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How cost-cutting makes buildings fail



Michael Bleby *Senior Reporter*

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Chris Anderson last month turned down an offer of work. A national building services company asked Mr Anderson, the head of a Brisbane-based waterproofing subcontractor firm, to go on its books for insurer-funded remedial work at a rate of \$52.50 an hour.

The offered rate didn't include the cost of materials needed for any job. Mr Anderson, whose privately owned business specialises in remediation work, calculates he needs to charge closer to \$60. It didn't take him long to say no.



Not cutting costs - or corners: Waterstop Solutions director Chris Anderson. **Attila Csaszar**

"I tried not to laugh," said the Waterstop Solutions director. "I politely said I'd prefer to stay home and go broke in bed."

Waterproofing isn't unique. In a cut-throat construction industry where price trumps everything and every player in [a cascading hierarchy of relationships](#) is trying to minimise costs, there's relentless pressure on lower-order players to accept less.

"There is this practice of subcontractor shopping," said industry veteran John Murray.

"A contractor will seek prices from subcontractors and then go to the lowest subcontractor - or even its preferred subcontractor who may not have the lowest price - and ask it to further shave its price."

The consequences of all the cost-cutting and resulting shortcuts are now all too visible as state governments prepare themselves to pay hundreds of millions - some estimate billions - of dollars to rectify the buildings built carelessly, with combustible cladding that fails to meet building code standards or defects such as cracking.

"That shocked me - what this builder, a large building firm, was expecting and almost demanding of the market"

— Waterproofer Chris Anderson

"There's an inextricable link," said construction lawyer Bronwyn Weir. "There's no doubt that will affect quality and compliance. It's a reflection of the culture and the contracting practices that occur."

Mr Anderson, whose firm employs 19 people in Brisbane and another eight in Sydney, was able to reject the cut-price work. Even though extra jobs would be a way to use staff in quiet times, the money wouldn't cover his costs. His firm would also be responsible for warranties on the work.

"That shocked me - what this builder, a large building firm, was expecting and almost demanding of the market," he said.

Waterproofing - preventing water penetration into buildings - is a particular concern. It's well-known in New Zealand, where consultancy [PwC in 2009 estimated](#) the country's [leaky buildings](#) syndrome affected an estimated 42,000 homes at a repair bill of about \$NZ11.3 billion.

In Australia it is still a sleeper issue, with the full extent yet to become clear. Deakin University academic Nicole Johnstone said in [a report published in June](#) that while

combustible cladding was currently a major problem, the scope for water damage was greater and more costly.

Defects have likely been built into Australia's building stock as a result of years of competitive cost-cutting, Mr Murray said.

"The party that has given a lower price will try and cut its loses as best it can: lower-quality paint, lower-quality materials, spending less time on the job than it should," he said. "You get what you pay for."

Weak regulatory requirements for licensed tradespeople to oversee jobs leads to sub-standard work. So does poor control by site managers who don't allow sufficient time for stages of the building process - such as allowing the painted-on waterproof membrane time to dry before the next trade continues work.

In the business of remedial work, when failures are replaced by other failures, so-called circular defects will subsequently need to be fixed - and paid for - again.

Paying the true cost of resources and time to build properly will add to prices and, when applied to new builds, will push up the cost of housing. But there is no alternative, Ms Weir said.

"It's about better regulation and if that means more cost to get better outcomes that's a balance that needs to be struck and needs to be struck sooner rather than later," she said.

Victoria could have avoided the \$600 million cladding rectification bill - which could go higher still - if it had spent half that cost into ensuring compliance at the time the state's 500 priority buildings were built, she said.

Mr Anderson agreed extra costs would force prices higher.

"But you're going to end up with a lot less defects," he said.



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