

# Apartment slowdown cuts construction

Michael Bleby

Construction activity contracted again in May, pulled down by an apartment sector that registered its weakest performance in nearly three years.

The AI Group/Housing Industry Association's Performance of Construction Index fell 4.1 points to 46.7 last month, putting it below 50 and indicating contraction for the fifth month out of the last six. A reading above 50 signifies expansion.

Apartment construction, the brightest star in Australia's building firmament in recent years, dimmed considerably as the sub-index for apartment building activity slumped 8 points to 41.5, its lowest reading since August 2013. New orders for apartments, a leading indicator of performance, fell for a third month and at a faster pace. The sub-index for new apartment orders fell 12.1 points to 37, the lowest reading for that measure in more than two years.

Stronger construction levels of standalone houses brought some good news. The index for detached house-building jumped 12.4 points to 57.6, its first sign of expansion after three months in negative territory. New orders for detached houses remained

## Key points

New orders for apartments fell for a third month.

The index for detached house-building rose 12.4 points to 57.6.

negative, but a 3.3-point rise in that sub-index to 49.3 showed it close to stabilising.

While industry figures are giving mixed signals—approvals of new apartments, townhouses and semi-detached dwellings jumped 8 per cent in April, official figures showed last week—the latest figures back up the picture of a housing construction boom that has peaked and is on the wane.

"Despite a return to expansion in the house-building sub-sector, the broader construction industry missed a gear in May with declines in the apartment building and commercial and engineering construction sub-sectors," AI Group Head of Policy, Peter Burn said. "With new orders lower across all parts of the industry in May, the immediate outlook is for further weakness."

The performance of housing construction matters because the other



Apartment construction contracted in May and new orders fell for a third month.  
PHOTO: LOUISE KENNERLEY

two pieces of the construction puzzle—commercial and engineering construction—are yet to come back to life in any

meaningful way. Last month industry body ACIF lowered its predictions for the depth and length of the slump in

resources-related infrastructure spend.

Commercial construction activity contracted for a second month in May, with that sub-index falling by 0.3 points to 44.7, Tuesday's figures showed.

"Respondents again indicated that the sector, which covers project categories such as industrial, hotel, office and retail building, is continuing to experience patchy and generally lacklustre conditions," the report said.

Engineering, which has wallowed in contractionary territory for the past two years, but exceptional and short-lived jumps into growth, fell 11.2 points in May to 43.4 points.

"This reflects a further drop in new engineering construction investment as the pipeline of resource-related construction continues to shrink," the report said.

## Steller gets \$90m offshore equity boost

Nick Lenaghan

Nicholas Smedley's Steller Group has won a major equity injection of close to \$90 million from an Asian-based fund to help drive its \$800 million residential development pipeline.

The equity is secured against a pipeline of 14 projects, rather than any one specific development.

"In effect, the lender has become a valued partner with us as we develop the business," Mr Smedley said.

The investment is from an Asia-based fund, which has around \$2.5 billion under management, investing US equity into the Asia-Pacific region. The fund has invested into other Australian projects as well.

"We were specifically looking for an equity partner. In times like this the most secure form of funding is equity," Mr Smedley told *The Australian Financial Review*.

"This is growth capital for us," said Mr Smedley.

Steller were advised by Development Finance Partners, which negotiated the equity investment.



Nicholas Smedley developing business.

DFP principal Baxter Gamble said the equity-based funds injection was rare in the current economic climate.

"Steller wanted the flexibility to apply funds across its entire portfolio of existing and planned developments instead of the more usual arrangement where funds are secured against a specific project," he said.

"We identified a single lender who could see the value in Steller's opera-

tional strategy and its projects' pipeline."

One of the first projects to benefit from the new funding is a large development at Hampton, in Melbourne's southeast, where Steller had bought a 3200-square-metre site in March for \$16.5 million.

Since then two more adjoining properties have been acquired, extending the scope of the project to a \$120 million to \$130 million development.

"It's now a \$22 million purchase. We've now got just under one acre," Mr Smedley.

The investment from the Asia fund resembles an arrangement Steller has struck with listed property fund manager APN Group on a separate set of projects.

The APN Steller Development Fund is developing six inner Melbourne medium-density apartment projects.

Steller has focused on developing in Melbourne's southeast over the past decade. Its portfolio of developed projects and those now active, from planning to construction, is close to \$3 billion.

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AFR161 A03