

CONSTRUCTION MARKET CONDITIONS

JULY 2017

WT Partnership (WT) is an award winning international cost and consultancy organisation for the infrastructure, construction and property industries. We have been operating for more than 68 years, with over 50 offices globally and more than 1,300 staff. This means that we are able to provide local knowledge backed by a global perspective.

NICK DEEKS - MANAGING DIRECTOR



At WT we are on a transformational journey.

A journey that began in early 2015 with the development of our five-year strategy for growth. WT is being rewarded with unprecedented results underpinned by continued investment in our people, our culture and our working environment. Our journey continues with our digital transformation to give you a better, more responsive and client-driven service.

Our transformation sees us challenging the way we work, interact and deliver project outcomes. We continue to challenge our people and the broader industry. We challenge you to see the positive difference partnering with WT will have on your projects.

CRAIG MCHARDY - EXECUTIVE DIRECTOR



WT's Market Commentary has been in publication since 2010 and is circulated to over 4,000 clients nationally and overseas. The commentary in this report provides high-level insight into current construction costs and provides our forecast of future trends. Being involved in many of the major construction and infrastructure projects currently being built or planned in Australia, we have an intimate understanding of the impact these projects will have on future market trends.

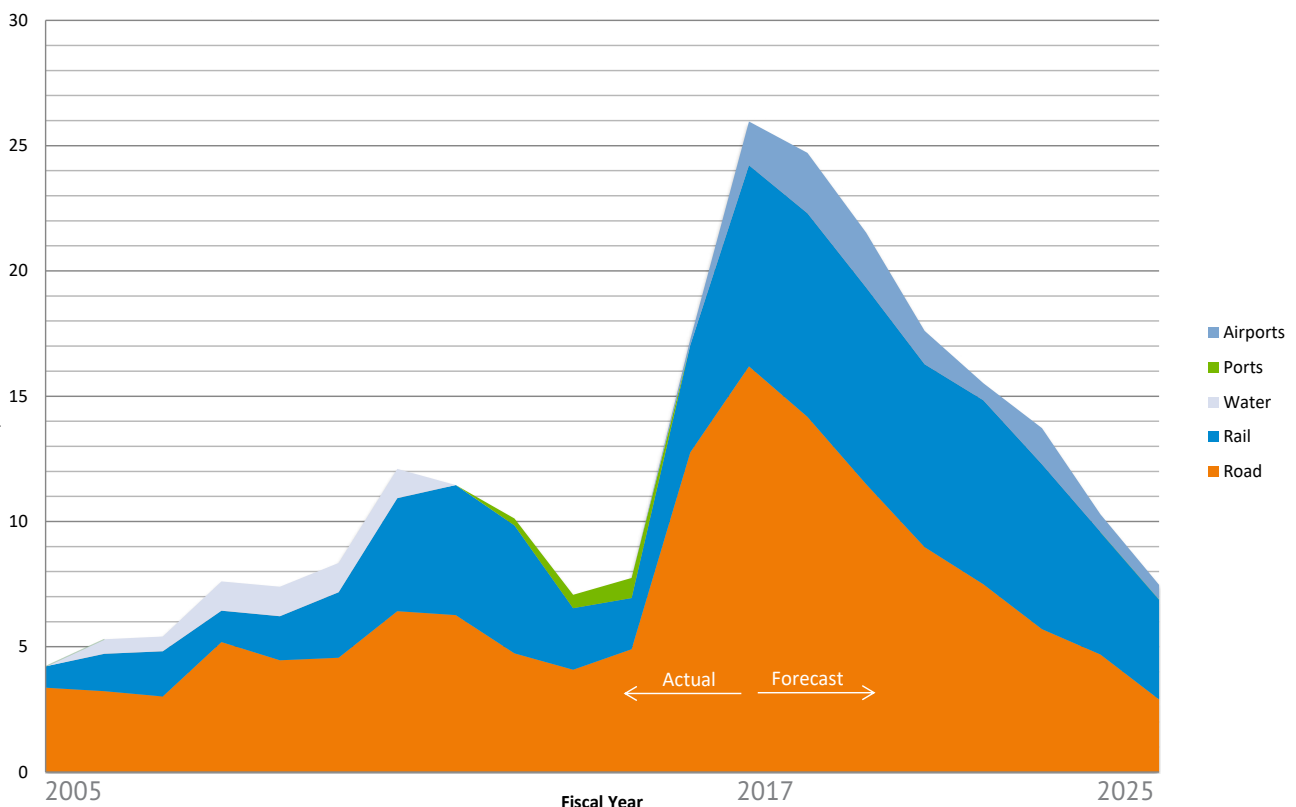
The commentary in this report is drawn from each State and Territory and is based on reported statistical data together with local insight into market trends. Our report focuses on three key areas;

1. construction activity,
2. key performing sectors and
3. tender price escalation.

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

OVERVIEW

THE INFRASTRUCTURE BOOM HAS REPLACED THE MINING BOOM



The above graph shows major infrastructure-related projects that have occurred since 1 July 2008 and which are anticipated for the period ending 30 June 2023.

As portrayed in the graph, there has been an unprecedented spend on infrastructure projects - almost 2 ½ times the spend on infrastructure projects during the mining boom period. This results in significant challenges to the civil engineering and building construction industry, for example:

- The ramp-up period for the unprecedented number of infrastructure projects is extremely short and leaves little time to address the shortfall in professional and skilled resources.
- Unlike the resources (mining/gas) boom in Australia between 2007 and 2013, where international counterparts were experiencing the effect of the GFC and where international resources were readily available, this source may no longer be available as international economies begin to climb with associated infrastructure development.
- Retaining professional personnel is challenging as the demand from engineering firms and Tier 1 contractors forces ever-increasing salary hikes over the next 3-5 years. Firms not operating in the southern states may find it difficult to retain staff and firms competing in the southern states have to retain staff in the face of 'job-hopping'.

OVERVIEW - continued

- At some point in the next 3-5 years, the resources sector will pick up again. This is not accounted for on the graphic representation but will further increase the pressure on the constraints that the infrastructure and building construction sectors face over the next five year period and beyond.

This huge infrastructure spend will place enormous demands on the industry and attract resources from non-traditional civil engineering markets, i.e. the building construction sector, with the resultant 'flight to the South' and pressures on building construction prices. Price increase related to management personnel and professional and technical resources is a significant risk in the face of this unprecedented demand.

By 2021/22, it is forecast that infrastructure projects in Australia will drive an increase in the normal demand for steel products - currently 6 million tonnes per annum - of a further 400,000 tonnes. The cost of additional smelters to meet this demand will put further pressure on the price of steel.

Major airport projects such as the Third Runway in Melbourne, the new Western Sydney Airport, Brisbane's Second Runway and expansions to existing airports will put added pressure on the price of aggregates and cement etc. In addition, and as economies improve overseas, we would also expect prices of imported mechanical and electrical items to increase.

It is anticipated that over \$100 billion will be spent on infrastructure projects by June 2023. The demand for plant such as excavators, tippers and road construction plant is unprecedented.

Unlike the resources sector (mining and gas), where personnel skills are to some extent transferable, plant and equipment from mining sites are not. The demand for plant and equipment across Australia is anticipated to be 2.5 times higher than during the mining boom.

It is anticipated that strong union presence in the utilities sector will result in collective agreements remaining a major influence on cost escalation.

Unions in NSW last year negotiated an Enterprise Bargaining Agreement (EBA) of 5% per annum in the construction sector and similar union activity in Victoria, Queensland and other states is increasing labour costs.

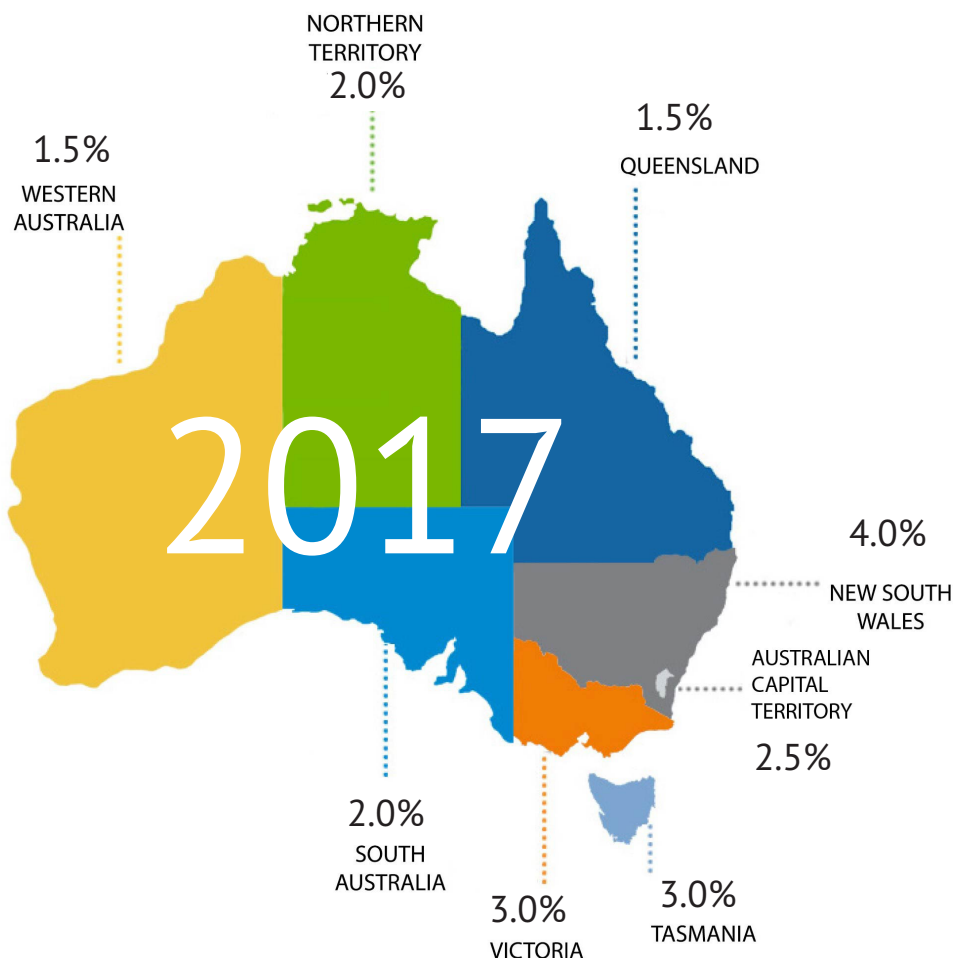
Tunnelling projects are anticipated to take up approximately 70% of the infrastructure spend over the next five years and will place the greatest constraints on the market with respect to human resources and plant requirements. The demand on commodities such as aggregates, cement, steel and fuel will also affect escalation over the next five years.

The unprecedented spend on major infrastructure projects will create a significant demand for skilled labour, also a key driver of wages. WT has estimated that for the tunnelling component of these projects alone, some 6,000 additional skilled workers will be required during the period 2018 to 2023 - adding further pressure to wage increases across engineering and building markets.

NATIONAL SUMMARY

NSW AND VIC CONTINUE TO SEE UNRIVALLED GROWTH IN BOTH CONSTRUCTION AND INFRASTRUCTURE SECTORS

NATIONAL AVERAGE TENDER PRICE ESCALATION



The diagram above provides a snapshot of our forecast escalation for each state and territory. Reflecting the high activity levels in NSW and Victoria, we forecast escalation levels in these two states at around 4.0% and 3.0% respectively compared to rates at less than half these levels in Qld, NT and WA.

The national economy is gaining momentum and, based on improved results on economic indicators, the forecast return to surplus is now forecast earlier than previous expectations. As we reported in our Nov 2016 commentary, the anticipated growth in engineering construction has fuelled price increases. Construction spend, particularly in New South Wales and Victoria, is increasing with massive

infrastructure investment across road, rail, water, ports and airports. With the heat coming off the multi-residential sector, and the decline in mining, the 'Infrastructure Boom' has replaced the mining boom. Australia's two-speed economy is reflected in WT's workload where offices in Sydney and Melbourne are experiencing unprecedented demand from infrastructure projects.

Queensland and Western Australia also expect growth in infrastructure spend however these states are still suffering from the sharp decline in mining and resources and lack of government funds. South Australia construction and property conditions continue much as reported in our previous commentary.

NATIONAL ECONOMIC INDICATORS

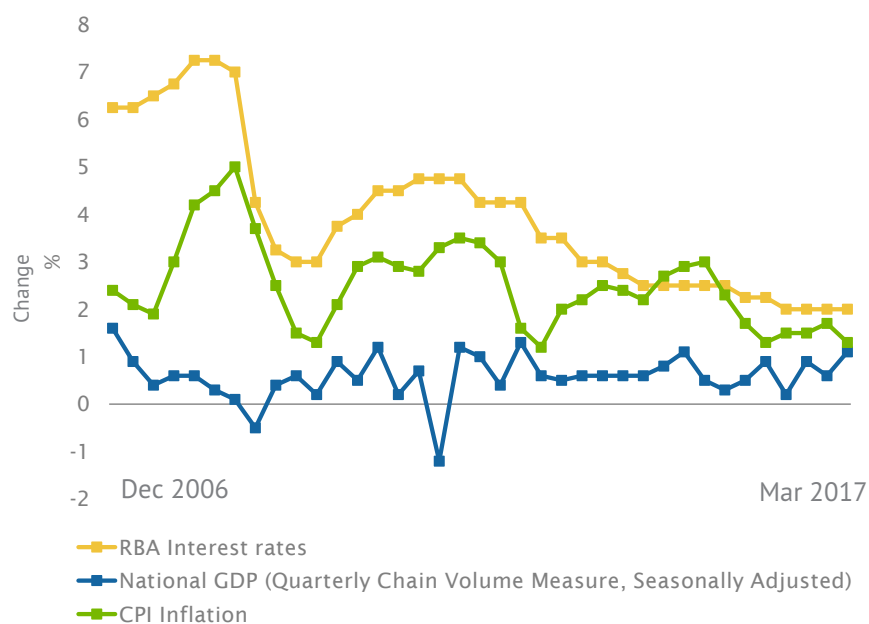
Australian Capital Territory is performing well with State surplus leading to increased Government spend coupled with growing confidence in private sector development. The Northern Territory market suffered from the post resources boom and is now experiencing increased activity in infrastructure and defence investment. Construction activity in Tasmania is high and looks set to continue with significant projects in both public and private sectors.

Across the country, investment in aged care and retirement living is growing. The recent Census results highlighted that a record 16% of Australia's population is now aged 65 and over. Australia's population has grown by about 2 million since

the last Census in 2011. In the next ten years, the population is expected to reach 28 million. Melbourne, now a city of 4.48 million, is closing on Sydney as Australia's biggest population centre which is now home to 4.82 million people.

The RBA has maintained the official cash rate at a record low of 1.5% since mid 2016. The CPI fell to 1.9% in the last quarter and the RBA has warned that low inflation may be here for longer than previously forecast.

NATIONAL ECONOMIC INDICATORS



Source: RBA; ABS; Quarterly trend review on GDP, CPI inflation, RBA cash rate.

NATIONAL CONSTRUCTION INDICATORS

Year-on-Year, ABS data shows that the value of total construction work done in 2016-17 was \$187 billion compared to the previous year total of \$195 billion, a decline of around 4%.

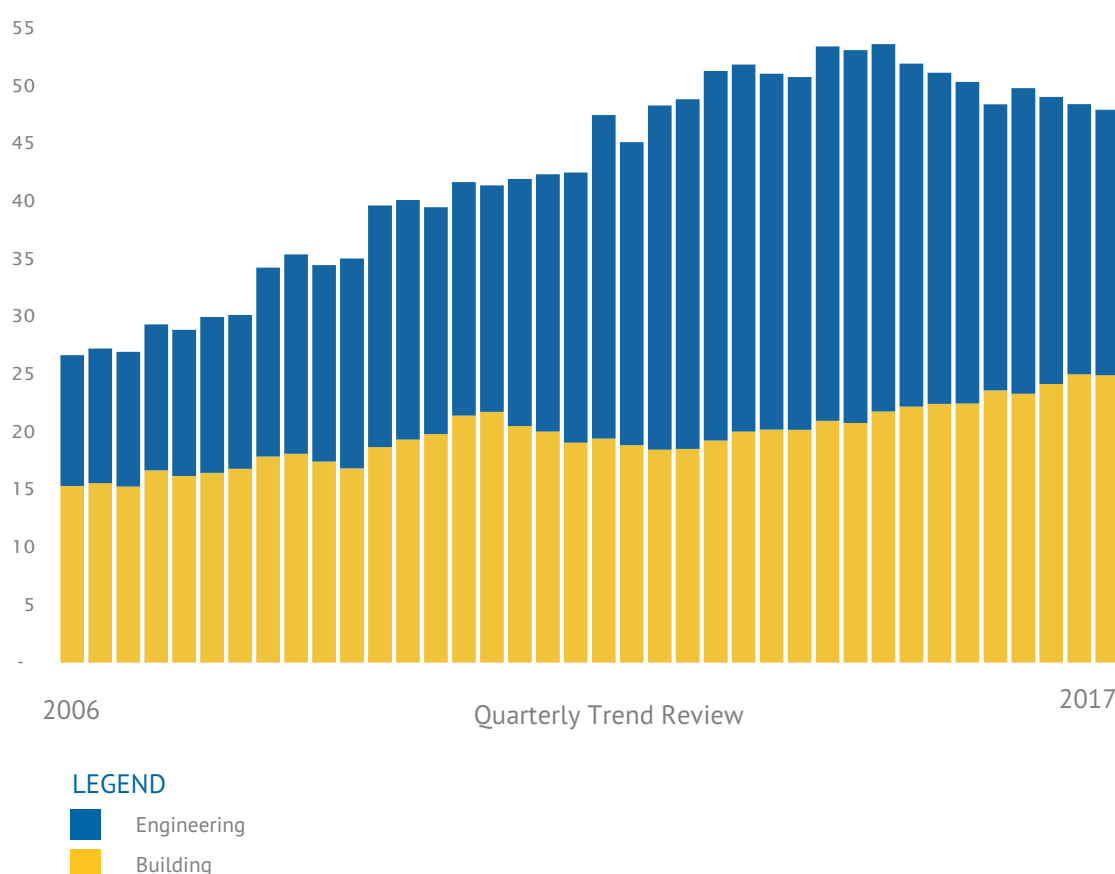
During this period, building work done increased by some 7.5% whilst engineering work decreased by about 15%. At the peak of the mining boom, the total value of construction work done (in the 12 months preceding June 2014) was \$211 billion with engineering work contributing some 60%.

With the increased investment in infrastructure and the heat coming off residential, it is anticipated that engineering work will catch up to, and then outstrip, spending on building work. In the last reporting quarter, engineering work done increased by 0.1% whilst building work done fell by 1.1%.

Region by region, the total value of construction work done in both NSW and Victoria has increased for the last ten quarters. The record shows that the value of construction work done in Queensland has fallen for the last two quarters and in Western Australia has fallen for the last seven quarters. NSW and Victoria continue to be the stand out performers.

According to CommSec, NSW is clearly leading the nation's economic recovery with construction spending increasing at around 8% per annum. Victoria is trending at around 4.5% growth in construction work with other states in decline. ACT has experienced significant uplift in construction activity in both building and engineering work. ACT joins NSW and Vic as the top performers in construction and the remaining regions, all with declining values in work done, make up the second tier.

VALUE OF CONSTRUCTION WORK DONE IN AUSTRALIA (\$BILLION)



NEW SOUTH WALES



Following a very strong 2016, 2017 began with high expectations for further growth and investment across the industry in NSW. The surprise resignation of State Premier Mike Baird earlier in the year has done little to dampen the buoyant mood in NSW with initiatives already set for funding of extensive road, rail, health, education and public building projects.

The leasing of the NSW electricity infrastructure network netted approximately \$2 billion more than originally anticipated and the Federal Election promoted further optimism, with confirmation of additional infrastructure spending along with proposals to support planning reforms to accelerate housing supply.

Overall, the message from the State Government has been 'be prepared for change' - and to expect some inconvenience!

The new Victoria Cross Metro Station is underway, as is the second stage of the \$20 billion Metro project.

In non-infrastructure sectors, the market sentiment is equally positive. The commercial office new-build and fit-out markets remain very active on the back of last year's Barangaroo South completion, pushed on by record low vacancy rates and increasing rents.

Many projects are in the planning phase and will be under construction over the next 2-5 years. The AMP Quay Quarter development will lead the way, due to begin on site in early 2018,

delivering 90,000m² of NLA.

A significant amount of the commercial office building activity is driven by the CBD market together with proposed developments at Macquarie Park and Parramatta.

The housing, retail, industrial, private health and private education sectors also remain buoyed by the overarching positive mood in the marketplace. For some, particularly in Sydney, this is a time to seize upon the opportunity to undertake projects in a radically changing city. For others, there is a sense that they must lock in projects in a rising market.

As reported at the beginning of the year, WT maintain that the NSW construction industry is in the best shape it has been for decades.



Infrastructure continues as the standout performer. Resultant development includes increased re-zoned residential development close to new transport. At significant transport hubs, both suburban and CBD, there are proposals for exciting mixed-use projects. State funding is also driving public building development.

In isolation, the commercial fitout sector remains competitive despite the volume of projects underway. This is due in part to increased numbers in new start-up contractors and incomers from inter-state.

A number of contractors are offering ECI as a means of engaging with clients during the early design phase on high prestige fitout projects.

This allows contractors to build an impressive portfolio of highly commended, nationally recognised projects. Resultant low margins and 'free' ECI periods are proving valuable to both client and contractor. It is questionable if this approach is sustainable, especially as contractors are having difficulty engaging trade contractors at competitive rates due to the high volume of work underway.

As previously noted, a number of retail refurbishment and expansion projects continue to move from planning to implementation. The impact on the market is positive and supports our long held view that the retail construction market will also remain buoyant throughout NSW in the medium to long-term.

LEGEND



Construction Activity



Key Performing Sector



Tender Price Escalation

NEW SOUTH WALES - continued



Tender returns, particularly at Tier 2, have been slightly unpredictable at times during the early part of the year. With full order books, builders are selective in tendering with some tender invitations being declined or submitted at inflated opportunistic rates.

Some contractors are reporting difficulty getting M&E services subcontractors to bid for smaller, difficult or complex projects as there is an abundance of 'easier' work available.

Additionally, the market price for copper remains high at 25% above where it was in October 2016, leading to increases in material costs for large cables and hydraulic pipework.

Tier 1 contractors are forecasting imminent upward pressure on structural trades – a return to the trend we saw in 2014 and early 2015 – with the knock-on effect to subsequent trades. During the second half of 2017, we anticipate a notable increase in the trade cost of demolition works driven largely by major projects either underway or soon to start in Sydney CBD. Quay Quarter and the Second Stage of the Metro project will be key drivers in demolition prices.

In the medium to long-term we anticipate on-going cost increases across M&E trades. Major construction packages for the Sydney Metro are currently in the market for pricing, turning spending promises into reality. The

peak of the Metro work for M&E will be 2020-2021 with multiple major sites under construction simultaneously placing great demands on limited resources.

Given the pipeline of major projects and the relatively limited number of M&E contractors capable of tackling the larger schemes the market, particularly in and around Sydney, is not forecast to ease anytime soon.

Overall, due to the continued high activity in the CDB office market, increased home building approvals, a lively retail sector and tangible infrastructure investment, we maintain our forecast Tender Price Escalation rate across all sectors at 4% pa for the remainder of 2017 increasing to a potential high of 5% pa for 2018/19.



New project enquiries have continued in earnest in the first half of the year spurred on in the residential sector before changes in planning, depreciation and foreign ownership laws anticipated to take effect on 1 July 2017.

'Big-four-Australian-bank' lending protocols are tightening in response to these changes, creating more hurdles for residential property investor loans, development and construction debt facilities.

The May 2017 Budget has placed a focus on higher-end aged care product, Retirement Living, Student Accommodation, Low-Income Accommodation and Infrastructure initiatives. The Victorian office had already seen a rise in new enquiries and feasibility considerations within these market sectors and the State's advocacy will serve to strengthen this interest.

Recent tender results have been largely as expected however, our tender analyses have cited examples of erratic pricing returns in the reinforced concrete trades, precast concrete, blockwork, structural steel and joinery. Furthermore, there have been instances of declined tender invitations as Tier 1-3 Contractors are having to discern between which opportunities are desirable as they balance a high volume of concurrent tenders. The same issues apply to their preferred subcontractors whose ability to tender all of the potential opportunities will deliver compromised outcomes.



As encouraged by the State Government, and as predicted in our commentary at the end of 2016, the civil and infrastructure sectors continue to boom.

This large volume of work includes major projects such as the Melbourne Metro, Western Distributor and Level Crossing Removal programme which will generate a substantial proportion of short-term activity in the market. Demand for specialist consultants, trades, suppliers, plant and equipment, and human resources will continue to be strong in these sectors. As resources become more difficult to find and retain, this pressure will create an industry-wide challenge.

The shared demand between infrastructure and building sectors for concrete and building engineering services is likely to impact costs. Commodity demands, in particular the demand for aggregates and steel will further contribute to escalation in the structural trades.

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The short-to-medium term look ahead for Australia-wide infrastructure projects suggests that the total value of these works will peak in 2019/2020 and will exceed the West Australian 'Mining Boom' by two-and-a-half-times what it was at its apex in 2011/2012.



The increase in infrastructure projects has work flow trending upwards through 2022/2023, before levelling however still continuing at unprecedented levels in Australia.

While we don't envisage this 'infrastructure affect' will flow through and 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.

The Melbourne office tender escalation calculation forecast has been divided into two categories for building works as follows:

Low-Medium Rise
(shorter duration) 2017 - 2.75%,
2018 - 3.25%, and 2019 - 3.65%

High Rise
(longer duration) 2017 - 2.25%,
2018 - 2.75%, and 2019 - 2.95%

QUEENSLAND



The final two quarters of the 2016/2017 financial year recorded slowing of activity in the previously booming residential development market coupled with a continued decline in the mining and resource sector. The surge in residential construction in recent years led to significant construction cost escalation driven largely by the subcontract market capitalising on high demand levels.

With the decline in multi residential development, the subcontract market has now adjusted pricing expectations and subcontractors are now less focused on making a quick dollar and are now more concerned with filling order books. Main contractors have also lowered expectations on margin levels and are looking to Southern States (particularly Sydney and Central NSW) to help them grow their business. Multi residential developers are now focusing on settlement risk. The traditional Australian lenders, in particular the major Banks have largely turned the tap off on residential lending and borrowers are increasingly seeking alternative funding models and dealing with overseas Banks.

The decline in mining and public spending has also resulted in reduced demand for office space with vacancies at very high levels. Spending on re-positioning commercial properties continues with foyer and lobby upgrades, end-of-trip facilities and services upgrades.

Landlords are also offering attractive incentives to prospective tenants. Public spending on Health, Education and Housing is forecast to increase and, coupled with increased investment in Roads, Rail, Water and Sewerage, the recent sharp declines in construction and engineering activity will be tempered.



Education spending, across government and private schools and tertiary and further education is increasing, development in aged care and Retirement Living continues to grow, health infrastructure spending is increasing and investment in infrastructure across roads, rail, water, sewerage and telecommunications is anticipated to grow.



With the sharp decline in construction demand in the multi res sector, particularly in the South East, tender price escalation in this sector is expected to be flat or negative. The decline in residential construction will be somewhat offset by increased activity and demand in other sectors such as aged care, education and infrastructure.

Our forecast average tender price escalation is around 1 – 2% for the next 2 years rising to levels of 2 – 4% in the subsequent year.

WESTERN AUSTRALIA



As highlighted in previous reports, the “Boom” in the Resources sector is now over in Western Australia and across Australia as a whole. However, Western Australia continues to lead the nation in exploration and investment activity, and has seen a slight increase over the previous 12 months. On the back of the downturn in the resources sector over the past few years, this has led to a steady but limited construction sector.

Commercial office space continues to struggle in WA and this is reflected in an office vacancy rate for Perth CBD of around 21.5% at the end of June. However, with tenants increasingly relocating from suburban markets to the CBD due to cheaper rents and incentives, this percentage is expected to decrease over the coming years.

Whilst there is little anticipation of any new commercial towers commencing construction in the immediate future, market interest is still keen, with several Asian investors currently carrying out feasibility studies on new developments, most notably in Elizabeth Quay. The office refurbishment and refit sector is still very strong, with organisations such as Telstra and KPMG currently undertaking significant office fit out projects.

A number of hospitality projects continue with this sector remaining strong. New hotels such as the Ritz Carlton, Hilton Doubletree, Westin and QT Hotels are currently under construction, as well as significant hotel refurbishment projects such

as the InterContinental Hotel refurbishment. Again we expect this sector to show strong growth over the short to medium term.

Investors are still showing interest in the potential of high rise residential projects, but currently this sector remains fairly stagnant with few projects expected to break ground in the foreseeable future. Developers are currently struggling to reach pre-sales targets and we anticipate this trend to continue in the short term.

Investment in the retail sector is still very strong in Western Australia. A number of major projects are now under construction including Whitford City, Carousel, Mandurah Forum and Midland Gate Shopping Centre expansions. Significant expenditure is still expected over the next 3 to 5 years within this sector, with Vicinity Group, Westfield, AMP and ISPT all expecting to commence major expansion works at existing shopping centres. As previously commented, we anticipate cost increases for certain trades due to the increased workload, although activity in this sector is most likely to benefit Tier 1 main contractors and sub-contractors.



Major growth sectors in the short to medium term are Defence, Student Accommodation, aged care and Department of Justice expenditure. We anticipate these sectors to significantly ramp up in the latter stages of 2017, and create further opportunities in the market going forward over the next few years.

Infrastructure spending is set to boom in Western Australia, with the announcement of \$2.3 billion federal budget allocations being apportioned to 17 new highway improvement projects, and \$1.2 billion towards the State Government's Metronet project. Perth Airport is also set to see significant improvement works to cater for new direct flights to the UK in March 2018, with the expectation this will also boost the leisure and tourism market in WA.



Our overall outlook for the WA market is neutral for the medium term with a positive outlook for coming years due to the significant boost to infrastructure spending. Excess capacity exists in the local market and the expectation is that this will continue for another one to two quarters. Based on tenders received over the first half of 2017 we are of the opinion that escalation will be 1.5% over calendar year 2017 rising to around 1.6% in the following year.

SOUTH AUSTRALIA



Australia's two speed economy is evident in Adelaide. Whilst booming double digit house prices together with the uplifting effect on the apartment construction sector in the eastern states has raised concerns of a property bubble, the Adelaide property market is 'business as usual'. The construction industry continues at a sedate pace generally in line with CPI.

Eastern state industry driving forces of population increase, infrastructure spend and foreign investment do not impact the Adelaide market, albeit some foreign investors are chasing opportunities now.

Adelaide contractors from the Tier 1 pool are operating on lower margins than their interstate counterparts. This is not to say construction costs are lower as many trade costs are high when compared to interstate. We believe this is a result of reduced competition from a reduced pool of qualified trade contractors and labour in key trades for Tier 1 work.

Tier 2 and 3 contractors remain very competitive, with little or no margin tender submissions common. EBA labour cost increases have generally been absorbed in tender pricing.



Interstate and international developers are undertaking feasibility studies for student accommodation towers; a market sector that has limited supply and thus potentially a wise and timely investment opportunity.

Calvary Private Hospital, University Projects, St Andrews Hospital and numerous aged care projects comprise the current outstanding health and aged care /aged living related sector.

Student accommodation and CBD apartment projects are in various stages of construction with a few commencing in the next 6 – 12 months.



Our last quarter 2016 forecast on escalation was true for Tier 1 contractors. Tier 2 and 3 contractors have stagnated with very minimal escalation in the past 9 to 12 months.

Concrete and Formwork trades have 'tested' the market, increasing labour costs above interstate rates, mostly because of the limited pool of qualified trade contractors / labour.

As with all government stimulation projects, the STEM projects provide a risk that escalation is spurred for small fitout trades undertaking the bulk of the work. We are yet to observe any such escalation in this sector.

Tender Price Escalation rates are therefore expected of 2% per annum for the remainder of 2017 increasing to 2.5 – 3% for 2018 and 2019.

AUSTRALIAN CAPITAL TERRITORY



The latest ACT Budget for 2017 /2018 recently announced shows the ACT Government returning to a surplus next year. There are also commitments to revitalisation of outlying town centres and the city centre. The Budget shows that the ACT continues to be one of the leading jurisdictions in economic activity at 3.4% which is ahead of the national average of 2.6%, with a growth rate of only just behind NSW.

The economic outlook of property owners, developers, agents, managers, and consultants maintains the high level of business confidence and sentiment for the ACT with growth projected across many sectors and future work schedules still the highest in Australia.

There remains high levels of confidence in housing, commercial and retail growth but a slight downturn in industrial, retirement living, foreign investment and hotel capital growth predictions. The availability of debt finance and a growing concern of an interest rate increase also affects overall industry confidence.



With construction well under way for both the ACT Law Courts and the Light Rail, the construction industry has received a boost and rid itself of the doubt over whether these projects would proceed. The sight of four tower cranes in place over the centre of Canberra is a welcome sight.

Works continue at Australian Parliament House and injection of cash from the budget for the City to the Lake project was a further boost.



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

With the improvement in confidence levels we maintain our forecast for tender price escalation in the order of 2.0 – 2.5% in 2017, and 3.0 – 3.25% in 2018.



Hobart construction activity is currently elevated although it has plateaued somewhat after completion of large recent developments such as NRAS apartments, Mac 01 hotel, Macquarie street hotel and Parliament square stage 1 (nearly complete), which will release some capacity into the market.

Some of the larger projects currently underway include the Royal Hobart Hospital Development, UTAS Performing arts, and the Myer building and Hotel.

There are substantial hotel developments currently in the planning stages such as Federal Hotels Port Arthur Resort, Vibe Hotel and various fragrance group hotels.

The North of the state has seen an improvement in workloads with CH smith development and Silos apartments development commencing.

Future activity is also expected for the huge railyard site near the Hobart waterfront that development plans have yet to be announced

Civil works are underway on the Hobart Airport runway extension and major roadworks on the highway link between Hobart and Launceston.

UTAS are also trying to gain traction to relocate their Sandy Bay Campus to Hobart City Area.



Hotels are predicted to be a strongly performing sector in the immediate future

The housing sector is generally subdued except for residential aged care facilities which continue to be a strong leader. The state Government has extended the first home buyers grant another 12 months to stimulate more growth.

Department of Education are rolling out redevelopment works throughout the state which are generally going to tier 2 contractors



Predicted / forecast escalation for calendar years. The tender rise forecast is based on reasonable spread of future workloads. If all predicted projects come on line concurrently then this could saturate the market and cause sudden spike in tenders.

Tender Price Escalation rates are therefore expected of 3% per annum for the remainder of 2017 increasing to 3.5% for 2018 and 3% for 2019/2020.

NORTHERN TERRITORY



As with the WA construction market, the NT construction sector is moving through a post resources boom adjustment. The Northern Territory unemployment rate remains low at 3.2%. While employment opportunities are currently strong, over population growth is weak. While major investment has been committed in a number of sectors, overall construction activity and future “pipeline” commitments softened over the last 12 month.



While the resources sector is a major contributor to the construction industry with major projects such as Ichthys LNG project, other sectors such as retail and hospitality remain overall positive. Over the long term additional major international brands will follow Westin Hotels & Resorts and have a presence in Darwin. Over the medium to long term, the NT construction market will benefit from substantial expenditure in hard and soft infrastructure. The new Palmerston Regional Hospital, Darwin Port Development & Upgrade works, and further proposed expansion of Darwin Airport. Over the medium to long term, the Defence sector will be a major contributor to the NT economy. Major projects such as RAAF Base Tindal Upgrade and Delamere Air Weapons Range will be followed by additional expenditure in this sector.

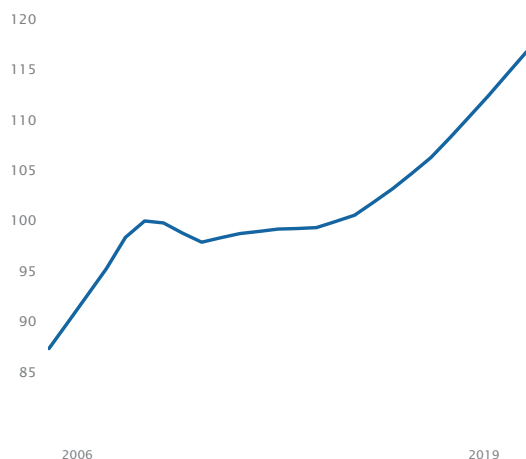


As previously reported our overall our outlook for the NT construction market is steady for the medium term, becoming more positive towards the latter end of 2017.

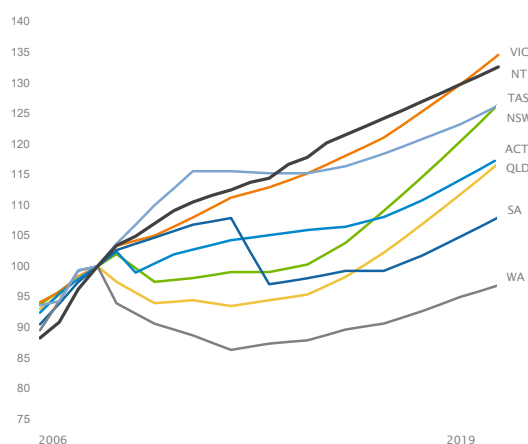
While those sectors mentioned above should perform reasonable well in 2017 and through to 2018, we anticipate tenders to be very competitive over 2017 within Darwin and indeed state wide. We are of the opinion that escalation will be 2% over 2017.

TENDER PRICE ESCALATION FORECASTS

WT TENDER PRICE ESCALATION FORECAST
AUSTRALIAN AVERAGE



WT AVERAGE TENDER PRICE ESCALATION
FORECAST BY STATE AND TERRITORY



The above graph index is set at 100 for September 2008. Recorded data and forecasts are based on tenders for large building construction projects (value \$20 million to \$300 million).

The above graph does not reflect the relative cost differential between the different States and Territories.

WT AVERAGE TENDER PRICE ESCALATION

		NSW	VIC	QLD	WA	SA	ACT	TAS	NT
Actual	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	4.0%	2.5%	3.0%	2.0%	2.0%	2.0%	3.5%	2.1%
	2017	4.0%	3.0%	2.0%	1.5%	2.0%	2.5%	3.0%	2.0%
Forecast	2018	4.5%	3.0%	3.0%	1.6%	2.7%	3.1%	3.5%	2.0%

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

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 help them achieve optimum commercial outcomes.

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GOLD COAST

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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.

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