MASTER BUILDERS QUEENSLAND

The home of building

BUILDING INDUSTRY OUTLOOK **2020**

FEBRUARY

THE YEAR THAT WAS: GRIM

2019 was a tough year for the building industry. Building work completed during the year to September 2019 was 9.2 per cent down on the previous 12 months: down to a total of $20 billion.

Almost two thirds was residential building (approximately $13 billion), with the remaining $7 billion being commercial building work – both sectors were down over the previous year.

There were, however, two bright spots: building work for alternations and additions and government buildings. Both recorded positive growth of 10.9 per cent and 24.3 per cent respectively. These are strong numbers but unfortunately only for a small proportion of the overall work. The majority of Queensland's building work involves new houses, units and private sector commercial buildings, all areas that are struggling.

Across the state 32,611 new dwellings were started over the year to September 2019; down 26 per cent on the previous 12 months.

DEMAND BEING HELD BACK

The Queensland economy is performing well and is forecast to grow at a healthy 2.5 per cent (according to the Queensland Government's 2019-20 mid-year fiscal and economic review).

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 growth is underpinning demand, with an increase of 59,103 jobs over the past 12 months, although wage growth is still problematic.

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. In comparison, overseas migration has remained relatively stable.

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

Hopes that low interest rates would have a positive impact on the housing sector have not come to pass. Loans for new housing continue to fall as banks remain conservative in their lending. There continues to be the problem of new home valuations for mortgages often failing to stack up, especially in regional areas, causing projects to fall over. There is no sign of this changing.

Added to this, is the uncertainty of the impact on the economy from bushfire recovery both to local communities and the tourism industry. High profile building failures, coming out of NSW, are also rattling confidence in new units across the border.

INDUSTRY OUTLOOK FOR 2020

Looking ahead, 2020 will continue to be challenging but we can expect to see signs of a turnaround as the year ends, as pent-up demand begins to push through to projects on the ground.

The continued restriction on finance is going to affect all parts of the industry. Restrictions on development finance, builders' overdrafts and customer mortgages will leave no one untouched. This will be against a backdrop of still more legislative changes, with a broadening of the use of project bank accounts and changes to the building certification all slated for 2020.

Residential

Despite record low interest rates, loans to owner occupiers to build a new home and first home buyers are both down significantly.

On that basis we are forecasting 31,000 dwelling commencements in 2020, down 6 per cent from the anticipated total of 33,000 dwellings for 2019. A further blow to an industry which has been struggling with declining numbers for several years.

However, we expect that early into 2021 a recovery will be underway, which will strengthen into the foreseeable future. We are forecasting 35,000 commencements in 2021, increasing to 40,000 by 2022.

And over this time we expect that alterations and additions will continue to support many builders and subcontractors across the state.

Commercial

It's better news on the commercial front where the current pipeline of commercial building work is up 32 per cent (based on the value of commercial building approvals). In 2020 we're forecasting an increase in the level of commercial building – up 7.3 per cent from the 2019 estimate to $7.8 billion, mostly on the back of government expenditure on public buildings.

The retail sector will continue to decline before strengthening in 2021, while the reverse is true of education buildings as the government's new schools investment program comes to an end.

Demand for industrial buildings is also expected to be strong, while demand for offices will bounce back in 2020. Investment in the tourism industry has passed its peak and will fall away over the year.

Past 2020 we are forecasting modest growth in commercial building work, climbing to $8 billion in 2023.

Regions

Looking across the state the pipeline of building work varies significantly.

Greater Brisbane continues to attract nearly all the state's job growth helping to underpin long-term demand. In the short-term that demand will be held back by a lack of investment in both residential and non-residential construction.

The Gold Coast has taken a real hit to jobs, losing 18,000 over the past year. This will continue to drag on the demand on the region but a pipeline of major projects is helping to maintain confidence in the region.

The Sunshine Coast and Toowoomba have both seen a downturn in work but this should begin to turn around later in 2020 with good underlying demand from job growth and major projects.

Wide Bay has been enjoying strong growth but this will moderate over the coming year.

Mackay & Whitsunday and Central Queensland should both be a case of 'steady as she goes', albeit at a low level, with respectable job growth and investment coming to these regions.

In North Queensland the flood repair work is expected to last most of 2020, but there are few signs of new investment to replace this when it comes to an end. However, a couple of major mining projects which are under consideration could be a game changer should they get underway.

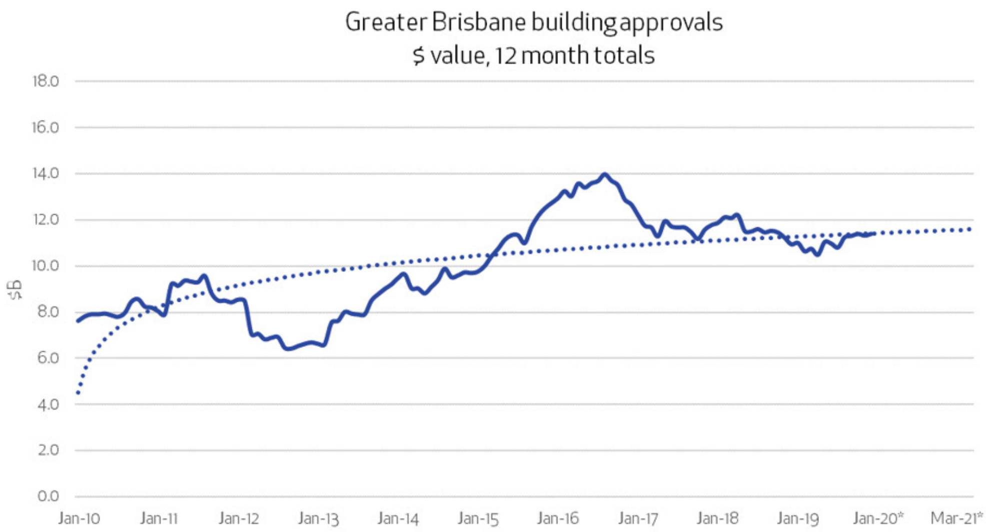
Far North Queensland will continue as the stand-out performer in the regions with both new jobs and investment heading north.

Greater Brisbane

While significant job growth will underpin demand in the region over 2020 it will be another challenging year as lack of investor confidence and restrictions on finance hold back new investment.

Retirement and aged care buildings will continue to 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, Queens Wharf, Brisbane Live, the new Brisbane Airport runway and cruise ship port which will help to ensure Brisbane's long-term growth.



Source Master Builders & ABS

Gold Coast

The region continues to reset after what was a period of exceptional growth. This is expected to continue during the course of 2020.

There has been a big hit to demand with 18,000 jobs leaving the region over 2019. Other challenges include a lack of investor confidence, restrictions on finance and a shortage of land ready for development.

Still the Coast enjoys the state's highest population growth; a title shared with the Sunshine Coast.

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 flagship masterplan for The Spit.

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.

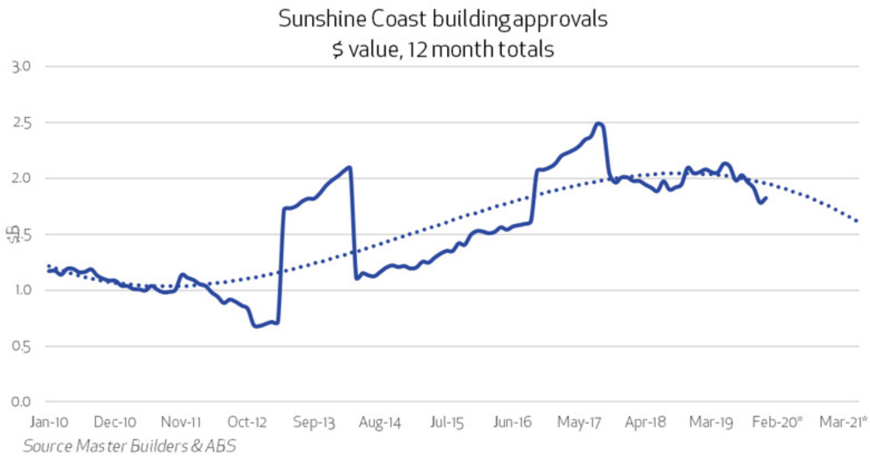
Source Master Builders & ABS

Sunshine Coast

In 2020 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.



Downs and Western

While the region, especially the city of Toowoomba, has a diverse economy and has been able to avoid the worst of the boom and bust cycles in the past, the continued drought is taking its toll.

There's been significant job losses in the region and the population growth is very low – 1 per cent per annum for Toowoomba and just 0.3 per cent for the Darling Downs.

Looking forward, there is reason to be optimistic with active investment in the region, including the now open Second Range Crossing, major solar investment including the $1 billion Bulli Creek solar farm, providing opportunities. Coal seam gas investment is expected to be stable but that could be bolstered by a number of projects in the planning stages. The most recent jobs data is also positive for the first time in a year.

Wide Bay Burnett

While the region has been enjoying strong growth, that's expected to moderate over 2020.

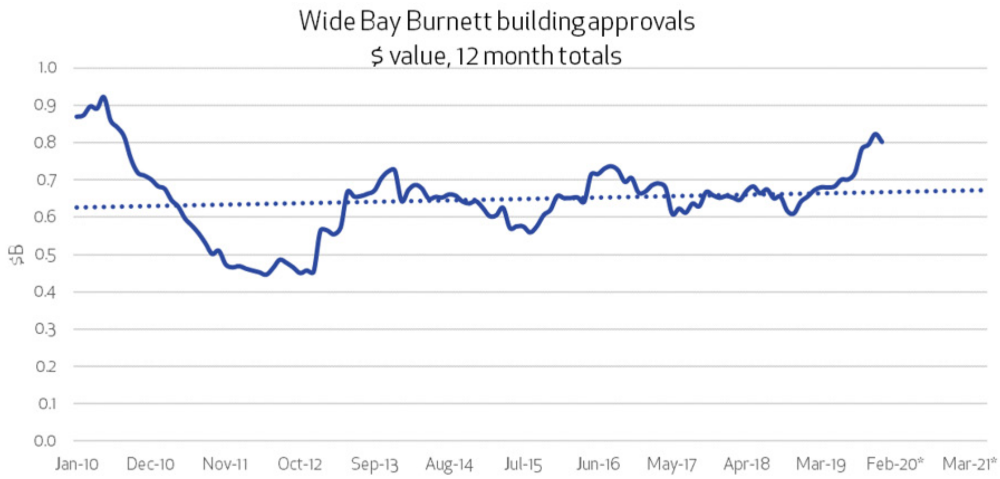
Although the region struggles with job losses and a below average population growth (0.8 per cent per year), there are opportunities with a significant planned investment in highway infrastructure to help the region along.

Bundaberg is set for its next wave of development with up to $4.2 billion worth of major projects in the pipeline and 2,900 new building lots ready to meet future housing demand.

Hervey Bay has benefited by a growing aged care and medical services sector, providing employment and some protection from the boom and bust of tourism. Housing approvals continue to be solid.

Maryborough is also beginning to find forward momentum, with new investment projects such as the Rheinmetall NIOA munitions factory set to start construction in 2020 bringing new jobs once operational.

North Burnett region, including Monto, Mundubbera and Gaydah, is likely to continue its solid construction pipeline off the back of a strong, diverse agriculture sector.



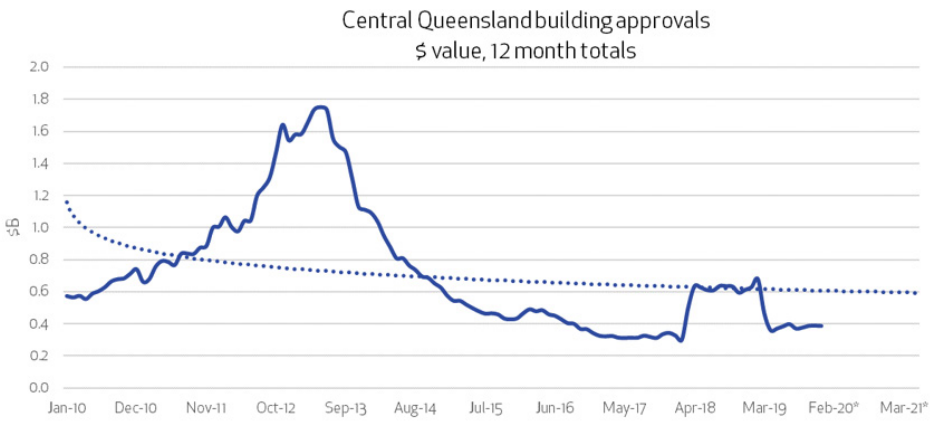
Source Master Builders & ABS

Central Queensland

The region will continue to struggle through the first half of 2020 but there's reason to be optimistic for the second half of the year.

There are a number of large-scale coal developments in the pipeline. 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 has meant a workforce shortfall, flowing through to population growth and new housing demand. First the existing oversupply and low valuations will need to be worked through before this results in a significant increase in work.



Source Master Builders & ABS

Mackay & Whitsunday

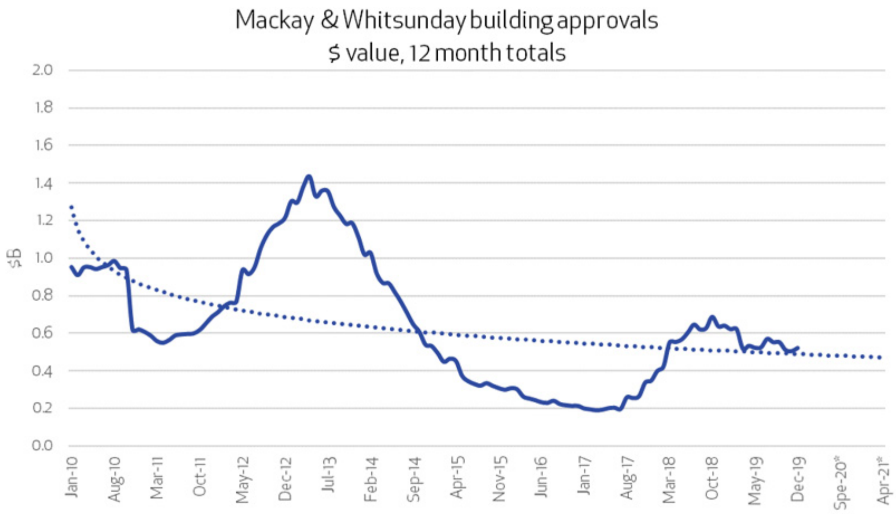
While the region did enjoy a period of return to growth, it began to falter towards the end of 2019. Still there is reason to have confidence for 2020 as the region continues to attract a significant proportion of the state's major project work.

Jobs growth continues to surge forward and unemployment (5.8 per cent) is amongst the lowest in the state.

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 is a low population growth (1.1 per cent per year) which could threaten the sustained growth in the region.



Source Master Builders & ABS

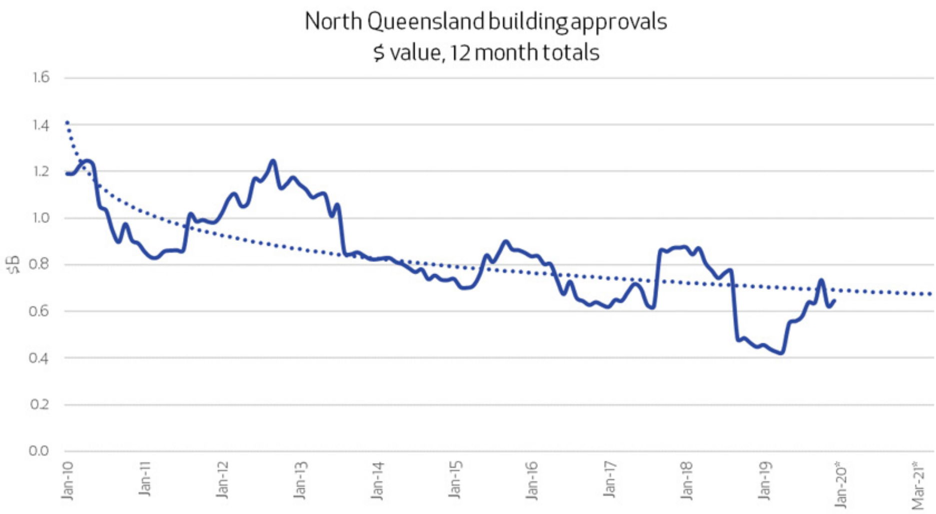
North Queensland

Work on Stadium Northern Australia has come to an end leaving a shortage of major project work. Holding up the industry is the continuing flood repair work, which is expected to last most of 2020, but there are few signs of new investment to replace this when it comes to an end.

This along with the economic hit the region endured with the flooding has led to unemployment jumping back up to 6.9 per cent for Townsville and 7.1 per cent for the greater Townsville region.

Headwinds also include restricted access to finance, an oversupply of cheap existing housing stock and a modest population growth, which for Townsville city is only 1.4 per cent per year and lower in the regions to the west.

However, a couple of major mining projects which are under consideration could be a game changer should they get underway.



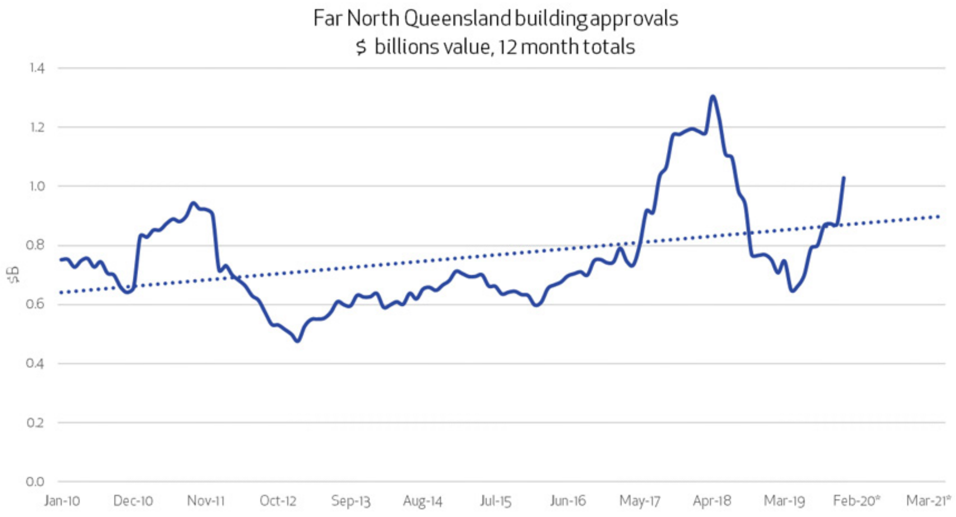
Source Master Builders & ABS

Far North Queensland

Far North Queensland will continue as the stand-out performer amongst the regions with both new jobs and investment heading north.

Cairns has enjoyed consistent jobs growth for over 12 months now.

The long-term prospects are also good with a number of major mining and tourism projects under construction or in the planning stages.



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