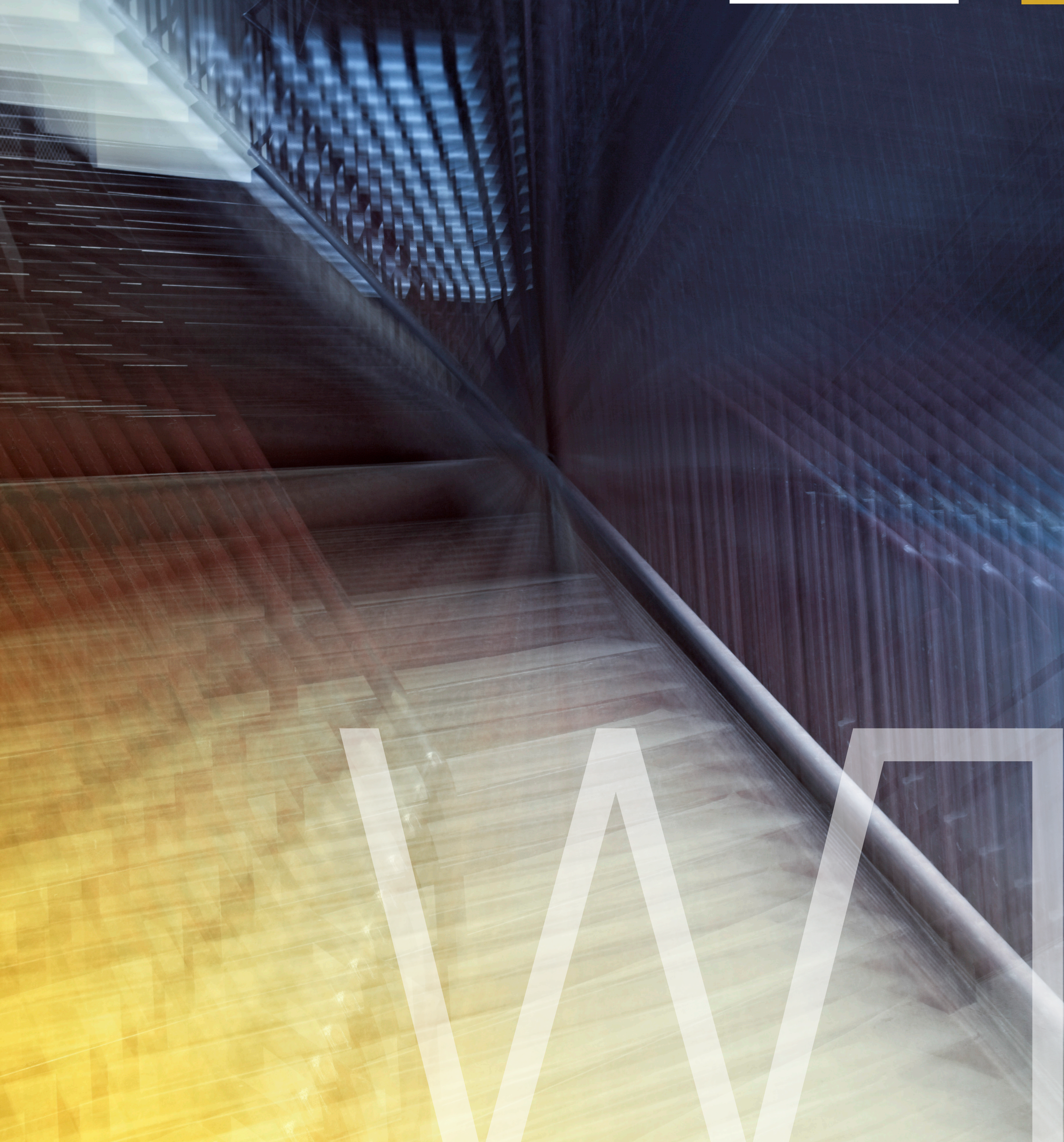
WT PARTNERSHIP

REVIEW OF AUSTRALIAN CONSTRUCTION MARKET CONDITIONS

TO OCTOBER 2015

Construction activity across the country remains strong and sentiment amongst contractors, sub-contractors and the market generally is positive.



Our major state offices continue to report buoyant conditions in commercial, residential and infrastructure sectors driven by Asian and interstate investment and State Government funding initiatives.

In the June 2015 quarter, the overall value of construction work completed in Australia increased after four consecutive quarterly declines which were primarily attributable to falls in the infrastructure and mining sector. The June 2015 quarterly figures released by the Australian Bureau of Statistics (ABS) showed a relatively large increase of 6.8% in the value of infrastructure and mining work completed. The value of building work completed experienced a slight decrease of 1.2% but with increases in the previous five quarters the trend remains positive.

Despite the June 2015 quarter infrastructure and mining sector improvement, it is likely mining will continue to suffer from weakened commodity prices and trepidation flowing from tumultuous activity in the Chinese market. Infrastructure development, whilst suffering from subdued mining activity, is likely to benefit from the recent leadership change with the Federal Government earmarking 'nation building' and infrastructure development as a key initiative. The Turnbull Government has launched a $50 billion infrastructure plan and assigned three ministers to lead the charge. Key projects already on the agenda include the Melbourne Metro, the Cross River Rail in Brisbane and expansion of the light rail service on the Gold Coast together with future planning on projects such as a rail link to the new Badgerys Creek airport in Western Sydney and the Inland Rail Freight Link.

For private development, the recent change of Prime Minister appears to have had a positive impact on business confidence and overall market sentiment.

Our 2015 first and second quarter reports noted increasing activity in the multi-level residential sector, particularly in New South Wales, Victoria and Queensland, and the subsequent impact on tender escalation. This activity continues to increase as does the impact and pressures on trade pricing. As highlighted in our 2015 first quarter report we were wary of critical short term supply shortages and resultant spikes in price escalation. This forewarning has materialised with sharp increases in various trades. With construction activity not showing any obvious signs of easing in the short term and the continuing residential apartment boom, further short term supply shortages and associated potential sharp price escalation are anticipated.

Subcontractor capacity currently absorbed in residential construction is impacting on other sectors. Recent market feedback from contractors working in the retail sector for example indicates difficulty in sourcing adequate subcontractor coverage. The trend of subcontractors, and increasingly main contractors, to be more selective in tendering continues and some of our offices are experiencing increased difficulty in sourcing sufficient and appropriate tender interest.

In addition to supply constraints, the weakened Australian Dollar (AUD) is placing further escalation pressure and, with talk of a potential rate hike in the US and no sign of a rate hike in Australia, escalation pressure stemming from the weak AUD is only expected to increase. Contractors are cognisant of this risk with tender submissions increasingly including currency exchange rate qualifications.

On the back of favourable retail numbers and strengthened leasing markets, the retail sector continues its recovery. Recent years have seen the completion of numerous major developments and expansions and all major retail developers are planning more. Numerous shopping centres are also undergoing significant refurbishment and transformation as owners react to improved offerings and changing market dynamics.

We expect escalation to trend in the order of 2.6% to 3.0% for the balance of 2015, rising to 3.1% per annum in 2016 and then trending at levels of 3.8% to 4.0% over 2017 and 2018.

NATIONAL CONSTRUCTION INDICATORS

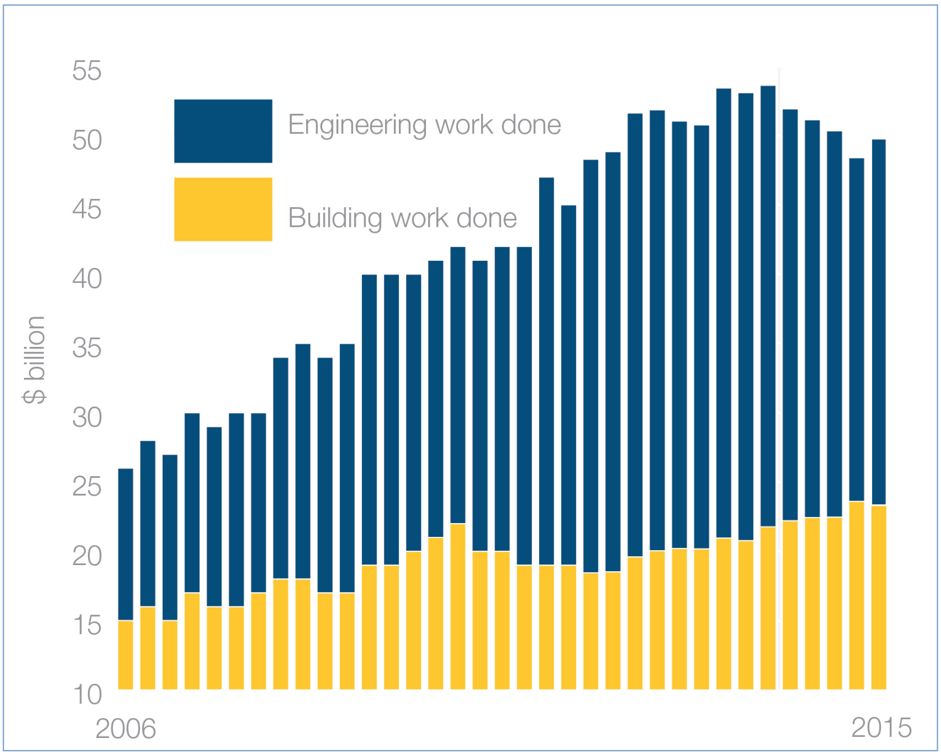
The 'total value of construction work done' for the June 2015 quarter has come off record highs of $53.6 billion achieved in the March 2014 quarter to $50.3 billion in the December 2014 quarter. In the June 2014 quarter, 'engineering work done' experienced its largest quarterly decrease in the past 8 years and has decreased eight out of the last 10 quarters.

The 'total value of construction work done' for the June 2015 quarter has increased by 2.92% to $49.8 billion from a 12 quarter low of $48.4 billion in the March 2015 quarter. This increase has broken a streak of five consecutive quarterly decreases in the 'total value of construction work done'.

Of the 'total construction work done' in the amount of $199 billion during the 12 months preceding June 2015, 'building work done' represented 45.9% of 'total construction work done' while 'engineering work done' represented 54.1%. The share of 'building work done' and 'engineering work done', as a percentage of the 'total value of construction work done' per quarter, was approaching equilibrium in the March 2015 quarter. The spread has since increased according to latest June 2015 data.

VALUE OF CONSTRUCTION WORK DONE IN AUSTRALIA ($ BILLION)

Source: ABS



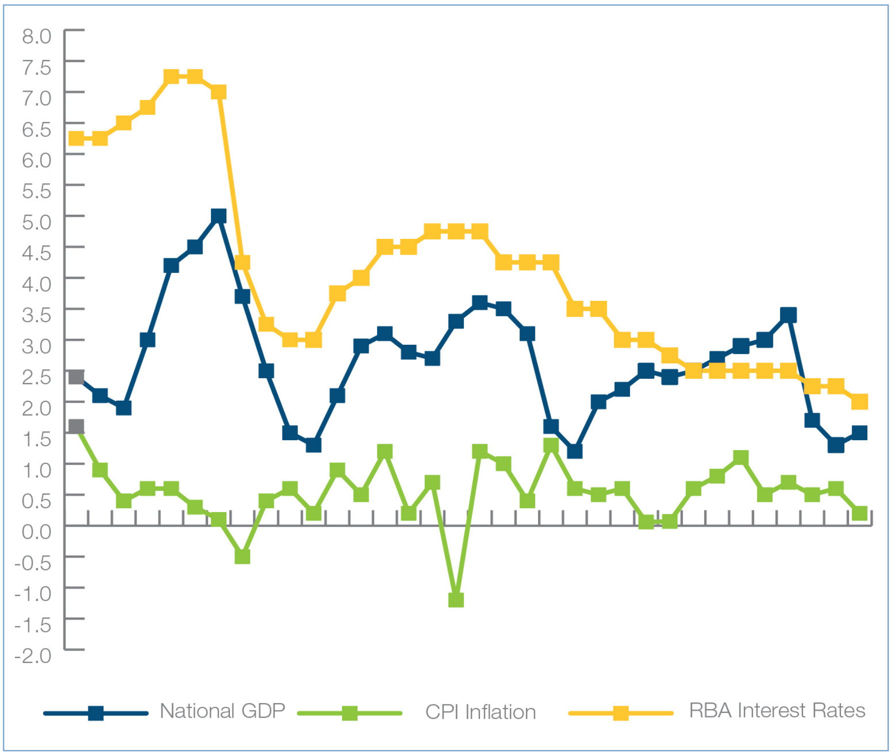
NATIONAL ECONOMIC INDICATORS

GDP expanded 1.9% from June 2014 through to June 2015 averaging an increase of approximately 0.47% each quarter. GDP expanded 0.2% in the June 2015 quarter which is the lowest increase since a decline in the March 2011 quarter.

CPI rose 1.5% over the year ending June 2015. This compares with an average comparable rate of 2.2% since March 2012. The 1.5% June 2015 figure is the third consecutive rate reported by the RBA under 2% which is below the RBA's target range of 2.0% to 3.0%. With a disappointing June 2015 quarter GDP result and inflation continuing to trend below the RBA's target range, Westpac, in its September 2015 Australian interest rates commentary, noted that markets are pricing in a near 100% probability of a 25bps rate cut by December 2015. The RBA's current cash rate is 2.00% after a 25 basis point drop in May 2015.

The AUD, which ranged between approximately US$1.11 and US$0.80 over the last five years, continues to decline. As of September 2015 the AUD was trading in the order of $0.70 against the US Dollar which is its lowest point since the first quarter of 2009. In March this year the RBA confirmed its desire to see the AUD drop further stating, at the time, that 'a lower exchange rate is likely to be needed to achieve balanced growth in the economy'. It appears that the market is following the RBA's desired path. The RBA's September Monetary Policy Meeting Minutes noted 'The depreciation of the Australian dollar... was also expected to support growth'. This suggests the RBA's stance remains unchanged since its March comments.

The seasonally adjusted Australian unemployment rate was 6.2% according to the ABS. As it has since mid-2014, unemployment continues to move within the 6.0% to 6.4% range compared to the 5.0% to 5.2% range at the peak of the mining boom.



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

Record building approvals, continued investment in commercial property and increased infrastructure spending confirm the influence of the construction industry as a major driving force within the current strong NSW economy. Confidence is high across most sectors.

We continue to see increased activity in the NSW residential market. The potential oversupply of residential apartments in Melbourne is leading Victorian developers to look for opportunities in NSW where the long-standing undersupply of residential stock continues to underpin buyer demand.

Asian developers, with their approach to developing and holding long term investments have, in some instances, paid over market value for development sites in Sydney leading to higher sales figures and making it difficult for many sites to 'stack-up'.

In the mid-to-long term, it is forecast that the residential sector will be hardest hit by a shortage in supply of skilled labour, however this may be offset by the reduction in demand for new projects due to contraction in the Asian investment market.

The office fitout sector remains buoyant with new projects continuing to underpin increasing costs for the finishes trades. This will continue as building owners upgrade existing commercial stock throughout Sydney as major tenants relocate to new premises. Planned commercial office projects are likely to see this trend continuing over the next five years.

Infrastructure, in particular transport, remains strong after the NSW budget provided funding to kick-start the planning process on a number of future projects. The transport projects under construction and in planning are having some impact on prices but the tier 2 infrastructure contractors remain competitive, particularly as more Qld contractors enter the NSW market.

New education and health facility projects - due to become beneficiaries of the NSW 'poles and wires' sale - have also received advance funding allowing many projects to enter the planning stage. This will allow a number of projects to be 'shovel ready' when funding is available. This will start to impact the demand on trade costs within the next year.

Services trade costs were early movers when the market began to rise but have now stabilised with the exception of the impact of FOREX. It has recently become more common for suppliers to nominate AUD exchange rates in tender submissions for items procured offshore.

A number of tier 1 contractors have confirmed that ceiling, partitioning and joinery trade rates in particular are finding a new, higher 'norm' on the back of major projects. This follows the recent increase in structural trade rates which have now reached a peak. tier 2 to 3 contractors and suppliers are also reporting some increase in trade costs but these are not as significant as experienced in the tier 1 sector.

We anticipate Infrastructure tender escalation to remain at 4.0% in the short-term with the potential for 5.0-6.0% increases in the longer-term as electricity privatisation funds filter through the system and order-books fill up in the forthcoming year. Escalation for residential projects will be in the order of 5.0% for 2016 and are likely to remain at this level in the foreseeable future. Commercial projects are likely to see costs increases in line with our previous report which noted 4.0% for 2015 and 4.0 to 5.0% in 2016.

The previously reported industry-wide rate of 5.0% escalation in 2016 is currently forecast to apply until 2018.

VICTORIA

The Victorian construction market for tier 1 and tier 2 contractors remains heated in the third quarter of 2015. Recent tenders in a congested market have returned broad pricing spreads reflecting a split in the market between tenderers hungry to win work and tenderers showing discretion towards the projects they have a greater desire to win. There have also been examples of trades struggling to achieve coverage which again suggests an over-supply of work for good quality, competent subcontractors.

The outlook for the rest of 2015 is positive however it is not without global and local challenges and pressure on the AUD. We are frequently asked the current and foreseeable affect this progressive currency devaluation is having on the cost of imported materials, construction costs more generally and how contractors might hedge such risks through the life of building contracts.

Concurrently, the Minister for Planning has implemented a 12 month interim 1:24 plot ratio planning control for the Melbourne CBD and Southbank areas placing strict height limitations on tower developments. The discussion of apartment design guidelines also continues and has the potential to introduce further yield constraints. Many major projects are now being scaled back.

Government infrastructure initiatives including the Level Crossing Removal programme continue to gather momentum, with four crossing contracts awarded in early September.

The forecast for tender cost escalation in the Victorian market is difficult to predict. There are many factors and many commentators suggesting an imminent slowing in the market. Macro-economic discussions suggest a need for a more cautious approach which accords with the lower AUD. However, subcontractor availability has become a challenge at times suggesting surplus work. Nevertheless, the weakening Chinese stock market combined with healthy offshore investor interest in Victorian real estate, whose buying power is increasing, suggests growth will continue in the short term but the question remains, will the State Government's proposed planning policy amendments affect this trend?

We anticipate tender escalation in the order of 2.5% for the balance of 2015, 3.5% in 2016 to 2017, and 3.7% in 2018.

QUEENSLAND

With healthy construction activity across the state, and particularly throughout South East Queensland, confidence in the Queensland construction market is high. Contractors throughout the state continue to report increasing demand.

Since taking office the Queensland Labor Government has adopted a 'cautious' approach to major infrastructure development which has adversely affected the infrastructure sector through 2015. However, with the recent change of Prime Minister, federal infrastructure funding across the nation, including Queensland, is forecast to receive a welcome 'shot-in-the-arm'. After only a brief period in his role, Malcolm Turnbull has promoted increased federal funding for the next stage of the Gold Coast Light Rail and for the Brisbane Cross River Rail Project. Additional infrastructure funding, primarily instigated by the Federal Government, is anticipated throughout Queensland in to 2016.

As has been the case since early 2015, the residential sector continues to perform very strongly. The Brisbane skyline is filled by cranes with the majority of the activity centred on apartment developments. The mix of residential developments range from townhouses and low and medium rise apartments through to high-rise multi-tower projects. This sector is absorbing a significant amount of capacity from tier 1, 2 and 3 head contractors. Sub-contract demand amongst trades prevalent in these developments is resulting in trade specific supply bottlenecks and above average escalation in certain trades. Currently, trades affected include formwork, concrete, post-tensioning, reinforcement fix, partitions and linings, painting, tiling and mechanical and electrical services.

Queenland'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.

Record high vacancy rates of 15.0% to 16.0% in the commercial office market are unchanged since the beginning of 2015. The vacancy rate of premium space was 9.1% at the beginning of the year and is currently in the order of 9.3%. Conversely, the vacancy rate for B grade stock has fallen from around 22.6% to 19.2%. As per the forecasts included in our first quarter report, this has partly been attributable to conversion of existing stock to alternative use developments such as student accommodation or short term hotel accommodation. We foresee this trend continuing given the significant quantum of new premium grade stock entering the market in the coming years.

The Gold Coast construction market continues to improve with a number of major projects underway including the Jewel hotel and apartment development, the Commonwealth Games Athletes Village and the Pacific Fair redevelopment. The pipeline of future work on the Gold Coast is healthy with Stage 1 of the Gold Coast Cultural Precinct set to commence in early 2016 and Sunland recently unveiling plans for a $600 million development at the Mariners Cove site. There is also strong appetite for infrastructure development in addition to the next stage of the Gold Coast Light Rail and there is talk of a new bridge between Southport and The Spit.

The mining and resource sector remains well out of the limelight. However, the mining sector and associated civil projects continue to absorb significant construction capacity.

We forecast tender price escalation trending in the order of 4.0% for the balance of 2015 and 4.5% in 2016, 2017 and 2018.

SOUTH AUSTRALIA

Our previous market report forecast nil escalation for the remainder of 2015 which remains the case. In fact, we have found little evidence of any escalation this year with builders also reporting nil for the whole of 2015.

State Government infrastructure spending has dried up, with the exception of the $620 million Darlington Interchange and $896 million Torrens Road to River Torrens Link. The Royal Adelaide Hospital continues with completion due in June 2016. However, very little else is forthcoming from the Government sector. It is hoped the renewed Federal Government focus on public infrastructure will improve the outlook.

Aged care and aged living providers in particular have moved to capitalise on South Australia's aging needs with many aged care and aged living developments underway. Increased medium and high density residential development activity is raising fears that supply will likely exceed demand in the near future.

Design of the new $250 million Calvary Private Hospital development is well underway with tender award expected this year and construction commencement early 2016. Builders tendering for this project have expressed their intention to submit very competitive tenders.

Mixed use, retail and residential developments in outer suburbs are moving from design to construction phase. We believe construction by mid-tier builders of buildings such as this are at their best value for years with many mid-tier builders actively seeking work.

Tagara Builders, an Adelaide tier 1 industry stalwart collapsed, falling into liquidation mid 2015 and leaving $100 million of projects under construction and 45 directly employed people out of work. 750 businesses are listed as creditors, many expecting to not recover anything.

The failure of Tagara is an indicator of the level of desperation that the market has sunk, having absorbed yearly labour cost increases for the past several years without passing on costs. Trades and builders are at breaking point but thankfully the pipeline for future work at feasibility stage is significant.

We are optimistic of remaining busy with many new projects in the feasibility stage and beyond. Adelaide tier 1 and 2 builders have reported an increase in enquiries with estimating departments busy.

We forecast tender price escalation in the order of 0.0% for the remainder of 2015, rising to 2.5% for 2016, 3.0% for 2017, and 3.0% for 2018.

WESTERN AUSTRALIA

As we come to the end of 2015 it is clear that the WA construction market is robust and buoyant. This is especially the case in the Perth metropolitan market. In our last report we highlighted that many of the tier 1 and tier 2 main contractors were busy tendering various projects. This is still the case, and in fact the volume of construction work currently in the market has increased. We believe that the construction market will remain busy over the medium term.

The stand out sectors in the local market are retail, hospitality and infrastructure. Other sectors are also seeing a good degree of activity such as office refurbishment, high rise residential projects, education and regional healthcare.

There is a large amount of projects currently on the market, and a substantial amount in the pipeline for 2016. Major projects include the New Museum, Campbell Barracks Development, Ritz Carlton and Residences, Mandurah Forum Shopping Centre Expansion, Forrestfield Airport Link, and Perth Freight Link. Looking forward to 2016 we expect to see continued and increased capital commitment to the retail sector as entities such Vicinity Centres, Westfield, AMP and ISPT move to upgrade and expand their shopping centres. In addition, we expect a large number of new four and five star hotels to come to the market over the next two quarters, and further activity in the road and rail sector.

From discussions with various tier 1 and tier 2 contractors , we note a significant increase in activity over the last two quarters. This is especially true for the tier 1 contractors which is a direct result of the scale of the various projects currently in the market or in the pipeline. tier 2 contractors are also reporting an increase in activity, however this is not unanimous. It would appear that there is a gap in the current market for projects between $26 and $60 million. However we are of the opinion that this will improve over the next two quarters as various new hotel and hotel refurbishment projects go to market and more modest retail expansion projects move from DA to contract stage.

Due to increased competition as a direct consequence of the resources downturn, the appearance of more Eastern state based sub-contractors and limited large projects going to construction over the last three quarters, pricing in the subcontract market remains keen. This is currently the case across the majority of trades.

Based on recent market data we have seen substantial reductions in certain trades and material costs. Some of the trades we have seen a de-escalation of rates include mechanical, piling and steel suppliers. Conversely, we have seen an increase in costs in the formwork and bricklaying trades.

We have seen a significant increase in enquires to the Perth office over the last three quarters. Whilst many relate to large projects across a broad range of sectors, we also note an increase in projects in the $5 million to $30 million range. This may indicate a desire of smaller noninstitutional entities to commit to construction projects. Indeed it may be an indication that, whilst the resources boom has subsided, a level of confidence has returned, spurred on in part by the commitment of both the private and public sector to large projects.

It would appear that overall construction volume in WA has declined over the last couple of years, due mainly to the decline in the resources sector. However if we take the Built Environment in isolation, we are of the opinion that construction volume is increasing. A number of factors will dictate construction escalation in the year ahead: the availability of labour which should be off-set by a surplus of the same in the resources sector; fortunes of the AUD and timing of final commitments to the various substantial projects. However perhaps the largest key driver in escalation will be the availability of tier 1 main and sub-contractors to service these projects.

Overall our outlook for the WA construction market is positive for the medium term, with strong activity to continue into 2016. We are of the opinion that escalation will trend at 1.1% at the year's end. This will increase to 2.2% in 2016, 2.5% in 2017 before falling back to 2 % in 2018.

TASMANIA

Current market escalation in Tasmania continues to trend in line with forecasts from our last publication, however we may see a heightened market toward the end of this year and early next year as new large projects come on-stream.

The State Government has re-introduced the first Home Builders Boost of $10,000 from July 2015. This was mooted to be scrapped prior to the last budget. This has produced uplift in the domestic sector.

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 and scheduled for completion in December 2018.
NRAS 430 bed student accommodation in Hobart has commenced with early works packages and completion scheduled early 2017.

Significant future works such as UTAS Performing Arts ($75 million), Salamanca Mixed Use development ($100 million), Macquarie Street Hotel ($35 million) and Royal Hobart Hospital balance of works ($300 million) will provide further impetus for market uplift. We are beginning to see additional mainland contractors 'testing the waters' in Tasmania. We also are seeing a marked increase in proposed aged care facilities, child care facilities and hotels in early stages of planning that will probably commence in 2016/2017. There is also increased Government spending on infrastructure with the Hobart Airport Runway extension works and Midland Highway Upgrade works about to commence.

The shallow pool of sub-contractor availability will be an issue with the current anticipated workloads coming close to saturation in partitions and lining and electrical services trades after many tradespeople having left the state over the past few years for employment opportunities in other states.

There is definitely a regional bias to the south of the state with a shortage of building work in the north and northwest. The number of larger, long term projects currently being constructed or shortly to come on line is likely to saturate the tier 1 contractors and associated sub-contractors. This is expected to result in increased prices over the next few years.

We forecast price escalation of 1.8% for 2015 rising to 2.0% per annum over the next two years and then 2.5% for 2018.

ACT

The ACT property sector's confidence is on the rise with new levels of optimism and confidence growing since our last report. This shows that the local industry is positive about the future, with increases in work schedule expectations and staffing levels bolstering confidence. The industry's expectations for the ACT's house price growth and for economic growth – at both the national and local levels – are increasing. However, it's not all good news with remaining pessimism in the office, retail and industrial sectors. The industry is responding to the level of success of Government policies and programs dictating the level of private investment and development. The feeling is that we are still in negative territory in the ACT, with respondents slightly more pessimistic about the ACT Government's growth management strategies compared to the national average.

Whilst Canberra's office market has posted a slight decrease in vacancy over the last six months, the nation's capital continues to record the second highest vacancy rate in the country. Vacancy in Canberra has decreased marginally from its record high of 15.4% to 15.3%. This decline is due to a slight increase in demand together with withdrawal of office stock from the market.

After a sluggish start to the financial year, new land releases are projected to push the ACT's construction industry forward. We expect a lift in building activity over the next 6 to 12 months, arising from four months of strong housing approvals and the promise of more land up for grabs. Building approvals for detached housing have been low due to the scarcity of new land. This has seen the number of building approvals for higher density housing increase significantly.

Almost two-thirds of new residential approvals from March to June were for units and apartments, with a reported 15,000 new apartments in the pipeline.

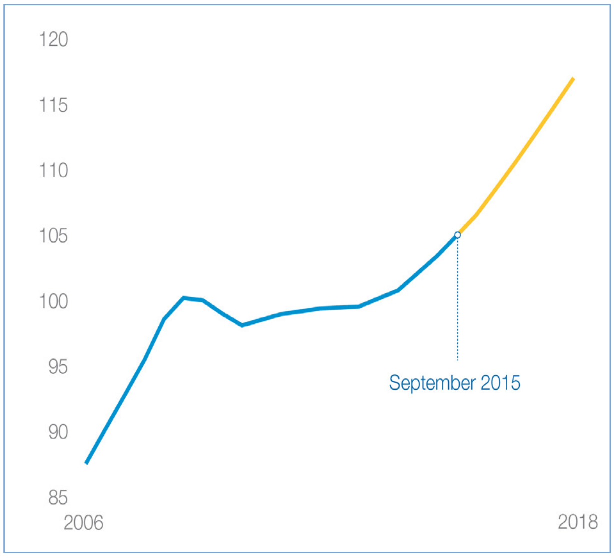
The apartment-building sector is being driven by the need to maximise the use of the land with proximity to amenities.

Local contractors continue to report that the market is hungry for work with numerous subcontractors responding to requests for pricing.

With the improvement in confidence levels we have adjusted our forecast for tender price escalation to be in the order of 1.5% in 2015, 2.5% in 2016 and 3.0% in 2017 and 2018.

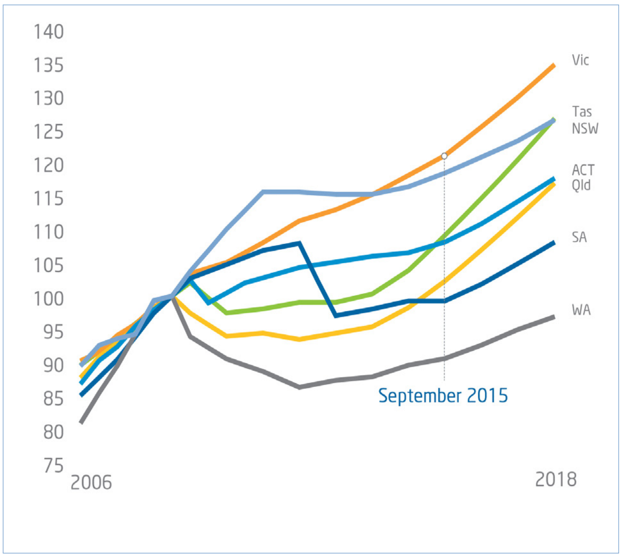
TENDER PRICE ESCALATION FORECASTS REGIONAL MARKET SUMMARY

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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Our expertise covers the building, construction and infrastructure sectors, as well as the management of facilities and the provision of advisory services.

WT Partnership draws on the collective experience, knowledge and capability of over 1,250 professional staff in locations throughout Australasia, Asia, North America 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..