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Private-sector demand crucial to building confidence in 2010

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COMMERCIAL property should begin to recover confidence this year despite the winding down of government spending and the difficulty in obtaining money for projects, according to analysts.

Matt Krups, chairman of independent researcher BCI Australia, said the Australian construction sector had "dodged the bullet" last year. Confidence was returning, but Mr Krups said cash rates would continue to trend up to about 5 per cent this year, and government stimulus funding would be reduced to a comparative trickle.

"The industry will have to grow under its own steam, largely relying on private demand catching up as public demand winds down," he said.

Mr Krups said BCI, BIS Shrapnel and the Australian Construction Forecasting Council all agreed that 2010 would be a mixed bag for construction. A resurgent home-building market, a gradually improving multi-residential market and a continued depressed commercial market would still be held back by oversupply and easing access to commercial funding.

ANZ's December property outlook said commercial property prices appeared to be improving from a two-year low.

ANZ's head of property research, Paul Braddick, said that, except for Brisbane and Perth, commercial property would begin the next cyclical upturn with a vacancy rate well below that of the early 1990s. "However, despite reduced gearing, a considerable refinancing challenge remains that will test the resilience of the listed and unlisted sectors in 2010," he said.

The importance of obtaining finance for projects was underlined by the Master Builders Association of Victoria's latest building trends survey, which indicated that the downturn in commercial construction would continue well into this year.

MBA's Victorian executive director, Brian Welch, said Victorian commercial builders were still losing work due to tight credit access. "There is little chance of a recovery in the commercial building sector if banks don't start lending again," he said.

"Tougher conditions are being imposed by lenders. Builders and developers are expected to have a high number of presales prior to loan approval and some are expected to place their own equity into the project before the banks will look at them."

Mr Krups said the value of commercial construction starts had fallen precipitously in the second and third quarters of last year, from \$1.8 billion in the first quarter to \$774 million in the fourth quarter. Project drop-out rates were driven to historical highs, with deferred projects reaching 14 per cent, while 6 per cent were abandoned.

In Victoria, developers scrapped more than \$700 million worth of commercial projects in the second half. These included the Encapsa Tullamarine business park and the railway precinct in Leongatha.

But Mr Krups said, "the forecast suggests the commercial sector is at the bottom of its downward cycle", with the market expected to start showing a mild recovery in the second quarter of this year. BCI tips construction starts to be valued at \$768 million in the first quarter, rising to \$982 million in the third quarter.

In Victoria, Mr Krups said the value of construction starts this year would remain steady. Projects to get under way in the second quarter were a \$48 million mixed-use development in Hawthorn East and the \$50 million Camberwell railway station plaza.

ANZ's senior property research economist, Ange Montalti, said Melbourne's CBD office market was well placed due to Victoria's good economy and population growth.

Unlike most other capitals, Melbourne's CBD office market did not have a rental boom, with rents effectively down 15 per cent on 2001. "Vacancies are on the rise but are expected to peak at just 8 per cent before retightening," he said.

Mr Montalti said the Melbourne CBD office market was in a prime position for solid medium-term growth in rents and capital values due to sustained economic and jobs growth.

ANZ economist Alex Joiner said industrial property was on a slow road to recovery, after demand for warehousing and factories was hit by a 13 per cent slump in import volumes and a record fourth-quarter slump in inventories.

This story was found at: <http://www.theage.com.au/business/privatesector-demand-crucial-to-building-confidence-in-2010-20100126-mwft.html>