

SDGCI CONFERENCE August 27, 2009

## **TURNING POINT 2010 – Moving Ahead Faster**

### **“Working out of Busts”**

**Geoff Burchill**

**Good morning**

I'm being told that this Global Financial Crisis is worse than anything that's happened before – I can understand that it might seem that way – but it's not

If I sound like an economist, I was once enrolled in the first year of the degree, ----but the greatest teaching has been living day after day since 1966 watching events progress from boom to bust and thinking desperation about ways out of the doldrums between --like a friend once said about light aircraft flying – great pleasure punctuated by sheer terror.

A friend of mine told me it's worse than a divorce – he's lost half his money and still has his wife!

**People are listening today**

What is good --is that it has electrified people in business to think for the first time----about the world outside of the joys of a boom--How did we get into this trouble? -- how do we get out?-and-what can we do to not go that way again?

**Good News**

A real advantage today is that what's been happening at national levels around the world to deal with this crisis is amazing --compared to the complete lack of energy put into resolving the 1990s crash in Australia and Japan.

Probably the greatest thing going for us is that the Howard government took politicians out of making decisions on interest rates and monetary policy,-- by giving this to the Reserve Bank.

The Bank's governor -- Glen Stevens --surprised me recently when he said that what we have to prepare for now is a recovery --and in that, --the desperate shortage of housing Australia-wide might well lead to another supply/demand pressure boom in house prices -- and as I see it another of the busts that this inevitably causes.

In Queensland, the State government investing in new world-class urban infrastructure is also something we haven't seen for a long time.

And in South-East Queensland, --our State government's SEQ2031 Regional Plan legislates that we're in Australia's fastest growing urban region, with massive need for new product ---

### **Can we do it?**

In the Gold Coast, it used to be "*build it and they'll come*" -- today it's "*They're coming-- build like hell*"--and there's none of the usual excess supply to stumble over.

The Australian newspaper seems to be the only place where the Rudd debt building is getting any stick, --suggesting that a result will be higher taxes and cut services in the years to come, --less money for property?

If you add to that the paper's reporting of Professor Alan Fels saying that the power of the big banks is harmful with "industry competition lost for decades", then affordability might take a much higher place in developing volume of product for this growth.

There are other problems for achieving the productivity and viability that will be needed. Other speakers will talk about how these could frustrate capitalising on what would otherwise be good for us --if really big changes aren't made to happen!

This conference will be a start on that, --if it can begin to mobilise the massive collective power of our industry-- to create the compelling presentations that can move governments --and the financial system --on action to clear these roadblocks.

### **I can speak about cycles from a special opportunity that began early in my career for work in very long term developments!**

The book *Passion Power & Prejudice* describes the extraordinary circumstances of my work from the early 1970s, --in seizing opportunities to move into-a new era of strategic master planning for many very large land holdings in this fast growing region from green-fields --- and often for clients who had few skills of their own in property development at that scale---

As new communities and integrated tourist resorts, -- the development of these had to be planned to run for 20 to 30 years to the maturity that would bring the net cash result that justified the risk --usually happening only in the last one-third of the project's life.--

This was in stark contrast to the short term approach taken for most of the development that has built our cities-- making super-profit in booms and big losses in busts --with only the very strong surviving ---all of this proscribed by the financial system we've had to rely on -- that has got itself got into big trouble in this crisis-- without a lot of help from us.

For these long-term projects, cycle after cycle rolled on in what became reliable patterns of behaviour.

In my first two booms going to busts in 1975 and 1982, --while the region was smaller-- with strong growth continuing, --it was possible for creative ideas to be converted to business plans for new kinds of development technologies to make things happen again.

The 1975 crash produced a frozen Gold Coast landscape of failed land developers' projects -- when feasibilities done on the back of an envelope, --and blind speculation. -- were the state of the art.

These were great lessons on what not to do in the projects I was making "ready to go"-- for disposal by receivers-- and ongoing development by mortgagees at Helensvale and new owners elsewhere.

### **Risk management was the key**

This demanded a whole new strategic risk management approach that recognised the reality of cycles and the great value of underlying strong growth that happened here.

This strategic thinking produced some quite different tactics in those projects --all about being there for that eventual cream -- -laying off risk of downturns by working in the land master developer role I've explained in the book.--I first used this approach after the 1982 crash for Robina Land Corporation 2 and 5 year strategy overviews --after it had over-built its opening stages of housing lots in the 1980/81 boom --and didn't know what to do next.

I used it last from 1995 to 2000 in planning and development strategy for an 8,500 ha resort harbour city scheme in Malaysia for a government-controlled top-ten industry corporation, -- of course during this time, there boom there turned into the !997 Asian Down --to prove the point I was making about strategies for managing cycles.

This must have been the right way to go because my staff of 12 in 1975 --grew to 90 for the rising boom of 1980 --and we made super-profits that could be put into reserve for the next crash.-- Opportunities have since grown from this for my old firm in new-mega-project planning in India and China.

This demanded doing your homework fully to begin to arrive at any plan options, --then sticking to the adopted strategy --as sometimes wildly skewed influences came onto project owners in the big money booms, -- always watching for the changes, --taking opportunities in the boom to sell off 'ready to go' sections to reduce debt -- using the busts to build up more projects "ready to go" for the eventual recovery.

### **'Ready to go' schemes were a solution**

After the 1980s crash, with 100 staff to keep busy when clients were way down, and with financial reserves from boom profits,-- I could use these people in my own initiatives for creating "ready to go" master-planned project schemes.

These were picked up from the mid 1980s as growth pressures grew -- one for an institutions-based new community at Loganlea by the predecessor to Suncorp, --and others as integrated resorts by foreign investors-- for immediate starts on construction to become some of the extraordinary projects we see today.

These schemes provided massive work opportunities across our industry to pull it up from the recession -- and --as an important bonus for the whole city-- lifted the Gold Coast into the international tourist market.

Their high profiles also opened doors for us for work in Japan and South-East Asia as these places recognised tourism related development as where growth would happen.

### **Crazy conduct**

Even with the Prodap kind of effort to control destiny, projects suffered from our industry's crazy conduct through the volatility of cycles.

In my opinion, the key to managing future cycles is the great opportunity never before possible ---of the incredible state of information and communications technology becoming a means for fighting that conduct --by the industry working as a whole -- at building an effective intelligence regime for self-regulating of extremes of boom activity.

There's a new industry there for our more visionary intellectuals.

### **Let's talk about Cycles in business**

I suspect that many Gold Coast business people think that this Crisis today is a kind of force-majeure , --like the Spanish Flu of the early 1900s, --or the Pilots' Strike of the late 1980s ---- Just bad luck----one-offs that just happen and have to be borne?

But today's crisis has all the characteristics of a cycle – which --if they catch you out as booms stop – can ruin sound businesses and destroy personal wealth built up over long times.

What's just as bad is having to sack good staff who will be essential for the future.

But-- while it's important to think about what got us here --as far away as it might seem, -- it's just as important to know how to be ready to ride up the next boom and have strategies in place to handle the bust that follows.

### **Are Cycles real? –Yes they are!**

When I spoke about my book in early 2006 at a TSS Foundation breakfast meeting of 300 Gold Coast business men and women, --I was shocked to find that almost no-one was interested in any talk about the conditions being in place right then for the boom ending as they all do --in a crash.

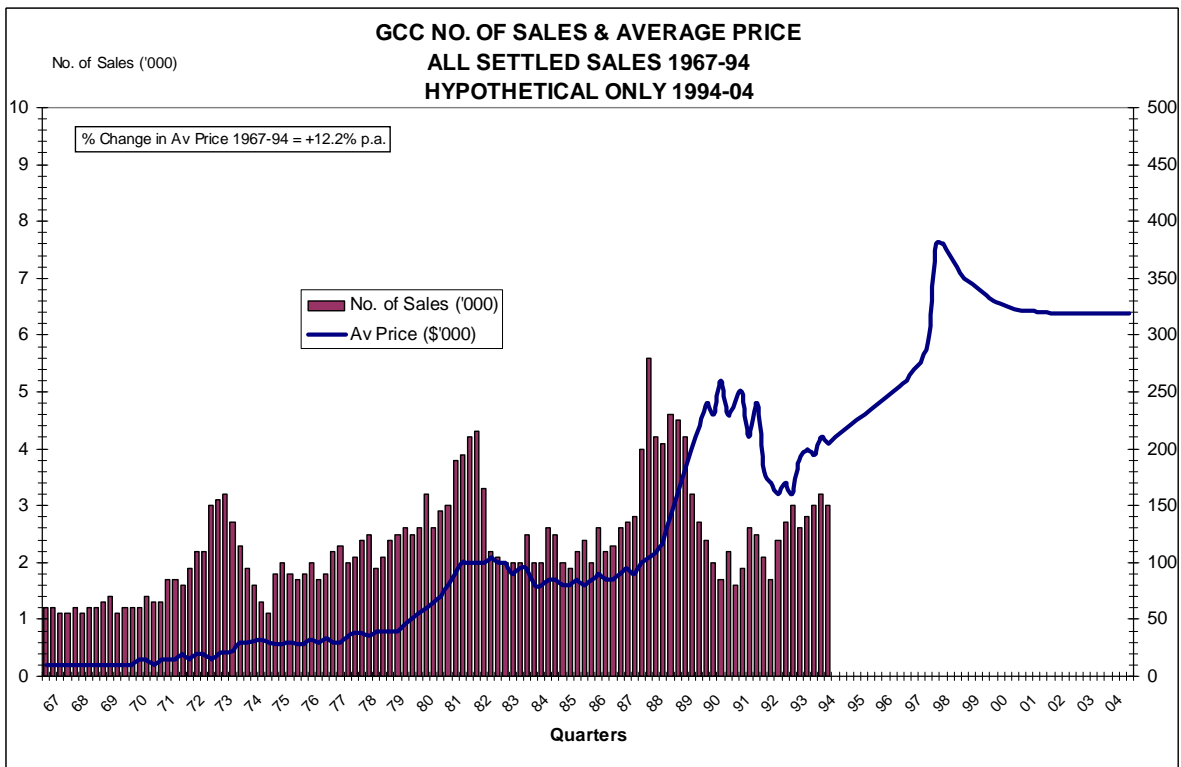
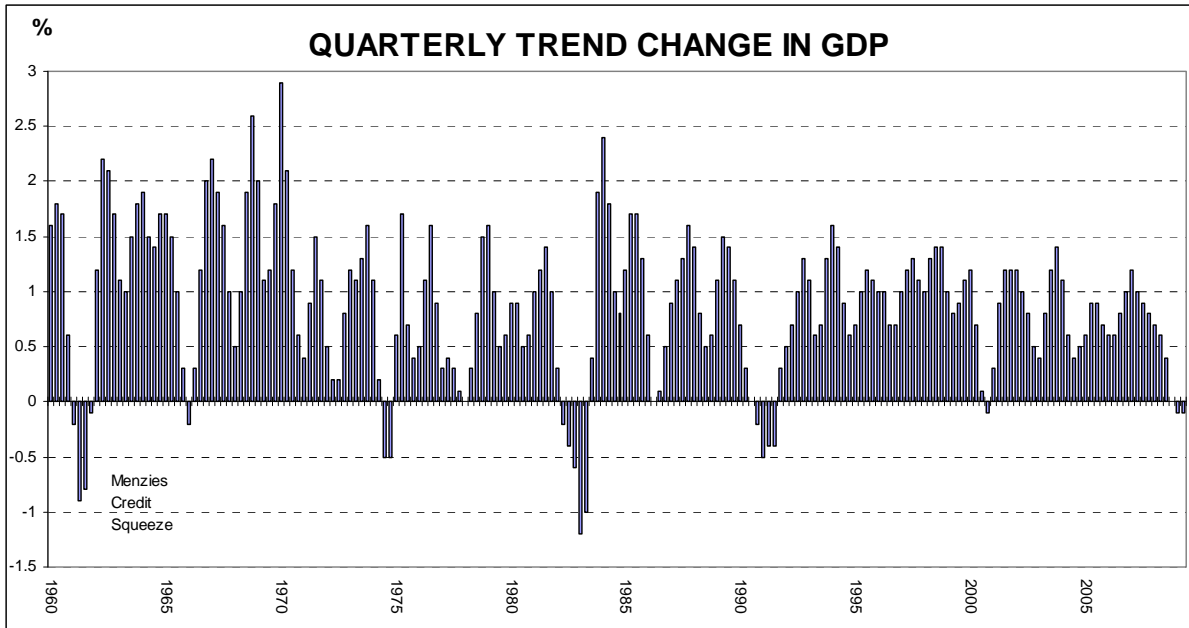
(if you have a copy of the book, look at pages 439 to 444)

In a later paper on “Hot Issues for the Gold Coast in 2007” that I wrote as the boom hung on longer than it should, --I sensed something worse was at foot and raised the question-- “*Will something larger than this city's happenings bring down the roof as happened in 1982 and 1990?*” –

It sure did.

If business is to try to deal with the kind of downer we're in today, --it'll have to learn that this bust is very much to do with cyclic patterns that-must be tracked and worked at.

**(Screen the graphs)**



If you haven't looked at all this before, these two simple graphs draw a picture of the cycles before and since I arrived here in 1966.

The first adopts a PRD Research diagram made in 1994 --showing quarterly Gold Coast property sales by price and number from 1967. ----

The second graph comes from an article by Michael Stutchbury recently in the Weekend Australian

It goes further back to plot "*Quarterly trend change in GDP*"-- from 1960-to the global financial crisis in 2009.-- I knew all of those ups and downs.

### **Viable money available was always the factor**

Stuchbury's article implies that today's bust doesn't look too bad against 1983 --and it doesn't as I remember it--with interest rates then going to 22% on commercial loans

In the 1990's,--when I had big money in two more "ready to go" integrated resort schemes that narrowly missed the Japanese investment boom, --rates were 17%; --unemployment was 10.3% for 3 years.

In 1991, I searched for capital to keep these two alive. --My 'big four' bank's Sydney headquarters made an in-depth investigation of my affairs and promised me all I needed for years ahead.

It advanced the first tranche of nearly \$2m and debited me \$10,000 for the study--and then fell into real trouble itself. It not only pulled the pin on me but demanded our loans be repaid --in the bust--despite never any default. That was a battle of wills for my partner and I until time gave me another trick to pull.

The book also tells the story of my tackling the AMP in 1992 to support tourism project investment, as it was sending huge capital resources to the UK. They lost it there. -- They should have taken my offer -- couldn't have done any worse?

By 1994, I was chasing investment capital overseas. For this-I drew a hypothetical extension of the PRD graph for an 8 year cycle -- peaking again in 1996/97. --That this was out by 6 years was the miserable story of that mediocre decade.

### **Peoples' willingness to think ahead was another factor in working out**

For today's situation, it's important to understand that the 7/8 year periods from boom to boom, through downturns after crashes in 1975 and 1982 --were made shorter-because action was taken by people in the development industry --and our local councils-- who had learned how the city's growth worked --and dared to plan ahead for recovery. --

But the eventual 14 years cycle from the late 1980s boom -- into the bust of 1990s--to a peak again in 2002/03 --was very long--because of inaction by government and the city council and the finance sector -- despite population growth continuing strongly. ---

### **It became a disaster for me when minds were closed in the 1990s era of mediocrity**

With my two remaining “ready to go” projects, my wealthy partners were unwilling to go further than the “ready to go” status. The book tells the story of two serious foreign money parties who investigated the projects and were willing to go ahead --but were put off at the last minute by people in our own business who sadly did not know the realities for resort integrated development within underlying rapid urban growth prospects.

### **People need room to move but it’s been gone since the 1990s**

In the 1990s, our industry went into a new phase --where we are still today, --letting ourselves be overpowered by bureaucracy, and government “perfect-world legislation”, that are completely ignorant of the harsh realities for our industry working through cycles and could stifle progress

### **For me, this crash has revealed the great gaps in our knowledge!—**

With past lessons learned right here in our own market, --getting hit so badly is completely unacceptable!

What do we have to do?

- Believe cycles are real and inevitable.
- Know they’re about how money is used well or badly. –
- Understand their damage is made worse by people behaving badly
- Learn from past mistakes?
- Look for what the business community as a whole-- can do differently,
- Bring the financial institutions into our operations at regional strategy planning level.
- Last --but most important, we must ensure that councils and governments know that riches seen through booms are temporary --and that the harsh realities for productivity and affordability in development business through cycles --are very different.

**Are Cycles inevitable? –**

Look at the graphs.

Good reason for our industry to have a plan to mitigate their impacts --for the stability needed for achieving the productively that will deliver on the huge mandate of the SEQ2031 Regional Plan.

**The extremes in cycles are all about money – –**

Easy debt is the great motivator of crazy business --but becomes the great enemy when extremes go way past the limit of sustainability.—

Do you remember 2003 to 2007?

Masses of easy money, urgently pushed out by many banks and intermediaries --into virtually any deal that got money turned over.

(Dominated by euphoria and greed, this lending certainly was ignorant of or didn't want to know about any possibility of the kind of cyclic downturn that past lessons have shown to be so certain in these conditions.)

Too many people making huge windfalls,

New players in money management business --with promises of high returns--tapping excesses of ready cash in private liquidity, --again with no apparent interest in cycles

Prices rising above all imagination,

Inflation and interest rates climbing under the pressure of boom production

Over-loaded planning and construction resources pushing costs into crazy levels,

Orderly lead times falling apart,

Last,-- and a most unfortunate carry-over today from this last boom --councils working without people with the skills to know how business works in its valid role in city building— and who see perceived super-rich developers able to carry burdens of contributions that would be unsustainable in a return to “normal” times.

**Getting going faster – the real factors**

For the South-East Queensland growth region, the post--bust struggle will be as long as it takes to catch a new monetary catalyst to kick-start recovery—maybe superannuation money that has been limited to the equity markets and has been badly damaged there.

That a recovery soon is a tactical certainty for this region, is underwritten by reliable strong growth—but how long will it be before our financial institutions get the picture --and get a plan going to allow us to use the capabilities sitting today on hold --with valuable time wasting, - to at least get through the long lead times when costs are down?-

Or will they let unsatisfied demand build to a level where the sudden release of hot money comes in boom fashion all over again --with the same disasters?

Will the bureaucratic system we have today adding to the constraints on our productivity -- ever be able to understand the realities of our business through cycles and the punishment they impose not only on us but on whole communities that we serve?

### **People behaving badly is what does the most damage out of booms**

Can our industry ever make a difference about boom time excesses in our markets?

A recent book about Paul Keating as PM described how in the early 1990s recession – he had his staff investigate possible intervention by his government to cut out behaviour that made business go bad.

A report knocked this on the head by saying---“*If perfect equilibrium could be realised at all, ---it could only be in perfect circumstance,-- and as perfect circumstances of human society can never be more perfect than the human personality,--what was the point?*”

In recognition that it’s better to do something than nothing, our industry must speak out with the power of one voice as booms are building, --employing the kind of scare tactics we’ve seen recently in union spin doctoring for the last Federal election -- that had enormous influence on public thinking on key issues.

### **What can private business do about getting out of this downturn by uplifting its own operations?**

The scale of city building business for South-East Queensland is so large, planning needed is so sophisticated--and the problems holding this back -- are so complex ,--and so culturally and politically messed up,--that little will be achieved by individuals or individual interest groups --to bring about change.

An important fundamental for fixing today’s problems is the poor public image of our industry—The media eagerly grabs any reference to developers links with officials. –But when most adverse situations are put to the real test of legal proceedings, charges don’t stick –but the damage is done!

Who cares about developers whinging about council charges? --Who cares if our work is held up by bureaucratic systems that are not up to the task --or militant opponents frustrate new projects that validly cater for the Regional Plans mandate?

We must make the most of our rightful claim for attention to what we are saying---as the sole provider of building the urban environments needed for growth --and for better quality of life if we do our work well. –

We must build up proper recognition of the billions of dollars our industry invests for the regions' economic prosperity --each and every year.

**Finally, --I want to put a case for a new approach to teaching the harsh realities of development business**

I've been so convinced that knowing those realities is critical for everyone in city building processes-- that I've urged our regional universities to take evidence of these into its teaching --drawn from real-life cases.

To help in kick-starting this,-- I've offered to gift copies of my book, with its special case studies of real-life business impacts, -- to individual students in seven teaching programs across Gold Coast universities

I've proposed seven existing programs that together run through most parts of development investment and building activity.

For this offer, I've streamlined access to the book's content by collecting references for each teaching program into schedules, --with summaries and page numbers. These include-- Business Management and Entrepreneurship, Politics and Government, Financial Planning for Property investment, Property Development and Real Estate ,and Urban and Regional Planning.

These can be there also for people working in our industry

Thank you for your attention