

HD **Big Perth builders budget to stand out**

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Opportunities abound for major construction companies, but their biggest challenge is winning work in an ultra-competitive industry.

The state's major builders appear unfazed to be operating in what's considered among Western Australia's most competitive and closely monitored business sectors.

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"It's a competitive market, it always has been and it always will be, that's just the lot of life that we have as builders," Brookfield Multiplex regional managing director Chris Palandri told Business News.

"Construction companies generally operate on relatively low margins, compared to other industries, so I'd say the current environment isn't markedly different from the environment we (normally) exist in."

Mr Palandri said the **company**'s biggest challenge was setting itself apart from its competitors to win contracts.

"It's a tight-margin business, there are a lot of competing forces that take place when delivering a project, so being able to deliver buildings on time and on budget with no defects is critical to us in terms of maintaining margin," he said.

"But you've got to win it and you've got to deliver it safely and you've got to deliver it on time and on budget to make some money."

Probuild WA managing director Eric Meyerowitz said the levels of competitiveness in parts of the construction market could only be described as extreme.

Mr Meyerowitz said Probuild had won more than \$130 million in new works since the start of 2014, including a \$50 million contract to construct Kings Square Tower 3, and an \$80 million contract for the expansion of Stockland's Baldivis shopping centre.

"The opportunities are out there, and you must deal with the market forces that are there at the time," Mr Meyerowitz said.

"Everyone wants to be the builder of choice, but it comes only from hard work and doing all the right things by your client, delivering high-quality work, on budget and on time.

"That's a very big part of our day - making sure that that happens."

John Holland operations manager David Marshall agreed high levels of competition were a dominant feature of the current construction market.

"To win work it is important to work with clients to understand their needs and ensure you are pricing the job with a very in-depth understanding of these needs," Mr Marshall said.

"Clients don't want add-ons that offer no value; they want the best product at a competitive price with a construction methodology that offers cost and time savings."

Despite the competition and tight profit margins, WA's major builders were upbeat when discussing the level of work available in the market.

The level of activity has been reflected in a 10.6 per cent rise in the state's construction workforce over the past year, according to the Construction Training Council.

The council said there were 134,410 people working in the construction sector as of February 2014, making up more than 10 per cent of the overall WA workforce.

Georgiou **Group** chief executive John Georgiou, whose **company** works across a range of industry segments, said the market had experienced a large decline in resources-related construction, with a big shift towards government and private investment and **residential** development.

Broad Construction managing director Dean Goodliffe agreed, saying a range of solid opportunities was set to emerge over the next 12-24 months.

"For us, we've got a good portfolio of **commercial** construction at Kings Square, we're seeing the social infrastructure coming through, projects like the museum and the stadium are coming up which will be fantastic," Mr Goodliffe said.

"**Residential** and hotels construction is strong too. Perth is in desperate need of a wider portfolio of accommodation, so that would be something that we're interested in as well."

Busy builders

Contrary to recent history, where the majority of major construction works were located within the confines of the Perth CBD, the biggest value currently being built are located in the suburbs.

The largest job currently under way, following the recent completion of the \$2 billion Fiona Stanley Hospital by Brookfield Multiplex, is the \$1.17 billion new Children's Hospital in Nedlands, which is being built by John Holland.

The children's hospital is on target for completion in late 2015.

Next on the list is the \$750 million terminals expansion and redevelopment currently under way at Perth Airport.

The redevelopment is being conducted in phases, with Broad Construction contracted for terminal expansion works and Built Environs expanding the international departures facility, as well as building a new domestic pier.

The first phase is scheduled to be complete by next year.

In the **commercial** sector, the largest project significantly under way is the \$532 million Kings Square precinct on Wellington Street, which is being developed jointly by Leighton Holdings and Dexus Office Properties on behalf of landowner Seven **Group** Holdings.

Leighton is coordinating the construction of four office towers by three different builders at Kings Square - subsidiaries John Holland and Broad Construction, as well as the recently signed Probuild, which began construction of Kings Square Tower 3 late last month.

Kings Square 1 will be a 21-storey tower, Kings Square 2 and 4 will be built to 12 storeys, while Kings Square 3 will be a nine-storey building.

Kings Square project director, Leighton's Bradley Norris, said the construction of all four towers at the same time was a major achievement.

"However the biggest challenge is the logistics of **site** access and coordination of works on **site**," Mr Norris told Business News.

"This takes a considerable effort from all parties to understand each primary contractor's program and methodology, with clear communication the key for success."

Precinct plans

The Kings Square development is the first of four major precincts set to emerge in Perth's CBD over the next few years.

Across the city at the Old Treasury Building, builders Mirvac Construction, Built, and Northerly are constructing a 21-storey \$280 million office tower, a 48-room six-star **hotel**, and a \$25 million redevelopment of the Perth Trustees building at 565 Hay Street, respectively.

There are also plans in the works for a six-storey, \$21.5 million song school and office building at the adjacent former **site** of the Playhouse Theatre, while Doric is building a \$33 million library for the City of Perth at the precinct.

Mirvac **Group** chief executive of development and **group** strategy, Brett Draffen, said the opportunity to construct the office tower at the precinct arose only when the projects were combined.

"It was only all of those uses coming together that allowed that precinct to be unlocked," Mr Draffen told Business News.

"It's quite often very hard to do anything just on a building-by-building basis.

"Both the state government and the City of Perth should take that credit, because if you think about it, cities have to grow significantly through urban renewal and urban renewal projects are typically complex sites that have generally had a previous use that you have got to change.

"They tend to be contentious sometimes to the community and there needs to be a strong vision **sold**; that's really where the value is derived."

Perhaps the most contentious precinct currently emerging in the city is Elizabeth Quay, which is expected to provide a host of major works opportunities.

Already confirmed to be constructed at the **site** once Broad Construction completes its \$200 million inlet and public plaza works next year is a **commercial** tower, which could be built up to 36 storeys, to become the Perth headquarters of international oil and gas giant Chevron.

Hong Kong's Far East Corporation has also **purchased** land at Elizabeth Quay, and recently unveiled plans for a \$350 million, 204-room Ritz-Carlton **hotel** and two **apartment** towers. A builder is yet to be announced for the project.

The fourth potential precinct to emerge is BGC's Heritage Precinct, which will comprise a 22-storey office tower as well as a five-star Westin **Hotel**, at the **site** of the former FESA headquarters on Hay Street.

Along with the Ritz-Carlton and Westin properties, international chain Hilton will launch its DoubleTree by Hilton brand in Perth with two hotels, one on Barrack Square and the other in Fremantle, while BGC will partner with Aloft Hotels to construct a 224-room **hotel** in Rivervale.

Adding to the **hotel** works in progress, Brookfield Multiplex announced last week it had started major works at Crown Resorts' \$568 million, 500-room Crown Towers luxury **hotel** in Burswood.

In total, there are more than 4,000 **hotel** rooms in either the planning process or committed to be built in Perth before 2019, according to research released in March by the Australian Hotels Association.

It remains to be seen whether all the projects will ultimately go ahead, but the pipeline of more than \$3 billion in the **hotel** development sector is likely to provide significant additional opportunity for major construction firms.

"That market is obviously taking a lot of pressure and needs to expand quickly," Mr Meyerowitz said.

Residential revival

Perth's shortage of affordable housing is also providing a boon for construction companies in the form of the widespread rollout of high-value **apartment** projects.

The value of **residential** construction work increased by nearly 17 per cent over the year to December 31, to reach \$7.16 billion, the Construction Training Council said.

Developer Finbar's close relationship with Hanssen, which was formalised earlier this year with an exclusivity arrangement, has resulted in the construction **firm** currently building \$464 million worth of **apartment** developments.

Another construction **firm** with a preferred contractor arrangement with a developer is PACT Construction, which is the builder of choice for boutique developer Qube **Property Group**.

Construction works by PACT are under way on Qube's Wexford and Urban on Cambridge **apartment** projects, which have a combined contract value of \$42.5 million.

The builder has also recently completed two **commercial** developments for Qube, and combined with the under-construction 999 Hay Street, those works are worth about \$87 million.

Other significant **apartment** builders include Diploma **group**, which is currently constructing \$121 million worth of projects, and Psaros, with \$132 million worth of **apartment** works on its books.

Also, Doric recently announced it was named the preferred builder for Limnios **Group's** \$160 million **Park** on Swan **apartment** project in Rivervale.

Probuild's Mr Meyerowitz said the acceptance of **apartment** living by Perth homebuyers had led to a massive stimulation of the **residential** construction market.

The **company** recently completed the \$23 million Origin Apartments on Goodwood Parade in Burswood.

"**Apartment** living is the one big change, increasing the density in certain areas to us represents a change in thinking," Mr Meyerowitz said.

"If you think of the Esplanade from William Street to Bennett Street, that was where all the high rise was.

"Now the centre of gravity of that market is spreading elsewhere."

Perth's retail construction sector is also strong, with \$578 million of shopping centre expansions or redevelopments under way.

Projects include AMP Capital's \$105 million Ocean Keys shopping centre redevelopment, being undertaken by Built Environs, Perron **Group's** \$80 million Cockburn Gateway expansion being built by Cooper & Oxley, and the \$80 million redevelopment of Stockland's Baldivis Shopping Centre, which Probuild is working on.

Upcoming opportunities

While the current level of work for major construction companies is solid, there is also a significant pipeline of upcoming work.

The potential retail pipeline includes AMP Capital's \$350 million to \$400 million redevelopment of Garden City Shopping Centre in Booragoon, while Federation Centres is evaluating \$200 million and \$220 million expansions of its Galleria and Mandurah Forum centres, respectively.

However the big-ticket item is the contract to build the \$1 billion, 60,000-seat Perth Stadium at Burswood.

The state government has whittled down the contenders to three consortia - Westadium, Evolution, and Confidem, each of which has considerable experience in stadium construction worldwide.

The Brookfield Multiplex-led Westadium consortium includes John Laing Investment, Brookfield Financial Securities and Brookfield Johnson Controls, while Evolution is led by Probuild, in joint venture with Plenary Origination, Bouygues Construction and Honeywell Limited.

The third consortium in contention is Confidem, which is led by John Holland, and includes Capella Capital and Spotless Facilities Services.

Premier Colin Barnett said in late March the successful consortium and its design would be revealed mid-year, but that hasn't stopped considerable speculation swirling that a contract announcement is imminent.

The upcoming \$430 million new Western Australian Museum project has also given construction companies optimism that the strong activity levels are set to continue.

"There are a lot of infrastructure projects in the pipeline, even though a lot of them hinge on state spending," Mr Goodliffe said.

"We're involved with Elizabeth Quay and that obviously provides a whole host of opportunities that are good for the city and you've got major developments in the city that will keep the likes of Broad and other companies busy for a good few years."

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