WT PARTNERSHIP

AUSTRALIAN CONSTRUCTION MARKET CONDITIONS

AUGUST 2018

CONTENTS

NATIONAL OVERVIEW

POSITIVE NATIONAL PICTURE DESPITE END OF RESIDENTIAL BOOM

The national picture is one of an industry remaining buoyant across the eastern states despite some slowing in residential construction. Both Sydney and Melbourne are marginally down in this sector and Sydney residential Building Approvals (BAs) have fallen back overall, while South East Queensland has largely mopped up the construction backlog from its apartment boom over the last three years.

The apartment sector overall continues its shift to high-end luxury developments which remain solid around the nation. While any general falls in the housing market appear moderate, and the trend is to more sustainable, moderate (price) growth in the East Coast residential sector, there is also a move towards build-to-rent and smaller or micro type apartments.

INFRASTRUCTURE FUELS DEMAND

Trades and resources remain tight, even scarce, as the infrastructure boom continues to strengthen along the East Coast and across into South Australia where significant defence projects are about to start. Tasmania is also pressing the button on significant investments. Western Australia remains the only state with truly sluggish demand as it seems likely the State Government will invest any GST refund into existing services rather than major new projects.

COMMERCIAL VACANCY RATES TIGHTENING

Commercial vacancy rates are tightening in many major markets – Sydney CBD and surrounding CBDs along with Wollongong and Newcastle are all strengthening, as is Melbourne, which is now very strong in this sector. Perth's CBD market has also turned the corner while the Brisbane CBD has stabilised with activity focused on refurbishment rather than new builds. The Brisbane market vacancy rate is heading down towards 14% with some experts predicting it will go sub 10%.

BIG TRENDS OVERCOME CYCLICAL FLUCTUATIONS

General trends in society continue to express themselves in construction activity, particularly boosting aged care and health construction around Australia. While population growth and pronounced interstate migration underpin confidence in southern Queensland's residential prospects, big trends also bolster growth in non-residential sectors such as education and infrastructure in most states and territories.

E-COMMERCE SHIFT IN RETAIL

Retail is another sector where overarching trends are now in full play. The shift to an e-commerce driven business model is transforming the sector. Huge demand for new warehousing and distribution is fuelling warehouse construction particularly in outer suburbs of Sydney and Melbourne. Shopping centres are also a major source of work as they adjust and refit to meet the demand for experiences, rather than just shopping.

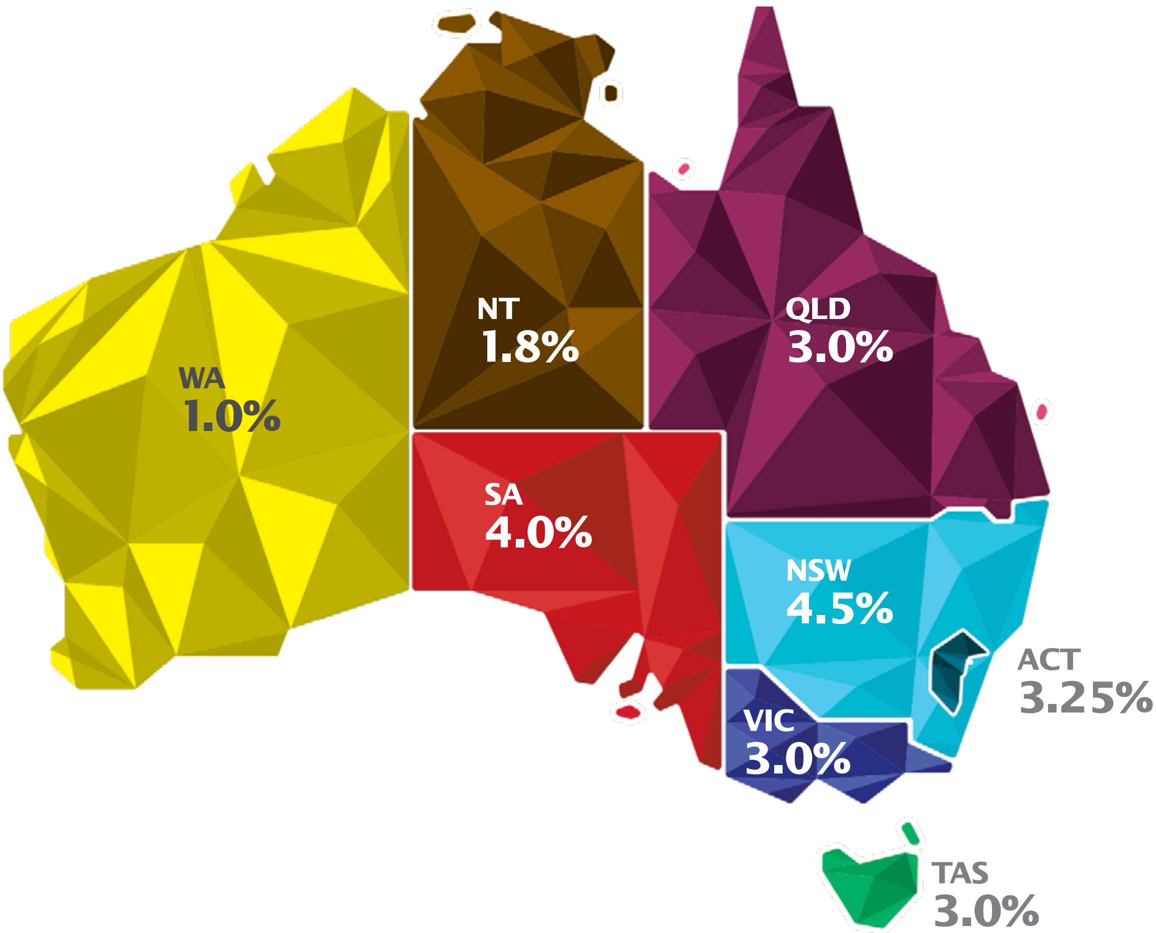
Overall, entertainment, recreation, hotel and resort developments are enjoying strong growth in most capital cities, although Perth's hotel and resort market appears saturated. Several large retail projects, that were underway, have been delayed until 2019.

COST AND RESOURCE PRESSURES STILL INCREASING

The infrastructure sector is seen to be pushing up costs of labour, plant and equipment, and base materials. These pressures will continue to create an industrywide challenge in the near term. Although cost increases in the building sectors have been tempered in competitive tender markets as main contractors and subcontractors adjust to declining high-rise residential projects, we see near-term escalation increasing in all states and territories.

In 2019 we expect the Tender Price Escalation (TPE) in the infrastructure sector to be higher by around 5% to 7%, compared with our forecast non-infrastructure sector trend of 3.5% to 4%.

2018 FORECASTED NATIONAL AVERAGE TENDER PRICE ESCALATION



Optimism and therefore pricing remain strong across the construction industry with the exception of Western Australia and Northern Territory. Record levels of spend in infrastructure continue in New South Wales, balancing the decline in residential BAs and new multi-unit developments. Retail continues to realign for e-commerce fuelling warehousing and distribution construction, while the hotel and commercial markets are also strengthening. With engineering construction continuing to fuel price increases and high activity levels, we forecast upward trending in New South Wales to 4.25% in early 2019, with a moderate decline to follow.

Buoyant tender conditions still prevail in Victoria despite a 2.3% overall drop in residential construction. Infrastructure spend is not just maintaining, but increasing demand for many trades and affecting prices as major road and rail projects progress. We expect TPE as high as 5.5% in the Victoria infrastructure sector during 2019. Non-infrastructure is expected to be lower, though still trending up from early 2018 to 3.75%.

Statistically the Queensland market is well below its rolling average with the backlog of residential towers in the south east largely completed this year. Again, infrastructure plus a strong economy and high interstate migration underpin confidence with 58% increase in major works sending tender pricing higher. We see escalation running up to 4% in 2019 and as high as 5% in 2020.

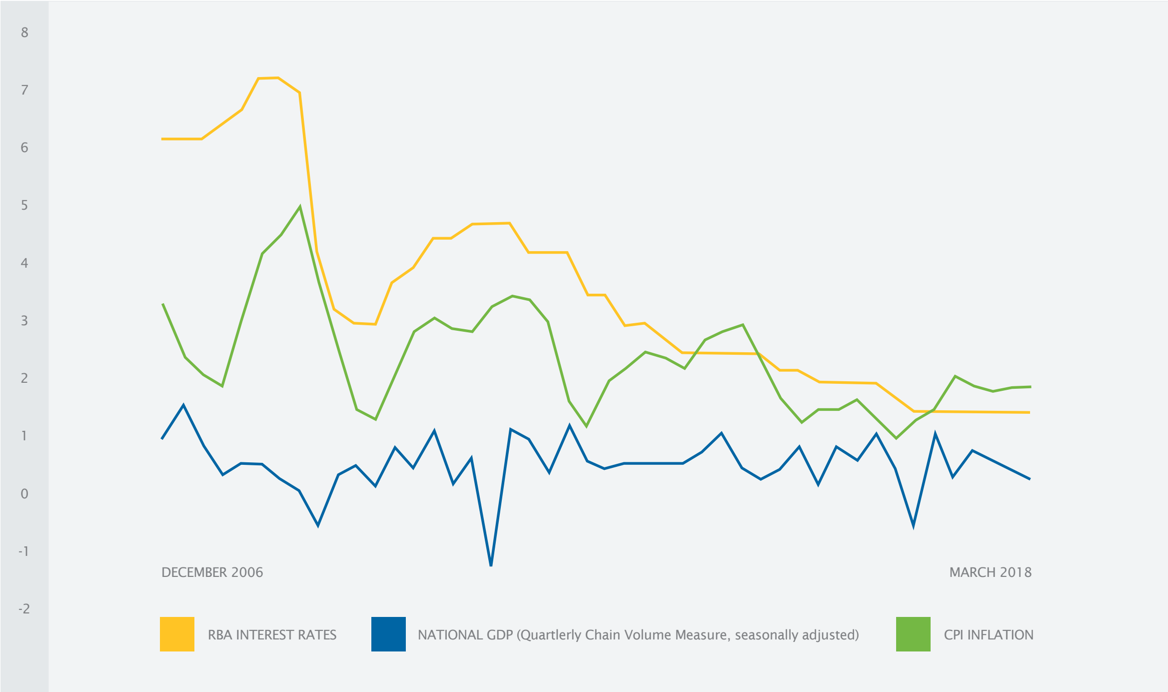
Western Australia remains a construction weak spot, but the local economy is starting to grow and BHP's announcement of the $4.7 billion South Flank project shows some life returning to the resource sector. The retail sector is slowing due to low consumer spending. Overall, tender prices reflect a slow market with escalation at 1% to the end of 2018 but rising to 1.8% in 2019. The Northern Territory construction industry is also slow with tender pricing at 1.5% through 2019.

South Australia is growing fast as a slew of major works including big defence contracts commence. Adelaide sees a record number of tower cranes as health infrastructure works gain momentum along with major hotel developments. The casino refurbishment approval, plus a new 5-star hotel adds to the positive picture, though some contractors still report current conditions as tough. Overall, we expect tender pricing to 'catch up' as the good years replace lean, and therefore predict pricing escalation to go as high as 4.5% in the near term, falling back to 2–3% into 2019.

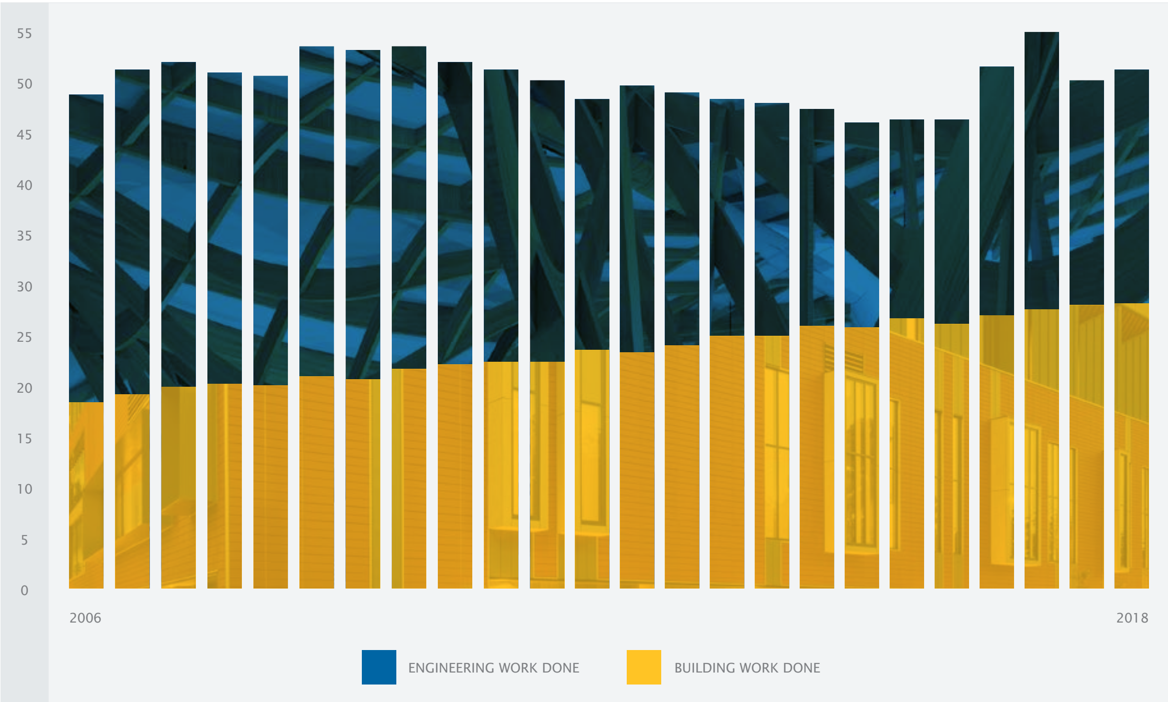
Tasmania is now at full capacity with all sectors, cities and regions reporting increased activity driven by residential, hotel and infrastructure demand, and we expect tender pricing escalation to hit 3.5% across the board in 2019.

The Australian Capital Territory continues to grow with our Canberra office reporting strong residential activity and high confidence levels across all construction sectors. TPE forecast to be around 3.25 to 3.5% per annum over 2019.

NATIONAL ECONOMIC INDICATORS



VALUE OF CONSTRUCTION WORK DONE IN AUSTRALIA ($BILLION)



VICTORIA

STATE ACTIVITY REPORT

CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...construction industry demonstrates continued strength due to consistent population growth, a robust labour market and interest rate stability.

CONFIDENCE REMAINS DESPITE RESIDENTIAL SLOW DOWN

The Victorian economy and construction industry demonstrates continued strength due to to consistent population growth, a robust labour market and interest rate stability. These factors, combined with a shift in government investment, will assist in tempering any potential slowdown and have helped maintain confidence in future construction activity.

Residential sector forecasts do suggest a gradual decline in activity in the short to medium term and recent data indicates a 2.3% decline in approvals. Despite this, key indicators remain strong and the industry maintains a stable workload with developers successfully adapting to uncertainty created by a variety of factors, including changes to planning regulations, foreign investment restrictions and lending protocols, plus the fallout from the Banking Royal Commission.

ALTERNATIVE FINANCING AND DIVERSIFICATION OPEN NEW OPPORTUNITIES

Victoria's solid population growth continues to offset any uncertainty by maintaining a level of appetite in the residential sector. Developers are sourcing alternative finance arrangements with investment banking institutions and some are even realigning their business models to owner occupier, build-to-rent, serviced apartments and hotel marketing, or diversifying into non-residential projects.

COMMERCIAL VACANCY RATES FALLING, RETAIL SHIFTS FOCUS

The commercial sector is showing a renewed level of confidence. A strong economy has stabilised lease yields and vacancy rates have declined due to overall business growth. Current activity is focused on refurbishment work, however if economic activity remains strong and vacancy rates decline further we anticipate this will translate into new commercial building activity.

Retail and industrial are likely to emerge strongly in the short to medium term as e-commerce trends push retail towards more specialised destination centres, supported by industrial distribution centres. We expect this to translate into the redevelopment and refurbishment of existing centres as retail landlords either sell or realign their assets.

INFRASTRUCTURE SETS THE PACE

Unprecedented infrastructure investment is the biggest driver in the current cycle with engineering construction activity continuing to surge after last year's 17% increase. The high volume of construction activity in Victoria has been bolstered by both road and rail projects including, Melbourne's Metro Rail tunnel, level crossing removals, the Western Ring Road upgrade, the West Gate Tunnel and the CityLink Tullamarine Freeway widening. This high level of investment is set to continue with Federal and State policies committed to projects such as the Murray Basin Rail, Melbourne Airport Rail Link, Melbourne–Brisbane Inland Rail and the North East Link.

HIGH VOLUME PUSHES UP PRICES

The tender market remains competitive, but the high volume of activity is pushing costs up and presents challenges in sourcing of materials, plant, equipment and skilled labour. We anticipate cost increases will accelerate as large infrastructure projects move into and through their delivery phases, particularly where trades such as civil and structural engineering services are shared between both the property and infrastructure sectors. These trends are evident as contractors become more selective about tendering opportunities. This is especially prevalent with lower tier contractors where trades such as groundworks and concrete are being impacted by limited material and equipment. This effect will increase in the medium term, creating a more challenging tender procurement and delivery environment.

Our forecasts for tender cost growth for non-infrastructure construction is 3.25% for the remainder of 2018 and 3.25% to 3.75% in 2019 and for infrastructure sector between 4% to 4.5% for the remainder of 2018 and 4.5% to 5.5% in 2019.

NEW SOUTH WALES

STATE ACTIVITY REPORT

CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...short-term slowing will take the residential sector back towards a more stable and sustainable growth rate.

RESIDENTIAL EASES TO MORE SUSTAINABLE GROWTH

Overall industry sentiment in New South Wales has levelled despite residential unit commencements sitting at an all-time high in 2017. Statistics show the value of development applications is significantly down year-on-year and this figure continues to decelerate with a significant decline in residential BAs. We foresee that this short-term slowing will take the residential sector back towards a more stable and sustainable growth rate.

INFRASTRUCTURE ACCELERATES, ADDING TO A DYNAMIC MARKET

While residential projects are easing, the infrastructure sector is accelerating and will continue to do so in the medium term as the state takes its share of the Federal Government's $75 billion 10-year national infrastructure plan. This is on top of the New South Wales Government's Restart NSW initiative driving further public investment.

$20 BILLION BADGERYS CREEK BOOST ANNOUNCED

Sydney's proposed second airport at Badgerys Creek is a major opportunity and potential driver for growth across all sectors. The transformation of this outer Sydney suburb into a new 'airport city' with a world trade centre and international convention centre has seen the announcement of $20 billion into transport, health and education infrastructure as well as accompanying commercial, investment and residential space, all of which is on top of the $5.3 billion airport funding.

BROAD CAPITAL GROWTH TREND CONTINUES

Alongside infrastructure, capital growth in the New South Wales hotel, industrial, and retirement sectors is expected. We have seen significant activity in industrial real estate and a high volume of commercial sales, with significant amounts of new warehousing and distribution centres currently under construction on the suburban fringe and north-western to south-western locations. This includes Amazon's 'fulfilment centre' while shopping centres around the Sydney CBD plus Bankstown, Roselands, Castle Hill and Sydney Olympic Park are being repositioned with the building of new visitor experience offerings. This trend is likely to continue the sharp increase of BAs for industrial over the last two years.

COMMERCIAL SECTOR STRONG, CBD VACANCY RATES LOW

We also predict Sydney's commercial office sector will remain strong. The CBD office market is the most vibrant with the lowest vacancy rates in almost 10 years. The premium grade vacancy rate dropped to 6.9% in early 2018. Commercial hubs in Sydney suburbs are also robust markets, with overall vacancy rates decreasing and hitting full capacity with zero vacancies among Parramatta's premium grade commercial buildings.

In addition, the rejuvenation of both Wollongong and Newcastle sees the office markets in both cities with strong prospects as they meet growing demand. Both will also see investment in housing, retail and further infrastructure to support this momentum.

Our overall conclusion is that despite some slowing in the residential sector, the New South Wales construction industry will remain dynamic in the short to medium term.

REALIGNMENT TO DRIVE RETAIL-RELATED CONSTRUCTION

We see the retail sector as the key performer with the e-commerce boom boosting construction activity in industrial, warehousing and distribution facilities. This is driven mostly by investment in projects providing new handling facilities to support the supply chain activities of online retailers. The changing nature of retail as it moves towards experience-driven entertainment food and beverage means significant investment is also forecast for new construction and refurbishment works to adapt existing retail centres, and we see this continuing through to the end of 2018.

SKILLS AND RESOURCES SHORTAGE DRIVES PRICING ABOVE AVERAGE

A continuing skills shortage and lack of resources to meet the growing demands of construction projects are sending TPE above the long-term average for all trades. Subcontractor market feedback and our own project experience shows particular pressure in joinery, demolition, architectural metalwork, masonry, plasterboard and structural steel. Also access, EBA and logistical constraints will probably affect competing projects in Western Sydney. The staged nature of delivery of these works could potentially place added pressure on prices as subcontractors commit to longer delivery periods. In line with our January 2018 forecast, we anticipate escalation across the whole of the market to be 4.5% to the end of 2018. A notable decrease in residential building applications should see this decline to 4.25% for the first half 2019.

WESTERN AUSTRALIA

STATE ACTIVITY REPORT

CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...signs of recovery after coming out of a technical recession; in the construction industry this modest recovery is being led by the private sector.

PRIVATE FUNDING DRIVES CONSTRUCTION AS ECONOMY PICKS UP

The general Western Australia economy is showing signs of recovery after coming out of a technical recession; in the construction industry this modest recovery is being led by the private sector. At this stage, it appears any boost in public expenditure will go towards funding existing services rather than new large capital projects. Mining and resources is also showing signs of life, but the projects announced sit at only 5% of the 2010 peak.

The high-rise residential sector sees a number of landmark residential projects currently in planning and many others moving towards construction. The higher end of this market is holding up well, driven by self-funded downsizers. However pre-sales in the medium-range market are poor with some CBD postcodes blacklisted by lending institutions. More stringent planning requirements have also caused issues for some projects but developers are putting in the resources needed to secure approvals.

RETAIL RATIONALISATION ON THE CARDS

The retail sector continues to perform but signs of improvement in the state economy and an improvement in consumer confidence as of June 2018 have yet to filter into increased retail spending. As a result, a number of major projects have been delayed to 2019. Also the general shift to e-commerce, plus the reluctance of international brands and major anchor tenants to increase presence in Western Australia, have contributed to declining rental yields. It is probable that some major works currently tendered or under negotiation may be rationalised with the focus shifting more to food, beverage and entertainment precincts.

HOTEL SECTOR OCCUPANCY RATES FALL

The hotel sector appears saturated at present with a number of 3-, 4- and 5-Star developments coming on stream in the next two years including Fragrance Group's NV Towers, which is currently under construction. We expect this sector to slow during 2019 as occupancy rates now sit at 75% and overall Western Australia tourism spending has declined despite an increase in numbers of 4.5% in 2018. The high-profile closure of the Terrace Hotel, and the Ku De Ta after only 18 months, have also dented confidence in this sector. This is coupled with the general shift of accommodation preferences among certain demographics who are shunning the big hotels and resorts for more personalised stays.

OFFICE SECTOR RECOVERING

The office sector shows signs of recovery with the official vacancy rates in Perth's CBD falling below 20% and premium office space dropping below 7%. These figures are still high compared to the national norm, but are positive indicators for the coming year. A lift in enquiries for premium and A-grade commercial buildings together with continued strength in the refurbishment and refit market is also positive news and we expect this trend to continue.

MAJOR RESOURCES ANNOUNCEMENT

The resources sector is finally showing signs of life with the announcement of BHP's $4.7 billion South Flank project. FMG and Rio Tinto also have major works in the pipeline, but activity is only a small fraction of that experienced in the last boom.

The State Government has also approved a number of major road, rail and port projects including 'Metronet', which helps bring confidence into the market, although most of these projects are in the early stages with many a long way from breaking ground.

Other sectors where major growth is anticipated in the medium to long term are defence, student accommodation, aged care, private healthcare and Department of Justice.

Excess capacity still exists in the Western Australia construction sector, and this looks as though it will continue for the balance of this year, so the overall outlook for the Western Australia market remains neutral to positive for the medium to long term. TPE rates are expected to close the year at 1% with escalation predicted at 1.8% for 2019.

SOUTH AUSTRALIA

STATE ACTIVITY REPORT

CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...noticeable upswing in investment enquiries with a number of large projects recently awarded or about to be tendered.

LARGE PROJECTS WAKE UP SUBDUED MARKET

South Australia's construction activity has mirrored Melbourne and Sydney but at a more subdued level. Some local tier 1 and tier 2 contractors are still finding the market relatively tough, but they are not as despondent as they were previously. The recent state election with the change in government has produced a noticeable upswing in investment enquiries with a number of large projects recently awarded or about to be tendered.

$1 BILLION + BOOST FROM DEFENCE

A number of significant defence projects are about to start including the $1 billion Future Frigate project at Osborne Shipyards. The Defence Force's submarine project, also worth around $1 billion will soon be tendered, as will the next phase of the Air 7000 at Edinburgh.

ADELAIDE CASINO REDEVELOPMENT TO BEGIN

The long anticipated redevelopment, which includes a new five-star hotel, has now been awarded with works starting shortly. We also see significant amounts of high-rise student accommodation and CBD apartment projects under construction with many new works in various phases of feasibility and cost planning. Numerous large retail projects are under way and due to begin over the next year.

FURTHER SIGNIFICANT PROJECTS IN THE PIPELINE

The State Government has recently announced the Building Better Schools project – worth $679 million due to commence over the next 12 months. Other large projects include the Uniting Communities U City Project, Her Majesty's Theatre redevelopment, Calvary Adelaide Hospital, Realm Apartments, ONE Apartments, The Adelaidean, Kodo Apartments, the GPO development, Gray Street Student Accommodation, Adelaide Airport and West Franklin.

LABOUR MARKET TIGHTENING

All of this activity has resulted in a record number of tower cranes in Adelaide and we note genuine concern regarding labour availability with accompanying upward pressure on trade costs and project feasibility.

While defence and infrastructure projects look to be key drivers in the future, the healthcare sector is currently the key performer with major works at Calvary Private Hospital, Stage 3 of the Queen Elizabeth Hospital redevelopment, construction at Lyell McEwin Hospital plus numerous aged care projects.

Adelaide-based tier 1 contractors are forecasting up to 4% escalation, citing many years of "catch up" and we see this as a likely scenario over the next year. Structural trades such as formwork, reinforcement, concrete labour and structural steel along with aluminium have all taken the opportunity to increase prices.

We expect TPE to be 3–4% over the next 12 months falling to between 2–3% in late 2019 into 2020, barring any significant global economic change in sentiment.

QUEENSLAND

STATE ACTIVITY REPORT

CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...$45 billion of investment over the next four years has created a resurgence in infrastructure activity...

SOUTH EAST QUEENSLAND APARTMENT MARKET SATURATED

Construction work in Queensland has fallen for the second straight quarter and is currently sitting 18% below the decade average and the size of the decline can be partially attributed to figures skewed by the resources boom in previous years. However, the downturn in the multi-residential apartment market means there are few residential projects to replace the backlog of high-rise residential completing in 2018. Following the completion of the Commonwealth Games Village, major project work on the Gold Coast has dropped, however the 479-apartment Spirit Tower is due to be completed by 2020.

POSITIVE ECONOMY, HIGH POPULATION GROWTH SUSTAIN PRICING

While the apartment market in South East Queensland and the Gold Coast is saturated, we expect the predicted four-year high in population growth – led by continued interstate migration, plus positive state economic conditions – to absorb stock into the market without compromising average unit or rental prices.

58% INCREASE IN MAJOR PROJECT WORK

Following two consecutive years of low activity, an injection of funding by the State Government has seen major project work in Queensland rise 58% from 2017/18 to $6.9 billion. Marquee projects now under way or greenlighted include Dexus' $1.4 billion Eagle Street Pier redevelopment, Edward Street revitalisation, Howard Smith Wharves redevelopment, the Brisbane Quarter, Queen's Wharf Casino Precinct and the Cross River Rail.

$45 BILLION INVESTMENT OVER FOUR YEARS

The State Government's proposed $45 billion of investment over the next four years has created a resurgence in infrastructure activity throughout the state which includes $897 million for upgrades to the M1 between Varsity Lakes, Tugun, Eight Mile Plains and Daisy Hill plus continuing upgrades to the Bruce Highway.

$300 MILLION GREEN POWER HUB AT KABAN

Resurgent construction within the state extends to some new sustainability projects such as the $300 million Kaban Green Power Hub near Cairns, which recently received planning approval. This will see the installation of 29 turbines, a substation and battery storage facility. The Coopers Gap Wind Farm between Dalby and Kingaroy is also under construction.

SUNSHINE COAST ACTIVITY STEADY

The Sunshine Coast construction market has been steady with the commencement of the airport expansion, which includes the construction of a new long runway, parallel taxiway and apron expansion.

BRISBANE CBD COMMERCIAL MUTED

High vacancy rates and favourable leasing conditions for tenants continue to mute commercial office construction in Brisbane's CBD. In 2016, 1 William Street and 180 Ann Street added 122,000 square metres to the market, and since then commercial developers have held back with new construction limited to 300 George Street, due for completion in 2020. The ATO and Suncorp are committed to new office space, and there is increased activity in new office development together with continued focus on refurbishment work.

NEW IPSWICH DEFENCE MANUFACTURING CENTRE

A $5 billion defence contract producing new combat reconnaissance vehicles for the Australian Army went to Rhienmetall Defence Australia in early 2018, and will mean the construction of an $80 million manufacturing centre in Ipswich. It is one of a number of defence-related projects that are boosting regional construction in Townsville, Amberley and Shoalwater Bay.

We predict investment in major projects and infrastructure will help maintain high levels of building activity throughout the state for the remainder of 2018. Construction resources and consultants will continue to be drawn to key projects such as Queen's Wharf, No.1 Brisbane, Spirit Tower and Cross River Rail.

Our forecast escalation on tender prices for the balance of 2018 is around 3% then trending towards 4% for 2019 and into early 2020. We then anticipate that tender levels will lift due to significant projects under way in South East Queensland and forecast TPE at levels of up to 5% in late 2020.

AUSTRALIAN CAPITAL TERRITORY

TERRITORY ACTIVITY REPORT

CONSTRUCTION ACTIVITY

TENDER PRICE ESCALATION

...the Australian Capital Territory economy is back in the sweet spot after bearing the brunt of public service cut backs.

STRONG ALL ROUND

The Australian Capital Territory construction sector is extremely buoyant. In addition to the Government's $42.8 billion four-year infrastructure program, there is $1.5 billion in commercial and residential projects under way, with over $3 billion more in the pipeline. Strong employment had also fuelled a rise in Canberra retail spending and business investment, so the Australian Capital Territory economy is back in the sweet spot after bearing the brunt of public service cutbacks.

HOUSING STILL ON THE RISE, CANBERRA RENTS EQUAL TO SYDNEY

The housing market remains strong with high demand for free-standing housing, and Canberra house prices are still rising. There have also been significant signs of improvement in the rental market with the capital's median rental rates now equal to those of Sydney.

Demand for new dwellings also remains high. With the housing construction boom showing signs of peaking, any slowdown will be modest and short-lived. There has been a significant increase in BAs over the last 12 months and with the Australian Capital Territory's population forecast to rise to 500,000 in the next decade, the indicative land release program will see an additional 17,000 new homes built over the coming years. Also, the Australian Capital Territory's move from stamp duty to land tax revenue will help protect government revenues should the property market fall.

PROPOSED UNSW CAMPUS, PLUS LIGHT RAIL TO PROVIDE A FURTHER BOOST

Canberra's booming education sector with its higher share of foreign students could grow further if the University of New South Wales goes ahead with its proposed new city campus. The Australian Capital Territory's small engineering construction sector has grown thanks to commencement of the Australian Capital Territory Government's light rail project.

Overall, we see contractors are busy and market rates are beginning to show signs of increasing. Our forecast for TPE is 3–3.25% for the remainder of 2018 then 3.25–3.5% for 2019 and 2020.

TASMANIA

STATE ACTIVITY REPORT

CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...construction market to run at capacity with a number of large projects coming on line over the next 12 months.

MARKET RUNNING AT FULL CAPACITY

We expect the Tasmanian construction market to run at capacity with a number of large projects coming on line over the next 12 months in both the major cities and regional areas. This will be underpinned by a raft of new developments in the pipeline, including the University of Tasmania (UTAS) Science Technology and Mathematics development within the Hobart CBD, redevelopment of the former Hobart Rail Yards site on Macquarie Point and the UTAS Launceston city campus development. The domestic housing construction sector is also currently buoyant, spurred on by the recent positive performance of residential sales within the state.

HOBART PEAKS WITH CONCURRENT HOSPITAL, HOTEL AND UNIVERSITY PROJECTS

Currently the Hobart market is buoyant with numerous large projects under way including the Royal Hobart Hospital redevelopment, the UTAS Hedberg Performing Arts project plus the building of both the new Vibe Hotel and Hyatt Hotel. Other major works expected to begin on site this year include the Kangaroo Bay Hotel, the Calvary Hospital works, a 400-bed accommodation block at UTAS and the new Parliament Square Hotel. We also see a substantial amount of large hospitality projects currently in the planning stages, which include several Fragrance Group projects and various other hotel developments.

TIER 1 AND TIER 2 CONTRACTORS BUSY

Tier 1 and tier 2 contractors are occupied with smaller scale projects from private investors as well as works for the Department of Health and the Department of Education which are either under way or due to start this year. The major highway link between Hobart and Launceston is still in progress, along with a range of infrastructure and large subdivision projects.

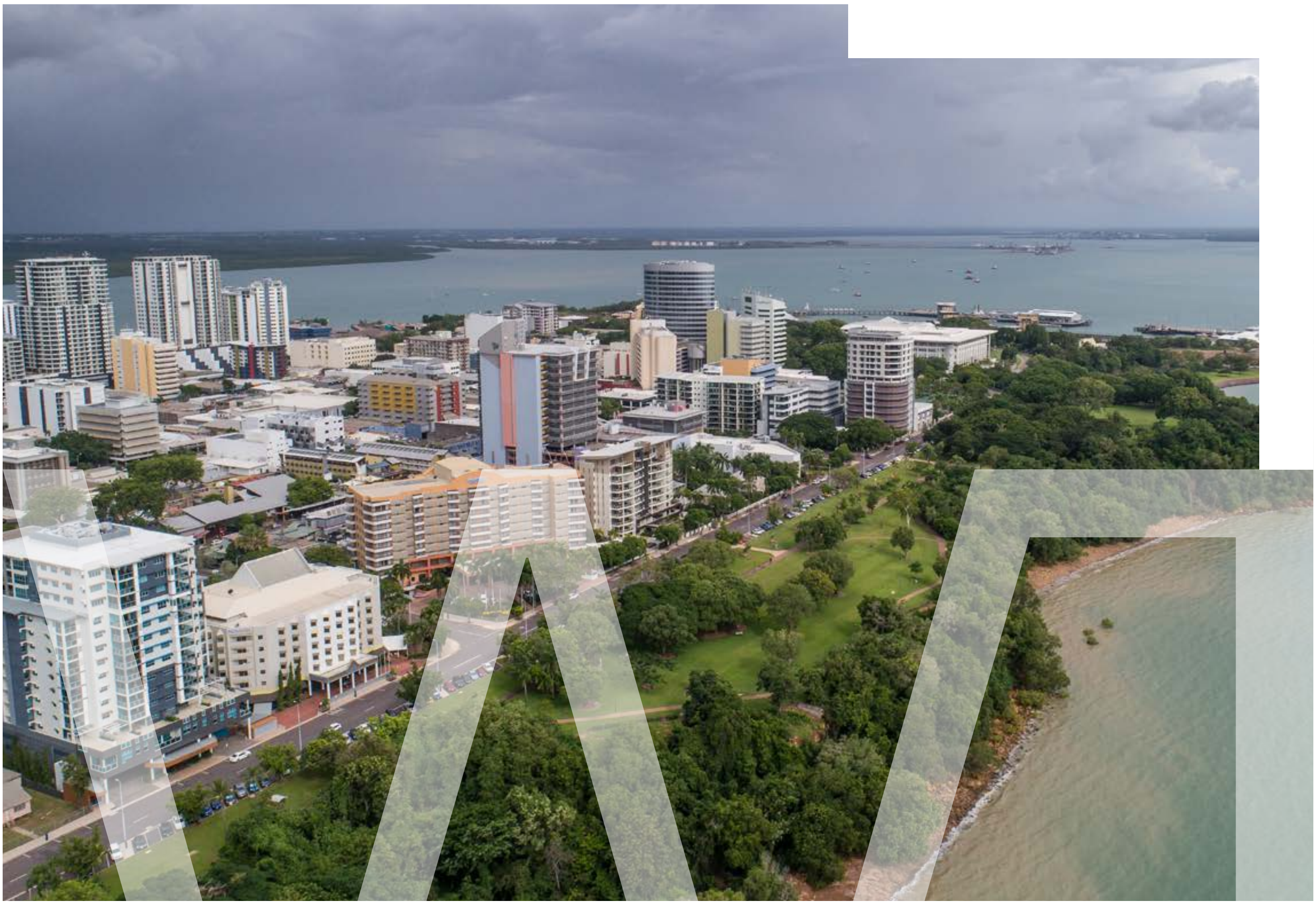
REGIONAL AREAS ALSO AT FULL SPEED

In Tasmania’s north, contractors are at full capacity due to the growth in construction activity for larger projects, such as the CH Smith site development, plus smaller education projects and private developments. Other regional areas also have significant developments in progress with construction beginning on the St Helens District Hospital on the north-east coast and the Devonport Living City development in the north.

MULTI-SECTOR GROWTH

Tasmania is enjoying multi-sector growth. In the immediate future, the hospitality sector will likely be the strongest performer due to the tourism boom and expected hotel developments throughout the state. As larger UTAS projects come on line, education will also be a key sector as the Education Department expands redevelopment works. The aged care sector is also highly active as providers seek to increase the capacity of aged care facilities and lifestyle villages to meet demand.

Our prediction for the coming years is based on a reasonable spread of future workload, however, if all predicted projects come on line concurrently, this could saturate the market and cause a sudden spike in tenders. Tender prices have escalated around 3% for the past 12 months, and we expect this to tick upwards to 3.5% per annum for the next three years.



NORTHERN TERRITORY

TERRITORY ACTIVITY REPORT

CONSTRUCTION ACTIVITY

TENDER PRICE ESCALATION

...construction market will be steady in the short term, but could become more positive towards Q2 2019.

CONSTRUCTION ACTIVITY SLOW AS MAJOR PROJECTS FINISH

The Northern Territory's economy remains lethargic, despite some modest growth through 2018. Some major projects, such as the Northern Pipeline, are nearing completion and spending in the defence sector will benefit over the long term from the $495 million Larrakeyah Defence Precinct approved by the Federal Government in July 2018. With construction and resources the main contributors to the Northern Territory economy, growth is largely tied to global factors.

INFRASTRUCTURE INCREASE OFFSET BY DECLINE IN RESOURCES

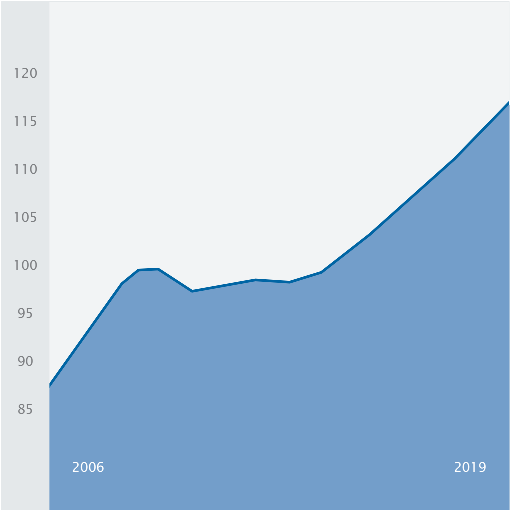
The expected up-tick in government-backed infrastructure projects will not be sufficient to offset the decline of the resources sector capital works expenditure, and any significant increases in other key sectors, such as retail or hospitality, are unlikely.

Although a number of retail and hospitality projects are currently under construction in Darwin, lower overall market conditions and consumer sentiment points to no major new investment in the near to medium term.

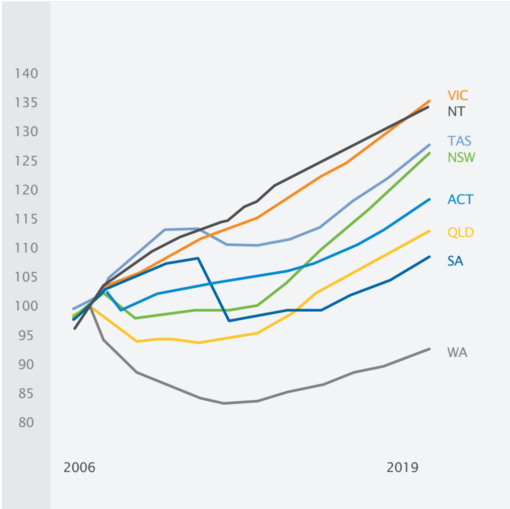
Our view is the Northern Territory construction market will be steady in the short term, but could become more positive towards Q2 2019. We estimate TPE will fall slightly to 1.8% to the end of 2018.

TENDER PRICE ESCALATION FORECASTS

WT AVERAGE TENDER PRICE ESCALATION



AUSTRALIAN AVERAGE



WT AVERAGE TENDER PRICE ESCALATION BY STATE/TERRITORY

YEAR	NSW	VIC	QLD	WA	SA	ACT	TAS	NT
2006	4.6%	4.2%	5.9%	12.0%	6.3%	6.3%	5.9%	9.1%
2007	4.6%	4.5%	5.5%	10.9%	7.6%	6.0%	5.1%	7.4%
2008	4.0%	5.1%	-0.7%	-2.8%	5.4%	4.6%	5.2%	3.5%
2009	-4.4%	1.6%	-3.6%	-5.7%	2.0%	-1.9%	4.7%	3.3%
2010	0.6%	2.8%	0.5%	-2.1%	2.0%	2.3%	4.1%	1.8%
2011	1.0%	3.0%	-1.0%	-2.7%	1.0%	1.5%	0.2%	1.7%
2012	0.0%	1.5%	1.0%	-1.6%	-10.0%	0.8%	-2.9%	3.0%
2013	1.3%	2.0%	1.0%	0.6%	1.0%	0.8%	0.0%	3.1%
2014	3.5%	2.5%	3.0%	2.0%	1.3%	0.5%	1.0%	2.2%
2015	5.0%	3.0%	4.0%	1.4%	0.0%	1.5%	1.8%	2.2%
2016	4.5%	2.5%	3.0%	2.0%	2.0%	2.0%	3.5%	2.1%
2017	4.5%	3.0%	2.5%	1.5%	2.0%	2.5%	3.0%	2.0%
2018	4.5%	3.0%	3.0%	1.0%	4.0%	3.25%	3.0%	1.8%
2019	4.25%	3.5%	4.0%	1.8%	2.5%	3.5%	3.5%	1.5%

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 acquisition, operation and divestment of assets.

WT draws on the collective experience, knowledge and capability of our professional staff in locations throughout Australasia, Asia, North America, Canada and Europe to provide our clients with the right advice on all aspects of cost, value and risk to assist in achieving 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 arenas, 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 advice is offered for guidance purposes only.