Response to COVID-19: The Australian Fiscal Stimulus – HomeBuilder Program

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The Australian Government launched the HomeBuilder Program as one of several fiscal policies designed to address the economic impact of COVID-19 on the Australian economy. This paper presents an economic analysis of the use of expansionary fiscal policy via transfer payments in the HomeBuilder Program. An overview of the HomeBuilder Program and its complements of existing Federal, State and Territory grants have been provided. Economic justifications of the HomeBuilder Program have also been presented. In addition, the paper looks at the changes in private new house sales, number of dwellings approved and new loan commitments with the introduction of the HomeBuilder Program. Finally, the paper examines the eligibility criteria of the HomeBuilder Program against three groups of applicants and finds that people who plan to purchase a house and land package or build a new home on a pre-owned vacant block benefit the most from the programme.

Keywords: COVID-19 pandemic, expansionary fiscal policy, government spending, economic recovery, residential construction, Australian HomeBuilder Program.

1. Introduction

The World Health Organization (WHO) announced the name COVID-19 for the new coronavirus disease on 11 February 2020 (WHO, 2020a). As a result of the concerning levels of spread and severity of the disease outbreak, COVID-19 was declared a Public Health Emergency of International Concern on 30 January 2020 and a pandemic on 11 March 2020 (WHO, 2020b). From December 2019 to March 2021, the disease has devastated the world with over 2,543,755 deaths and over 114 million confirmed cases in 216 countries, areas or territories (WHO, 2021a). The first case of COVID-19 in Australia was confirmed on 25 January 2020 (DoH, 2020a). Directly, responsibility for national health emergencies (such as COVID-19) is shared between the Australian Federal Government (substantially based in the ACT) and the eight State and Territory governments (Yu, 2020). Up to March 2021, there have been nearly 29,000 confirmed cases and more than 900 deaths in Australia (WHO, 2021b). On 22 March 2020, the Australian Government announced national discontinuation of all non-essential gatherings in response to reaching the first 1,000 cases. The measures included temporary closure of licensed venues, gyms, sporting venues and places of worship (DoH, 2020b). On 29 March 2020, the number of confirmed cases in Australia approached 4000. The Australian

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Government took further action to limit both indoor and outdoor gatherings to two persons only and strongly guided all Australians to stay home to work and study remotely (Morrison, 2020).

Due to the impact of the COVID-19 pandemic, the International Monetary Fund (IMF) forecasted the world economy to contract by 4.9 per cent in 2020, which was far worse than the 0.1 per cent global contraction experienced during the Global Financial Crisis (GFC) (IMF, 2020). The negative impact of COVID-19 was more serious than anticipated by the IMF on economic activities in the first half of 2020 globally. The final estimation of the global growth contraction for 2020 was negative 3.5 per cent, better than the anticipated negative 4.9 per cent, reflected a stronger-than-expected momentum in the second half of 2020 (IMF, 2021).

Prior to COVID-19, Australia had already faced the most devastating bushfire on record between November 2019 to February 2020 with around 3000 homes destroyed or damaged (Calma, 2020). Both the timing and intensity of the fires were unprecedented. As the economy absorbed this impact and suffered the first tremors from COVID-19, the Gross Domestic Product (GDP) in Australia shrank 0.3 per cent in the March quarter (ABS, 2020a). The Australian economy contracted further by 7 per cent in GDP in the June quarter of 2020 (RBA, 2020a). With two consecutive quarters of negative growth in real GDP, Australia is in its first technical recession in twenty-nine years (RBA, 2020b). The Australian Government is providing economic responses in three categories: support for households, support for business and employment, and support for the financial system (Frydenberg, 2020a). This paper focuses on one of the fiscal policy responses in the second category – the HomeBuilder Program, which is designed to aid in a faster economic recovery. The HomeBuilder Program expects to provide around 27,000 grants at a total cost of around $680 million uncapped (Prime Minister of Australia, 2020).

2. Background

In response to the recession in the Australian economy, the Australian Government influences the level of aggregate demand in the economy by using fiscal policy (The Treasury, 2021). The goal of fiscal policy is to achieve full employment, price stability and healthy rates of economic growth. Fiscal policy is the only macroeconomic policy directly controlled by the Australian government (Dolamore, 2013).

Fiscal policy is one of the key pillars of macroeconomic policy, which is largely based on the theories of British economist John Maynard Keynes. Keynes (1936/2019) believed that governments could influence economic performance directly through capital expenditure and indirectly through the effects of spending, taxes and transfers on private consumption, investment and net exports. Monetary policy and exchange rate policy are the other two pillars of macroeconomic policy. Monetary policy involves setting the interest rate (the cash rate) on overnight loans in the money market, which can influence other interest rates in the economy (RBA, 2021). The changes in other interest rates will affect the behaviour of borrowers and lenders, influence economic activity and the rate of inflation (RBA, 2021). Australia has a floating exchange rate regime since 1983, which contributes to macroeconomic stability (RBA, 2021).

As for the fiscal policy, its role and effectiveness have been debatable (Makin, 2016). Before the Global Financial Crisis (GFC), monetary policy was identified as the most effective macroeconomic policy for managing aggregate demand in the short-run. Fiscal policy with its long implementation lags was less favoured in the short-run and was considered better for the longer term goals (Stone, 2020). At the time of the GFC, Australia developed both monetary and fiscal policy to respond to the impact of the crisis. The GFC fiscal stimulus included public expenditure on school buildings, social housing, home insulation, limited business tax breaks and income transfers (Kennedy, 2009). As part of the fiscal stimulus to fight the GFC, Australian Government announced a $3.9 billion Energy Efficient Homes Package (EEHP) in 2009. It was estimated that only 60 per cent of Australian homes were insulated at the time of EEHP announcement (ANAO, 2010). Therefore, the EEHP aimed to support lower skilled jobs in the housing and construction industry and improve the energy efficiency of Australian homes. However, Makin (2016) argued that fiscal stimulus was not primarily responsible for saving the
Australian economy during the GFC, rather responsibility lay with a combination of lower interest rates, a major exchange rate depreciation, strong foreign demand for mining exports and a flexible labour market.

On the other hand, Stone (2020) learned lessons from the Great Recession and its aftermath, emphasised the importance of fiscal stimulus, temporary increases in government spending and reductions in government revenues, to support the economy and prevent long-lasting damage from recessions. Over the past decade, Australia’s official cash rate has fallen close to the “zero lower bound” (RBA, 2020a). Fiscal policy has a greater role to play in fighting recessions and stimulating recoveries due to the limits of conventional monetary policy. Fiscal stimulus is most effective to fight recessions when it is implemented as early as possible; directed to individuals and entities who spend additional resources received quickly; larger rather than smaller; and responsive to changing circumstances (Stone, 2020).

It is noted that the size of the HomeBuilder Program in value is nowhere near the EEHP fiscal stimulus level during the GFC. However, there are sizeable housing construction stimulus programs used in Australia in relation to previous economic downturns, such as the National Rental Affordability Scheme (NRAS) in 2008 and the Building Better Regional Cities (BBRC) Program in 2011. The NRAS provides financial incentive to housing providers (approved organisations) for up to ten years to increase the supply of new and affordable rental housing (DSS, 2021a). Housing providers rent dwellings to low/moderate-income earners at a rate that is at least 20 per cent below market value rent. Although the NRAS targets medium to large-scale investment in affordable housing (100 or more houses), small-scale, private, individual investors can be involved in NRAS by investing in or purchasing properties from approved participants or through consortium arrangement. The full amount of an incentive for an NRAS year for a rental dwelling is $8436.07 for the year beginning on 1 May 2019. There are 35,189 incentives paid up to 19 February 2021, putting the total cost of the NRAS at around $296 million. The BBRC Program provided a total funding of $106.3 million from year 2011–12 to 2013–2014, aimed to facilitate the provision of affordable housing for low/moderate-income earners in regional Australia (DSS, 2021b).

Unlike the NRAS and the BBRC Program, the HomeBuilder Program targets the residential construction sector, which (pre-COVID) employed more than a million Australians. Economic stimulus of this sector has the potential to keep many workers employed and avoid the need to provide them with direct Government support via welfare programmes (The Treasury, 2020b). The First Home Owner Grant (FHOG) scheme was introduced on 1 July 2000 to offset the effect of the GST on home ownership (The Treasury, 2020a). The boosts applied to the FHOG in 2001 and 2008 during economic downturn demonstrated its responsiveness as a broader economic lever (Randolph et al., 2013). The HomeBuilder Program works as an addition to existing State and Territory First Home Owner Grant (FHOG) Programs.

### 2.1. Initial HomeBuilder Program

To provide fiscal stimulus by supporting jobs in the residential construction sector, the Australian Government launched the HomeBuilder Program on 4 June 2020 (Prime Minister of Australia, 2020). The HomeBuilder is a time-limited grant program to assist the recovery of the residential construction market. Eligible Australian citizens will receive a grant of $25,000 towards renovations or new home builds under the HomeBuilder Program. To be eligible, singles must earn less than $125,000 and couples must earn less than $200,000 per annum. In addition, contracts must be signed between 4 June and 31 December 2020 to substantially renovate an existing home or build a new home and construction must commence within three months of the contract date.1 “Substantially renovate” means renovating an existing home for a minimum expenditure of $150,000 and a maximum expenditure of $750,000. Furthermore, the combined value of the existing property (house

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1Due to the introduction of Stage 4 restrictions in metropolitan Melbourne and Stage 3 restrictions in regional Victoria in August 2020, all applicants from the HomeBuilder Grant in Victoria have six months from the signing of the eligible HomeBuilder contract to commence construction (SROV, 2020).
and land) must not exceed $1,500,000 pre-renovation. To build a new home, the combined value of the house and land must not exceed $750,000. HomeBuilder Program applications must be submitted no later than 31 December 2020.

The HomeBuilder Program is being implemented via a National Partnership Agreement together with State and Territory governments, where the HomeBuilder payments are distributed with existing State and Territory mechanisms. As of 2 July 2020, all States and Territories have become signatories to the HomeBuilder National Partnership. The HomeBuilder complements existing State and Territory First Home Owner Grant Programs, stamp duty concessions and other grant schemes. In addition, it also complements the Commonwealth’s First Home Loan Deposit Scheme (up to $10,000) and First Home Super Saver Scheme (The Treasury, 2020a). Table 1 provides a comparison of the existing First Home Owner Grant in all States and Territories.

Accounting for the $25,000 from HomeBuilder Program and the existing state First Home Owners Grant, Table 1 shows that first home buyers in regional Victoria and Tasmania receive the largest support of up to $45,000, followed by Queensland and South Australia of $40,000. The other states New South Wales and Western Australia provide $35,000 for first home buyers and stamp duty exemptions for eligible property buyers. First home buyers in Northern Territory also receive $35,000 support. Lastly, the first home buyers in the Australian Capital Territory have access to the $25,000 grant from the HomeBuilder Scheme and stamp duty exemptions.

| State/Territory       | First Home Owner Grant | Additional Notes                                                                                                                                 |
|-----------------------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Australian Capital Territory | None                  | Homebuyer Concession Scheme – First home buyers in the ACT pay no duty if their household income is less than a threshold, whose value lies between $160,000 and $176,650 based on the number of dependents |
| New South Wales       | $10,000                | First home buyers in NSW are exempt from paying all or some stamp duty on homes valued up to $800,000                                                                 |
| Northern Territory    | $10,000                | Home owner assistance – BuildBonus Grant and Territory Home Owner Discount                                                                                                                               |
| Queensland            | $15,000                | For homes up to a value of $750,000 only                                                                                                           |
| South Australia       | $15,000                | For property with a market value of $750,000 or less                                                                                               |
| Tasmania              | Up to $20,000          | Available for newly built or to be built residences. Tasmania Government provides a 50% discount on property transfer duty for first home buyers of established homes with a dutiable value of $400,000 or less |
| Victoria              | $10,000 for urban areas | First home buyer grant is only for homes up to $750,000 in value and built within the previous five years. First home buyers are exempt from paying stamp duty on properties valued up to $600,000, and a concession is available for properties valued between $600,001 and $750,000 |
| Western Australia     | $10,000                | The WA Government offers $125 million stimulus package for owner-occupiers who build or substantially renovate their homes. For homes up to a value of $750,000 (up to $1 million north of the 26th parallel) |

Source: State and Territory Government websites (2021).
2.2. Extended HomeBuilder Program

On 30 November 2020, the Australian Government announced extension of existing HomeBuilder Program to 31 March 2021. However, eligible Australian citizens will receive a lower grant of $15,000 towards renovations or new home builds under the extended HomeBuilder Program (Frydenberg, 2020b). Eligible Australian citizens must sign contracts between 1 January 2021 and 31 March 2021. The existing three months construction commencement timeframe has been extended to six months for all initial and extended HomeBuilder applicants who signed contracts on or after 4 June 2020. The $750,000 new build price cap has been increased to $950,000 in New South Wales and $850,000 in Victoria. The new build price cap for all other States and Territories remains at $750,000. The extended HomeBuilder Program also reset the licensing requirements for builders. The builders must have a valid licence/registration before 4 June 2020 if contract is signed before 29 November 2020; and must have a valid licence/registration before 29 November 2020 if contract is signed on or after 29 November 2020. In addition to the above-mentioned changes, all initial and extended HomeBuilder Program applications have an extended deadline till 14 April 2021 to be submitted.

Eligible types of dwellings under the HomeBuilder Program include purchase of a house and land package; build a new home on a pre-owned vacant block; knockdown and rebuild; substantial renovation of an owner-occupied property; and purchase of an off-the-plan apartment or townhouse. The payment of the HomeBuilder Grant for house and land package, and new build on pre-owned land is due when the foundations have been laid and the first progress payment has been made to the builder. The payment of the grant for knockdown and rebuild, and substantial renovation is due after construction has commenced and a minimum of $150,000 of the contract price has been paid.3

3. Economic Implications of the HomeBuilder Program

Australian GDP fell 0.3 per cent in the March quarter and a further 7 per cent in the June quarter 2020 (ABS, 2020b). The 7 per cent economy contraction is the biggest collapse since the ABS records began in 1959. With two consecutive quarters of negative economic growth, Australia has entered its first technical recession since the 1990s.

In the June quarter of 2020 (ABS, 2020b), there was a significant contraction of 12.1 per cent in household consumption expenditure. Spending on services, particularly on transport services, operation of vehicles and hotels, cafes and restaurants, fell 17.6 per cent. The reduction in spending on services is due to the restrictions put in place to contain the spread of the COVID-19 pandemic. The COVID-19 restrictions changed households’ spending behaviour. As a result of the fall in consumption expenditure, the household saving to income ratio increased from 6 per cent to 19.8 per cent (ABS, 2020b).

A consequence of a recessionary gap is increased unemployment or underemployment. As expected, the hours worked fell by 9.8 per cent, which even outpaced the record 2.5 per cent decline in wages. The reduction in working hours reduced the tax income received by the government. The social assistance benefits in cash increased significantly by 41.6 per cent. With increased number of assistance recipients and additional support payments, the government paid record-high subsidy payments of $55.5 billion in response to the COVID-19 pandemic economic impact. These payments contributed to a fall in the general government net savings from $1.2 billion in the March quarter to negative $82.6 billion in the June quarter (ABS, 2020b).

In contrast, public demand contributed a positive 0.6 per cent to GDP. This was driven by increased defence spending and health related spending with the management of the COVID-19 pandemic. Net exports contributed a positive 1 per cent to GDP. However, this is a result of greater fall in imports of

2On 17 April 2021, the Government announced extension of the construction commencement requirement from six months to 18 months for all applications (contracts signed between 4 June 2020 and 31 March 2021 inclusive).
3In Tasmania, the timing of the grant payment may be different in certain circumstances. Applicants should refer to the State Revenue Office of Tasmania website for further information (SROT, 2021).
12.9 per cent than the 6.7 per cent fall in exports. Imports of goods, particularly consumption and capital goods, fell 2.4 per cent. Furthermore, imports and exports of services fell 50.5 per cent and 18.4 per cent, respectively, due to COVID-19 travel ban and tourism difficulty (ABS, 2020b).

Given Australia is in recession with high unemployment, surplus savings and falling real output, expansionary fiscal policy should be used. Keynes (1936/2019) argued that the injection of government spending could stimulate economic activity and get the unemployed resources back into productive use, which enables the economy to recover more quickly than a laissez-faire approach. The Australian Government launched HomeBuilder Program to provide fiscal stimulus to increase aggregate demand (AD). The provision of $25,000 via the HomeBuilder Program increases transfer payments from the Australian Government to eligible citizens. The transfer payments will increase the disposable income of these consumers, enabling them to increase consumption expenditure and eventually leading to increased employment, increased aggregate demand and higher economic growth (Figure 1).

In Figure 1, AD is the aggregate demand, representing the relationship between the quantity of real GDP demanded and the price level when all other influences on expenditure plans remain the same. SRAS, the short-run aggregate supply, represents the level of real GDP which will be produced at different price levels. LRAS, the long-run aggregate supply, shows the relationship between real GDP supplied and the price level when all prices are flexible. The LRAS is vertical at the point of full employment, also known as potential GDP (Yf). Ye is the short-run macroeconomic equilibrium when the quantity of real GDP demanded equals the short-run quantity of real GDP supplied.

In the initial stage, the demand-driven, uncapped HomeBuilder Program is estimated to provide around 27,000 grants at a total cost of around $680 million uncapped (Prime Minister of Australia, 2020). The final cost of the program depends on how many applicants will actually apply for the grant. HomeBuilder Program is expected to help support 140,000 direct jobs and additional 1,000,000 related jobs in the residential construction sector. The jobs cover businesses and sole-trader builders, contractors, property developers, construction materials manufacturers, engineers, designers and architects. The increase demand in residential construction will help fill the construction activity gap in the second half of 2020 due to COVID-19 pandemic. As shown in Figure 1, increased transfer payments (ΔG) stimulate demand, support employment throughout the economy and shift aggregate demand.

**Figure 1.** Expansionary fiscal policy – HomeBuilder Program
demand from AD to AD\textsubscript{1}. This leads to a new short-run equilibrium at a higher GDP (Y\textsubscript{1}) and a reduced recessionary gap.

Although the HomeBuilder Program provides one-time transfer payments to individuals, the injection of money into the economy by the Australian Government is expected to cause a positive multiplier effect. The multiplier effect occurs when an initial increase in spending, cycles repeatedly through the economy and has a larger impact than the initial money amount spent (Keynes 1936/2019). Builders who gain a job because of the transfer payment in the HomeBuilder Program are able to earn more income. With more income, builders spend more and purchase more from firms. Firms are now able to pay their workers and suppliers. These workers and suppliers then buy goods from other firms. The other firms now can also pay their workers and suppliers, and so on. In this way, the government’s initial injection leads to a higher final increase in real GDP than the initial amount. According to ABS (2021a), Australian GDP rose 3.4 per cent in the September quarter and a further 3.1 per cent in the December quarter 2020. With a stronger consumer confidence, the household saving to income ratio dropped to 18.7 per cent in September quarter and 12.0 per cent in December quarter (2021a).

4. Economic Impacts of the HomeBuilder Program
The HomeBuilder Program is designed to stimulate activity in the residential construction sector. The online applications portals for the HomeBuilder Program in States and Territories opened on 6 July 2020 in Tasmania; on 24 July in Western Australia; on 9 August in New South Wales, Victoria, Queensland, South Australia and the Northern Territory; and on 14 August in the Australian Capital Territory. As reported by States and Territories, preliminary data on HomeBuilder applications received is shown in Figure 2. The changes in average number of applications received per day are shown in Figure 3.

Preliminary data on HomeBuilder applications received as at 26 February 2021 is shown in Figure 4. There are 88,624 applications received in total, which exceeded the expected take-up level of 27,000 grants. It should be noted that these applications have not been assessed for eligibility. Therefore, the total number of grants to be paid is yet to be finalised. As shown in Figure 4, new build applications account for 80.28 per cent of the HomeBuilder Program and renovation applications only account for 20 per cent of the program.

![Figure 2. Number of HomeBuilder Program applications received from October 2020 to February 2021*. *Data from June 2020 to September 2020 were not available. Source: Preliminary data reported by States and Territories and is subject to revision by States and Territories (The Treasury, 2021)](image-url)
The number of the HomeBuilder Program applications in States and Territories as at 26 February 2021 is shown in Table 2. The lowest number of applications is received from Northern Territory, only 330 applicants, which is consistent with the Territory’s small population. However, the highest number of applications is received from Victoria, followed by Queensland rather than from the most populated State, New South Wales.

As shown in Figure 5, new build applications are consistently higher than substantial renovations applications across all States and Territories from October 2020 to February 2021. The new build to renovation ratio is the highest in Western Australia, 15 new builds to 1 renovation applications in December 2020. The difference between new build and renovation applications is lowest in New South Wales, around 2 new builds to 1 renovation applications.

Eligible new build dwellings are purchase of a house and land package; build a new home on a pre-owned vacant block; and purchase of an off-the-plan apartment or townhouse. Eligible HomeBuilder Program renovation dwellings consist of knockdown and rebuild, and substantially renovation of an owner-occupied property.

Figure 3. Average number of HomeBuilder applications received per day. Source: Extrapolated results The Treasury (2021)

Figure 4. The HomeBuilder Program Applications as at 26 February 2021. Source: Preliminary data reported by States and Territories and is subject to revision by States and Territories (The Treasury, 2021)
4.1. Purchase of a House and Land Package or Build a New Home on a Pre-owned Vacant Block

Once the applicants meet the income eligibility of the HomeBuilder Program, the property value eligibility is the same for people who enter a house and land package contract and for people who sign the construction contract on a pre-owned vacant block. In both circumstances, the house and land combined value should not exceed $750,000 in the initial HomeBuilder Program.

As shown in Table 3, the median lot price in different States and Territories range from $179,500 in South Australia to $458,900 in New South Wales. The smallest median lot size is found in Western Australia at 375 sqm, whereas the largest median lot size is 494 sqm in the Australian Capital Territory.

Though the construction cost of a house is hard to measure as it is affected by numerous factors, it is recognised that the cost largely depends on size of the property, type and quality of building materials, and building-site constraints. The residential house construction costs in different States and Territories have been provided in Table 4. Depending on the housing location and other factors, the

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**Table 2. HomeBuilder Program Applications in States and Territories as at 26 February 2021**

| State/Territory          | New Build | Substantial Renovations | Total |
|--------------------------|-----------|-------------------------|-------|
| Australian Capital Territory | 1586     | 587                    | 2173  |
| New South Wales          | 10,177    | 5493                   | 15,670|
| Northern Territory       | 295       | 35                     | 330   |
| Queensland               | 15,973    | 3523                   | 19,496|
| South Australia          | 7474      | 1731                   | 9205  |
| Tasmania                 | 2216      | 420                    | 2636  |
| Victoria                 | 20,726    | 4707                   | 25,433|
| Western Australia        | 12,701    | 980                    | 13,681|

*Source: Preliminary data reported by States and Territories and are subject to revision by States and Territories (The Treasury 2021).*

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**Figure 5. Ratio of New Build to Renovation applications from October 2020 to February 2021 in States and Territories*. *Data from June 2020 to September 2020 were not available Source: Preliminary data reported by States and Territories and is subject to revision by States and Territories (The Treasury, 2021)**
price of an average-sized house varies from $313,630 in South Australia at the low range to $1,131,180 in New South Wales at the high range.

Using data from Table 3 and Table 4, a combined value of house and land in different States and Territories is presented in Figure 6.

According to the initial $750,000 property value cap in the HomeBuilder Program, only three States, Queensland, South Australia and Western Australia, have a median combined value of house and land (low range constructions) that could meet the eligibility of the programme. As noted, fiscal stimulus is most effective when it is responsive to changing circumstances (Stone, 2020). The extended HomeBuilder programme recognises the limit of the $750,000 property value cap, which increases the property value cap for new build contracts, between 1 January 2021 and 31 March 2021, in New South Wales and Victoria to $950,000 and $850,000 respectively (The Treasury, 2021). After the increase in the property value cap, the median combined value of house and land (low range constructions) in New South Wales and Victoria could also meet the eligibility of the program.

New house sales data collected by House Industry Australia\(^4\) (HIA, 2021) is used to examine the impact of the HomeBuilder Program in the economy. Figure 7 shows the number of new house sales

\(^4\)Methodology: Each month HIA surveys the largest 100 home builders in Australia on their sales (contract to build) volume for the previous month. These builders account for 33 per cent (2018/19) of all houses built in Australia. This sample is used to extrapolate results for the rest of the market including a seasonal adjustment.
in Australia from February 2020 to February 2021. With the introduction of COVID-19 restrictions, the new house sales dropped to the lowest in March 2020 over the past 2 years. The new house sales kept falling in April and May 2020, likely due to the uncertainty caused by unstable employment and loss of consumer confidence. Since the introduction of the HomeBuilder Program in June 2020, the new house sales saw a first-time monthly increase of 78 per cent. Though not as high as June 2020 sales, new house sales in July to October 2020 also shown elevated levels since March 2020. New house sales in the four months from July to October 2020 were more than 30 per cent higher when compared to the same time in 2019 (Figure 8).

In November 2020, the new house sales reached a decade high record with 15.2 per cent increase from October 2020. However, the strongest monthly increase was seen in December 2020 with an increase of 91.8 per cent from November 2020, nearly doubling the number of sales in November. The HomeBuilder Program and the announcement of extended HomeBuilder Program (also see Figure 3) provides incentive for this remarkable increase in December new house sales. The extended HomeBuilder Program adjusted the three months construction commencement timeframe to six months. With a less constrained construction commencement timeframe, home buyers rushed to finalise contracts to build a new home before the initial HomeBuilder Program deadline, 31 December 2020, in order to take advantage of the higher $25,000 grant rather than the $15,000 grant in the extended HomeBuilder Program.

New house sales in January and February 2021 did not match the remarkable volume of sales in December 2020. New house sales in January 2021 dropped by 69.4 per cent from December 2020. Although the January 2021 sales are also 12 per cent lower than in January 2020 (Figure 8), it is not due to the loss of consumer confidence as when COVID-19 restrictions were introduced. The surge in December 2020 sales drew forward sales to access the $25,000 grant and will push back sales until the end of March, the new deadline of the extended HomeBuilder Program. Given HomeBuilder eligible sales were drawn forward in December 2020, many of the new houses sold in January were not HomeBuilder eligible sales. This is a promising market outlook as the demand for housing is recovering for HomeBuilder ineligible sales as well.

New house sales were 22.9 per cent higher in February 2021 than January 2021 and 1.7 per cent higher than in February 2020 (Figure 8). It reflects the impact of the extended HomeBuilder Program. However, the full impact of the extended HomeBuilder Program will not be observed until the
end of March. To access the $15,000 grant, the construction must commence no later than six months since the contract date. The builders are more likely to delay the signing of some contracts to allow for greater flexibility and more detailed planning of the constructions. Therefore, the March 2021 new house sales will have another remarkable increase similar to the increase in December 2020, though at a lower volume due to the lower grant offered.

Although the HomeBuilder Program is not the only reason behind the huge increase in new house sales, increased new house sales is a good indication that HomeBuilder Program has strengthened the confidence of consumers who had delayed their property purchase decision in previous months. The higher sales number in 2020 compared to the same time in 2019 also suggests that the HomeBuilder Program has convinced some future first home buyers to act earlier. Furthermore, the increase in new house sales supports the increase of detached homes construction and helps the economic recovery from the COVID-19 recession (Figure 9). There is a clear increasing trend in the number of private sector houses approved each month since June 2020, when the HomeBuilder Program was introduced. Private house approvals rose to the highest level of 13,638 approvals in December 2020.
In January 2021, the number of loans for the construction of new dwellings rose to its highest level in over a decade, up by 15.7 per cent for the month and 141 per cent through the year (Figure 10).

4.2. Purchase of an Off-the-plan Apartment or Townhouse

Off-the-plan apartments or townhouses are eligible new build dwellings in the HomeBuilder Program. As the prices for off-the-plan properties range widely, income eligibility and property value eligibility are more likely to be met by grant applicants. However, there are some extra requirements in off-the-plan property purchases. In the initial HomeBuilder Program, to receive the grant successfully, the applicant not only needs to sign the sales contract between 4 June 2020 and 31 December 2020, but also check that the construction of the off-the-plan property commences on or after 4 June 2020, and no later than three months after the contract is signed. In the extended HomeBuilder Program, sales contract can be signed between 4 June 2020 and 31 March 2021, and construction commencement should be no later than six months after the contract is signed. To clarify, the applicant will not be eligible for the grant even if the sales contract is signed within the timeframe, but construction of the off-the-plan property commences before 4 June 2020.

Furthermore, the applicant must be registered on the title as the owner of the property by no later than 30 April 2023. This means that if the construction starts on 30 September 2021 (six months after the final contract signing day, 31 March 2021), the construction must be finished and allow the purchaser enough time to complete settlement within twenty-five months, which is longer than the eighteen months in the initial HomeBuilder Program criteria. However, for off-the-plan purchase, the timing between signing a contract and construction completion can range from a minimum of twelve months to a maximum of up to five years (Collett, 2020). Unlike detached houses, off-the-plan townhouse/apartment sales require a number of purchaser commitments before the construction can commence.

Buying off-the-plan property is one of the easiest ways to enter the property market. A purchaser only needs a 10 per cent deposit at the time of signing the sales contract. The rest of the payment is required at the settlement, when construction is complete. This allows the purchaser more time to save towards the property, moving costs and furniture, etc. However, as the prices in the housing market continue to drop due to the COVID-19 pandemic, purchasers face higher risk that they pay more than the property is worth at settlement. Home loan lenders value the off-the-plan property at completion. If the property is worth less than the contract price, the financial institutions may refuse to issue the loan or ask the purchasers to provide a larger deposit.

![Figure 9. Number of monthly approvals – private sector houses (seasonally adjusted) Source: ABS (2021b)](image-url)
According to CoreLogic (2020), for the period of March to May, off-the-plan unit valuations were 52 per cent lower than the contract price in Sydney and 51 per cent lower in Melbourne (Figure 11).

The number of approvals for private sector dwellings excluding houses (i.e. townhouses and apartments) did not show the same level of increase as seen in the private sector house approvals (Figure 12 and Figure 9). It suggests that the HomeBuilder Program is more likely to benefit purchasers of a house and land package or owner of a to-be-built home than purchasers of off-the-plan townhouses and apartments.

4.3. Knockdown and Rebuild or Substantially Renovation of an Owner-occupied Property

As a time-limited offer, the HomeBuilder Program provides some incentives for people who have been hesitating to rebuild or renovate because of the recession. However, to be qualified for the grant, substantial renovation needs to incur a minimum of $150,000 and a maximum of $750,000 expenditure. This criterion means people cannot cheaply renovate the most needed areas in the house (Refresh Renovations, 2020).

For instance, average bathroom renovation cost between $25,000 and $35,000 and kitchen renovation cost between $25,000 and $35,000 (Table 5). In addition, the renovation works must serve a purpose to improve the accessibility or safety or liveability of the dwelling (The Treasury, 2020a). This
restriction specifically excludes people who want to build a standalone granny flats, swimming pools, tennis courts and structures that are not connected to the property, for example outdoor spas and saunas, sheds or standalone garages.

The programme is, however, more favourable to people who plan to knockdown and rebuild, or are prepared to spend more than $150,000 to renovate their properties. As long as the pre-renovation value of the existing home is not over $1,500,000, the eligible applicants will have access to a maximum of $750,000 to knockdown and rebuild or substantially renovate. This is much more relaxed eligibility criteria compared with house and land package purchases or new home buildings on vacant blocks.

It is noted that many renovations do not require formal approvals and the building approvals tend to lag behind home sales and loan commitment data. For those alterations and additions which require approval, the value of building approval already saw an increase from June 2020 (Figure 14), indicating a positive impact from the HomeBuilder Program on knockdown and rebuild or substantial renovation of an owner-occupied property. However, as Figure 13 indicated, most projects funded by the HomeBuilder Program are new residential building.

| Table 5. Renovation cost of a house in Australia (2020) |
|--------------------------------------------------------|
| Bathroom Renovation                                  | $25,000–35,000 |
| Kitchen Renovation                                   | $25,000–35,000 |
| Corrugated Iron Roof                                 | $12,000–14,000 |
| Dormer Window                                        | $8,000–9,000   |
| Ventilation System                                   | $2,000–5,000   |
| Reclad Exterior of House                             | $30,000–$35,000|
| Exterior Painting                                    | $10,000 and over|
| Double Glazing                                       | $10,000 and over|

*Source:* Refresh Renovations (2020).
5. Conclusions

This paper presented detailed background and discussed the economic impacts of the HomeBuilder Program in Australia. The HomeBuilder Program announced on 4 June 2020 aims at stimulating the Australian economy, which has been affected by the COVID-19 pandemic. To help the Australian economy recover from recession, the HomeBuilder Program is one of the expansionary fiscal policies implemented by the Australian Government. The programme has been implemented by State and Territory governments through National Partnership Agreement. This paper analysed the take-up levels and trends of the HomeBuilder Program. There are 88,624 applications of the HomeBuilder Program received as at 26 February 2021, which markedly exceeded the initial estimates of 27,000 grant uptake. The change in take-up trend also reflected the reduction in grant value offered from the initial HomeBuilder Program to the Extended HomeBuilder Program.
The eligibility criteria of the HomeBuilder Program have been analysed against three groups of applicants: people who plan to purchase a house and land package or build a new home on a pre-owned vacant block; purchase an off-the-plan apartment or townhouse; and knockdown and rebuild or substantially renovate an owner-occupied property. From the analysis, people who plan to purchase a house and land package or build a new home on a pre-owned vacant block would benefit the most from the programme. People who knockdown and rebuild or substantially renovate an existing property also showed increased level of activity with the introduction of the HomeBuilder Program. People who plan to purchase off-the-plan apartments or townhouses are less likely to meet the tight timelines for the HomeBuilder Program eligibility. The impact of the HomeBuilder Program for the purchaser of off-the-plan apartments or townhouses is insignificant.

Overall, it is evident that the HomeBuilder Program can impose a positive impact on the economy recovery of Australia. The introduction of the HomeBuilder Program stimulates the increase in private new house sales, number of dwellings approved and new loan commitments. The HomeBuilder Program demonstrated its responsiveness as a broader economic lever. The extended HomeBuilder Program reflected on the construction industry feedback and relaxed the new build price cap and construction commencement timeframe. Although the HomeBuilder Program did not address the social and affordable housing concerns over the longer term (as the NRAS and BBRC Program did), it enabled the government to exploit the housing market to stimulate the economy in the short term. The mid- to long-term economic impacts of the HomeBuilder Program might take years to unfold. Follow-up economic analysis is required to provide a more comprehensive assessment of the programme. Future analysis should also include assessment of building industry capacity. A shortage of materials and skilled tradespeople could limit the ability of builders to meet the required construction timeframe, leading to unqualified HomeBuilder applicants.

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