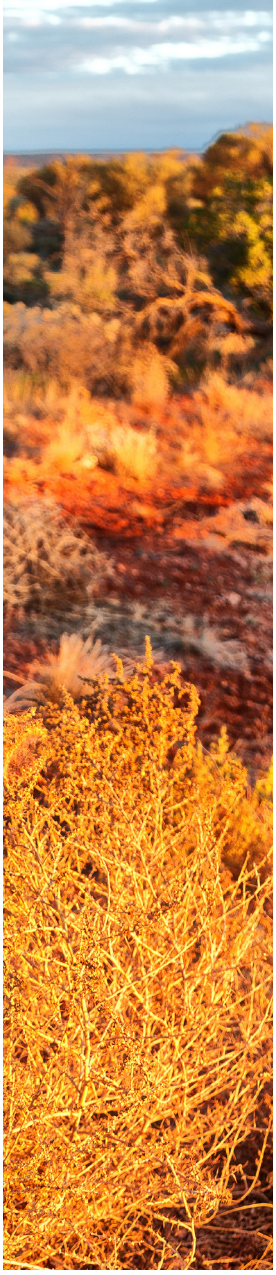

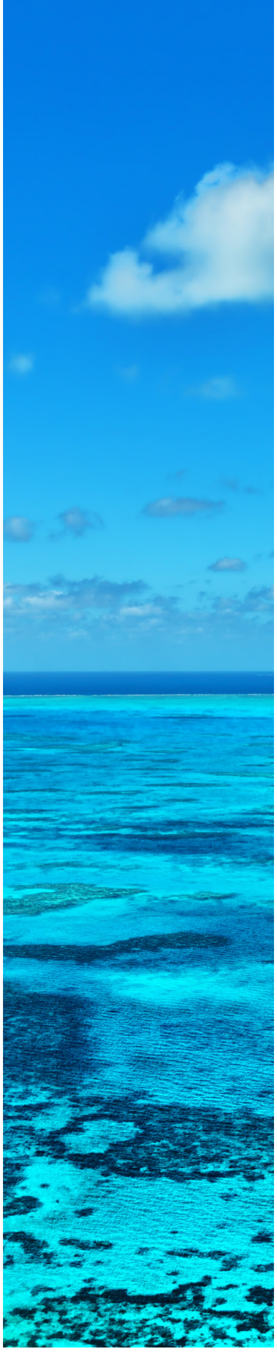

MASTER BUILDERS QUEENSLAND

The home of building

BUILDING INDUSTRY
OUTLOOK 2019

Welcome to the 2019 edition of Master Builders' Building industry outlook, a snapshot of the state of Queensland's building and construction industry.

As Queensland's peak industry association representing building and construction in Queensland since 1882, and with approximately 8,500 members, Master Builders is well placed as a commentator and information source for building and construction issues.

Prepared with the assistance of Master Builders Australia and MacroMonitor.

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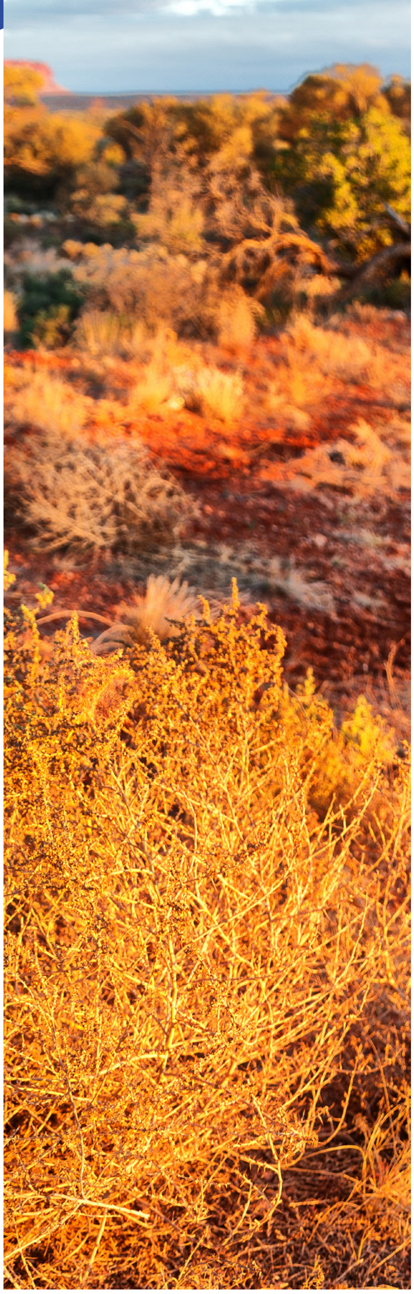
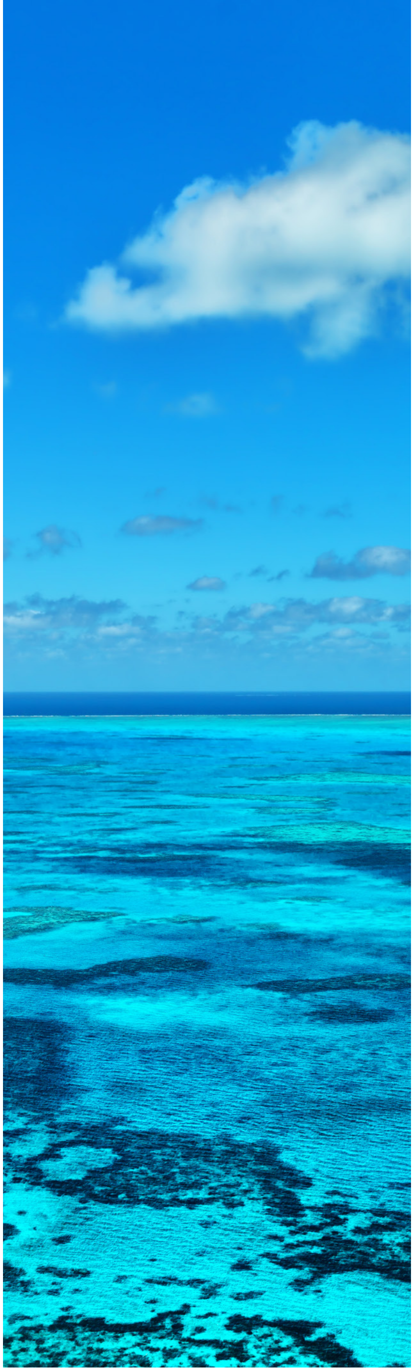


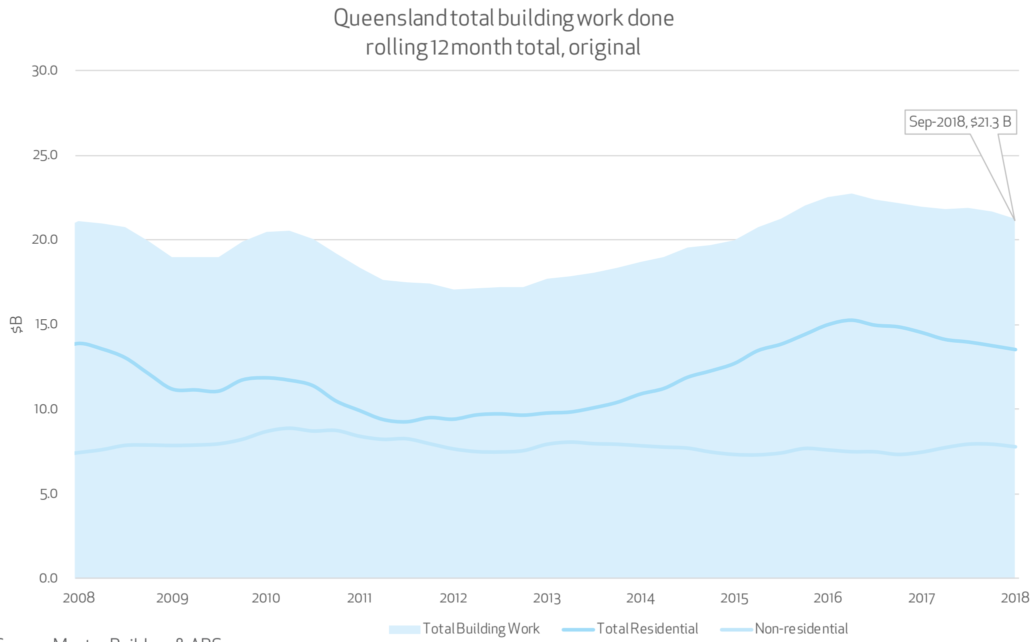


Our industry today

2018 was a year of adjustment for the building and construction industry. We saw a levelling off in construction work after the record highs of the previous years. The talk of a market crash off the back of unit oversupply did not eventuate and Queensland fared relatively well when compared to our southern neighbours who are struggling through a large downturn.

To date, the positives of population, employment and economic growth have been able to prevail against the headwinds of tightening access to finance, lower foreign investment and concerns of the oversupply of units.

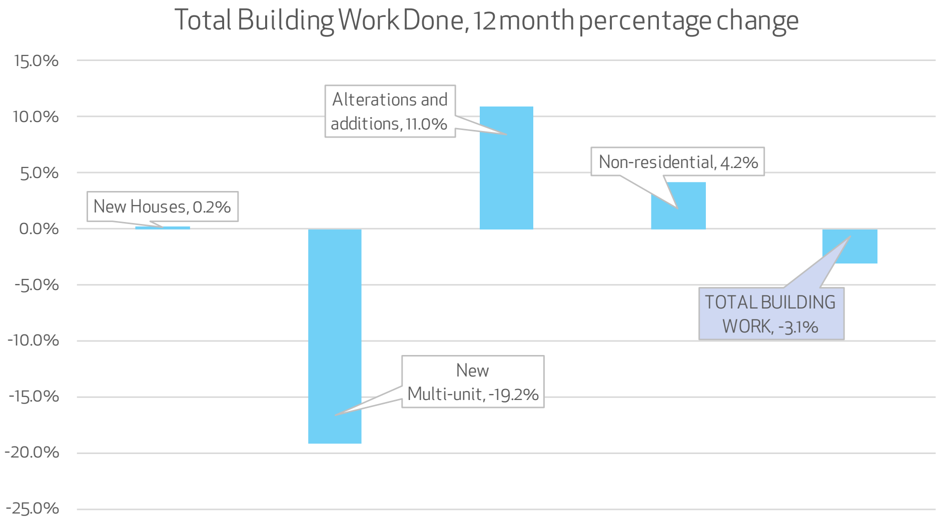
There was $21.3 billion of building work completed during the year to September 2018; 3.1 per cent down on the previous 12 months.



Source: Master Builders & ABS

41,558 dwellings were started over the year to June 2018; down 6.3 per cent on the previous 12 months.

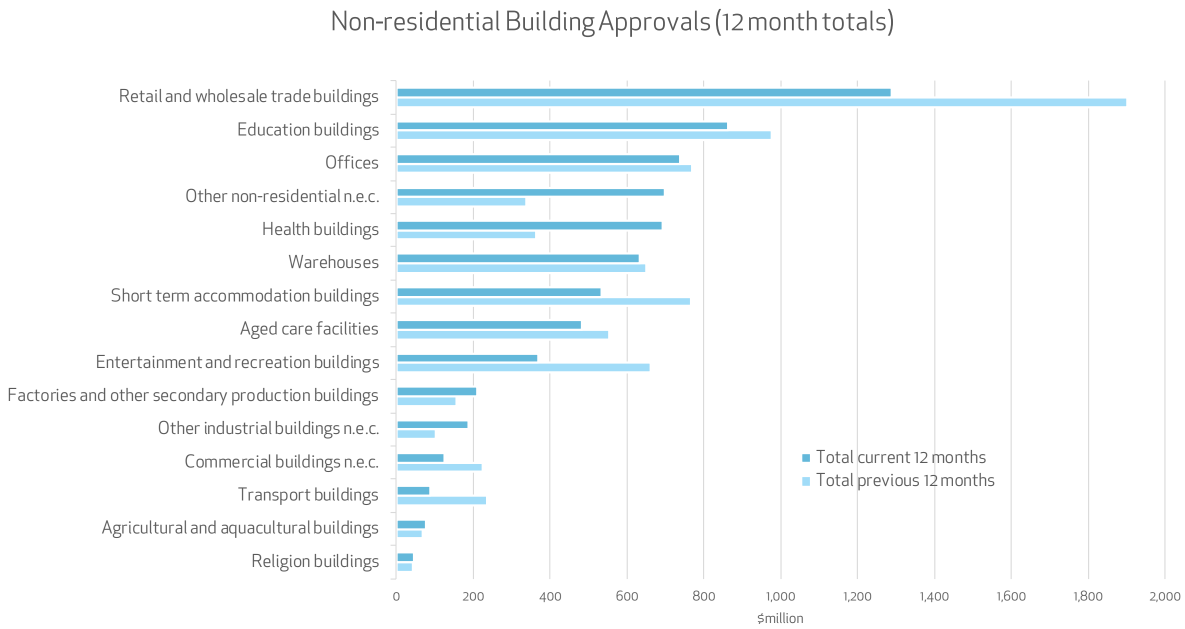
The anticipated end to the apartment construction boom was responsible for the fall (-19.2 per cent). Surprisingly, the fall wasn't due to the large inner city unit blocks that crowded the Brisbane, Gold Coast and Sunshine Coast skylines but rather smaller unit blocks, under four stories, and townhouses. Construction of detached housing had a strong surge at the beginning of the year but finished back where it began; up only 0.2 per cent.



Source: Master Builders & ABS

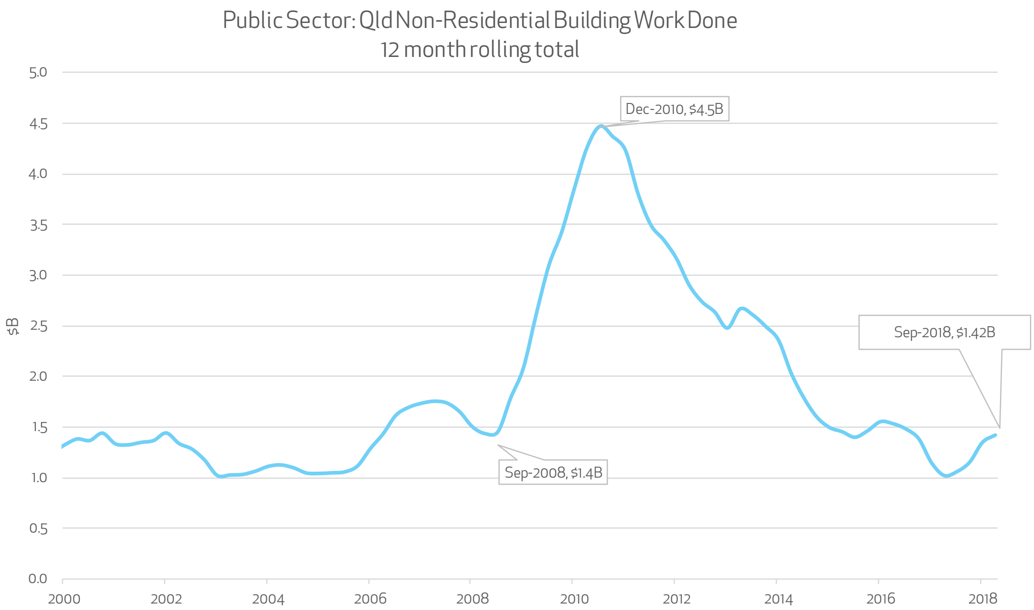
Alterations and additions were a stand out performer for the year; moving up by 11 per cent. However, while a valuable $1.6 billion worth of work, this segment only makes up 7 per cent of total building work. Mackay, Ipswich and Logan were the renovation "hot spots".

Non-residential work saw a small increase, growing by 4.2% per cent. The non-residential building work has been focused on retail and wholesale trade buildings, education buildings and offices.



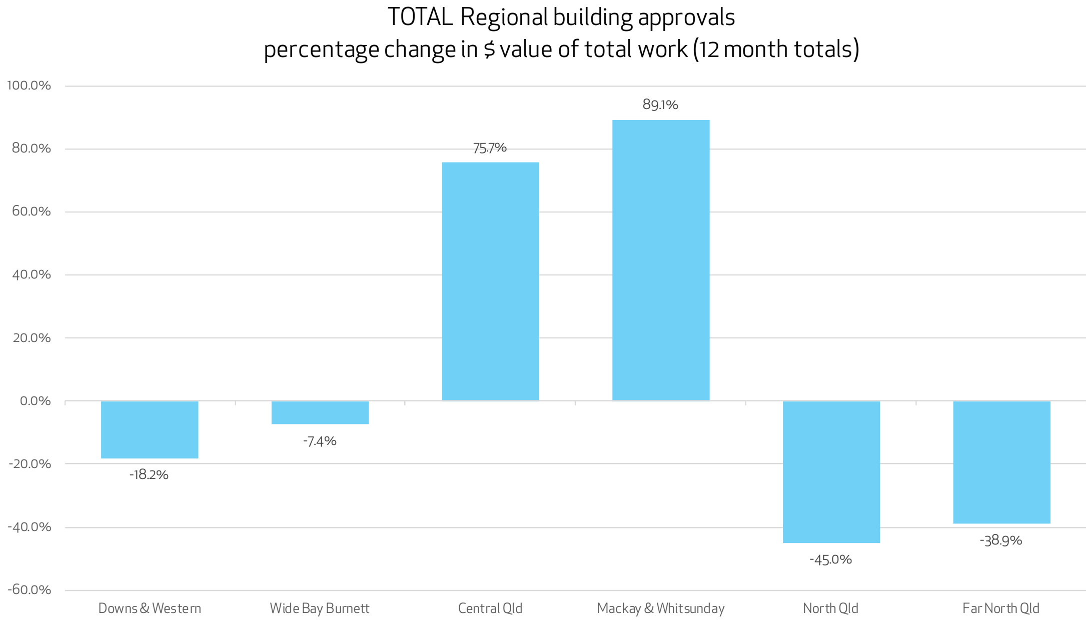
Source: Master Builders & ABS

There was a significant increase in government spending on new buildings (+38.9 per cent) but this is off a very low base and total government work continues at a historic low. While the total amount of work has been small, the government has worked hard to make it available to regional builders where it's served as a lifeline in difficult times.



Source: Master Builders & ABS

For the regions outside South East Queensland, the early promise of a return to strong demand was short-lived. Approvals for each of the regions was down when compared to the previous 12 months. The exception being Mackay & Whitsunday, which has a steady stream of residential work, and Central Queensland, where non-residential work is booming. Still, while the growth for each of these two regions seems impressive, it is off a record low base.



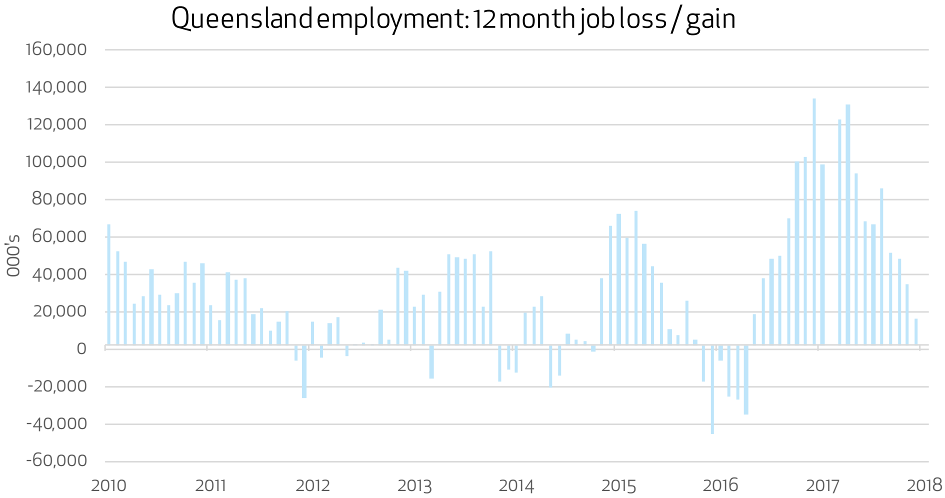
Source: Master Builders & ABS

Demand drivers

The Queensland economy is performing well and is forecast to grow at a healthy 2.75 per cent (according to the Queensland Government's 2019-20 budget forecast). This is attributed to surging LNG and coal exports, strong tourism and student demand and a strong global economy – in particular, a sturdy Chinese economy. Recent results, however, show that the growth is now trending down, making future growth more tenuous.

Business investment is improving but continues to be held back by weak consumer spending caused by high levels of household debt, long-term low wage growth and increased living expenses.

Jobs are being created, although at a decreasing rate. Over the past 12 months there's been an increase of 16,000 jobs compared to 134,000 jobs for the previous 12 months.



Source: Master Builders & ABS

There's some good news for wages, which continue to move higher. Wage growth, while still minimal, is the highest it's been in three and half years.

Queensland's population continues to grow at a modest 1.7 per cent, as people head north to take advantage of the relatively affordable housing in Queensland. Overseas migration in comparison has remained relatively stable. There's a concern that future growth will falter if new jobs are no longer being created.

Population growth is expected to continue to be concentrated in the south east, with Ipswich, the Gold Coast and Brisbane attracting the largest numbers of new residents.

Australian real estate, including property in Brisbane, continues to be viewed globally as a stable option. The yield advantage of Brisbane over Sydney and Melbourne is also helping to attract the attention of the southerners.

Regardless of the underlying demand drivers, actual demand will be determined by access to finance. Throughout 2018, access to both developer and mortgage finance was increasingly restricted as banks tightened their lending practices in the wake of the Royal Commission. This has had the effect of preventing many otherwise viable projects from going ahead and is expected to continue for at least the first half of 2019, if not longer.

Industry outlook 2019

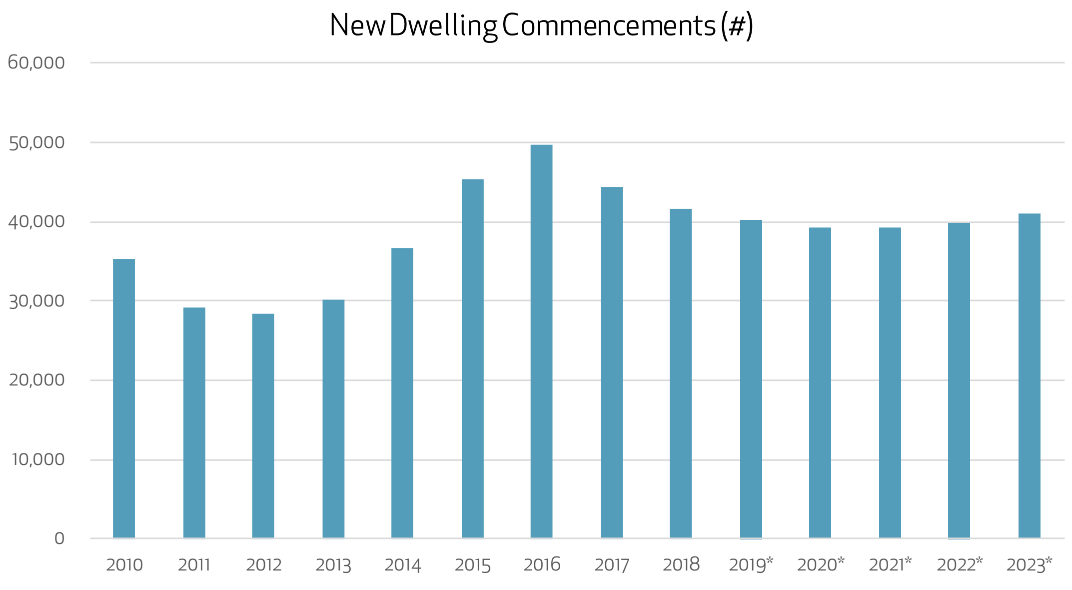
Looking ahead, 2019 will be a challenging year as the total amount of work falls still further.

The tightening access to finance is going to affect all parts of our industry. Restrictions on development finance, builders' overdrafts and customer mortgages will leave no one unaffected. The effects of the government's new restrictive building industry legislation is also likely to affect the viability of new construction, causing further concern.

RESIDENTIAL

Master Builders forecasts 40,000 dwelling commencements in 2019. This will be a 3 per cent drop on the anticipated total of 42,000 dwellings for 2018 and a further moderation of the record highs of the past few years.

In the long-term there will be modest recovery, possibly beginning as early as 2020, but more likely 2021.



Source: Master Builders & MacroMonitor

Demand will shift in favour of those with a strong credit rating, generally those already in the housing market over first home buyers.

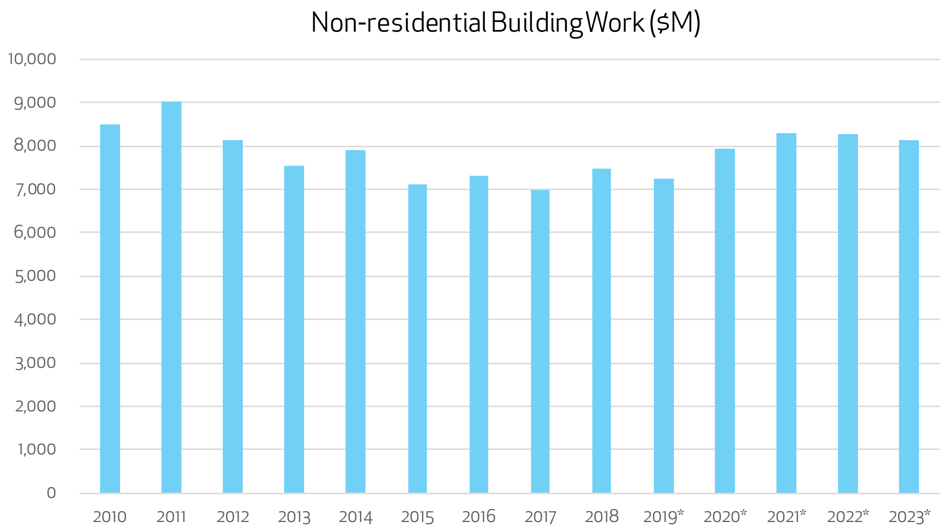
Concentrated population growth focused on the south east will continue to favour unit developments. Detached housing will see growth where there's land available.

There will be new opportunities in the area of affordable housing with both state and federal government money flowing to the sector.

Renovation activity will remain solid. Tougher credit conditions will encourage many owners to stay put and renovate rather than sell and upgrade to a new home. Kitchens and bathrooms are likely to remain popular options on the renovation front as they can make a home more liveable while adding value at the same time.

NON-RESIDENTIAL

2019 will see a fall in the demand for non-residential construction work as a number of key sources of demand move past their peak.



Source: Master Builders & MacroMonitor *Forecast

Demand in the most important area for non-residential construction, the retail and wholesale trade buildings, will decline significantly over the coming year. Investment in the tourism industry has passed its peak and new work will fall away significantly in new year.

Offices, another important segment of non-residential work, will also fall away in 2019 before bouncing back in 2020.

The health and aged care segment will continue to benefit from high demand due to an aging population.
Many projects are likely to be advanced to take advantage of the reduction in infrastructure charges in Brisbane, pushing up the state-wide totals.

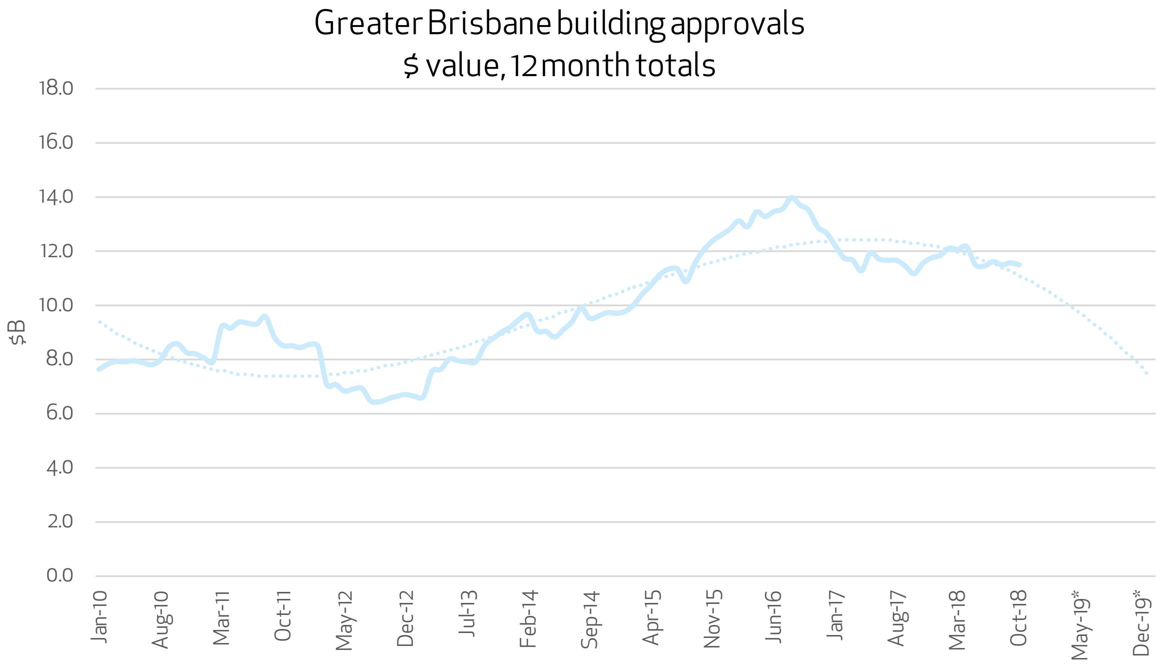
Industrial and transport buildings are all expected to enjoy strong demand.

Greater Brisbane

2019 will be a challenging year for Greater Brisbane, as restrictions on finance flow through to further restrict demand. The loss of jobs in the region will also limit construction demand. There is also uncertainty whether the appropriate supply of land will be available.

Retirement and aged care buildings and student accommodation will also be strong performers thanks to Brisbane City Council's reduction in infrastructure charges.

Central to long-term demand is a number of major projects, such as Cross River Rail, the new Brisbane Airport runway, Queens Wharf, Brisbane Live and the ICON Ipswich renewal project, while will help to assure Brisbane's long-term growth.



Source: Master Builders & ABS

Gold Coast

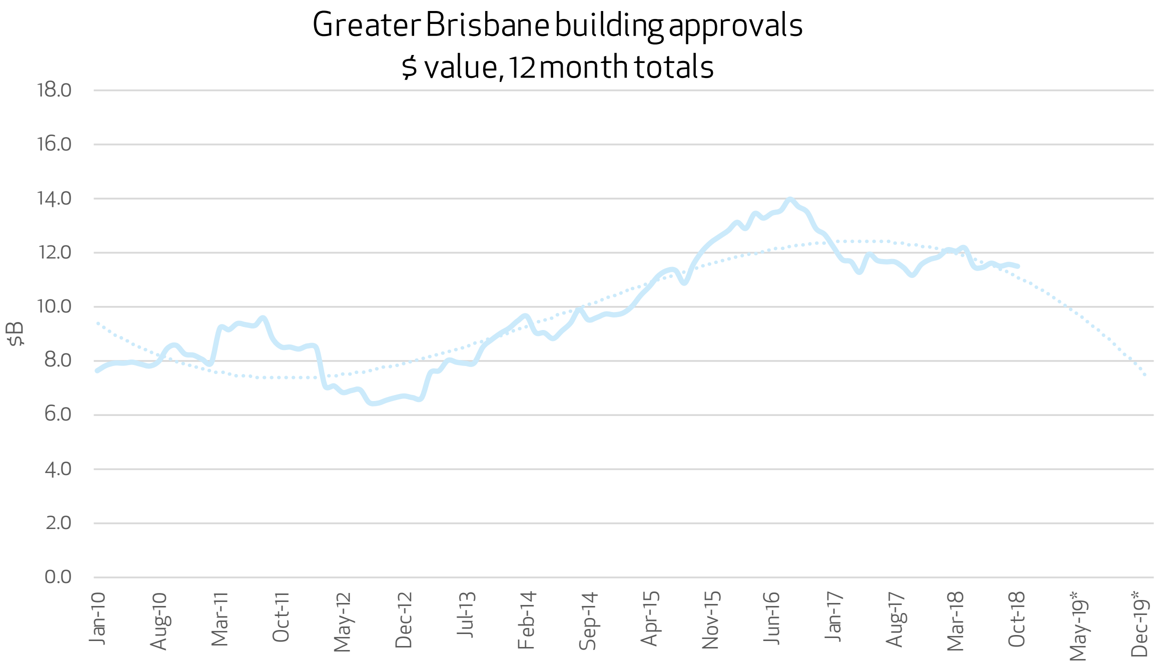
While the exceptional growth of the Gold Coast will moderate, it will continue to be one of the regional success stories.

The Coast enjoys the state's highest population growth; a title shared with the Sunshine Coast. It's also the region that created the most jobs over the past 12 months.

The city is evolving from the boom bust tourist town of the past to become a cosmopolitan Australian city with a diverse economy. This is reflected in the broad range of construction projects currently underway or being proposed, including the Jewel Development, Gold Coast Integrated Resort, "The Surrounds" Helensvale and Westfield Coomera.

The incredible scale of the redevelopment of the Commonwealth Games site to the Health and Knowledge Precinct is a game changer. Major improvements to the rail and road links to Brisbane will also help assure the city's growth in the long-term.

Challenges for the region include the restrictions on finance and a shortage of land ready for development. Analysis undertaken by the Property Council has the shortfall of Greenfield land over the 25 years of the SEQ Regional Plan at 13,000 lots.



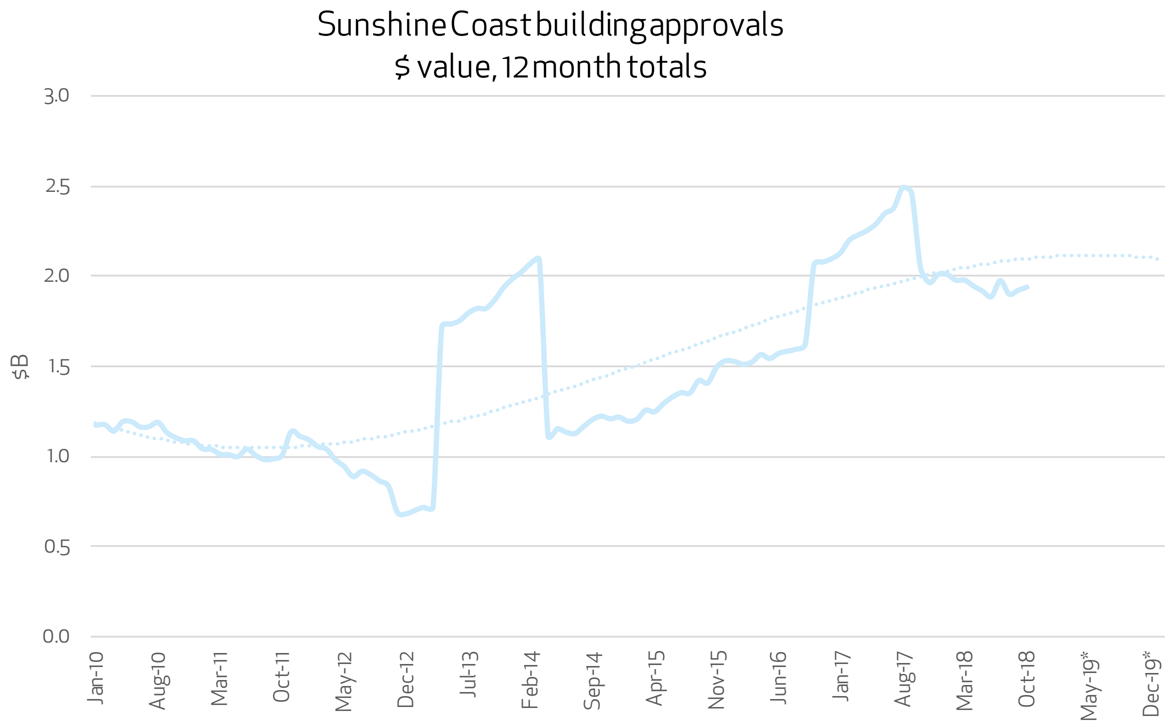
Source: Master Builders & ABS

Sunshine Coast

In 2019 the Sunshine Coast will be stable. While the region will be challenged by the head winds of finance and government regulation, it will benefit from significant capital investment and a regional council that understands the importance of the right type of development.

Demand will also be underpinned by moderate job growth, strong population growth (2 per cent per annum) and major land releases at Aura (Caloundra South) and Palmview. Work on the Sunshine Coast Airport Expansion and Maroochydore CBD will help non-residential work along.

Major improvements to the rail and road links to Brisbane and the new international broadband submarine cable will help assure the region's growth in the long-term.



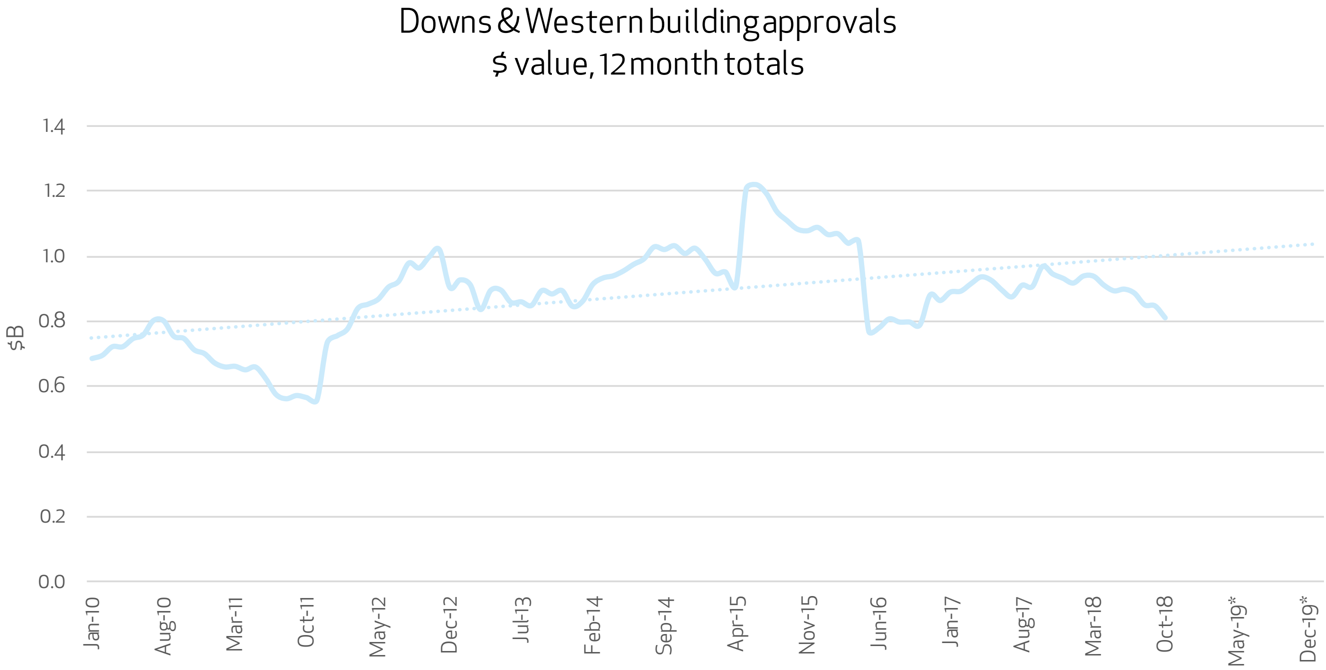
Source: Master Builders & ABS

Downs and Western

The region, especially the city of Toowoomba, has a diverse economy and is able to avoid the boom and bust cycles experienced by many of the other regions. That being said, the region has been struggling of late.

Looking forward, there is reason to be optimistic with strong employment growth, the highest in the state, and a solid population growth rate.

Catalytic investment in the region, including the long-awaited Second Range Crossing and the Brisbane West Wellcamp Airport, are also providing opportunities. The $1 billion Bulli Creek Solar Farm, if it goes ahead, will be a significant shot in the arm for the region. Coal seam gas investment is expected to be stable but a number projects in the planning stages could see that change.



Source: Master Builders & ABS

Wide Bay Burnett

The region has been stable for a number of years now and there is no reason to expect 2019 to be any different.

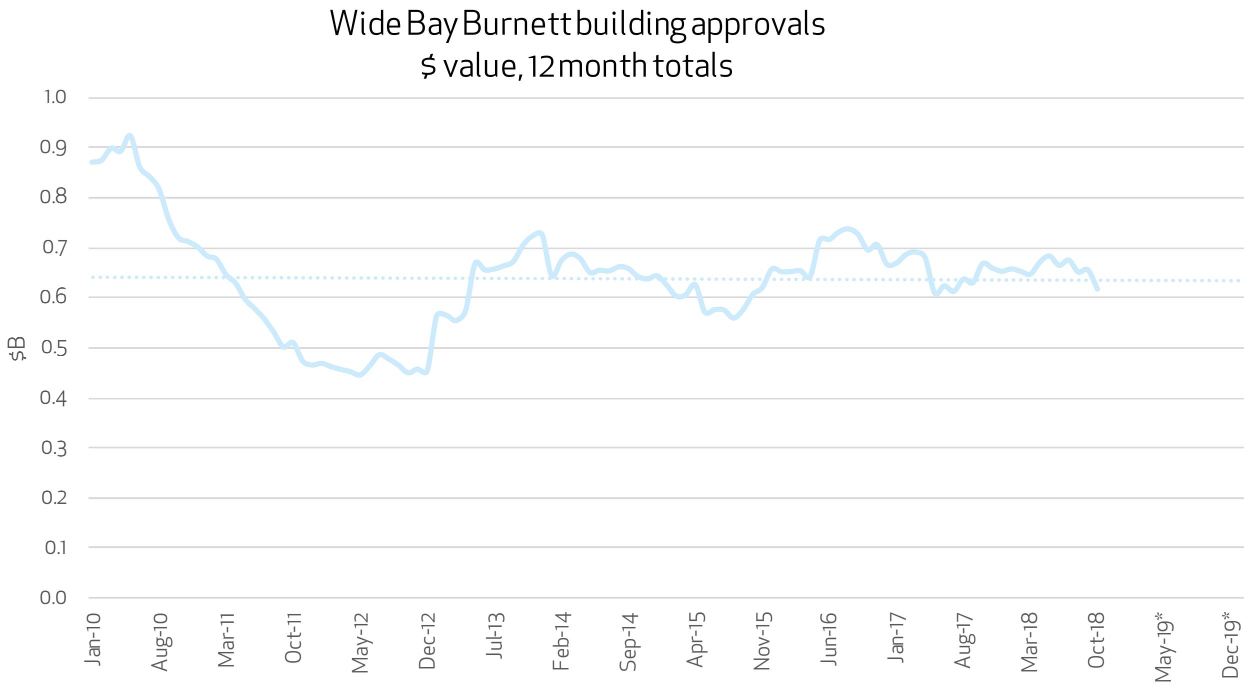
While the region struggles with job losses and a below average population growth (0.8 per cent per year), there are opportunities.

Bundaberg is a city with a proactive council, ready to support and develop the economy.

The Hervey Bay economy is bolstered by a growing aged care sector. New large-scale, aged care facilities are providing employment and some protection from boom and bust of tourism.

Maryborough is also beginning to find forward momentum, especially with the demand for detached houses.

The North Burnett region, including Monto, Mundubbera and Gayndah, will continue to enjoy strong growth off the back of a strong mixed agriculture sector, albeit off a low base.



Source: Master Builders & ABS

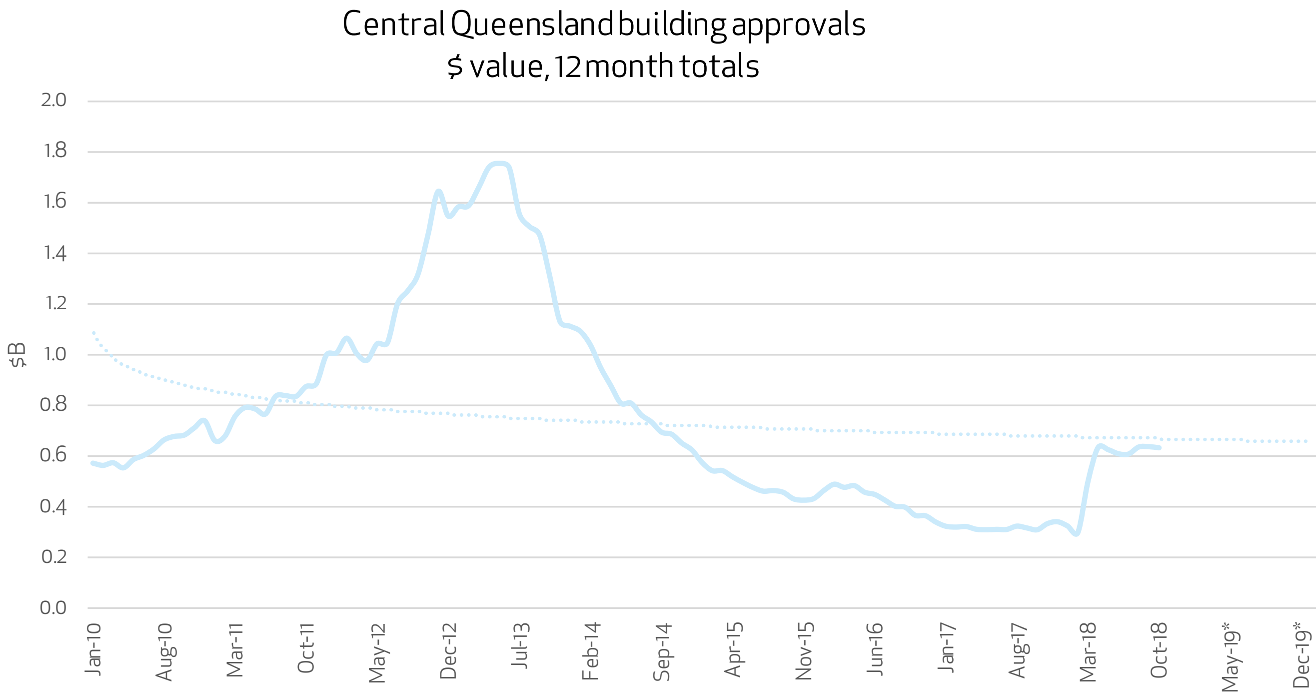
Central Queensland

The region will continue to struggle through the first half of 2019 but there's reason to be optimistic for the second half of the year.

Whilst the region's fortunes have been historically tied to LNG and coal developments, for which there is still little work, there is now a significant pipeline of investment on a diverse range of projects.

Demand will be driven by work from the Australian Defence Force's investment in Shoalwater Bay, a number of major road infrastructure projects, expansion of the Correctional Centre, construction of the Rookwood Weir and the Clarke Creek Wind and Solar Energy Farm. The state government has also provided more funding for work on the Gladstone Hospital Emergency Department and the construction of the Calliope High School.

The strong employment growth from this activity will lead to a projected workforce shortfall by 2020, flowing through to population growth and new housing demand. This will be the impetus for several accommodation and residential projects that are already in the planning stage.



Source: Master Builders & ABS

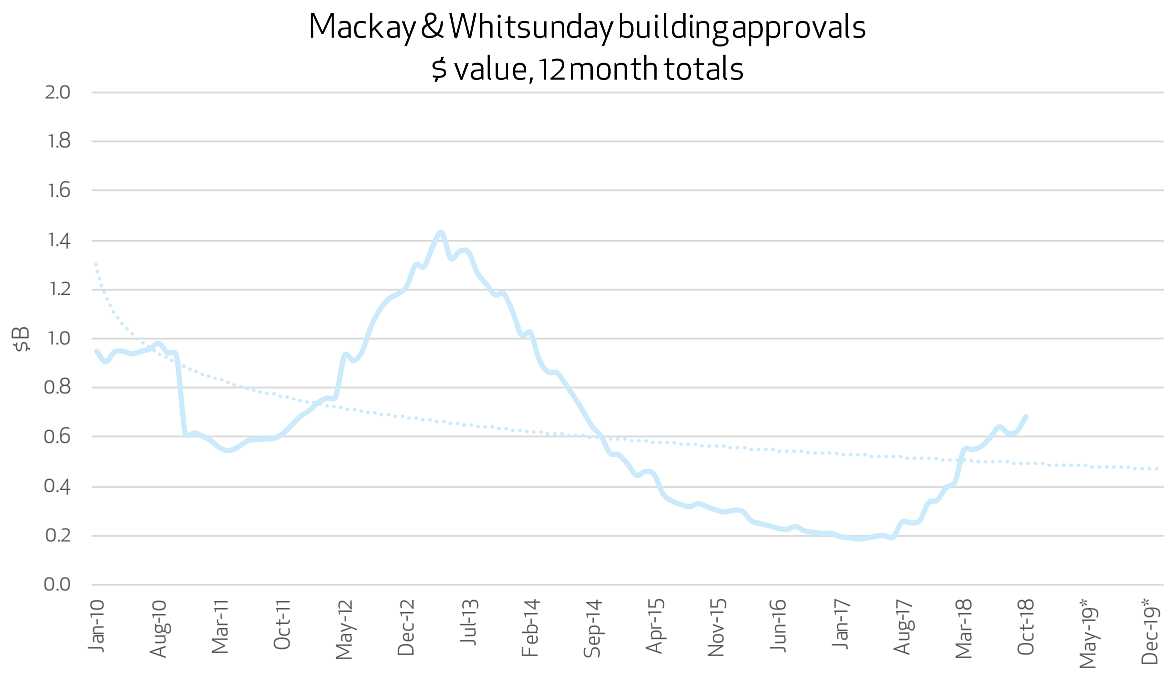
Mackay & Whitsunday

The region finished 2018 on a high and there is confidence for 2019.

The surplus housing left as a result of the mining investment boom has been worked through and demand is back for new construction.

There are a number of significant resource projects planned for the region that are once again viable with the upswing in commodity prices. The region will also benefit from an increase in tourism numbers.

Of concern are recent job losses and a low population growth (1.1 per cent per year) which could threaten the sustained growth in the region



Source: Master Builders & ABS

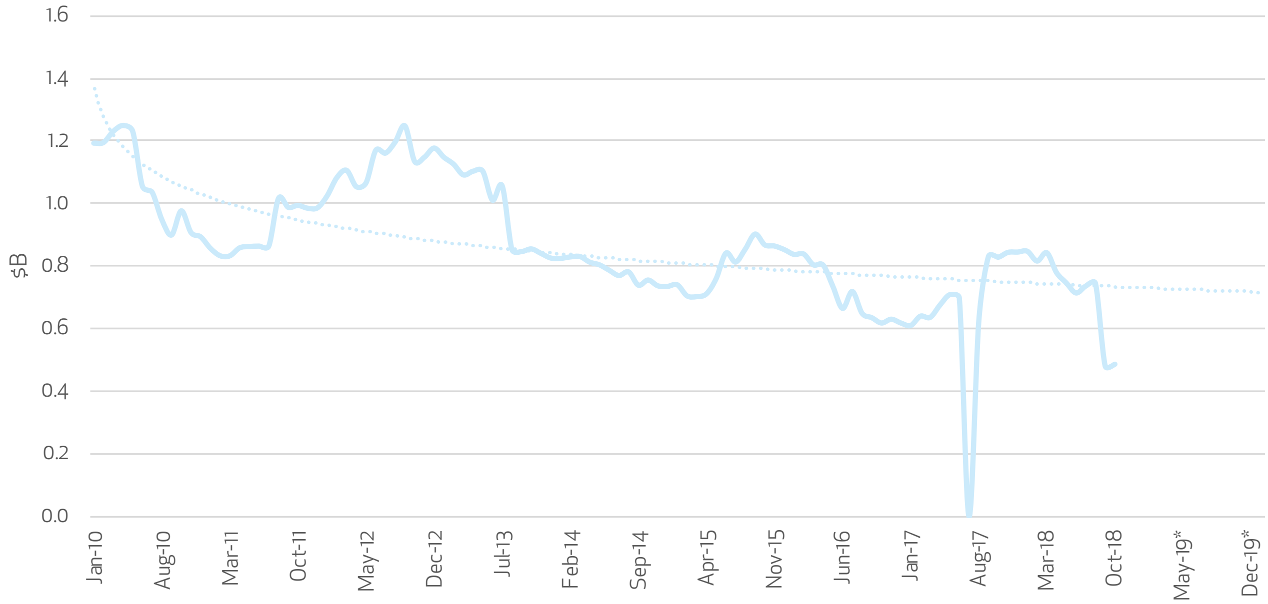
North Queensland

Work is well underway on Stadium Northern Australia and, along with the Waterfront Priority Development Area, is proving a catalyst for a spike in a range of non-residential building work. The region, along with Far North Queensland, is also shaping up to be the growth centre for renewable energy investment with a number of major projects under construction and more in the pipeline.

The additional work has meant new jobs and dropped the unemployment level down to 4.8 per cent; well below the state average.

Headwinds include restricted access to finance and a modest population growth, which for Townsville city is only 1.3 per cent per year and lower in the regions to the west.

North Queensland building approvals
$ value, 12 month totals



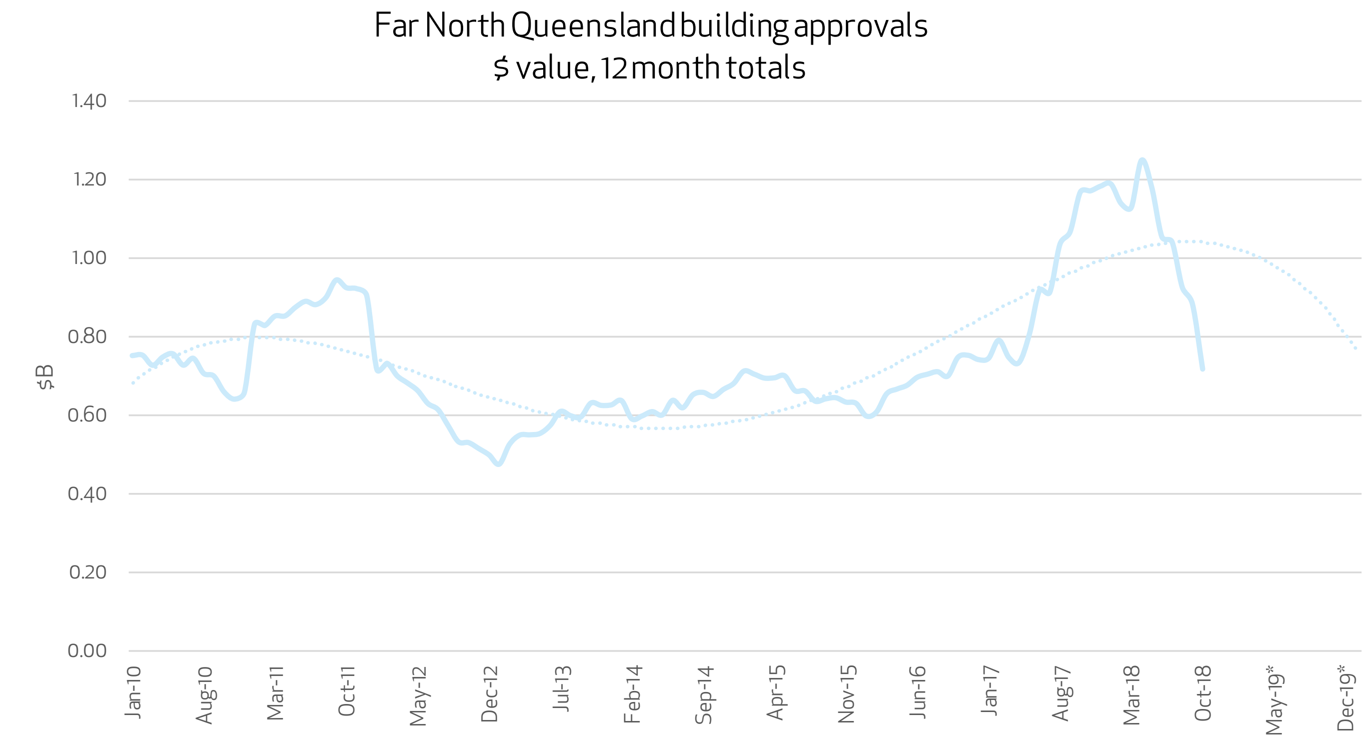
Source: Master Builders & ABS

Far North Queensland

While the building and construction industry in Cairns has enjoyed a period of growth over the past 12 months, recent approvals have taken a significant turn. This is in spite of untapped demand, evidenced by a tight rental market, and sufficient land ready for development.

In 2019 restricted access to finance is shaping up to be a major barrier acting on the region. Job losses in the region and below-average population growth of 1.3 per cent per year are also hindering growth.

The long-term prospects, however, are good. Along with North Queensland, the region is shaping up to be the growth centre for renewable energy investment with a number of major projects under construction and more in the pipeline. There are also a number of significant tourism and residential project either planned or underway.



Source: Master Builders & ABS

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