WT PARTNERSHIP

INTERIM REVIEW OF AUSTRALIAN CONSTRUCTION MARKET CONDITIONS

TO MARCH 2016

FOREWORD

NICK DEEKS - MANAGING DIRECTOR

WT Partnership (WTP) is an award winning international cost and consultancy organisation for the infrastructure, construction and property industry. We have been operating for more than 67 years, have over 50 offices globally and more than 1,230 staff. This means we are able to provide local knowledge backed by a global perspective and call on the right expertise for your project through our network of offices to deliver your desired outcome.

At WTP, we remain fiercely independent. We own and control all of our individual offices wherever we operate. This is the world of WTP: a world of seamless and efficient consultancy services delivered through partnering with clients.

At WTP your vision is our goal.

CRAIG MCHARDY - EXECUTIVE DIRECTOR

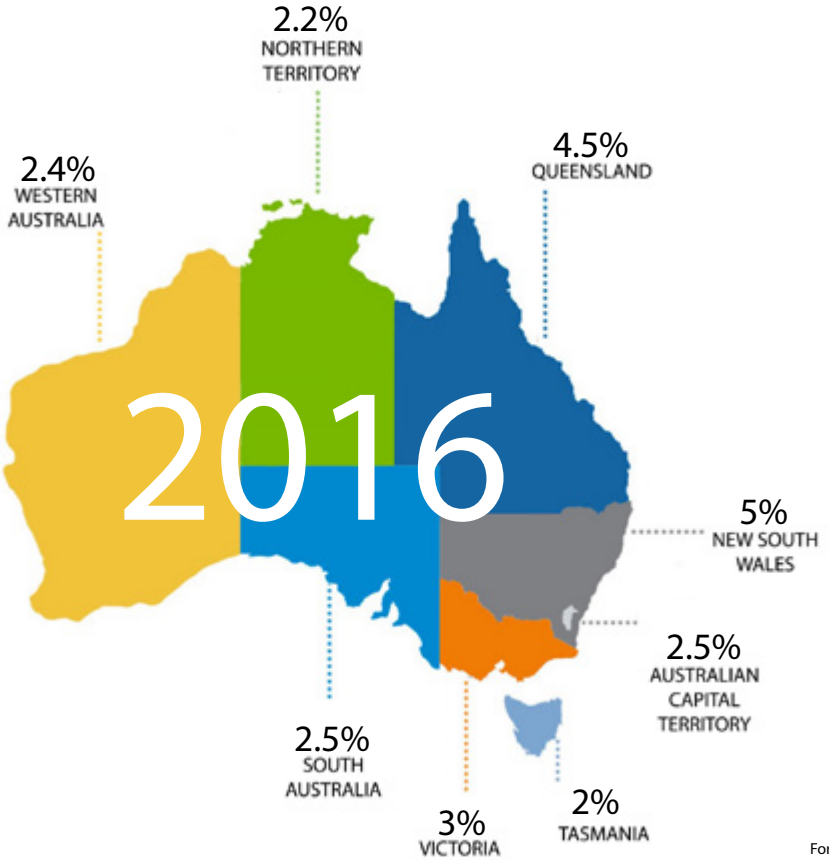
WTP's Market Commentary has been in publication since 2010 and is circulated to over 4,000 clients and organisations nationally and overseas.

Craig introduced the idea of producing a publication to provide an insight into current construction costs and give our forecast on future cost trends. The idea was to capture all the information we have across the country and provide insights on construction cost movements as its happening at the coal face.

The commentary in this interim report provides high level insight into each state and territory as opposed to our bi-annual report that is more comprehensive. It includes key points on construction activity, key performing sectors and tender price escalation. And for the first time we are pleased to include the Northern Territory.

However, every project and development has its own nuances and we suggest that you contact your local Director for 'real' project specific advice.

Our VIC and NSW offices report a shift in focus to the infrastructure sector fuelled by State and Federal Government funding.



Forecast tender escalation 2016

NATIONAL SUMMARY

The national trends surround investment in infrastructure led by the $50 billion Federal Government funding initiatives, as reported in October (2015). Generally, our major offices are experiencing a higher level of construction activity and sentiment, which correlates with the recent GDP report that showed Australia grew by a relatively impressive 3% in 2015.

The Australian Bureau of Statistics (ABS) quarterly figures for December 2015 paint a different picture, with falls in total construction work completed in Australia of 1.6%, with a seasonally adjusted estimate of total construction work completed down 3.6%.

Our forecast tender escalation figures are presented above with summary details for each state and territory on the following pages.

KEY FINDINGS

Construction activity Key performing sector Tender price escalation

NEW SOUTH WALES

The construction industry remains a strong component of the NSW economy. New housing stock and investment in infrastructure and public works projects has resulted in jobs growth in this sector. Long-term lease of Transgrid in November 2015 has resulted in immediate investment in many projects in transport, infrastructure, health and education sectors over the mid-term.

The commercial construction sector dominates with office stock continuing to be refurbished within the CBD. New developments within the City, North Sydney and suburban areas indicate that the sector will remain strong over the next few years. Transport and infrastructure sector growth will remain at the levels previously reported with highly-publicised infrastructure upgrade programs throughout NSW over the mid-term. The residential subdivision market is still strong but remains competitive as some new smaller players enter the market.

Confirmed investment in the infrastructure sector underpins a 5% escalation forecast for 2016 with potential for an increase in the mid-term. Escalation for residential and commercial projects is forecast to be 4-5% for 2016 remaining at 5% as new developments come on-line during 2017-18. Overall, our previously reported industry-wide rate of 5% escalation should be considered appropriate for 2016-18.

VICTORIA

The VIC outlook for 2016 is positive. There is a low volume of tenders programmed for Q1. However, the provisional tender programme in Q2, and enquiries for Q3 of 2016 are encouraging for the Tier 1, 2 and 3 construction market. Activity has carried forward into 2016 with major CBD acquisitions progressing through advanced feasibility concepts for substantial mixed-use and residential offerings.

Infrastructure remains strong with road, rail, aviation and port project commitments spanning from concept to construction documentation. The State Government's Level Crossing Removal Project has created significant current and future workload for the major civil contractors and trades. Major retail developments are in the middle or final stages of construction. Forecast planned works in other sectors include hotels, stadia, tertiary education, hospitality and fitouts.

We currently anticipate VIC tender escalation in the order of 3.0% for 2016, 3.5% for 2017 and 3.5% for 2018.

KEY FINDINGS

SOUTH AUSTRALIA

Construction activity remains consistent with our 2015 report. State government spending for 2016 is limited to a handful of large infrastructure projects; the $620 million Darlington Interchange, $896 million Torrens Road to River Torrens Link and the Old Royal Adelaide Hospital (ORAH) regeneration PPP project. The Royal Adelaide Hospital continues with completion due in June 2016, but rumoured to be months behind this schedule.

Aged Care projects previously reported are now entering their construction phases. A new 17 storey inner city Mixed Use tower by Uniting Communities is in the design phase. International developers are now undertaking feasibilities on similar projects. Commercial office and higher density residential projects have experienced growth in the CBD and inner city. National and local retail centre owners are instigating redevelopments primarily as a result of Aldi's aggressive expansion into South Australia. The new $250 Million Calvary Private Hospital development was successfully tendered late last year. Construction is set to begin imminently.

Mid-tier contractors have more capacity than the current market demand and we therefore continue to advise developers that construction is at its best value for years. We forecast escalation to a maximum of 2.5% for the remainder of 2016, with 2.5% for 2017, 3% for 2018.

WESTERN AUSTRALIA

Construction activity in WA remains constant. A number of landmark projects are currently in the market or in the negotiation phase. The pipeline for 2016 is significant especially for Tier 1 main contractors.

Retail sector continues to see major growth with a number of significant expansion projects. New build commercial and hotel sector has plateaued, while refurbishment in these sectors remains robust. The high rise residential market has a substantial number of projects at DA stage. Success will be based on local and overseas appetite for apartments in the CBD. Infrastructure and Defence sectors are looking strong due to economic and geopolitical drivers, while aged care and tertiary education will be a growth area over the next 3 to 5 years.

The resources market decline has seen the economy retract. This is leading to a two-stage economy with construction costs declining in the regions and in some instances rising in Perth. In the CBD, we will see construction market growth, due to the size of the projects underway or in the pipeline. Overall, our previously reported escalation has been increased slightly to 2.4% for 2016 through to 2018.

QUEENSLAND

The South East has robust construction activity with a large volume of projects under construction and it appears that this level of activity will continue and potentially increase. The Gold Coast is active across the infrastructure, residential, retail and hotel sectors in preparation for the 2018 Commonwealth Games. Regionally, the markets are suffering with the decline in the mining and resources sectors.

Multi-res apartment construction in the CBD and city fringe remains strong with appetite from local and overseas investors. Commercial office construction in Brisbane is coming to a peak with key projects nearing completion. This has changed to focus to fit-out, re-fit and refurbishment of older stock. The retail sector continues to absorb a significant amount of contractor capacity.

The Brisbane apartment boom continues and much of the sub-contract market is at full capacity with many trades closing order books. The increasing investment from Asia is impacting on escalation in the multi-res construction market. Given the continued strength in the SE QLD market, we forecast escalation to remain around the 4 to 4.5% level for the balance of this year and to continue at these levels for the following two years.

KEY FINDINGS

AUSTRALIAN CAPITAL TERRITORY

Construction activity in the ACT is mainly confined to housing and apartment projects. Low interest rates and accelerated land release programs have kept the residential property market ticking over.

Housing and apartment developments are the most active construction sector. Commercial office developments are experiencing a down turn due to Canberra still having one of the highest office vacancy rates in Australia despite a small fall over the past six months. The amount of unused commercial space in the nation's capital fell from 15.3% to 14.9% over the second half of 2015. The ACT Capital Metro project announcement has fuelled speculation of further development within the Territory. However, the Liberal opposition vowed to scrap the project if it wins government in October, even though construction will be underway.

Local contractors continue to report that the market is keen for work with numerous subcontractors responding to requests for pricing. With the improvement in confidence levels our forecast tender price escalation is in the order of 2.0 – 2.5% in 2016, 3.0% in 2017 and 3.0% in 2018.

TASMANIA

Construction activity in the south of the state will be reaching record levels with the unprecedented number of tower cranes in Hobart. The balance of state activity is less robust. The North/West region is seeing very little activity.

Hotels are the most active sector this year by number of projects. There are currently at least 6 likely to commence this year. Health is the highest cost sector by value with the Royal Hobart Hospital Redevelopment commencing on site recently. Aged care sector is well represented with a number of smaller satellite developments in the pipeline.

We currently anticipate price escalation of 2% for 2016 and 2.5 % for 2017, 2018. This escalation could be higher if the local market reaches saturation and demand exceeds supply of local builders and associated sub-contractors. This creates an opportunity for mainland contractors to enter the market.

NORTHERN TERRITORY

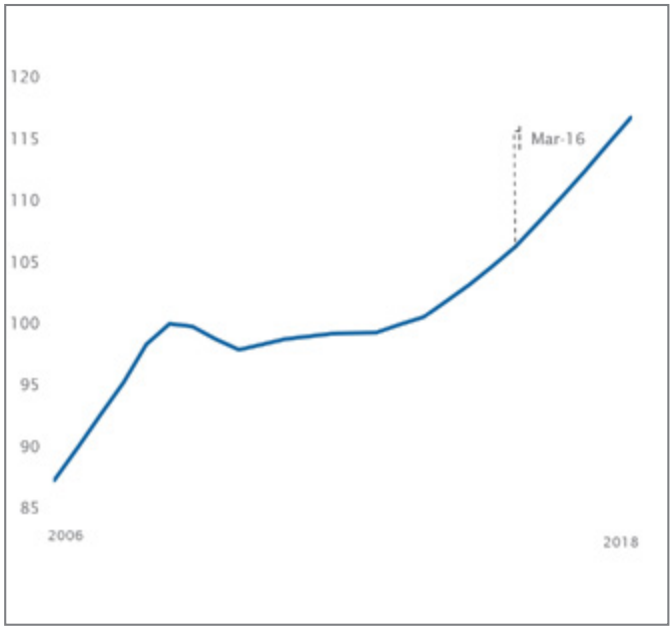
The NT construction market is currently undergoing a transition after approximately 5 years of strong growth. The construction market depended substantially on the capital-intensive resources industry. Due to various global and cyclical movements, this sector no longer contributes the same quantum of investment as in previous years.

Retail sector will be relatively buoyant over the short to medium term as various shopping centre expansions move to the construction phase. New hotel projects of varying grades are in the pipeline addressing a gap in the market that has been present for a number of years. Infrastructure will be a growth sector over the next 12 to 24 months, as substantial civic and hard infrastructure projects are currently under review. The biggest growth will be seen in the Defence sector, as major projects such as the Larrakeyah Barracks Redevelopment proceed to the construction phase.

The outlook for the NT construction market is steady for the medium term, becoming more positive towards the latter part of 2016. It is difficult to see any substantial growth in the residential and commercial market, as supply has outstripped demand in these sectors. We anticipate tenders to be very competitive over 2016 within Darwin and indeed Territory wide. We are of the opinion that escalation will be 2.2% for the reporting period 2016 to 2018.

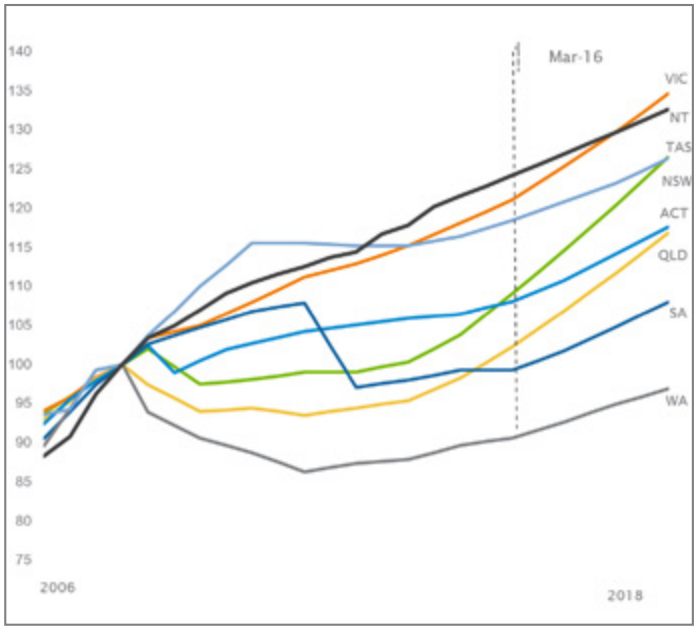
TENDER PRICE ESCALATION FORECASTS
REGIONAL MARKET SUMMARY

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	NT
2006	4.6%	4.2%	5.9%	6.3%	6.3%	12.0%	5.9%	9.1%
2007	4.6%	4.5%	5.5%	6.0%	7.6%	10.9%	5.1%	7.4%
2008	4.0%	5.1%	-0.7%	4.6%	5.4%	-2.8%	5.2%	3.5%
2009	-4.4%	1.6%	-3.6%	-1.9%	2.0%	-5.7%	4.7%	3.3%
2010	0.6%	2.8%	0.5%	2.3%	2.0%	-2.1%	4.1%	1.8%
2011	1.0%	3.0%	-1.0%	1.5%	1.0%	-2.7%	0.2%	1.7%
2012	0.0%	1.5%	1.0%	0.8%	-10.0%	-1.6%	-2.9%	3.0%
2013	1.3%	2.0%	1.0%	0.8%	1.0%	0.6%	0.0%	3.1%
2014	3.5%	2.5%	3.0%	0.5%	1.3%	2.0%	1.0%	2.2%
2015	5.0%	3.0%	4.0%	1.5%	0.0%	1.4%	1.8%	2.2%
2016	5.0%	3.0%	4.5%	2.5%	2.5%	2.4%	2.0%	2.2%
2017	5.0%	3.5%	4.5%	3.0%	2.5%	2.4%	2.5%	2.2%
2018	5.0%	3.5%	4.5%	3.0%	3.0%	2.4%	2.5%	2.2%

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

WT PARTNERSHIP

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

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

WT Partnership draws on the collective experience, knowledge and capability of our 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..