Property Roundtable

Obstacles and Opportunities

WINGATE

In September 2022,

Wingate invited an influential group of industry leaders for a high-level round table forum to discuss the outlook for the property development industry in a post COVID world.

The forum heard that amid all the doom and gloom confronting the sector, new models of doing business are fast emerging across the mixed-use, high density residential, land development and hotel markets.

Importance of collaboration and partnership

It is known as the 'The Queensbridge Building', a $410 million mixed-use project in Southbank that Time & Place director Tim Price believes will bring a unique personality and soul to the world of experience living.

Owners of the 367 apartments in the tower will have access to facilities typically found in a world class hotel, including a wellness retreat as well as co-working spaces, a cafe and providore, private dining room, and even a dog spa.

More importantly for Price, the project reflects his combined passion with leading and innovative builder Hickory about the evolution of the Queensbridge precinct of Southbank and what the future holds for the area.

Queensbridge is one of several ventures on which his firm is partnering with Hickory, including the speculative development of a $230 million office campus at Alexandria south of the Sydney CBD.

Price believes that in an environment where the trifecta of COVID, massive price escalations and a shortage of skilled labour has made for some of the toughest conditions he has ever experienced, partnerships are key to recession-proofing businesses for the future.

"I think we've just got to be smarter. Rather than there being barriers we can't cross, we need say 'OK how do we work together to look at opportunities to find value'," he says.

"Whether it's in a volume sense, a product change or procurement strategies that make sense to try and mitigate some of the cost base pressures."

For Hickory managing director Michael Argyrou, alliances like those with Time & Place are the means not only of survival, but expansion at time when builders are confronting the perfect storm of negative forces which have sent a number to the wall.

"I think it gets us through," he says of the partnership model.

"Without it we probably would have just contracted. There was way too much risk associated with construction. So it's a very positive model."

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>
> TIM PRICE

Reshaping how and where we live

Intrapac Property founder David Payes AM has been doing residential land subdivisions and mixed-use developments for over 35 years and has seen plenty in his time.

But never did he ever think he would also become a builder.

“We are land developers. But we built 600 town houses in the last few years and we now have our own building company. Much to my chagrin, I actually went back on my fundamental philosophy to never be a builder, I always thought it was too difficult. But now we are builders, only on our own projects,” he told the forum.

The reason for the change of heart, he said, was to provide his customers with affordable solutions, especially given housing affordability is such a major issue with millennials.

“Millennials now are an increasing percentage of the market, and the number of baby boomers are decreasing. That’s a fundamental change. This new generation they want family accommodation. Townhouses are potentially an affordable solution,” he said.

“So we have to control everything. Amenities are critical to producing the better solution. On our projects we usually see seven inquiries for land and three for townhomes. On one of them now, we have 8-9 for townhomes for every one for land. We are the developers and we are guaranteeing a solution.”

Wingate Head of Property Research, Andrew Perkins, said that the statistics were evidence of this broader trend. “Over the past ten years, we are up more than 30 per cent in capital markets for acceptance of ‘townhouse’ style product,” he said, quoting recent ABS data.

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DAMIEN TANGEY

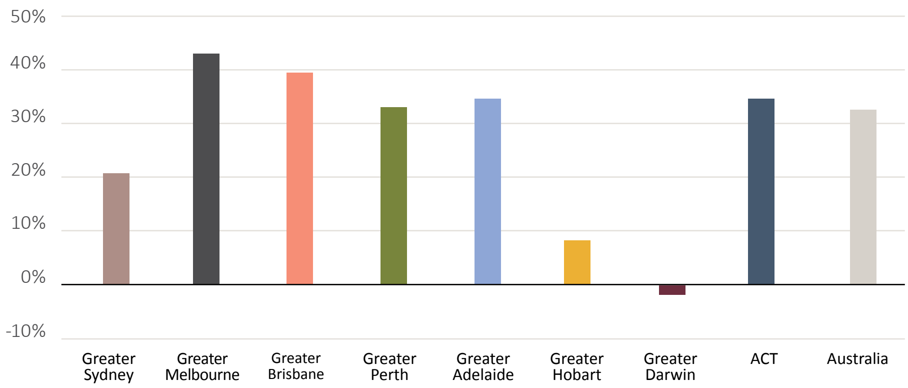
The Rise of 'Semi-Detached' Product

Recently released census data affords a powerful insight into the growing acceptance of 'semi-detached, row or terrace house and townhouse' product in capital city markets. The total increase over ten years amounts to almost 300,000 new units.

Figure one: Number of semi-detached dwellings, 2011 – 2021

	2021		2016		2011		2021 – 2011
	Semi-Detached Dwellings	**% of Total Dwellings**	**Semi-Detached Dwellings**	**% of Total Dwellings**	**Semi-Detached Dwellings**	**% of Total Dwellings**	**Volume Change**
Gr. Sydney	234,000	12.8%	227,235	14.0%	194,171	12.8%	**20.5%**
Gr. Melbourne	288,524	16.2%	264,404	16.8%	165,486	11.6%	**42.6%**
Gr. Brisbane	103,557	11.4%	79,228	10.0%	62,555	8.5%	**39.6%**
Gr, Adelaide	110,325	14.2%	110,152	16.0%	74,518	11.9%	**32.5%**
Gr. Perth	87,535	16.3%	82,994	16.9%	57,695	12.1%	**34.1%**
Gr. Hobart	5,768	6.1%	5,099	6.0%	5,310	6.4%	**7.9%**
Gr. Darwin	4,950	10.5%	4,645	10.8%	4,986	12.9%	**-0.7%**
ACT	28,921	17.2%	25,280	17.7%	18,811	14.5%	**35.0%**
Australia	**863,580**	–	**799,037**	–	**583,532**	–	**32.4%**

Figure two: Ten year change in volume, 2011 – 2021



Source: ABS, Wingate

Bendigo based residential developer Damien Tangey told the forum his Birchgrove Property Group will be partnering more with builders to develop super lots around the Victorian regional centre.

On one project of 1400 lots, 500 will be divided into 75 super lots offering compact but premium product houses in premium locations, within an accessible price range.

He said COVID had accelerated a change in the built form market that was inevitable.

"Melbourne is quite an international city but it's not as large and as complex as many others. So, it was maturing into a range of new products. I've started using the term housing 'attainability' now rather than housing 'affordability'. For that I think that we need a range of new and different ownership and shared equity models," he said.

Navigating challenge with partnership and flexibility

> "I'm seeing developers shift their mindset from pushing all risk onto the builder."
>
> MARK HARRISON

Other new models are also emerging in development markets, moving away from Australia's strict historic adherence to fixed-price contracts in building.

This has long put it at odds with New Zealand, the US and Canada, where builders typically have the scope to lift prices to account for rising costs.

Alison Mirams, the founding CEO of boutique tier one construction company, RobertsCo told the forum she was seeing contractors taking a different approach to what can be accurately priced as fixed price and what should be subject to rise and fall.

"There are some items that suppliers won't provide a fixed price on and there are still some items that we cannot buy – no matter how much we pay. The global supply chain is still constrained whilst China goes in and out of lockdowns," she said.

The flexibility is extending to financiers such as Wingate.

While Chief Executive Eric Williamson told the forum that banks still had reduced capacity to be flexible because of their reticence to be exposed to construction risk – banks tend to refuse to lend against a cost-plus contract unless the buyer bears the risks -non-bank lenders such as Wingate could be more flexible.

Wingate's Managing Director of Property, Mark Harrison, revealed his team had recently undergone a stringent and rigorous approach to agree terms with a builder-developer without a fixed price contract on a very large deal involving a $200m transaction of debt.

He said the client was a first time, non-bank borrower which has previously built government facilities, hospitals and large scale residential projects.

"That is something that is now discussed in our credit meetings and we do it for the right opportunities with strong risk mitigants in place. I'm seeing developers shift their mindset around pushing all risk onto the builder. No one will warrant half-built work and the cost to fix it is enormous'," he said.

Golden Age founder Jeff Xu, the first Chinese developer to build a five star hotel in Melbourne when he completed the Sheraton Hotel at the "Paris End" of Little Collins Street eight years ago, described it as a "revolution" in the industry.

Michael Argyrou added that the Wingate approach showed foresight and understanding of the true pressure points in the market.

"Being a builder right now is not a fun thing. We feel like we are a community service, but

a community service under very stringent contracts that are quite difficult to navigate,” he said.

“For us, it is about acknowledging that it’s going to be a tricky endeavour for a period of time. Getting to the other side, we think there will be less of a field and hopefully there will be some structural reform that will respect the builders and the construction process a little bit more and that it becomes much more viable that what it has been historically.”

Alison Mirams said she was determined that RobertsCo, which now has a workbook of over $1.5 billion, brought decency back to the negotiation table.

“We need risk to rest with the party that can best manage the risk. Clients and financiers need to be open to rise and fall on certain elements. If a developer can’t take the risk, how can a builder? You can’t put double digit escalation through a single digit contingency and margin industry and think everyone will be ok,” she said.

“We need to lose the phrase “that’s market”. Just because a builder agreed to a risk in the past does not make it “market”.

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MICHAEL ARGYROU

Lessons from the pandemic

It might be the the toughest market Alison Mirams has experienced in her 30 years in the industry, but she is positive about the outlook.

“We are starting to see the construction pipeline pick up in Sydney and Melbourne. As we have emerged from COVID lockdowns, private developers have been slow to bring projects to tender. From June 22, we have seen an uptick in the number of projects being tendered which is welcome news,” she said.

Her biggest learning from the pandemic was obvious but important: that the unexpected can happen.

“Whilst COVID was hard there was a silver lining. It put the construction industry into the largest and fastest experiment on flexible working and it was a resounding success. The old dinosaurs in the industry could no longer say ‘You can’t be part time and work on site’. COVID proved you could,” she said.

“Most of the major step changes in our history came about as the result of world wars. We didn’t have a world war but we did have a global health pandemic. We need to make sure we recalibrate the industry coming out of COVID or we will have missed the greatest opportunity of our lifetime.”

She proudly noted that being boutique contractor, RobertsCo had made no staff lay-offs or cut salaries during the past three years.

Starting from scratch, it has also targeted having a diverse workforce and as a result has achieved 41% female representation, 35% cultural diversity, 5% indigenous participation and a workforce which spans ages from 16 to 65+ in its Sydney staff.

She believes diversity in all its forms is good for business.

“It is not an HR initiative; it is a core business strategy. We have actively recruited for women in roles where we know we will find them – engineers, design managers, project managers and contracts administrators. For the role where we can’t find them – site supervisors and site managers, we are implementing scholarships at TAFE for women studying either a trade, diploma or Cert IV. We actively speak at Girls schools careers events, host work experience students and bring school cohorts to our sites to experience what construction looks like,” she said.

“We make sure all our sites have female PPE, and safe, lockable, clean female amenities. We also employ into pay bands so that we have equal pay for equal roles. 25% of the females we have employed have needed their salaries fixed by up to 40%.”

The unexpected can happen.

Importance of immigration to bolster further recovery

One of the most prominent female leaders in the property industry, Mirvac chief executive Susan Lloyd-Hurwitz, recent revealed that Mirvac would bring 900 apartments to market this year as inbound foreign migration returned and in response to an east coast housing market that was “increasingly undersupplied” by a hiatus in new developments.

The Albanese government recently revealed it would tackle the immediate skills and labour crisis across the economy by boosting the permanent migration intake by 35,000 places for a year.

It was one of what Treasurer Jim Chalmers described as 36 “concrete outcomes” delivered by the two-day Jobs and Skills summit in Canberra in early September.

But Eric Williamson told the forum it would likely just be the start.

“I think immigration has to come back. They are talking about it now as a policy lever again. Over the last 20 years, that has been what has driven all the growth here, it hasn’t really been productivity,” he said.

“The Big Australia story is relying on immigration.”

Golden Age’s Jeff Xu continues to battle an acute shortage of labour across his businesses, which he argued could be easily addressed by dramatically increasing migration.

At Golden Age’s newly-built $350 million Ace Hotel in inner-city Surry Hills in Sydney, the opening of the roof top facility has been delayed because of a lack of staff.

“Even in the restaurants, a chef can come to you and say “I want a 20% raise, otherwise I’ll walk through the door. What can you do? Just close the door? Or agree or find another person. So I think labour and the people is the biggest problem for my business and other industries,” he said.

But he wants far more than the 35,000 additional places that have been announced.

“I think the Australian government needs to open the door to have more immigration come in. Not 160,000 up to 195,000, we want to see the real people come in. I hear of people waiting for a visa for four years. We need governments to not only talk, just do it.”

The Albanese government is also moving to fast-track the processing of almost 60,000 permanent visa applications lodged by skilled workers based overseas.

Of the current total backlog of 961,016 visa applications across all categories, there are 560,187 lodged by people outside Australia. Of these, 57, 906 are skilled workers seeking permanent visas.

Daivd Payes AM believes the changes – as well as the return of foreign tertiary education students after COVID – could lead to a “mini boom” in several years.

But before then, he is wary of the impact of recent interest rate increases on sales volumes, despite the lack of excess stock in the market.

Two years ago he says Intrapac started selling everything it could produce in anticipation of rates rising earlier than had been forecast by the Reserve Bank.

“So with migration coming back in now, I think it will turn around pretty quickly, as long as interest rates stabilise. But the rapid rise in rates has had a dramatic impact upon people on variable loans. We’ve seen inquiry rates on land and therefore new housing, around Australia, come down I would say 70-80%,” he said.

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JEFF XU

Pandemic-constrained supply

Intrapac is still only producing product to settle, not to sell.

"We are predicting in the next 18 months, sales levels will be at probably no more than 15 to 20% of what they were in last two years, on average. It may be different in regional areas like Bendigo and Ballarat. But certainly, in the areas that we are involved in – metropolitan Melbourne and Brisbane – we think the sales will be well down."

Damien Tangey agreed the lack of confidence was going to take another 12 months to sort out.

"The only thing that supports it is a lack of supply, particularly in regional Victoria. The demand or the take up has brought forward those product sales by 12 to 18 months. Developers are busy catching up, getting it through the system and producing it. But there's not a lot of forward purchasing," he said.

But in the mixed-use, high density residential space, Tim Price noted he saw a two-speed market.

While rents had gone up significantly, he was seeing high end interest from buyers for larger format developments.

Downsizers in Melbourne's affluent eastern suburbs are the target market for one of Time & Place's newest boutique apartment projects in Camberwell.

The development has 6000 square metres of net saleable area, including retail on the ground floor, a mezzanine office level and about 27 apartments over five levels.

The apartments will range in size from 200 to 650 square metres.

"We are having a lot of deep conversations about transactions with buyers in that sort of 10 to $15 million range. Downsizers from Canterbury, Hawthorn and those sort of areas. They are pretty happy because interest rates have gone up and deposits are making a bit of money," he said.

Jeff Xu said rents had gone up 35 per cent across the 1100 apartments in his portfolio and vacancies are zero.

"It doesn't matter how much you ask, the customer says 'No problem. I'll just sign'," he says.

Golden Age is currently starting construction on its Sky Square project in Box Hill.

The proposed mixed-use project will have a 20,000sqm retail precinct, including a 2,000sqm Asian grocery and a Hawker Hall with European market influences. Signifying the appetite for premium sites, a dozen operators are currently bidding for the 2,000sqm Asian grocery. "So I can see for this moment, a lot of people expanding, taking this opportunity," he says.

It is the same in the restaurant space, where he says the best small players are holding on and the larger groups are still growing.

"COVID has completely reshuffled the playing field in both retail and hospitality and those who were barely hanging on, weren't able to make it through the lockdowns or staff shortages. Whereas smaller family-owned and operated businesses were able to survive as they were in a unique position that wasn't as volatile. On the other end of the scale, larger groups in a stronger financial position, such as Merivale and Lucas Group, utilised the opportunity to expand their operations."

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Constructing a way through red tape

Of all the challenges facing the property development sector, one of the most frustrating continues to be government red tape, most notably a multitude of council planning and development regulations.

Added to that was the challenge, as Eric Williamson told the forum, that many people who work in government have never worked in business.

“You work hard enough to get a hold of a site, and then get a development approval (DA). Now getting the planning approval, and then getting all the endorsements required to start the thing, is unbelievable. A lot of it is COVID, people on leave, etc. But the time it’s taking to get from an approved DA to an endorsement is next level. It is almost as long as it takes to get a DA. The jobs are just sitting there doing nothing,” said Tim Price.

He noted that the Queensbridge development has already been stopped for three months because the Department of Transport needed to check an awning dimension, which delayed the building approval process.

“Then if you have been brave enough to take on local government, whether it be a VCAT decision or a Land and Environment Court decision and then it goes back to the local government minister, you are at the crossroads. The cost of that is not really talked about.”

Further afield there are currently 110 vacant positions within the city of greater Geelong which are related to the planning process.

Daivd Payes AM said the fundamental problem was that no government authority had KPIs based on the time and value of money and the saving of money.

“They don’t care for developers, but in our case it is mums and dads that have building contracts to build their house and they are on $1000 a week penalties. So there’s no accountability in government or within the government authority level for the delays. Once you’ve finished everything, finished the subdivision, ready to go, it can take Council six months to give you a certificate saying ‘Now you’re okay.’ We have emails saying ‘We don’t have enough staff to process it, we can’t do it,” he said.

He stressed that the biggest point lost on government in the red tape debate was that more than half its revenue is property related and transaction based.

“If transactions halve and they have a deficit, it’s going to be a major problem,” he said.

$1000
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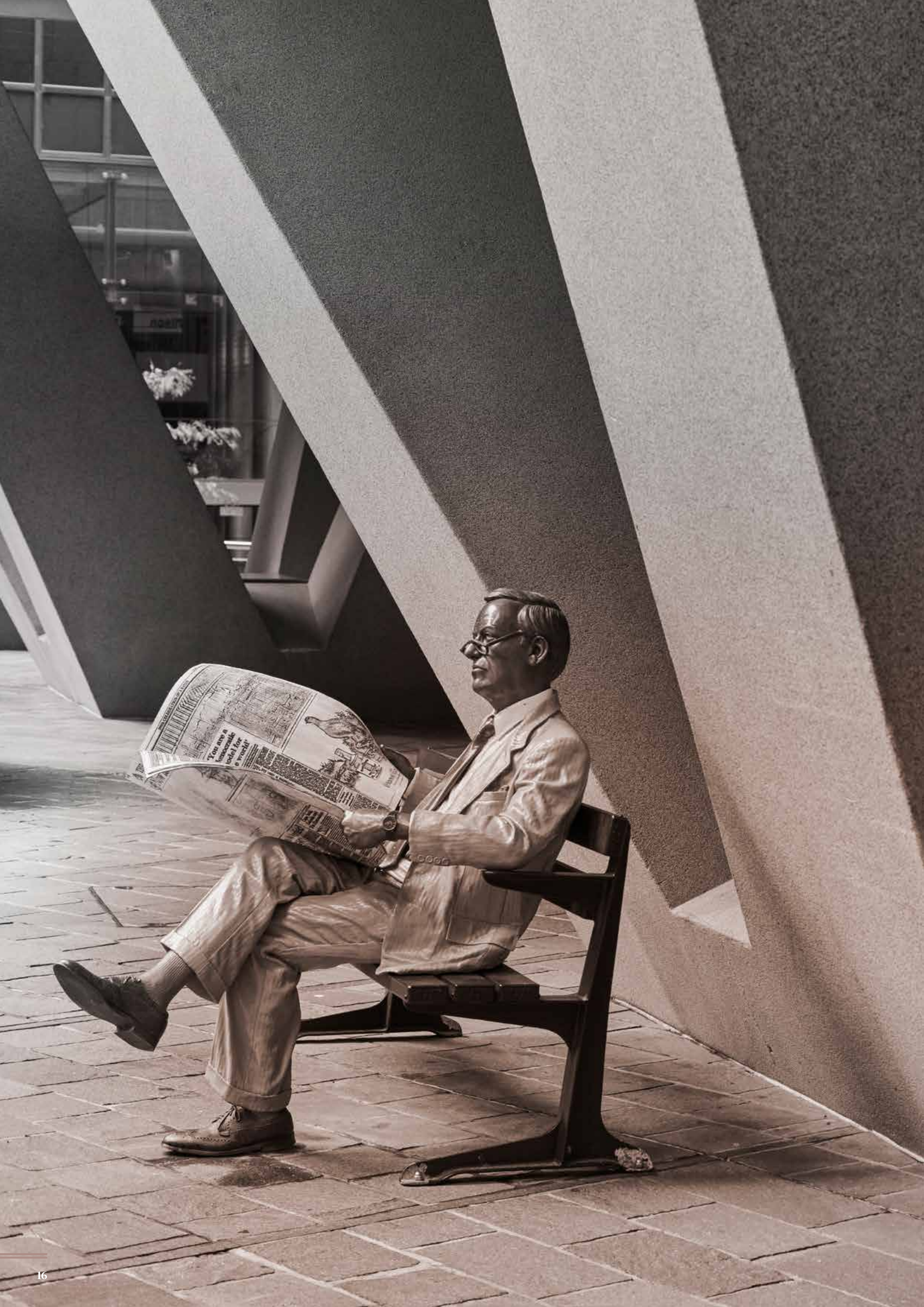
2022

“We can make genuine change.”

DAVID PAYES AM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‘Nation-building’ programmes exacerbating existing skills shortages

At the same time the value of major project activity commissioned by the state and federal governments will continue to weather difficult external conditions over the next two years, rising to a potential peak of around $95 billion per year between 2023-24 and 2025-26.

Michael Argyrou wondered why so much now?

“We’ve just announced the Suburban Rail Loop that is going to cost $70 billion, early work packages have gone out, right now in the middle of the highest inflationary environment. So taxpayers are going to pay more,” he said.

“Let’s chill for a minute. Just quell it for a bit before we spend more money on these projects. Government entities are poaching people from our business who are one year out of university with only a little bit of construction experience and offering them 50 per cent pay increases.”

$95 billion per year

Increasing focus on community collaboration and authentic ESG

But despite the immense challenges of the moment, Argyrou still genuinely likes being a builder and would not dream of doing anything else.

Environmental, Social and Governance concerns are now a prime driver in his business and the most important aspect about ESG, he believed, was authenticity.

“We are really focusing on how we genuinely connect and how everything is authentic and relevant, rather than just box ticking or gloss,” he said.

Tim Price said green form building was now expected by the clients of Time & Place, and across the development sector.

In this context he is especially enjoying the neighbourhood building strategy of the group’s work and is focused on how it can become more of an inclusive developer in a community context, while still making money.

“As a group, we are also trying to include our indigenous communities better. There are lots of opportunities for us to improve as a community of Australian developers how we respect that,” he said.

Damien Tangey has never forgotten that he began his career as a valuer in the early 90’s property crash, undertaking mortgagee in possession work. He started his own business in January 2003 and hasn’t looked back.

“I decided a couple of years ago to put something back,” he said of his roles a Director with Haven HomeSafe and of the Victorian Planning Authority.

He is also a past president of the Victorian division of the Urban Development Institute of Australia.

“I wanted to make a contribution at that level, to learn and drive new models,” he says.

“I have two children coming through that are just completing university, doing property and commerce. Not that they’ll work directly in our business immediately. But providing some future opportunity is good. I learn a lot from the community contributions I make and I think it’s a really good, two-way street.”

David Payes AM has gone one step further in his succession planning, installing his son in law as chief executive of Intrapac. But everyday, he still enjoys being part of creating places where people want to live.

“In the last few years I have seen a number of amateurs in the market making a lot of money because the market has moved in the right direction. But how do you survive if the market goes down? The only way you should be able to survive, from an economic point of view, is if you add real value,” he said.

“I still say to some of my team who are younger than me that the measure of your business contribution is to go back and look at some of the projects you did 20 years ago. How are they viewed today, how do they look, how do people interact with them? We are proud of every project we’ve done, because we put the same effort into them 25 years ago as what we are now. We think we are contributing something to the community, which is important. As a result, we are still getting a return”.

He hopes that as the current downturn continues to bite, those developers that have the same philosophy will survive and thrive.

“We are arguably in the most important industry in Australia because we are building homes for people and creating environments around them,” he said.

“We can make genuine change.”

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