REVIEW OF AUSTRALIAN CONSTRUCTION MARKET CONDITIONS

MARCH 2015

WT Partnership's November 2014 Review of Australian Construction Market Conditions publication forecast continued competitive tendering for the remainder of 2014 and into 2015. It was forecast that tender escalation would be 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. To date this forecast has proven correct. The tender market in the latter group of states remains very competitive with pressure on contractors and subcontractors alike. Margins remain very tight. Meanwhile, New South Wales, Victoria and Queensland are experiencing supply constraints and bottlenecks in certain trades, contractors are beginning to increase margins and for various trades, subcontractors are being more selective. Western Australia is positioned between the two above mentioned groups, showing healthy signs despite a flat resource sector.

Continuing from our 2014 market reports is the ongoing revitalisation in the private sector as activity in the mining and infrastructure sector continues to decline. December 2014 Australian Bureau of Statistics (ABS) data again supported this trend with the value of 'building work done' (excluding infrastructure and mining work) rising further from an all-time high in the September 2014 quarter. The value of infrastructure and mining works continued its decline over the same period. The quarterly measure of the 'value of engineering work done' (broadly representing the mining and infrastructure sectors) has now decreased in 8 of the last 10 quarters.

The escalation pressures evident in the fourth quarter of 2014 are largely still prevalent in 2015. Currently, the significant development of multi-level residential projects, particularly in New South Wales, Victoria and Queensland is placing pressure on all trades. In particular the formwork, partitions and linings and mechanical services trades are currently vulnerable. With the persistent strengthening of residential projects and a healthy pipeline of future projects we are aware of the potential for critical short term supply shortages and the potential sharp price escalation which may result from bottlenecks in supply.

The capacity for these trades to experience above average escalation pressures is not limited to the multi-level residential sector. Notably, our Brisbane office has recently seen instances, on major retail projects, where letting of structural trades has been significantly affected by capacity constraints. Subcontractors in select trades are now in the position where they can turn down difficult or complex projects in favour of simpler, and potentially less risky, multi-level residential projects. Also, anecdotally, there are reports of an increase in concrete supply rates of $15 to $18 per m^3 from April 2015. Structural steel has remained competitive, perhaps partly offset by suppressed commodity prices.

Our Sydney office is seeing the strong residential market impacting on escalation to the wall-linings trades with the impact also being felt in the health sector. Nationally, services trades are showing signs of decreased competition particularly in mechanical services. Subcontractors are taking the opportunity to catch up on tight margins tendered in previous years and are being more selective in regard to the projects they choose to tender. This tightening market has resulted in a decrease in tender returns and an increase in spreads of tender pricing. Such market dynamics were unheard of over the past few years.

In addition to supply constraints, services contractors, lift and escalator contractors, façade contractors and bulk joinery contractors are facing increased costs due to the falling value of the Australian Dollar (AUD). With recent comments from the Reserve Bank of Australia (RBA) strongly suggesting it wishes to see a further decline in the value of the AUD, the impact of price escalation in overseas materials and goods may be felt harder later in the year.

Enterprise Bargaining Agreements (EBAs) currently being negotiated will further contribute to construction cost escalation in 2015 and beyond. However, for now, industrial action across the national construction industry remains relatively subdued.

Despite a sustained decline in activity, the mining sector continues to absorb a significant amount of construction capacity. Demand in the mining sector is forecast to continue its decline as projects progress further from the construction phase in to operation and maintenance phases. Recent sustained pressure on commodity prices is only adding to the sectors' woes. Notwithstanding, construction expenditure in the mining sector should not be underestimated with the value of 'engineering work done' (broadly representative of mining and infrastructure works) still comprising 55% of the total value of construction work done in Australia.

While New South Wales continues to provide a buoyant infrastructure market, sharp falls in transport, utility and mining infrastructure in other states are expected to account for a significant drop in infrastructure across Australia over the next six months. Changes in state government (in Victoria and Queensland) have resulted in major projects being dropped or put on hold while these new governments take stock. Bruce Highway in Queensland and the East West Link in Victoria could see between $8 billion and $12 billion of projects evaporate from the national economy this year. Therefore we expect to see margins increase in New South Wales and escalation to ease slightly in Victoria and Queensland while new state governments settle in. Escalation in other states and territories is expected to remain steady in the next quarter.

Despite notable spikes in trade escalation and project specific escalation due to short term bottlenecks and imbalances, the broader tender market remains largely competitive. Even in New South Wales, Victoria and Queensland, in most instances, adequate subcontractor capacity remains and a number of head contractors, tier 1, 2 and 3 alike, remain hungry for work. However, the cut throat competition experienced in 2013, and to a lesser extent 2014, has passed at least in New South Wales, Victoria and Queensland. Tender markets remain very keen in other states and territories.

In conclusion, our forecast for tender escalation remains consistent with the position noted in our November 2014 report. The Australian Capital Territory, Tasmania and South Australia will remain very competitive with escalation to increase moderately in correlation with the respective economic conditions. Margins will increase in New South Wales, Victoria and Queensland as contractors find it more difficult to extract margin post-contract and subcontractors now find themselves presented with a degree of choice. We anticipate national average tender price escalation to trend in the order of 3.6% in 2015, rising to 3.8% in 2016 and 2017.

NATIONAL CONSTRUCTION INDICATORS

In the 12 months preceding December 2014, in nominal terms, the 'total value of construction work done' (comprising all construction work nationally) decreased by 0.62% compared with the 12 months preceding December 2013.

In the 12 months preceding December 2014, in nominal terms, the seasonally adjusted estimate for 'building work done' increased by 8.23%. This compares with an increase of 7.67% for the same period one year earlier. In the 12 months preceding December 2014, the seasonally adjusted estimate for 'engineering work done' decreased by 6.39%. This represents a significant decrease in comparison with peak periods which saw 'engineering work done' increase by 23.58% between December 2010 and December 2011, and 23.95% between December 2011 and December 2012.

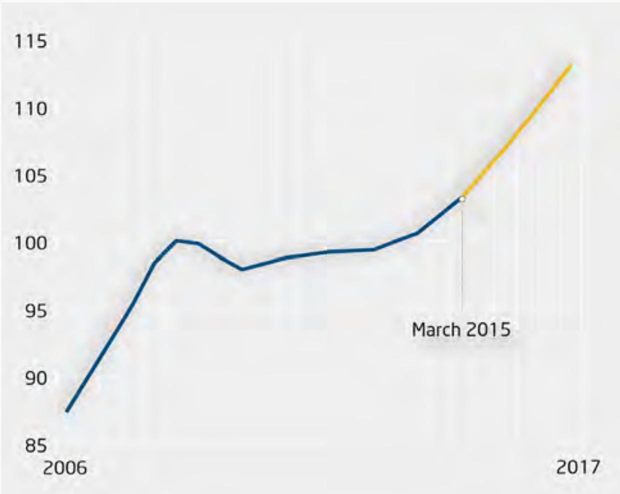
Following a minor quarterly increase in the March 2014 quarter, the June, September and December 2014 quarters show nominal decreases in the 'total value of construction work done' of 3.16%, 1.50% and 1.56% respectively. 'Building work done' recorded nominal increases of 1.99% and 1.06% in the June and September 2014 quarters respectively followed by a minor increase of 0.13% in December 2014. Conversely, the value of 'engineering work done' recorded nominal decreases of 6.68%, 3.42% and 2.89% in the June, September and December 2014 quarters respectively.

The 'total value of construction work done' for the June 2014 quarter has come off record highs of $53.6 billion achieved in the March 2014 quarter to $50.3 billion in the December 2014 quarter. Notably, in the June 2014 quarter, 'engineering work done' experienced its largest quarterly decrease in the past 8 years and has decreased 8 out of the last 10 quarters.

Continued quarterly decreases in 'engineering work done' coupled with moderate increases in 'building work done' are causing a relatively extended period of contraction in the 'total value of construction work done' with the current situation of 3 consecutive quarterly decreases not seen in the last 8 years.

Of the 'total construction work done' in the amount of $207 billion during the 12 months preceding December 2014, 'building work done' represented 42.9% of 'total construction work done' while 'engineering work done' represented 57.1%. The share of 'building work done' and 'engineering work done', as a percentage of the 'total value of construction work done' per quarter, was trending relatively flat from September 2012 through to March 2014. The significant decreases in 'engineering work done' in the June, September and December 2014 quarters, coupled with the moderate increases in 'building work done' in the same period appears to be the end of this trend. In the March 2014 quarter the share of 'building work done' as a percentage of 'total construction work done' exceeded 40.0%, for the first time since December 2011, and has continued to increase relatively significantly to 44.6% in the December 2014 quarter.

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).

NATIONAL ECONOMIC INDICATORS

GDP expanded 2.4% from December 2013 through to December 2014 averaging an increase of approximately 0.6% each quarter.

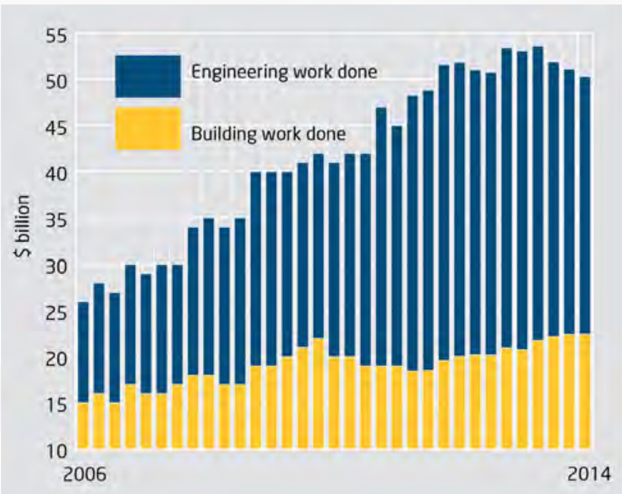
CPI rose 1.7% over the year ending December 2014. This compares with an average comparable rate of 2.3% since March 2012. The 1.7% December 2014 CPI figure represents the second decrease in as many quarters since the 3% reported by the RBA in the June 2014 quarter. The 3% June 2014 figure was the last of consecutive quarterly increases since the 2.2% reported in September 2013. Notably, the current CPI rate has fallen below the RBA's target range of 2-3%. Despite falling outside the target range, the RBA's 3 March Monetary Policy Decision Media Release re-confirmed the RBA's forecast for inflation 'to be consistent with the 2–3% target over the next two years'. The RBA appears to have adopted a cautionary stance but left the door open for further cuts this year with its media release stating 'further easing of policy may be appropriate over the period ahead'. Despite the recent fall, CPI remains higher than the previous significant low of 1.2% reported in June 2012.

The AUD, which has ranged between approximately US$1.11 and US$0.80 over the last 5 years, has fallen well below parity. As of March 2015 the AUD was trading in the order of $0.76 against the US Dollar which is its lowest point since the first quarter of 2009. Following its February meeting, where a marked softening of its rhetoric on the AUD's strength was evident, in March the RBA re-galvanised its desire to see the AUD drop further. The RBA did not 'mix words' in its media release stating 'a lower exchange rate is likely to be needed to achieve balanced growth in the economy'.

The seasonally adjusted Australian unemployment rate rose to 6.4% in January 2015 up from 6.1% in December 2014. It has since reduced to 6.3% in February 2015. Unemployment now appears to have established itself in the 6.0% to 6.4% range up from the 5.0% to 5.2% range at the peak of the 'mining boom'.

The RBA's current cash rate is 2.25% after a 25 basis point drop in February 2015. Given the RBA position and current market sentiment, further cuts in 2015 appear likely. Bell Potter analyst Charlie Aitken has stated as a 'very real possibility', a cash rate below 2.0%.

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.

State By State Summary

NEW SOUTH WALES

Since our November 2014 publication, strong activity remains in the Sydney market with no obvious slowdown anticipated for the forthcoming quarter. Across the sectors only the industrial market is stagnant with very few new 'big-box' warehouses under construction.

Activity in the commercial fitout sector continues to be strong, particularly in the Sydney CBD. Barangaroo still acts as a major influence on tenant movements with landlords of CBD tenancies upgrading their existing stock and offering attractive incentives to prospective tenants. Adaptive re-use also continues to be the focus of some feasibility studies in the CBD. We have also noted increased activity in suburbs such as Parramatta, North Sydney, St Leonards, Macquarie Park and Chatswood. Outside of the CBD the residential, health, education and aged care sectors remain buoyant.

The sub-contract rates for a number of specific trades continue to increase with the structural trades, in particular formwork and post-tensioning, appearing particularly keen to capitalise on the active market. In some cases we are seeing a reduction in the number of trade tenders being returned or seeing huge variance in the tender prices. This is another indicator that the market is heating up, giving subcontractors the opportunity to be more selective and increasing margins accordingly.

A further increase in trade rates is almost certain given the strong market and recently agreed EBAs impacting further on the formwork, reinforcement fixing, and lift and escalator trades with potential labour increases of 8.0% to 9.0% per annum over the next three or four years. Regardless of the strong market, preliminaries and margins for tier 2 contractors remain very competitive.

In our last market report of 2014 we noted that momentum within the State's infrastructure sector was being led by TfNSW with the New Rapid Transit Line under construction and its programme of upgrades to rail and ferry assets assisting in driving this sector. It is now apparent that transport projects in planning and construction are causing prices to increase beyond expectations as competition is scarce. The majority of tier 2 civil contractors in the transport sector have little or no spare capacity so are either declining to tender or adding substantially higher than normal margins.

In turn, progress on the New Rapid Transit Line has resulted in residential re-zoning along the rail corridor. This has been a factor in driving apartment approvals and construction outside of the CBD. The current under supply of residential stock with low rental vacancy rates is likely to continue to drive demand in this sector. In summary the New South Wales market has aligned with our expectations for the first quarter of 2015. Confidence is high and the volume of work across most sectors continues to have an impact on many of the structural trades. We expect that this trend will flow through to the services and finishes trades throughout 2015 and for the medium term resulting in escalated tender prices.

We anticipate tender escalation to be in the order of 4.0% for residential works for the remainder of 2015 with contractors remaining competitive in the short term. Infrastructure will be closer to 6.0% escalation with tier 2 and 3 infrastructure contractors remaining competitive at around 3.0%. Commercial projects are likely to see costs increase by 4.0% in the short term. The previously reported industry-wide rates of 5.0% in 2016, and 4.5% in 2017 remain relevant.

The re-election of the State Government will further underpin growing confidence in both the property and infrastructure sectors.

VICTORIA

Since our November publication the Victorian election has occurred and a new government has taken office. The granting of major commercial and residential project permits since October 2014 has been rare and projects currently at or close to tender are flowing from the intensity of developer activity (and permits received) in the second and third quarters of 2014. There are a number of major mixed-use projects on hold pending a planning outcome.

The subcontractor and head contractor market continued to remain competitive in the fourth quarter of 2014 with the anticipated volume of work to tender in the first half of 2015 moderating.

A strong appetite from foreign investors for medium to large scale residential and hotel sites is manifesting as enquiries for acquisition or advanced feasibility studies continues. Various 'facilitators' have suggested new offshore phone enquiries to trusted local developers regarding the state of the Victorian market as greater than ever before.

We previously highlighted a potential 'bottlenecking' of key trades including reinforced concrete, façade and joinery subcontractors. These trades will continue to be placed under pressure but notably increased pressure in the event new planning policies facilitate approvals of larger, higher volume projects.

The cancelling of the East West Link project has left capacity in the civil and infrastructure sector which is in a small part being absorbed by the State Government's level crossing removal programme. One of the major factors affecting the price of construction is the impact of the falling AUD. Subcontractors will experience price rises in imported materials for major building elements such as facades, vertical transportation, mass produced joinery, specialist mechanical and electrical equipment and lighting as examples. Given this potential bottlenecking and currency effects on imported goods, developers, particularly in the multi-level residential sector, should be cognisant of potential sharp and sudden tender escalation in these trades. There are however moderating influences such as lower fuel costs as well as lower commodity prices and falling interest rates.

Overall, the confluence of government policy, macro-economic effects and foreign investment appetite are shaping for an interesting year for Victorian construction costs. We anticipate tender escalation to be in the order of 3.0% in 2015, 3.0% in 2016 and 3.3% in 2017.

QUEENSLAND

The steady tender and construction activity in the latter half of 2014 as reported in our November 2014 publication has continued through the first quarter of 2015. The construction and tender market in South East Queensland is very active. This is particularly the case in the medium to high density multi-level residential sector and the retail sector. Whilst head contractors remain keen, competitive and eager to win new work, pricing is being impacted by a less competitive subcontractor market. Certain trades, such as formwork, partitions and linings and mechanical services, are experiencing more activity and hence upward pricing pressures.

The recent Queensland state election and subsequent removal of the Liberal Government failed to subdue the confidence and improved sentiment experienced in 2014 with positive market sentiment continuing in to the first quarter of 2015. The infrastructure sector has perhaps been most adversely affected with Labor's cancellation of the multi-billion dollar Cross-River Bus and Transit Tunnel and renewal of the Bruce Highway upgrade. However, other notable infrastructure projects including the $1 billion Gateway North Upgrade are proceeding. We will have to wait for the next State budget to gauge the full impact on public spending. There had been speculation as to the fate of the Queens Wharf redevelopment as a result of the election however this project has the support of the new government.

The multi-level residential sector continues to perform very strongly with a significant portion of tier 2 contractor capacity absorbed in this sector across numerous projects. This persistent strong activity is placing escalation pressures on certain trades inherent to these projects. In particular, structural trades including formwork, concrete, post-tensioning, and reinforcement fixing are experiencing supply bottlenecks resulting in above average escalation. Finishes trades, particularly partitions and linings, are also becoming less competitive as capacity is absorbed by this sector.

As previously noted our office continues to receive increased levels of enquiry from Asian developers. Local financiers have also reported increased levels of enquiry from Asian developers and investors, particularly in the multi-level residential sector. This is expected to continue to drive activity.

In what has become a common thread in our commentary, Queensland's retail sector continues to grow with a number of significant projects now underway or soon to commence construction. Owners continue to plan ongoing capital expenditure over the short, medium and long term and we expect this sector to continue its strong growth for the foreseeable future.

Despite a record high vacancy rate of 15.0% to 16.0% in the commercial office market, the last six months has seen a decrease in the vacancy rate of premium space from 14.2% to 9.1%. Vacancy in the B grade sector, a market which has been described as over-supplied and under-demolished, is now at 23.0% and we foresee additional B grade commercial space being demolished to make way for residential development or converted to hotel, residential or student accommodation.

As per our previous commentary, the Gold Coast market has continued to perform relatively well. Work on the site of the $1 billion Jewel hotel and apartment development has commenced as has construction of the Commonwealth Games Athletes Village and Pacific Fair.

On the whole, contractors continue to report improved conditions and increasing demand in comparison to recent years. In addition to escalation in the structural trades and partitions and linings trades, the mechanical services trade continues to experience a lack of competition and volatile tender pricing.

The mining and resource sector has stepped well out of the limelight but remains a significant contributor to material and labour demand. The long-term pipeline of mining, resource and associated civil projects will continue to absorb significant capacity.

We forecast tender price escalation trending in the order of 4.0% in 2015 and 4.5% in 2016 and 4.5% 2017.

SOUTH AUSTRALIA

Our previous commentary described a South Australian market that was showing signs of 'green shoots'. The beginning of 2015 saw an increase in optimism with design consultants and contractors reporting an increase in the number and quality of enquiries. Many of these enquiries have reportedly proven slow to develop in to actual projects resulting in a flatter than expected start to 2015 with tendering opportunities not yet reflective of the level of enquiry in the industry.

As previously reported, private finance continues to be cautiously returning to the South Australian market with new apartment complexes, medium density residential developments and office fitout commencements increasing in the latter half of 2014 and additional projects expected to enter the market throughout 2015. The retail and aged care sectors are showing signs of improvement in the first quarter of 2015 with a number of medium to large projects currently in the planning phase. Other sectors remain relatively flat.

There are a number of projects in, or approaching, the construction phase which will absorb a substantial portion of supply including such projects as the Campbelltown Council Leisure Centre Redevelopment, the University of South Australia Great Hall, Sky City Casino, the Courts Precinct, the Adelaide University Health Precinct Building, the Second stage of the Adelaide Convention Centre, Vue Apartments and a number of residential projects in Adelaide CBD and inner suburbs.

The $2.1 billion Royal Adelaide Hospital is under construction, however, with a significant amount of the resources being supplied by interstate trade contractors, the impact on the local market has been much less than some had expected.

Our view is that escalation is expected to be in the order of 2.5% in 2015. Given the above mentioned projects and the promising leading indicator of increased enquiries to designers and contractors, we anticipate demand to increase toward the latter half of 2015. Until then we foresee the tender market remaining very competitive as contractors and subcontractors alike tender on very tight margins to fill order books and maintain cashflow. We anticipate tender escalation to be in the order of 2.5% in 2015, 2.5% in 2016 and 3.0% in 2017.

WESTERN AUSTRALIA

The Western Australian market over the period remains buoyant with a flurry of tender activity by both consultants and contractors alike, especially in the lead up to Christmas and early into the first quarter of 2015. This activity is in contrast to previous years.

The sectors in which we have noted increased activity include high rise residential within close proximity to the CBD, new hotel developments and retail expansion and refurbishment projects. The hospitality refurbishment sector remains strong as existing operators and owners move to keep pace with new developments at Crown Towers Hotel, Westin Hotel, Ritz Carlton and the new boutique hotels such as The Old Treasury site. The most recent notable hotel refurbishments announced are the Regis Hotel refurbishment and rebranding of the Intercontinental Hotel Group. Large scale retail developments are expected to come to market following DA submission for a number of key projects lodged including the Forrest Chase Redevelopment and Garden City Shopping Centre Expansion.

The high rise residential market is strong with a mixture of international and domestic developers focusing on studio, one and two bedroom apartment mixes with an increase in communal and common area offerings. We are also seeing a rise in the take up of car parking stackers to maximise area to cost ratios. With the gearing up of the development at the Waterbank precinct and the proposed development at the Belmont Racecourse, we are expecting this sector to perform well in the medium term.

We continue to see a stagnation in office development with recent statistics reporting a jump in vacancy rates from 11.8% to 14.8% in the final quarter of 2014. As a result, building owners continue to offer increased incentives across the spectrum of office grades in order to retain tenants and attract new tenants. We continue to see this market as a key area for growth in refurbishments and fitouts for the medium to long term.

Easing in the mining sector is impacting regional towns and infrastructure and services. However, through various government initiatives, a number of civic buildings and social infrastructure projects are in the planning phase and/or out to tender. With regard to private sector investment, we are beginning to see increasing interest in agriculture based projects, which will benefit regional Western Australia.

The contractor market remains competitive with tight margins the norm as previously reported. Contractors continue to report a shortage of bricklayers, formwork carpenters, a marginal increase in the cost of steel reinforcement and signs of tender escalation in the hydraulic and mechanical services trades. We are also seeing an increase in the use of Early Contractor Involvement (ECI) procurement strategies, as developers look for cost savings and fast tracking. Overall, our outlook for the Western Australian construction market is positive for the medium term, with strong activity likely to continue into 2016. We forecast price escalation in the order of 2.8% for 2015 rising to 3.1% for 2016 and 3.2% for 2017.

TASMANIA

Current market escalation in Tasmania is consistent with forecasts from our last publication. Building Activity statistics to September 2014 indicate an increase in 'Building work done'. However, according to data released on the 3 March 2015 by the Tasmanian State Government the value of building approvals continued to decline from November 2014 to January 2015.

Low economic growth and rising levels of unemployment have not yet been offset by low interest rates, the First Home Builder Boost, or the First Home Owner Grant (which ended on 30 June 2014). Notwithstanding, we forecast economic indicators and sentiment will show improvement in the short to medium term with four major projects recently commencing in Hobart comprising the Myer Redevelopments, Parliament Square development, the MAC01 hotel development and the NRAS student housing project for UTAS.

In addition, there are also a number of significant projects scheduled to start in 2015 including the UTAS Performing Arts Centre ($75 million), the Salamanca mixed use development ($100 million) and the Macquarie Street Hotel ($35 million) with the Royal Hobart Hotel development ($365 million) still under review. Within the civil works sector, the Hobart Airport extension and Midland Highway upgrades are scheduled to commence in 2015. The majority of these projects are in Hobart with the rest of the state having much less activity at present.

With Tasmania's growing tourism sector and higher levels of occupancy being forecast, our Hobart office has experienced an increase in enquiry for tourism projects and hotels. The Office of State Development has forecast a shortfall of 651 to 1,227 rooms in Hobart projected to 2020. Tasmania is also experiencing an increase in the number of retirement sector projects in the pipeline. More broadly, the housing sector remains flat and office vacancy levels continue to steadily increase.

We are cautiously optimistic for improvements to the State's economy and construction sector. However we do not anticipate costs will rise significantly this year. Tender margins are still tight but with a respectable pipeline of work in Hobart there is upward pressure on tender escalation as capacity in the sub-contractor market declines. We forecast price escalation in the order of 1.5% for 2015 rising to 2.0% for 2016 and 2017.

AUSTRALIAN CAPITAL TERRITORY

Confidence levels in the Australian Capital Territory (ACT) property sector continue to rise, due in large part to the Territory Government's implementation of policies affecting the housing, infrastructure and commercial sectors.

The ACT Government's signing of the Nation's first Asset Recycling Agreement is seen as a positive move by Canberra's property industry. Under the scheme, the ACT Government is eligible for a 15% bonus from the Federal Government when the ACT sells surplus assets to pay for new infrastructure. It is estimated that the sales, together with the bonus, will raise $450 million for infrastructure projects. A further positive consequence of the Asset Recycling Agreement is the opportunity for the private sector to create new precincts that better meet the needs of Canberra into the twenty first century.

Despite the below-trend growth of the national economy and concerns over the increase in unemployment, it is expected that recent developments at the national level will feed through to the ACT economy. The decision by the RBA to lower the cash rate 25 basis points to 2.25% should help, at least to some extent, to stimulate and underpin housing construction, so critical to the ACT's economic health.

The office vacancy rate continues to rise, increasing over the past six months from 13.6 % to over 15.0%. This increase is due to the combination of supply additions and a decrease in absorption. However, motivated in part by the spectre of urban decay becoming a feature of the city centre, the ACT Chief Minister has committed to the establishment of a new Urban Renewal portfolio. This is a real opportunity for the government to work with the property industry to develop strategies to attract investment and remove impediments such as the lease variation charge regime, which act as a brake on investment.

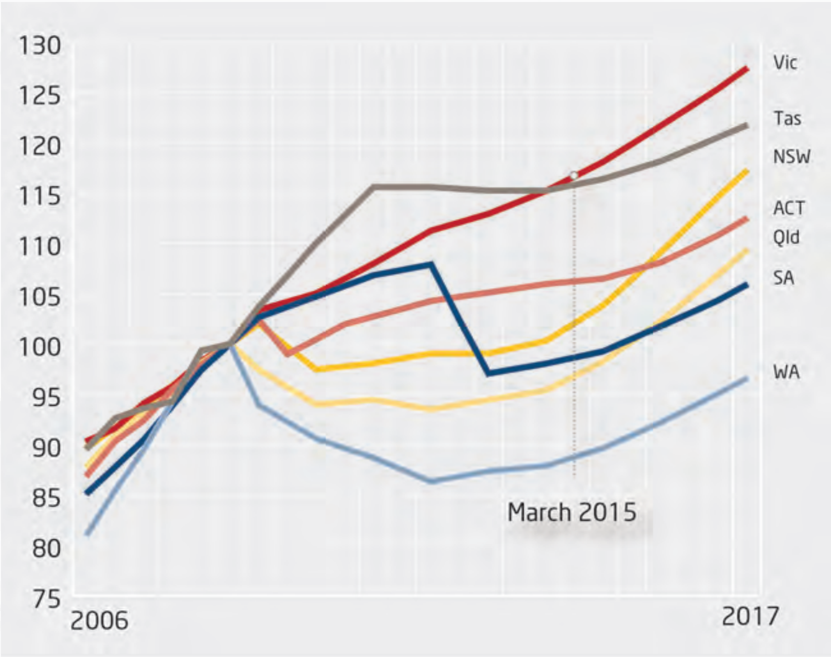
The urban renewal agenda also includes the decision to overhaul the ACT's public housing. The Public Housing Renewal Taskforce, established in September 2014, will replace almost 1,300 outdated public housing units. However, the regeneration plans have been somewhat complicated by the Heritage Council's controversial decision to list a number of the existing properties.

As anticipated in our previous publication, the ACT Government has fast-tracked the land release programme. This is largely in response to the implementation of the Mr Fluffy buyback scheme (arising from asbestos contamination and with 'clean up' costs forecast in the order of $300 million). In a sign of improved optimism, land sales in 2015 to date amount to $42 million due to very strong interest and high demand from developers.

With a revised masterplan, the Yarralumla Brickworks Redevelopment, a critical project in terms of urban renewal for the ACT has moved a step closer to commencement. The 42 hectare site will be home to 1,800 new dwellings and 2,600 m² of commercial space.

Local contractors continue to demonstrate that the market is hungry for work with numerous subcontractors keenly responding to requests for pricing. However, on the horizon the significant initiatives and projects mentioned above and the ACT Law Courts and University of Canberra Public Hospital projects will absorb a significant portion of local and interstate demand. With the improvement in confidence levels we maintain our forecast for tender price escalation in the order of 1.5% in 2015, 2.5% in 2016 and 3.0% in 2017.

Tender Price Escalation Forecasts Regional Market Summary



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%	2.5%	2.8%	1.5%
2016	5.0%	3.0%	4.5%	2.5%	2.5%	3.1%	2.0%
2017	4.5%	3.3%	4.5%	3.0%	3.0%	3.2%	2.0%

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

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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..