

## Chapter 11 Construction

### Key Points

- In the Territory, the construction industry accounted for 5.9 per cent of Gross State Product (GSP) on average during the past five years, and employed 7.2 per cent of the workforce.
- Construction activity slowed markedly in the period immediately following the major defence force relocation to the Top End, as economic and population growth weakened.
- Although starting to improve, residential and non-residential building and property markets were relatively weak in the early years of the decade. Property markets have strengthened markedly since 2004.
- Major infrastructure projects such as construction of the Alice Springs to Darwin railway line and work to develop the Bayu-Undan oil and gas project have kept engineering construction at record levels in recent years.
- After increasing by around 16 per cent to \$2 billion in 2003-04, the value of construction done is estimated to decrease by 8 per cent to \$1.8 billion in 2004-05. Activity is coming off a high base. In 2003-04, activity was inflated by offshore expenditure attributed to the Territory for the Bayu-Undan stage 1 platforms and the stage 2 pipeline.
- In 2005-06, the value of construction work done is forecast to increase by 9 per cent to \$2 billion. Construction will again be underpinned by engineering work for major projects, but will be supported by strengthening residential and non-residential building activity associated with recovering population growth in the Darwin region.

The construction industry comprises residential building, non-residential building and engineering components. The industry accounted for 5.9 per cent of GSP on average during the past five years, and employed 7.2 per cent of the workforce.

Construction slowed markedly following strong growth in the mid to late 1990s associated with the defence force build up, falling to 3.8 per cent of GSP in 2000-01. However, during 2001-02, the industry showed signs of recovery, accounting for 6.3 per cent of GSP and this continued in 2002-03, when construction accounted for 6.7 per cent of GSP. This recovery was primarily driven by an upswing in engineering work relating to Bayu-Undan stage 1 and the Alice Springs to Darwin leg of the rail link with Adelaide.

Chart 11.1: Territory Construction Work Done (moving annual total, 2002-03 dollars)



e: estimate; f: forecast

Source: NT Treasury, ABS Cat. Nos. 8752.0, 8762.0, 8782.0.65.001

In 2003-04, activity was further boosted by the commencement of construction for Bayu-Undan stage 2, incorporating a 500 kilometre undersea pipeline and the liquefied natural gas (LNG) plant at Wickham Point, with the industry accounting for 7.2 per cent of GSP.

The industry has traditionally played an important role in the Territory economy given strong links to other sectors of the economy and the significant proportion of locally-sourced goods and services used as inputs.

## Residential Construction

The residential construction industry undertakes construction of new housing and other residential buildings (townhouses, units), conversions (converting non-residential buildings into residential buildings) and alterations and additions to existing residential buildings. Residential construction is undertaken for both the private and public sectors.

Demographic, social and economic factors have strong influences on the demand for residential dwellings and, in turn, on construction. Factors affecting the demand for housing include rate of new household formation, income and wealth and its distribution, availability and cost of housing, price of new dwellings relative to existing dwellings and government housing policies.

In the short term, interest rates and business and consumer confidence are also major influences on the building cycle.

## Population Mobility

The Territory has a relatively young and mobile population, with high gross interstate migration rates (movements into and out of the Territory) that fluctuate at up to four times the average for other jurisdictions. It also has a high proportion of Indigenous people living in remote areas where home ownership is extremely low. These factors result in a low proportion of home ownership, with a correspondingly higher proportion of households renting. According to 2001 Census data, more than 40 per cent of Territory dwellings are rented, compared to about 25 per cent nationally. The proportion of home ownership in the Territory is around 42 per cent according to 2001 Census data, compared to the national figure of around 66 per cent. In Darwin, home ownership is slightly higher than the remainder of the Territory at around 50 per cent.

## Non-residential Construction

There are two components of non-residential construction. The first, non-residential building, include hotels, shopping centres, factories, offices, schools, hospitals, cinemas and the like. The second, engineering construction, encompasses infrastructure other than buildings and includes items such as roads, bridges, railways, dams and pipelines, power generation and transmission infrastructure and telecommunications infrastructure, as well as construction for mineral and gas developments.

Chart 11.2: Territory Residential Building Work Done (moving annual total, 2002-03 dollars)



e: estimate; f: forecast  
Source: NT Treasury, ABS Cat. No. 8752.0

The level of private sector investment in non-residential building is determined by several factors, including the adequacy of existing capital stock, interest rates, anticipated future demand and general business confidence. Public sector expenditure on non-residential and engineering construction is targeted to meet medium to long term needs and provide social and economic infrastructure such as schools, hospitals and roads. Due to the relatively small size of the Territory economy, large individual projects can have a significant impact on the total value of work done in any year. Non-residential construction, and especially engineering work, tend to be 'lumpy' over time. Larger developments generally only proceed when certain demand thresholds are reached, as is often the case with private sector projects for shopping centres, hotels and offices.

**Engineering** Traditionally, engineering construction activity in the Territory, as for Australia, has been predominantly funded by the public sector, particularly infrastructure development.

Excluding the impact of the Timor Sea oil and gas 'mega-projects' such as the Laminaria-Corallina oilfields in 1998-99 and the Bayu-Undan oil and gas project from 2002 to present, private sector engineering activity (for the private sector, as opposed to private sector engineering activity for the public sector) has averaged around one-third of the Territory's total engineering construction work done since 1990.

However, as a proportion of work done, private sector engineering construction has tended to grow over the past decade. Work on the Alice Springs to Darwin railway and Bayu-Undan led to private sector work markedly exceeding that of the public sector. Based on current projects private sector engineering will remain at high levels until 2007.

## Residential Construction

**Strong Activity in the 1990s** Territory housing construction sustained strong levels of activity over most of the 1990s. Growth reflected the impact of the defence force movement to the north which, in conjunction with activity in tourism and other sectors, boosted economic and population growth and demand for dwellings. Economic activity associated with the large capital investment and operational expenditures from the defence expansion program further stimulated employment and population growth. This, together with relatively low interest rates, led to strong investor and developer confidence in the residential market, particularly in the Darwin area and notably for units and high-rise apartment complexes.

**Defence Force Requirements** In 1991, around 5700 defence personnel and dependants were based in the Territory. With the start of the Army Presence in the North program (APIN), this increased to approximately 13 000 by June 2004. The bulk of this relocation occurred from 1996 to 2000, and markedly increased the underlying demand for residential dwellings in the Darwin region.

Defence relocations resulted in significant residential construction through the Defence Housing Authority (DHA). The DHA provides housing for defence personnel through its ownership of dwellings, acting as a developer and also through leasing properties from the private sector. While the defence force has completed the majority of its relocation program, the 1st Aviation Regiment will commence its relocation to Darwin in 2005.

Chart 11.3: Territory Residential Dwelling Commencements (moving annual total)



e: estimate; f: forecast

Source: NT Treasury, ABS Cat. No. 8750.0

## Alice Springs Land

In Alice Springs, a shortage of residential land for development over the past decade was associated with native title restricting the release of crown land for development. A landmark Indigenous Land Use Agreement (ILUA) between the Territory Government and the Lhere Artepe native title holders was finalised in April 2004. The agreement led to 40 residential blocks in the new subdivision of Stirling Heights, with a lease to enable the development of a further 45 blocks expected to proceed in mid 2005. Subject to further ILUA negotiations, more parcels of land in the Larapinta and Mount Johns Valley areas are proposed for development in Alice Springs over the next few years.

In March 2005, the Development Consent Authority (DCA) approved the subdivision of nearly two square kilometres of land south of Heavitree Gap. The development proposal includes construction of 250 single residential lots, a hotel, shops and a nursing home with a 45-unit retirement village.

## Darwin Land

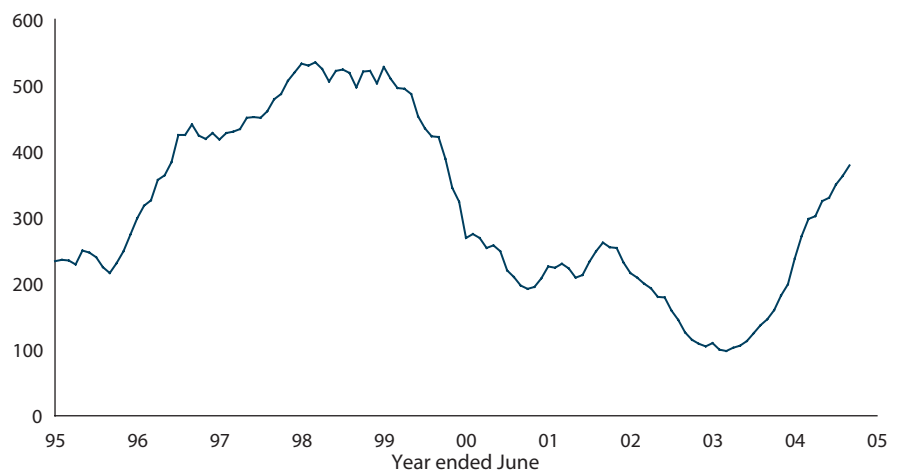
Subdivision of Darwin's newest suburb, Lyons, is set to commence in 2005. Lyons will be a joint venture development between the public and the private sector that will create approximately 700 residential lots on 77 hectares of surplus Defence land on Lee Point Road. The suburb will be developed concurrently for Defence and private sector housing.

While Darwin has seen substantial construction of medium and high density dwellings (notably in the central business area), the establishment of relatively new housing estates continues. New residential estates developed in Darwin over the past five years include Bayview, Woolner, Parap Grove, The Narrows, Tipperary Waters, Cullen Bay and City Valley.

## Palmerston Land

Strong population growth from 1995 to 1998 (associated with the defence relocation) and Darwin's limited supply of available land for housing development have been the main factors in the rapid growth of Palmerston. Palmerston's ready supply of land has seen the suburbs of Durack (Fairway Waters), Gunn (The Chase), Bakewell, Farrar and Rosebery develop and grow substantially in a relatively short period. After peaking in 1998-99, land sales fell through the early years of the decade, bottoming out in 2002-03. Since then, demand has recovered rapidly, bolstered by owner-occupier and investment demand and supported by increased home ownership incentives offered through the Northern Territory Government's HomeNorth scheme. The access to developable land is not an immediate issue for residential development in Palmerston as available land in Gunn, Farrar, Durack and Rosebery is considered be sufficient for at least the next five years.

Chart 11.4: Number of Palmerston Land Sales (moving annual total)



Source: Australian Valuation Office

### Residential Building Approvals

Residential building approvals are a lead indicator of short-term dwelling construction activity. Following strong growth in 1996-97 and 1997-98, approvals peaked in 1998-99 before falling by around 30 per cent in both 1999-00 and 2000-01.

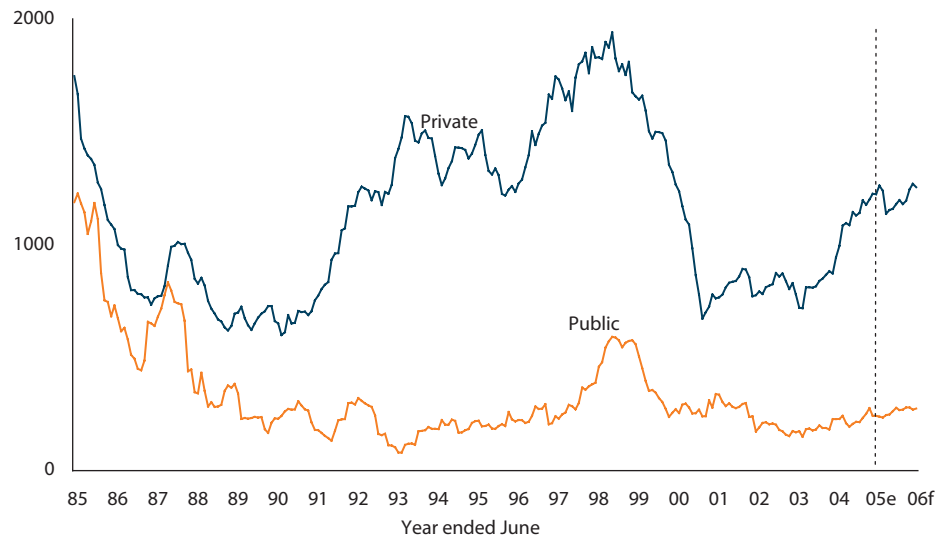
Several factors contributed to the downturn in approvals. The primary reason was the magnitude of the construction boom driven by the increase in the defence population. As defence-related housing requirements began to tail off, the extent of overbuilding became apparent. Weaker population growth and rising interest rates acted to dampen owner-occupier and investor demand for new housing. In 2001, private sector approvals were boosted by the Territory Government's QuickStart schemes and the doubling of the First Home Owner Grant. While these initiatives stemmed the rate of decline, private sector approvals only increased by 2 per cent in 2001-02.

While incentives boosted approvals in 2001-02, the pull-forward in activity was a key factor in there being no increase in approvals in 2002-03. That is, incentives acted to change the timing of building intentions. Strong growth was recorded in 'other' residential building approvals (units and apartments) due to a number of large unit developments in Darwin City. However this was more than offset by a further decline in house approvals which fell to their lowest level since 1989. Residential building approval numbers increased by 23 per cent in 2003-04, albeit from a low base, to 1172. The increase was largely attributable to the 39 per cent increase in 'other' approvals but was also supported by a 6 per cent increase in approvals for houses.

In 2004-05, the number of residential building approvals is estimated to increase by 25 per cent to 1466, primarily driven by increased approvals for large apartment complexes and the impact of changes to the HomeNorth scheme which came into effect in July 2004.

Residential building approvals in 2005-06 are forecast to continue to improve as stronger population growth and investor confidence boosts demand. New residential subdivisions in Darwin, Alice Springs and Nhulunbuy and increased public sector housing investment will underpin solid levels of approvals.

Chart 11.5: Territory Residential Building Approvals (moving annual total)



e: estimate; f: forecast  
Source: NT Treasury, ABS Cat. No. 8731.0

## Incentive Schemes

The QuickStart scheme, which ran initially between March and April 2001, was reintroduced in November 2001 for two months to further stimulate weak demand for new housing. Combined with low interest rates and the temporary doubling of the First Home Owner Grant for newly erected dwellings, these incentives were well supported by home buyers, with a flow on to increased activity. More than 430 new houses were built in the Territory with the aid of these incentives.

## Public Housing

Approximately 17 per cent of total dwelling approvals during the 1990s were for the public sector, an average of 257 per year. Since the start of this decade, the proportion has climbed to 20 per cent, despite public approval levels falling. The increase is due to a fall in private approvals of 28 per cent, from an average of 1300 per year in the 1990s to 930 per year since 2000.

## Territory Housing

The main providers of housing assistance in the Territory are Territory Housing, which manages the Territory Government's public and government employee housing stock, the Indigenous Housing Authority of the Northern Territory (IHANT) and the Defence Housing Authority (DHA). These organisations typically provide partially or fully subsidised accommodation to eligible low-income earners, Indigenous people, and public sector and defence employees.

It is estimated that Territory Housing owns and manages more than 7000 dwellings throughout the Territory.

During the first ten years following Self Government in 1978, the Territory Government undertook significant investment in public housing to support economic development and provide affordable housing to a wide range of new arrivals. In recent years private housing has increased its share of the housing market and the focus of public housing has changed to target those most in need. This has resulted in a reduction in the number of dwellings managed by Territory Housing.

In the Territory, the number of households in public sector dwellings is relatively high, with 2001 Census data reporting that 15 per cent of households rented from a state housing authority compared to only 5 per cent nationally. This proportion has fallen since the 1996 Census, when 29 per cent of households rented from a state housing authority in the Northern Territory, compared to only 6 per cent nationally.

The Territory Government has recently shifted its focus from increasing public housing provision to maintaining housing stock and redeveloping unit complexes. This has increasingly allowed the private sector to meet the demand for additional housing.

Despite public housing approvals remaining relatively steady over the past 15 years, public housing stock has fallen, primarily due to the Territory Housing program from 1998 which disposed of around 1000 under-utilised three and four bedroom houses and replaced them with around 300 new one and two bedroom units.

Additionally, in recent years, Territory Housing has invested in one and two bedroom low-density public housing dwellings more appropriate to client needs, particularly seniors. Over the past six years, Territory Housing has constructed 168 one and two bedroom units in six purpose-designed seniors villages.

Public housing construction since 2003-04 has focused on significantly increasing the maintenance and upgrade program to address the deterioration in condition and amenity of its public housing stock. In addition, redevelopment of a number of major public housing unit complexes aims to reduce density and minimise antisocial behaviour associated with these complexes. There has also been greater emphasis on the provision of remote government employee housing.

Significant Territory Housing projects in 2004-05 were the completion of 40 ground level two bedroom units at the Fannie Bay Seniors Village and an estimated \$19 million investment in government employee housing in remote communities. Additionally, an estimated \$18 million was invested in repairing and maintaining existing public housing stock.

#### Defence Housing Authority

DHA-managed stock in the Territory has increased from approximately 1250 dwellings in 1992 to an estimated 2265 at June 2005. The bulk of this increase occurred in the late 1990s with the APIN relocation program. Not all stock is publicly owned, with the DHA offering investors long-term rental contracts to reduce capital investment costs. The completion of the Vantage Point apartment complex in 2002-03 (adjacent to the Darwin CBD) added 95 apartments to the DHA's housing stock. In Katherine, the focus of DHA activity was shifted from acquisition to upgrading existing homes with \$18 million to be spent over the next three years upgrading more than 200 homes. In Palmerston, the DHA has continued to build in Rosebery while in Darwin the focus is on preparations for the development of Lyons suburb.

#### Lyons Development

New houses at Lyons will replace redundant older stock and accommodate increasing personnel numbers and their families. The new suburb is on a 77 hectare site bordered by Lee Point Road, Tambling Terrace and the Royal Darwin Hospital. In conjunction with its joint venture partner, Canberra Investment Corporation (CIC), the DHA is expected to commence a \$42 million civil works program in the third quarter of 2005, with the construction of dwellings to follow.

Pending final approval from the Development Consent Authority, the development is expected to create approximately 700 residential lots ranging in size from 600 square metres to 1000 square metres. Approximately 14 per cent of the development will be devoted to cluster housing. The DHA will retain at least 300 residential lots, with housing construction over a five year period beginning in early 2006.

#### Indigenous Housing Authority of Northern Territory

IHANT was formed in 1995 and is responsible for the development of improved housing for the Indigenous people of the Northern Territory. During 2003-04, 70 new dwellings were constructed and 52 dwellings were upgraded and renovated at a cost of \$20 million. For 2004-05, IHANT is expected to construct 85 new dwellings and upgrade a further 17 at a cost of \$21 million. IHANT also generates considerable building activity through its maintenance program. At 1 March 2005 there were 6150 dwellings eligible for this program.

Consistent with the Overarching Agreement on Indigenous affairs, the Australian and Northern Territory Governments will negotiate an Indigenous housing agreement that will see the integration of Indigenous housing services with delivery through IHANT (or its successor) and the development of a common policy framework to guide the delivery of housing to Indigenous people in the Northern Territory.

**Property Markets**

The building industry and property markets are subject to strong fluctuations in activity, real estate prices and sales volumes. Activity levels tend to fluctuate around sustainable levels, which are determined by underlying demand that, in turn, depend on economic and demographic factors. The fluctuations in activity are also associated with financial capital flows into and out of investment in real estate.

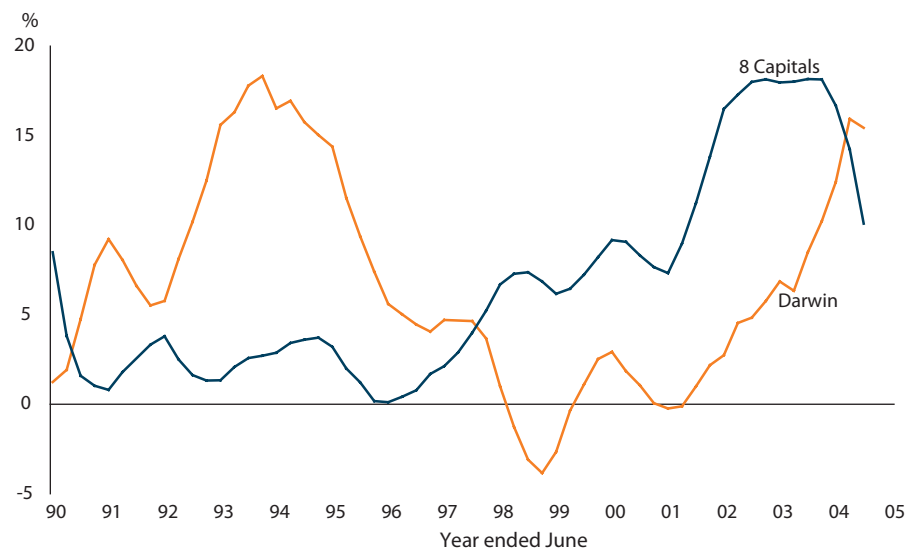
**House Prices Strengthened**

The ABS reports that established house prices in Darwin increased by 52 per cent in the ten years to December 2004, significantly less than the 125 per cent increase for the weighted average of the eight capital cities. Darwin established house price growth in the five years to December 2004 was 35 per cent, compared to the eight capital cities weighted average growth of 78 per cent, and highlights the extent to which the Territory did not participate in the housing boom experienced nationally up until the beginning of 2004.

Interest rate rises by the RBA in late 2003 were a factor in slowing the rate of prices growth nationally. In the Territory stronger capital growth and yield prospects relative to nationally lead to stronger demand and prices growth. The ABS estimates that Darwin house prices increased by 15 per cent in the year to the December quarter 2004. This was Darwin's strongest prices growth since the mid 1990s and was somewhat higher than the 10 per cent growth recorded by the weighted average of the eight capital cities for the same period.

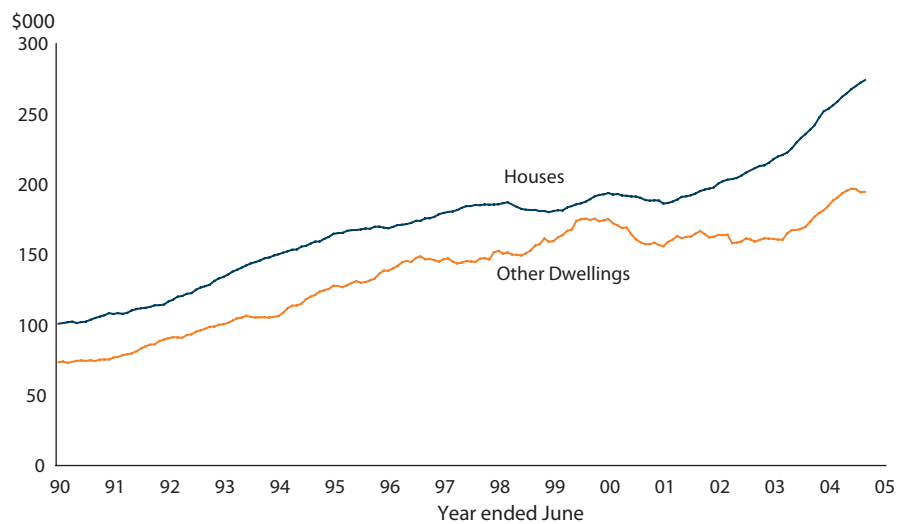
The interest rate rise by the RBA in March 2005 will put downward pressure on housing demand, but again, the effect is likely to be less pronounced in the Territory. This is due primarily to the substantial difference in the size of the average household mortgage in the Territory, which was \$180 500 in January 2005, compared to \$208 000 nationally. Further, the Territory should continue to have the most affordable housing of all the jurisdictions.

Chart 11.6: Darwin and Eight Capitals Established House Prices (year on year percentage change)



Source: ABS Cat. No. 6416.0

Chart 11.7: Average Territory House/  
Other Dwellings Prices



Source: Australian Valuation Office

### 'Other Dwellings' Prices

The 'other dwellings' market, that is, townhouses and flats, tends to be significantly more volatile than the market for houses, with prices fluctuating with the release of major new developments and changing investor sentiment.

Moving annual median prices for other dwellings in Darwin peaked at around \$160 200 in 2000 before oversupply, the introduction of the GST and the downturn in the Territory onshore economy resulted in prices falling sharply in 2001. Prices were relatively stable in 2002 and 2003. In 2004 prices began to strengthen, as investors and owner occupiers returned to the market, and in 2004 prices increased by 14 per cent to a record \$176 300.

### Vacancy Rates

Territory rental vacancy rates were at relatively high levels for several years until early 2002, reflecting oversupply of dwelling stock. Over the past two years, vacancy rates have fallen to levels that suggest demand is outpacing supply, at least in the short to medium term.

The REINT reports that in the December quarter 2004 the average residential vacancy rate in Darwin was 4.3 per cent for houses and 4.1 per cent for units. For the same period, Palmerston recorded vacancy rates of 2.0 per cent for houses and 8.6 per cent for units. Alice Springs recorded unit vacancies of 8.9 per cent and housing vacancies of 5.7 per cent. Katherine recorded vacancy rates of 3.5 per cent for houses and 8.1 per cent for units.

### Rental Returns

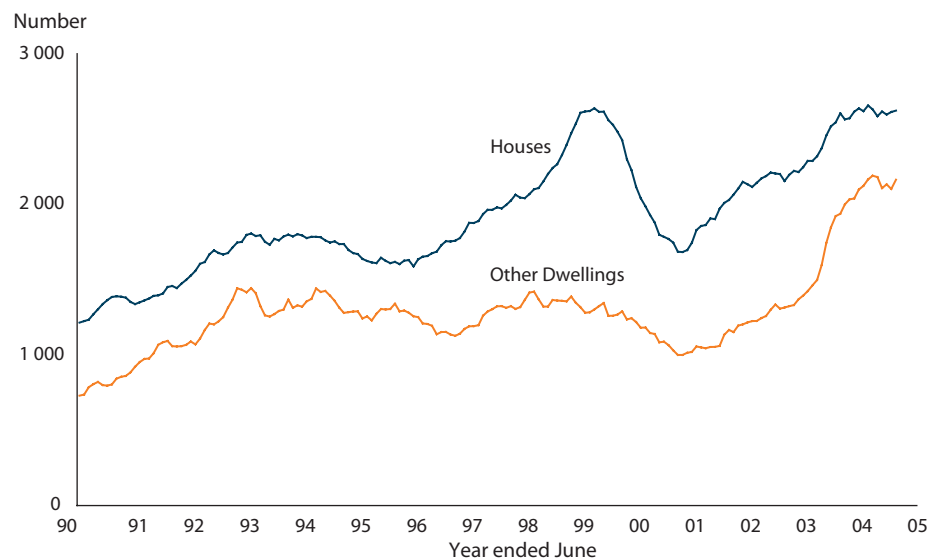
During the 1990s, Darwin had the highest rental income for housing of all the capital cities, and the second highest rental income for units (behind Sydney). High rental income attracted investors, and the increased demand, particularly for inner-city units, led to higher prices and levels of construction. A subsequent oversupply of properties saw rental income decline as investors competed in a saturated market.

According to the REIA, rental income for a three-bedroom house in Darwin averaged \$260 per week in 2004, the highest average weekly rental income for Darwin on record. A two-bedroom unit generated an average income of \$193 for the same period, up 8.5 per cent from 2003 (\$178). This is the highest rental income recorded since Darwin unit rental income was first documented in 1995.

### Property Sales

Residential property sales grew strongly over the first half of the 1990s, followed by declines in 1995 and 1996. Following three years of growth, the volume of sales peaked in 1999, boosted by public sector disposals related to the Territory Housing divestment program. Property sales fell significantly in 2000 and 2001, notably for houses, which fell more than 30 per cent over the two year period.

Chart 11.8: Territory House/  
Other Dwellings Sales  
(moving annual total)



Source: Australian Valuation Office

Unit sales also fell significantly (by around 20 per cent) during 2000 and 2001. Since then, higher quality units have come onto the market in Darwin, leading to greater pressure for prices to fall in lower quality units. Sales of units are concentrated in the Darwin and Palmerston area, accounting for around 75 per cent of all units sold in the Territory in the past three years.

Sales numbers for both houses and units have improved markedly since the trough in mid 2001 (see Chart 11.7). Growth has been driven equally by sales of both units and houses over this period, although the proportion of unit sales has increased significantly. The rate of sales growth for houses and units decreased markedly over 2004, but nonetheless sales are at record levels for units and close to record levels for houses. Sales of units increased by around 12 per cent in the year to February 2005, while house sales increased by around 1 per cent.

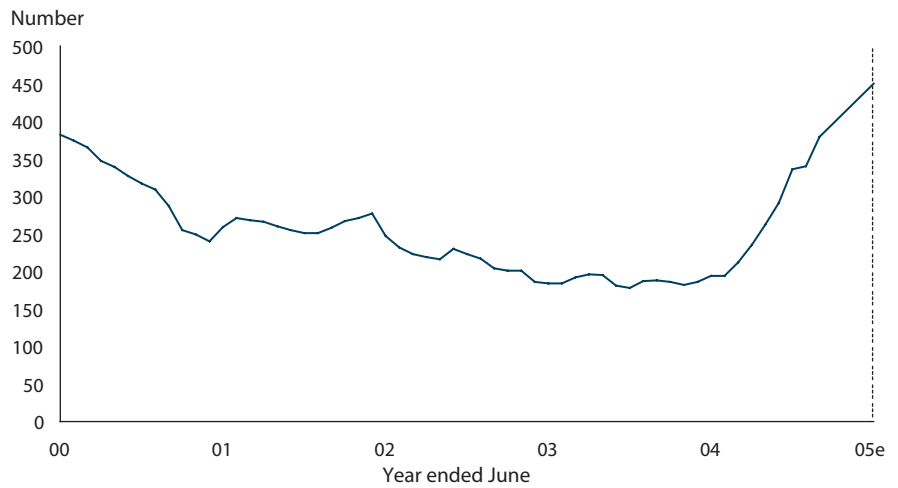
## Government Initiatives

Strengthening sales volumes in recent years can be partly attributed to the positive impact of a number of Territory Government housing initiatives. In the 2002-03 Budget, the Territory Government increased the first home owner's stamp duty concession threshold to \$125 000 (from \$80 000), and aligned the eligibility criteria with the First Home Owner Grant. In addition, a rebate of up to \$1500 was made available to all home buyers for the purchase of a principal place of residence.

## HomeNorth Scheme

Since 1991, Territory Housing has supported home ownership through home loans under the HomeNorth banner. HomeNorth provides assistance to low and middle income households who are unable to obtain finance through the private sector financial institutions. The scheme was popular in the 1990s, but the level of uptake declined in 2000. In 2000-01 the number of new loans decreased by 32 per cent to 259. This decline continued over the next two years before bottoming out in 2002-03 at 184 approvals. There was a 5.4 per cent increase in 2003-04 to 194 approvals, albeit from a relatively low base. In the first half of 2004-05 there was a significant turnaround in the number of approvals associated with a major revamping of the scheme.

Chart 11.9: HomeNorth loan approvals (moving annual total)



Source: Department of Community Development, Sport and Cultural Affairs

The major changes to the HomeNorth scheme that came into effect in July 2004 included a decrease in the minimum size of the deposit required, increasing the maximum market value of the property from \$180 000 to \$240 000, and an increase in the income threshold to include families with gross weekly incomes of \$1100 or less. It is estimated that a total of 450 home loans will be funded in 2004-05.

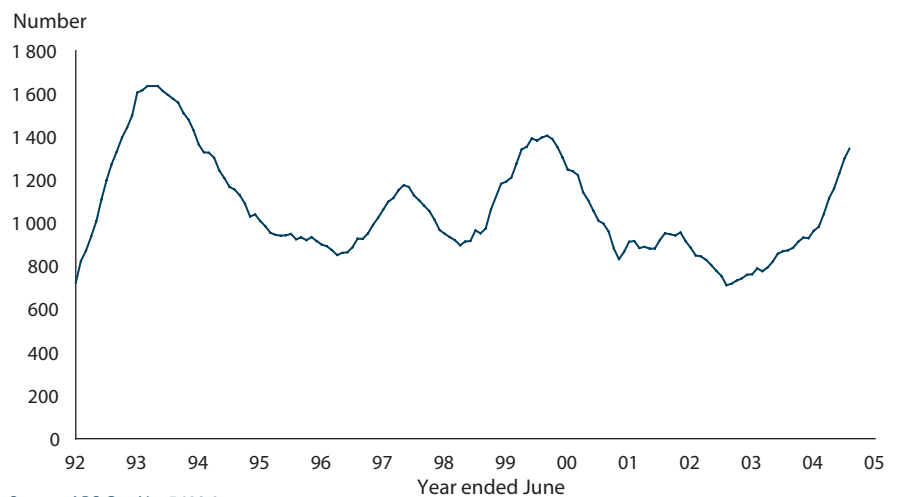
First home owners

First home owners are particularly sensitive to changes in government incentive schemes, and make up about 80 per cent of the households accessing HomeNorth. In 2002-03, the number of housing finance commitments to first home owners decreased by 14 per cent to 763, the lowest level recorded for a financial year since 1991-92. In 2003-04 commitments began to recover, increasing by 26 per cent. Following the broadening of the HomeNorth Scheme in July 2004 first home owners have entered the housing market in large numbers. In the year to January 2005, the number of housing finance commitments to first homeowners had increased by 54 per cent to 1346.

Land Sales

After peaking in 1994, Territory land sales more than halved over the next two years. The relocation of large defence numbers to the Territory from 1996 saw land sales recover as land was developed in Palmerston and Darwin. The completion of the Army Presence in the North program and a general downturn in the onshore economy from 2000 saw sales decline to around half of 1998 levels by 2003. In line with stronger housing demand over 2004, land sales increased by 39 per cent in the year to February 2005, albeit from relatively low levels. In the same period, Palmerston accounted for an estimated 68 per cent of urban land sold, up from 37 per cent a year earlier. Greater Darwin decreased from 56 per cent of land sold to 27 per cent over the same period, while Alice Springs fell from 7 per cent to 5 per cent.

Chart 11.10: Housing Finance Commitments to First Home Owners (moving annual total)



Source: ABS Cat. No. 5609.0

## Non-Residential Building

As with residential building, non-residential building activity in the 1990s was influenced by strong economic and population growth. Population growth fuelled the need for expanded social and commercial infrastructure to support growing demand levels, notably for shopping and educational facilities. Strong tourism growth in the 1990s also resulted in major hotel investment.

In the four years to 1998-99, non-residential building work averaged around \$250 million per annum compared to \$157 million per annum in the four years to 1994-95. The surge in activity in the mid to late 1990s related to strong growth in retail and tourism-related construction. Growth also came from construction of industrial buildings, the Army's Robertson Barracks and refurbishment and rebuilding associated with the post-Katherine flood period.

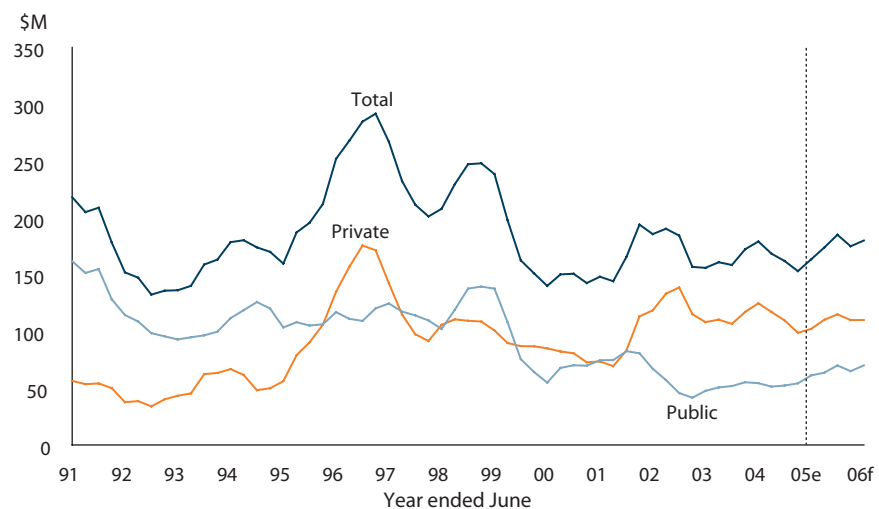
In line with the completion of major defence works and moderating population growth, non-residential building fell back markedly in 1999-2000 and 2000-01. Strong growth of 24 per cent in 2001-02 was primarily associated with upgrades at the Darwin and Alice Springs hospitals and the significant expansion of the Ayers Rock Resort at Yulara. Non-residential building activity fell in 2002-03 as the completion of the hospital upgrades reduced public investment. Activity increased by 15 per cent in 2003-04 as the \$10 million Melaleuca backpackers hostel and retail development in Mitchell Street was built, a number of medium sized business premises such as the Jape Homemaker Village and Nightcliff Shopping Centre expanded their operations and the Territory Government undertook construction of railway terminals at Darwin, Katherine and Tennant Creek.

### Large Projects

Overall, activity is estimated to have increased in 2004-05 due to increased public and private investment expenditure.

Major projects undertaken by the private sector in 2004-05 included the ongoing \$22 million redevelopment of the Old Admiralty House site, the \$10 million construction of the Darwin Airport Resort, the \$9 million construction of the new airport terminal (and associated runway upgrade) at Nhulunbuy and the completion of the William Forster Chambers in Darwin (six-storey offices). A number of large retail developments were also undertaken such as the construction of a 3000 square metre showroom at the Jape Homemaker Village and a 4000 square metre Super Toyworld and a WOW electrical retail store.

Chart 11.11: Non-Residential Building Work Done (moving annual total, 2002-03 dollars)



e: estimate; f: forecast

Source: NT Treasury, ABS Cat. Nos. 8752.0, 8755.0

Non-residential building activity was also boosted by increased public sector investment, notably for infrastructure to locate the 1st Aviation Regiment to Darwin. Approximately \$45 million is budgeted for non-residential building for this project, including hangars and shelters for 17 Tiger helicopters and training facilities. Approximately \$30 million of this construction is estimated to have occurred in 2004-05.

Northern Territory Government investment for non-residential building in 2004-05 included the commencement of the construction of a bulk loading facility at East Arm, a low security correctional centre in Darwin and classrooms at Darwin High School. Health-related projects included construction of a hospice and palliative care facilities at Royal Darwin Hospital, a renal health clinic in Tennant Creek and remediation works at Alice Springs Hospital. Additionally, as part of the National Aboriginal Health Strategy, a number of health clinics were built or upgraded in remote communities.

At the local government level, the Alice Springs Town Council commenced a \$9 million redevelopment of the Civic Centre in late 2004. Stage 1 of the development is expected to be completed by late 2005 with stage 2 scheduled to be completed in early 2006.

## Engineering Construction

### Engineering

Traditionally, engineering construction in the Territory, as for Australia, was predominantly funded by the public sector, especially infrastructure development.

Historically, roads, highways and subdivisions have dominated engineering construction activity in the Territory, however in recent years the level of investment has weakened. In the three years to 1999-00, investment in this category averaged \$101 million, but has fallen to an average of \$68 million in the three years to 2003-04. This fall is predominantly attributable to weaker levels of residential land development and its impact on the subdivisions category.

Excluding the impact of the Timor Sea oil and gas 'mega-projects' such as the Laminaria-Corallina oilfields in 1998-99 and the Bayu-Undan oil and gas project (2002 to present), private sector engineering activity (for the private sector, as opposed to private sector engineering activity for the public sector) has averaged around one-third of the Territory's total engineering construction work done since 1990.

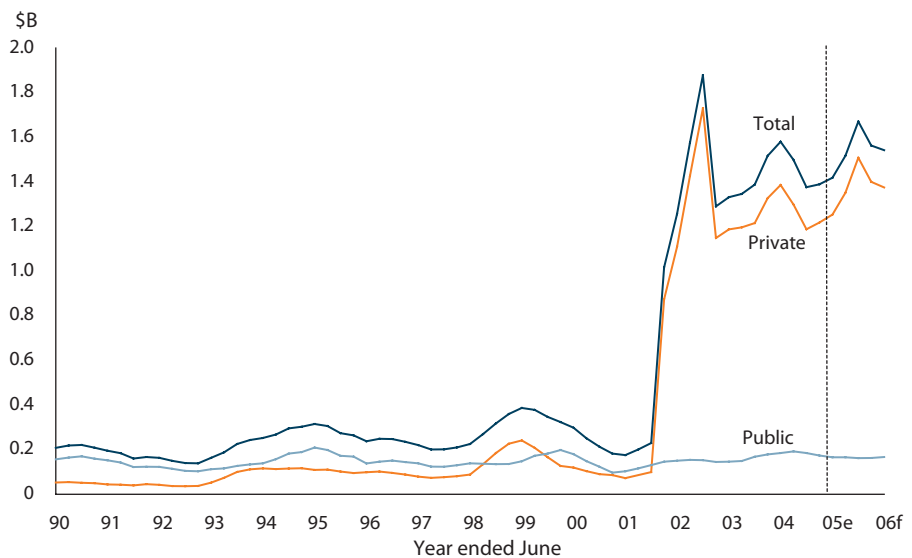
However, as a proportion of work done, private sector engineering construction has tended to grow over the past decade. This is expected to continue until at least 2007, investment for Bayu-Undan stage 2 and the Alcan refinery expansion at Gove and Trans-Territory Pipeline (TTP) being the main drivers of engineering work done over that period.

### Major Projects

Territory engineering construction increased seven-fold from the 2000-01 level of \$175 million to more than \$1.2 billion in 2001-02. The sharp spike was primarily attributable to work for Bayu-Undan stage 1 and the railway. As expenditure for these projects continued in 2002-03, engineering construction activity increased by around 6 per cent to \$1.3 billion.

However the magnitude of the strengthening in engineering activity reported by the ABS is misleading in terms of its actual benefit to the Territory economy. The majority of the Bayu-Undan stage 1 value-added work was done overseas, but was attributed to Territory engineering construction work done when the equipment was installed. The construction of Bayu-Undan stage 1 is estimated to have contributed around 65 per cent of total engineering work done in 2001-02, falling to around 50 per cent in 2002-03.

Chart 11.12: Engineering Construction Work Done (moving annual totals, 2002-03 dollars)



e: estimate f: forecast

Source: NT Treasury, ABS Cat. Nos 8762.0, 8782.0.0.65.001

The railway project and associated bridgework was estimated to have been about 15 per cent of total engineering work done in 2001-02, increasing to more than 20 per cent in 2002-03 as construction reached peak periods. The construction of stage 2 of the East Arm Port also contributed significantly to total engineering construction work done during this period and, to a lesser extent, into 2003-04.

Engineering construction work increased by 20 per cent to over \$1.6 billion in 2003-04. The significant increase was predominantly due to work for Bayu-Undan stage 2 commencing in mid 2003, involving the construction of the \$US1 billion LNG plant at Wickham Point near Darwin, and a \$US500 million sub-sea pipeline.

Other major engineering projects undertaken in the Territory in 2004-05 included the bulk of construction of the \$55 million Vopak fuel and bulk terminals at East Arm, \$18 million for infrastructure at the Bradshaw Field training area at Timber Creek, civil works at Tindal in Katherine and continued development of the East Arm Wharf.

## Construction Outlook

Timing is often unpredictable for construction developments, with final decisions to proceed dependent on a host of independent and dynamic factors. These include the investment climate, access to capital, the outlook for global economic growth, commodity prices, the value of the Australian dollar and perceptions about the Territory's comparative advantages.

### Activity Increasing

Construction activity in the Territory is forecast to increase by 9 per cent to \$2 billion in 2005-06. The value of residential building is forecast to increase by 12 per cent to \$268 million, while non-residential construction (including engineering) is forecast to increase by 9 per cent to \$1700 million.

### Residential Building

The outlook is for strengthening residential construction activity in 2005-06, with work done forecast to increase by 12 per cent, after increasing by an estimated 14 per cent in 2004-05.

With a relatively strong property market, strengthening population growth and buoyant employment prospects, consumer and investor confidence is expected to continue in the short-term, although the threat of rising interest rates could act to dampen activity somewhat. A number of large multi-storey apartment complexes are currently under construction, with more planned in 2005-06, almost exclusively in Darwin.

<b>Major Private Projects</b>	<p>The timing of projects is important as they can influence investor confidence in the property market. The growth in residential activity in 2004-05 is expected to continue through 2005-06. Major developments proceeding include the \$32 million Hastings over Mindil project, the \$45 million Evolution on Gardiner residential and commercial development and the \$12 million residential and retail development on the old Roma Bar site in Darwin. The \$17 million 68 unit Arkaba apartment towers development on Darwin's Esplanade, is due to commence construction in August 2005, as is a serviced apartment and residential development on Knuckey Street in Darwin. The 26-storey development will consist of approximately 135 serviced apartments and 81 residential apartments. Pending a final investment decision to proceed, the first stage of the \$70 million Harvey Park unit development in Darwin may also begin construction sometime in 2005-06.</p>
<b>Land Availability</b>	<p>The successful negotiations between the Lhere Artepe native title holders and the Territory Government have provided a blueprint for ongoing land releases in Alice Springs.</p> <p>In the rest of the Territory, available land is sufficient for several years of development at current take-up rates. In Darwin, the development of a parcel of land at Lee Point by DHA will make about 350 residential blocks available for private developers in addition to the 300 blocks being developed by the DHA. Further out, the Palmerston region is best placed to gain from any increase in new residential housing construction activity. Relocation of the Stuart Park fuel tank farm to East Arm will create a significant parcel of prime real estate available for residential development in Darwin from 2007.</p>
<b>Public Sector Building</b>	<p>In 2005-06, residential construction activity in the Territory will be supported by public sector housing construction.</p> <p>Territory Housing's Government employee capital works program is expected to continue in 2005-06, with a forecast investment of \$12.4 million in upgrades, replacements and construction of new dwellings. Additionally, \$3 million is expected to be invested in upgrading public residential dwelling across urban areas including small cities and town centres.</p> <p>In Alice Springs, the Keith Lawrie complex and the Stuart Lodge are scheduled to be redeveloped in 2005-06. The Stuart Lodge will be redeveloped as a short term accommodation facility for visiting Indigenous families while Kenna Court seniors village is also scheduled for completion in 2005-06.</p> <p>Beginning in 2006, the joint venture development between the Defence Housing Authority and the Canberra Investment Corporation in Lyons will require the construction of at least 75 houses a year for each of the next four years for delivery to the DHA. In Katherine and Alice Springs, the primary focus over the next two years will be on the upgrading of existing housing stock to increase the amenity for defence personnel and their families.</p>
<b>Non-residential Construction</b>	<p>In real terms, the combined value of Territory non-residential building and engineering construction is forecast to increase by 9 per cent to \$1.7 billion in 2005-06. Non-residential building work is forecast to increase by around 10 per cent to \$180 million, while engineering construction is forecast to increase by 9 per cent to \$1.5 billion.</p>
<b>Non-residential Building</b>	<p>Non-residential building work is forecast to increase by 10 per cent in 2005-06, following a relatively weak period of activity since the defence relocation of the late 1990s. Forecast growth is based on a handful of relatively large projects going ahead in both the private and public sectors, with the largest contribution to growth to come from defence-related investment.</p>

- Defence Projects** Construction work at Robertson Barracks is expected to continue until the end of 2005. The Bradshaw Field Training Area at Timber Creek is estimated to involve approximately \$20 million worth of non-residential building activity in 2005-06, with the construction of control facilities and a training force maintenance area. The phasing in of the new larger Armidale Class Patrol Boats to the Territory will ultimately require an \$11 million extension to existing infrastructure and a new Port Services Building. Work of around \$5.5 million is also expected for Robertson Barracks and the Army's Mount Bundy Training Area for urban terrain training facilities. Other defence projects on the drawing board include a \$32 million redevelopment of RAAF Base Tindal, a \$28 million redevelopment of RAAF Base Darwin and a \$19 million redevelopment of Robertson Barracks.
- Hotels and Hospitality Construction** Hotel and hospitality investment is forecast to strengthen in 2005-06. The main contributor to this increase is expected to come from the commencement of construction of the Darwin Convention and Exhibition Centre. A new \$20 million extension to the Mirambeena resort in Darwin has been proposed as well as the construction of a \$13 million Wildman Wilderness Lodge in Kakadu. A \$27 million tourism-related development on the old drive-in theatre site in Alice Springs has in principle approval from the Development Consent Authority (DCA), with the first stage of construction expected to commence in mid 2005.
- Offices Investment** Office investment has increased dramatically in the past few years, notably with the \$65 million Mitchell Centre and the \$22 million TIO office. In 2005-06, 3500 square metres of office space will become available to the Territory Government with the completion of the Admiralty House project. The Alice Plaza redevelopment is set to commence in 2005-06, and will develop an additional 475 square metres of lettable space.
- Unless net absorption picks up, further oversupply in office accommodation in Darwin is likely to continue, resulting in increased vacancy rates and lower rental yields and values.
- Retail** Despite increasing retail vacancies in the Darwin CBD, a number of new retail developments are expected to begin construction over the next couple of years. A number of the large apartment complexes being designed within the CBD will also incorporate retail space on the ground floor. This is expected to lead to further fragmentation of retail within the CBD and increased retail vacancies.
- There are plans for a 15 000 square metre hardware store development to begin construction on the corner of Totem and Bagot roads sometime in 2005-06. The actual timing of construction will be dependent on negotiations between private and public sector bodies regarding the construction of associated road works and release of land. There is an additional proposal for a large hardware store in Palmerston.
- In Alice Springs, the Alice Plaza shopping centre will undergo a major redevelopment commencing in mid 2005. The redevelopment will create an additional 200 square metres of retail space and will also include a redesign of the food court. The air conditioning, car park and lifts will also be upgraded.
- Education Construction** Education related investment is forecast to remain steady in 2005-06 mainly due to ongoing redevelopment of Darwin High School and the construction of improved facilities at Parap, Alawa and Nakara primary schools.
- Culture and Recreation** In 2004-05, road and headworks for the Desert Knowledge Precinct in Alice Springs were undertaken, with the tendering of the first stage of capital works for the Desert People's Centre expected to occur sometime in 2005-06. The Darwin City Waterfront Redevelopment project, including work for the Darwin Convention and Exhibition Centre, will significantly boost non-residential building activity across the hotel and hospitality, retail and entertainment, and recreation sectors.

Other Non-residential  
Developments

The medical records unit and birthing centre at Royal Darwin Hospital are scheduled to undergo a \$4 million redevelopment in 2005-06 and \$8.3 million is budgeted for remediation and fire upgrades at the Alice Springs hospital. The low security facility at the Darwin Correction Centre is also scheduled for completion.

Engineering Construction

After strong growth of 19 per cent in 2003-04, engineering activity is estimated to have decreased by 10 per cent in 2004-05. The fall in activity is largely because growth is coming off a high base. In 2003-04, activity was inflated by offshore expenditure attributed to the Territory for the Bayu-Undan stage 1 platforms and the stage 2 subsea pipelines. The forecast for 2005-06 is for an increase of 9 per cent to \$1.5 billion.

Major Projects

With major engineering work relating to Bayu-Undan stage 2 expected to tail off from late 2005, the Alcan refinery expansion at Gove and associated Trans-Territory Pipeline will be the main drivers of growth in engineering construction in 2005-06. A total of around \$1.5 billion worth of work is estimated to be done in 2005-06, with the vast majority of this to be engineering work.

This forecast assumes that the proposed Trans-Territory Pipeline is given final investment approval to proceed in the fourth quarter of 2004-05.

In the first half of 2004-05, engineering work done in the Territory on the \$2 billion Alcan refinery expansion was limited to earthworks, roadworks and the commencement of the upgrading of boat launch facilities to handle the 260 pre-assembled modules (PAMs) that will be transported to the project site. Engineering work done relating to the construction of the PAMs will be attributed to the Territory when they are installed. This will inflate the actual physical engineering work done in the Territory, though approximately 90 to 95 per cent of the PAMs will be built elsewhere (primarily in Malaysia and Thailand) and shipped to Gove for installation.

The first PAMs are expected to arrive on a regular basis (every six weeks) from April 2005 and continue for the life of the project. This is expected to increase engineering work done in the final quarter of 2004-05 and onward until 2006-07.

Engineering work done for the LNG plant will be completed in 2005-06, while construction of the TTP between Wadeye and Gove is scheduled to commence.

The TTP will involve the construction of a 110 kilometre under-sea pipeline from the Blacktip field in the Joseph Bonaparte Gulf to an onshore gas plant near Wadeye. The gas will then be piped through an underground pipeline to Gove. The Blacktip platform and associated pipeline to Wadeye has an estimated cost of \$500 million, but will be mostly in Western Australian waters, with only about one-third of the engineering work done on this project attributable to the Territory. Also, pipe for the construction of the TTP will be constructed interstate.

The final investment decision relating to the construction of the \$550 million TTP will be made in late 2004-05. Construction is planned to commence in early 2005-06 and continue for 18 months, with most of the work undertaken during the respective Dry seasons.

Public Investment

The roads, highways and subdivisions category will be boosted through development for Lyons (estimated at close to \$10 million) while work on the new Larapinta development and Mount Johns Valley subdivisions in Alice Springs will contribute to engineering activity in 2005-06. The sealing of the West MacDonnell Range Tourist Loop Roads in Central Australia will continue in 2005-06, with an additional 14 km of road being sealed at an estimated cost of \$8.3 million. Stage one of the sealing of the Litchfield Loop Road is also scheduled to be completed.

Publicly-funded engineering investment is set to increase slightly in 2005-06. Works at the Bradshaw Field training area and the bulk loading facility at East Arm will continue in 2005-06 and development of a new service wharf at Frances Bay will commence.

## Longer Term Outlook

The economic base of the Territory is expected to expand significantly over the next decade with Timor Sea gas and mining developments and opportunities associated with the operational phase of the railway, as well as a recovery in tourism growth and further opportunities associated with defence. The commercial and social infrastructure required will result in a major phase of construction activity to support the broadening economic base, with strong growth in residential and non-residential building expected over the medium term.