based on both 2018/19 tax returns or later;
- You enter into a building contract between 4 June 2020 and 31 December 2020 to either:
  - build a new home as a principal place of residence, where the property value (house and land) does not exceed \$750,000; or
  - substantially renovate your existing home as a principal place of residence, where the renovation contract is between \$150,000 and \$750,000, and where the value of your existing property (house and land) does not exceed \$1.5 million;
- Construction must commence within three months of the contract date.

All dwelling types (house, apartment, house and land package, off-the-plan, etc) are eligible under HomeBuilder, in accordance with the requirement that the owner-occupier must contract to build a new dwelling or substantially renovate their existing dwelling. The applicant must also meet the eligibility requirements outlined above.

### Beneficiaries

Despite the size of the incentive (\$25,000) being greater than previous Federal grants and aimed at all new home buyers rather than only first home buyers (such as during the Global Financial Crisis), the impact is likely to be less.

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## **In assessing the potential impact of HomeBuilder, the devil is in the detail.**

- It appears that the impact will be concentrated in the greenfield market. The requirement to commence construction within three months from the date of contract will preclude new apartment projects (and many townhouse projects) unless construction commencement is imminent.
- Knock downs, where an existing house is demolished and replaced with a new house, are also expected to experience a modest uplift. Most knock downs occur in established inner and middle suburbs, where the property value (house and land) is likely to exceed \$750,000. Household incomes in these locations are also likely to be above the grant threshold.
- There is some debate as to whether a household that can afford a \$150,000 renovation needs a further \$25,000 to add to the budget. Nevertheless, eligible renovations above this value are most viable in higher value suburbs where there is less likelihood of over-capitalisation, and where incomes are potentially above the income threshold. Moreover, while HomeBuilder is likely to expedite renovations that are already being planned, it will be more difficult for renovations where the process has not yet started. Putting all the plans and approvals in place and ready to engage a builder by the time HomeBuilder expires at the end of December will be a challenge.
- However, even within the greenfield market, the boost to construction is likely to be less than at first glance. The need to start building within three months is problematic unless there are already completed lots available or lots under construction and due to be titled soon. Scaling up the next round of land subdivision so buyers can take advantage of HomeBuilder before it expires on 31 December will also be a challenge. This will be even more difficult if state governments are rolling out significant infrastructure programs and there is competition for civil engineering services.

The \$750,000 threshold for the total house and land value suggests that the Sydney market will largely miss out.

With entry level pricing in Western Sydney at around \$700,000 for new houses on smaller lots, only a limited number of new houses will qualify for HomeBuilder. Reconfiguring future stages with an increased weighting toward smaller lots that will qualify may cause the cut-off date of the grant to be missed.

In contrast, more affordable land prices suggest that the majority of new house product will qualify for HomeBuilder on the greenfield estates in the other capital cities, while a boost is also expected in regional areas where the \$25,000 grant makes greater inroads into the purchase cost. Knock down activity may also receive a benefit outside of Sydney and Melbourne. Regional New South Wales should also benefit from a spill over of demand out of Sydney.

### **Other Impacts**

**While HomeBuilder has the potential to create some pricing pressure in the new home market via increased demand for land and potentially an increase in construction costs, there are also potential flow on effects in reducing price pressures and improving affordability in the established market.**

- As seen previously when temporary incentives are put in place, demand for new dwellings is expected to be pulled forward to take advantage of the incentive before it expires at the expense of future demand. There will potentially be a lull in new home buyer demand in early 2021 if the market is not entering a cyclical upturn upon the expiry of HomeBuilder, or if the Federal Government does not taper the incentive in the months following.
- Developers and builders of speculatively built houses and townhouses that are currently under construction may face reduced demand and may have to discount to lure potential buyers seeking to build instead to be eligible for HomeBuilder.
- Many first home buyers exiting the rental market to purchase a new dwelling will free up a dwelling for rental. If they would have otherwise been in the market for an existing dwelling, then this will also reduce competition in the market place for established dwellings.

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- There is a question mark over the level of upgraders and downsizers who are willing to sell their existing dwelling in a soft market in order to upgrade to a new dwelling for the HomeBuilder bonus. If trade-ups (and trade-downs) occur at scale, the increase in availability of established houses onto the market should also help to make housing more affordable.
- More broadly, for the first time in a long time the stimulus may be coming at a time when the market may not actually need the new supply. A collapse in net overseas migration has reduced the demand for new dwellings. Encouraging demand for new dwellings instead of existing dwellings in this environment has the potential to reduce price pressures in the established market.
- Encouraging people planning to build (or renovate) to still proceed in the uncertain environment; and
- Absorbing any possible overhang of land stock that may be in place as the economy starts to recover so that the take up of existing stock doesn't delay the construction of new land as sales pick up.

Notably, the apartment markets and knock down markets, are likely to largely miss out while limited benefit will also be felt in home renovations.

As with previous home buyer incentives, the temporary nature of the grant is expected to result in some pulling forward of future demand into 2020 with the risk that demand falls away again in early 2021 if a residential market recovery is yet to gain traction. It is likely that the Federal Government will incorporate a process of scaling back HomeBuilder to prevent demand falling back significantly when it expires on 31 December 2020.

The encouragement into building new housing should also ease some of the pressures in the established market, helping to maintain affordability. Speculative developers of product already under construction may also need to be more competitive in pricing to compete with the HomeBuilder grant that is only available for the contracting of construction for a new dwelling. If high net overseas migration flows were to return quickly, then this additional supply should also help the market to better accommodate this population growth.

## Conclusions

**The stimulatory effect on new home building by HomeBuilder is expected to be concentrated in the greenfield markets on the fringes of Australia's capital cities and in the regional centres. It will also be complemented by existing Federal and State Government incentives aimed largely at first home buyers and will create extra stimulus from these purchasers. However, the impact will be limited by the 31 December 2020 cut-off date and the need to commence construction within three months of signing the construction contract.**

Rather than create significant new demand in the market it seems that the main result will be to reduce the potential depth of the downturn and provide support to the market via:

- Supporting land values and to provide back up demand for those land sales that do not settle due to purchasers having lost their jobs and/or being unable to obtain finance due to lower valuations;

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