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Tuesday 24 Mar, 2009



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Property developers no longer have the funding to aim higher and higher with skyscrapers

There is a gaping hole where one of the world's tallest buildings is supposed to go up. The planned 150-story Chicago Spire would be 610 metres high if it gets built atop its completed foundation, ranking the tower the tallest in the Western Hemisphere and the sixth-tallest among the world's planned skyscrapers. The Spire was supposed to be finished by 2012 and its Irish developer staged a global marketing campaign. Buyers snapped up a third of its 1,194 luxury condos priced between \$750,000 and \$40 million. But after digging a 23 metre-deep hole and sinking caissons, construction on the twisting Spire - inspired, its famed architect Santiago Calatrava said, by swirling smoke from a Native American campfire - was stalled in January by the credit crisis that is stifling construction worldwide. Chicago has long been a showcase for tall towers since the steel-framed skyscraper was invented, its history is full of developers whose ambitions sometimes crashed on the rocks of economic slowdowns, said John Norquist, president of the non-profit Congress for the New Urbanism. For people living in the hundreds of new condominiums near the planned Spire, the unbuilt site "starts to look like a blight", Norquist said. "When everybody's feeling buoyant and they all think they're going to be billionaires overnight, that's when these 'biggest' plans come about. If you get them going before the bust hits, they get built right away. Otherwise you've got to wait and sometimes they don't get built at all," he said.



Globally, work has been halted on 142, or 11 per cent, of 1,324 skyscraper projects, including 29 of 301 in the US, according to Emporis, a company that tracks development. Work is stalled on the five tallest buildings on five continents, including the Spire. Work was also stopped on the kilometre-tall Nakheel Tower in Dubai, one of scores of construction projects idled in our former boom town. A report earlier this month from Jones Lang LaSalle said over half the residential and commercial property projects due for completion in Dubai between this and next year have been put on hold or cancelled. An earlier Morgan Stanley report claimed around \$263 billion worth of projects throughout the UAE as a whole had been put on hold or cancelled. Other tall towers on hold are Moscow's Russia Tower and the Gran Torre Costanera office building in Chile. The US economic downturn has probably been felt most acutely in the construction industry. Around two million American construction workers are unemployed and the industry's 21.4 per cent jobless rate is the highest of any sector. "Every month we see massive job loss in the construction industry and every month it gets worse... The construction industry is in a near depression," said Terry O'Sullivan, head of the Labourers' International Union of North America. The recently passed US economic stimulus bill was expected to funnel \$150 billion into building and repairing infrastructure, which the union said would employ 700,000 workers, for a while. The stimulus funding is viewed as only a downpayment on the \$2.2 trillion engineers say is needed to rebuild the nation's infrastructure. Fewer workers are needed to perform maintenance than build from scratch, labourers say.

"If there's no buildings going up, what do you do?" said James Connolly, a Labourers' union manager. "Prepare yourself because it's going to get worse before it gets better." Construction workers are accustomed to boom-and-bust cycles but this downturn appears deeper and longer. Dublin-based Shelbourne Development Group has so far failed to get financing for the \$1 billion Chicago Spire. Now, construction unions are negotiating to invest their pension funds to kickstart the project. The Spire would provide a million paydays for ironworkers, carpenters and others. But construction loans are hard to come by. Delinquency rates in Chicago on such loans have risen for ten consecutive quarters to 15 per cent in the fourth quarter of last year. Many projects never got off the ground, while other developers have scaled back or suspended work altogether. The residential market has a glut of unsold and foreclosed homes - at least 7,000 in the Chicago area, Villanova said. In downtown Chicago, cancelled contracts on condominiums in the latest quarter outnumbered meagre sales, which were off sharply from nearly 3,800 sales in all of 2007, according to Appraisal Research Counsellors, a real estate firm. Prospective buyers surrendered downpayments of \$10,000 or more, scared off by falling prices and the bleak job market. Dubai has also seen the global economic downturn strike hardest at the property and construction sector. Large developers like Nakheel, Emaar and Dubai Properties have all announced job cuts, and rumours say that many more redundancies are being made in the sector without being announced.

Real estate prices have fallen by an average of 25 per cent since their peak in September, according to Morgan Stanley, and many analysts expect the sector to slow further in the first half of this year. Dubai has implemented its own stimulus packages to restart lending, including a dhs70 billion cash injection for banks. Improved liquidity would support the sector by making mortgages more easily available, and giving developers access to funds for new and existing projects. A \$10 billion fund was created when the UAE central bank bought half of a bond issue from the Dubai government.

Details of how the fund will be allocated are expected within two weeks and previous reports have suggested that firms in the property sector are likely to be able to draw on the cash. But until then, rumours abound of further job cuts at developers and further project cancellations.

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