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Home builds stabilise as snake digests wombat



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Residential builders are returning to normalised levels of activity.

THE state's residential builders can see light at the end of the tunnel for the first time since the start of the pandemic.

The sector has been dealt a number of blows and received several lifelines during the past two years of tumult for home builders.

Skills shortages, material cost spikes, supply chain disruptions and inclement weather have combined to impact builders' bottom lines.

Meanwhile, builders have been processing near-record numbers of jobs as government stimulus resulted in a surge of demand for new home builds.

Shortages of trades – after the state came off a low base from a five-year downturn leading up to the pandemic – meant there was nowhere near the volume of skilled workers to keep pace with demand.

That scenario created a situation described by those in the industry as 'the snake that ate the wombat', as a low supply of trades meant delays at each stage of a build.

However, recent market activity shows the point of 'digestion' is growing nearer.

The Housing Industry Association's recent Colorbond Steel Housing 100 report shows an 11 per cent drop in building approvals in Western

Australia, from 23,643 in 2020-21 to 21,007 in the 2021-22 financial year.

BGC Australia and ABN Group remained in the top two spots, but the builders reduced their home starts in WA by 53 per cent and 46 per cent, respectively.

Dale Alcock's ABN Group, ranked fourth among homebuilders nationally, logged 1,697 home starts in WA in 2021-22 compared with 3,150 the previous financial year.

The housing group decreased its starts in Victoria to 1,696 from 2,195 last year.

Mr Alcock told *Business News* ABN Group was returning to normalised levels of activity after a significant peak in 2021.

"It would be fair to say that no-one could anticipate the scale of just what was coming in terms of the grant activity, and what that would do coming off such a low base," Mr Alcock said.

"It was that perfect storm."

He said building activity was starting to pick up just as COVID hit, but the pandemic brought about widespread uncertainty.

"We were just getting recovery occurring early 2020 ... our sales month

on month were increasing [but] with the pandemic arriving we were wondering what the future held," Mr Alcock said.

He added that the federal government's \$25,000 HomeBuilder grant and the state government's \$20,000 Building Bonus grant provided a vertical jump in new home sales.

"Being at it for over 40 years, you learn a lot through those cycles [and] this is a very different cycle," Mr Alcock said.

"It was all about controlling the controllables ... we knew that we needed to cap our sales.

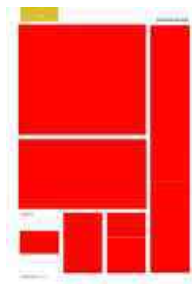
"We put limits in place, and those limits were something that we'd learned out of previous boom cycles ... we have to still be able to deliver the outcome."

Reflecting on the impact of the stimulus, Mr Alcock said the boom in construction activity was not just isolated to WA.

"The response from governments around the world was that, coming into this pandemic, they knew they had to pump-prime their economies," he said.

"Most governments around the world said, 'We've got to get some construction happening'.

"That led to worldwide shortages of steel, of pine ... [which has] ... led



to a lot of the excessive escalation of materials cost, but also the inability to get material supply flow consistently, let alone labour constraints.”

Among all Australian states, WA was among those hit hardest by COVID in terms of trades’ availability and the escalating costs of construction materials.

The Australian Bureau of Statistics’ producer price index shows a 22.8 per cent increase in the value of home building inputs in Perth from December 2019 to June this year.

This compares with Sydney at 18.9 per cent and Melbourne at 27.3 per cent. ABS data also showed the average cost to build a house in WA had spiked significantly, from about \$270,000 in August 2020 to more than \$370,000 two years on.

Mr Alcock added that his group anticipated an increase in input costs as the stimulus-driven boom took hold, and therefore lifted its prices.

“The other thing we knew from history was the cost of labour and materials would escalate, so we started moving our pricing up quite aggressively to make sure that we had that contingency for the cost increases that would inevitably come,” he said.

As the state government extended its Building Bonus grant in October 2020, ABN Group did not take on any new stimulus-linked sales, focusing on progressing its backlog.

When the grants were announced in June 2020, builders had six months to substantially start the builds to ensure customers were eligible for the stimulus.

In November of that year, the state government pushed the substantial commencement deadline out to 12 months in response to the pressure on trades and materials.

The federal government responded by extending the build start deadline for its \$25,000 grant to 18 months, and the WA government aligned.

The state government pushed the deadline out again in its latest budget, this time to 30 months from when a contract is signed.

Housing Industry Association data shows the average time to build a home in WA is about 18 months.

In the middle of last year when WA home starts peaked, there were reports of builders taking up to three years to complete a house.

Now, completion times are falling as demand softens and the availability of materials and trades improves.

ABN Group says completions will be up 30 per cent on last year.

“From a starts perspective, it is coming into a pretty steady post-stimulus activity market,” Mr Alcock said.

ABN Group anticipates similar levels of housing starts next year, with its forecasts at 1,650 for WA and 1,600 for Victoria.

Mr Alcock explained that his company’s focus in Victoria had risen gradually since it entered that market in 2009, with its recent increase of builds in that state part of its natural growth.

“We will continue to grow organically in Melbourne, and we are now moving out to regional cities like Geelong, Bendigo and Ballarat,” he said.

“It’s larger in scale, by nature of the fact that it doesn’t have mining and resources dominant.

“WA because of mining can be quite an up and down and cyclical industry and cyclical economy [but] the Victorian economy is very robust and stable and has reasonable scale.

“If you’re going to be in the same industry, it’s great to be doing it in two different locations that have got a totally different dynamic.”

Mr Alcock said the industry was working to shift public perceptions as homes were taking less time to build; at about 12 months for a single-storey dwelling,

“The opportunity going forward is how do we get that message out to the public that it’s not three years, it’s getting back to normal,” he said.

“That disruption we’ve got in the system, it’s still got a little way to go; it’s still probably going to be a bit

disruptive over the next 15 months or so, but it’s clearing out day-by-day.”

The industry was hit by shortages of Colorbond products when flooding cut the nation’s main east-west rail link in January, but stocks of the material used on most house roofs have been fully replenished.

“Those supply chain issues are clearing through,” Mr Alcock said.

Bricklaying prices have decreased from more than \$3 a brick last year to about \$2.40, as demand drops.

BGC Housing Group executive general manager Michael Bartier said pandemic-associated restrictions, stimulus-led demand, labour shortages and geopolitical issues including the war in Ukraine during the past two years had resulted in significant delays.

“We expect the industry to remain impacted over the coming 12 months, with conditions gradually improving throughout FY23,” Mr Bartier told *Business News*.

BGC Australia recorded 1,980 dwelling starts this year compared with 4,205 last year.

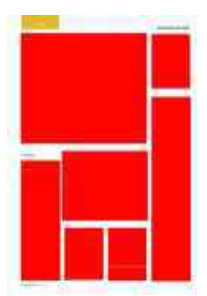
HIA executive director Michael McGowan said new customers signing up to build a home were more cognisant of the issues causing delays than those who signed contracts during the past two years.

“New customers now are more aware of the market conditions they’re walking into, as opposed to those who signed up pre-COVID and were caught out,” Mr McGowan told *Business News*.

JWH Group general manager Jay Walter echoed this sentiment, saying builders and consumers had a more eyes-wide-open approach to home builds.

As a result, Mr Walter said, industry was being more selective about what it could build.

“Many of the subcontractors you’re working with are being selective about what sort of projects they want to do, so you know either their pricing is going to be very high, or they’re not going to be as keen to do it,” he said.



“Once you’re out on site, they’re going to prioritise the easier jobs that are not going to cause them as much stress.”

Mr Walter explained that jobs with bespoke materials or specific imported appliances faced significant delays in the current environment.

JWH Group ranked fifth on the Data & Insights list of WA’s largest residential builders, with 838 home starts for 2021-22 compared with 1,279 last year.

Skills pipeline

WA Premier Mark McGowan said the state’s trade base needed to grow to keep up with demand.

“We can only build about 15,000 to 16,000 homes per year with the trade base we’ve got,” he said.

The Real Estate Institute of Western Australia estimates the state will need at least 20,000 new homes built each year to keep up with population forecasts.

“We have increased our apprentices, but that isn’t having a huge impact on productivity at the moment,” Mr McGowan said.

“Without international and interstate migration, we won’t be able to build more.”

New Home Building Brokers managing director Tristan Kirkham said WA’s skills shortage would be long term, particularly given the strength of other building markets globally.

“This affects our net migration of skilled labour coming into WA,” he said.

“While the mining sector stays strong, this will continue to put pressure on skilled labour for the building industry.”

He added that the state government’s population projections, of 150,000 moving to WA in the next four years, meant demand for new homes would continue.

Construction Training Fund figures show that, as of June 2022, there were a record number of apprentices and trainees employed in WA’s construction industry, at 9,912.

This compared to 8,148 in 2021 and 6,350 the year before.

Mr Alcock, who lifted ABN Group’s

apprentice numbers this year to about 130 from a low of 50, said the state’s economic conditions meant skilled labour would be in high demand for years.

“We still have all of the settings right for continued demand for housing in WA,” he said.

Mr Alcock said WA’s strong resources sector, and the fact Perth had the nation’s lowest median house price at \$553,000 compared with \$752,000 nationally (September figures), meant its population would continue to grow.

In addition, WA is experiencing one of the lowest rental vacancy rates in Australia, at 0.6 per cent according to CoreLogic.

“To that point about [whether] we are going to have an excess of labour, not anytime soon,” Mr Alcock said.

“[I think] this state is going to grow in population for the next 10, 20, 30 years.”

He said to boost the workforce, the government could allow for head contractors to be classed as a guaranteeing employer for skilled migrants, rather than the current structure of one specific employer.

He also suggested the provision of tax incentives or mortgage interest rate offsets for people who offered spare rooms in their houses to skilled workers, given the housing shortages the country currently faced.

A spokesperson for the federal Department of Home Affairs said attendees at the recent skills summit explored the potential for industry sponsorship of skilled migrants.

“Employer-sponsored visas are intended to establish a direct employer-employee relationship between the visa applicant and the employer,” the spokesperson said.

“The sponsorship framework is designed to protect migrant workers from exploitation and to ensure that labour market needs are met through domestic labour first.

“The sponsorship framework ensures migrants have a valid contract for the entirety of their visa grant period and will have the means to support themselves in Australia.”

JWH Group’s Mr Walter added that the construction industry provided a lucrative career path, particularly in recent years.

“There are a lot of trades at the moment who are making more money than some of the lawyers out there,” Mr Walter said.

He added that the industry was “definitely seeing light at the end of the tunnel”, whereas this time last year builders were still in the weeds.

“There’s generally a much greater sense of optimism,” he said.

Mr Alcock said the demand demographic had shifted from first homebuyers towards investors, as interest rates grew and stimulus dropped off.

“What we’re seeing now is 10 to 15 per cent of our group’s sales activity is coming from eastern states investors,” he said.

HIA statistics show the market share of the state’s 15 largest builders decreased from 68 per cent to 44 per cent in 2020-21.

Mr McGowan said this could reflect the fact that the first homebuyer market was slowing.

Master Builders Association of WA executive director John Gelavis told *Business News* the trade demand had moved from the wet trades, including bricklayers, to the roof-cover stage.

“We’re starting to see a lot of the demand created by the state and federal stimulus making its way through the pipeline,” Mr Gelavis said.

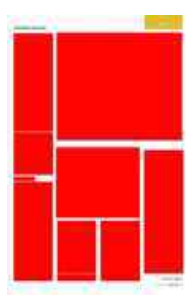
“I think there is going to be in the long term still a large requirement for skilled labour in the WA building construction industry.

“It’s a \$30 billion industry and has about 10 per cent of the state’s workforce.”

Mr Gelavis added that competition from commercial and infrastructure projects, as well as the government’s social housing requirements, would mean trade pressures would continue.

Master Builders’ figures show that, in 2021-22, 295 non-residential building jobs valued at \$357.9 million were approved in WA.

Mr Gelavis said the cost pressures



builders faced could be eased by eliminating fixed-term contracts, which place uneven risk on contractors.

This change is part of a suite of measures the association will lobby government for as part of its reform package, set to be announced next month.

HIA president Dean Humphrey, who also runs luxury homebuilder Humphrey Homes, acknowledged the financial pressure on the industry.

“It’s like holding your breath, between one progress claim to another; for a lot of builders, you can only hold on for so long,” he said.

“Some builders are chipping in their own funds to stay afloat; there will be a lot of companies under stress.

“As an industry, our capacity to build got overtaken by trade availability, and until trade availability matches demand there will be ongoing delays.”

Mr Alcock said a rumour that ABN Group had sought a government loan to prop up its cash flow was baseless.

“The best way I could respond to that is that it’s not true,” he said.

“Why would I be growing my apprenticeship program from 50 to 130, and wanting to increase it further? It would be the first thing that I’d stop doing.”

Mr Humphrey used an analogy of Muhammad Ali and George Foreman’s ‘rumble in the jungle’, in that the industry had been beaten down by the impacts of COVID but was fighting back.

“My version of that is that our industry feels like Ali in ‘rope a dope’ after just being beaten up, and now in true resilient style we’re about to come out swinging and beat this thing that COVID created,” he said.

Industry experts say while cost pressures from trades and materials were starting to ease, the cost of building a home was not likely to drop in coming months.

Initiatives such as the National Construction Code, predicted to add about \$20,000 to the cost of building a home, will affect the industry significantly.



Dale Alcock says he expects disruptions to settle within the next 15 months.

Photo: David Henry



Jay Walter says there is a greater sense of optimism in the industry. Photo: JWH Group

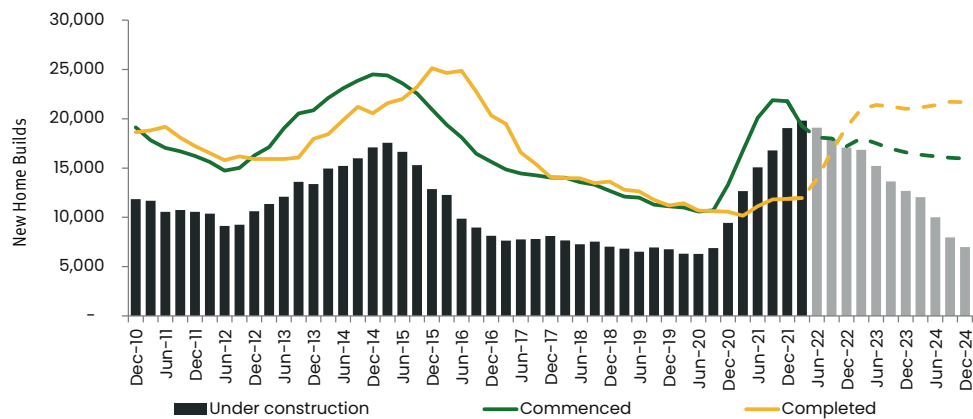


Dean Humphrey says the industry is fighting back after a long period of tumult. Photo: David Henry



Michael Bartier says the industry has faced an onslaught of challenges. Photo: David Henry

WA's building activity pipeline



Source: HIA Economics, ABS

21,007

WA HOME STARTS 2021-22

Data & Insights

WA'S LARGEST RESIDENTIAL BUILDERS

Ranked by number of dwelling starts in Western Australia 2021/22



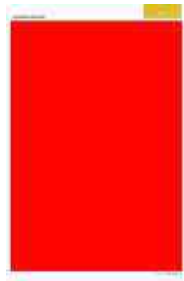
Rank	Change from previous year	Company	Senior executive and title	Year est. in WA	No. of Starts (2021/2022)	No. of Starts (2020/2021)	No. of Starts (2019/2020)	Trading As (Company Names)
1	—	BGC Australia	Mr Daniel Cooper Chief Executive	1974	1,980	4,205	2,332	HomeStart, Now Living, TERRACE, Commodore Homes, BGC Development, BGC Construction, Aussie Homes, Smart Homes, Ventura Southwest, Go Homes
2	—	ABN Group	Mr Dale Alcock Managing Director	1978	1,697	3,150	1,540	Celebration Homes, Dale Alcock Homes, Dale Alcock Homes South West, Dale Alcock Developments, Homebuyers Centre, Webb & Brown-Neaves, PACT Construction, Boeing Plumbing, Concretus, Ceiling Solutions, The Maker, Hi-Point, Parcel Property, Resolve Finance
3	—	Silvestro Building Group	Mr Anthony Silvestro Managing Director	1987	1,252	1,910	1,147	Home Group, Blue Print Homes
4	—	Scott Park Group	Mr Scott Park Managing Director	2006	932	1,803	741	Redink Homes Pty Ltd, Redink Midwest Pty Ltd, Redink South West Pty Ltd, 101 Residential Pty Ltd, B1 Homes.
5	—	JWH Group	Mr Julian Walter Managing Director	2003	838	1,279	NFP	WA Country Builders, Oswald Homes, Rural Building Company, Plunkett Homes, In Vogue, Residential Attitudes, RWBA, Smooth Start, JWH Tenders, JWH Projects, Metrostyle, First Abode, New Level, Renowned Homes, SOMO, Oswald Down South, Hampton York Homes...
6	—	Summit Homes Group	Mr David Simpson Managing Director	1978	780	874	472	Summit Homes, Summit Developments, Summit Renovations, Summit Granny Flats, Summit South West, New Generation Homes, Easystart Homes
7	↑	Delstrat Group	Ms Alicia Gangemi General Manager	1992	458	336	250	Seacrest Homes, Broadway Homes, Affordable Living Homes, Ideal Homes, WA Building Company, Modern Joinery
8	—	Hanssen	Mr Gerry Hanssen Managing Director	1994	297	556	NFP	Hanssen
9	—	Inspired Homes	Mr Vasko Spaseski Managing Director	2007	207	341	174	Inspired Property Group
10	↑	New Choice Homes	Mr Rob Spadaccini Managing Director	2009	176	236	96	New Choice Homes
11	↑	Ross North Group	Mr Ross North Managing Director	1976	155	253	119	Ashmy, Ross North Homes, Developwest Complete Homes
12	↑	Danmar Homes	Mr Dan White Managing Director	1993	132	180	250	Danmar Homes, Danmar Developments.
13	↑	Simsai Construction Group	Mr Christopher Pottier General Manager, Director	2009	113	143	91	First Home Buyers Direct, Pottier Homes, Dream Home Improvements, Express HomesFirst Home Buyers Direct, Pottier Homes, Dream Home Improvements, Express HomesFirst Home Buyers Direct, Pottier Homes, Dream Home Improvements, Express HomesFirst Home Buyers
14	—	Endeavour Homes	Mr Domenic Morolla General Manager	2004	94	209	NFP	Endeavour Homes
15	↑	Domination Homes	Mr Domenic Minniti Managing Director	1980	70	140		Domination Homes, Zircon Living, Zircon Projects
16	↓	Collier Homes	Mr Dario Amara Director	1959	NFP	NFP	NFP	Collier Homes
17	↑	Thomas Building	Mr Alan Thomas Managing Director	2010	NFP	NFP	NFP	Thomas Building Pty Ltd

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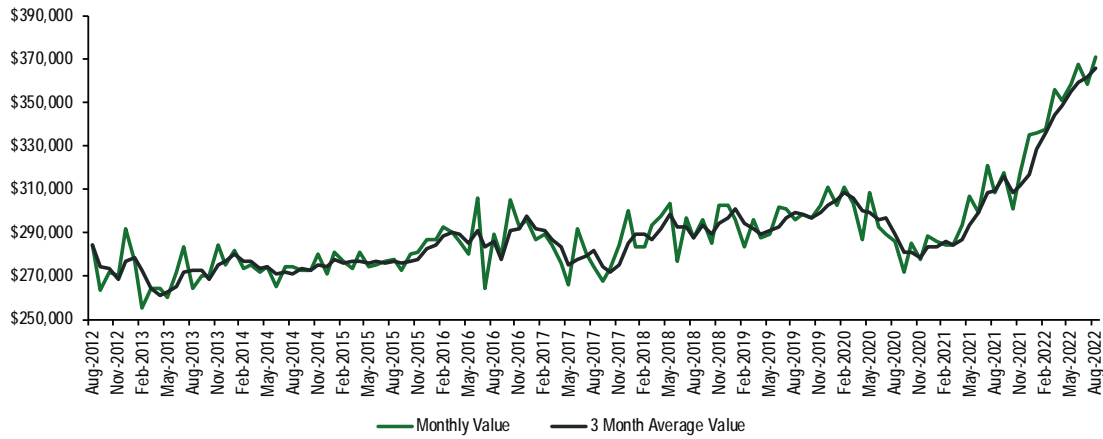
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Q businessnews.com.au/bniq/residential-builders

All information compiled using surveys, publicly available data and contact with industry sources. Other companies may be eligible for inclusion. If you believe your company is eligible, please email: claire.by@businessnews.com.au WND: Would Not Disclose, NFP: Not For Publication, N/A: Not Applicable or Not Available.

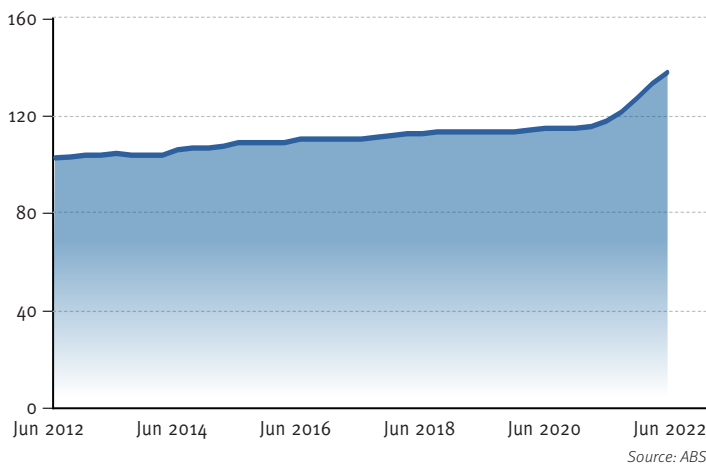


Average value of dwellings approved in WA



Source: ABS/HIA

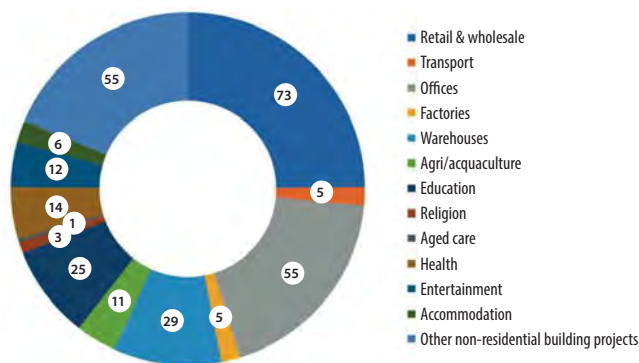
Construction price index



Source: ABS

“We expect the industry to remain impacted over the coming 12 months, with conditions gradually improving throughout FY23 - Michael Bartier

Non-residential building jobs approved



Source: MBA

“We still have all of the settings right for continued demand for housing in WA

- Dale Alcock