WT PARTNERSHIP

AUSTRALIAN CONSTRUCTION MARKET CONDITIONS REPORT

OCTOBER 2019

CONTENTS

NATIONAL OVERVIEW

TENDER PRICE ESCALATION TO REMAIN ABOVE AVERAGE IN THE MAJORITY OF STATES AND SECTORS

TENDER PRICE ESCALATION CHART BASED ON YTD + FORECAST FOR REMAINDER OF YEAR

		% ACTUAL 2019							% FORECAST 2020							% FORECAST 2021						
		NSW	VIC	QLD	SA	WA	ACT	TAS	NSW	VIC	QLD	SA	WA	ACT	TAS	NSW	VIC	QLD	SA	WA	ACT	TAS
RESIDENTIAL BUILDING		3.0	2.2	1.5	1.0	0.0	3.4	5.0	3.3	2.2	2.5	2.0-2.5	1.1	3.5	6.0	2.8	2.5	2.5	2.0	1.8	3.6	6.0
NON-RESIDENTIAL BUILDING OVERALL		3.25	3.0	1.5	3.0	0.0	3.4	5.0	2.5	3.3	2.8	3.0	1.4	3.5	6.0	2.0	3.5	3.2	2.5	1.8	3.6	6.0
ENGINEERING CONSTRUCTION	TRANSPORT (INC AVIATION)	4.0	6.0	1.0	3.0	2.0	3.3	5.0	4.4	7.0	0.3	3.0	2.6	3.4	6.0	3.8	5.0	1.7	2.0	3.2	3.4	6.0
	UTILITIES	4.0	5.5	2.4	3.0	2.2	3.3	5.0	4.4	6.0	2.3	3.0	2.5	3.4	6.0	3.8	5.0	2.3	2.0	3.0	3.4	6.0

Note: Factors affecting construction price escalation include: General Price Inflation (GPI), levels of construction activity, supply and demand for construction labour and materials, national and state macroeconomic outlooks plus relevant global influences on key commodities, iron ore, oil, copper, coal (steel) and the Australian Dollar exchange rate.

While the fall in residential approvals and construction starts has made headlines, other sectors remain steady or growing, particularly in engineering construction. The overall demand for materials and labour in those sectors sees strong price escalation expected in some markets. NSW is steady in most sectors despite being hard hit by the residential dip with SA seeing low or stagnant levels of escalation.

MILD SHORT TERM DECLINE TEMPERED BY BOOST IN MAJOR INFRASTRUCTURE

Australia-wide activity fell in FY 2019 but is expected to recover through to 2022. The current decline is more of a 'trough' and is expected to last the next two years, then stabilise through the end of a relatively 'mild cycle' over the seven years to 2026. Activity is then expected to rise through to 2030.

The five years to FY 2019 saw overall Australian construction activity decline, largely due to the steep decline in mining investment from previous years. Whilst the residential slow down comes off the back of all-time highs in the eastern states, demand for new housing will still be driven by continuing high population growth in Sydney, Melbourne and Southern QLD, despite cuts to immigration.

Construction and engineering will be driven by $100 billion of infrastructure investment announced by the Federal Government. This will be focused on "shovel ready" projects with relatively short completion windows. While State Governments also have major construction and engineering works under way as Australia's major cities work to catch up on the backlog of necessary infrastructure driven by the growing population of recent years as they look to spend in certain states.

Projects such as the $9.3 billion ARTC Inland Rail Freight Network and a raft of other rail, road and airport projects boost transport infrastructure across the nation. With further extension to Sydney's M4 motorway, Western Sydney Airport, Melbourne's M80 Ring Road, Brisbane Metro and Perth Metronet rail projects as well as Perth and Hobart airport upgrades.

OVERALL EXPECTATIONS

- Total building and construction work is projected to stabilise at around $240 billion p.a. over the next two to three years
- Construction employment is projected to be around 1.15 million jobs into the next three to four years
- Workers displaced from residential downturn will be largely soaked up by an upturn in non-residential building activity and infrastructure activity.

CHALLENGES TO THESE EXPECTATIONS

- A further moderation in dwelling investment prompted by recent structural and cladding issues
- Further policy measures to decrease immigration, leading to lower growth in demand for dwellings and lower GDP growth
- Growth in government infrastructure investment and pick up in non-mining and non-residential construction has peaked, contributing less growth in the next three years.

NATIONAL HIGHLIGHTS

RESIDENTIAL BUILDING

- Housing prices appear to be strengthening following a decline in the first half of 2019
- This trough affected most capital cities, but outlook may stabilise early FY 2020
- Credit growth continues to fall
- Prospective home owners will remain nervous
- Plans for new projects are being withdrawn or deferred
- Particularly deep falls in planning and approvals for apartments and townhouses
- Residential construction contraction of 1.5% FY 2019
- Steeper falls expected FY 2020 and FY 2021.

AUSTRALIAN RESIDENTIAL OVERVIEW CHART

STATE FINAL	DEMAND ($B) MAR-19 QUARTER	Y-O-Y GROWTH	STATE POPULATION ('000) DEC-18 QUARTER	Y-O-Y GROWTH	UNEMPLOYMENT RATE (TREND) (MAY-19)
NEW SOUTH WALES	$149.4	2.1%	8,046.1	1.6%	4.4%
VICTORIA	$117.9	3.0%	6,526.4	2.2%	4.7%
QUEENSLAND	$88.4	1.4%	5,052.8	1.8%	6.0%
WESTERN AUSTRALIA	$49.9	-1.4%	2,606.3	0.9%	6.2%
SOUTH AUSTRALIA	$29.3	1.8%	1,742.7	0.8%	5.8%
ACT	$12.7	4.2%	423.8	1.8%	3.9%

Source: ABS; REIA; SQM Research

NON-RESIDENTIAL BUILDING

- Expanding investment in hospitality, offices, industrial and other commercial has buoyed activity
- Public sector investment supporting growth in Education, Defence and other community facilities
- New projects are being added to the pipeline
- Growth in the value of non-residential approvals has flattened
- The value of non-residential building work grew by double digits in the last two years hitting $42 billion FY 2019
- Rate of growth expected to taper off over the next three years.

ENGINEERING CONSTRUCTION

- Federal Government has flagged a ten-year $100 billion investment in transport infrastructure across Australia
- Significant projects under way and in planning in most states across Australia
- NSW Government has an $87 billion capital program up to FY 2022
- Victoria's "Big Build" has committed $57 billion to road and rail projects
- Many new major projects being added to an already solid pipeline
- Biggest focus in terms of value is in bridges, railways and harbours, followed by electricity and pipelines
- Engineering construction grew by 21% in FY 2018 to reach $67 billion (ACIF)
- Continued strong growth in the next two years, work done to reach $76 billion in FY 2021
- Building and construction work in aggregate estimated to have fallen by 5% to $239 billion in FY 2019.

KEY FACTS AND FIGURES WITHIN THE CONSTRUCTION INDUSTRY

- Increased contractor margins represent the key risk to the outlook for construction costs. It's probable that Industry margins will increase by between 1% and 2% over the coming decade, returning to historical averages of between 8% and 10% after decreasing to between 6% and 8% over the past three years.

- Overall materials price growth to drop to 1.8% p.a. over the next two years in line with decline in national construction activity and key commodity prices, compared to FY 2019 peak of 9% p.a. and FY 2018 or 10.7% p.a.

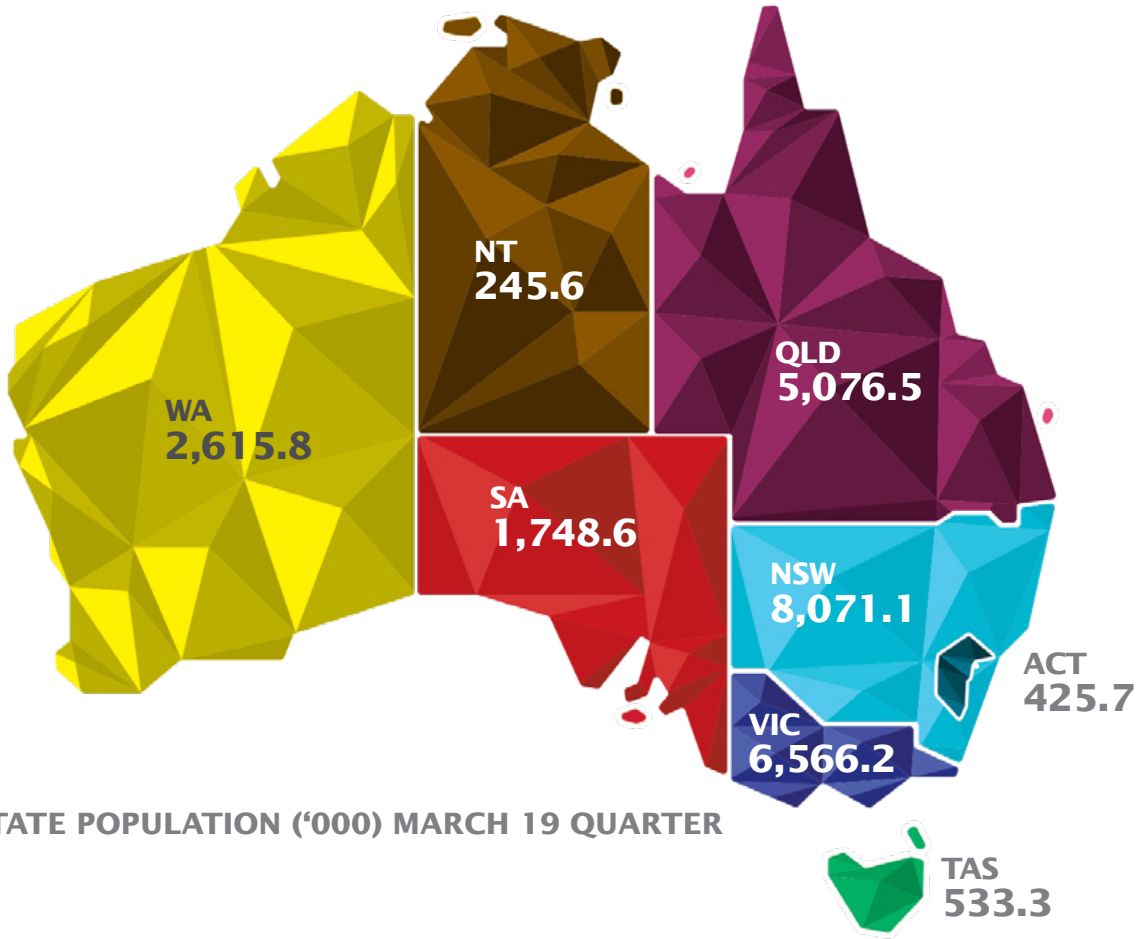
- Construction material prices forecast to average 2.8% p.a. from FY 2022 to FY 2023 as post construction activity and commodity prices recover

- Non-dwelling building cost growth to increase on average over 3% p.a. over FY 2020 to FY 2022

- Overall construction material average increase for the decade FY 2020 to FY 2030 forecast to be 2.2% p.a.

- Construction wages are expected to accelerate between FY 2021 and FY 2023, driven by the recovery in residential building and high levels of non-dwelling building and engineering construction.

POPULATION GROWTH CONTINUES, BUT AT SLOWER PACE



STATE POPULATION ('000) MARCH 19 QUARTER

Australia's population is still growing significantly, but the pace of growth is slowing as immigration policy changes flow through. March 2019 saw 133,500 additional residents in Victoria, 88,100 in Queensland and 114,000 in New South Wales. In the medium term, Melbourne is projected to house an additional 90,000 people p.a while Sydney expects 70,000 p.a. The retiree / lifestyle-driven shift to Southern Queensland will continue and WA's population growth is forecast to recover.

OVERALL ECONOMIC FACTORS

- Australian GDP slowed to 2.3% p.a. in FY 2019 with 2.75% p.a. predicted in FY 2020
- 'Average annual GDP growth' over the five years to FY 2023 is forecast to be 2.8% p.a.
- Global economic growth is expected to slow gradually to 3.3% p.a. by 2023, after peaking at 3.8% p.a. in 2018
- CPI forecast to rise from 1.7% p.a. FY 2019 to 2.5% FY 2022 then remain steady around 2.5% p.a. through to FY 2030
- Wages have moved off the bottom of the cycle, the wage price index (WPI) rising from its lows of 2017 and expected to be 3.6% in FY 2022
- Copper prices have increased and may well increase further in the near term as Chinese construction activity picks up and copper output growth slows
- Iron ore prices are forecast to decline over the next two years.

NATIONAL SNAPSHOT

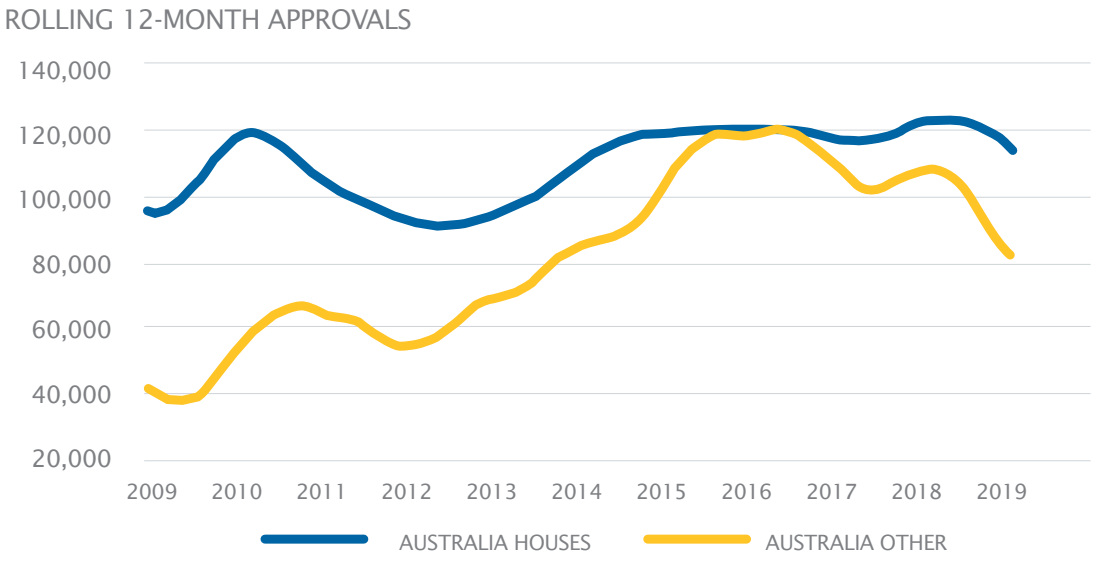
NEW RESIDENTIAL BUILDINGS – 20% P.A. DROP IN APPROVALS FY 2019

Despite recent falls – including a 20% year on year drop in Australian residential approvals as of mid 2019 – this sector remains the leading source of work for the building industry. However, the last year has proven that the Australian residential construction market is not immune to business cycles. The recent drop-off underlines that, like the 'mining boom', the building of new housing is cyclical (albeit a mode dictated by government).

The factors behind this deterioration are well known within the industry, but to recap – lending growth to investors, especially higher-risk interest-only loans, was literally closed down for an extended period through 2018-2019. Rules have now been relaxed somewhat, but the return of investors is suppressed due to concern over falling capital gains, headline-grabbing building structural and façade issues and greatly increased stamp duty for overseas buyers in Victoria and WA.

This lack of investor demand, both domestic and overseas, is a drag on inner city apartment markets in Sydney, Melbourne and Brisbane resulting in a contraction of the development pipeline. Worries about a falling market and tougher credit conditions are also holding back occupier demand, particularly first home buyers. All of this will drive a flow-on contraction in activity over the next two years with total new housing approvals having dropped 20% to 187,515 in 2018-2019.

AUSTRALIAN RESIDENTIAL BUILDING APPROVALS



Source: Australian Bureau of Statistics. Increased stamp duty, application fees, plus tighter restrictions in home countries have curbed foreign investors. Overseas residential investment approvals have contracted to 2009 levels

NON-RESIDENTIAL BUILDING UP 11% TO $42 BILLION

The value of work done in non-residential building rose by 11% in 2018 to reach $42 billion.

Work in this area surged in FY 2019 and as the second largest source of work for the building industry will offset some of the falls in residential.

NATIONAL ENGINEERING AND CONSTRUCTION WORK TO GROW 8% IN FY 2020

This area draws together transport infrastructure, utilities and heavy industry, including mining and other construction activities. Work done increased sharply in FY 2019 to reach $106 billion. The strong rebound in engineering construction is arriving just in time to offset the deepening decline in residential building activity and maintain demand for trades and materials. Construction work in transport infrastructure and utilities has rebounded over the last year on the back of strengthened public investment in roads, rail, ports and airports as well as in energy and water and sewerage facilities.

Growth will taper but will be sufficient to sustain activity at around $104 billion p.a. through to 2022. Across Australia significant, sustained investment in construction of transport, infrastructure and utilities is under way. The Federal Government $100 billion infrastructure package added to state infrastructure investment, with VIC and NSW leading the way and will provide a raft of major projects either in construction or in the pipeline. QLD, WA, SA and Tasmania also all have multibillion-dollar projects in planning or construction phases.

ROADS – 19% GROWTH

Construction activity in roads grew by 19% in FY 2018, lifting work done to $21 billion. Some 39 new roads projects, with a combined value of $7 billion, were added to the ACIF Major Projects Database in the six months to May 2019, more than doubling the increase in the previous six months.

BRIDGES, RAILWAYS AND HARBOURS EXPERIENCE DOUBLE-DIGIT GROWTH

This sector grew by 32% in 2017-2018, and the value of work done continued to rise through FY 2019 to $9 billion. Fifteen projects with a combined value of $21 billion were recently added to the ACIF database including: Sydney Metro, Western Sydney Airport, Parramatta Light Rail Stage 2, Regional Fast Train Network, Sydney Central Precinct, Inland Rail Gowrie to Kagaru, Rail level crossing removal – Belgrave / Lilydale line, Australian Inland Rail, Expressway Illabo to Stockinbingal and Flinders Link project.

ELECTRICITY AND PIPELINES BOOSTED BY RENEWABLES

No less than 371 electricity and pipelines projects were listed in ACIF's database as of mid 2019 and 39 projects with a value of $17 billion were added to the Major Projects Database over the six months to April 2019. These figures were boosted by numerous renewable electricity supply options including Snowy 2.0 and many smaller pumped hydro projects, multiple wind generation projects, solar farms (several being of very large scale), and large-scale batteries.

HEAVY INDUSTRY INCLUDING MINING

Activity is expected to drop down to underlying levels of around $25 billion p.a. during FY 2020.

EDUCATION

Education is a rapidly growing service export industry. Building activity in education has grown to meet these needs over recent years, rising to $6.5 billion FY 2018, an increase of 26%.

HEALTH AND AGED CARE

Building work in this category is expected to continue to dip to $4.9 billion over FY 2019, and then recover and grow to reach $5.5 billion by the end of FY 2023.

COMMERCIAL OFFICE

Nationally, building activity in this sector continues to grow with record low CBD office vacancy rates in Sydney (3.0%) and Melbourne (3.3%). The value of work done increased by 7.1% in FY 2019 to reach $7.1 billion and is predicted hit 7.9 billion in FY 2020. The value of office building projects in the ACIF database increased to $7.5 billion over the last 12 months.

RETAIL AND WHOLESALE

Retail construction continues to be subdued with recent data showing the value of projects declining as the sector managed the dual challenges of flat household incomes and online disruption. The move to mixed-use major centres, the continued shift to outer urban warehousing and construction of major data centres has seen some major projects progress but the sector as a whole is flat with around $6 billion in major projects in FY 2019.

NEW SOUTH WALES

STATE ACTIVITY REPORT

CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...strong public investment is picking up the slack of a slower residential sector.

STEADY LEVELS OF TENDER PRICE ESCALATION TRENDING DOWN TOWARDS 2021

The NSW economy is being driven by strong business and public investment, strong growth in government spending and a resilient consumer sector. Although dwelling investment has slowed sharply, this fall followed double-digit increases and record starts as NSW surged through 2016 to 2018. 2019 was relatively strong with total construction work done rising another 1.5% in FY 2019. This has supported average or higher tender price escalation of between 3% p.a. and 4% p.a. in all sectors.

ESCALATION FIGURES NSW		% ACTUAL 2019	% Forecast 2020	% Forecast 2021
RESIDENTIAL		3.0	3.3	2.8
NON-RESIDENTIAL BUILDING OVERALL		3.25	2.5	2.0
ENGINEERING CONSTRUCTION	TRANSPORTATION (INC AVIATION)	4.0	4.4	3.8
UTILITIES		4.0	4.4	3.8

Source: WT Partnership

The residential trough is expected to see price escalation slip back markedly through 2020 and 2021 in residential and non-residential building as well the commercial sector. Expectations for engineering construction pricing remains strong and should only drop a little after peaking at 4.4% p.a. in FY 2020.

SYDNEY		
TRANSFERS (HOUSE)	36,852	-20.5% Y-O-Y
TRANSFERS (UNIT)	27,953	-24.9% Y-O-Y
MEDIAN HOUSE PRICE	$1,028,000	-11.5% Y-O-Y
MEDIAN UNIT PRICE	$696,900	-6.5% Y-O-Y
VACANCY RATE	3.6%	+1.3% Y-O-Y

Source: ABS; REIA; SQM Research.
Note: Transfers - The record of sale for established houses and attached dwellings taken from the residential property sales dataset. Transfers data represents the 12 months to March 2019 (preliminary). Price and vacancy indicators are for the March quarter (preliminary).

NSW IN GENERAL

KEY DRIVERS

- Rising levels of civil work on the Sydney Metro extensions and expansions
- Ramping up in light rail construction relating to the Parramatta-Olympic Park Light Rail
- Activity on inland rail
- Western Sydney Airport earthworks and infrastructure works
- The Sydney Metro West ($18 billion) is included, but it is noted that funding is only provided to $3 billion
- The commencement of work on the Snowy Hydro Expansion
- Large slowdown in residential particularly high-rise and multi-dwelling.

INFRASTRUCTURE AND NON-RESIDENTIAL OFFSET WEAK RESIDENTIAL SECTOR

Despite large infrastructure projects such as the Western Sydney Airport, West Connex, Sydney Metro West and steady growth in other non-residential sectors, NSW reflects the mild national slowdown overall. Moderate declines in engineering construction activity will add to the near-term weakness, with strong rises in non-dwelling building unable to offset the falls in the other sectors. A modest upturn is forecast for 2022 and 2023.

State and Federal projects such as the Western Sydney Infrastructure Program, Inland Rail, North-West and Metro rail projects and Pacific Highway road works mean the NSW civil market should experience a decade of higher construction activity. However, steep declines in dwelling building – particularly attached dwellings – will be the main factor in an overall decline of 12% in NSW residential construction over 2020 and 2021– a six-year low. In the near term this will be offset by big rises in construction of public social and institutional buildings.

The large number of projects, both under way and proposed, means the infrastructure sector is facing a shortage of labour and expertise. So, many high value projects are competing for skilled labour. This is impacting upon local tender price escalation resulting in wage increases which are expected to peak at 3.7% p.a. in 2023. Average growth over 2020 to 2030 is expected to be 3.4% p.a. compared to 2.3% p.a. for the five years between 2013 to 2018. There are a limited number of contractors with sufficient capacity to take on current projects and a considerable amount of project risk sits with the contractors who face greatly increased insurance premiums as a result.

SECTOR HIGHLIGHTS

RESIDENTIAL

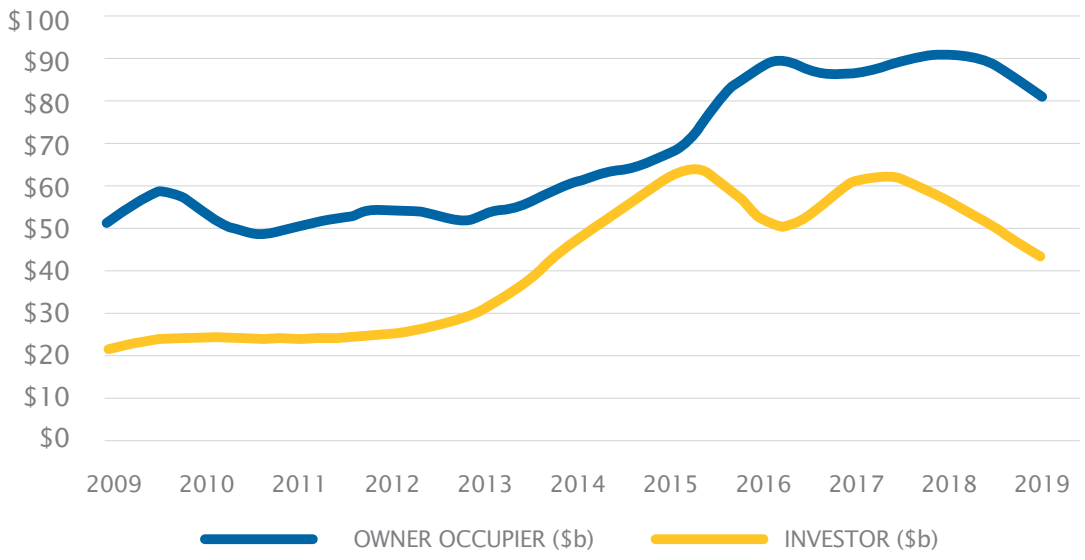
The value of residential construction sector works has peaked – ABS figures show the decline in new dwelling approvals in 2018-2019 down by 17.5% in July on seasonally adjusted figures. The fall in development approvals, compounded by some existing approvals stalling, as pre-sales targets are missed, is due to investor worry over capital gains amid the house price slowdown.

Higher competition in the $200 million – $400 million range has slowed escalation compared to the much larger residential projects. Fluctuations in foreign exchange rates on overseas sourced materials, plus annual increases in EBA's have the largest impact on tender price escalation, however overall increases are being curtailed by tightening margins.

Residential investment is forecast to decline over the next three years, before favourable fundamentals, including a significant stock deficiency and low interest rates, drive the next upswing from 2021-2022.

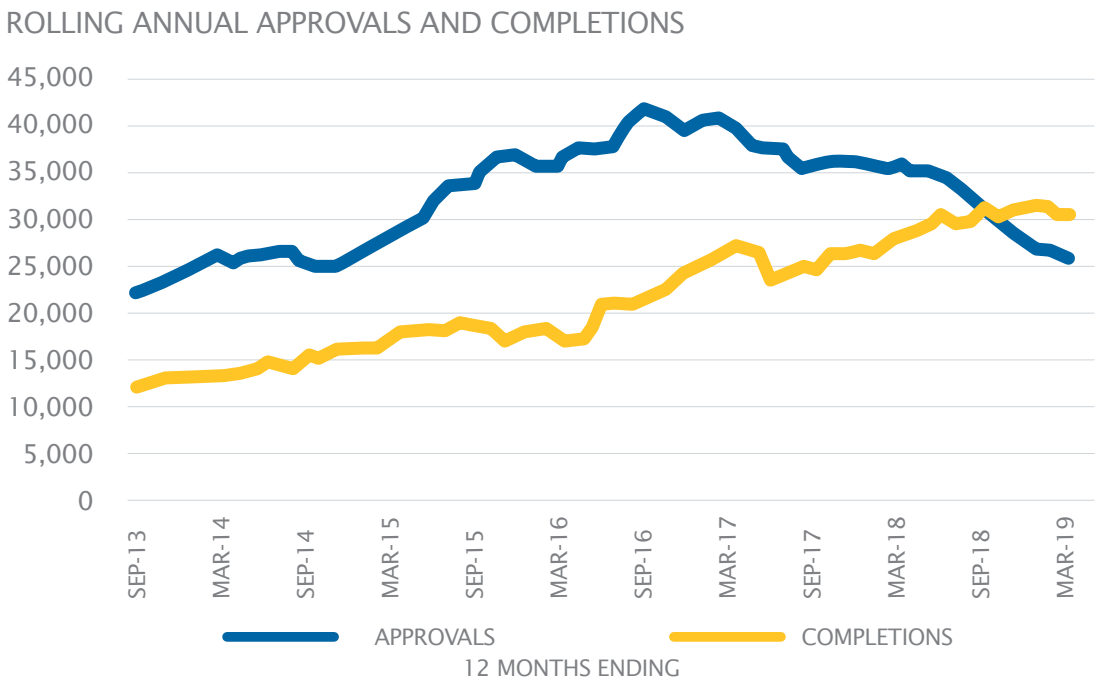
NSW RESIDENTIAL FINANCE

ANNUAL RESIDENTIAL FINANCE (TOTAL $B)



Source: ABS

SYDNEY MULTI-UNIT APPROVALS AND COMPLETIONS



Source: New South Wales State Government

NON-RESIDENTIAL BUILDING

This will be the key factor in growth over 2019 to 2021, driven by strength in office/commercial, retail, hotel, transport and institutional building, such as private prisons. Meanwhile, further strong growth in private infrastructure including electricity and telecommunications and a recovery in mining investment in NSW will see private engineering construction make another strong contribution to growth in 2019, before declining over 2020 and 2021 as major projects finish. The residential downturn has freed up some trades, reducing price competition for them on commercial projects. However, competition for trades such as formwork has increased overall.

EDUCATION

The education market including universities is buoyant as overseas student numbers continue to increase. Several student accommodation projects are being proposed as a result.

AGED CARE

Aged care continues to be an active sector, however several projects are on hold as a result of the Royal Commission. Some residential builders are moving into the aged care sector, resulting in more businesses tendering. There is strategic tendering with tier 2-3 builders entering partnerships and their margins continue to be under pressure.

INFRASTRUCTURE – CIVIL ENGINEERING

Spending in this area continues to rise following a 24% increase in 2018. A strong pipeline of projects sees the civil infrastructure upswing continuing in 2019, with NSW civil infrastructure spend hitting $19.3 billion in FY 2019. A number of projects have underpinned this growth, particularly the Sydney Metro and Light Rail as well as the WestConnex and NorthConnex, Metro West and Pacific Highway improvements.

A slight dip is expected in 2020 but growth is forecast to re-emerge over the following three-year period as several even larger megaprojects get underway. The real peak in work will hit in the mid 2020s. Forthcoming projects include: Stage 3 of WestConnex ($8 billion including extensions), Sydney Metro City and Southwest ($10 billion), Metro West (estimated at $10 billion), Western Harbour Tunnel and more intensive development of the Western Sydney Airport including Western Sydney Airport Runway and Terminal estimated at $5 billion.

INDUSTRIAL

Industrial hubs with multistorey warehouses are being developed near the new Western Sydney Airport. There is also an increase in data centres as companies continue to outsource rather than maintain large-scale servers in-house.

RETAIL

The retail landscape is changing significantly with the shift to online resulting in fewer and smaller physical stores. The lack of work has dampened tender prices in retail, the increase at just 0.5% - 1.0% p.a. This shift also means major shopping centres are looking to broaden their scope with a growth in dining experiences and more upmarket food courts. They are also looking to add capital value through mixed residential, hotel and retail development around major road links.

COMMERCIAL OFFICES

The market has slowed since early 2019 and new commercial projects under construction remain limited. In the Sydney CBD, 60 Martin Place has been completed while Wynyard Place and Quay Quarter Tower remain the two major projects under construction. Subcontractors have been keen to close their books for the remainder of 2019, and this has been reflected in market pricing which we expect to tighten again as the pipeline of commercial projects amounting to around 350,000 m^2 of new NLA, is delivered over the next three years.

HOTELS

This sector has seen significant growth in over recent years and this should continue in the short term through 2019 into 2020. However, inbound international tourism is seeing slow growth in Australia, while domestic travel has been dampened by low household income growth and stalling house prices.

VICTORIA

STATE ACTIVITY REPORT

CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...infrastructure leads the charge in creating demand upon labour and resources.

HIGH LEVELS OF ESCALATION IN ENGINEERING CONSTRUCTION WITH OTHER SECTORS ABOVE AVERAGE, EXCEPT RESIDENTIAL

Recent tender results have been largely as expected and there is an uplift in pricing of materials and trades such as concrete, steel and reinforcement with the increase in infrastructure projects. While the 'infrastructure effect' will not create a directly proportional impact in building sector costs; the shared demands on some commodities, materials, plant and equipment, and human resources, will create cost increases and engineering construction pricing will reflect this with escalation forecast to hit 7.0% p.a. in 2020 then tapering off after that.

ESCALATION FIGURES VICTORIA		% ACTUAL 2019	% Forecast 2020	% Forecast 2021
RESIDENTIAL		2.2	2.2	2.5
NON-RESIDENTIAL BUILDING OVERALL		3.0	3.3	3.5
ENGINEERING CONSTRUCTION	TRANSPORTATION (INC AVIATION)	6.0	7.0	5.0
UTILITIES		5.5	6.0	5.0

Source: WT Partnership

Coming against a backdrop of cost decreases in some sectors during the last decade, price escalation in residential, non-residential and commercial has levelled around the 2% - 3% p.a. mark in 2019, but is forecast to rise towards 2021 in response to the volume of work in the pipeline and the lack of local capacity for significant projects. Costs are likely to trend upwards over the next two years, with market capacity the biggest concern for delivery of the infrastructure pipeline in Victoria.

VICTORIA IN GENERAL

KEY DRIVERS

- $57 billion 'Big Build' state infrastructure investment
- Federal infrastructure boost
- 8% foreign buyers stamp duty further dampening multi-unit residential
- General residential slowdown
- Commercial vacancy rates low, encouraging investment
- Victoria has the largest population growth in Australia.

A $100 billion infrastructure boom is now well under way in Victoria. This years State and Federal budgets have boosted future investment in public transport and roads, health, education and public infrastructure. This investment is flowing into planning, pre-construction, procurement and construction. As a result, non-residential construction and non-mining infrastructure work, most notably in road and rail infrastructure and commercial is growing fast. While low commercial property vacancy rates, down to 3.3% have boosted commercial construction, the flow of work continues into the retail sector. This is though at a slower pace as it moves towards mixed use development of existing assets while traditional retailing shifts online.

The residential construction market has slowed due to a combination of factors. These include the consolidation of planning laws, tougher lending protocols and the new 8% additional duty rate for foreign purchasers of residential property in Victoria. This was further exacerbated by proposed changes in stamp duty concessions and the uncertainty surrounding negative gearing prior to the 2019 election.

SECTOR HIGHLIGHTS

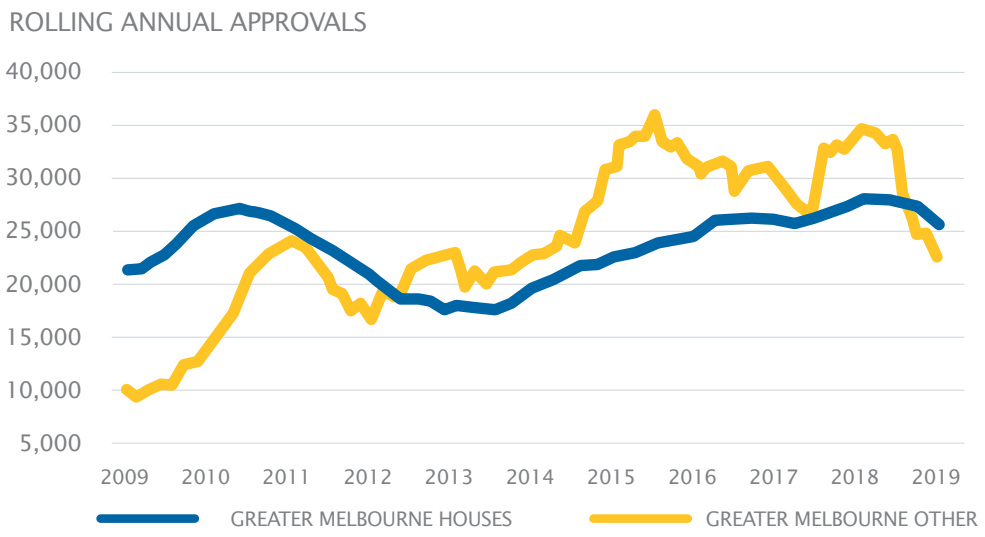
RESIDENTIAL – 8% STAMP DUTY ON FOREIGN BUYERS

The Melbourne high-rise and multi-dwelling market reflected the national downturn in residential with unit sales declining 23% in FY 2019. 2019 also saw a higher stamp duty of 8% imposed on many foreign investors, which will dampen any recovery along with domestic factors such as tougher bank lending requirements for investors, and new conditions placed on developers. House prices also slid backwards, reflecting the national trend though the fall of 6.5% was considerably lower than in Sydney.

Dwelling approvals were down 24% for the year to July 2019. The housing market continues to soften, with the residential property prices falling by 6.4% in 2018. The weakness in Victoria's housing market is weighing on consumer and home buying sentiment, despite the strong labour market conditions.

Forecast of 2019-2020 -6.3% change in Residential building work done and -6.0% in 2020-2021.

MELBOURNE RESIDENTIAL BUILDING APPROVALS



Source: ABS

MELBOURNE		
TRANSFERS (HOUSE)	43,949	-24.6% Y-O-Y
TRANSFERS (UNIT)	27,619	-23.3% Y-O-Y
MEDIAN HOUSE PRICE	$793,000	-6.5% Y-O-Y
MEDIAN UNIT PRICE	$586,500	-2.6% Y-O-Y
VACANCY RATE	2.1%	0.0% Y-O-Y

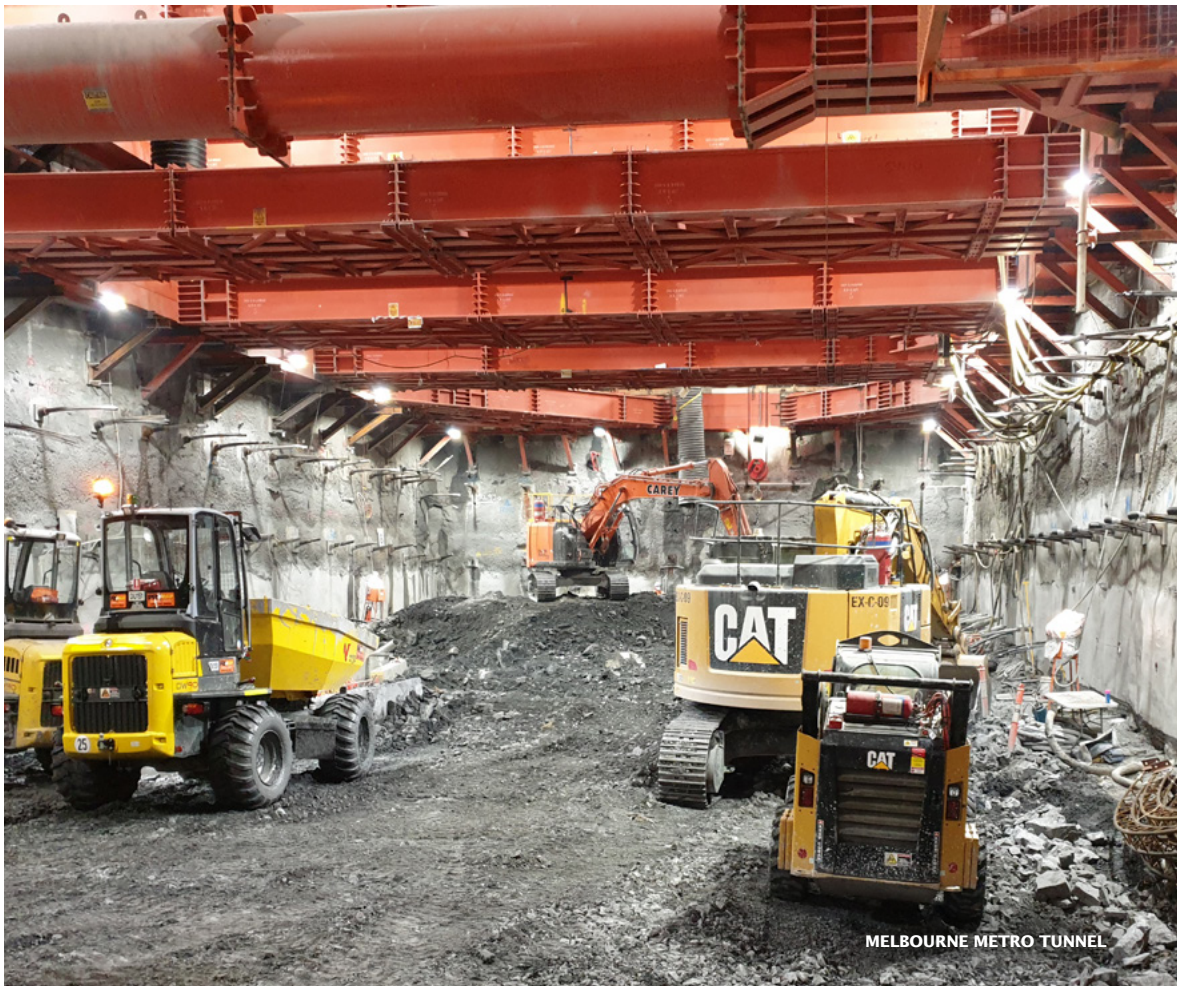
Source: ABS; REIA; SQM Research
Note: Transfers - The record of sale for established houses and attached dwellings taken from the residential property sales dataset. Transfers data represents the 12 months to March 2019 (preliminary). Price and vacancy indicators are for the March quarter (preliminary).

INFRASTRUCTURE

Infrastructure in Victoria is experiencing unprecedented volumes of work in planning and construction. This is driven by existing projects such as Level Crossing Removal Projects, the Regional Rail Revival, the Murray Basin Rail Project, the West Gate Tunnel, the HCMT and Melbourne Metro Tunnel. The M80 Ring Road, Monash Freeway upgrade and North East Link add further significant road construction to work already under way.

The near future sees more major rail projects in the planning stages including the North East Link, the Airport Rail Link, the Western Rail Program and the Suburban Rail Loop.

Federally funded Infrastructure Australia initiatives should also see further work on Melbourne's rail network.



MELBOURNE METRO TUNNEL

COMMERCIAL

Low commercial property vacancy rates, down to 3.3% in August 2019, have boosted commercial construction. Additionally with the downturn in the residential sector we are observing a number of developments repurposing to commercial to align with this demand and market shift.

RETAIL

The retail sector continues to experience disruption from online channels, and in particular department stores and discount department stores are affected. We continue to see department stores contracting into smaller areas, and discount department store chains closing underperforming stores.

Regional and Sub-Regional Centres

To overcome this disruption, the large retail centre is undergoing change, with the addition of residential towers, childcare centres, entertainment precincts, hotels, shared work environments and improved food and beverage services to existing regional and sub-regional retail centres. Malls are in the process of evolving from the mere shopping function into comprehensive single destinations where the bulk of the people's needs can be met.

Neighbourhood and Local Convenience Centres

With the expansion of the residential sector over the past years, we continue to see growth in the Neighbourhood Activity Centres (small centre comprising typically a full-line supermarket, about 15 specialty shops, and usually including a mix that could include restaurant / bistro tenancies, medical centre, gym and childcare centre).

Daily Needs Retail

The daily needs retail sector can be defined as food, stationery, hardware and building supplies. This sector continues to grow in line with residential development, driven by population expansion.

Car Parking

Many regional retail centres are retrofitting car parking guidance systems and ticketless parking systems to improve both customer experience and ease of car park management.

HOTELS

The hotel sector is in the middle of a rapid growth phase across Melbourne. Over the next four-year period it is forecast that a total of 8,100 hotel rooms will be added to existing stock in Melbourne's CBD, Southbank and Docklands. Even with this rapid growth, the sector is experiencing higher occupancy rates and lifting average daily rates.

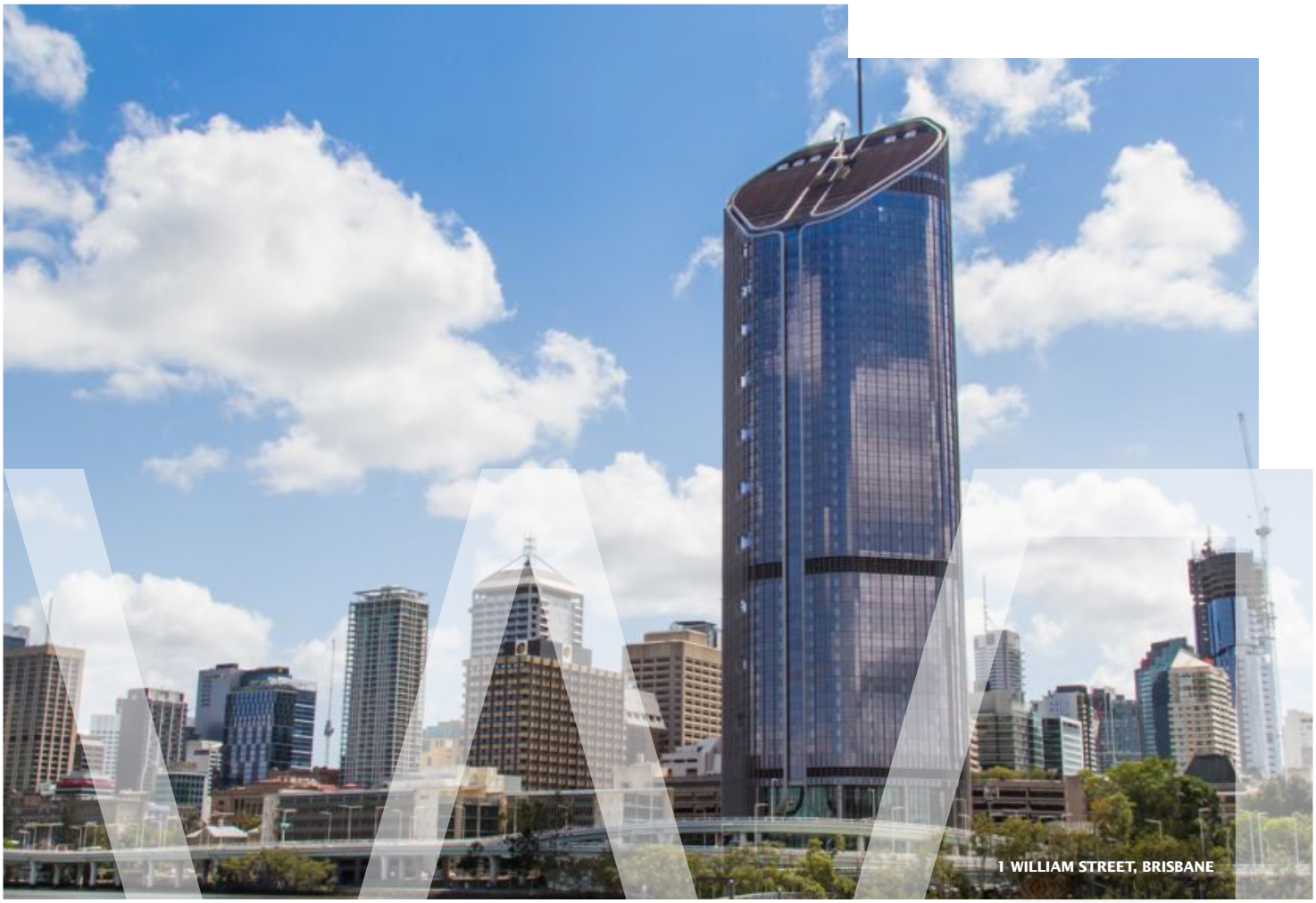
INDUSTRIAL

The Industrial sector is seeing a level of activity driven by increases in demand and rental growth primarily in response to a continued shift toward retail ecommerce. We are observing a strong appetite for acquiring industrial property assets and significant investment in warehouse automation.

EDUCATION

The Victorian School Building Authority (VSBA) is constantly rolling out new and refurbished junior and secondary schools around the State, including investing in vertical schools around inner Melbourne, to keep up with the pace of population growth.

Tertiary education and, specifically, international tertiary education is thriving in Victoria. Universities, TAFEs and colleges are implementing long-term masterplans to ensure the sector's growth remains sustainable for the long term.



QUEENSLAND

STATE ACTIVITY REPORT

CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...a subdued Qld market is expected to strengthen over the medium term due to the demands of population growth.

CURRENTLY LOW PRICE ESCALATION FORECAST TO RISE BY 2021

Low price escalation across all sectors with the exception of utilities is a reflection of decreased activity in QLD. 2019 saw pricing increase in the 1% p.a. to 2% p.a. range but commercial, residential and non-residential pricing is expected to pick up through to 2021, returning to around the 2.5% p.a. to 3.0% p.a. range. Engineering Construction will also pick up, but pricing escalation is forecast to remain subdued at 1.7% p.a. in 2021.

ESCALATION FIGURES QUEENSLAND		% ACTUAL 2019	% Forecast 2020	% Forecast 2021
RESIDENTIAL		1.5	2.5	2.5
NON-RESIDENTIAL BUILDING OVERALL		1.5	2.8	3.2
ENGINEERING CONSTRUCTION	TRANSPORTATION (INC AVIATION)	1.0	0.3	1.7
UTILITIES		2.4	2.3	2.3

Source: WT Partnership

QUEENSLAND IN GENERAL

KEY DRIVERS

- Third largest population growth in Australia
- Major investment in Cross River Rail and Inland Rail
- Brisbane Metro under construction
- 2019 decrease in overall activity
- Construction growth to return over the next two years
- Residential approvals remain low
- Resource-related work starting to rise.

While generally subdued into 2019, Queensland has the third largest population growth in the country which, along with infrastructure spending, is expected to help drive a turnaround in the near to medium term. Total building work done decreased by 10% in 2018-2019 compared to the previous financial year. It is expected to return to growth in the medium term to reach $51.7 billion in 2022-23.

A turnaround in non-residential building and engineering construction is expected with increases forecast of 6.1% and 5.6% respectively in 2019-2020. As a result, moderate tender price escalation is expected to 2021. With the exception of non-residential building, where increased activity and demand upon capacity sees price escalations of 1.5% p.a. in 2019. It is expected to more than double to 3.2% p.a. in 2021.

The residential decline is expected to deepen and carry over through to FY 2021. This started with a 19.3% reduction in the apartment and townhouses sector in FY 2018, and moved into every other residential category through FY 2019, a downturn is expected to continue in FY 2021.

The non-residential building sector is much brighter, while other areas (except education) dipped through FY 2019, a return to growth in FY 2020 is expected across the board with the exception of retail.

Further strong growth in engineering construction is expected with continued Federal and State Government investment in major infrastructure projects, including Gowrie to Kagaru Inland Rail, Queen's Wharf, Cross River Rail and Brisbane Metro. These growth drivers will more than offset the declining activity in Telecommunications with the finalisation of the NBN.

SECTOR HIGHLIGHTS

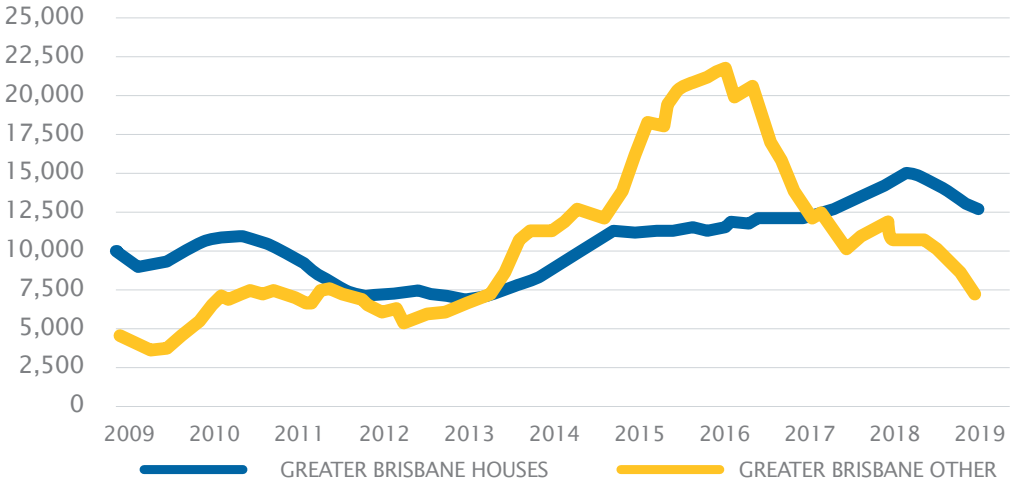
RESIDENTIAL

Debt finance for new residential construction remains difficult so developers who can self-fund and work against the market cycle are active. There is activity in the build-to-rent market and some developers have now 'pulled the trigger' on DA submissions for existing sites having waited out the Federal election.

Enquiries for the acquisition of new sites are growing and a number of feasibility studies are in hand. The impact of amendments to the NCC on smaller residential developments has yet to be seen, however some developments that were once offering acceptable yield may now stall as the cost of meeting stricter regulations – such as around fire safety – begins to be felt.

BRISBANE RESIDENTIAL BUILDING APPROVALS

ROLLING ANNUAL APPROVALS



Source: ABS

BRISBANE		
TRANSFERS (HOUSE)	30,015	-15.0% Y-O-Y
TRANSFERS (UNIT)	9,927	-7.7% Y-O-Y
MEDIAN HOUSE PRICE	$525,000	+1.0% Y-O-Y
MEDIAN UNIT PRICE	$392,800	-4.0% Y-O-Y
VACANCY RATE	2.2%	-0.5% Y-O-Y

Source: ABS; REIA; SQM Research
Note: Transfers - The record of sale for established houses and attached dwellings taken from the residential property sales dataset. Transfers data represents the 12 months to March 2019 (preliminary). Price and vacancy indicators are for the March quarter (preliminary).

OFFICE COMMERCIAL

Conditions within the Brisbane CBD commercial office market continue to favour the tenant, however incentives appear to be softening. While new commercial development in the CBD is limited, there are currently two major workplace relocations progressing (both in the early stages of design) which will, in turn, create backfill opportunities. As a result there is significant capacity from 'client-side' design teams, and also within construction and delivery teams.

RETAIL

The SEQ retail market continues to experience slow growth and shopping centre owners are focused on improving their existing assets and maximising their food and beverage offers. Coles and Woolworths are embracing the challenges that they face in the digital age and are trialling new technology and concepts aimed at saving time for their 'time-poor' customers.

ENGINEERING CONSTRUCTION

Population growth in Queensland is driving engineering construction with much of the growth on the Sunshine Coast. Mining is coming back and will drive transport investment in rail and ports.

INFRASTRUCTURE

Major building and infrastructure projects including Queen's Wharf, Cross River Rail and Brisbane Metro, will draw significant resources from the market. However, the general consensus amongst the industry is that there is more than sufficient capacity to continue to deliver in other sectors and projects, so competition remains strong. As a result, tender price escalation will be tempered when compared to Victoria and NSW.

TOWER ONE,
254 FLINDERS STREET, ADELAIDE

SOUTH AUSTRALIA

STATE ACTIVITY REPORT

CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...a steady market expected to be buoyed by defence spending.

TENDER PRICE ESCALATION STRENGTHENING IN 2020 THEN DECLINING

Engineering price escalation of 3% p.a. during FY 2019 was below the forecast of 3.5% - 4.5% p.a. Aluminium, copper and steel material costs have all seen increases, while curtain wall prices have decreased due to overseas competition.

ESCALATION FIGURES SOUTH AUSTRALIA		% ACTUAL 2019	% Forecast 2020	% Forecast 2021
RESIDENTIAL		1.0	2.0 - 2.5	2.0
NON-RESIDENTIAL BUILDING OVERALL		3.0	3.0	2.5
ENGINEERING CONSTRUCTION	TRANSPORTATION (INC AVIATION)	3.0	3.0	2.0
UTILITIES		3.0	3.0	2.0

Source: WT Partnership

General tender price escalation rates of 2-3% p.a. are expected for 2020 returning to the 2-2.5% p.a. average through 2021 in the non residential areas with a potential jump in construction costs within mining and energy and infrastructure in 2022.

SOUTH AUSTRALIA IN GENERAL

KEY DRIVERS

- Defence projects valued over $2 billion
- Adelaide Casino redevelopment under way
- Health sector growing
- Major education sector investment in pipeline
- Multi-unit residential decline, but house prices recovering.

STRONG STEADY FLOW OF PROJECTS WITH FOCUS ON DEFENCE

The Adelaide construction industry has been steady over the past 12 months. There is a good range of medium- to large-size projects in all sectors especially defence, health and hotels, with the Adelaide Casino redevelopment and new 5-star hotel under construction, while the Calvary Private Hospital nears completion.

The outlook of national tier 1 and 2 contractors is positive and they expect to be busy through the near future with a pipeline of large projects in most sectors. However, local tier 1 and 2 contractors are still finding the market competitive though prospects are improving.

Large naval projects, including the Future Frigates project and the Future Submarine program with an estimated total expenditure of over $2 billion, are keeping a large portion of the local subcontractor industry busy. This is creating conditions for above trend wage and material cost increases in this sector through 2020.

Further major defence expenditure is expected with the next phase of Air 7000 and Air 555 at Edinburgh, providing National tier 1 contractors and subcontractors an excellent medium-term outlook.

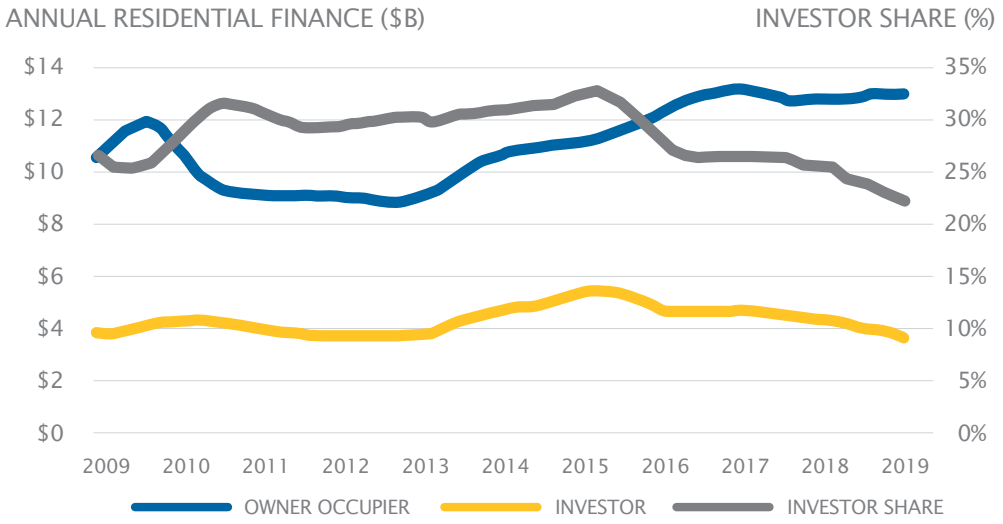
SECTOR HIGHLIGHTS

RESIDENTIAL

In the Residential sector there is a lack of appetite for new multistorey residential apartment buildings as a result of national factors, including the Mascot and Opal Towers issues in Sydney.

Overall, Adelaide house and unit prices have held up well compared to the national trend but national factors are in play around tougher rules on investor lending and developer compliance.

SOUTH AUSTRALIAN RESIDENTIAL FINANCE



Source: ABS

ADELAIDE		
TRANSFERS (HOUSE)	15,429	-8.2% Y-O-Y
TRANSFERS (UNIT)	6,634	-8.8% Y-O-Y
MEDIAN HOUSE PRICE	$481,500	+2.5% Y-O-Y
MEDIAN UNIT PRICE	$369,000	+1.1% Y-O-Y
VACANCY RATE	1.1%	-0.3% Y-O-Y

Source: ABS; REIA; SQM Research
Note: Transfers - The record of sale for established houses and attached dwellings taken from the residential property sales dataset. Transfers data represents the 12 months to March 2019 (preliminary). Price and vacancy indicators are for the March quarter (preliminary).

HEALTHCARE

A wide range of work sees the Healthcare sector performing well. With Calvary Private Hospital, Queen Elizabeth Hospital redevelopment Stage 3, Lyell McEwin Hospital and numerous aged care projects under way.

HOSPITALITY

In addition to the Adelaide Casino, which is under way, a large number of hotel chains are either in cost planning or nearing the tender phase.

DEFENCE INFRASTRUCTURE

Defence projects are expected to make up a large percentage of the work for the Adelaide construction industry in the foreseeable future. Projects in hand include Future Frigates and Future Submarine program with the next phases of Air 7000 and Air 555 at Edinburgh in the pipeline.

EDUCATION

Work worth around $680 million is either under way or in various phases of pre-construction through both State and Federal Government programs.

WESTERN AUSTRALIA

STATE ACTIVITY REPORT

CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...the economy has somewhat stabilised with major infrastructure projects underway, however residential development remains soft.

ZERO PRICE ESCALATION IN RESIDENTIAL AND COMMERCIAL; ALL SECTORS IMPROVING OVER FOLLOWING TWO YEARS

It's forecast that price growth will return in most sectors through 2020 and 2021, though remaining historically low at well below 2.0% p.a. in residential and non-residential building. While engineering construction tender prices buoyed by infrastructure projects already under way rose 2.0% p.a. in FY 2019, and will continue to rise through the next two years to 3.2% p.a. in 2021.

ESCALATION FIGURES WESTERN AUSTRALIA		% ACTUAL 2019	% Forecast 2020	% Forecast 2021
RESIDENTIAL		0.0	1.1	1.8
NON-RESIDENTIAL BUILDING OVERALL		0.0	1.4	1.8
ENGINEERING CONSTRUCTION	TRANSPORTATION (INC AVIATION)	2.0	2.6	3.2
UTILITIES		2.2	2.5	3.0

Source: WT Partnership

WESTERN AUSTRALIA IN GENERAL

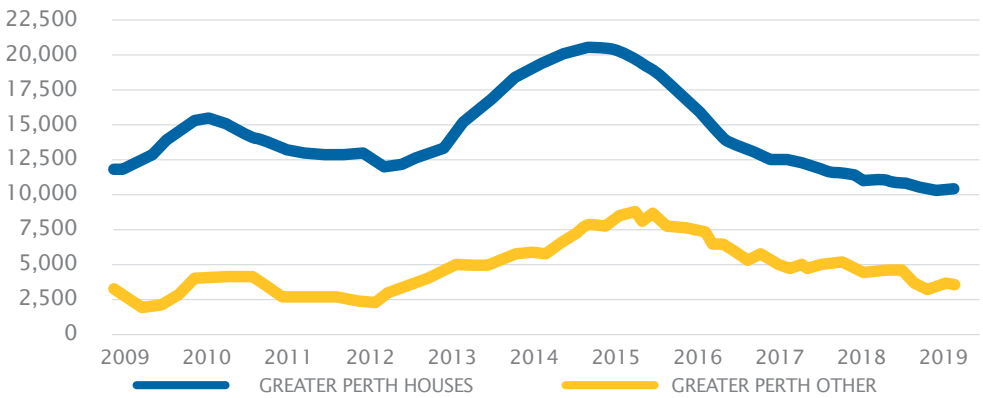
KEY DRIVERS

- Economy improving overall
- Major infrastructure under way including Perth Metronet and Perth Airport upgrade
- 7% foreign buyer duty is dampening the residential multi-unit sector further
- Housing prices remain depressed
- Signs of increased activity in resources
- Retail is flat, hospitality is seeing new supply coming on line.

The broader WA economy appears to be improving with an upswing in the resources sector and the State moving towards a budget surplus. State and Federal investment in major infrastructure such as Perth Metronet, and defence projects, Perth Airport and Busselton Airport is also expected to lift construction activity. However, headwinds remain for the construction industry. These have depressed competition and led to zero price escalation in the residential, overall non-residential and commercial sectors through 2019.

PERTH RESIDENTIAL BUILDING APPROVALS

ROLLING 12 MONTH APPROVALS



Source: ABS

RESIDENTIAL – 7% STAMP DUTY ON OVERSEAS BUYERS

The WA residential market has gone through a prolonged downturn, though there are signs it is stabilising. To what extent is uncertain, as overall market sentiment is weak and difficult to shift. January 2019 saw a higher stamp duty of 7% imposed on many foreign investors. It applies to a range of residential and land transactions and will dampen any recovery along with domestic factors such as tougher bank lending requirements and new conditions placed on developers.

PERTH		
TRANSFERS (HOUSE)	22,290	-5.5% Y-O-Y
TRANSFERS (UNIT)	7,301	-9.0% Y-O-Y
MEDIAN HOUSE PRICE	$495,000	-3.9% Y-O-Y
MEDIAN UNIT PRICE	$380,000	-6.2% Y-O-Y
VACANCY RATE	2.4%	-2.7% Y-O-Y

Source: ABS; REIA; SQM Research
Note: Transfers - The record of sale for established houses and attached dwellings taken from the residential property sales dataset. Transfers data represents the 12 months to March 2019 (preliminary). Price and vacancy indicators are for the March quarter (preliminary).

HOTELS

A number of new hotel offerings have come on to the market with many due to open through 2020 and 2021. While positive for the Perth market, they will also increase downward pressure on room rates. Particularly as WA tourism appears to lag behind the eastern states. Overall, it's likely additional stock will be absorbed by the resources sector reboot.

INFRASTRUCTURE AND RESOURCES

The infrastructure and defence sectors are expected to see the most growth over the next two years. Key projects include Perth Metronet, development of Garden Island military base, and the expansion of both Perth Airport and Busselton Airport. Northern WA is also seeing some positive growth as resources expenditure increases. Many contractors are exposed to both the infrastructure and to the resources sector, so strong escalation is expected here in the near future.

COMMERCIAL

The outlook appears positive with a number of large-scale new-build office projects in the pipeline while the fit-out and office refurbishment sector is already buoyant. Activity has been fuelled by the resources sector upswing and the relocation of major government departments. This trend is expected to continue over the medium to long term.

RETAIL

With Vicintity's Morley Galleria development still on hold, the retail sector is flat. Low consumer confidence is one factor as well as the general retail shift to online.

AUSTRALIAN CAPITAL TERRITORY

TERRITORY ACTIVITY REPORT

CONSTRUCTION ACTIVITY

TENDER PRICE ESCALATION

...residential construction leads a strong project pipeline.

STRONG INVESTMENT PIPELINE MAINTAINS STRONG CONSTRUCTION MARKET

The Canberra construction market is performing well. A stable work base has led developers to increase their investment in larger-scale residential construction compared to previous years.

ESCALATION FIGURES ACT		% ACTUAL 2019	% Forecast 2020	% Forecast 2021
RESIDENTIAL		3.4	3.5	3.6
NON-RESIDENTIAL BUILDING OVERALL		3.4	3.5	3.6
ENGINEERING CONSTRUCTION	TRANSPORTATION (INC AVIATION)	3.3	3.4	3.4
UTILITIES		3.3	3.4	3.4

Source: WT Partnership

With more high-density development planned through 2020 and 2021, we expect costs for large residential and commercial trades to increase. Some projects are already encountering a shortage of structural trades and experiencing sudden unexpected cost increases.

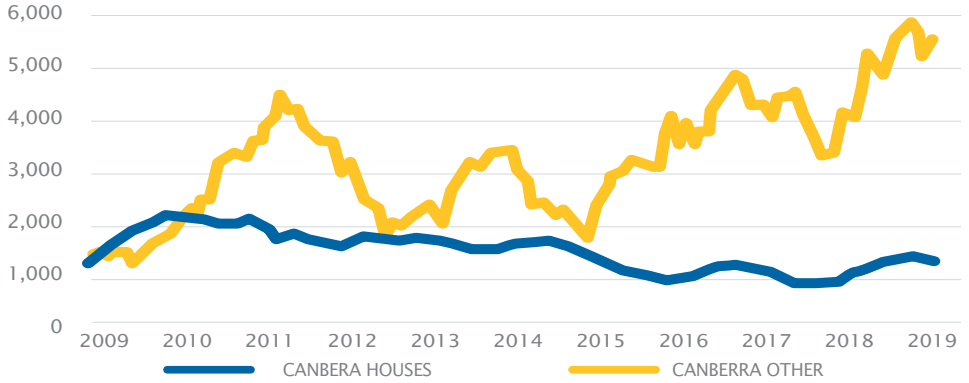
This shortage is expected to continue over the next two to three years and above average price escalation is expected to continue around 3.5% p.a. in all sectors.

The majority of fit-out trades have been less affected leading to a more stable market for commercial fit-out and refurbishment projects, and slightly lower price escalation.

Overall work on the second stage of the Light Rail Network will maintain activity at elevated levels within infrastructure into the medium term. While growth patterns in the ACT economy and the structural shift to services, as well as the ACT's role as the nation's capital, are boosting activity in the education sector.

CANBERRA RESIDENTIAL BUILDING APPROVALS

ROLLING ANNUAL APPROVALS



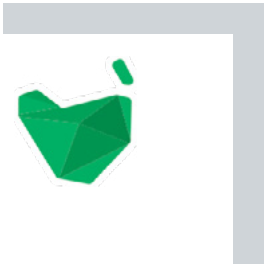
Source: ABS

CANBERRA		
TRANSFERS (HOUSE)	3,955	-6.7% Y-O-Y
TRANSFERS (UNIT)	3,320	-13.0% Y-O-Y
MEDIAN HOUSE PRICE	$645,000	-0.8% Y-O-Y
MEDIAN UNIT PRICE	$450,000	+2.3% Y-O-Y
VACANCY RATE	0.6%	+0.1% Y-O-Y

Source: ABS; REIA; SQM Research
Note: Transfers - The record of sale for established houses and attached dwellings taken from the residential property sales dataset. Transfers data represents the 12 months to March 2019 (preliminary). Price and vacancy indicators are for the March quarter (preliminary).

TASMANIA

STATE ACTIVITY REPORT



CONSTRUCTION ACTIVITY

KEY PERFORMANCE SECTOR

TENDER PRICE ESCALATION

...high levels of activity drive high tender prices as Tasmania competes with Victoria for labour resources.

HIGH LEVELS OF PRICE ESCALATION SET TO CONTINUE FOR NEXT TWO YEARS

The Tasmanian construction market has enjoyed high levels of activity across all sectors through 2019 with a large number of projects under construction. As a result we expect the market to run at capacity over the next two years in the major cities and regional areas.

ESCALATION FIGURES TASMANIA		% ACTUAL 2019	% Forecast 2020	% Forecast 2021
RESIDENTIAL		5.0	6.0	6.0
NON RESIDENTIAL BUILDING OVERALL		5.0	6.0	6.0
ENGINEERING CONSTRUCTION	TRANSPORTATION (INC AVIATION)	5.0	6.0	6.0
UTILITIES		5.0	6.0	6.0

Source: WT Partnership

This is underpinned by a raft of new developments in the pipeline, so pricing is generally elevated with significant spikes in a number of key trades and state-wide shortages leading to forecast tender price escalation of 6% p.a. in all sectors through 2020 and 2021.

TASMANIA IN GENERAL

KEY DRIVERS

- Hobart residential strong
- Rising activity in hotel sector
- Education rising with major UTAS investments
- Major road projects under way.

LARGE NUMBER OF PROJECTS UNDER WAY

There are generally a large number of projects under way. In Hobart these include UTAS new student accommodation, the Hedberg Performing Arts Centre, Hyatt Hotel, Marriott Hotel, Crown Plaza Hotel, Vibe Hotel and the Commons Apartment development.

The next phase of the Royal Hobart Hospital redevelopment has been announced with consultants to be appointed before end of 2019, while the Macquarie Point Railyards site is likely to come on line in the medium term.

RESIDENTIAL

Countering the national trend, Tasmania's residential construction market is buoyant and Hobart is seeing a number of developers pursuing multi-unit residential developments in and around the CBD.

INFRASTRUCTURE

The current phase of the Royal Hobart Hospital, which consumed subcontractor capacity, is due to complete by end of 2019. However, significant projects are coming on line in late 2019 including Hobart International Airport redevelopment and the Southern Remand Prison, as well as the Burnie Court redevelopment, all putting further pressure on an already saturated market. Major projects under way include the Hobart to Launceston highway and large subdivision projects.

HOTELS

A number of large hotel projects are in the planning stages, including various Fragrance Group hotels, the Kangaroo Bay Hotel Development, the Mona Hotel and the Welcome Stranger Hotel redevelopment.

In the state's north and north-west growing tourism is driving new construction – notable developments include the Devonport Living City Hotel, the Cradle Mountain Visitor Centre and the Verge Hotel, all adding to the workload of contractors already at capacity.

EDUCATION

Smaller-scale private developments as well as State Government projects are under way or due to start late 2019. UTAS has announced development of a city-based campus, purchasing a number of key sites in the Hobart CBD. Outside of the city the UTAS Central Coast Development is in hand, while the Inveresk Campus should come on line in through 2020, with more UTAS developments expected to be announced.

WT PARTNERSHIP

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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.