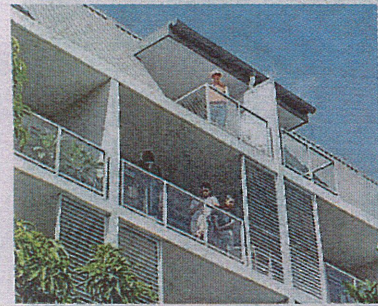


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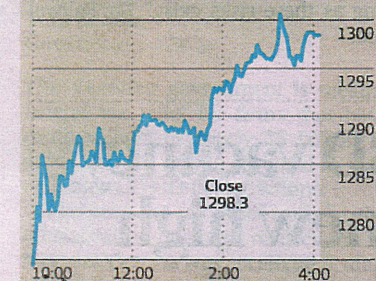
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Property snapshot

S&P/ASX 200 REITs Tuesday (pts)



Best	Close (\$)	Change (%)
Scentre Gp	2.21	+5.24
Stockland	3.74	+3.60
SCA Property Gp	2.26	+3.20
Natl Storage REIT	1.92	+2.95
Charter Hall Retail	3.50	+2.94
Worst		
Cromwell Prop	0.87	Stdy
Mirvac Gp	2.05	Stdy
Centuria Ind REIT	3.12	+0.32
Charter Hall Gp	12.38	+0.49
BWP Trust	3.99	+0.76

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Builders' payment claims soar

Michael Bleby

Payment disputes in the NSW construction industry almost doubled in the June quarter as builders and subcontractors, concerned about their ability to win work as the pandemic took hold, rushed to make claims for outstanding payment against each other and their developer clients.

Claims for adjudication under the quasi-judicial security of payment regime jumped to \$225 million in the three months to June from \$114 million in March, and the number of claims lodged rose by almost a quarter to 289 from 235, NSW Fair Trading figures show.

Not all claims were paid under the system that appoints neutral adjudicators to assess claims between head contractors and developers, subcontractors and head contractors, and smaller subcontractors against larger ones. But in an industry notorious for poor payment practices the figures show the fears that work and cash flow could come to a halt.

"The level of uncertainty brought forward a lot of claims," said security of payments specialist Anthony Igra. "People didn't know if building sites would be open, didn't know if they'd be able to tender for anything. People went after everything they were owed."

The surge of claims that increased payment demands last financial year by almost one-third to \$595 million from \$452 million slowed as it became clear that the NSW industry was not as badly hit as Victoria and work could continue with little interruption, said Mr Igra, whose company represents contractors in payment disputes.

But the COVID-19 recession is putting pressure on all players in construction and triggering renewed demands for mandatory trust accounts – similar to those used by lawyers and real estate agents – to ensure payments made to builders are passed on to subcontractors.



The number of payment disputes shows the level of COVID-19 fears in the construction sector. PHOTO: BLOOMBERG

Clawback

NSW building industry disputes and payments

	Total FY19	1Q 20	2Q 20	3Q 20	4Q 20	Total FY20
Total amount claimed (\$m)	451.7	112.8	143.5	113.7	224.6	594.6
Applications lodged	961	256	271	235	289	1051
Decisions released*	593	166	118	118	140	542
Claim value of decisions released* (\$m)	197.5	86.6	36.3	46.1	128.1	297.1
Amount payable of decisions released* (\$m)	80.6	35.1	19.7	24.4	57.0	136.2
Payable value v claimed value of decisions released* (%)	41	41	41	53	45	46

* Claims may not reach decision if they are invalid, settled, or outside the adjudicators' jurisdiction

SOURCE: NSW FAIR TRADING

Despite being recommended by numerous official reports, the building industry opposes statutory trusts and lobbies hard against them.

Earlier this year WA backflipped on plans to introduce such a system. NSW Building Commissioner David Chandler – the veteran builder of Parliament House in Canberra – is also against them.

Mr Chandler said his own reforms to improve apartment buildings in NSW,

home of the infamous residential Opal and Mascot Towers, will improve conditions for contractors by requiring developers to design and price buildings properly and stick to those plans.

"What is the horse and what is the cart?" he said yesterday. "My view is: get properly committed work being ordered and paid for rather than try and defend the fact that someone's got a right for payment for \$350-worth of value when the value proposition in

the first place should have been \$500."

Subcontractors argue it was wrong for cash owed to them to be held up by builders using it for cash flow. They want trusts or some form of protection to protect the payments made by developers to the smaller businesses that perform as much as 90 per cent of work done on-site.

"Another option would be similar to the Building Commissioner's existing powers and withholding occupation certificates until subcontractors have been paid," said Oliver Judd, the executive director of electrical contractors' body NECA NSW.

And while a law passed in June created a new liability on the part of consultants for building defects, apartment owners may find themselves unable to pursue claims if the responsible subcontractors were insolvent, said Phil Davenport, a solicitor who focuses on construction.

"It may be the designer is partly to blame, the head contractor is partly to blame and the subcontractor is partly to blame," Mr Davenport said.

"But if one is insolvent, the others don't have to make up the share of the insolvent party."

Scentre flags hybrid raising up to \$US2b

Raisings

Nick Lenaghan
Property editor

The country's largest shopping mall owner, Westfield-operator Scentre, is preparing to launch a hybrid debt raising, worth as much as \$US2 billion (\$2.7 billion) to shore up a balance sheet battered by devaluations as a result of the pandemic slowdown.

Scentre's move comes after the shopping centre giant wrote down its malls portfolio by more than \$4 billion at its interim result last month, pushing it sharply into the red.

"We have mandated a number of banks to arrange a series of fixed income investor calls," a Scentre spokeswoman said yesterday following reports the property giant had tapped a number of banks to work on the raising. UBS has been appointed the sole structuring adviser.

Scentre's stock surged 11c, or 5.2 per cent, higher to close at \$2.21 higher as investors took comfort the property trust, led by Peter Allen, had



Investors welcomed the plan by the property trust, led by Peter Allen.

We have mandated banks to arrange fixed income investor calls.

Scentre spokeswoman

not issued a dilutive equity raising. The subordinated notes, a form of hybrid debt, would be issued in the US and Europe and have at least 6 years non-call components, JPMorgan said in a note to clients.

A hybrid has characteristics of both debt and equity. According to

JPMorgan, Scentre would receive 50 per cent equity credit from the rating agencies and 100 per cent equity credit for debt covenant calculations.

Scentre has not disclosed the scale of the proposed issuance but it could be as much as \$US1.5 billion to \$US2 billion, depending on demand, according to JPMorgan.

"We expect the market to view this favourably given the uncertainty of whether Scentre's balance sheet could withstand material further devaluations," the analysts wrote.

Scentre is not facing issues on its liquidity or its debt covenants. It has a high 65 per cent loan-to-valuation ratio covenant.

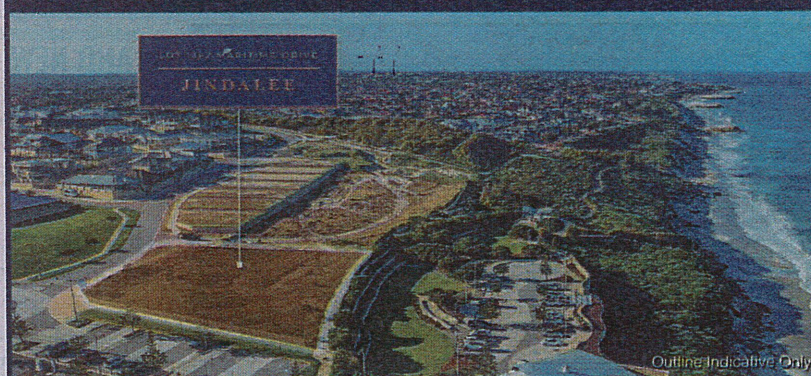
"Gearing, however, would get to the mid to high 40 per cent range if its assets are devalued a further 15-20 per cent," the JPMorgan analysts wrote.

"We assume this is the case and it would leave Scentre gearing well above its 30-40 per cent target range. The hybrid issue would alleviate a lot of this concern, presuming it is treated as equity in gearing calculations."

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