

CONSTRUCTION MARKET CONDITIONS

2018

WT Partnership is one of Australia's largest independent construction and cost management consultancies, spanning the infrastructure, property and construction sectors.

We have been operating for nearly 70 years with more than 50 offices globally and over 1300 staff. We provide local knowledge, backed by a global perspective.

WT advocates passionately for future-proofing our cities. We are working with governments, industry and the media to spark a national conversation about creating sustainable cities in the face of global population growth. We want to change how we plan, design and build our cities to ensure we meet the needs of our future generations.

The commentary in this report provides high-level insight into current construction costs, and our forecast of future trends. With involvement in many of the major construction and infrastructure projects currently being built or planned in Australia, we have an intimate understanding of the impact on future market trends.

The information in this report is based on reported statistical data, together with local insight of market trends drawn from each State and Territory.

This report focuses on three key areas:

1. Construction Activity
2. Key Performing Sectors
3. Tender Price Escalation

Every project and development has its own nuances, and we recommend contacting your local Director for 'project specific' advice.

CONFIDENCE ACROSS THE PROPERTY SECTOR HAS LIFTED TO ITS HIGHEST LEVEL IN FOUR YEARS

The infrastructure boom continues to underpin construction activity nationally with major projects underway in New South Wales and Victoria together with other States ramping up investment. The significant investment in road, rail, water, ports, airports and telecommunications, together with population growth and our ageing demographic, is fuelling growth in non-residential sectors such as education, health and aged care.

The multi-residential property market is adjusting in response to the decline in foreign investment, particularly from China where Government imposed capital restrictions are discouraging overseas investment. With the housing boom easing, activity in the multi-residential sector is declining, however construction lags investment and there are still significant numbers of apartment towers to be completed in 2018.

The focus in residential has shifted to high-end luxury apartments and the continued expansion of suburbs and regional townships. Social and affordable housing, urban regeneration and the emergence of the build-to-rent model are also expected to be prominent in the housing sector over the coming years. Entertainment, recreation, hotel and resort development is also experiencing strong growth and this is forecast to continue as overseas visitor numbers keep increasing, and the record spend by visitors in 2017 continues into 2018 and beyond.

The latest ANZ/Property Council Survey found that confidence across the property sector has lifted to its highest level in four years. Ken Morrison, Chief Executive of the Property Council of Australia said “every jurisdiction is experiencing significant lifts in confidence. The mining states of Queensland and Western Australia are dusting themselves off with strong increases in the forward work schedules, and staffing level expectations”. Daniel Gradwell, ANZ Chief Economist said the survey provided further evidence that most of the mining-related adjustment is now behind us.

New South Wales continues to experience record levels of investment in infrastructure and strong demand for residential, commercial and retail, and our Sydney office reports strong market activity and growth across several sectors.

Government investment in projects such as CityLink and Tullamarine freeways, Melbourne Metro Rail, West Gate Tunnel and North East Link in Melbourne

continue to fuel construction, and our Victorian offices report a strong engineering sector and also forecast increasing activity in non-engineering sectors such as residential, health and education.

In South East Queensland, the apartment building boom continued through 2017 and is only now showing signs of decline. Government spend on infrastructure in Queensland is expected to increase with the State's budget focus on Cross River Rail, social and affordable housing, and schools. The Commonwealth Games, being held on the Gold Coast in April, has had an enormous impact on infrastructure development with projects such as Gold Coast Light Rail and construction of the games village, games venues, and a spike in tourism and accommodation building.

Our Western Australia office reports an increased sense of stability and confidence in the State following the decline of mining and reports strong growth in retail development and an upswing in residential apartments. The Western Australian State Government has given the go-ahead on a number of significant road, rail, and port projects. Our South Australia office reports positive construction activity with numerous cranes in the city skyline and forecasts growth in various sectors including aged care, student accommodation, defence and education. Our Australian Capital Territory office also reports high confidence levels across all sectors and expects increased activity in the construction of commercial, retail, housing and aged care.

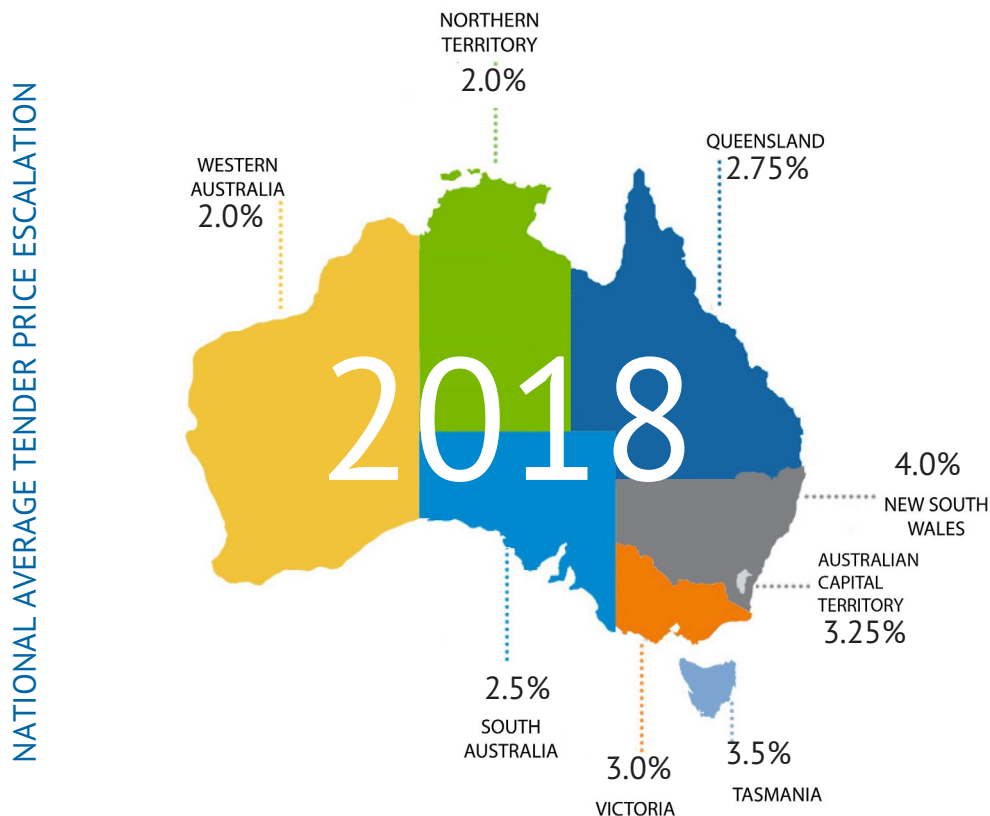
Major LNG development and defence projects continue to underpin activity in the Northern Territory. The outlook in Tasmania is also very positive with a substantial number of major projects in the pipeline.

Nationally, the growing demand from the infrastructure sector is pushing up costs of personnel, plant and equipment, and base materials such as aggregates, cement and steel. As resources become more stretched, these pressures create an industry wide challenge. Cost increases in the building sectors are tempered in competitive tender markets with main contractors and sub-contractors adjusting to the declining high rise multi-residential demand, and looking to other market sectors to secure work.

Nationally, we expect Tender Price Escalation to be higher in the infrastructure sector with escalation rates generally around 4 to 5% compared to the non-infrastructure sector which we forecast to trend at around 3 to 4% in 2018.

NATIONAL SUMMARY

NEW SOUTH WALES AND VICTORIA CONTINUE UNRIVALLED GROWTH IN BOTH CONSTRUCTION AND INFRASTRUCTURE SECTORS



The diagram above provides a snapshot of our forecast Tender Price Escalation for each State and Territory in 2018.

The national economy continues to gain momentum and recent surveys show growing optimism across the construction industry.

Record levels of spend in infrastructure has triggered further investment in New South Wales in the residential, retail, amenities and commercial markets, while engineering construction continues to fuel price increases.

Reflecting the high activity levels in New South Wales, we forecast escalation to continue trending at around 4.0%. With buoyant conditions prevailing in Victoria and ACT, we expect escalation levels to trend at around 3.0% and 3.25% respectively. Tasmania is experiencing increased construction activity and escalation is forecast to be in the order of 3.5%. Other regions are expected to have tender pricing levels escalate at about 2% to 3%.

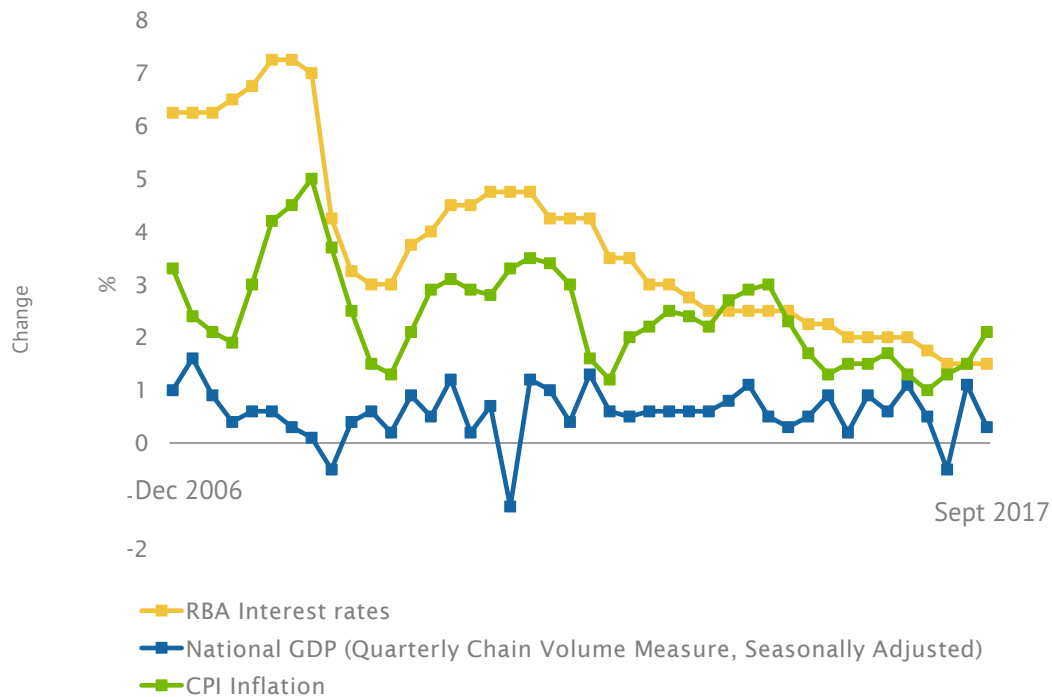
Substantial infrastructure development in New South Wales and Victoria is attracting resources away from the traditional building sectors and is impacting pricing levels.

While Queensland and Western Australia are recovering from the collapse in mining, our offices in Brisbane and Perth report growing confidence in private development, in addition to the commencement of major infrastructure projects. South Australia is also experiencing an increase in construction activity across both the public and private sectors.

Australian Capital Territory continues to perform well with our Canberra office reporting high confidence levels across all construction sectors. Like both Western Australia and Queensland, the Northern Territory suffered from the resources and mining collapse and is not expected to experience Tender Price Escalation at more than 2% during 2018. Our Hobart office reports increased construction activity in Tasmania, with plenty of work in the pipeline. Tender Price Escalation is now forecast to be around 3.5% pa over the coming years.

NATIONAL ECONOMIC INDICATORS

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Source: RBA; ABS; Quarterly trend review on GDP, CPI inflation, RBA cash rate.

The RBA has continued to maintain the official cash rate unchanged at 1.5%. The annual rate of inflation remained below the Reserve Bank's target with CPI falling to 1.8% in the September quarter. Australia's economy grew 0.6% last quarter and 2.8% over the past year, driven by increased activity in both investment in private business and investment in public infrastructure.

NATIONAL CONSTRUCTION INDICATORS

ABS data shows that the value of total construction work done in the first three quarters of 2017 was \$160 billion compared to the previous year total of \$141 billion, an increase of approximately 13%.

Overall, this period has seen building works completed increase by 5% as conditions for multi-level apartments remain strong with construction companies continuing to progress through a backlog of work. Engineering work completed in this period (March to September) has increased 18% reflective of strong levels of investment in public infrastructure.

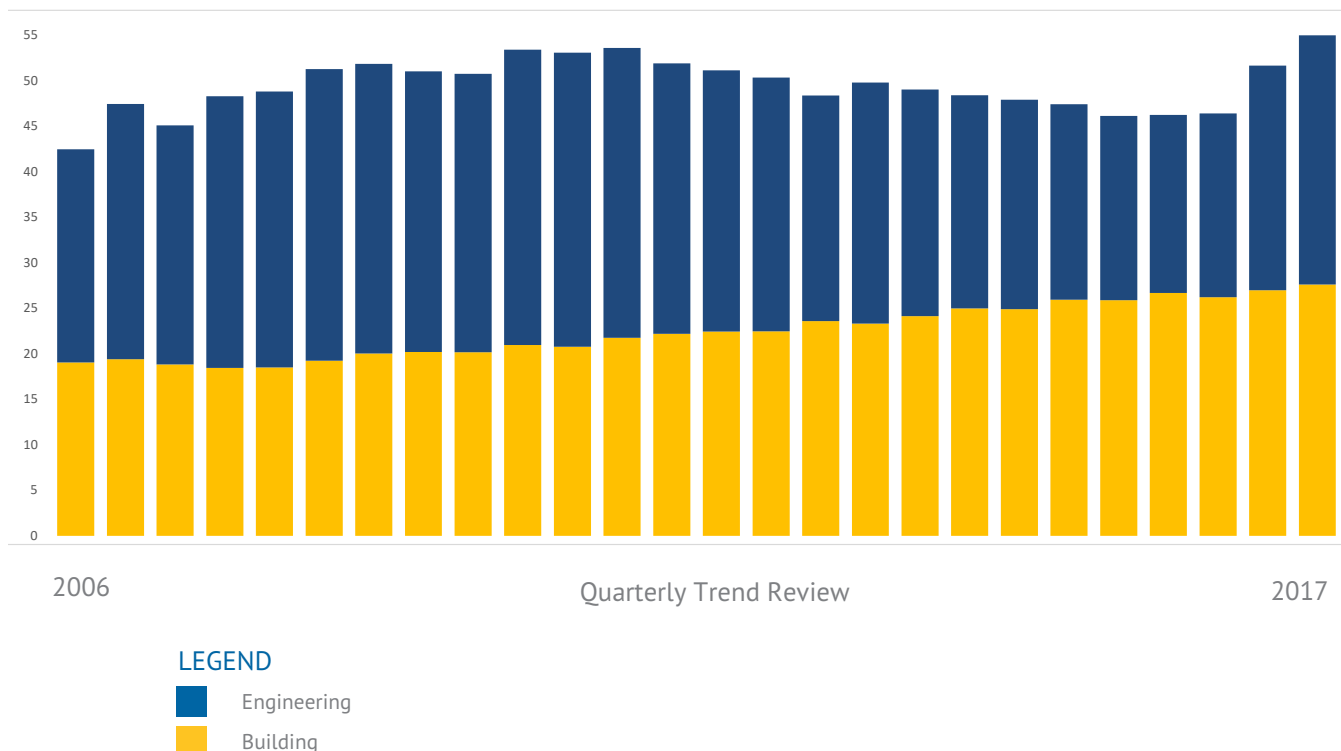
The June to September quarter shows total construction work rose by 16%. Engineering work increased for the third straight quarter and most recently by a record margin of 33%, surpassing the mining and resources boom final quarter of 2012.

However, this dramatic increase reflects the 90% surge in engineering work in Western Australia from the June quarter, following the importation of large LNG platforms which are a contributing factor to the ABS statistics, despite being constructed overseas.

According to CommSec, New South Wales has retained its position as the best performing economy in the nation with Victoria ranking second in construction work completed throughout 2017.

The September quarter saw Victoria's completed construction work up 11% from a year ago, boasting the strongest growth in 7 years, and 25% above its decade average. Construction work has risen for the past 11 quarters in New South Wales and 13 quarters in Victoria.

VALUE OF CONSTRUCTION WORK DONE IN AUSTRALIA (\$BILLION)



NEW SOUTH WALES



The New South Wales construction industry remains highly active across multiple sectors as we enter the new calendar year. WT anticipates that this activity will continue in the medium-term with major construction works underway, high value new projects commencing and many more in the pipeline.

The commercial sector remains very strong in the CBD, with growth also seen on the North Shore and Parramatta. As widely reported, commercial vacancy rates continued to fall in the CBD, now at 6%, most noticeably in premium and A grade stock. Over 550,000m² of new commercial space is due to be delivered from 2018 onwards. Significant commercial projects soon to commence, or already underway, include Quay Quarter, ATP, 60 Martin Place and Parramatta Square.

Tenancy fitout projects within these developments will continue to generate strong activity in the workplace sector. As the nature of work and the workplace continues to change, tenants are asking more from their leases by way of co-lo work space, curated 3rd party spaces and increased shared amenities provided by Landlords, outside their tenancy. Leasing models are also starting to shift, as the shared use of unused space (out-of-hours tenancy sharing) begins to garner market interest.

The new hotel market, which has only seen modest activity over the past 10 years, has become increasingly strong and a growing demand has paved the way for several high profile, high quality

hotels in the planning pipeline. These include The Ritz Carlton, Star City Casino, Crown Sydney Barangaroo, and the W Hotel Ribbon and Residences. Strong demand in this sector can also be found in the suburbs where approx. 800 rooms are currently under construction.

As usual, over the last 12 to 24 months, the infrastructure sector largely underpins much of the New South Wales activity with the Western Sydney Airport joining a large list of other major projects. WSA Co have now set up office in Sydney's West with a commitment to spend in 2018 as part of an Early Earthworks package at the Badgerys Creek site.

State funds are being directed to the much-publicised redevelopment of Sydney's major stadiums at Moore Park and Olympic Park, and works at Parramatta Stadium are now well underway. WT will be looking keenly at pricing across the market, influenced by this sector, as major entertainment projects have not run concurrently since the lead-up to the 2000 Olympic Games.

Together with the increase in early contractor involvement, the pricing of alternative approaches to traditional reinforced concrete structures are increasing. The prevalence of steel and cross laminated timber (CLT) at feasibility and concept design stages has increased noticeably over the past 12 months. It will be interesting to see how many of these alternative approaches make it beyond planning and if this trend is set to continue.



The New South Wales Government policy of selling off underperforming or surplus assets over time has ploughed significant funds into the Restart NSW initiative. This has enabled more funding for key infrastructure projects, with record levels of investment committed to rail, roads, healthcare and education over the next 4 years. This again enables the infrastructure sector to be the star performer. The new and improved infrastructure into our communities is a natural trigger for further investment in residential, retail, amenities and commercial to suit the increasing local demand. The Parramatta commercial sector is a stellar example, with vacancy rates at zero for A grade space.

WT anticipates investment in other outlying areas such as the Hills District to grow quickly next year. Liverpool and Western Sydney will certainly see significant growth on the back of the Western Sydney Airport development.

The residential sector is in the midst of the longest housing construction boom in the State's history, and remained the nation's strongest State for home building in 2017. Building approvals for residential units and houses have again seen year on year growth however, the rate of growth has recently declined. Although construction activity is expected to be strong in 2018, the sector is peaking, brought about in part by restrictions on foreign investment, housing affordability, and anticipated interest rate hikes in 2018.

NEW SOUTH WALES - continued



As in recent years, the growth in labour rates has been above the EBAs placing continued pressure on supply chains which need to pass on this increase. This is partly fuelled by the ever-widening gap between workload and workforce and, with such a strong portfolio of projects on the horizon, shows little sign of change.

We are currently seeing significant trade pricing pressure across demolition, formwork, joinery and plasterboard trades.

As forecast in earlier reports, the commencement of demolition works across some 16 commercial office sites associated with the Sydney Metro project is impacting demolition contractor capacity. Formwork trades are returning pricing well above recent benchmark rates and there is no suggestion that this is simply a 'market spike'.

Joinery trades are nearing capacity with contractors reporting difficulty in obtaining sub-contract quotes due to workload resulting in large joinery packages being tendered interstate.

Partitions and ceilings pricing has been under pressure throughout 2017, and shows no signs of easing in 2018.

Year on year to October 2017 we have seen sharp increases in the price of copper and iron ore. Whilst the market does not yet seem to have felt the impact of these price hikes, we anticipate the effects to hit steelwork and hydraulics trades in 2018. Building services trades are likely to come under pressure throughout 2019/2020 as metro

projects move into construction and the Western Sydney Airport moves into the procurement phase.

Overall, we are seeing a period of strong market activity and growth across several sectors. Whilst the market has had some time to respond to this increase in demand, which has been forecast for some years, the shortage of skilled labour has contributed to the lag in closing the supply/demand gap. This, along with significant Federal and State funding, is one of the most prominent factors likely to drive escalation in 2018 and beyond.

We forecast 4.0% pa for the first half of 2018 across the whole of the market, and anticipate escalation of 4.5% due to increased activity towards the end of 2018 and beginning of 2019.

LEGEND



Construction Activity



Key Performing Sector



Tender Price Escalation



There has been rising momentum in non-residential and non-mining infrastructure work underpinning a Victorian economy which is preparing for a shift towards the provision of services in lieu of manufacturing.

Consolidation of planning laws, lending protocols and foreign investment this year had been cited as reason for concern in residential construction growth, particularly apartments. However, we have experienced continued developer appetite for apartments stimulated by consistent population growth and low interest rates. We have also seen a healthy increase in office projects in the pipeline or already underway.

The 2017/2018 State Budget included major contributions towards health, education, public transport and roads. We are now seeing the investment in these sectors flowing into planning, pre-construction and procurement.

Recent tender results have been largely as expected, however there have been some examples of inconsistent pricing in the reinforced concrete trades, precast concrete, structural steel, mechanical services and electrical services. We are also experiencing a more percipient tender market, electing which opportunities to pursue, while balancing the higher volume of concurrent tenders. This flows down to preferred subcontractors whose ability to service the greater demand is starting to effect competition.



Government investment in non-mining infrastructure is coming to fruition with the widening of CityLink and Tullamarine freeways, Melbourne Metro Rail and Level Crossing Removal projects all underway. Net capital expenditure in new engineering construction, by both the public and private sectors, increased by 8% (seasonally adjusted) in the September quarter. This will be further supplemented with the West Gate Tunnel and North East Link in the coming years.

This lift in major infrastructure projects and particularly their scale, is starting to put pressure on the market. Availability of specialist consultants, subcontractors, suppliers, plant and equipment is beginning to tighten. We expect these pressures to be further exacerbated in 2018, which will have wider ranging implications for the construction industry as a whole.

Procurement of building materials was of greater concern to the industry in the second half of 2017. As the pipeline of infrastructure projects reach construction in parallel, there will be large scale demand on materials, especially concrete aggregates, reinforcement and steel. This will inevitably lead to cost escalation which will start to flow to other sectors of the industry.

The short-medium term outlook for Victorian infrastructure projects suggests that the total value of works will peak between 2021 and 2023 giving time for the industry to adapt to labour and material pressures.



Whilst we don't envisage this 'infrastructure affect' will flow through and create a directly proportional impact on building sector costs; the shared demands on some commodities, materials, plant and equipment, and human resources will create cost increases.

Due to the momentum towards infrastructure, we have split our escalation forecasts into infrastructure and non-infrastructure. The Tender Escalation calculation forecast for non-infrastructure construction has been revised to 2.75% to 3.25% in 2018; and 3.25% to 3.75% in 2019. For infrastructure projects, we foresee this to be 4% to 5% in 2018; and 4.5% to 5.5% in 2019.



QUEENSLAND



The construction boom in multi-residential, particularly in the inner city suburbs and on the Gold Coast, peaked in 2017 and the pipeline of high rise residential developments has slowed significantly. Oversupply, diminishing returns, settlement risk, and increased hurdles to develop and purchase apartments with the implementation of regulatory measures domestically and overseas, are reversing the trend in high density residential development. Whilst numerous apartment buildings are still under construction, tender enquiries have dropped, and the traditional high rise residential builders are looking to other sectors to fill the order books. Various residential builders and sub-contractors went out of business in 2017 as a result of low-ball tenders in desperate efforts to keep trading coupled with poor cash flow. Our offices are focused on the review and monitoring of what may become stressed residential construction contracts.

As previously reported, the surge in residential construction in recent years led to significant construction cost escalation driven largely by the subcontract market capitalising on high demand levels. Low density, detached housing and townhouse building has continued to boom, and this sector is forecast to continue growing with further development on the Sunshine Coast, Brisbane's South West and the Gold Coast region. The focus in multi residential has shifted from investor entry level to a more mature market with larger high-end apartments in more exclusive boutique style developments.

The Gold Coast construction market continued apace with the completion of the Commonwealth Games Village on time for the overlay works to complete the accommodation requirements for the 6600 athletes arriving in March 2018, together with the construction of various sporting venues and supporting infrastructure works including the Gold Coast Light Rail.

Following Cyclone Debbie, reconstruction works brought a flurry of building activity to Central Queensland and the Whitsunday Islands which will continue into 2018. The State is prone to severe weather events and natural disasters, and these events typically lead to spikes in demand for construction resources leading to localized, and sometimes State wide impacts on construction cost.

Activity in Central and Far North Queensland is expected to pick up with a return of optimism, spurred by projects such as the Townsville City Priority Development Area, the Townsville Stadium Precinct and Aurizon Rail yards urban regeneration, the Hive development, and proposed developments at the Casino and waterfront. Cairns is also experiencing a return of optimism with various tourism projects, and the refurbishment of existing building assets.

Infrastructure spend and public investment is forecast to increase with the State Government's budget focus on the Cross River Rail, social and affordable housing, the Building Future Schools Fund and Advancing Queensland Schools programme.

Further infrastructure spend is forecast on ports and airports in South East, Central and Far North Queensland together with further expansion of the Gold Coast Light Rail and upgrades to South East Queensland water supply assets. With the improving prices of major export commodities, increased activity is expected in the mining and resources sector and this is expected to attract building resources from the traditional build sectors.

The defence sector continues to be strong with projects in Amberly, Townsville and Shoal Water Bay, flowing from Air Force programmes and Army training facilities for the Singapore Defence Force.

QUEENSLAND - continued



Despite the sharp decline in development investment, the completion of high density residential particularly in the Brisbane inner suburbs and to some extent the Gold Coast, will maintain high building activity levels into 2018. Queen's Wharf and other major developments such as Herston Quarter, 300 George and No 1 Brisbane will progressively draw construction resources. The more recent investment in high-end luxury living will also help to maintain momentum in the multi-residential sector. Detached home building and townhouse development is also expected to continue strongly with further development of major new communities such as Aura Caloundra South, Springfield Lakes, Northlakes, the Brisbane South West corridor and the Gold Coast region.

Commercial office construction has been in a lull since the completion of major towers at 1 William Street, 480 Queen Street, 160 Ann Street and Southpoint, plus the almost complete 900 Ann Street, all contributing to record vacancy levels. Landlords face falling rents and are offering increasingly attractive terms by way of rent free periods and fit out incentives. The refurbishment and re-positioning of commercial properties to maintain and attract tenants continues to be a key area of construction activity. Suncorp, ATO, Westpac and Technology One are in the market for space, and this has the interest of developers racing to build Brisbane's next major commercial tower.



The market in Queensland should remain competitive, however the flight to the South and draw on construction labour, plant and materials to NSW and Victoria may lead to further increases in tender levels.

Tender Price Escalation trended around 2.5 to 3% in 2017. Our forecast is that this trend will continue around this level for the next year with a slight rise across 2019 as building activity increases across various building sectors and reacts to increased demand from the infrastructure, mining and resource sectors.

WESTERN AUSTRALIA



At the end of 2017, it appeared the Western Australia construction industry was in an overall stronger position than Q4 2016. While the State economy still faces significant challenges in the year ahead, there is certainly an increased sense of stability and confidence.

The retail sector continues to perform strongly, with 2018 seeing significant projects commencing on site. These include Forrest Chase Redevelopment, Karrinyup Shopping Centre and a number of other major shopping centre expansions. We also expect most of the major retail projects (over \$200 million) that have been in the pipeline for the last couple of years to move to construction. As a result, we are seeing an overall positive effect on the sub \$30 million size retail projects, as well as smaller owners/ operators moving to improve their offering.

The hospitality sector is finally showing signs of recovery, at least for established brands eyeing new offerings in the Perth metropolitan area. We have seen sustained activity in this sector over the last 3 years which has lead to circa 4,500 keys added to the local market in the past 24 months. We believe this sector will continue to perform well, but the focus will be on more boutique style hotels, and likely include areas such as Fremantle (to the south of Perth) and Scarborough (to the north of Perth).



Whilst a large number of substantial high rise residential projects are at various stages of the supply process, challenges remain for developers. However, we believe that the overall activity in this sector will increase towards Q4 2018, subject to external and domestic market corrections.

It appears that the resources industry will see significant growth towards the end of 2018. If confidence continues to grow around this sector, it will have a positive effect on the overall economy. Major projects are planned to commence in late 2018/ early 2019, and the progress (or otherwise) that this sector makes in the months/ year ahead, will greatly impact the overall construction output. The same can be said regarding major infrastructure projects in Western Australia. The State Government has given the green light to a number of road, rail and port projects such as “Metronet”. Whilst again this will bring confidence into the market, many of these projects are at the early stages and are some way off from “breaking ground”.

In 2017, the official office vacancy rate in Perth CBD was 21%. Whilst better than previous quarters, it was still a 20 year high based on official figures. This sector will continue to struggle into 2018 as a large amount of existing stock comes on the market.

Other sectors that anticipate major growth in the medium to long term are defence, student accommodation, aged care, private health care and Department of Justice.

These sectors have projects currently going through the cost planning and feasibility stages. We believe these sectors will not become fully active until Q4 2018, however, given the volume of works anticipated, they will be major contributors to the local construction market.



The overall outlook for the Western Australia market is neutral to positive for the medium-long term. This is more positive than our previous report where the medium view was somewhat negative. Whilst excess capacity still exists in the Western Australian construction sector, we believe much of this will be taken up in 2018, at least in the Tier 1 and Tier 2 space. Based on tenders received over the last calendar year, escalation closed out at 1.1% with Tender Price Escalation predicted at 2% for 2018.

SOUTH AUSTRALIA



Conflicting forecasts between economists and the construction industry are evident and worth careful consideration. Whilst many in the industry are reporting low levels of unemployment and the expectation of wage breakout, some economists believe dark clouds are over the horizon.

The Australian economy has avoided recession on the back of mining and housing booms that have peaked and are now in decline. Interest rates have remained low for record periods spurring discretionary spending from households resulting in high household debt relative to GDP of 130%.

Recent construction activity in Adelaide has been positive, with numerous cranes visible on the skyline (the most in over a decade), and interest from interstate and overseas developers seeking opportunities with lower land costs than the Eastern States.

Adelaide contractors from the Tier 1 pool (ie. not national contractors) are in general tendering with sustainable margins, no longer willing to tender with nil margin to win cashflow projects. Adelaide continues to suffer from reduced competition because of a reduced pool of qualified trade contractors and lack of labour in key trades for Tier 1 work.

Tier 2 and 3 contractors remain very competitive, with little or no margin tender submissions very common. EBA labour cost increases have generally been absorbed in tender pricing for the time being.



Calvary Private Hospital, Queen Elizabeth Hospital upgrade, Lyell McEwin health hub, and numerous aged care projects comprise the current health and aged care / aged living related sector.

The \$330M Adelaide Casino redevelopment was announced in July 2017 and tenders are about to close.

Student accommodation and CBD apartment projects are in various stages of construction with a few having broken ground, and more in the pipeline.

There are a number of significant defence projects currently under construction and due to commence, also numerous large retail projects underway and starting in 2018.

The South Australian Government has announced the Building Better Schools programme worth circa \$679M to be undertaken in 2018/19.



ABS Price indices show an anaemic 0.8-1% price escalation over the previous 12 months.

Recent shortages in scrap steel from China have contributed to a price increase in September and November for steel reinforcement of approximately 15%, concrete supply costs have followed suit with approximately 3.5% increase at the end of 2017.

National Tier 1 and Adelaide Tier 1 contractors surveyed are forecasting up to 4% escalation for the new year citing many years of "catch up". Whilst we believe there will be increased escalation, we do not believe such a jump is likely.

Tender Price Escalation rates are expected of 2-3% per annum for 2018 and maintaining similar percentages throughout years 2019 and 2020.

AUSTRALIAN CAPITAL TERRITORY



Confidence in construction remains high across all sectors for the foreseeable future, which continues the increased confidence from 2017.

The Canberra business sector can see stability has returned in local Government, with the recent key Government appointments. However, the uncertainty created by the Federal Government in its public service relocation program is evident in the market and starting to shake Canberra with office vacancy rates hovering around 12%.



Expectations in value for the commercial / retail / housing and aged care sectors of the market are all on an upward trend. Forward work schedules have increased, but there has been a slight drop in employment levels from 4.5% to 3.3%.

Foreign investment and sales expectations are down again this quarter, but remain in line with national indicators. Concerns remain about the Federal Government's ability to manage and plan for growth, which is in stark contrast to views on the Territory Government where confidence is again on the increase.

There has been an ease in debt finance availability, but sentiment remains negative with the Australian Capital Territory following the rest of the nation. Concerns regarding an interest rate increase have also settled somewhat in the last six months.

Contractors continue to report that the market is keen for work with numerous subcontractors responding to requests for pricing.



With the current confidence levels, we have adjusted our forecast for Tender Price Escalation which is now forecast to be in the order of 3.0 – 3.25% in 2018 and 3.25 – 3.5% for 2019.



Hobart construction activity is currently elevated. A number of large construction projects such as NRAS apartments, Mac 01 Hotel, Ibis Hotel and Parliament Square Stage 1 are now complete.

Some of the larger projects currently underway include the Royal Hobart Hospital Redevelopment, UTAS Hedberg Performing Arts project, Myers Stage 2, Parliament Square Stage 2 works and Mona extension works. The Hyatt Hotel development is expected to start during the first half of 2018.

There are a substantial number of large projects which are currently in planning stages including Kangaroo Bay Hotel and Hospitality Training School, Federal Hotels Port Arthur Resort, several Franchise Group Hotel projects and various other hotel developments.

There are a large number of smaller scale developments from private investors, the Department of Health, and the Education Department now underway or due to start next year which are currently occupying both Tier 1 and Tier 2 contractors.

The north of the State has seen a growth in construction activity with contractors reaching their capacity. Larger projects in Launceston include the Silo Hotel, CH Smith Site development and the Boral Plant.

Regional areas of the State also have significant developments. Construction work has started on the St Helens District Hospital on the East Coast, and the Devonport Living City development.

Civil works projects including the major highway link between Hobart and Launceston are underway, and various infrastructure and large subdivision projects are being planned.

Future activity throughout the State is expected to keep the market at capacity. There are a significant number of large construction projects which are expected to come on line next year throughout the major centres of the State and also within regional areas.

In addition, there are a number of future developments including UTAS Science Technology and Mathematics development within Hobart CBD, the redevelopment of the former Hobart Railyard site on Macquarie Point, and the UTAS Launceston City campus development.



In the immediate future, hotels are expected to be the strongest performing sector with developments throughout the State. As larger UTAS projects come on line next year, Universities / Education are expected to be a key sector.

The domestic housing construction sector is currently buoyant spurred on by the recent performance of the residential sales within the State. The aged care sector is also currently active as aged care providers seek to increase capacity of their facilities and lifestyle villages to keep up with the forecast demand.

The Education Department is rolling out projects within the State which are generally going to both Tier 1 and Tier 2 contractors.



Tender Price Escalation for the past year was around 3%.

The tender rise forecast is based on reasonable spread of future workloads. If all predicted projects come on line concurrently, then this could saturate the market and cause a sudden spike in tenders.

The Tender Price Escalation rates are therefore expected to be around 3.5% pa for the next 3 years.

NORTHERN TERRITORY



The Northern Territory economy, and the growth it experiences, are closely tied to the global, rather than the domestic, economy. The construction industry remains the largest industry contributor within the Territory economy. The value of this construction sector has surpassed historical levels due to the development of the INPEX LNG gas project.

This project is approaching the completion phase of construction, and will soon enter the beginning of the production phase. The effect of this project and the adjustments needed to shift into the next phase can be seen through a gradual increase in unemployment, leading to sluggish retail expenditure, only increasing by 1% this quarter as compared to 2.9% nationally.



The average employment growth rate is forecast at 1.8% over the next 5 years, which can be attributed to a steady stream of non-residential projects to further support the construction sector up until 2020. The \$13 billion Greater Sunrise floating LNG project, led by Woodside, is still a possible new development, which has the potential to stimulate activity.

The project currently remains on hold, as discussions between the Australian and East Timorese governments continue. There are another two gas projects, worth close to \$3.5 billion, also awaiting approval. Commercial construction projects currently underway include the Darwin City Waterfront development, worth \$0.9 billion, and a \$0.5 billion upgrade of the HMAS Coonawarra and Larrakeyah Barracks. Works are also due to start later this year on the \$0.25 billion Westin hotel at the Darwin Waterfront.

In the 2017/18 State Budget, the government is expecting operating deficits until 2020/21, however spending on infrastructure worth \$1.75 billion should assist in supporting economic growth. This is a miniscule investment in comparison to the Inpex Ichtyis project. The prospect of new developments creates an air of cautious optimism for investors and tenderers, and should help to offset downturns experienced by the completion of the major boost that was the INPEX LNG project.



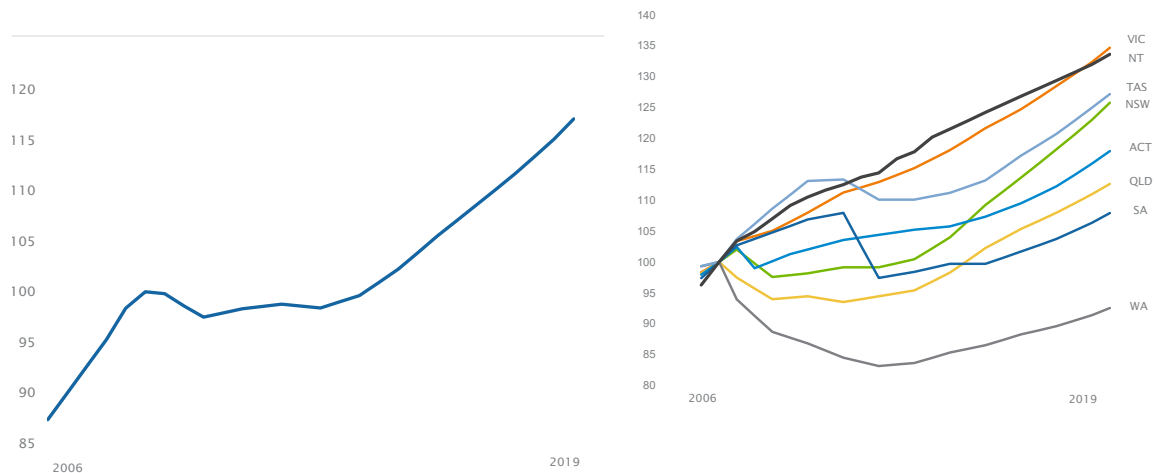
Based on the above, our outlook for the Northern Territory construction market is steady for the short term, but could become more positive should various projects come to fruition. We are of the opinion that escalation will be around 2.0% over 2018 rising to around 2.5% in 2019.

TENDER PRICE ESCALATION FORECASTS

WT TENDER PRICE ESCALATION FORECAST

WT AVERAGE TENDER PRICE ESCALATION

AUSTRALIAN AVERAGE



The above graph index is set at 100 for September 2008. Recorded data and forecasts are based on tenders for large building construction projects (value \$20 million to \$300 million).

The above graph does not reflect the relative cost differential between the different States and Territories.

WT AVERAGE TENDER PRICE ESCALATION

		NSW	VIC	QLD	WA	SA	ACT	TAS	NT
Actual	2006	4.6%	4.2%	5.9%	12.0%	6.3%	6.3%	5.9%	9.1%
	2007	4.6%	4.5%	5.5%	10.9%	7.6%	6.0%	5.1%	7.4%
	2008	4.0%	5.1%	-0.7%	-2.8%	5.4%	4.6%	5.2%	3.5%
	2009	-4.4%	1.6%	-3.6%	-5.7%	2.0%	-1.9%	4.7%	3.3%
	2010	0.6%	2.8%	0.5%	-2.1%	2.0%	2.3%	4.1%	1.8%
	2011	1.0%	3.0%	-1.0%	-2.7%	1.0%	1.5%	0.2%	1.7%
	2012	0.0%	1.5%	1.0%	-1.6%	-10.0%	0.8%	-2.9%	3.0%
	2013	1.3%	2.0%	1.0%	0.6%	1.0%	0.8%	0.0%	3.1%
	2014	3.5%	2.5%	3.0%	2.0%	1.3%	0.5%	1.0%	2.2%
	2015	5.0%	3.0%	4.0%	1.4%	0.0%	1.5%	1.8%	2.2%
Forecast	2016	4.0%	2.5%	3.0%	2.0%	2.0%	2.0%	3.5%	2.1%
	2017	4.0%	3.0%	2.5%	1.5%	2.0%	2.5%	3.0%	2.0%
	2018	4.0%	3.0%	2.75%	2.0%	2.5%	3.25%	3.5%	2.0%
	2019	4.5%	3.5%	3.0%	2.5%	3.0%	3.5%	3.5%	2.5%

The above indices reflect capital city CBD and metropolitan construction costs.

WT PARTNERSHIP IS AN AWARD WINNING INTERNATIONAL COST AND CONSULTANCY PRACTICE.

Our expertise covers the building, construction and infrastructure sectors, as well as consultancy services that assist with the acquisition, operation and divestment of assets.

WT draws on the collective experience, knowledge and capability of our professional staff in locations throughout Australasia, Asia, North America, Canada and Europe to provide our clients with the right advice on all aspects of cost, value and risk to assist in achieving optimum commercial outcomes.

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NOTE ON APPLYING TENDER PRICE INDICES

A number of project specifics should be considered when reviewing tender price escalation forecasts including, but not limited to, the procurement route, size, complexity, location and risk. Equally, the keenness of tenderers is important in terms of pricing and this will be driven by issues such as local market dynamics, workloads, hotspots and realisable margins. With the current uncertainties in the local, national and international arenas, it is important to continually monitor the market and review escalation allowances. Clearly, it is very difficult to predict future escalation over the next few years therefore the advice is offered for guidance purposes only.

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