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Inflammable cladding crisis creates 'legal minefield' for building industry



Fire risks caused by inflammable cladding creating contractual chaos AP

by [Duncan Hughes](#)

The inflammable cladding crisis is a "legal minefield" that threatens to engulf apartment buyers, financiers and developers in a sector already threatened by over-supply and falling demand, according to industry specialists.

Off-the-plan apartment buyers could be among the first to be hit as wary lenders reconsider whether to make a final loan offer because of uncertainty about whether insurers will provide cover, advisers warn.

[Developers could next feel the heat trying to find mandatory owners' corporation cover](#) required for settlement in an increasingly nervous insurance market, according to lawyers.

There are also warnings the biggest fire and finance dangers are in mid-size apartment blocks that are mushrooming in the suburbs, particularly around the central business districts of Melbourne and Sydney, which do not require external sprinklers.



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"There are a minefield of issues that arise from developer finance and purchases," warns Lisa Cody, a partner and property specialist for lawyers' Holding Redlich.

"If there is any settlement risk then developers' financiers will get very nervous," Ms Cody warns.

Who's at most risk?

The industry is attempting to establish how the recent [Senate inquiry into dangerous cladding](#) increases their financial and personal risks.

Sahil Bhasin, national general manager of Roscon Group, which advises on strata properties, said the biggest problems are in the outer metropolitan suburbs under 25-metres, or seven stories, that do not have sprinklers installed.

"This is where we are more likely to witness a disaster, as fire sprinklers are not installed in most buildings," Mr Bhasin said.

"Owners and residents break down in front of me at the committee meetings when I'm advising them of all the problems within residential buildings," he said.

Insurers are warning apartment owners in Australian buildings with cladding similar to that [used in London's Grenfell Tower](#) fire that they may refuse insurance cover outright, or make it too expensive because of safety risks.

In Australia, high rise apartment blocks have sprinkler systems, which reduce risk. There are also differences in design that lower the danger of conflagration.

Lenders are attempting to establish what risks new laws, higher costs or the threat of legal action means for developers they are financing, existing borrowers and off-the-plan borrowers awaiting final loan approval.

Lawyers are pressing lenders to clarify any revisions to their lending policies and what the implications are for their clients.

The Australian Property Institute is alerting lenders and insurers about the fire risks from some inflammable building materials and questioning whether they are fit for purpose.

The number of new apartments due to settle over the next two years is approaching the average number of apartments sales over the past five years, which is a record high, according to CoreLogic, which monitors property sales.

Vendors are under pressure because common areas in an apartment, such as public corridors, need to be covered by public insurance liability before settlement, adds Ms Cody.

Major lenders, such as Westpac Banking Corporation, have recently introduced [tougher conditions](#) for property valuations to be completed before a final offer is made.

Off the plan buyers make a deposit, typically about 25 per cent, when a project is at planning stage, with the remainder to be paid at settlement.

While the bank may provide an approval-in-principle it usually expires before the building is completed when they need to undergo a full assessment, including evaluation of a property, before the lender will approve a loan.

Some lenders that provide deposits are already refusing additional funding for local buyers amid growing concerns apartment values are falling.

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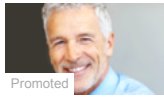


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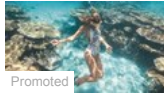
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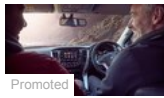
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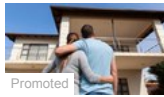
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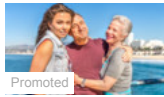
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