Slump deepens in Australian residential construction industry

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Australia's construction industry, plagued by revelations about faulty and unsafe apartment blocks, confronts an escalating crisis.

The Ralan Group, a large property developer, this week went into voluntary administration, owing creditors up to $500 million and jeopardising the future of at least 3,000 apartments. The administrators declared "it is uncertain how much, if any, of your deposit [on a planned apartment] you may receive back."

On the same day, Adelaide Brighton, a cement manufacturer, announced a major fall in profits. The company's shares fell over 18 percent, pulling down the share prices of other cement-making companies.

Both announcements came a day after the Australian Bureau of Statistics revealed that new dwelling approvals dropped 25.6 percent over the last financial year, with 14.8 percent fall in new houses and a 39.3 percent drop for apartments. Apartment blocks over four storeys suffered the largest decline.

The Housing Industry Association reported that there had been just 56,357 new homes sold nationwide during the year, the lowest figure since the 1991 recession, despite record low interest rates.

A JP Morgan property analyst described the drop in approvals as "ugly." A UBS senior economist predicted that construction investment could fall by 10 percent, with up to 100,000 jobs axed in the industry.

The inflated cost of houses and apartments has put them out of reach of many working-class families. Another key factor in the slump is reports that thousands of apartments erected during a debt-fuelled property bubble are faulty, unsafe and require expensive repairs.

A July 27 report in the *New Daily* revealed that 97 percent of all new buildings in the state of New South Wales (NSW) have at least one defect, 71 percent in Queensland and 74 percent in Victoria. The average number of defect types per building is 16 in NSW, 12 in Queensland and 11 in Victoria.

The tip of an iceberg of poorly constructed apartments emerged in 2014 when the external covering of the high-rise Lacrosse apartment block caught fire in Melbourne. It was covered with the same highly flammable cladding as London's Grenfell Tower.

Investigations by Australian authorities following the Grenfell Tower disaster, which claimed the lives of 72 people in 2017, revealed that the use of flammable cladding was rampant. Hundreds of buildings are covered with the dangerous material.

Promises by state governments to rectify the problem came to nothing. The flammable cladding issue, however, was just one of many problems blighting the industry.

On Christmas Eve last year, hundreds of residents were evacuated from western Sydney's 26-storey Opal Tower, following structural movement and damage to the recently completed $165 million building.

In June this year, residents from 120 apartments in Sydney's Mascot Tower were ordered out of their homes because of foundation problems.

Last month, the media reported that the 109 owners of the Sugarcube apartment complex in Sydney's Erskineville had been banned from entering the building since its completion in May 2018. The developer had not remediated the former industrial site, which had dangerous levels of heavy metals, hydrocarbons and asbestos.

Residents of nearby Garland Lofts, a nine-year-old set of inner-city apartments, in Zetland, were evacuated last November because of chronic water leaks and fire safety problems.

And the list goes on. Regular reports have appeared of badly built and unsafe properties in Melbourne, Brisbane and other cities.

Apartment owners in faulty buildings are struggling with their mortgages, legal costs, skyrocketing insurance premiums and temporary accommodation costs.

Seven months after being evacuated, many Opal Tower residents remain in rental properties and face a twenty-fold increase, to $2 million, in the annual insurance bill for the entire building, or more than $5,000 per apartment due this month. If the bill is not paid, the building will need to be evacuated again.

This week, Opal Tower owners launched legal action against the NSW government, and the Sydney Olympic Park Authority, which owns the land on which the complex was built, for repair costs and other compensation.

Fearing the impact on profits, stamp duties and property taxes, the state and federal governments, insurance companies and construction lobby groups are desperately attempting to contain the cascading crisis.

This led to a July 18 state and federal Building Ministers Forum (BMF), which promised to introduce regulatory measures recommended in last year's Shergold-Weir "Building Confidence" report.

A day after the meeting, an *Australian Financial Review* editorial demanded the BMF and the construction industry "come to grips—quickly—with the scale of problems in the sector, before uncertainty cripples both public confidence and the industry."

The BMF pledges and other government posturing will change little in the multi-billion dollar industry. Nothing will be introduced that undermines the deregulatory processes introduced by all governments over the past three decades to boost profits by eliminating "red tape."

Even if adopted, the proposed measures would apply only to future construction, without alleviating the plight of current victims. Those who purchased houses or apartments built on contaminated or unstable land, or with cracking foundations, flooding, faulty plumbing or electrical wiring, or covered in flammable cladding will have to pay.

There is virtually no building insurance safety net for owners. No Australian government—state or federal—has taken responsibility for funding the repair costs facing existing home owners, a disaster that they have helped create.

Before the BMF meeting, the Victorian state Labor government said it would fund $600 million worth of flammable cladding replacement—half through increased levies on new high-rise residential developments. In other words, the financial burden will be passed onto purchasers, while the developers who installed the cladding retain their windfall profits.

Last week, the Owners Corporation Network, a peak body for apartment strata groups, representing thousands of people, denounced the BMF proposals, describing them as an attempt by governments to "buy time."

Referring to the 2008–09 global financial crisis (GFC), the organisation warned: "This is a GFC-style situation, where credit ratings and the risk for financial products came into question. In that case loss of confidence in the financial system became a contagion."

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