

Implementing Victoria's mandatory building and pest inspection scheme

Submission by the Real Estate Institute of Victoria

October 2026

The Real Estate Institute of Victoria (**REIV**) is the peak representative body for real estate practitioners in Victoria. Established in 1936, the REIV works to enhance the professional excellence of its members to benefit the communities they work within and to advocate and represent their interests. It represents over 7,000 individual members and 2,000 real estate agencies.

The REIV's membership works at the coalface of the real estate sector, interacting daily with renters, buyers, vendors, rental providers, and businesses. Their firsthand experiences and expertise make them well-positioned to give informed guidance on government policy and its potential impact on the property sector.

Executive Summary:

The REIV is broadly supportive of mandatory building and pest inspection reports being commissioned by vendors and made available to prospective purchasers through the Vendors Statement (Section 32).

Costs and resources associated with pre-purchase building inspections are an unnecessary financial burden for buyers. Delays in receiving such reports can also be disadvantageous for buyers, where a sale date may be close. From the perspective of vendors, building inspections are often used as a condition of sale by potential purchasers, creating uncertainty for all parties to a transaction.

However, concerns have been raised regarding the implementation timeframes proposed by the Victorian Government. This is broadly due to the substantive work

required to ensure adequate resourcing and capacity in the market to support this reform without impacting the real estate sales process. It is vital that the Victorian Government consult closely with the building and training sectors to ensure that this reform can be implemented effectively.

Including a building and pest inspection report in the Vendor's Statement (Section 32) would limit costs for buyers. However, to ensure that such a reform does not become an impediment to successful property transactions, certain systems and procedures must first be set up.

Fundamental considerations include:

- Availability of qualified inspectors
- Reliable registration/ licensing scheme to ensure quality of inspectors
- Standardised criteria for assessment and reporting to ensure consistency of comparison across properties
- Protections for stakeholders relying on the report including insurance and period of validity
- Suitable exceptions for remote properties where such a process would be unreasonable.

The REIV urges the government to engage and consult with building sector organisations to consider the skills, processes and systems required to effectively implement this reform.

KEY AREAS FOR REVIEW

The REIV supports, in principle, a vendor-led procurement model for building and pest inspection reports. We agree with the Government's assessment that the current system often requires buyers to pay for inspection reports on properties they ultimately do not purchase. A vendor-led model has the potential to reduce duplication and improve efficiency in the property transaction process, like the roadworthy certificate process when purchasing a motor vehicle.

Following discussions with stakeholders, the following issues have been identified for resolution before mandating a building and pest inspection report for residential sales.

Workforce Capacity & Capability

- An appropriate registration or licensing scheme for inspectors is a pre-requisite. Without a framework that holds inspectors to certain standards, the program will not achieve the buyer confidence required to meet the policy objectives.
- An assessment of number of inspectors required for the Victorian market must also be considered to ensure property transactions are not stalled due to lack of suitably qualified inspectors.
- Capacity limitations are likely to be considerably greater in regional Victoria, making it necessary to consider a stepped implementation plan and/or consider exclusions for properties in remote locations.

Professional Indemnity Insurance

- Inspectors will require appropriate professional indemnity insurance to ensure buyers can rely on the reports with confidence.
- Government should consider facilitating access to insurance or supporting the market until sufficient competition develops among insurance providers.
- The cost of a report would be payable by the successful buyer, at time of settlement, to transfer insurance protections from the vendor to the buyer.

Scope of the Scheme

- Any mandatory scheme should clearly define inspection standards, criteria and expectations.
- A mandatory report should focus on structural soundness and assessment of any pest infestation, clearly defining the scope of such a report.
- Mandatory inspections should be undertaken in accordance with the relevant Australian Standards to ensure consistency and quality across the industry.
- Any additional requirements, such as energy efficiency assessments, should be deferred until clear federal guidelines are developed.
- A standard form, developed in consultation with the building sector, should be considered. This ensures that properties are assessed on the same criteria irrespective of the individual conducting that assessment.

Wide ranging suitability

- An inspection report is usually valid for 30-60 days. While this suits a large percentage of properties in metro Melbourne, it is a deterrent for properties in regional Victoria. In regional towns, rural properties and other unique properties across the state, days on market could extend beyond 90-120 days, deeming the report invalid.
- For properties not sold during that period, subsequent reports may add further costs to a property transaction.
- To limit costs for both the vendor and the buyer, only one report should be completed when a property is first listed on the market (included in the vendor's statement) with the onus being transferred to the buyer should that report be outdated when a buyer considers purchasing the property.

Reimbursement of costs:

- Reimbursement of the cost of the report, from the buyer to the vendor, is necessary to transfer any professional indemnity insurance associated with the report.
- Provisions must be considered for vendors who may face financial hardship in obtaining a mandatory inspection report. Such instances are more common in disputes, family settlements, mortgagee sales and other such circumstances where the vendor/s may not have ready access to cash.
- The REIV recommends targeted assistance measures, including potential Government-funded inspections where appropriate. Such measures would help ensure that the scheme does not create additional barriers to market participation.

Reasonability test:

Exemptions must be considered where such an inspection does not serve any reasonable purpose, i.e. it would not present any benefit to the buyer due to the condition or proposed use of the property. Examples include:

- Proposed use
 - Properties being marketed specifically as knockdown-rebuild opportunities
 - Vacant residential land
- Alternative cover/ duplication
 - Newly constructed homes, less than seven years old, that are covered by building insurance.
 - Multi-dwelling buildings such as apartments where an Owners Corporation report is made available.
- Undue time or cost allocation
 - Rural and regional properties where access to qualified inspectors may be limited and/ or the time frame for the validity of a report does not align with the typical time on market

In these circumstances, the cost of a mandatory inspection report is unnecessary and/or ineffective.

Conclusion

The REIV is broadly supportive of the proposed reforms and recognises their potential to improve efficiency and reduce costs for consumers.

However, successful implementation will depend on meaningful consultation with industry and careful consideration of workforce capacity, insurance arrangements, licensing, liability settings, and compliance requirements. Addressing these issues early will help ensure the reforms achieve their intended objectives without creating unintended consequences for consumers or industry participants.

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