

**Media Source:** The Australian Financial Review  
**Date of Publication:** Tuesday 10th March  
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## Docklands building extravaganza in crisis as cash, demand dry up

Strict completion timelines could be relaxed and payment deadlines for developers pushed back as the agency responsible for Melbourne's Docklands tries to prevent building activity stalling in the \$12 billion waterfront precinct.

Michael Hynes, general manager for Docklands and Major projects at VicUrban, says the agency is examining a range of measures to assist developers offset a slowdown in demand. "We are looking at what can be done both by the developer and VicUrban to get good projects to happen when they should," Hynes says. VicUrban, which administers the precinct, has previously employed strict delivery timetables for projects to prevent land-banking by developers.

"Docklands is market driven - there are milestones, but milestones can be extended subject to market conditions. We won't push a bad project to happened just because there is a milestone in the (development) agreement."

The 200-hectare development on the western edge of the Melbourne CBD got off to a big start because the apartment boom of almost a decade ago; it was then carried further by a massive commercial building program. But today development of the project, which is expected to be fully completed by 2020, is a critical juncture as the industry confronts a dearth of demand and a lack of available finance.

The unfortunate shutdown of the \$100 million Southern Star Observation Wheel in ING's Waterfront City last month has become a metaphor for the slowdown at Docklands. Less than two months after its long-delayed opening, the wheel came to an abrupt halt after cracks appeared in the structure. While operators first pointed to the city's recent heatwave as the cause, it has since emerged that the problem may lie in the ride's structure and could keep it closed for the next few months.

Already a spate of commercial developments have been shelved over recent months, the largest being the \$700 million Bourke Junction project, which is off the agenda until at least next year. Joint venture partners ISPT, Cbus and EPC Partners had bold plans for the 150,000 square metre mixed-use project spanning the entry of Bourke Street into the Docklands precinct.

It even had solid commitments from Suncorp and Members Equity Bank to anchor occupancy in the two proposed office towers. But those commitments were not enough to prevent the consortium getting cold feet last year as the extent of the global slowdown became apparent.

ISPT chief executive Daryl Browning says the stockmarket decline has hurt many of ISPT's investors that were overweight in equities and cut their enthusiasm for the core real estate, especially given the risk to its capital value once its out of the ground. "They didn't want the end product at the present time," Browning says.

"Yes there was financing available to build it but at the end of the construction period you've got to shift from construction debt across to term debt and the banks don't want to do that at the moment."

Other developments to be shelved include the Kuok Group's \$850 million proposed office park at 735 Collins Street and \$250 million tower at 664 Collins Street, on a railway site now owned by Mirvac and AustralianSuper joint venture.

The residential market has also tapered considerably since its peak seven years ago when almost 1200 apartments were released. The construction that followed was frenetic. Almost 900 apartments were completed in 2003, and construction proceeded apace until 2007 when none were completed in the second half of that year.

Construction has remained slow, although by next year more than 500 Docklands dwellings will be either marketed or under construction, according to Charter Keck Cramer forecast.

Capital growth in the Docklands market has been relatively flat with only small upwards and downwards movements from year to year, according to an RP Data analysis. The volume of resales eased during 2008, evidence of clear decline in demand. **Charter Keck Cramer director Robert Papaleo** believes today's slowdown in residential investment could result in tomorrow's supply shortage.

“Because of the lag between apartments can be offered and delivered, once we do come through this situation, if product isn’t released until the end of it, we’re still going to need another two to three years after recovery commences before any new supply will come out,” Papaleo says.

“What we’ll end up having is this massive supply hiatus”. For VicUrban, in addition to reviewing strict completion timelines and payment deadlines for developers, it is also reviewing the level of tenant pre-commitments required in developments.

Previously it demanded high levels of tenant commitment to avoid empty buildings being speculatively built under boom conditions. “Its not really relevant because the banks are really driving the commitment,” Hynes says.

“So regardless of a VicUrban position, we look at the circumstances in terms of the level of commitment that’s appropriate in a market.”

“One of the things we’re going to see over the next few years is a lack of vacancy because development projects are drying up so there are just fewer opportunities for tenants to move.”

“Inevitably in a year or two we will get tenants looking at new builds again.” But he says VicUrban will be sticking to its green building agenda which has produced three of the most environmentally friendly commercial office projects in the country in Lend Lease’s The Gauge, Australia and New Zealand Banking Group’s new Melbourne home and Equiset’s goods shed development.

“We don’t believe its appropriate to reduce the quality of the outcome just to have development happening. We want a good quality outcome. That includes the design; it includes the environmental agenda and the community agenda as well,” Hynes says.

ISPT’s Daryl Browning says VicUrban is doing a good job in nursing developers through a harsher commercial environment. “VicUrban has always been approachable to talk about a project occurring if there are good commercial reason to look at things,” he says.

He claims Docklands has already exceeded expectation. The project has made rapid progress over the past few years and is now approaching a “critical mass”, he says. No doubt there are some newer projects, such as the observation wheel and ING’s Waterfront City which are yet to be tested, he says.

“Its an evolution. It might actually be quite timely that there is a bit of breather. People can see the lie of the land and how things work and - you never know - it might prompt a bit of a rethink here and there.

“Even from some of the residential side: originally it was all towers and now you’re seeing some of that scaled-down, more terrace type approach being taken that will give it a bit more diversity and possibly make it a bit interesting at street level and maybe a bit more human in its scale.

“It was wasteland. It’s now a viable commercial centre and getting better by the year.”