

Rebuilding Australia

Volume 1: Setting the Scene for a Building and Construction Industry COVID-19 Action Plan

April 2020



**MASTER BUILDERS
AUSTRALIA**

Message from the President & CEO



Welcome to our new publication “Rebuilding Australia”.

Since the commencement of the COVID-19 crisis, Master Builders Australia has been on the front foot, recognising the urgent, intermediate and long-term issues that will confront the building and construction industry through the suppression and recovery phases of this pandemic.

As we progress through this journey, we believe it is important to document our analysis and our initiatives to rebuild Australia.

This first volume, “Setting the Scene for a Building and Construction Industry COVID-19 Action Plan”, outlines where the industry was positioned pre COVID-19 and the early identification of the challenges and solutions. Subsequent volumes will cover in-depth analysis of specific issues such as impacts on each of the 3 sectors of the industry, updated forecasts, survey analysis, modelling and our ideas to Governments and investors about the critical importance of sustaining a viable and resilient building and construction industry.

Master Builders Australia welcomes the ongoing recognition from all levels of government that building and construction is an essential industry and therefore remains open for business to support 1.2 million jobs. The advocacy to ensure the essential status of the industry was an intense process over a number of weeks and included unexpected alliances with the CFMMEU and the AWU with dialogue ongoing as industry stakeholders work constructively together to ensure the viability of the industry.

Vital to keeping sites open was ensuring that workers practice social distancing and robust hygiene protocols. Master Builders launched a targeted national paid advertising campaign to promote the importance of appropriate onsite behaviour. Master Builders Associations around the country stepped up to provide safety guidance and support to their members in the early confusing weeks.

Master Builders also turned its mind to the impacts of an economic downturn that might be experienced by the building and construction sector as we move through the suppression phase and to the recovery phase of the crisis. Stimulus ideas were mooted with the Prime Minister in mid March and advocacy of those initiatives has gained pace.

To justify stimulus we modelled economic shock scenarios in relation to businesses, activity and jobs impacted which has been supported by the results of a new monthly survey that commenced this month.

We are thankful that the strength of the Master Builders movement throughout the country has drawn on expertise to provide a rapid response to issues as they arise to support the Australian building and construction industry through these difficult times. The industry is well placed to play a central role in rebuilding Australia.

Simon Butt
President

Denita Wawn
CEO

Principles for Action



Master Builders Australia has commended Australian Governments for their management of the COVID-19 pandemic and its implications for Australia both in terms of the well-being of all of those in the community and the well-being of our economy.

To assist Governments, in consideration of potential measures to be added to the existing suite of stimulus measures, Master Builders has identified a range of initiatives.

The overarching principles taken by Master Builders in developing these measures are:

- Ensuring confidence is retained in the building and construction industry through a clearly identified pipeline of future work (short and long term) to keep our members in work to minimise unemployment in our industry which currently employs 1 in 10 Australians.
- Identification of initiatives that deliver a long-lasting dividend from Government investment. We currently have under investment in housing, commercial buildings and civil infrastructure to meet our future population demands so money spent now in the building and construction industry should pay-off in the long-term. Further, some initiatives will enable existing policy objectives to be met.
- Immediate stimulus measures that can be easily implemented to enable money to enter the economy quickly. For example, refurbishment or maintenance projects that don't require planning approvals.
- Measures that assist the whole industry, including SMEs that make up 98% of the building and construction industry. Too often Government stimulus measures cannot be accessed by SMEs due to restrictive eligibility criteria. The shackles must come off the overly bureaucratic processes and Government officials have to stop transferring all of the risk to the contractor which makes Government contracts too high risk to accept in many instances.

Master Builders contend that the industry can play a leading role in rebuilding the economy. However, due to a massive decline in private investment our capacity to play that role is highly dependant on government stimulus.

Economic Snapshot of the Building and Construction Industry pre COVID-19

The Building and Construction Industry in February 2020 comprised:

400,000

Around 400,000 businesses of which 99% were small to medium sized businesses

#1

More apprentices than any other industry

#2

The second largest industry by GDP



1.2 million

1.2 million workers and a further 440,000 indirectly supported in other parts of the economy

#1

The largest number of full-time workers than any other industry

Prior to the COVID-19 crisis, Master Builders forecasted that the performance of the industry was set to be mixed over the next five years with infrastructure-related activity performing well and residential building recovering to stronger levels. However, commercial building activity was set to fare less favourably and was forecast to lose considerable ground over the next few years.

Key forecasts were as follows:

MBA Forecasts of Total Construction Activity in Australia (Billions of Dollars) & Change on Previous Year (%) (Pre COVID-19 forecast from February 2020)

2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
\$218.34	\$207.88	\$201.47	\$225.59	\$204.87	\$202.69	\$204.98	\$207.20	\$209.07	\$211.10	\$213.22
-6.9%	-4.8%	-3.1%	12.0%	-9.2%	-1.1%	1.1%	1.1%	0.9%	1.0%	1.0%

Economic Impact of COVID-19

If the economic impact of COVID-19 by the end of the suppression phase is large the following scenario is likely:



With 1.2 million people employed directly by the construction industry and with research suggesting that a further 440,000 jobs in other sectors of the economy are dependent on construction work, our high impact scenario envisages that 464,300 construction jobs could be lost as a result of COVID-19 crisis, and an additional 171,600 jobs lost in the sectors which depend on construction – a total loss in employment of 635,900.

Unfortunately the high impact scenario may be playing out with key data as follows:

- ABS data for late March/early April identifying employment nationally down by 6.3% and in the building and construction industry by 5.3%.
- Master Builders April COVID-19 Survey results indicating an average reduction of forward contracts across all sectors of 40%.

Master Builders has subsequently undertaken a root and branch revision to its February 2020 forecasts.

These forecasts represent a major update to the set of projections to 2024–25 which were published in February 2020. The update is necessitated by the huge change in economic conditions which has unfolded since the beginning of March amid the global spread of coronavirus. It must be stressed from the outset that the economic environment is highly uncertain and that there is a strong possibility that the ultimate performance of construction could differ significantly from these forecasts.

The following tables summarise the significant downgrade to our forecasts for new home building and commercial building activity in light of COVID-19.

**Comparison of Master Builders Forecasts for New Home Building:
Before & After COVID-19**

	Pre COVID-19 Forecast (February 2020)	Updated Master Builders Forecasts (April 2020)	Forecast Downgrade	Forecast Downgrade (%)
2019/20	160,132	151,772	-8,360	-5.2%
2020/21	159,268	115,822	-43,446	-27.3%
2021/22	169,026	133,719	-35,307	-20.9%
2022/23	181,838	137,425	-44,413	-24.4%
2023/24	193,632	152,922	-40,709	-21.0%
2024/25	203,909	178,220	-25,689	-12.6%

Source: Master Builders Australia analysis

**Commercial Building: Comparison of Master Builders Forecasts
Before & After COVID-19 (Billions of Dollars)**

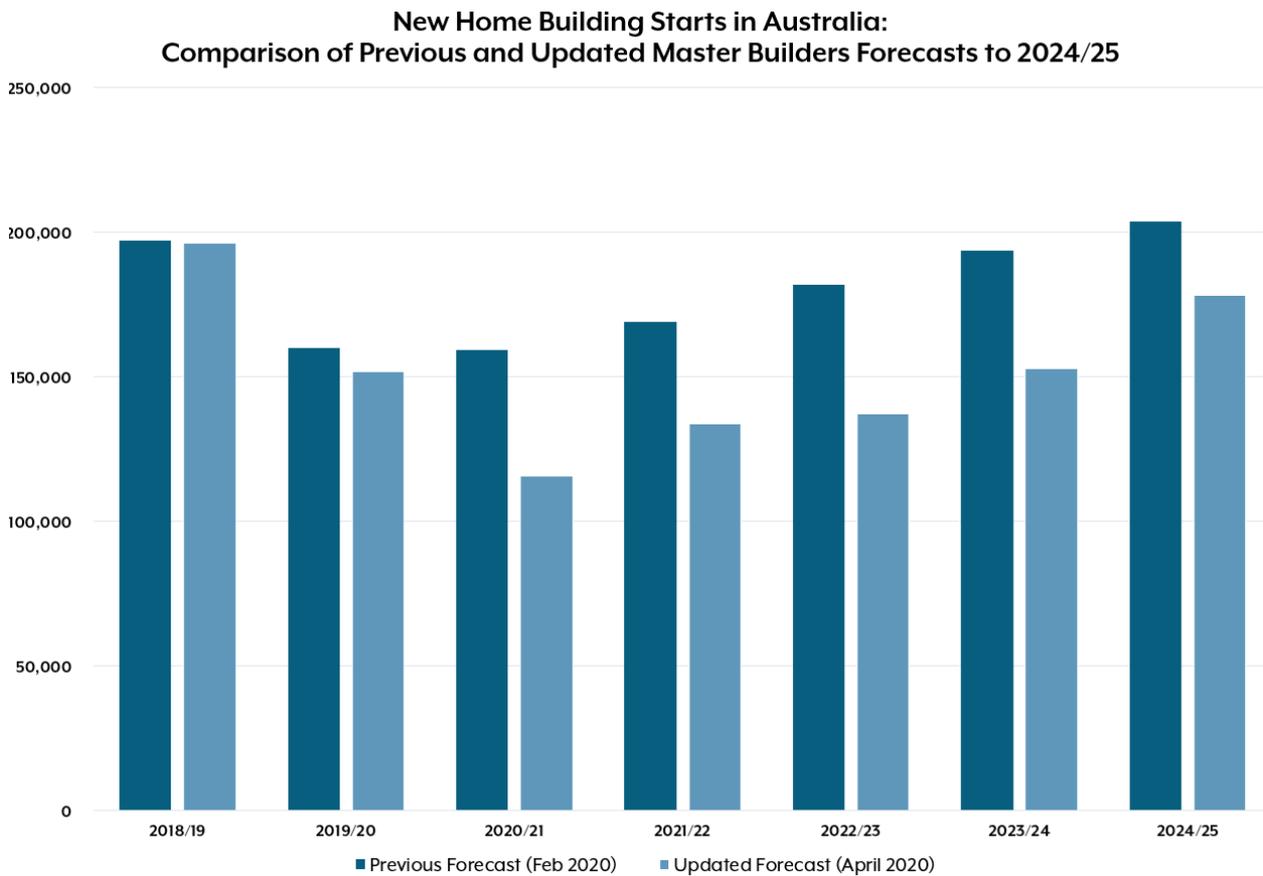
	Pre COVID-19 Forecast (February 2020)	Updated Master Builders Forecasts (April 2020)	Forecast Downgrade	Forecast Downgrade (%)
2019/20	\$47.3 billion	\$44.7 billion	-\$2.58 billion	-5.5%
2020/21	\$45.8 billion	\$38.6 billion	-\$7.18 billion	-15.7%
2021/22	\$43 billion	\$38 billion	-\$4.94 billion	-11.5%
2022/23	\$40.6 billion	\$38.2 billion	-\$2.47 billion	-6.1%
2023/24	\$41 billion	\$39.3 billion	-\$1.7 billion	-4.1%
2024/25	\$43.2 billion	\$41.3 billion	-\$1.95 billion	-4.5%

Source: Master Builders Australia analysis

Updated New Home Building Forecasts

With the COVID-19 crisis breaking towards the end of the 2019–20 financial year, we anticipate that the sudden and sharp nature of its impacts mean that new home building starts will hit a low of just under 116,000 in 2020–21 (compared with about 159,000) in our original set of forecasts. As stimulus unfolds and restrictions are lifted, activity is expected to recover during 2021–22. The tapering off of stimulus means that the recovery is likely to lose momentum during 2022–23 but thereafter the return to robust population growth and gains in employment will help propel new home building considerably higher and by 2024–25 activity will be close to reverting to the long-term home building trajectory set out in the February 2020 set of forecasts.

A comparison of the updated and previous set of forecasts for new home building to 2024–25 are summarised in the chart and table below.



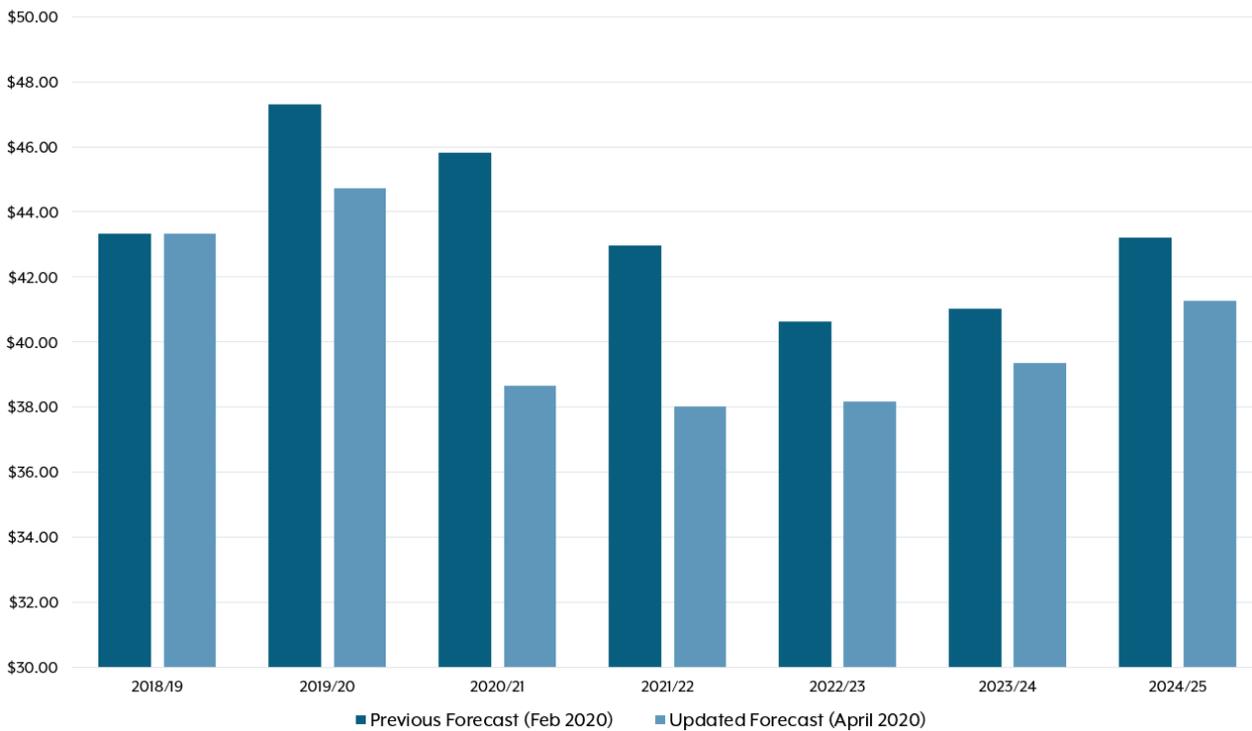
Updated Commercial Building Activity Forecasts

The commercial building landscape is changed hugely by the crisis: private sector-led projects are likely to suffer due to the very uncertain economic backdrop. In particular, activities like tourism, recreation and entertainment have particularly poor prospects given the combination of enforced closures, restrictions on travel as well as the reduced willingness of large numbers of consumers to engage in non-essential expenditure.

On the other hand, the public sector dominates important areas of commercial building like health and education and the short term prospects for these are much improved given that government stimulus is likely to be heavy here.

The updated forecasts for commercial building are shown below. Overall, the huge reverses in private sector investment will outweigh the possible expansions in government driven projects and the commercial building volumes are likely to be quite depressed over the three-year period between 2020–21 and 2022–23. Thereafter, a reasonably emphatic recovery is likely to resume as the economy returns to its long-run trajectory.

**Total Commercial Building Activity:
Comparison of Previous and Updated Master Builders Forecasts to 2024/25
(\$ Billions)**



Immediate Stimulus

To minimise the predicted fall-out, Master Builders has identified stimulus measures for the suppression and recovery periods.

While we very much welcome existing announcements from Governments, it is clear from the analysis and forecasts that additional measures will be required to keep the industry working through the suppression phase and early recovery phase while private sector spending is dramatically curtailed. Immediate Stimulus ideas have been identified as the following:

COMMERCIAL BUILDING STIMULUS



Bring forward spend on approved infrastructure projects (infrastructure is used in its broadest sense to include health, education, community, social, remote and defence) and fast track projects.

Identify new infrastructure projects (infrastructure is used in its broadest sense to include health, education, community, social, remote and defence) with an initial focus on refurbishments or maintenance. Recommend officials don't bundle the contracts or transfer all risk which will increase the number of SME businesses that can tender.

Contribution towards cladding rectification and asbestos removal on commercial buildings.

Work with State and Territory Governments to fast track planning approvals.

Freezing of developer and infrastructure related charges for commercial projects.

CIVIL BUILDING STIMULUS



Bring forward spend and fast track approved transport infrastructure projects. Recommend officials don't bundle the contracts or transfer all risk which will increase the number of SME businesses that can tender.

Expand eligibility and funding for civil infrastructure development of housing estates (currently undertaken through NHIF in limited form) to incentivise developers to release land supply to make it shovel ready for housing.

Work with State and Territory Governments to fast track planning approvals.

HOUSING STIMULUS

Support ongoing building of speculative housing through interest free loans for a component of the cost (eg 25%) for title ready blocks. Housing developers, big and small, will be hit by a downturn in market for new homes but we already have a housing shortfall in the long-term so they will be sold eventually but in the interim building can continue.

Time limited Home-Owner Grant of \$40,000 for those buying or building new homes.

Expand eligibility of those who can apply for federal funding for social and community housing through NHFIC.

Establish a national housing trust fund that builds on NHFIC with government and institutional equity to invest in affordable housing.

Instant tax write-off/extension of negative gearing for property investors to undertake renovations to rental properties (currently can only claim maintenance) that could include upgrades that provide for the home to be more energy efficient which in turn assists in reducing living costs.

Financial support to home owners through the use of a registered building practitioner to facilitate home renovations on properties to improve the resilience of homes to natural disasters or to make homes more accessible.

Contribution towards cladding rectification on apartments.

Work with State and Territory Governments to fast track planning approvals.

BUSHFIRE RECOVERY

Cover all or part of insurance gap to increase likelihood of more rapid rebuild as owners face costs of building to the new bushfire standard.

APPRENTICES

Funding towards a pre-apprenticeship or general entry level re-skilling to enable those who are displaced from other industries to be able to work in building industry.

Longer Term Reform

There will also be longer term structural reforms required to assist with recovery. The initial Longer Term structural reforms that have been identified are as follows:

BUSINESS



Early and consistent engagement on progress, data, policy with government and across industry.

Sustain peer and community support mechanisms as people re-establish in recovery market.

Initiatives to improve the business and financial acumen of the building and construction industry.

Informed and effective plan for re-opening international borders to tourists, migrant workers, international students.

Develop WHS guidelines that the BCI can continue to work with over the next 12-18 months and with training tailored for this (MBA network).

Get clients to accept surety bonds in lieu of bank guarantees that don't require companies to tie up equity for bank guarantees.

JOBS



Fund pre-apprenticeship general entry level re-skilling.

Build better alliances with schools/universities on key areas of training and reform.

Online training on tendering for government contracts.

Apprentice requirements for government contracts.

CONSTRUCTION CHAIN DISRUPTION



Maintain continuity in supply chain activity though domestic and global supply and effective regulatory and compliance regimes.

Maintain emergency supply or emergency manufacturing capability onshore to cope with any future disruption to supply of key building materials.

REGULATORY

(BUILDING CONTROLS & CONTRACTS)



Identify recovery oriented harmonised models for BCI in relation to planning, building control, health and safety, IR to assist productivity.

Work with local councils to develop programs to get approvals done with consistency and timeliness. Particularly around BAL but also more general approvals.

Work to retain the shorter payment times by all in the supply chain – from clients/developers to sub-subbies - to avoid the need for PBA's and Trust accounts.

ACTIVITY - COMMERCIAL

Deliver productivity lifting stimulus measures that can off-set deficits accrued during survival phase. These may be through regulatory reforms or productivity lifting investments in community/city building and regeneration.

Maintain continuity in supply chain activity though domestic and global supply and effective regulatory and compliance regimes.

A greater reliance on reliable data/forecasting.

A shift to greater harmonisation of regulatory and control frameworks.

ACTIVITY - HOUSING

Massive program of publicly-supported new home building in order to address existing deficits and areas of potential under supply going forward. This program will be necessary in order to kick-start a sustained recovery in new home building.

Move away from stamp duty to land tax.

Apply a moratorium on all stamp duty bills for new homes and for vacant land until residential building recovery is on solid ground.

Bridge gap between mortgage valuation and cost of new home construction. In regional areas bank mortgage valuations can be less than average cost of construction.



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