

The Victorian Building Industry – 2012 in Review

Written by Alex Milne, Construction and Planning Law Expert, Lovegrove Solicitors

The last twelve months have seen testing times for the Victorian building Industry. Perhaps a level of normality will now prevail.

In 2010/11 Victorian builders enjoyed record levels of domestic new start activity, with almost 60,000 new starts in that period. In 2011/12 activity dropped by around 30%. While this is a dramatic fall, it really only reflects a return to the levels of activity prior to the spike in activity in 2009/10 and 2010/11.

Nevertheless businesses have felt the pinch. Many who scaled up during the boom time, have been caught out by the reduced demand. Anecdotally it is known that many builders under-quote as work became harder to find. Lines of credit from suppliers and sub-contractors have been tightened. There has been increasing instances of home owners defaulting on progress payments and final claims, perhaps reflecting an economy which is struggling in general.

There were reports earlier this year that several building companies were entering insolvency on a weekly basis. Confidence in the Victorian building industry was the lowest of all Australian states, and employment levels were down.

On top of this there was upheaval at an administrative level, with the decision to instigate reform of the Building Commission, and there was the well documented industrial dispute between the CFMEU and Grocon.

All in all the coverage of the industry has been broadly negative, and has tried to present the image of an industry in a state of turmoil. Whilst it has been a difficult twelve months, the reality is that the industry is not in a state of turmoil.

Levels of new start activity are still solid when looked at against a historical backdrop, and the industry still produced around 40,000 new homes last year, the majority of which were well built, and went to satisfied owners. The industry also still provided employment for around 200,000 Victorians.

The next twelve months should give us cause for at least mild optimism. New start activity is expected to stabilise and perhaps begin to bounce back. The builders who have weathered the storm last year should be well placed to adapt to the changed economic conditions, and should be able to turn a profit.

The regulation of the industry will undergo reform, and the picture should become clearer throughout 2013. Potentially Builders will have to prepare for changes to the building permit system, which has been criticised for failing to be adequately enforced.

Among the many suggestions surrounding ways to reinvigorate the industry, are proposals for intervention by the State Government. It is broadly agreed among builders and developers that the planning process in Victoria needs to be streamlined, as too often planning applications seem to be dealt with on an ad hoc basis.

Other suggestions include removing or reducing stamp duty to promote construction activity, and bringing forward infrastructure projects to boost work for builders. Many are also hopeful of a further interest rate cut in 2013 to lift affordability and consumer confidence in building and developing.

Without any action 2013 looks set to see a stabilisation of the downturn, and the return of regularity to the regulatory regime. but perhaps not a rebound. The biggest X factor is what action will be taken by Government.

Builders will be hoping that the right policies can be implemented to increase confidence in the industry, and protect livelihood of builders and the profitability of building businesses. With 2012 behind us, there is an optimistic prospect for fresh air to reinvigorate the building industry in 2013.

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