

## BUILDING & CONSTRUCTION

# A NATION, BUILDING

PNG's building boom continues, with major construction products under way in several sectors. But how much longer can it last?

**T**owering cranes have been prominent fixtures of Port Moresby's skyline in the past couple of years, as Papua New Guinea's building boom continues apace. Building and construction continues to perform strongly across commercial, residential and hotel sectors, and projects related to the Liquefied Natural Gas (LNG) project will soon get under way.

This growth is not confined to the capital. A major residential project is well into construction in Lae, and a large number of smaller projects are in train in Madang, Alotau, Kokopo and Mt Hagen.

In its September 2009 economic bulletin, the Bank of Papua New Guinea stated sales in the building and construction sector increased by 9% in the 12 months to June 2009. The Bank says in the year to September 2009, employment in the sector increased by 1.3%.



STEAMSHIPS' NEW CORAL SEAS HOTEL IN DOWNTOWN PORT MORESBY, DUE FOR COMPLETION IN LATE 2011

The boom is the result of historical shortages in visitor accommodation, apartments, housing, office space, industrial premises and retail centres.

### MAJOR PLAYERS

PNG's two main superannuation funds, Nambawan Super and NASFUND, are among the biggest drivers of current construction activity.

Nambawan Super is funding the construction of a nine-story mixed commercial and residential building by Fletcher Morobe in Port Moresby's Hunter Street, with completion slated for early 2010. In Lae, the fund is developing an 8-storey mixed commercial and residential tower. It is also building the Gazelle International Hotel in Kokopo, the capital of East New Britain Province, in partnership with the Lamana Group.

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NASFUND has a wide portfolio of property investments in process, amounting to more than 50,000 square metres. Major projects include commercial properties IPA Haus and The Factory in Konedobu, and Ravalien Haus, the ANZ bank's head office and Sol Wara Apartments at Harbour City. Other NASFUND projects under way include Jeffrey Haus, Burns Philp Haus (a reconstruction), and 120 houses in suburban Port Moresby (where there is a drastic shortage of affordable residential housing). The newest NASFUND initiative is The Edge at Harbour City—63 luxury apartments to be built by Curtin Brothers right on Port Moresby's picturesque harbour.

Steamships Properties, a local subsidiary of the Hong Kong-based Swire Group, also has significant activities in the sector, with a number of property projects underway, most notably the Mary Street development in downtown Port Moresby, which will house a 120-room Coral Seas Hotel as well as 52 apartments and five levels of office space.

Other key players in PNG's building and construction sector include Australian developers W E Johns & Sons Pty Ltd (which is building the Zinc luxury apartments on Ela Beach), engineering contractors Hornibrook NGI, Lae Builders and Contractors, PNG Taiheiyo Cement, and the recently merged engineering firm KramerAusenco (see box on page 41).

### HOTEL ROOMS

Port Moresby's major hotels have done very well over recent years because demand at the premium level has far outstripped supply. There is still a shortage of short and long term accommodation in the National Capital District, and that hotel development will

## PNG'S REGIONAL ENGINEERING FIRM IN GROUND-BREAKING MERGER



KRAMERAUSENCO'S FRANK KRAMER

**One of the most significant recent developments in the building and construction sector was the merger in late 2009 of one of PNG's most established multi-disciplinary engineering firms, the Kramer Group, and ASX-listed Ausenco.**

The result is a business with a wealth of local and international expertise and experience in Engineering,

Procurement, Construction and Management (EPCM), and a client base that stretches across the Pacific and beyond.

As a result of the sustained growth experienced by the PNG economy, specialist service providers such as KramerAusenco are finding expansion is necessary to meet the soaring demand for their particular skills and expertise.

'To grow we need to get more involved in the EPCM project delivery systems,' Frank Kramer, Chief Executive Officer of KramerAusenco tells *Business Advantage*. 'PNG's market has matured to the point where it can accommodate a domestic EPCM business capability. This merger makes that a reality.'

Founded in 1991, Brisbane-based Ausenco employs some 2500 people in 13 countries and has a client base of some of the world's largest resource companies. The company provides a range of engineering, design and construction management services for mining, oil and gas and infrastructure projects.

The record growth experienced by the Kramer Group in 2008 and 2009, was partly driven by the company's participation in major projects such as the PNG LNG gas project. The business also provides construction and engineering services to PNG's infrastructure development and upgrade programs, and to the country's expanding property market, notably the construction of commercial buildings, hotels and apartments in Port Moresby.

KramerAusenco is set to continue these activities and, in early 2010, it appointed prominent PNG statesman, Sir Rabbie Namaliu, as its new Chairman.

Although the company has offices in multiple locations around the globe, including Port Moresby, Brisbane and Port Vila, Frank Kramer contends there will be a strong focus on PNG in the immediate future:

'We will maintain our Pacific footprint as it is, while strengthening our presence in Papua New Guinea. PNG dwarfs the region: the world-class projects are here.'

continue, but with more emphasis on the 3 to 3.5 star level.

Over the past 18 months several established hotels have begun to add to their room numbers, including the Airways, Gateway Hotel and Ela Beach Hotel. The Kumul Hotels Group is also planning a 200 million kina (US\$74 million) expansion to its Holiday Inn—Holiday Inn Express—which will add a further 200 rooms. A new property, the 290-room CMSS Casino Hotel, is being developed by a Korean group, the Korean CMSS Casino Hotel, while the large Vision City complex will eventually include a 426-room hotel. Overall, by 2014, some 1445 new rooms will be added to Port Moresby's hotel room inventory, bringing the capital's total to over 2000 rooms, according to NASFUND figures quoted in *The National* newspaper.

### VISION CITY



PNG's retail sector will be dominated by the retail component of the Vision City complex being developed by Rimbunan Hijau Group subsidiary, Dynasty Development Limited, in Waigani. The largest investment of its kind in PNG, it will feature a retail mega mall with anchor tenant R H Hypermarket and 52 units of retail lots available for lease.

'The project is progressing well and we anticipate being on target with completing the first stage of the project, the mega mall, by mid-2010,' Rimbunan Hijau Group's Managing Director in PNG, James Lau, told *Business Advantage*. 'Around the same time we anticipate starting construction of Phase 2 which is the hotel development—another major investment within the Vision City project.'

Eventually, the 9.2 hectare integrated mixed development will include not only the mall and hotel, but a convention centre, executive apartments and commercial offices. Vision City is slated for completion in 2012, and represents a 1 billion kina (US\$380 million) investment for R H Group.

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## OPPORTUNITIES AND CHALLENGES

Among the challenges identified by almost all players in the sector is the shortage of qualified contractors for building and construction work.

In the *2009 Papua New Guinea Yearbook*, Commercial Director of K G Contractors and Past President of the PNG Institute of Builders George Tipping writes, 'the lack of past training of the PNG trade workforce is now creating problems for all builders and this will only get worse.'

While the shortage of skilled labour is likely to drive up construction costs, the situation is also an opportunity, believes Charles T Andrews, Country Director of the Asian Development Bank's Resident Mission in PNG.

'There's a big body of work that ought to be of interest to international contractors and engineering firms,' he tells *Business Advantage*.

As well as technical qualified and experienced construction personnel, PNG also has a ready need for construction materials, specialised machinery, equipment and tools, architectural design services, as well as exposure to world standards and practices.

## MEDIUM-TERM CAUTION

While George Tipping predicts that the current property boom will continue at a high level for large projects, with a possible easing off of small to medium building projects, Rod Mitchell, joint Chief Executive Officer of NASFUND is more cautious, saying that with the large amount of commercial space coming onto the market in 2010–2012, 'it is hard to see how demand will meet the oversupply.'

Many business people *Business Advantage* spoke to expected the real crunch to come in 2013 or 2014 when ExxonMobil completes its headquarters and staff accommodation adjacent to Harbour City and vacates the temporary accommodation it has occupied around Port Moresby during the PNG LNG project's planning stages. Construction has not yet started on this 10,000 square metre complex.



NEW APARTMENTS AND OFFICE BUILDINGS UNDER CONSTRUCTION AT HARBOUR CITY, JUST OUTSIDE PORT MORESBY'S CBD.