# Australian construction insolvencies hit record highs

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Australian construction businesses are failing at record rates, leaving millions of dollars owing to workers and thousands of buyers out of pocket for unfinished homes.

In the 2022–23 financial year, 2,170 construction businesses have gone into administration, 69 percent more than in 2021–22, and 20 percent more than the previous decade-high of 1,802 recorded in 2013–14.

The trend is expected to continue. While previous collapses have been driven by delays and cost blowouts for builders, the industry now confronts a potential crisis on the demand side. With inflation massively outstripping wage growth and successive interest rate rises by the Reserve Bank of Australia driving up home loan rates, new homes are increasingly unaffordable for working-class families.

As the cost of living soars, there are signs that the wave of business failures is spreading to other industries as well. Overall, 7,764 insolvencies have been recorded in 2022–23, 58 percent higher than the previous year, including 1,086 in accommodation and food services, and 449 in manufacturing, a 148 percent increase.

Timothy Hibbert, head of construction and property forecasting at Oxford Economics, told the *Australian*, “new home sales, dwelling approvals and home construction loans have deteriorated, setting the scene for a deep residential downturn.” He anticipates a 21 percent reduction in building activity over the three years to 2025.

Luxury home builder Millbrook Homes, based in New South Wales, went into administration on June 26, owing more than $4 million to around 80 creditors. The director of Millbrook Homes also ran Elderton Homes, which collapsed in late 2022, leaving 75 home builds incomplete and 127 new projects in the “pipeline.”

Just four days later, Victorian residential builder Bentley Homes appointed liquidators, with around 50 customers with unfinished builds impacted.

Sydney apartment builder Toplace went into administration last week. The company’s director, Jean Nassif, is subject to an arrest warrant over claims he obtained a $150 million loan from Westpac bank using falsified documents. His daughter has also been charged with falsifying pre-sale documents relating to a 900-unit complex built by the company at Castle Hill, in the city’s north west.

The company has multiple residential and commercial developments under construction across Sydney, meaning there are potentially hundreds of subcontractors who have not been paid.

Also left stranded are thousands of customers who pre-paid for units in unfinished Toplace buildings, as well as those who own units in completed apartment buildings that have been found to feature dangerous construction defects.

The most prominent collapse in the homebuilding sector this year was Porter Davis, which went into administration on March 31, leaving around 1,700 houses partially built in Victoria and Queensland.

The liquidation process at Porter Davis demonstrates that it is workers, subcontractors and ordinary working-class home buyers who pay the steepest price for the failure of these businesses, although it is completely out of their control.

A creditors report released in June stated, “it appears unlikely that sufficient funds will be recovered in the liquidations to enable a dividend to be paid to ordinary unsecured creditors.”

The report showed that Porter Davis amassed debts of around $557 million before its collapse, $481.6 million of which is owed to unsecured creditors. While the largest of these, Commonwealth Bank, is expected to receive the entire $32.9 million outstanding, “employee priority creditors” will be paid only a fraction of the $18 million they are owed.

Liquidators have not brought any claim against Porter Davis directors and they have not been ordered to sell their properties, valued at a total of around $10 million.

It is alleged that Porter Davis was slow to take out compulsory insurance on builds after customer paid deposits, possibly due to cash flow problems, leaving around 600 buyers without coverage.

Both the Queensland and Victorian governments have implemented schemes to allow some buyers to recover their deposits, placing the burden of corporate failures on the shoulders of the taxpaying working class. The Victorian bailout, expected to cost $28 million, was expanded on July 1 to cover buyers who had paid deposits to other failed builders as well.

Multiple factors have been blamed for the wave of business failures, all of which are themselves a product of the deepening crisis of capitalism, in Australia and globally.

The former Liberal-National federal government's introduction of HomeBuilder grants as a COVID-19 stimulus measure in April 2020, after the Reserve Bank of Australia lowered interest rates to 0.25 percent the previous month, contributed to a surge in demand. Construction approvals for new houses soared 40 percent in 2020–21.

But the actual completion of house constructions fell far short of the number of builds started. In 2020–21, just 75 percent of new house builds that were commenced were completed, the lowest rate since the Australian Bureau of Statistics (ABS) began recording it in 1956–57. In 2021–22, this only increased to 88 percent, the fourth worst completion rate on record.

A long-term decline in domestic hardwood production and the destruction of 130,000 hectares of commercial softwood plantations in the bushfires that ravaged the east coast in 2019–20 led to a greater reliance on imported timber.

Global supply chain issues, especially at the beginning of the pandemic, and increased demand around the world meant timber was in short supply, even as prices skyrocketed. This was worsened with the start of the US-NATO war against Russia, a major global timber producer, in early 2022 and the federal government's imposition of a 35 percent import tariff on "conflict timber" from Russia and Belarus.

By December 2022, the import price of cork and wood to Australia had increased to more than two-and-a-half times the cost just a decade earlier, according to the ABS.

The construction industry was also hit by labour shortages, particularly of skilled workers. Government funding for vocational education and training has been slashed over decades, starting with the Hawke-Keating Labor governments in the late 1980s.

In 1989, there were around 160,000 trade apprentices in training across the country. In 2019, there were 181,000, an increase of just 13 percent over a 30-year period in which Australia's population grew by 50 percent.

The construction industry, along with many others, is therefore reliant on skilled migration, both permanent and temporary, which was heavily impacted during the first 18 months of the pandemic, when border closures were in place.

The sector was granted exemptions from most lockdowns and other restrictions, in line with the union-backed demands of major construction companies that workers' health and lives must not be allowed to stand in the way of profits. But with the virus allowed to spread freely among workers, their families and the broader community, the industry still faced delays due to the infection and illness of workers.

The weather also played a role. Last year was Sydney's wettest on record, and the ninth wettest across the country, forcing projects to be repeatedly put on hold due to rain and multiple catastrophic floods.

Fixed-price contracts, under which the builder is responsible for most unexpected cost blowouts, are common in the industry and even mandatory in some states, especially in the private residential sector. Under conditions of rapidly rising input costs, this means that delays can more than wipe out profit margins that are already narrow due to the highly competitive nature of the industry.

Following the collapse of Porter Davis, Brett Boulton, director of Bold Living, which took over some of the company's uncompleted builds, told *Business News Australia*, "what we're finding is there's a very large difference in terms of what their price is and what their price should be."

The string of collapses in residential construction illustrates the irrationality of the capitalist system itself, taking place as it does amid a major shortage of affordable housing across the country.

Australia already has a shortfall of more than 500,000 social housing dwellings, a figure expected to reach 671,000 over the next ten years. The Labor government's troubled "social and affordable" housing bill would do nothing to resolve this, promising to finance the construction of a meagre 30,000 homes over five years.

A $2 billion scheme backed by the Greens will also not make a dent in the housing affordability crisis, but will be accompanied by sweeping reviews of state and territory planning laws, aimed at fast-tracking major projects and boosting the profits of the largest corporate developers.

The parallel crises of affordable housing and the construction industry place before the working class as a whole the urgent need to undertake a fight for a workers' government and for socialist policies to place construction and other critical sectors under public ownership and democratic workers' control. Only in this way can these vital industries be reorganised to meet social need rather than serve the profit interests of the capitalist class.