

## Chapter 10 Construction and Property

### Key Points

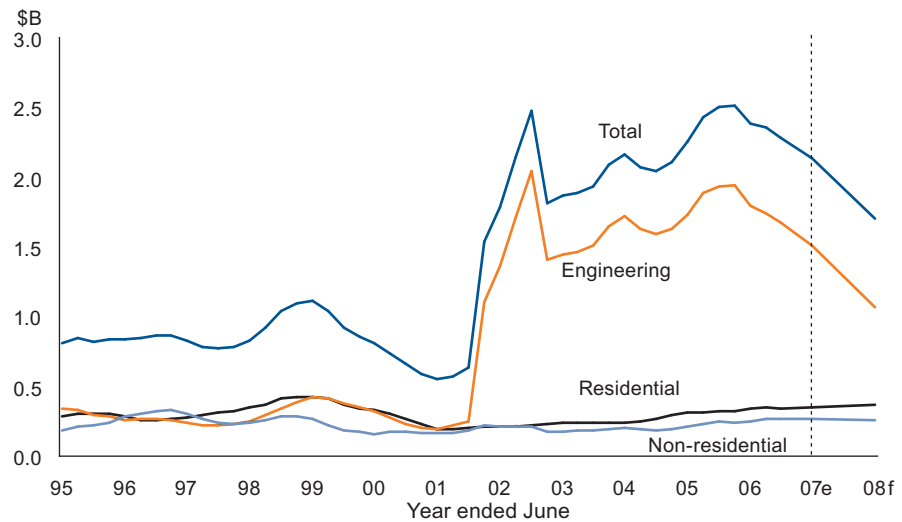
- » The Territory construction industry accounted for about 7 per cent of gross state product (GSP) on average over the past five years to 2005-06, and employed about 7.8 per cent of the workforce.
- » Projects such as the Alcan G3 refinery expansion at Gove have a huge impact on the value of construction work done in the Territory. They are significant both on a Territory and a national scale and can lead to substantial volatility in the value of construction work done.
- » In 2005-06, total construction activity increased by 5.9 per cent to \$2.4 billion, supported by major resource-based engineering projects such as the Darwin liquefied natural gas (LNG) plant at Wickham Point and the \$3 billion Alcan refinery expansion.
- » Declining construction growth in 2006-07 comes as investment for Bayu-Undan stage 2 (LNG plant and associated sub-sea pipeline) and the Alcan refinery expansion, the main drivers of engineering work done, are completed.
- » Northern Territory construction activity will contract substantially in 2007-08. However, new mining and engineering based projects will ensure that total construction activity will remain at levels above historical averages over 2007-08.
- » Property, as defined in this chapter, is a key factor influencing residential construction activity and includes the sale and availability of residential land, movements in residential property markets and Government public housing initiatives.

### Construction

Construction comprises residential building, non-residential building and engineering construction. The construction industry plays an important role in the Territory economy, accounting for about 7 per cent of gross state product (GSP) on average over the five years to 2005-06 and for about 7.8 per cent of total employment.

The significant increase in construction activity from 2001-02 to the present is due to the impact of mega projects on the Territory's relatively small economy. At the beginning of this decade, construction activity slowed markedly as economic and population growth weakened following the major defence force relocation to the Top End (Chart 10.1). Engineering construction activity picked up in 2001, driven largely by construction of the Alice Springs to Darwin railway and Bayu-Undan stage 1, before reaching record levels during the construction phases of the major resource-based engineering projects such as the \$1.3 billion Darwin LNG plant at Wickham Point and the \$3 billion Alcan G3 refinery expansion at Gove. In 2005-06, total construction activity increased by 5.9 per cent to \$2.4 billion.

Chart 10.1: Territory Construction Work Done (moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. Nos. 8752.0, 8782.0.65.001

Although major projects such as the Alcan expansion create a significant number of jobs in the Territory, this is not necessarily reflected in resident employment figures reported by the Australian Bureau of Statistics (ABS). The primary reason is that the very large scale of these projects, combined with a limited pool of skilled local workers, results in a strong reliance on fly-in fly-out (FIFO) employees who are not attributed to Northern Territory resident employment levels by the ABS labour force survey. This means the official employment contribution of the construction industry in the Territory underestimates the real employment effect.

Similarly, such major projects can have a huge impact on the value of construction work done and cause substantial volatility in reported activity. However, the impact of these projects on underlying economic activity may be less substantial due to their location, often in remote areas or offshore, use of FIFO workers and the importation of equipment and construction materials from outside the Territory.

## Residential Construction

Residential construction includes the building of new houses and other residential buildings (townhouses, units), residential conversions (converting non-residential buildings into residential buildings), and alterations and additions to existing residential buildings. Residential construction activity occurs in both the private and public sectors. In 2005-06, residential construction accounted for approximately 14 per cent of total construction.

Demographic, social and economic factors have strong influences on the demand for residential dwellings and, in turn, on construction. Residential construction is closely linked to population growth and the underlying strength of the economy, while other key factors affecting the demand for housing include:

- the rate of new household formation;
- the distribution of income and wealth;
- the availability and cost of land and housing;
- the price of new dwellings relative to existing dwellings;
- government housing policies; and
- availability and cost of finance.

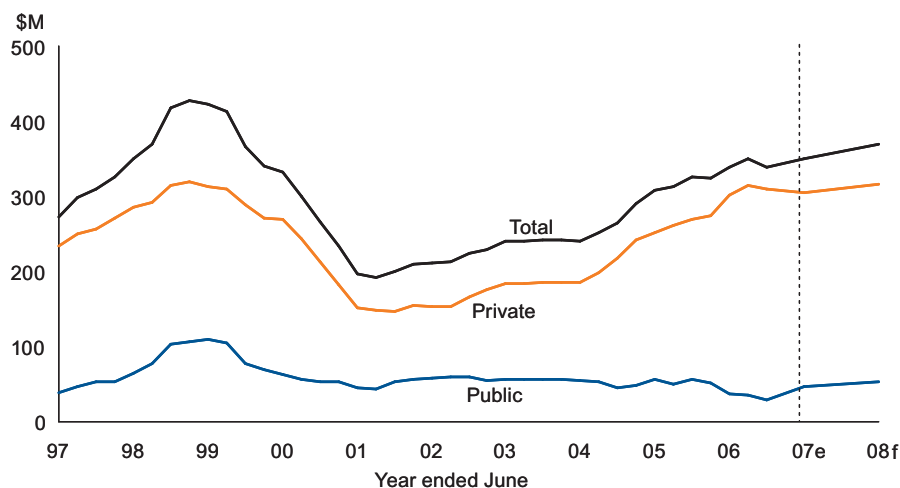
In the short term, interest rates and business and consumer confidence are also

major influences on the building cycle.

Throughout the late 1990s, sustained strong levels of residential construction activity reflected the impact of the increased defence presence which, in conjunction with activity in tourism and other sectors, boosted economic and population growth and demand for dwellings. Combined with relatively low interest rates and tax incentives for investors, this growth generated strong investor and developer confidence in the residential market, particularly in the Darwin area and notably for units and high-rise apartment complexes (Chart 10.2).

In 2005-06, total residential building work done increased by 9.5 per cent, supported by strong population growth, low vacancy rates and various Government housing initiatives such as the HomeNorth and HomeNorth Xtra schemes. In 2006-07, growth in private residential building activity is expected to moderate, reflecting the decline in dwelling commencements in 2006 together with the dampening effect of interest rate rises and the deterioration of home loan affordability. However, public residential building activity is estimated to partly offset moderating growth levels in the private sector, with construction work done at the Lyons Estate, a joint public-private sector development. While growth in total residential construction activity is expected to moderate to 3.6 per cent in 2006-07, total activity will remain at high levels.

Chart 10.2: Territory Residential Building Work Done (moving annual total)



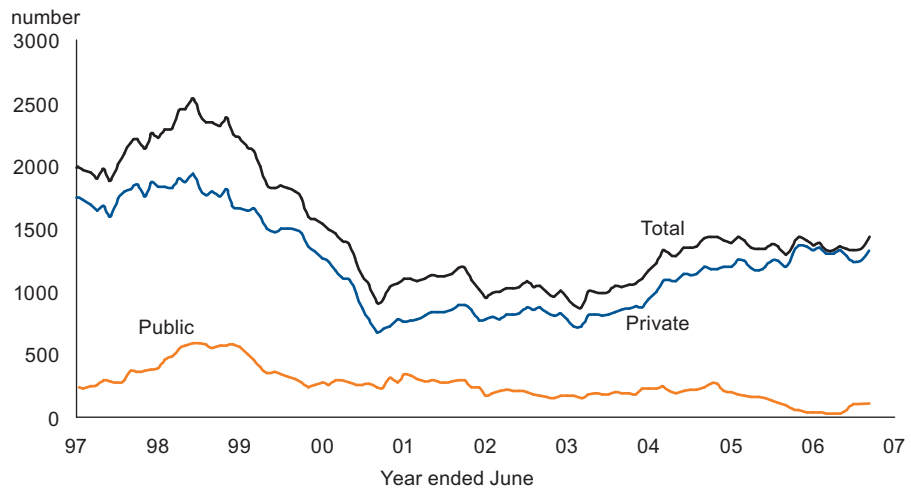
e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. No. 8752.0

### Residential Building Approvals

Residential building approvals are a lead indicator of short-term dwelling construction activity. In the year to February 2007, approvals increased by 13.9 per cent to 1468. New house approvals increased by 2.9 per cent to 718 and 'other' dwellings (units and townhouses) increased by 17.6 per cent to 686. A large increase in private sector 'other' dwellings approvals was the primary driver of this increase.

Chart 10.3: Territory Building Approvals for Residential Dwellings (moving annual total)



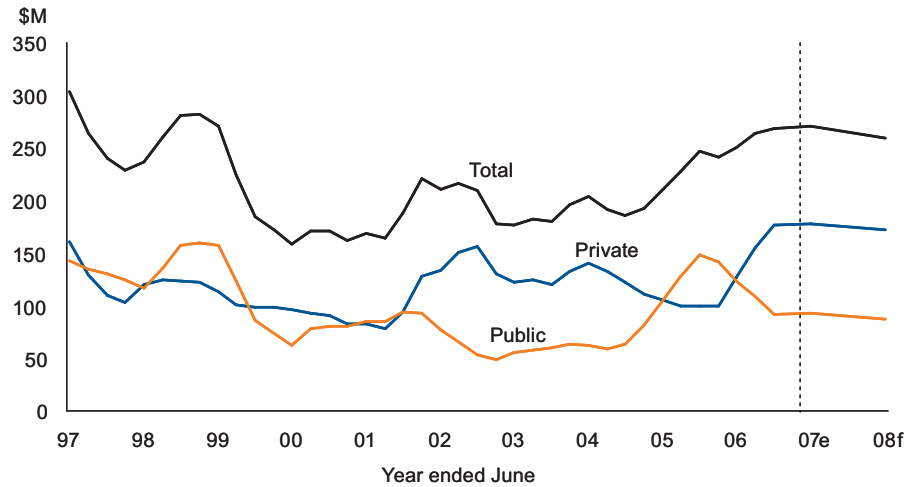
Source: ABS Cat. No. 8731.0

### Non-Residential Building

Non-residential building includes hotels, shopping centres, factories, offices, schools, hospitals and cinemas. 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 building is targeted to meet medium to long-term needs and provide social and economic infrastructure such as schools, hospitals and roads.

Chart 10.4: Territory Non-Residential Building Work Done (moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. Nos. 9752.0, 8755.0

In 2005-06, non-residential activity increased by 19 per cent, supported by both private and public investment expenditure. Most notable contributors were the 26-storey Outrigger Pandanas serviced apartments development, continued works associated with the Bradshaw Field Training Area and the Darwin Waterfront Development joint private and public sector project. Total growth in non-residential building activity is estimated to moderate to 8.2 per cent in 2006-07 (Chart 10.4).

#### Private Sector

Private sector non-residential construction increased by 20.1 per cent in 2005-06, supported by projects such as the Darwin Waterfront Development, the Outrigger Pandanas development, stage one of the Darwin Chinatown development and a number of other apartment and hotel complexes. Continued activity, primarily on the Darwin Convention Centre and Outrigger Pandanas apartments, is expected to sustain growth into 2006-07, estimated at 40 per cent.

**Public Sector** Public investment for non-residential building in 2005-06 included expenditure associated within the Darwin Waterfront Development, the relocation of the 1st Aviation Regiment to Darwin and the Bradshaw Field Training Area projects, the Palmerston Recreation Centre, additions and upgrades to Alice Springs Hospital, and expansionary works on several urban schools. In 2006-07, public sector non-residential construction activity is estimated to have fallen by 25 per cent, driven by the conclusion of works on the Bradshaw Field Training Area early in 2007 and activity related to the 1st Aviation Regiment in mid-2006. Completion of other projects also contributed to the decline, though to a much lesser extent than the completion of the defence projects. These other projects include, the Darwin Correctional Centre, the hospice at Royal Darwin Hospital, the renal unit at Tennant Creek Hospital, several health clinics in remote communities and a number of urban school upgrades.

## Engineering Construction

Traditionally, engineering construction activity in the Territory has been funded by the public sector and largely focused on infrastructure development. However, as a proportion of work done, private sector engineering construction has grown over the past decade.

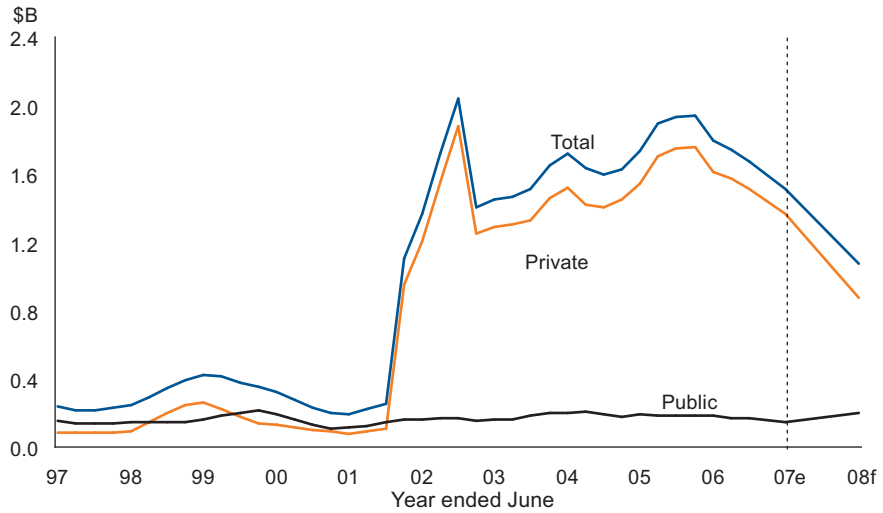
Engineering construction work increased by 19 per cent to more than \$1.6 billion in 2003-04 and by 0.6 per cent in 2004-05. The significant increase was mainly due to work for Bayu-Undan stage 2 commencing in mid 2003, including the construction of the \$1.3 billion LNG plant at Wickham Point and a \$650 million sub-sea pipeline. Completion of the Wickham Point plant in December 2005 marked the conclusion of the construction phase of the Bayu-Undan project.

In late 2004, work commenced on the Alcan G3 refinery expansion at Gove. This is the first major project in the Territory to make use of pre-assembled modules (PAMs). Over the life of the expansion, Alcan reported cost revisions attributable to a tight construction market, a boom in the commodities market and gains of the Australian dollar relative to the American currency. This equated to cost revisions in September 2006 to US\$1.9 billion up from an original US\$1.5 billion and a further revision to US\$2.3 billion in January 2007, translating in Australian dollar terms to approximately \$3 billion. The Alcan expansion is expected to be completed in 2007, substantially increasing the capacity of the refinery.

Other major engineering projects commencing in 2006-07 include the \$750 million Blacktip project by Eni Australia, the \$190 million GEMCO manganese processing expansion, the \$110 million change of operations at McArthur River mine and the \$100 million Puffin Oil development project by Australian Energy Developments (AED). The Blacktip project involves the construction of an onshore treatment plant near Wadeye with two connecting pipelines, one to the Blacktip gas field in the Joseph Bonaparte Gulf, and the other to the existing Amadeus Basin to Darwin pipeline.

Based on current projects, growth in engineering activity will decline by an estimated 15.7 per cent in 2006-07, although remaining at relatively high levels. Declining growth in 2006-07 comes as investment for Bayu-Undan stage 2 and the Alcan refinery expansion, the main drivers of engineering work done, are completed (Chart 10.5).

Chart 10.5: Territory Engineering Work Done (moving annual total)



e: estimate; f: forecast

Source: Northern Territory Treasury, ABS Cat. Nos 8762.0, 9762.0.0.65.001

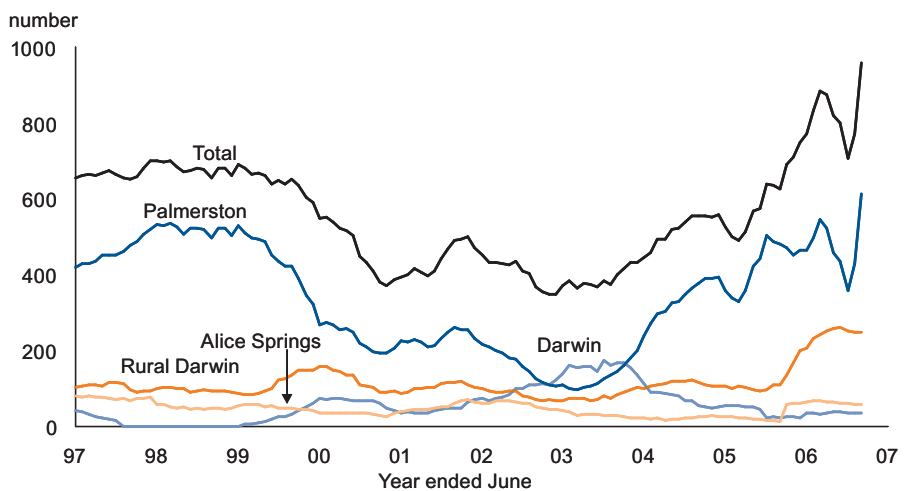
### Property

In this chapter, property consists of factors that are closely linked with residential construction activity. Such factors include the sale and availability of residential land, movements in residential property markets and Government public housing initiatives.

### Land

The completion of the defence build up and a general downturn in the onshore economy from 2000 saw land sales decline over the period to 2003. Land sales began a steady improvement in line with stronger housing demand in 2004, before reaching peak levels in 2005 and 2006, driven largely by strong property market activity and population growth. In 2006, land sales increased by 10.5 per cent, although moderating from very high levels. In 2006, Palmerston accounted for 50.8 per cent of all residential land sales, down from 78.4 per cent a year earlier, while Darwin accounted for 40.7 per cent of sales in 2006, up from 19.1 per cent in 2005, and Alice Springs accounted for 8.5 per cent of sales, up from 2.5 per cent (Chart 10.6).

Chart 10.6: Territory Residential Land Sales (moving annual total)



Source: Australian Valuation Office

**Alice Springs** In Alice Springs, a shortage of residential land for development over the past decade was associated with native title restrictions on the release of crown land. 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 the release of 40 residential blocks in the new subdivision of Stirling Heights.

In November 2006, auction of the second stage release at Larapinta, comprising 39 residential lots, was passed in for the second time as the reserve price was not met. Currently ILUA negotiations are under way to allow the subdivision at Mt John Valley to proceed, which is expected to yield in excess of 70 lots and is anticipated for release in 2008. Approximately 25 urban blocks have been made available at the North Edge subdivision, and preliminary works have commenced on a 62 rural lot subdivision in Ragonesi Road, south of Heavitree Gap, with the developer proposing 256 lots in six stages. Approval has now been obtained for a 94 rural lot subdivision on Stegar Road.

**Darwin** Darwin's newest suburb, Lyons, is a joint public-private sector development of 690 residential lots on ex-defence land near Lee Point. The suburb will see the development of 350 houses for Defence Housing Australia, with the balance of the lots being made available to the public. Lyons lots will be released through public ballot, and the home sites have attracted great interest. The Stage One ballot was conducted in November 2006, with all 31 lots sold.

The proposed Muirhead subdivision, adjacent to Lyons, also to be developed as a DHA joint venture, is expected to commence on completion of the Lyons development and is estimated to release 1100 lots over five years.

There is also a proposal for a 94 small lot subdivision in the Frances Bay area. Traditionally, land in this area has been progressively developed for medium density housing. The continued construction of medium and high density dwellings now provides a wide array of housing options in the inner Darwin area.

**Palmerston** Strong population growth from 1995 to 1998 associated with the defence build up, combined with the limited supply of land for housing development in Darwin was the primary stimulus for 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 time. Demand has recovered rapidly from the low levels experienced in 2002-03, bolstered by owner-occupier and investment demand, and supported by increased home ownership incentives offered through the Territory Government's HomeNorth Scheme.

The development of Palmerston has seen the release of 907 lots during the period of 2004 to 2006. In January 2007, a further 243 lots were released on to the market. Several of the development leases are now nearing completion and advice from the developers is that in excess of 50 per cent of the remaining 275 lots to be released have been pre-sold.

Bellamack will be the next land release for Palmerston, and the Territory Government will be calling for expressions of interest in 2007 for the proposed subdivision of over 650 lots. It is anticipated that the first titles will issue in 2008-09.

## Property Markets

Movements in property markets continue to be the largest influence on the residential construction sector in the Territory. The building industry and property markets are subject to strong fluctuations in activity, real estate prices and sales volumes.

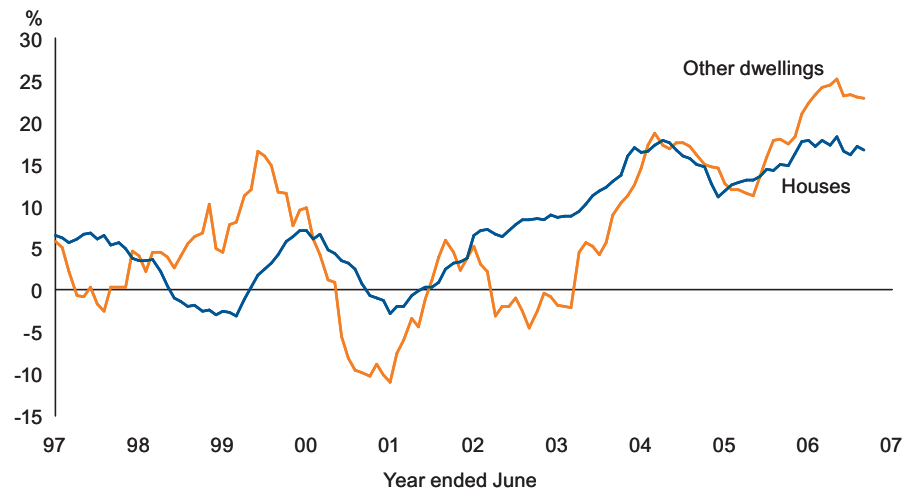
The Territory did not participate in the national housing price boom that occurred earlier this decade. However, since late 2003, Territory house prices have experienced strong growth. The Real Estate Institute of the Northern Territory (REINT) reports that established house prices in Darwin increased by just over 40 per cent in the two years to December 2006 and by 95 per cent in the five years to December 2006.

REINT reported that average median house prices over 2006 increased by 21.8 per cent in Darwin. The strength in house prices reflects stronger population growth in the Territory as well as the economic multiplier effect from high commodity prices and related resources boom. However, three interest rate rises by the RBA in 2006, and the potential for another rise in 2007, are likely to have a dampening effect on the Northern Territory property market in 2006-07.

The housing price boom is having a significant impact on housing affordability in the Territory, and for the first time in five years the Territory no longer has the most affordable housing of the jurisdictions. In 2006, home loan affordability in the Territory decreased by 8.5 per cent, with approximately 20 per cent of family income going to loan repayments. Nevertheless, the Territory still has the second most affordable housing of the jurisdictions, behind the Australian Capital Territory.

The 'other dwellings' market (townhouses and units) tends to be significantly more volatile than the market for houses (Chart 10.7), with prices fluctuating with the release of major new developments, changes in investor sentiment and distinct cycles of under and over supply.

Chart 10.7: Territory House and Other Dwellings Average Prices



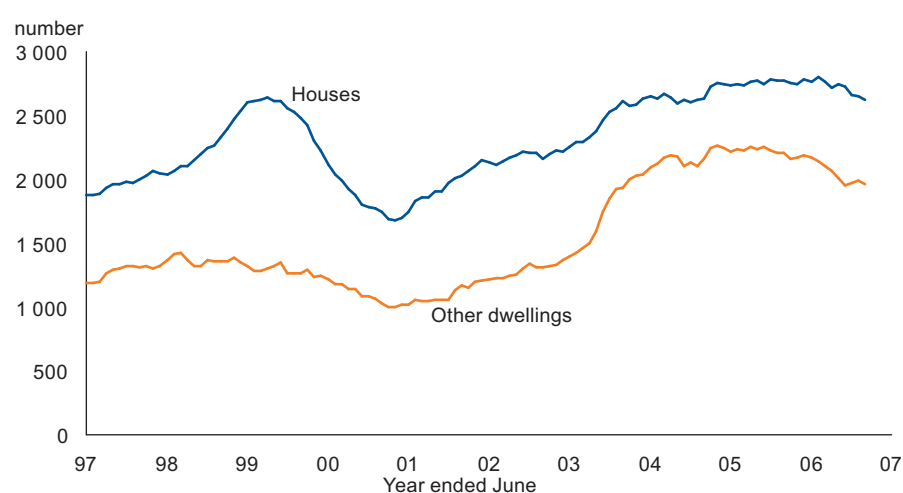
Source: Australian Valuation Office

The REINT estimates that other dwellings prices in Darwin increased by 24.0 per cent to \$300 000 in December 2006 when compared to the same time last year. Through the five years to December 2006, other dwellings median prices increased by just over 98.9 per cent, compared to just under 95 per cent for houses.

Sales numbers for both houses and other dwellings have improved markedly since the trough in mid-2001 (Chart 10.8). Growth has been driven equally by sales of other dwellings and houses over this period, although the proportion of unit sales has increased significantly over the past five years. In 2006, although staying at high

levels, sales growth slowed markedly for both houses and other dwellings, declining by 4.4 per cent and 11.2 per cent respectively.

Chart 10.8: Territory House and Other Dwelling Sales (moving annual total)



Source: Australian Valuation Office

Territory rental vacancy rates were at relatively high levels for several years until early 2002, reflecting a general over supply. Over the past four years, vacancy rates have fallen to levels that suggest demand will outpace supply in the short to medium term. REINT reports the average residential vacancy rates in 2006 as:

- Darwin – 2.7 per cent for houses and 2.9 per cent for units;
- Palmerston – 2.2 per cent for houses and 1.6 per cent for units;
- Alice Springs – 5.4 per cent for houses and 3.5 per cent for units; and
- Katherine – 5.2 per cent for houses and 4.1 per cent for units.

According to the REINT, rental income for a three-bedroom house in Darwin averaged \$305 per week in 2006, the highest average weekly rental income on record, up from \$284 in 2005. A two-bedroom unit generated average weekly rental income of \$226 for the same period, up from \$213 in 2005. However, in 2006, average rental yields experienced a decline for both houses and units when compared to 2005. A three-bedroom house and two-bedroom unit in Darwin attracted an average rental yield of 4.4 per cent in 2006, compared to 5 per cent for a three-bedroom house and 5.1 per cent for a two-bedroom unit in 2005.

## Public Housing

### Housing Assistance

In the Territory the main provider of housing assistance is Territory Housing, which manages the Territory Government's Indigenous, public and government employee housing stock. Defence Housing Australia (DHA) manages defence housing. These organisations provide partially or fully subsidised accommodation to eligible low-income earners, Indigenous Territorians, public sector employees and defence personnel.

In the Territory, the number of households in public housing is relatively high, with 2001 Census data reporting that 9.2 per cent of dwellings were public housing.

### Territory Housing

Territory Housing owns and manages more than 6900 dwellings throughout the Territory.

Construction work since 2003-04 has concentrated on increasing the maintenance and upgrade program to address the deterioration in condition and amenity of Territory Housing stock. In addition, a number of public housing complexes were redeveloped to reduce density and minimise antisocial behaviour. There has also

been an increased emphasis on the provision of government employee housing and supported accommodation for clients with special needs in remote areas.

In 2005-06, Territory Housing invested a total of \$49.5 million in the building and construction industry to support economic activity throughout the Northern Territory through construction, repairs and maintenance.

Significant Territory Housing projects in 2005-06 included the investment of \$13 million in the construction of 55 new government employee dwellings in remote localities and the completion of the \$1.6 million Bernhard Street Complex redevelopment in Katherine. In addition, major programs undertaken in 2005-06 included the provision of \$1.54 million in grants to community organisations to construct, purchase, upgrade and repair buildings under the Community Housing Program and the Crisis Accommodation Program.

Territory Housing supports home ownership through the HomeNorth Scheme. A revamped HomeNorth Scheme was introduced on 1 July 2004, which saw the uptake of home loans increase to 435, an increase of 241 over the previous financial year.

In 2005, the scheme became HomeNorth Xtra and the income threshold eligibility was increased by 6 per cent to \$1166 per week and the property price increased from \$240 000 to \$260 000. Since the inception of HomeNorth Xtra, Territory Housing has funded 404 loans and shared equity purchases to the value of \$76.9 million. In 2007, the Territory Government introduced changes to the scheme to better target low to middle income households and align the scheme to regional house prices.

## Indigenous Housing

In 2005-06, a new Indigenous Housing and Infrastructure Agreement and Common Policy Framework were finalised and signed by respective Australian Government and Northern Territory Government Ministers.

In order to maintain Indigenous input into the delivery of Indigenous housing services, a Northern Territory Indigenous Housing Advisory Board was established and appointed in December 2005. The Board advises the Minister for Housing on policy matters and strategic plans to improve housing and related housing infrastructure outcomes for Indigenous Territorians.

During 2005-06, \$23 million was invested in the construction of 68 new dwellings and 74 dwellings were upgraded and renovated in remote areas. The Territory Government provides support to Indigenous Community Housing Organisations (ICHOs) to increase their capacity to train and employ Indigenous people in all roles of Indigenous housing, infrastructure and essential services. In 2005-06, \$15.2 million of Territory funding was provided to the 84 ICHOs for Indigenous housing repairs and maintenance.

In late 2006, the Northern Territory Government announced its intent to invest an extra \$100 million in remote housing over the next five years. Negotiations with the Australian Government are taking place to contribute an additional \$140 million as a matching investment to this initiative and as part of a package to improve outcomes for Indigenous Territorians.

## Defence Housing

DHA provides housing for defence personnel through its ownership of dwellings, development activity, and through the leasing of properties from the private sector. DHA-managed stock in the Territory has increased from about 1250 dwellings in 1992 to 2240 dwellings in June 2006. DHA is also a partner in the development of the new Darwin suburb of Lyons near Lee Point. In May 2006, civil works for the first stage of the project commenced, with construction expected to continue over the next five years.

## Construction Outlook

Given the uncertainty surrounding many of the factors influencing the decision to proceed with construction activity, timing can be unpredictable. These factors 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.

Construction activity in the Territory is forecast to decrease by 20 per cent to \$1.7 billion in 2007-08. The value of residential construction is forecast to increase by 5.4 per cent to \$369 million, non-residential construction is forecast to decrease by 4.3 per cent to \$259 million and engineering construction is forecast to fall by 29.2 per cent to \$1.1 billion.

### Residential Construction

Residential construction work done is forecast to increase by 5.4 per cent in 2007-08, supported by ongoing activity for a number of high rise apartment developments in the Darwin CBD, and continuing high levels of housing construction in Palmerston and the new suburb of Lyons.

Major ongoing residential developments in 2007-08 include:

- the 33-storey Evolution on Gardiner residential and commercial development (\$60 million);
- the residential component of the Darwin Waterfront Development (\$90 million);
- the residential component of the 26-storey Pandanas Outrigger development (\$100 million);
- the 1 Thirty Esplanade high rise development (\$100 million); and
- the joint venture development of the Darwin suburb of Lyons (\$280 million).

Population and employment growth, although moderating, will also continue to support overall residential construction activity in the Territory.

Looking further ahead, land availability is sufficient for several years of development at current take-up rates in both Darwin and Palmerston.

### Non-residential Construction

After two years of relatively high levels of activity, non-residential building work is forecast to decrease by 4.3 per cent to \$259 million in 2007-08. This primarily reflects the completion of Outrigger Pandanas development, the Darwin Convention Centre and water recreation facilities in early 2008. However, the decline in growth of non-residential construction is expected to be partly offset by activity associated with the Chinatown development, and works on the Darwin Waterfront Medina hotel with serviced apartments and a 100-room Vibe Hotel.

### Engineering Construction

Engineering construction in 2006-07 is forecast to fall by 29.2 per cent to \$1.1 billion, as major engineering projects draw to a close. With engineering work for the Alcan G3 refinery expansion completed mid 2007, engineering construction activity in the Territory will contract substantially in 2007-08. However, new projects such as the \$690 million Montara, Skua and Swift oilfields development in the Timor Sea, the \$750 million development of the Blacktip gas field in the Joseph Bonaparte Gulf, and the \$190 million GEMCO manganese processing expansion at Groote Eylandt, will ensure that engineering activity in the Territory remains at levels above historical averages in 2007-08.

### Longer Term Outlook

As the Territory continues to develop as a service and manufacturing hub for the northern Australian mining and energy sectors, further opportunities are likely to be created for the Territory construction industry.