

Building chaos to continue

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More cancellations in '22

WA home builders are expecting a rise of cancellations in 2022 as soaring material costs cause project prices to blow out.

JWH Group general manager Jay Walter said the major jump in construction costs had left more people concerned about affordability.

"When the cost of materials is increasing so rapidly it puts a lot of pressure on builders . . . but they can't keep absorbing the costs," he said.

The price of timber, steel, hardware and plumbing supplies skyrocketed this year as new developments outpaced the ability to secure materials and supply chain delays caused shortages.

Mr Walter said a number of suppliers had changed their guaranteed timeframe for set material costs from one to two years to quarterly and, in some cases, monthly.

He added that concerns over possible interest rate rises and continued longer building timeframes were also giving home buyers cold feet.

CoreLogic's Cordell Construction Cost Index, which tracks changes to building prices, showed WA was up 4.3 per cent in the September quarter, the fastest rate of growth in construction costs since the introduction of the GST in 2000.

The boost to construction costs marked a significant increase on the June quarter, which recorded a 1.4 per cent jump.

Mr Walter said most home builders had a clause in the contract that allowed the customer to terminate the build if the price increased by more than 5 per cent.

"It's a big risk for builders who are trying to be responsible and protect themselves because the customers could just cancel rather than agree to the new price. They risk losing the whole project, but they are also faced with material costs increasing 5-20 per cent monthly.

"It's causing builders a lot of distress."

Tim Lawless, CoreLogic's head of research for Asia Pacific, agreed that it was likely WA home builders would see a rise in cancellations next year.

He said the unpredictable and surging price would have the biggest impact on first-home buyers, who were more likely to have less wiggle room on prices.

In January WA first-home buyers made up 43 per cent of mortgage payments, though that has now fallen to 30 per cent, which is below the pre-pandemic average.

He expected home builders would look to avoid fixed term contracts in 2022 to protect themselves against the price turbulence.

Steven Rowley, a professor at Curtin University's school of accounting, economics and finance, expected the heightened price on new homes would remain for at least another year.

"There doesn't seem to be any end in sight . . . people will be thinking twice about building now," he said.

Builders can't keep absorbing the costs.
JWH Group general manager Jay Walter