

## **ACIF Construction Forecasting Council Brisbane Forecasting Breakfast – June 18th 2009**

### **INTRODUCTORY NOTES:**

- Expect lower activity in 2009/2010 compared with the previous financial year.
- There is a significant level of Government support for the sector which is a positive note.
- The economy, whilst ‘technically’ not in recession, is mildly contracting.
- Forecasting predicts activity will improve mid-2010, and that there will be a further interest rate cut in the second half of the year.
- The two things to spark economic recovery will be the housing market and recovery in Asia, not Europe or the US.

### **MICRO & MACRO FACTORS:**

#### **RESIDENTIAL**

- The GFC (Global Financial Crisis) is the direct cause of a 50% drop in the number of medium density dwelling approvals. Developers are having difficulty accessing credit to commence projects.
- New house starts have also dropped by approximately 30%. Largely due to difficulties in re-financing and lower confidence in the market.
- In the short term, increased unemployment will limit growth in this sector. However the first home owners grant is sparking the sub \$400,000 housing market.
- In the long term, underlying demand will force activity levels to increase. This will be contributed to by low vacancy rates, increased rent prices and subsequent increased yields to encourage investors.

#### **NON-RESIDENTIAL**

- Since the beginning of 2008 to March 2009 there has been more than a 50% drop in the amount (in billions) of non-residential approvals. Primarily due to a massive fall in private investment in the areas of retail, office and industrial construction projects.
- To attempt to counter this, the Government has invested substantially in the areas of health and education; however private investment is typically 2-3 times larger than Government’s contribution and as such overall there is a sharp weakening in this sector.
- Funding in non-residential sector in the immediate past has been too easy to obtain, and now it is unrealistically difficult to access. There will be limited growth in the foreseeable future in these areas.
- Construction prices in general should now stabilise and remain constant.

#### **ENGINEERING**

- Commodity prices have decreased, however most are still profitable ventures. With plans to continue investment in infrastructure in this sector, activity should be maintained at a high level, although not booming levels we have seen.

### **FORECAST OVERVIEW**

#### **RESIDENTIAL**

- Units & Townhouse development largely funded by private sector developers who are having difficulties accessing finance. Lag times are usually longer with these larger developments due to size of operation and costs involved. Predicting 18 months until improvement in this sector.

- Queensland's population growth is predicted to be more rapid in the next 10 years than what has occurred in the past 10 years. (Demand levels should increase.)
- Large alterations and additions; has remained relatively constant (slight contraction) and is set for steady growth. Decrease in house prices and limited ability to 'trade up' (ie. move from first to second home) should fuel this growth. Also lower demand in construction general should translate to tradesmen being easier to obtain and less expensive labour costs.
- New houses; first home owners grant helping to kick along, however need to be wary of eventual increases in interest rates.
- Areas other than Brisbane city have seen, and will continue to see higher level of activity in residential building.

## **NON-RESIDENTIAL**

- Major loss in private sector funding; office, retail/wholesale and industrial investment has decreased approximately 40% in the past two years.
- Credit is less available and more expensive to obtain. Building upgrades have mostly been completed and manufacturing figures report negative growth over the past 12 consecutive months.
- Accommodation investment has also fallen. With higher unemployment and poorer profits reported there should be less business and leisure travel to support construction in this area.
- Education and health sectors are being by the Government's injection of infrastructure spending.
- Health in the short term appears to be focused on hospitals. In the long term the aging population will fuel strong demand in aged care over the coming decades.

## **ENGINEERING**

- Gas developments not listed in forecast but should provide substantial investment in the coming decade.
- The Queensland State budget provides additional infrastructure spending.
- A substantial portion of investment is being seen in railways and harbours to assist in transporting minerals for export.
- Electricity will be a major growth area in the coming years as coal electricity network is being replaced by renewable energy sources.
- Investment in water and sewerage has surged to address inadequacies resulting from drought.
- Heavy industry investment surged in recent years. Big projects from recent times are nearing completion. New developments will slow down and larger projects will be postponed or done on a smaller scale.
- Mining boom will decrease but infrastructure spending will balance this.

## **FORUM NOTES RELATING TO QUESTIONS RAISED**

- Vacancy Rates
  - Undersupply increases rent prices = encouraging building and supply starts
  - GFC changed demand (non-residential) – tenants in new developments realising they have lots of space and looking for sub-letting opportunities.
  - In the current climate a number of businesses are putting off future expansion.
  - Supply this year is coming from projects that are pre-committed.
- Investors
  - Heard predictions of August seeing the bottom of the market, prime time to buy distressed assets.
  - Banks asking for asset re-evaluations every three months.
  - Need cash reserves to balance decrease in the value of assets.
  - Banks paralysis – 50/55% LVR only.
  - Margin/risk factor needs matching and with a decrease in asset worth of 30% is not happening. Costs have only dropped about 15%.
  - Tenders are dropping/becoming flat which is good news for industry to settle.

- Trade Contractors
  - Tenders similar to 'lucky dips'.
  - Supply and demand should drive forward.
  - Strength in aged care/schools at the moment.
  - Best indicator is unemployment. Clients (education and aged care) should be getting competitive prices.
  - To help contractors access this information, look at the State Government's spending guide.
- Mining
  - Decrease in demand for coal but price is still profitable. Price has fallen approximately 60% so does not need the capacity that is available. The affect for Queensland will be that mining is not driving employment growth.
  - Gladstone region set for massive amounts of investment over next 10 years with L&G Gas; mines, pipelines and plants.
  - Mackay; people who are losing their jobs from the mining region do not predominantly live in Mackay so this region has not had the major impact that would be expected.
- Forecasting System
  - Danger that algorithms used are unrealistic due to the GFC being unprecedented. Approvals now delayed due to cash flow have not been seen since 1920s.
  - ACIF system uses not only economic models but also input from construction sector. The best results come from combining models and actual data.
- When expect cash easier to obtain?
  - It is the nature of markets to overreact.
  - Conditions should get better with a re-jig in the market forced by the GFC. Labour, prices and supply of materials align to make returns worth the investment and uncertainty is reduced.
  - Government spending is alone not going to produce a recovery. Need confidence to drive private investment. Wholesale funds invested in Government bonds should be in banks to be available for private development.
  - Bank guarantee needs to be equalised;
    - Top 4 banks charged 0.7%.
    - Regional AA banks charged 1.5%. This limits the ability of these banks to be competitive. As such these banks are withdrawing from the construction sector and limiting the flow of funds.