

14 December 2017

Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam

TREASURY 2018-19 PRE-BUDGET SUBMISSIONS

Thank you for the opportunity to submit initiatives we believe must be budgeted for in 2018-19.

Strata is the fastest growing form of residential property ownership in Australia, with something like a trillion dollars of the common wealth invested in this type of housing. Over half the new dwellings to be built in our metropolitan areas over the next decades will be strata titled, and the growth of this sector raises increasingly important questions over property ownership and governance.¹

The Owners Corporation Network of Australia Limited (OCN) is the peak body representing residential strata and community title owners and occupiers.

Australia has an alarming and growing incidence of building defects, particularly in residential buildings. The three most common defects are water ingress, fire safety non-compliance and non-compliant materials. Two of these pose very real life safety risks, as illustrated by the Bankstown, NSW fire in 2012 – [details](#) - and the Lacrosse fire in Victoria in 2014 – details [here](#), [here](#) and [here](#). Overseas fires have resulted in 58 deaths in China – [details](#), and 71 deaths in London – details [here](#).

This circumstances of the fire were such that the United Nations (the UN) has announced it will investigate whether the government and the Royal Borough of Kensington and Chelsea failed in their duties to protect life and provide safe housing– details [here](#).

While amazingly there were no deaths at Lacrosse, those owners now face an estimated \$20m in rectification costs because a builder or sub-contractor could cut corners.

Australian apartment buildings are increasing rapidly in height and complexity and defects claims, often against builders who use special purpose vehicles to go into voluntary liquidation to avoid responsibility for rectification, are now running into tens of millions of dollars.

The cost of this preventable behavior:

- to the construction industry and the good builders disadvantaged by dodgy operators
- to the community in terms of
 - overloaded Tribunals and Courts

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- Home Owners Warranty Insurance payouts, which in NSW was \$33m in 2014 and \$62m in 2013
- and to the individual victims, with evidence of bankruptcy, suicide and death from the stress

is incalculable. The UN has now added a further threat ... to governments that do not act to prevent these catastrophes.

At the end of May 2017, nationally, residential property industry was worth \$7.1 trillion, with superannuation trailing far behind at \$2.3 trillion, and listed stocks at \$1.8 trillion.

The commonwealth must acknowledge the critical issues with this sector and address them through:

1. adequately funded, improved industry training standards, and
2. effective [regulation](#) to minimise building defects, prevent phoenix activity, and prevent non-compliant materials being imported or used.

The Prime Minister has acknowledged the importance of cities by appointing a Minister for Cities. The next step is to ensure the safety and financial security of the occupants.

Industry leaders have been calling for a simplified national regulatory framework for years. It's time. The July 2017 Senate Inquiry into Flammable Cladding heard incontrovertible evidence from a range of industry players of the unmitigated failure of deregulation of the construction and building industry.

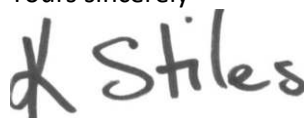
Industry leaders have also been urging government for years to act on non-compliant materials. Government's failure to act at commonwealth and state levels has resulted in a chaotic reaction to the Grenfell fire, which has resulted in thousands of innocent owners having to finance inspection and identification of cladding, and potentially the cost of remediation. This process, being managed by unskilled volunteer committee members, is complex, confusing and runs into millions of dollars per property.

Then there is the interim impost of insurers declining to insure, or charging highly inflated premiums, often with unreasonable excesses, for cladding or in one reported case, a \$50,000 excess across the board. Owners corporations are required by law to hold building insurance, so they have no option but to accept these terms.

But, finally, reducing the incidence and cost to owners of building defects will positively impact the real cost of housing, thus housing affordability.

OCN welcomes the opportunity to engage with the government on any aspect of this submission, and to develop solutions to the issues identified.

Yours sincerely



Karen Stiles
Executive Officer

¹ City Futures Research Centre 'Strata Data' Issue 4, October 2011