WT PARTNERSHIP

REVIEW OF AUSTRALIAN CONSTRUCTION MARKET CONDITIONS

MARCH 2014

In our November 2013 Review of Construction Conditions Report we forecast tendering conditions to remain tight into at least the first half of 2014. Thus far this forecast has proved accurate as contractors across all levels of the market continue aggressive tendering. This is despite an increase in the number of projects proceeding to tender and a notable lift in confidence throughout the broader market.

The final quarter of 2013 saw a rise in the number of projects going to tender with contractors, especially in the Tier 2 market, beginning to fill their books. Despite the increase in short to medium term project pipelines we have continued to see aggressive pricing from the Tier 2 market as contractors strive to secure work in the long term.

As public construction activity eases and activity in the mining sector continues to soften, Tier 1 contractors are refocusing on a revitalised private sector. In doing so they are finding themselves in competition with larger and more capable Tier 2 contractors. The subsequent requirement for the Tier 1 market to remain competitive against the 'leaner and meaner' Tier 2 market, especially in the $50 million to $150 million sector, is contributing to the current restraint on construction cost escalation.

The subcontractor market, with the exception of select trades, has significant capacity and remains competitive.

We have, and continue to routinely see, a significant spread in subcontractor pricing as pockets of the market continue to tender at unsustainable levels in the struggle to consolidate cashflow.

Enterprise Bargaining Agreements (EBAs) will continue to contribute to construction cost escalation into 2014 and beyond. However, with the current Government and media scrutiny, we anticipate the 'industrial relations' impact on construction cost escalation will reduce.

The private sector continues to improve. In particular our offices around the country report significant activity in the multi-level residential apartment market. This activity, widely reported throughout national media as an 'apartment boom', continues to provide solid and consistent work for contractors and consultants alike. With many more projects in the early and late stages of planning and approval coupled with strong pre-sales, the sector shows no signs of easing in the near future.

The revitalised private sector is positioned for growth with developers' confidence translating into land and property transactions. The institutional retail sector appears to be capitalising on this optimism with a number of major retail projects throughout the country going to market or in the late stages of pre-construction delivery. This upsurge in retail activity is also evident at the smaller end of the market as we see a greater number of privately owned regional retail centres coming to market.

Low interest rates have seen the overall value of home loans within Australia at record highs however, given the recent rise in national GDP and inflation, we do not forecast further support from the RBA in the form of reduced interest rates.

The mining and infrastructure sectors continue to absorb a significant amount of construction capacity. However demand is forecast to consolidate as projects progress from the construction phase towards operation and maintenance.

Engineering services prices across the board have been increasing as more tenants demand energy efficient spaces, placing more emphasis on the importance of achieving 5 and 6 star ratings as the design phase for both base building and fitout of new and retrofit buildings and again in achieving as built ratings. In addition, institutional developers find themselves held to more stringent mandates in regard to sustainable development and 'green' design.

In conclusion, we see optimism and confidence increasing. Key economic indicators support this. Data released by the ABS on the 5th of March 2014 shows GDP increasing in the final quarter of 2013 from the flat levels seen since the September 2011 quarter. Inflation has also risen to 2.7%, approaching levels not seen since the December 2011 quarter. As head contractors continue to shore up 2014 order books, pricing levels are not expected to increase dramatically this year.

Once more tendered projects reach the construction stage, volume will dictate that resources are stretched and both contractor and subcontractors alike will be in a position to be more selective, and increase margins. We expect National average tender price escalation for 2014 to trend in the order of 2% and 3% for 2015 through to 2017.

NATIONAL ECONOMIC INDICATORS

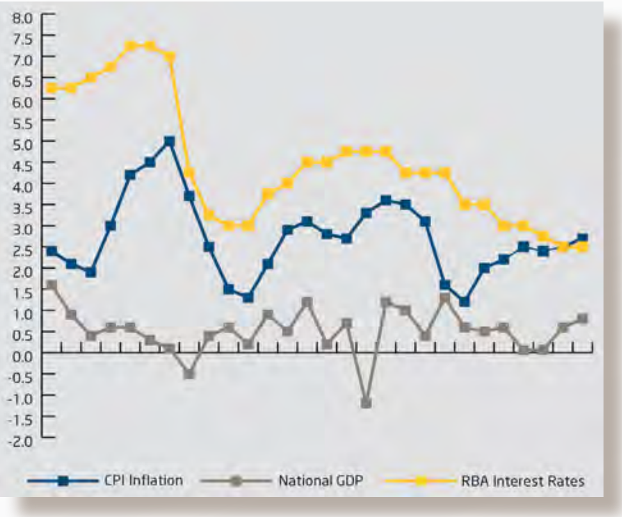
GDP expanded 2.6% from December 2012 through to December 2013 averaging a quarterly increase of 0.65% each quarter.

CPI rose 2.7% over the year ending December 2013. This compares with an average rate of 2.1% since December 2011. The downward trend seen between June 2011 and September 2012 appears to be broken with inflation nearing 3.0%, levels not seen since December 2011.

The Australian dollar (AUD) has remained below parity with the US Dollar (USD) into 2014. As of February 2014 the AUD was trading at approximately $0.89 against the USD. In recent commentary, the Reserve Bank of Australia (RBA) suggested that there will be stability in the cash rate for some time and made no reference about the local currency depreciating further.

The seasonally adjusted Australian unemployment rate has increased by 0.2% since our previous report. The rate is currently 6.0% as per January 2014 data compared to 5.4% in January 2013.

The RBA's current cash rate is 2.5% and has remained unchanged since August 2013 when it was reduced by 25 basis points from 2.75%.



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

NATIONAL CONSTRUCTION INDICATORS

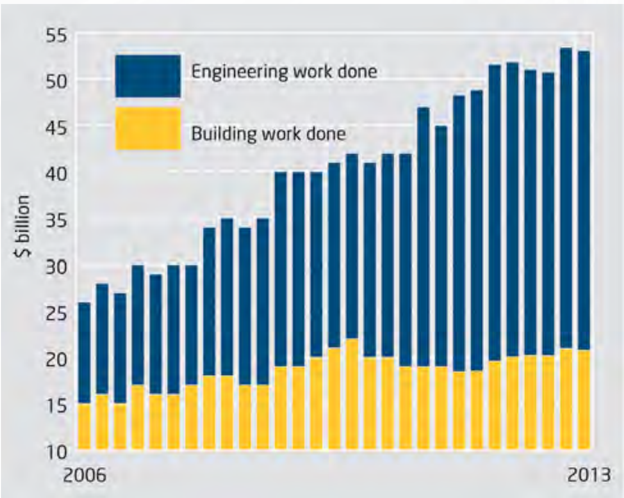
In the 12 months preceding January 2014, in nominal terms, the total value of construction work done increased by 4.0%. This compares with 12.9% for the same period one year earlier.

In the 12 months preceding January 2014, in nominal terms, the seasonally adjusted estimate for 'building work done', comprising residential and commercial works, increased by 7.7%. This compares with a reduction of 1.4% for the same period one year earlier. In the 12 months preceding January 2014, the seasonally adjusted estimate for 'engineering work done' increased by 1.8%. This is a stark decrease in comparison with the same period one year earlier which saw 'engineering work done' increase by 24.0%.

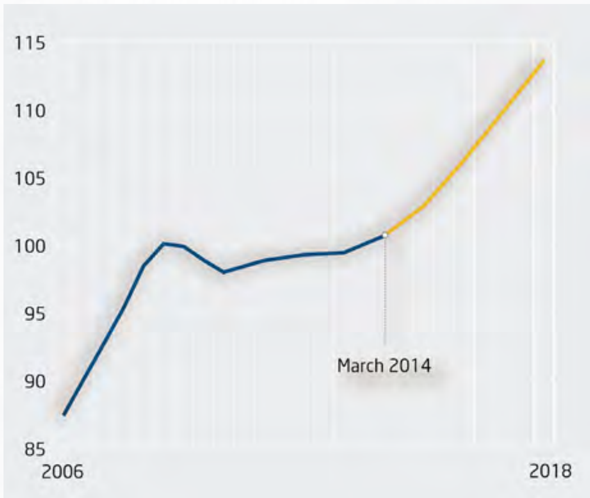
Despite an overall annual increase in the value of construction work done, the December 2013 quarter in isolation has seen a slight nominal decrease of 0.6% in the total value of construction work done. In the same period the value of 'building work done' recorded a nominal decrease of 0.8% and the value of 'engineering work done' recorded a nominal decrease of 0.4%. The overall value of construction work done, despite reducing slightly in the December 2013 quarter remains at record highs with the value of work done in the December 2013 quarter only ever exceeded by the value of work done in the previous quarter.

Of the 'total construction work done' in the amount of $208,337 million during the 12 months preceding January 2014, 'building work done' represented 39% of total construction work done while 'engineering work done' represented 61%. The share of 'building work done' and 'engineering work done', as a percentage of the total construction work done, is continuing to trend relatively flat and has done so since the September 2012 quarter.

VALUE OF CONSTRUCTION WORK DONE IN AUSTRALIA ($ BILLION)



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).

State By State Summary

NEW SOUTH WALES

The New South Wales building industry continues to show signs of improvement in residential, commercial, urban renewal and education projects. Demand continues to rise in the Sydney and CBD rental markets and residential sales volumes are on the increase. The number of projects proceeding to tender across all sectors has continued to increase, with the first two months of 2014 being more positive than the same period for any of the last 5 years.

A number of major tenants have, or are still re-considering, options regarding new premises and new tenancy fitouts, with buildings such as 8 Chifley Tower, 200 George Street and the three major commercial towers at Barangaroo receiving interest. There are also signs that the North Sydney rental market is improving, with potential new tenancies of some 60,000 m2 in A-grade Buildings.

This, in turn, will create a large quantity of various grades of existing office buildings / space requiring refurbishment to attract new tenants or adaptive re-use to ensure the premises remain sustainable.

Tendering is expected to increase after several years of repressed market conditions and limited opportunities. It is evident that confidence is returning, although builders complain that prolonged post tender negotiations are impacting their project pipeline. Many sub-contractors have been competitively pricing or "under cutting", resulting in tight cashflows and as opportunities arise these sub-contractors will be keen to win new projects to stimulate business and re-inject much needed cash.

Labour prices will continue to grow under the current EBA's, however as major contractors re-negotiate their EBA's this year they will be looking to pare back on the 5-5-5 trend of the past 3 years.

State Infrastructure Strategy projects including roads, light rail, passenger rail and gateways are all in planning or variously under construction. Projects in the order of $25 to $30 billion are proposed the most significant being West Connex, NWRL, M2-M1 tunnel, Sydney Light Rail and ongoing Pacific Highway Upgrades. Whilst funding for these projects has not been fully realised, initial commitments from both State and Federal Governments has funded scoping studies, preliminary design and also some construction. Due to the size of these projects interest is being seen from overseas consortia which adds a further level of competition to the local market, keeping prices in this sector keen.

As noted in our previous reviews, the relative lack of appropriate available contractors within Australia to deliver projects of these magnitudes inevitably results in overseas involvement.

Our forecast escalation for construction projects for 2014 remains at a conservative 2.5% rising to 4.5% per annum for 2015 and 2016 and for engineering, rail and road construction 2.0% for 2014, 3.5% for 2015 and 4.0% for 2016.

VICTORIA

The frenetic tendering experienced in late 2013 has stabilised as developers and contractors take stock and ready themselves for the year ahead. Demand and interest remain steady, but there is still a surplus of Tier 1 and 2 contractors seeking new opportunities.

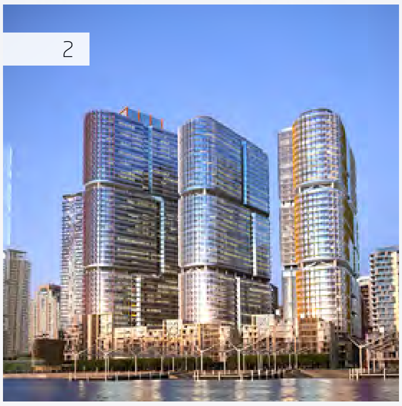
The State Government is continuing planning for major infrastructure initiatives at both the Port of Melbourne and the Port of Hastings, as well as Melbourne Park. Melbourne Airport also has a series of major projects in the pipeline.

New project enquiries for retail and residential developments, both small and large, continue and high-rise CBD residential towers previously in schematic design are progressing to town planning and, in some cases, early pre-sales campaigns.

There are various large scale commercial and retail projects in construction with a moderate amount of new projects planned. We anticipate multiple aged care projects to commence construction later in 2014, along with upcoming tertiary projects.

Tendered results across the construction and infrastructure sectors in the last quarter of 2013 and in the first two months of 2014 remain competitive, indicating there is still an imbalance between new project demand and available resources.

Notwithstanding the variable nature of the AUD and the upcoming negotiation of the Victorian EBA, we assess cost escalation in 2014 of 2.25%, increasing to 2.75% in 2015 and 3.0% per annum for 2016-2017.



New office developments such as 8 Chifley Tower (1) and Barangaroo (2) are prompting commerical tenants in Sydney to reconsider options regarding new premises

QUEENSLAND

The fourth quarter of 2013 saw increased activity in the South East Queensland tender market and this trend continues in the first quarter of 2014. Tender results continue to return competitive tender pricing but not at the cut-throat levels witnessed in previous years. Whilst select trades are lifting prices in response to increased demand, there remains significant capacity in the industry maintaining keen competition. The pressure on costs reported in our previous review are however beginning to impact on pricing levels. Head contractors are beginning to lift margin levels in correlation with the increased activity in the market and in response to risks associated with the sub-contract market.

The broader South East Queensland market is experiencing a notable increase in confidence which is driving new projects particularly in the residential and retail sectors. In Brisbane, the high demand for inner and fringe city apartments continues with numerous residential towers under construction and many more in the pipeline. Pre-sales for these developments are particularly strong with significant investment from Asia.

The prevailing air of optimism is evident in other sectors of the construction industry and we are witnessing renewed competition between financiers, particularly for projects with solid fundamentals. Contractors are increasing capacity to service the growing market, especially in the upfront tender process, by hiring additional estimating and bid management staff. Interest from interstate builders is also increasing.

Construction activity in the mining and resource sector is expected to ease further from its 2012/2013 highs over the coming years as construction of new major projects subsides and developments move to production. However, we are forecasting construction activity in this sector to improve into 2016/2017 given the number of significant projects in the long-term pipeline.

The recent fall of the AUD against other major currencies will see further pressure placed on imported materials particularly in mechanical, transportation and facades, with some economists predicting the AUD has the potential to fall below 80c against the US dollar in the next 12 to 18 months.

We continue to predict tender price escalation trending higher towards the end of 2014 at 2.2% rising in 2015 to 3.0% and to 4.0% per annum in 2016 and 2017.

SOUTH AUSTRALIA

There are signs that a modest recovery in the construction market may be just around the corner. There are some larger city apartment developments being marketed and feasibilities are being undertaken by retail developers. The State's three universities have committed to large expansion/redevelopment projects. Additionally, there is an air of optimism about the medium term, which is no doubt helped by the upcoming State Government election in March 2014 and the $1.85 billion Royal Adelaide Hospital project currently under construction. Our Adelaide office is seeing more activity in the private sector than has been evident for some time.

Both major political parties are promising continued spending on infrastructure and there is optimism that whoever wins the upcoming election, the government coffers will unfreeze and there will be a gradual increase in spending. Much of the optimism stems from the strong possibility of a new Government. This possibility brings hope for a more positive State budget in the middle of this year that will lead to expenditure across all sectors.

Hence, in addition to an imminent rebound from the private sector, a fresh Government may finally lead to a more positive situation across all sectors. As has been the case of recent years, local governments continue to prudently expend their capital reserves on planned development programs at a time when it is relatively cheap to construct, although it appears that builders are not prepared to discount pricing to the dramatically low levels witnessed during 2013.

We predict tender price escalation in the order of 1.0% for 2014, with 1.5% per annum for 2015 and 2016 and 2.0% for 2017.

WESTERN AUSTRALIA

The overall outlook for the Western Australian construction industry remains positive for the year ahead. Growth is expected in most sectors, however we anticipate that we will continue to see aggressive tendering and tight margins as small to medium size contractors seek to maintain their position in the market.

The resources sector continues to be turbulent with the latest casualty, Forge Group, going into administration. Capital investment has slowed as projects move into the operational phase. However it is important to note that the resources sector is, and will continue to be, a major employer in WA and will continue to make a significant contribution to WA's continued economic growth.

Whilst the State remains committed to substantial expenditure on infrastructure, health, and education projects, certain projects, such as the MAX light rail project and the airport-city rail line have been postponed. It is expected that other planned projects will be postponed rather than cancelled during the course of this year as the State Government continues to exercise prudence in order to regain its AAA rating.

Our outlook for a number of sectors remains positive for 2014, particularly in the hospitality sector over the medium term. At the time of writing, more than 2,500 new hotel rooms are proposed in the Perth and Freemantle areas over the next five years. This figure may grow to over 4,000 new rooms over the same period, dependent on growth projections. Hotel occupancy rates within Perth remain relatively high at 83% and, as with many sectors, it has taken time for the supply chain to react to demand. Overall it is predicted that more than $3 billion of investment will be seen in this sector within the medium term. The declining resources sector has impacted on occupancy rates and the State Government is actively marketing Perth and WA as a tourist destination for both overseas and domestic tourists.

Retail investment continues to gain momentum and we are beginning to see a number of large projects moving into the construction phase.

The residential market continues to grow strongly. However, this growth may subside over the next six months due to the Reserve Bank's decision to hold the official interest rate at 2.5%, and the effects of a slowing resources sector which may negatively impact on overall buyer sentiment. Dwelling approvals to year ending 2013 were at a 25 year peak, indicating that at least for now confidence in this sector remains high. Single detached dwellings still remain the preferred option in Perth there has been a considerable increase in high density multi-level apartment developments catering for first time buyers and investors, who are finding themselves being priced out of the market.

A number of significant projects are currently underway within the Perth metropolitan area with considerable new commercial office space, indicating a long term confidence in this sector. Additionally, we are anticipating an active office fitout and refurbishment market in the years ahead, as current property owners seek to retain existing tenants in the face of mounting competition.

Our outlook for escalation for 2014 remains at 2.5% as previously forecast however we have reviewed and increased our projection for 2015 to 3.5% as previously forecast.

ACT

The uncertainty surrounding the Federal political environment continues to harm the confidence of the ACT property sector. The economy relies on the two main industries of the building industry and the public sector. The ACT economy has slowed due to the uncertainty created by the actual and proposed public sector cuts which has affected the demand for both residential and commercial construction.

The recent ACT budget showed that the Territory's deficit has blown out from $254 million to $361 million with forward estimates projecting there will be a $109 million deficit in 2014-15 and a $20.5 million deficit in 2015-16, before the budget returns to a surplus of $11 million in 2016-17.

Over the last few months, the office vacancy rate has risen to its highest levels since July 2010. The rate has increased from 12% to 12.9% - the second highest office market vacancy rate of any capital city, behind Brisbane CBD, with all grades of space at or above 12% and above the national CBD benchmarks.

Figures show Canberra home prices rose by the smallest amount in the country in 2013. Recent Australian Bureau of Statistics figures show that established house prices rose just 0.4% and attached dwellings by only 0.1% in the December quarter. Home prices were unexpectedly weak because of uncertainty in the market at the end of the year. The Federal public service job cuts mean fewer people are travelling to the ACT for work, which would lead to less demand for houses.

In response, the ACT Chief Minister has announced a package of initiatives aimed at providing confidence and economic stimulus for the ACT property and construction sectors.

The four elements to the package are:

- releasing at least four civil contracts for estate works in Moncrieff
- changes to lease variation charges (LVC)
- a reduction in extension of time (EOT) commence and complete development fees
- The drafting of legislation to facilitate major projects in the ACT.

It is anticipated that tender prices will continue to be keen for the remainder of 2014, with a forecast for cost escalation to remain at 0.5 to 1.0% for the foreseeable future.

TASMANIA

As per our previous report, the Tasmanian economy continues to struggle in the face of reduced GST revenue, high unemployment and low population growth. General sentiment in the State's construction sector remains restrained despite the cautious air of confidence returning to the broader mainland market.

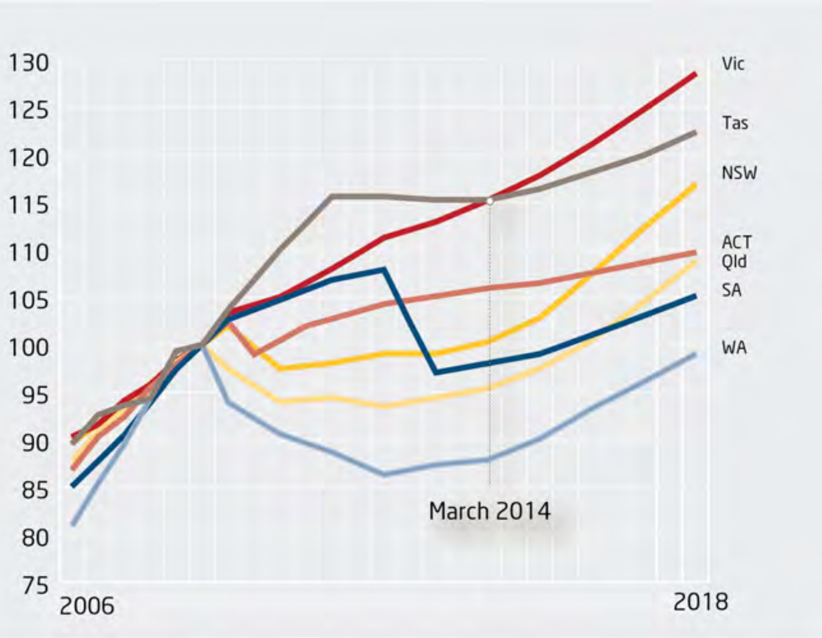
The Federal Government's funding for the Economic Growth Plan for Tasmania includes a $100 million commitment for infrastructure projects across the state including $38 million to expand Hobart International Airport in addition to the $400 million already committed for the Midland Highway upgrade. The exact impact and timing of this funding on the local construction sector is still unknown. Based on previous experience it is likely that the mainland contractors will secure head contractor works packages with local Tasmanian contractors to undertake subcontract works. Whether this will impact on the overall tender market remains to be seen.

The now expired State Government's doubling of the Home Builders' Grant to $30,000, the most generous scheme in the country, failed to have a significant impact on the residential housing sector and the Tasmanian economy in general.

Given the state's current economic condition, we do not anticipate construction costs to rise significantly this year or the next. Increased activity in the mainland market may flow through to the local construction market, but this is unlikely to occur until capacity in the mainland market is stretched. This is not likely to occur in the near future with capacity in the mainland subcontract market remaining high. Tender margins are still extremely tight and we anticipate this trend to continue with tender price escalation in the order of 1.0% for 2014 and 2015, rising to 2.0% for 2016 and 2017.

The Federal Government budget commitment of $38 million for the redevelopment of Hobart International Airport (1) forms part of a $100 million Economic Growth Plan for Tasmania

Tender Price Escalation Forecasts Regional Market Summary



	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	2.5%	2.3%	2.2%	0.5%	1.0%	2.5%	1.0%
2015	4.5%	2.8%	3.0%	1.0%	1.5%	3.5%	1.5%
2016	4.5%	3.0%	4.0%	1.0%	1.5%	3.0%	1.5%
2017	4.0%	3.0%	4.0%	1.0%	2.0%	3.0%	2.0%

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

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WT Partnership draws on the collective experience, knowledge and capability of over 1,250 professional staff in locations throughout Australasia, South East Asia, Central America, the United Kingdom and Europe to provide our clients with the right advice on all aspects of cost, value and risk to help them achieve 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 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..