

INTERIM REVIEW OF AUSTRALIAN CONSTRUCTION MARKET CONDITIONS

JULY 2015



Trade bottlenecks continue in New South Wales, Victoria and Queensland following steady tender and construction activity. On the East Coast the broader construction market is performing well with apartment sector activity being the key driving force behind current tender price escalation.

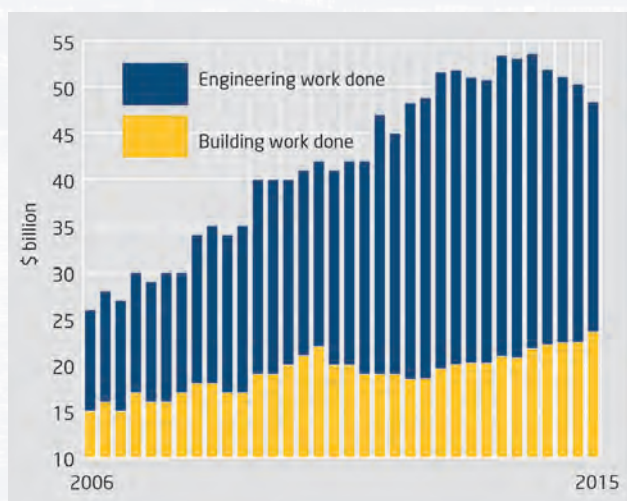
Trades, including partitions and linings, tiling, formwork and mechanical services, continue to experience higher tender price escalation compared with the broader market. Upward pricing pressure in the concrete trade is also expected to continue with a major national subcontractor recently going into administration.

Head contractor order books are filling in New South Wales, Victoria and Queensland, leading to more selective tendering.

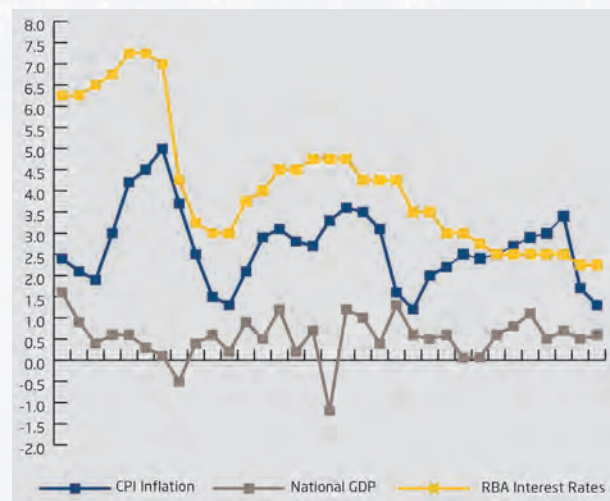
Revitalisation of the private sector continues as activity in the mining and infrastructure sectors declined. March 2015 Australian Bureau of Statistics (ABS) data confirmed the value of 'Building work done' (excluding infrastructure and mining work) recorded its highest ever value, rising 5.0% from the previous quarter. This compares with an average quarterly increase of 1.3% over the previous eight years.

The national construction and tender market dynamics evident in the first quarter of 2015 have generally continued into the second quarter of the year. Tender escalation has been more prevalent in New South Wales, Victoria, Queensland and to a lesser extent Western Australia than in the Australian Capital Territory, Tasmania and South Australia. We maintain our forecast national average tender price escalation of 3.6% in 2015, rising to 3.8% in 2016 and 2017.

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



NATIONAL ECONOMIC INDICATORS



National GDP measure: seasonally adjusted quarterly % change
 Source: RBA; ABS; Quarterly trend review on GDP, CPI inflation, RBA cash rate.

NEW SOUTH WALES

The NSW market continues to perform in line with our previously reported expectations with most sectors remaining buoyant.

There is increased confidence in the Infrastructure sector as the 99-year lease of 49% of the State's electricity 'poles and wires' is set to generate a \$20 billion revenue stream which will fund projects including the WestConnex, a second harbour crossing and investment in schools, hospitals and essential public infrastructure. This investment is likely to maintain the demand for skilled tradespeople for the foreseeable future.

Structural trade rates remain high in NSW but are notably less volatile compared to three months ago. Rates for finishes trades are beginning to increase as anticipated. Major subcontractor and head contractor margins remain competitive.

Confidence within the industry and the anticipated future demand leads us to maintain our 2015 and 2016 forecast of 5.0% and increase our 2017 escalation from 4.5% to 5.0%.

VICTORIA

Construction tenders in the Tier 2 and Tier 3 market have remained competitive in the second quarter of 2015. Pricing in the sub-\$50 million market has been keen with healthy demand for new work by head contractors and subcontractors alike.

Strong activity in the large mixed-use and residential development sector continues and points to a healthy short term demand for Tier 1 building contractors and subcontractors. Concurrent development of large projects and critical subcontractor supply constraints should maintain upward pressure on tender escalation.

Overall, construction activity has remained strong and the Victorian escalation forecast remains at 3.0% in 2015 and 2016; and 3.3% in 2017.

QUEENSLAND

The robust construction activity seen in the state in the first quarter of 2015 has continued in the second quarter. With a large volume of projects currently under construction and a very active tender market, it appears this level of activity will continue and potentially increase.

In particular, apartment construction in the CBD and inner city suburbs remains strong. Investors from the southern states are reportedly looking toward Brisbane and the Gold Coast to avoid surging property prices in Sydney and Melbourne. This sector is expected to continue to provide contractors with a steady stream of tenders, at least in the short-term.

Construction and tender activity in other sectors is steady. The retail sector continues to absorb a significant amount of contractor capacity.

Given the continued strength in the Qld market, we maintain our previous tender price escalation forecasts of 4.0% in 2015 and 4.5% in 2016 and 2017.

SOUTH AUSTRALIA

Our March forecast for SA was optimistic with talk of 'green shoots' and the increasing likelihood of rising escalation into the second half of the year. Three months further into the year, the industry does not appear to share this optimism. It appears that many of the projects envisaged to commence and / or be tendered in mid-2015, have been delayed until late 2015 or early 2016. Therefore, local Tier 1 contractors are advising nil escalation for the remainder of 2015.

Builders and trade contractors are therefore expected to absorb any minor labour escalation from EBAs in 2015 with the impact of exchange rate fluctuations on services trades the major potential for increased costs for 2015.

We therefore revise our tender escalation forecasts to 0.0% for the balance of 2015 and maintain our 2016 and 2017 escalation forecasts at 2.5% and 3.0% respectively.

WESTERN AUSTRALIA

The sentiment in the Perth metropolitan construction market remains positive. We continue to see competitive pricing from Tier 1 and Tier 2 contractors across all sectors. The slowdown in the resources sector has led to increased competition in the WA construction market. In addition, we continue to see an influx of East Coast contractors and subcontractors expanding into the West.

Main growth sectors going forward are retail, hospitality, commercial and hotel refurbishments. There are considerable high rise residential projects currently at various stages of development. The activity in this sector is absorbing capacity and this is forecast to continue in the short to medium term.

We anticipate significant expenditure in infrastructure over the coming years, as this sector is yet to meet its true potential in WA.

Due to factors including the continued contraction of activity in the resource sector, we forecast tender price escalation of 1.4% in 2015, 2.1% in 2016 and 2.2% in 2017.

TASMANIA

Current market escalation in Tas is trending in line with our previous forecasts, however we may see a heightened market in the back half of the year.

We are seeing an increase in proposed aged care facilities in the early stages of planning that will likely commence in 2016.

The Royal Hobart Hospital Project, which was stalled due to funding issues, has now been brought back on line with packages currently out to tender. The project is scheduled for completion in December 2018.

In recent years, a number of local contractors have exited the Tasmanian market. Therefore, current supply and demand for contractors in the state is close to equilibrium. With demand forecast to increase on the back of increased activity, short-term tender price escalation in certain trades may materialise.

We forecast tender price escalation of 1.75% in 2015 and 2.0% in 2016 and 2017.

AUSTRALIAN CAPITAL TERRITORY

The rise in confidence in the ACT property sector noted in our March review has continued into the June 2015 quarter. The ANZ/Property Council Survey indicates sentiment has lifted with the forward work schedule looking healthy and an increase in the availability of debt finance.

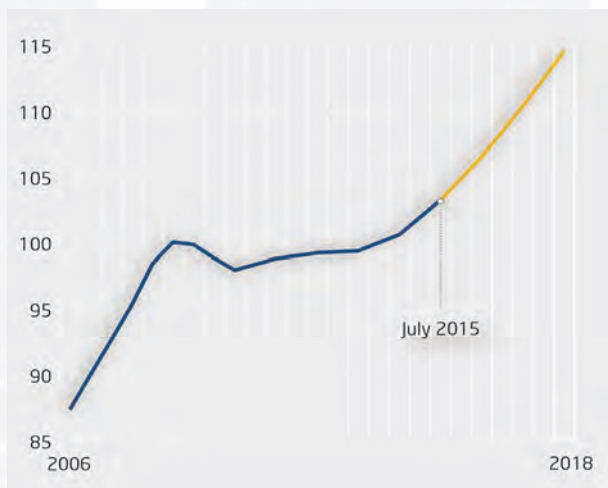
However, following the 2015 ACT budget announcement on the 2nd of June, concerns remain over a lack of stimulus for the commercial property sector which has a key role to play in the Government's urban renewal agenda. Major projects such as the new hospital, City to the Lake, renewal of public housing stock and new roads are all important but are not viewed as part of a targeted and integrated urban renewal program.

In the residential sector, the impact of Canberra job losses has reduced demand. However, with the public service cuts now largely over, activity is expected to pick up, particularly on the back of record low interest rates and improving foreign investment in new dwellings.

Our tender price escalation forecasts remain at 1.5% in 2015, 2.5% in 2016 and 3.0% in 2017.

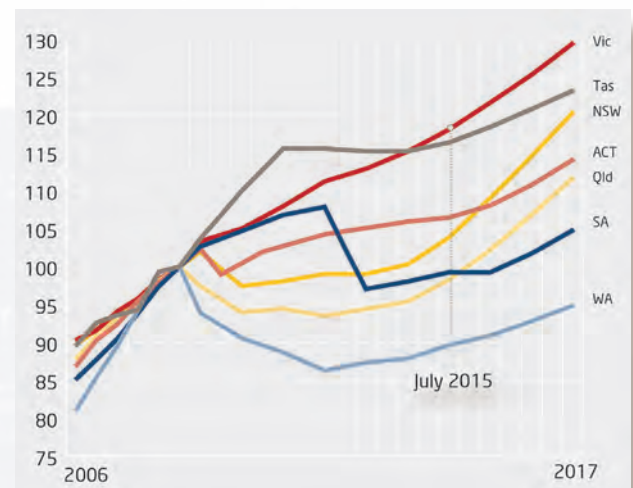
Tender Price Escalation Forecasts Regional Market Summary

WT PARTNERSHIP TENDER PRICE ESCALATION FORECAST - 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).

WT PARTNERSHIP TENDER PRICE ESCALATION FORECAST - STATE BY STATE



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

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

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

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CONTACT US

Adelaide

Sam Paddick
T: +61 8 8274 4666
E: spaddick@wtpartnership.com.au

Brisbane

Craig McHardy
T: +61 7 3839 8777
E: cmchardy@wtpartnership.com.au

Canberra

James Osenton
T: +61 2 6282 3733
E: josenton@wtpartnership.com.au

Gold Coast

Jason Thornley
T: +61 7 5591 9552
E: jthornley@wtpartnership.com.au

Hobart

Lee Deacey
T: +61 3 6234 5466
E: ldeacey@wtpartnership.com.au

Melbourne

Tim Roberts
T: +61 3 9867 3677
E: troberts@wtpartnership.com.au

Perth

Scott Parrott
T: +61 8 9202 1233
E: sparrott@wtpartnership.com.au

Sydney

Nick Deeks
T: +61 2 9929 7422
E: ndeeks@wtpartnership.com.au

Townsville

Jason Dixon
T: +61 7 4722 2760
E: jdixon@wtpartnership.com.au

WT Sustainability

Stephen Hennessy
T: +61 2 8197 9140
E: shennessy@wtsustainability.com.au

www.wtpartnership.com.au

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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 arena, 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 above advice is offered for guide purposes only at this point.