# Victoria cladding replacement loan scheme unworkable, industry says

Some owners of units with combustible cladding are trying to get the original builder to pay for rectification, such as those at this in complex in Melbourne's Richmond. *Elke Meitzel*

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by Michael Bleby

The country's first government-backed loan scheme to replace combustible cladding is unworkable and will not help struggling apartment owners when it kicks off next month, lawyers, engineers and financiers said at an industry gathering on Friday.

Victoria's Cladding Rectification Agreements, which require commercial lenders to assess the finances of every lot owner in an apartment complex before advancing a loan that owners will repay through their council rates, are due to come into effect next month.

"It's not going to work," said Sahil Bhasin, national general manager of property services company Roscon.

"There are already mechanisms in place that are far simpler that owners corporations can already contemplate without having a tripartite agreement in place."

Combustible cladding has already devalued apartments and made them unsellable in Britain.



It's unclear just how many apartments have combustible cladding in Victoria and other states. A Victorian audit that last year identified 1369 potentially problematic residential buildings has not been made public and while the Victorian Building Authority regulator says just 45 buildings are deemed high risk, it has not said how many such building in total are affected by the problem. Some unit owners are trying to get the original builder to pay for rectification, such as those in complexes in Melbourne's Richmond and Brunswick.

The scheme, which also requires local councils to collect the financial details of every strata lot owner and judge their eligibility for a loan, does not even guarantee a lower interest rate on the loan, one of its potential selling points.

"The government isn't in the business of setting interest rates," Steve Baltas, head of the Victorian government's Cladding Taskforce Implementation Scheme, told a Strata Community Association conference in Melbourne on Friday.

"Interest rates will be set by the lender based on their assessment of the degree of risk."

Mr Baltas said the loans would be secured against a property, making them lower-risk. Banking sources said any new loans would be in addition to any existing mortgages secured against a property and would need the consent of the original lender to go ahead. They also said a more workable scheme would be one that lent directly to owners corporations and was repaid by owners through levies.

Property lawyer Mark Lipshutz said the scheme gave owners corporations 'false hope'.

"The cladding rectification agreements scheme may be workable with significant amendments, but even then, the owners corporations are ultimately left to pay the costs of recladding, which is wholly unsatisfactory," he said.

Lannock Strata Finance chief executive Paul Morton said his company had not yet committed to the scheme.

"We're liaising with the taskforce as to how we might participate but we have many concerns including the operational complexity," Mr Morton said.

A spokeswoman for Mr Wynne on Sunday said the scheme would begin next month.

"We're getting ready to start rolling out Cladding Rectification Agreements in November," she said.

Mr Baltas said the government was open to changing the way it worked, however.

"We will review this scheme over the next 6-12 months and if we find the settings make it too difficult for some owners and owners corporations to enter into the scheme, we will review those settings," he said.