

Commercial construction slumps

Nick Lenaghan

Construction starts in commercial building and infrastructure will shrink by almost 11 per cent this financial year despite the federal government stimulus program.

The value of new projects undertaken in 2009-10 will amount to \$63.1 billion, some \$7.7 billion less than the 2008-09 total, according to forecasts from research group BCI Australia. The 2008-09 starts were also down — 7.6 per cent on the previous year.

“The reason for that is there is structural decline in commercial building,” the research group’s chief executive, Matt Krups, said.

“We have witnessed a situation where there has been overinvestment for the past couple of years.”

Normally, business investment as a proportion of gross domestic product was about 16 per cent, although it had recently gone as high as 21 per cent, Dr Krups said.

In the last recession, it dropped to about 6 per cent of GDP.

“There is overcapacity. There are vacancies that have to work themselves out. Yields have blown out.

“It’s really not even commercially interesting for developers to build an office building or an apartment building even if funding wasn’t as restrictive as it is.

“Add the restrictive funding and you really have a situation where there’s not going to be much happening.”

The BCI analysis covers most areas of construction, although significantly it excludes detached residential housing and mining and energy projects.

The forecast varies considerably across different sectors of the construction industry. Commercial construction starts are expected to decline by 50 per cent in the current year.

Dr Krups said the combined outlook would have been for a decline of 25 per cent or more were it not for the billions of dollars of federal money going into education, health, social housing and infrastructure projects.

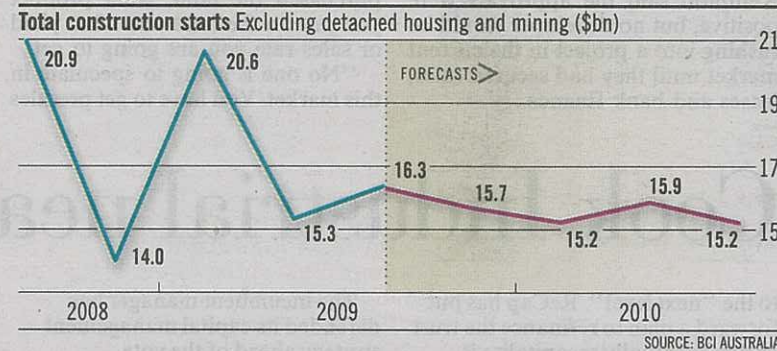
Overall, construction industry



Thin on the ground . . . commercial construction starts are expected to decline 50 per cent this year.

Photo: MICHELE MOSSO

Looking ahead



participants are not expecting growth to return to the market until the middle of next year, according to BCI’s survey of expectations.

That finding is based on a weighted average, with considerable variety in outlook depending on “where you are and who you ask”, Dr Krups said.

“Developers don’t expect any-

thing to happen in Western Australia until 2011. Generally speaking, the upturn is expected first in NSW, which is the place where the downturn hit first.”

Construction outlooks can change dramatically due to the “lumpiness” caused by the start of large one-off infrastructure, mining or residential developments.

The overall outlook from forecasters Macromonitor appears somewhat rosier, partly for that reason.

In 2008-09, infrastructure commencements were boosted by Brisbane’s \$3.4 billion Airport Link and iron ore railways in Western Australia, Macromonitor director Nigel Hatcher said.

Overall, Mr Hatcher’s group is forecasting about \$115 billion in work begun, only slightly down on the 2008-09 total of \$116 billion, a forecast which includes residential housing as well as mining investment. The 2007-08 total was \$144 billion.

“That’s one reason we don’t expect 2009-10 to be any worse because we have already had the big drop in areas like non-residential building, residential building and in mining investment,” Mr Hatcher said. “In 2009-10, we’ll see the start of a recovery, not in all areas but particularly in residential.”

No consensus on Greens energy plan

Robert Harley

The Australian Greens’ proposal for a cap and trade energy-efficiency scheme for commercial buildings — proposed in the Senate last week and referred to committee — has received a mixed reception from industry groups.

Senator Christine Milne said the proposal — which caps energy use, reduces the cap over time but allows building managers to trade permits — would trigger a tremendous investment in energy-efficiency upgrades and spark a dramatic reduction in greenhouse emissions and energy bills.

One of the architects of the proposal, Lend Lease’s global head of sustainability Maria Atkinson, said the scheme was a “simple, cost-effective way to drive deep, fast emissions cuts, and unlock the jobs, innovation, productivity, health and energy benefits from our buildings”.

Energy Efficiency Council chief executive Rob Murray-Leach urged the Senate to examine a range of options and develop a national energy-efficiency scheme to replace the numerous existing state-based schemes.

“This will reduce the burden on business and provide the stimulus we need to drive energy efficiency, grow the economy and create employment opportunities.”

Property Council chief executive Peter Verwer questioned the usefulness of another scheme when the Carbon Pollution Reduction Scheme was under debate, when mandatory disclosure of energy efficiency was on the way and when a number of state governments were already trialling energy certificates.

“The best way of achieving a quantum leap is the re-introduction of accelerated depreciation,” he said.

A Senate committee will report on the proposal in March.