Australian building company collapse leaves families stranded

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Avonwood Homes, the fourth biggest home construction company in the state of Victoria, last month lost the backing of its main financier, believed to be the National Australia Bank, and suspended building on 562 unfinished homes. What followed within weeks was the first collapse of a major homebuilder in Australia since the early 1990s.

After a planned merger with the Sydney company Clarendon Homes fell through, Avonwood was placed into provisional liquidation on May 5, with $13 million in debts and about $60 million in outstanding contracts. In addition to homebuyers whose homes have been frozen, another 241 customers had paid deposits on work yet to start. Dozens of building subcontractors face bankruptcy following the collapse. Two contractors were hit with estimated losses of $1.2 million and $800,000.

Over 100 homebuyers and their dependents gathered on May 6 in Melbourne to protest their treatment and have formed an action group. Desperate homebuyers and small contractors clashed with provisional liquidator staff outside Avonwood display homes. With families trapped in temporary accommodation until their homes are completed, some homebuyers tried to seize property from Avonwood, but were evicted before they could do so. The provisional liquidator announced that flying squads would maintain a check of all unfinished buildings to prevent illegal possession.

One anguished buyer, Troy Podhajski, told the Melbourne *Herald-Sun* that he, his pregnant wife and their two children are sleeping in a cramped garage at his parents' home, and had been ordered to keep their hands off their Avonwood home, only three weeks from completion. He expects they will still be in the garage when their baby is born next month.

The Bracks state government has indicated that the homebuyers will be protected by insurance under the Statutory Builders Warranty Scheme, for up to 20 percent of the contract price. But some home buyers face thousands of dollars of extra costs that fall above the insurance ceiling. Others are likely to suffer higher completion costs under the incoming GST consumption tax, which commences on July 1, if building is delayed beyond then, which is likely. Some will lose up to $40,000, as they have made stage payments well in advance or paid large deposits without a building contract.

Fever-pitch activity has characterised the home construction industry in the lead-up to the GST, which will raise new house prices by at least 10 percent. From 19,000 homes a year in Victoria, now 50,000 are being built. There is emerging evidence, however, that the building boom has peaked and that its end is signalled by Avonwood's collapse.

Australian Bureau of Statistics figures just released show that housing lending fell by 12.1 percent in March, with the number of new houses financed falling by 8.1 percent. The average value of new loan commitments fell to a 14-year low of $137,000. Analysts linked the figures to the end of the pre-GST building boom and rising interest rates.

During the boom, companies such as Avonwood carried out aggressive sales pitches, signing up prospective customers as fast as possible and experiencing rapid growth. The spurt of building made supplies scarce and increased the cost of bricks by 40 percent. The cost of laying a course of bricks increased by 150 percent as tradesmen's services were stretched to the limit. The falling value of the Australian dollar on world financial markets meant timber and other supplies were increasingly being sold offshore.

In February this year the Australian Competition and

Consumer Commission (ACCC) announced that it had taken action against a number of building companies over misleading or deceptive advertising concerning the impact of GST on housing prices. Amongst the companies listed were Clarendon and Avonwood.

The companies were making quotes at pre-GST prices and pushing homebuyers to have their homes built before July 1. Because of the boom that resulted, the firms were caught in a cost spiral. When prices soared above what they had quoted, they tried to sign up more contracts to generate cash flow.

A number of smaller home building companies were hit the same way as Avonwood. On May 9, Eastern Park Developments temporarily stopped work on 28 homes in the outer Melbourne suburb of Berwick. The Housing Industry Association (HIA) reported a high degree of insolvency among smaller companies, with six collapsing in Victoria in the last six months.

In March, for example, Desa Constructions, working on the redevelopment of the former Olympic Village in Heidelberg, went into receivership, leaving 110 houses unfinished.

HIA Victorian executive director John Gaffney told the *Australian Financial Review* that while the construction boom had sent prices soaring, builders were running tighter profit margins than ever before. "Without being prophets of doom, we are very concerned over the GST, because of the impact it will have on cash flow. There is going to be more fall-out, I'm sure. Desa is not just a phantom. It is a warning sign."

The HIA predicted that residential construction would slide from $21 billion in 1998-99 to as low as $16 billion in 2001-02, and that engineering construction would fall from $14 billion to $12 billion by the middle of 2000.

Dr. Bob Turtle, director the NSW risk rating agency Corporate Scorecard, told the same newspaper that a 30 percent downturn in construction activity was likely, and predicted further casualties. "We are starting to feel it now and it will only get worse," he said. "Companies that have come to NSW, for instance, to chase Olympic related jobs are retreating back to their home states, and finding competition has worsened and their margins further reduced."

Rising prices and interest rates are taking home purchase further out of reach for many working class families. Following the release of the March housing loan figures, analysts said housing affordability was worsening as home prices rose. They also forecast a wider slump.

Master Builders Association chief economist Wilhelm Harnisch said the building industry was already in "the grip of a solid decline" which could reduce economic growth as much as a full percentage point over the next 12 months. HIA managing director Dr. Ron Silberberg hoped that the Australian Reserve Bank would not follow the latest half-percentage-point US interest rate increase, warning that "chasing the US interest rate tail could risk an economic meltdown".