

Construction defies gravity

THE prolonged peak in the construction market is challenging all historical cyclical understanding we have had in Australia – defying the seven-year boom to bust cycle. Most Australian markets are enjoying continued strong demand on the back of the prospering economy – with no sign of slowing in 2007. The volume of non-residential building approvals across the year indicates plenty of construction work in the pipeline and non residential approvals increased 15 per cent on the previous year, in contrast to residential approvals which remained flat.

The overall slowdown in Sydney's construction market, led by the residential sector, has improved the level of available resources, and prices are now less volatile. Our tender indices indicate that prices tracked lower than inflation across 2006 and we are forecasting tender price increases in the vicinity of 3.5 per cent over the next twelve months, significantly lower than the national average. Project viability is still difficult to stack up for potential high-rise residential developments and we do not expect stirrings of activity until the second half of 2007, when dwindling supply of rental property availability may lift rental income and drive confidence in the sector.

Melbourne is emerging from a flat period and starting to see a wave of planning activity. Cost pressures are also likely to flow on from a reluctance of contractors to accept risk due to current work levels. The tender indices in Melbourne bounced by 7.4 per cent across the year, and we forecast tender price increases will continue at a high level across the upcoming 12 months.

Construction levels in South-East Queensland remain very high, with all sectors very busy. With ongoing high level of construction activity pressuring



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resources, particularly for larger projects, we forecast increases of 6.2 per cent over the next 12 months, marginally higher than 2006 tender increases which reached 6 per cent across the year. Construction levels remain high in Perth and resources are stretched beyond capacity. Tender prices rose 14.1 per cent in 2006 and we predict ongoing escalation for the next 12 months. We forecast tender indices increases in the vicinity of 9.2 per cent across 2007.

Construction costs in Adelaide are forecast to increase by a steady 6.8 per cent across the upcoming 12 months, in line with 2006 tender price increases – recorded at 6.5 per cent across the year. Hobart is starting to experience increasing activity, and we forecast tender increases in the vicinity of 5 per cent across 2007. Overall industry workload has decreased in the Sunshine Coast and we expect tender prices for the next 12 months will increase at around 5.3 per cent, in line with the national average.

Some of the highest tender price increases in the country are expected in Townsville during 2007. We forecast annualised tender price increases of 7.5 per cent to 8 per cent across 2007, outstripping 2006, which totalled 5.1 per cent across the year. Cairns is undergoing an extremely busy time in construction and continued activity will see tender indices increase during the upcoming 12 months at a rate higher than the national average, and possibly as high as 6 per cent.