

# HomeBuilder

## Background Document

The Morrison Government's HomeBuilder will provide eligible owner-occupiers (not just first home buyers) with a grant of \$25,000 to build a new home or substantially renovate an existing home.

### Summary

- HomeBuilder is a time-limited and demand-driven grant program to help the residential construction market to get through the COVID-19 pandemic.
- HomeBuilder will provide eligible owner-occupiers (not just first home buyers) with a grant of \$25,000 to build a new home or substantially renovate an existing home where the contract is entered into between 4 June 2020 and 31 December 2020.
- Construction of a new home or substantial renovation must be contracted to commence within three months of the contract date.
- Consistent with the Morrison Government's principles, the Scheme will be implemented through existing systems being the States' respective Revenue Offices.
- HomeBuilder will complement existing State and Territory First Home Owner Grant programs, stamp duty concessions and other grant schemes, as well as the Commonwealth's First Home Loan Deposit Scheme and First Home Super Saver Scheme.

### Economic impact

- This measure is expected to have a cost up to approximately \$688 million.
- HomeBuilder is about creating jobs and helping support more than 1 million builders, painters, plumbers and electricians across the country.
- The program is demand driven so final program costs will depend on actual take-up of the grant and may differ from these estimates as HomeBuilder is an uncapped and demand-driven program.
- Administration costs associated with the implementation of HomeBuilder are expected to be absorbed by states and territories.

### Eligibility

- To access HomeBuilder, owner-occupiers must meet the following eligibility criteria:
  - you are an individual, 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 2018/19 tax return or later; or

- \$200,000 per annum for a couple based on your combined on 2018/19 tax return or later;
- you enter into a building contract between 4 July 2020 to 31 December 2020 to either:
  - build a new home as a principal place of residence valued up to \$750,000 (including land); or
  - substantially renovate your existing home as a principal place of residence, with renovations valued at between \$150,000 and \$750,000 with the dwelling not valued at more than \$1.5 million before the renovation;
- construction must be contracted to commence within three months of the contract date.

### **Implementation criteria**

- The respective revenue offices of each of the States will implement the Scheme and will use existing mechanism to mitigate the chances of fraud occurring.
- Owner-builders and those seeking to build a new home or renovate an existing home as an investment property are ineligible for HomeBuilder.
- Funding will go directly to individuals, not the contractors, and the individuals are committing a significant amount of investment themselves that this grant will complement.
- The forecast for the market means contractors will be operating in an environment with strong competition for work, ultimately helping drive lower prices.
- Renovations or building work must be undertaken by a registered or licenced building service 'contractor' (depending on the state or territory you live in) and named as a builder on the building licence or permit. They must have held the building licence or endorsed contractor licence before the date of announcement.
- The registered or licensed builder (depending on the state or territory) must demonstrate that the contract price for the new build or substantial renovation be no more than a comparable product (measured by quality, location and size) as at 1 July 2019, if requested by the purchaser.
- In negotiating a building contract, the parties must deal with each other at arm's length;
  - This means the contract must be made by two parties freely and independently of each other, and without some special relationship, such as being a relative.
  - The terms of the contract should be commercially reasonable and the contract price should not be inflated compared to the fair market price.
- As part of the National Agreement, program compliance will be monitored by state and territory revenue offices.
- HomeBuilder will be non-taxable - consistent with existing state and territory First Home Owner Grant programs.

### **How does this differ from grants offered during the GFC?**

- HomeBuilder will contrast from GFC programs, such as 'pink batts' by;
  - Using existing systems of delivery through state and territory revenue offices,
  - Renovations or building work must be undertaken by a registered or licenced building service 'contractor',
  - Limited term – program runs until 31 December 2020,
  - Tighter eligibility through price and income caps,
  - Established dwellings excluded.

### **What can be renovated using HomeBuilder?**

- The renovation works must be to improve the accessibility, safety and liveability of the dwelling.
- The renovation can be a combination of works (ie kitchen and bathroom renovation) but must be under the supervision of a registered or licenced builder.

### **What cannot be renovated using HomeBuilder?**

- Homebuilder cannot be for used for additions to the property that are unconnected to the principle place of residence such as swimming pools, tennis courts, outdoor spas and saunas, and detached sheds or garages.

### **Timing and how to apply**

- More information on HomeBuilder, including eligibility, can be found on the Treasury Coronavirus Economic Response website.

People will be able to apply for HomeBuilder when the relevant State or Territory Government that they live in, or plan to live in, signs the National Partnership Agreement.

- States and Territories will backdate acceptance of HomeBuilder applications to 4 June 2020.
  - . Applications will only be accepted up to and including 31 December 2020.
- Information on when and how you will be able to apply through the relevant State or Territory will become available in due course.

### **Need for support in residential construction sector**

- Industry anticipates that new dwelling commencements are expected to decline by 50 per cent by the end of the year.
- Pre-COVID, the residential construction sector forecast commencements of 171,000, compared to a forecast of 111,000 post-COVID commencements.
- A shortfall of 30,000 new dwelling commencements for the second half of 2020 needs to be addressed.
- Industry estimates a contraction of more than 50 per cent in the volume of new building work and the cancellation rate now exceeds 30 per cent, in comparison to the GFC which saw only 17 per cent cancellations.

## **HomeBuilder help supports the residential construction sector**

- HomeBuilder looks to help addresses the significant, sharp decline in the construction pipeline from the third quarter of 2020 as a consequence of subdued residential construction demand since March 2020.
- HomeBuilder gives owner occupiers an incentive to enter the market now.
- HomeBuilder is time limited to help the residential construction sector to support the sector get to the other side.

## **Impact on house prices and renovation costs**

- Consultation with industry suggests that pricing is very competitive due to the forecast downturn in commencement, coupled with the forecast lack of demand.
- This is a short term, targeted program so developers won't be able to capitalise the grant into their price.
- As HomeBuilder can only be used to construct new or substantially renovated properties, its eligibility criteria manages the risk of longer term affordability challenges by increasing supply.

## **Case Study Examples**

### First home buyers Emma and Liam decide to build a new home

Emma and Liam enter into a house and land contract valued at \$550,000 on 25 September 2020. Emma and Liam's bank applies on the couple's behalf to their state's revenue office or equivalent body to receive the Federal Government's \$25,000 grant. The state revenue office conducts the eligibility checks and reviews the couple's documentation and confirms that both Emma and Liam are Australian citizens, over the age of 18, have a combined taxable income under \$200,000 based on their 2018-19 tax return and the value of the contract is under the \$750,000 dwelling price cap. The state revenue office approves the application and will provide the \$25,000 grant to the couple when they make the first progress payment (noting that construction must be contracted to commence within three months of signing the contract).

Emma and Liam commence construction on their new home and make their first progress payment to the builder on 2 November 2020. The state revenue office releases the \$25,000 HomeBuilder grant directly into their nominated bank account once they have verified the couple has made their first progress payment to the builder.

As the couple are both first home buyers, Emma and Liam may also be entitled to their State's First Home Owner Grant and stamp duty concessions as well as the Commonwealth's First Home Loan Deposit Scheme and First Home Super Saver Scheme.

## Owner-occupier Cassidy decides to substantially renovate her home

Cassidy enters into a contract to substantially renovate her home on 31 December 2020, with renovations valued at \$400,000. The value of her home is \$900,000 based on an independent valuation. Cassidy pays the builder \$10,000 to commence renovation of her home on 2 February 2021. Cassidy then applies directly to the revenue office in her state or equivalent body to receive the \$25,000 HomeBuilder grant.

The revenue office conducts the eligibility checks and confirms that Cassidy owns the property, is an Australian citizen, over the age of 18 and has a taxable income under \$125,000 based on her 2019-20 tax return. The revenue office also confirms the value of the renovations is within the HomeBuilder renovations price cap (between \$150,000 and \$750,000), the valuation of her home is less than \$1.5 million and that Cassidy has made the first progress payment on the renovations. The revenue office approves the application and releases the \$25,000 HomeBuilder grant directly into Cassidy's nominated bank account.

As Cassidy already owns her own home, she is not eligible for the First Home Owner Grant, the First Home Loan Deposit Scheme or the First Home Super Saver Scheme. However, Cassidy may be eligible for stamp duty concessions or other grants depending on the state or territory she lives in.

### **Quotes attributable to the Prime Minister:**

*Our JobMaker program is backing a tradie-led recovery to help spark the economy as Australia emerges from the effects of COVID-19.*

*This investment isn't just about helping Australians bring their dream home to life, it's about creating jobs and helping support the more than one million workers in the sector including builders, painters, plumbers and electricians across the country.*

*Our JobKeeper support has helped the construction sector weather the crisis, now we're helping fire it up again.*

*This is about targeted taxpayer support for a limited time using existing systems to ensure the money gets used how it should by families looking for that bit of extra help to make significant investments themselves.*

*If you've been putting off that renovation or new build, the extra \$25,000 we're putting on the table along with record low interest rates means now's the time to get started.*

### **Quotes attributable to the Treasurer:**

*"The housing and construction industry is vitally important to the Australian economy with dwelling investment worth more than \$100 billion or around five per cent of GDP.*

*The Government's economic support packages including JobKeeper and JobSeeker are already providing unprecedented support to workers, households and business across a number of different sectors.*

*The construction sector is the number one industry covered by the Government's JobKeeper program with more than a million Australians employed across the sector.*

*However with dwelling investment expected to decline by around 20 per cent through the June Quarter, the HomeBuilder program will support residential construction activity and jobs across the industry at a time when the economy and the sector needs it most.*

*The Government's economic support measures including HomeBuilder are designed to be temporary, targeted and proportionate to the challenge we face so that we can ensure Australia bounces back stronger on the other side and without undermining the structural integrity of the Budget which Australians have worked so hard to restore."*

**Quotes attributable to the Minister for Housing:**

*Residential construction is vital to Australia's economy, with dwelling investment worth more than \$100 billion or around five per cent of our economic output each year.*

*HomeBuilder will not only support the jobs of carpenters, plumbers, bricklayers and electricians on our building sites, it will also support the timber mill workers who produce the frames and trusses and the manufacturing workers who make the glass, brick and tiles for our homes.*

*HomeBuilder complements the Morrison Government's other successful housing programs, including the First Home Loan Deposit Scheme which has helped 10,000 first home buyers get into a home of their own this year.*

*HomeBuilder will build upon this, creating even more opportunities for Australians to build a new home or renovate an existing home for their family, while supporting our vital residential construction industry.*

*The Morrison Government's HomeBuilder investment is also on top of the more than \$6 billion invested by the each and every year by the Commonwealth in forms of housing assistance.*