

AAA APARTMENT THINK TANK – IMAGINE 2035

OUTCOMES REPORT



AUSTRALIAN
APARTMENT ADVOCACY

The Voice of Apartment Owners

March 2023

A pathway for a confident apartment sector

The residential construction sector in WA represents \$18 billion and employs 30,415 construction workers and 91,424 subcontractors (source MBA 2022). Besides mining, it is the biggest contributor to GDP in the State.

And with the State Governments focus on increasing infill to 47% by 2050 (currently 29%), it is clear that this will become the dominating housing choice in the next decade and beyond, as the Government concentrates on consolidating and optimising existing infrastructure, including MetroNet.

However, despite these positive contributions to WA's economy, there are a number of core issues that AAA has identified with the current apartment sector.

Conducting research every two years with the National apartment owners' market, AAA has witnessed the occurrence of defects increase from 60% in 2021 to 70% in 2023. This is largely attributable to the increase in construction costs which leads to cost cutting. The lack of skilled trades has also contributed to increasingly poor workmanship. As in the case of 2021, the biggest defect issues are related to water proofing (bathrooms and balconies), structural cracking and fire mitigation installation. These are currently unlicensed trades in WA.

WA is also the only State that does not enforce mandated inspections during the construction process, relying instead on the LGA's that approve the related building permits. Considering the skill set required for apartment construction, it is evident that there is a gap in the knowledge base required to effectively conduct these inspections.

Furthermore, in the last two years we have witnessed major building companies such as Pindan, ProBuild, Jaxon and Firm Construction go into liquidation or administration leaving approximately 4000 apartment owners without the statutory warranty period protection (six years) and faced with a combined defects bill of approximately \$15 million.

This ultimately impacts consumer confidence and with developers needing to secure 60% pre-sales prior to commencing construction, it has made it extremely hard to get new residential apartment projects out of the ground. In all likelihood this will only exacerbate the existing housing shortage in Western Australia.

Keen to address these concerns and demonstrate leadership in this space, the Australian Apartment Advocacy hosted an inaugural Apartment Think Tank in March 2023 which sought the views of 130 apartment stakeholders including developers, builders, strata managers, apartment owners, State and Local Government and key suppliers to the industry including architects and engineers.



After hearing from a number of keynote speakers including Bronwyn Weir - co-author of Shergold Weir's Building Confidence Report, John Gelavis - CEO MBAWA, Brad Walters of Equifax, Jodie Sutherland of Mirac and Ric Graf of Billbergio Group (in relation to iCirt) participants were split into eight groups to Think Tank the following key topics:

1. Sustainability of construction sector overall
2. Apartment build quality
3. Relationship equality between builders and developers
4. Professionalism in the sector
5. Viability of developments
6. Volatility of the market
7. Affordability
8. Future housing considerations

The facilitators for these Think Tank sessions were sourced from National company Bridge 42.

Despite the various topics and hence vested interests, there were a number of key themes that surfaced from the Think Tank, which have now been captured in this document, with the focus on ensuring that apartment living is a vibrant, safe and equitable housing choice in the lead up to 2035 and beyond.

Each facilitated group was tasked with identifying the top three issues associated with their topic and then identifying Short Term (less than 3 years), Medium Term (3 to 5 years) and Long Term (greater than 5 years) recommendations to address these issues.

These themes included:

- Lack of education across the entire sector – in terms of Strata Managers, through to Strata Councils, sub-contractors, LGA, buyers and developers.
- Lack of accountability with apartment defects and in particular by the developer. Again the 2023 research demonstrated that 80% of WA apartment owners would like the developer to be held more accountable for building defects, especially in the absence of the builder (due to insolvency). As the buyer contracts with the developer and not the builder, this anomaly has caused significant distrust in the apartment sector.
- Lack of consumer protection (Home Warranty Insurance) for apartments four storeys or greater which is concerning when 50% of Australia's apartment owners reside in four storeys and greater (source ABS 2022).
- Lack of skilled labour which impacts delivery of apartments and the quality.
- Race to the bottom when it comes to tendering and provision of services.
- Lack of affordable housing and the development sectors focus on profit over ESG considerations.
- Tenders and procurement processes that place all the risk on the builder, sub-contractor and eventually the buyer/owner.

AAA believes that the Think Tank was extremely timely in its execution, as it was evident from the dialogue across the eight key areas, that there are a number of factors that need to be tweaked in the early stages of WA's apartment evolution to ensure longevity.

As such this document provides a range of short, medium and long term solutions which will ensure that this sector becomes robust in its building delivery, management and ongoing protection.

While Government will play a role in the delivery of some of these outcomes, it can also actively facilitate others through delegation and partnership.

AAA welcomes the Governments response to our policy recommendations and working collaboratively to ensure that this housing choice is robust and supported by appropriate education and protection measures.



1. Sustainability of the construction sector

A summary of the issues

In a construction market with rapidly rising costs and labour/skills shortages, the use of fixed-price contracts (favoured by developers and banks) become a blunt tool with which to bludgeon builders (and contractors) to bear the entire risk and financial burden of rising costs. For this reason there was strong advocacy for procurement reform, to be led by Government, that dispenses with lowest-price contracts and incorporates value-for-money-over-the-lifecycle of the building to result in fairer, sustainable costings. This would incorporate a return to regulated, standard form contracts that reinstate protections for builders and contractors and ensure standard and fair mechanisms for resolving disputes between developer and builder and/or more fairly apportioning unforeseen costs.

Top three problems

1. Loss of procurement expertise (eg building engineers, architects etc) has led to lowest price tenders with disastrous results for workmanship and material quality and also to building industry insolvency.
2. The loss of standard form contracts has resulted in removal of previously standard protections for builders and subcontractors in negotiations with developers, resulting in builders bearing a disproportionate (and unsustainable share) of the downside risk.
3. A skills/labour shortage has resulted in a decline in standards, non-compliant work and resulting defects.

Short term solutions

1. Introduce standard form contracts so that builders and contractors' rights and obligations and all dispute resolution mechanisms are clear. (Stops developers' lawyers from removing contract protections for builders and subbies).
2. Open pathways and fast track international tradespeople with qualifications currently not recognised in Australia. This will have to be conditional that the commitment is to apartment construction for a minimum of two years (to avoid movement to the resources sector which tends to offer higher pay rates).

Medium and long term

1. State Government to reform procurement (particularly its own) to apportion risk fairly and ensure that builders and subcontractors are paid appropriately to undertake the works so that they meet minimum standards.
2. State Government to introduce standard form contracts so that risk is apportioned fairly and all parties to a building contract understand their rights and responsibilities and the mechanisms they can use to resolve disputes.
3. Create more cohesive trades/training systems for continuous improvement within the building sector, with a particular emphasis on financial and business training units. Also support better collaboration between industry/trainers/schools to ensure a better supply of highly skilled trades people. Licensing of key trades which are an essential part of the integrity of the apartment build is key to limiting defects – which includes water proofing and fire installation.

2. Build quality

A summary of the issues

An over-reliance on design and construct methodology, creates projects on-the-run with lower standards/poorly documented design and costings, which may make a project vulnerable to rising construction costs, labour shortages and poor workmanship. Inadequate inspection regimes, specifically for structural, water proofing and fire-proofing works, and difficulty in diagnosing problems/rectifying them/enforcing rectification of defective work is undermining apartment build quality and ultimately confidence in the apartment sector.

Top three problems

1. Poor building certification regimes, especially in light of bias with private certification, which does not permit for a level of independence especially with critical building elements including waterproofing, structural and fire installation.
2. Lack of contractor/trade qualifications especially in the area of waterproofing and fire installation. Currently this is not a licensed trade in WA.
3. The trend towards continually seeking non-conventional / complicated and 'exceptional' aesthetic design outcomes for high density residential buildings, resulting in complex detailing, buildability challenges and compromised quality. The tendency towards D&C contracting to pass on the requirements for resolving complex detailing and specifications to contractors also results in short-comings in end product and interfaces

Short term solutions

1. An independent audit is conducted of the build separate of the certifier and trades self-certifying. Again, this could comprise of AAA's Apartment Audit and Assurance trial programme with Government, before becoming mandated, to ensure its ability to be easily incorporated into the construction cycle without any further delays or expense.
2. Extend Home Warranty Insurance to cover residential buildings of four storeys and above. This can be achieved by an independent company as long as the audit process is implemented ie seen as de-risked.
3. Trial mandatory inspections on a selection of new Apartment developments in Perth and a Regional Location to get an understanding of any actual cost and regulatory impacts to enforce building compliance requirements.

Medium term and long term (via State Government legislation)

1. Mandatory inspections and audits for Class 2 is introduced with a particular focus on critical elements such as structural concrete/ waterproofing and fire-proofing. Compulsory Latent Defects Insurance to be purchased by developer to protect apartment owners (up to 10 years and \$50 million).
2. Mandate minimum training and accreditation standards for all trades working on apartments with a specific focus on waterproofing, fireproofing and structural trades.
3. Focus on effective and functional design to be fully documented and costed before the project commences, to avoid scenarios where exceptional design outcomes priced on the run, consistently result in cost cutting on the critical build quality, which leads to costly defects.

3. Developer-builder relationship and accountability

A summary of the issues

There's a need to create a greater contractual link between developer, builder and the apartment owner via the strata manager, with concern that contracts tend to favour developers at the expense of all other parties. Financial institutions also play a role in the longevity of the sector, as they tend to profit from the construction, but not share in downside risks. There was discussion about the need to inspect/scrutinise apartment structures under construction and the need for a building/developer rating or audit scheme. Questions were raised about the adequacy of retention bonds and the failure of the defects liability period to protect apartment owners, especially those outside the current home warranty scheme ie four storeys or higher.

Top three problems

1. Inadequate scrutiny of apartment developers, especially as this is not an area where there are formal qualifications. There is a need to ascertain the expertise of developers and hence the associated build quality.
2. Inadequate retention bonds or defects protection for apartment owners.
3. Quality control and independent assurance for apartment owners of the build quality.

Short term solutions

1. Registration/accreditation/rating system for developers – initially voluntarily but in the medium term to become mandated.
2. Developers take financial responsibility for fixing/compensating for apartment defects, through Latent Defects Insurance or some other mechanism.
3. Resurrect a mechanism for auditing and controlling the quality of the building process – initially under a trial basis, which will assist in determining the impact on build delays, costs etc.

Medium term and long term (via State Government legislation)

1. Developer rating system to become mandated prior to building approvals provided.
2. Build audits for Class 2 to become mandated.
3. Financial institutions to restrict progress payments until critical audits have been signed off by an independent auditor.
4. Introduce a mechanism (potentially a bond) to address cash flow pressures on builders who incur considerable expenses with buying materials and are (unreasonably) expected to carry these costs until the first progress claims are paid.

4. Professionalism in the Industry

A summary of the issues

There are no minimum education standards, licensing requirements or compulsory audits for strata companies or councils even though some of them control apartment tower assets worth many tens of millions of dollars and associated budgets. In some schemes, it is difficult to convince owners to join the strata council, which should play a pivotal decision-making role in managing an apartment complex. Strata managers should be obliged to complete a minimum level of training to be licensed, with a requirement for additional specialist training for complex schemes.

While the construction industry represents \$16 billion per annum, Government has allocated no funds to education to date.

Top three problems

1. Lack of appropriate education for strata managers and strata councils.
2. There is no regulation or overview of strata managers and their professional conduct.
3. Disengaged owners are reluctant to participate in strata councils thus leaving the management to the lowest common denominator.

Short term solutions

1. Mandatory distribution of education kits for all apartment buyers. These could be distributed by REIWA when the buyer signs the sales contract. AAA has already created an education kit fit for purpose which has been endorsed by the State Government.
2. Minimum mandatory training standards for strata companies are to be introduced by 2025. However, it is important that the training units are streamlined, consistent and properly designed and it is recommended that a preferred partner is appointed for development and delivery eg AIM, AICD.
3. Design training to ensure minimum strata management standards are met and add optional modules tailored for specific schemes/needs e.g. defect management.
4. Tier apartment buildings according to the need for expertise on the Strata Councils (based on size of apartment building). For example, complexes of 100-plus apartments be required to pay a sitting fee (on par with LGA Councils) for suitably qualified residents to be on the Strata Council. For complexes of 150 apartments or more, a formal application and assessment process for the Strata Council is undertaken. This assessment could be conducted by a review panel developed by AAA with State Government assistance.

Medium term

1. Independently resource or supervise poorly performing strata companies to rectify shortcomings.
2. If there are not enough apartment owners volunteering/applying for a position on the Strata Council, then open nominations to interested tenants. This is a common practice in NSW and ensures greater community cohesion.

Long term

1. Impose similar educational and fiduciary obligations on strata managers as real estate agents, including minimum education standards, licensing and audit of trust funds.
2. Create a governing body to supervise and resolve complaints against strata managers. Consider introducing a rating system similar to Equifax's iCirt trustworthy builder regime for strata managers.
3. Educational video about living in apartments to be developed and shown at the first AGM for all Strata Companies.

5. Viability of developments

A summary of the issues

Government costs, including taxes and funding contributions are a substantial burden for developers.

1. GST [Federal] – is applied to sales from a developer. However, the sale of the same property on the open market is not subject to GST. There is therefore a 10% disconnect between the revenue received under the two scenarios.
2. Stamp Duty – discourages the population from moving as often as they likely would. This is due to the substantial impact of stamp duty on the ultimate cost of a property. For example, on a \$1m property, the before tax cost to a person could be up to \$75,000.
3. Foreign Buyers Surcharge – is misaligned with the Government's intent of attracting international investment. 13% of the cost of a property [stamp duty plus the surcharge] is excessive and unattractive to international buyer. Particularly when they can purchase in other countries / States with different cost burdens [QLD is 2%].
4. Activity Centre Contributions – relevant in some but not all LGAs. The argument from the LGA is that the additional population adds to the need for new infrastructure, however the application of the charge is random and not regulated. The amounts charged are not calculated based on objective assessments rather a random number, and when paid there is no tracking to confirm where the money has actually been spent.

Planning delays also add to substantial holding costs, especially if the stages in the market cycle vary from project launch to construction phase. There is a further misalignment between the different 'codes' and also personal interpretation which creates a grey area.

Finally, institutions that provide debt funding to developers have substantially increased the hurdles that need to be met prior to confirming investment. These are both financial such as IRR and Return on Equity along with compliance requirements related to the land, the developer and the availability / timing of equity.

Some developers are accepting the additional cost of non-bank funding which may be circa 3% more than bank funding. While this increases the project's cost base, the developer can proceed with more certainty.

Top 3 Problems

1. Excessive taxes, charges and costly planning delays
2. Complicated and sometimes conflicting planning requirements for residential projects
3. Funding hurdles for property development which delays projects and their ability to proceed.

Short term solutions

4. Developer exemptions for GST.
5. Government funding guarantees for project certainty to allow apartment buildings to proceed. This could be linked to provision to only those developers that have undertaken the rating evaluation in order to de-risk Government with potential default on the loan.

Medium term and long term (via State Government legislation)

6. Abolish State taxes including stamp duty, Foreign Buyers Surcharge and Activity Centre Contributions.
7. Review planning policies for ease of buildability and define "affordable apartment" to allow for appropriate costing and building modelling.

6. Volatility of the market

A summary of the issues

Lack of skilled labour invariably leads to reduced quality of work and higher costs in an industry already grappling with the impact of fixed-price contracts and payment issues. The risks of higher costs are disproportionately borne by builders and contractors, setting the scene for a string of financial collapses and billions of dollars worth of defects in existing apartment projects, with the repairs ultimately funded by the buyer.

Top three problems

1. Lack of skilled labour which is fuelled by a number of considerations including border closure, resources boom, record low unemployment and lack of adequate apprenticeship opportunities. These lead to higher costs and lower quality.
2. Reliance on building materials (supply and quality issues) manufactured outside Australia which impact on supply and then construction costs.
3. Race to the bottom on price; unacceptable impact of fixed-price, lump-sum contracts and the need for procurement reform. This also impacts on builders' viability and with increasing insolvencies, consumer confidence in the apartment sector is waning.

Short term solutions

1. Open pathways and fast track international tradespeople with qualifications currently not recognised in Australia. This will have to be on the condition that the visa entry is solely linked to the apartment sector for a minimum of two years (to avoid movement to the resources sector which tends to offer higher pay rates).
2. Increase home warranty insurance/warranty for defects to four storeys or higher. This can be accommodated by private providers on the basis of apartment audits during construction.
3. Governments to take a leadership role in life-cycle value of tenders (focus on quality and not lowest price) and develop a mechanism for a fairer distribution of risk if prices rise between tender and project delivery.
4. Discussions to be held with the finance sector as to allowing a flexible portion to the project finance ie 10-15%, to permit for fluctuations linked to building materials and the like.

Medium term

1. Create trades training incentives and broaden the appeal of trades for older workers and women. Create formal accreditation/licensing for fire protection and waterproofing trades.
2. Subsidise local industry to create resilient building material supply chains.
3. Establish tender templates that consider more balanced, intelligent approach to procurement factoring in quality, longevity and sustainability, not just price.

Long term

1. Restore confidence in the apartment industry by having skilled trades, quality materials and a robust building inspection regime.
2. Create fair-price, fair procurement legislation to ensure solvency of apartment builders even in a rising-cost market ie provide flexibility.
3. Once a viable national supply chain is established, Government to increase tax on imports.

7. Affordable housing

A summary of the issues

Soaring costs of materials and labour, rising interest rates and inflation were a major disincentive for developers to start new apartment projects, despite low vacancy rates and existing strains on supply. Apartment housing supply problems were further exacerbated by the absence of a requirement to incorporate affordable housing in all developments.

Top 3 problems

1. Lack of affordable housing stock with the focus of developers on maximising revenue returns.
2. Low confidence in build quality and concerns that apartment owners will be faced with hidden costs such as defects.
3. Lack of understanding of the benefits of apartments in helping resolve housing supply problems. This is in light of the apartment market being at an embryonic stage in WA and the lack of policy for provision of affordable housing in this sector, unlike greenfields.

Short term recommendations

1. Federal and State Governments to work together to train or import skilled trades people, who are then committed to the apartment sector for a set time eg two years.
2. State and local governments could mandate through policy, a percentage of affordable housing in every development. Alternatively, developers could provide this quota of affordable housing as a separate built form in a location that would be deemed more suitable ie where shops, transportation etc is readily available and therefore ensuring affordability is focused on lifecycle and not just the initial purchase. Developers would not be allowed to make a payment in lieu to avoid providing housing. This strategy would undeniably lock in a supply commitment.
3. Simultaneously Government could introduce tax breaks or planning incentives to encourage developers to increase supply of affordable housing without compromising viability. This could include prioritised approvals for those developments offering affordable housing.

Medium term

1. Adaptive reuse of existing buildings in the city or within strategic hubs which are supported with infrastructure.
2. Use modern construction methods incorporating pre-cast or timber to fast-track construction and overcome issues associated with labour shortages. This could be achieved through creating an innovation hub which AAA would be prepared to facilitate.
3. Introduce audits/building warranty insurance/rigorous enforcement of compliance with building quality standards to restore confidence in apartment construction and reduce the degree of defects.

Long term

1. Run education campaigns about the benefits of living in an apartment and break down the stigma associated with social housing within well-designed new developments.
2. In other States there are examples of so-called tenure blind developments with a harmonious demographic mix of residents. It is important to seek leadership in these realms and promote these models both to the development sector and community in general.

8. Future Design

A summary of the issues

Disruptors, including technology, climate change, an ageing population and urbanisation, could all influence design but there were concerns that building and planning guidelines were outdated and did not reflect the impacts of these disruptors. Long term rental agreements were also seen as an essential aspect to Perth's housing mix, with the introduction of well-designed build-to-rent apartment complexes having the potential to create affordable living close to big city infrastructure including universities, airports and hospitals. It was noted that a focus on masterplanned apartment communities was essential to optimise community amenities and that institutions could play a significant role in establishing these kinds of models.

Top three problems

1. Lack of support from State and local governments for well-designed density with good amenity.
2. Poor building compliance, creating poorly performing buildings with higher maintenance and living costs.
3. The amount of time it takes to change the culture (and the challenges posed by a vocal minority) with WA's acceptance of apartment living.

Short term Recommendations

1. Trial mandatory building compliance requirements to lower defects/maintenance costs and have better designed shared spaces.
2. Better education about the benefits of living in apartments and realistic expectations about apartment living and sharing communal spaces. This also includes education of Local Governments as to the need to provide alternative housing choice in their suburbs. It is suggested that Government works alongside AAA for the development of mass education campaigns on par with Healthways and Road Safety.
3. Demonstrator projects such as build-to-rent complexes and eco-villages and the potential for well-designed mixed build-to-rent and build-to-sell developments.

Medium term

1. Increase design flexibility to allow tenants and owners moveable walls/layout options to suit changing life stages and the rise of flexible work/work from home. The State Government could assist by leading with AAA an Innovation hub that showcases how these adaptations can be incorporated in the apartment design and construction.
2. Improved star ratings for buildings to deliver lower noise, improved energy efficiency and hence lower running costs. Government could introduce incentives for reduced resource use for the lifespan of the building.
3. Policy reform and improved building codes is required to raise sustainability and quality standards.

Long term

1. Review rental tenure: tenants are more likely to invest in maintenance and improvements with longer term 10 to 20 year tenure versus one to two years.
2. Review rental ownership: fragmented mum and dad ownership works against consistent maintenance and upkeep in contrast to longer tenure with institutional (build to rent) ownership.
3. Address the skills and labour shortages that are contributing to constrained housing supply through prioritising key visas and creating an Apartment Academy.

With thanks to the contributors of the Imagine 2035 Apartment Think Tank.

Imagine 2035 Think Tank Short Term Strategies

Think Tank recommendation	Proposed timeline
Open pathways and fast track international tradespeople specifically for the construction sector	> 2024
Independent audit for apartment construction trialled	> 2024
Mandatory distribution of Apartment buyer and owner education kit	> 2024
Introduce standard form contracts for construction	> 2025
Introduce a rating system for developers	> 2025
Mandatory qualifications for strata managers	> 2025
Education campaign about the benefits of housing choice and apartments	> 2025
Extend Home Warranty Insurance beyond four storeys	> 2026
Mandated percentage of affordable housing in all apartment developments	> 2026
Government project funding guarantees	> 2027
Flexibility from finance industry to consider a variable element to the project contract ie so not fixed	> 2027
Demonstration projects of alternative building materials, affordable build to rent etc	> 2027
Pay sitting fee for Strata Council members	> 2028



