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Residential Builders

SPECIAL REPORT



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House builders walking a tightrope

Builders are juggling surging demand for homes, shortages of workers and materials and their ability to deliver for buyers.



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“In terms of labour, we are fishing from the same puddle, we’re not fishing from the same pool

- Daniel Cooper

Daniel Cooper says BGC now offers bricklayers salaries, instead of contracts, to attract them.
Photo: David Henry

BGC Australia chief executive Daniel Cooper is understandably frustrated by the circumstances COVID-19 has created for the residential building sector.

For many consumers, there has rarely been a better time to build – as millions of dollars in government stimulus is pumped into residential construction to drive homes starts.

Most prospective homeowners also face rising equity, with CoreLogic’s September data showing an 18.1 per cent rise in Perth’s home values in the past 12 months.

But for builders, a scarcity of tradespeople, escalating material costs and supply chain snags are making it increasingly difficult to complete projects anywhere near historic building timeframes.

And while home build starts are near pre-pandemic highs, there is widespread uncertainty about where the industry will be in 12 months’ time.

Cracks have started to show with the recent collapse of builders Jaxon and Pindan and more companies could end up facing pressure on their margins.

Mr Cooper’s BGC Australia has topped Western Australia’s residential builders in the Housing Industry Association-Colorbond Steel Housing 100 Report for the second consecutive year, with 4,205 starts for 2020-21.

Statewide, there were 23,985 starts in WA in the 12 months to July 2021, a 74 per cent increase on the previous financial year, and 50 per cent up from HIA’s forecasts 12 months ago.

If it were not for significant shortages of people on the ground to execute these developments, the numbers could be higher.

In September last year, the construction giant stopped taking on new builds to deal with the thousands of orders that flooded in during the earlier part of the year.

“We have been very careful about how much work we took on, because we had to be able to have the resources to build them out,” Mr Cooper said.

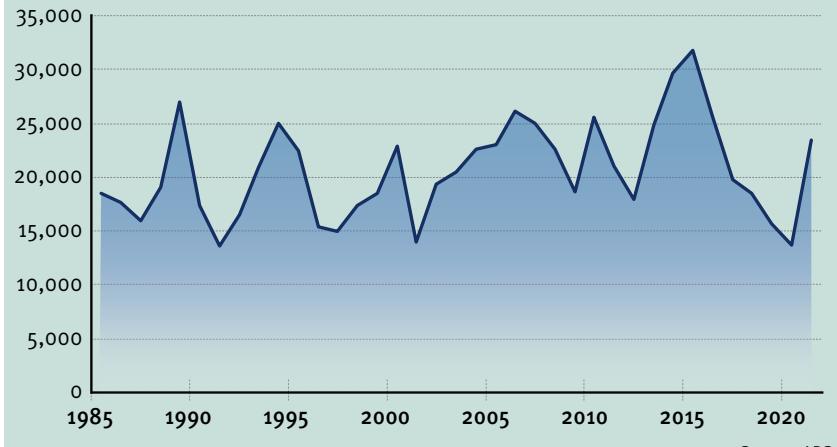
“We took sales from June to September (2020), then we closed the books.”

The company’s recent axing of half of the 40 sales jobs it created last year to meet demand reflects the current climate.

Sales slowdown

Closing the books has been a common move for many builders in the housing sector during the pandemic.

Dwelling commencements – financial year



ABN Group managing director Dale Alcock said his company, which came in at second on HIA’s list with 3,150 starts for 2020-21, limited sales during the stimulus period.

This was to ensure the group could deliver grant eligibility for its clients, albeit with increased construction timeframes.

He could not put a figure on how long projects were running out by, but there were reports of residential builds taking at least four months more than they did before the pandemic.

“At the ABN Group, we are not immune to the demands this increase in activity places on us, however, we have been here before and we understand what is required to deliver the best outcome,” he said.

“Sure, you may have to wait longer for completion, but we are building a quality home and we will be there from the start to completion and beyond.”

JWH Group general manager Jay Walter said his family owned company took a similar approach, capping sales from August last year.

“We slowed (our sales) right down,” he said.

“That was really just us trying to control the flow, because if you wanted you could just leave your doors open and the sales would have kept rolling through.

“We wanted to responsibly build and ... make sure we could try and maintain our levels of staffing and our trade base.”

Mr Walter said the industry could not maintain peak levels indefinitely.

“There’s no point tripling or quadrupling the size of the business, if you know that you’re just going to have to come down again,” he said.

“We tried to take an approach of let’s just process what we can and feed that through the business.”

JWH Group, which heads up a conglomeration of building companies over 12 locations in WA, came in as the state’s fifth largest residential builder with 1,279 home building starts in 2020-21.

Activity surge

For JWH, this represented a more than doubling of its home build starts, up from 630 in 2019-20.

This trajectory aligned with most of the state’s major builders, with BGC and ABN registering an 80 per cent and 105 per cent uptick in home build starts since the previous financial year respectively.

Builders attributed this surge to significant government stimulus, introduced in response to industry concerns at the start of the pandemic

About \$500 million has been allocated to more than 25,000 applicants under the state’s \$20,000 building bonus.

Federally, the government has paid \$185 million in HomeBuilder grants to WA residents, with that figure expected to rise as more applications are processed.

These measures have led to an 89.1 per cent boost in building approvals in WA for 2020-21, the strongest growth on record for any jurisdiction.

Scott Park Group grew from 741 starts in 2019-20 to 1,803 in 2020-21, positioning it at fourth on the residential builders list.

Managing director Scott Park said his company had been well-positioned to

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“At the ABN Group, we are not immune to the demands this increase in activity places on us

- Dale Alcock

Dale Alcock is among the builders who limited sales during the stimulus period. Photo: David Henry

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capitalise on the growth that came via government stimulus and he did not have to slow sales during the pandemic.

“We are selling as per normal (and) we know this is going to come to an end,” he said.

“Demand is still strong and even outside of the stimulus package we are getting strong sales.”

Mr Park’s approach is to take on all the work he can during the current boom as he knows it will stabilise in time.

He said cost increases were affecting each part of the home building supply chain and the company had to factor in price increases into its contracts.

Low base

WA housing starts are still not at the levels they were before the latest downturn.

Between 2015 and 2020, the industry experienced its lowest levels of activity for decades.

In 2014-15, WA’s top two residential builders, ABN Group and BGC, recorded 3,709 and 4,834 home starts respectively.

By 2018-19, these numbers dropped to 1,703 and 1,624.

Mr Cooper said while the government stimulus had bumped demand to unmanageable levels, residential builders needed a lifeline at the time.

“We were at the lowest number of house starts since 1983 at the start of 2020 and in the middle of a pandemic, so the future was not looking very bright,” he said.

“It was good for people and industry to have that stimulus at a time when

we weren’t sure where the industry was going, but it created a wave of demand which has led to supply side challenges, in a COVID restricted market.”

He said while the industry had started to show green shoots, there had been false starts in the past.

“We have underbuilt in WA for a long time, so we had a pent-up demand and once that bonus was available, they came out,” he said.

In line with that, BGC restructured its business to shift away from high-end building to a lean model focusing on first homebuyer and second home trade-ups, Mr Cooper said.

Worker shortages

Skills shortages have hit WA’s construction industry hard since the start of the pandemic, leading to considerable delays and cost pressures for housing projects.

A Master Builders Association of WA report earlier this year stated that the longest delays were being reported for bricklayers, carpenters and structural steel workers.

The Chamber of Commerce and Industry of WA’s June quarter business confidence report identified access to skilled workers as the key barrier to growth, affecting 79 per cent of WA construction businesses.

In construction, 72 per cent of businesses said they were struggling to fill at least one position.

Mr Cooper said the industry’s lack of ability to bring in overseas workers was leading to widespread frustration among builders.

“Normally, you would just keep bringing in skilled labour or trades from

interstate or overseas – we just don’t have that ability,” he said.

“We’ve worked very hard with state and federal government to try and bring people from overseas, but up to this point we haven’t been successful – it’s our major challenge.

“In terms of labour, we are fishing from the same puddle, we’re not fishing from the same pool.”

He said this meant builders had to lift their game to attract talent.

BGC has taken the unprecedented step of offering bricklayers salaries, departing from the traditional subcontractor model.

Talent pipeline

The building giant is also stepping up its apprentice program, opening more than 40 places within the group and its trading partners.

ABN’s Dale Alcock has always put a lot of emphasis on hiring apprentices. In the past 12 months he has amplified that even further.

“We are now employing more than double the number of young West Australians than we were 18 months ago,” he said.

The state and federal governments have incentives for businesses to take on apprenticeships, including wage subsidies and payroll tax exemptions.

The Construction Training Fund has encouraged builders to invest in training during the pandemic.

Master Builders Association of WA director of housing and construction Jason Robertson said the organisation was continually working with government to ensure training pathways for construction.

Future forecasts

HIA WA estimated that total housing starts in WA were expected to reach 22,279 in 2021-22, a 7 per cent dip from the recent financial year but significantly higher than the 10,590 they reached in 2019-20.

HIA WA executive director Cath Hart said interstate migration also played a role in the surge in building approvals, with 1,205 people moving to WA from interstate in the final quarter of 2020 – the highest level since 2013.

“WA’s reputation as a ‘COVID-safe state’ has enticed more people to live and build here, which is a significant turnaround because pre-COVID more people were leaving WA for the east coast,” Ms Hart said.

Mr Cooper said once WA opened its international borders, it could lift demand for residential housing while boosting labour supply.

“We’ll be able to get the trade, so we will be able to build more (and) it’ll actually drive an increase in housing starts as well, because migration is a huge driver of household formation.

“The thing that’s driving the housing market at the moment is that there are all-time record lows of existing homes on the market (and) you’ve got rental vacancy rates at sub one per cent.”

Cost blowouts

Escalating labour and material prices have caused construction project costs in WA to blow out by up to 20 per cent, industry sources have said.

The price of bricks has doubled since the start of the pandemic and

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Approved \$32.5 million 110 Incontro apartment complex to be built alongside its \$13 million fully sold townhouse development.



Huntington Apartments, Cedar Wood's largest apartment project delivered to date with settlements expected in 2022 Financial Year.



Strong townhouse sales results achieved in 2021 Financial Year in Fletcher's Slip, Cedar Wood's portside development in Adelaide.

Cedar Woods' strategy keeps pace with buyer priorities to deliver value to shareholders

Cedar Woods' diversified and quality portfolio drove the Company's strong performance across the 2021 Financial Year, firmly placing the Company on a pathway to pre COVID-19 earnings and beyond. This long-standing strategy continues to position Cedar Woods well to harness the opportunities presented by a recovering economy in which buyers remain active and are showing preference for the Company's product offering.

Reflecting on Cedar Woods' strong financial performance, Managing Director Nathan Blackburne highlighted the Company's ability to perform through property cycles and its diversified portfolio as key reasons for its success.

"We have ensured a mix of product type in our portfolio and that has been instrumental in appealing to a variety of buyer profiles – from new families looking for their first home, young couples wanting a trendy townhouse in a good location to downsizers looking for a new but smaller home – we have products that cater to almost every geography, price point and stage of life."

Cedar Woods continues to fill the gap in the market for buyers seeking an ideal infill location, close to amenity but without the downsides of CBD living. Cedar Woods' townhouse and apartment offering has been welcomed by the market in the eastern states and is proving to be just as popular in Western Australia. Across the year, Cedar Woods' built form projects experienced strong price growth and sell out success across several stages at Fletcher's Slip in Adelaide and Incontro in Perth where new releases and products are now being launched.

As the strong demand for land and townhouses continued, conditions improved for apartments with Cedar Woods' launch of Monarch apartments at Glenside, South Australia where 40% of the apartments were sold within four weeks and 70% are now sold just 12 weeks since its launch to market.

At financial year end, Cedar Woods reported presales of \$478 million which is a record for the Company. These strong presales underpin earnings growth for the Company over the next financial year, with approximately two thirds of the presales expected to settle in 2022 Financial Year.

With a track record of consistently outperforming peers over medium and long term timeframes on Total Shareholder Return (TSR), Cedar Woods retains a strong balance sheet from which the Company strives to take advantage of acquisition opportunities to drive future growth.

"At Cedar Woods we're always looking to sensibly expand our portfolio and we have dedicated acquisitions resources assessing opportunities around the country. We are good at consistently uncovering well located sites to acquire, ensuring our pipeline is filled with smart projects that can generate great returns for our shareholders and excellent products for our customers. We carefully select sites where our type of product is hard to come by and provide our customers with the opportunity to live in a new home in a long-established area," said Mr Blackburne.

Over the financial year, the Company continued to build its pipeline of development projects with the acquisition of a 40.7 hectare site in South Maclean, south west of Brisbane and a strategic 21.7 hectare site in Melbourne's north, immediately adjacent to Cedar Woods' existing Mason Quarter project in Wollert. Cedar Woods' acquisition team has a talent for finding and converting off-market deals and don't just concentrate on obvious market opportunities.

Looking forward in FY22, with a pipeline of more than 9000 lots/units, Cedar Woods is making the most of favourable market conditions and is accelerating the release of new project stages to capture the demand from new home buyers.

Cedar Woods is continuing to present a steady stream of quality product to the market especially from projects like Glenside and Fletcher's Slip in South Australia, Bushmead in Western Australia and Mason Quarter in Victoria.

With investors starting to re-enter the market at a more rapid pace as COVID-19 restrictions fall, conditions are expected to continue to improve for apartments and offices. In recent months Cedar Woods has experienced a resumption of suburban commercial properties sales.

"In FY22 we are continuing to see strong market conditions around the country, in fact all markets are very buoyant. Sales are strong across the vast majority of product types and in all states, which is allowing us to build presales to support the Company's future earnings," said Mr Blackburne.

Low interest rates, pent up demand, limited new housing supply and falling unemployment are key fundamentals that are supporting the new housing sector and this is expected to continue for some time. As lockdowns end and migration into Australia restarts, demand for housing is expected to continue to be favourable.

"We are sticking to our winning strategy of acquiring projects in high demand locations, offering a range of products to suit every lifestyle, and delivering quality service every time. This has delivered great results and will continue to do so in this year and beyond."

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competition has led to tradespeople being paid at a premium.

Timber shortages have sent prices skyrocketing, with Bunnings' parent company, Wesfarmers, reporting a 20 per cent increase in local lumber prices in July.

BGC's Mr Cooper said shipping delays and high demand for materials in other parts of the world was having a ripple effect in WA.

"There are challenges all through the supply chain, which are accentuated by the fact that you've got closed borders," he said.

"That's made it difficult for all sorts of materials. We've got global shipping problems, problems with ports, access issues, union issues.

"We have had issues with timber, because as the world emerges from COVID, it starts to open up again, then the demand is really high – we've seen that with all sorts of materials and commodities."

Insolvencies

Price spikes and difficulties obtaining labour have not only led to project delays but have forced some out of the game altogether.



Statewide, there were 23,985 build starts for FY21. Photo: Gabriel Oliveira

The recent collapses of Pindan and Jaxon, after the builders racked up a combined \$90 million in debt, showed how builders can fall victim to supply squeezes.

For BGC, spreading risk is key to sheltering against such conditions.

"A lot of that is the fact that jobs were priced some time ago (then) ...

you continue to build in a loss-making exercise," Mr Cooper said.

"You need to have a balance of profitable work to go with that unprofitable work."

Mr Cooper said once builders were aware of cost increases, they could manage their risk by factoring in impending rises.

Mr Alcock said builders needed to ensure they had appropriate levels of cover such as home warranty insurance for every contract they took on.

"We have also ensured that we have correctly priced and provisioned the price of our homes to ensure that we can pay the escalated trade and material supply rates," he said.



Home grown powerhouse

As managing director of Wesfarmers, Rob Scott is guiding one of Australia's largest listed companies through the pandemic as he keeps his eye on delivering top quartile returns for shareholders.

With assets across varied industries from retail to lithium, and home improvement to chemicals and fertilisers, Wesfarmers is one of Australia's biggest private sector employers.

Rob is steering the development of a market-leading data and digital ecosystem, increasing investments in platforms for long-term growth and accelerating the pace of continuous improvements.

Join Rob for breakfast to hear what lies ahead for the group, and his insights into leadership.



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WA'S LARGEST RESIDENTIAL BUILDERS

Ranked by number of starts in Western Australia 2020/21



Rank	Change from previous year	Company name	Senior executive and title	Year est. in WA	No. of Starts (2020/2021)	No. of Starts (2019/2020)	No. of Starts (2018/2019)	Trading As (Company Names)
1	—	BGC Australia	Mr Daniel Cooper Chief Executive	1974	4,205	2,332	2,521	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	3,150	1,540	1,562	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	1,910	1,147	N/A	Home Group, Blue Print Homes
4	—	Scott Park Group	Mr Scott Park Managing Director	2006	1,803	741	654	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 Founder	2003	1,279	630	733	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	874	472	567	Summit Homes, Summit Developments, Summit Renovations, Summit Granny Flats, Summit South West, New Generation Homes, Easystart Homes
7	↓	Content Living	Mr Gino Bastow Managing Director	1992	772	512	572	Content Living, Dreamstart Homes, Momu
8	↑	Hanssen	Mr Gerry Hanssen Managing Director	1994	556	250	427	Hanssen
9	↑	Inspired Homes	Mr Vasko Spaseski Managing Director	2007	341	174	151	Inspired Property Group
10	—	Delstrat Group	Ms Alicia Gangemi General Manager	1992	336	250	324	Seacrest Homes, Broadway Homes, Affordable Living Homes, Ideal Homes, WA Building Company, Modern Joinery
11	↓	Multiplex Constructions	Mr Chris Palandri Regional Managing Director	1962	270	399	399	Multiplex Constructions
12	↑	Ross North Group	Mr Ross North Managing Director	1976	253	119	118	Ashmy, Ross North Homes, Developwest Complete Homes
13	↑	New Choice Homes	Mr Michael Condelli General Manager	2009	218	96	92	New Choice Homes
14	↑	Endeavour Homes	Mr Domenic Morolla General Manager	2004	209	72	118	Endeavour Homes
15	↓	Danmar Homes	Mr Dan White Managing Director	1993	180	250	127	Danmar Homes, Danmar Developments.
16	↑	Simsai Construction Group	Mr Christopher Pottier General Manager, Director	2009	143	91	N/A	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
17	↑	Collier Homes	Mr Dario Amara Director	1959	NFP	NFP	NFP	Collier Homes
18		GET THE FULL LIST ONLINE						

Data & Insights

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ABN, BGC top builder lists

yesterday, ranks the country's residential builders by number of dwelling starts. ABN ... the nation's number one residential builder . Melbourne-based Metricon ...

Perth property: a year in review

certainly helped pull many residential builders out of the doldrums. For ...

WA's economic recovery continues

response to the grant and residential builders expect a consistent flow ...

Builders adapt to turbo demand

Residential builders expected some increase in ... challenge the state's biggest residential builders believe they're navigating ... upcoming release of HIA's residential builder survey of new home build ...

Building Bonus: on-site start times extended

building contract. Previously, residential builders were required to start on-site ... announcement today follows claims residential builders were capping monthly sales ...

BGC, ABN Group WA's largest builders

the nation's number one residential builder , for the fifth consecutive ...

Residential Builders

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