



The home of building

MASTER BUILDERS BUILDING INDUSTRY OUTLOOK 2016

Welcome to the 2016 edition of Master Builders Building industry outlook, a snapshot of the state of Queensland's building and construction industry.

CONTENTS

Foreword.....	1
Our industry today.....	2
The year ahead.....	5
Economic growth.....	5
Inflation & construction costs.....	6
Employment.....	6
Confidence.....	7
Investment.....	7
Population growth.....	8
Industry outlook 2016.....	10
Residential.....	10
Non-residential.....	11
Greater Brisbane.....	12
Gold Coast.....	14
Sunshine Coast.....	15
Toowoomba & Darling Downs.....	16
Wide Bay Burnett.....	17
Central Queensland.....	18
Mackay & Whitsunday.....	19
North Queensland.....	20
Far North Queensland.....	21
Opportunities & challenges for the year ahead.....	22

FOREWORD

Welcome to the 2016 edition of Master Builders *Building industry outlook*, a timely and comprehensive snapshot of the state of Queensland's building and construction industry, and an assessment of business sentiment and outlook for the medium term.

As Queensland's go-to 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.

We hope that you find this report an informative and useful resource and that it serves as a valuable tool in navigating the challenges and seeking out the opportunities that our industry is currently experiencing.



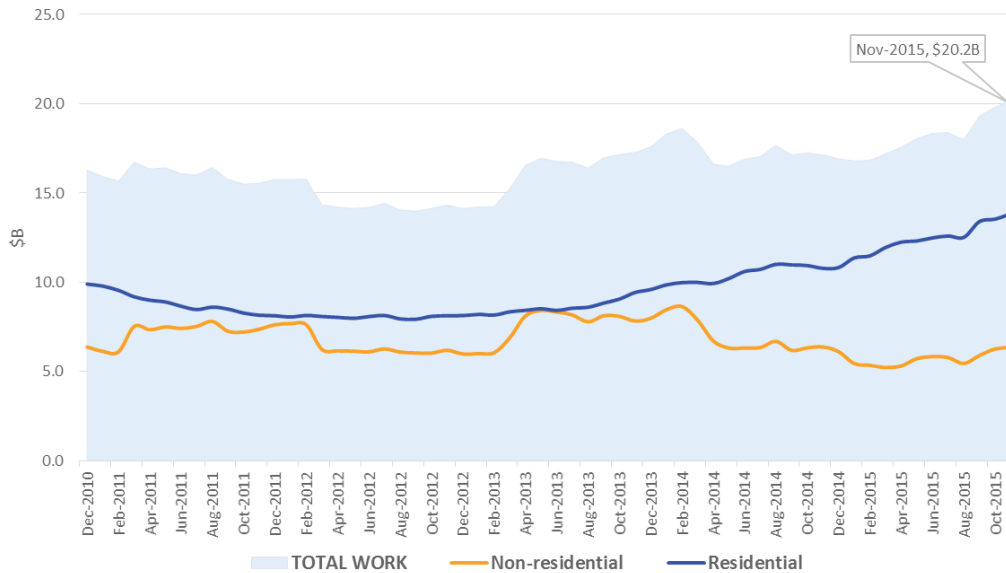
Paul Bidwell
Deputy Executive Director
Master Builders

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OUR INDUSTRY TODAY

The headline numbers show an industry that is booming with record levels of building approvals.

**\$ value of building approvals: Queensland
12 month rolling total**

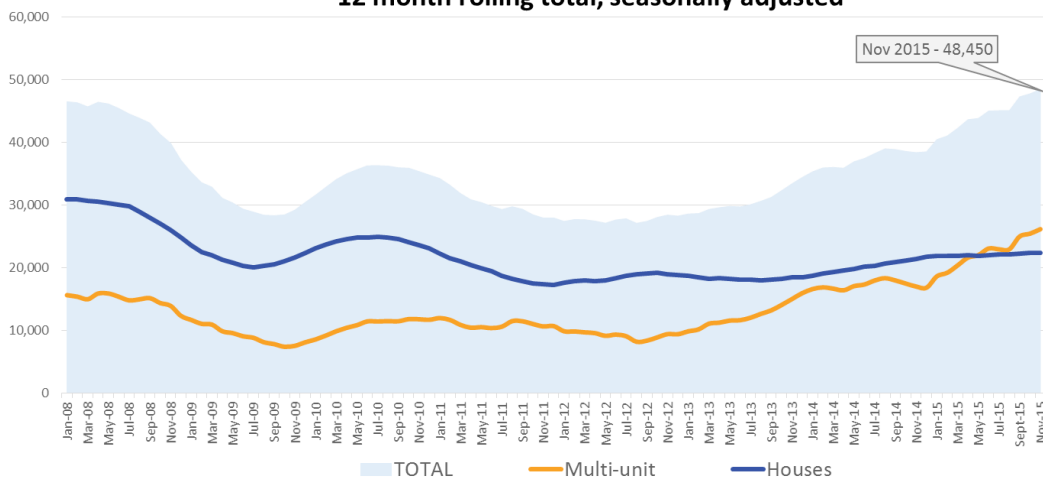


Source: Master Builders & ABS

The total number of dwelling approvals are at an all-time high. For the 12 months to November 2015 there were 48,450 approvals. That is 26.3 per cent up on the previous 12 months and the third consecutive year of growth.

The lion's share of these approvals are multi-unit developments, up 53.9 per cent year on year. For the first time in history approvals for multi-units exceed detached housing.

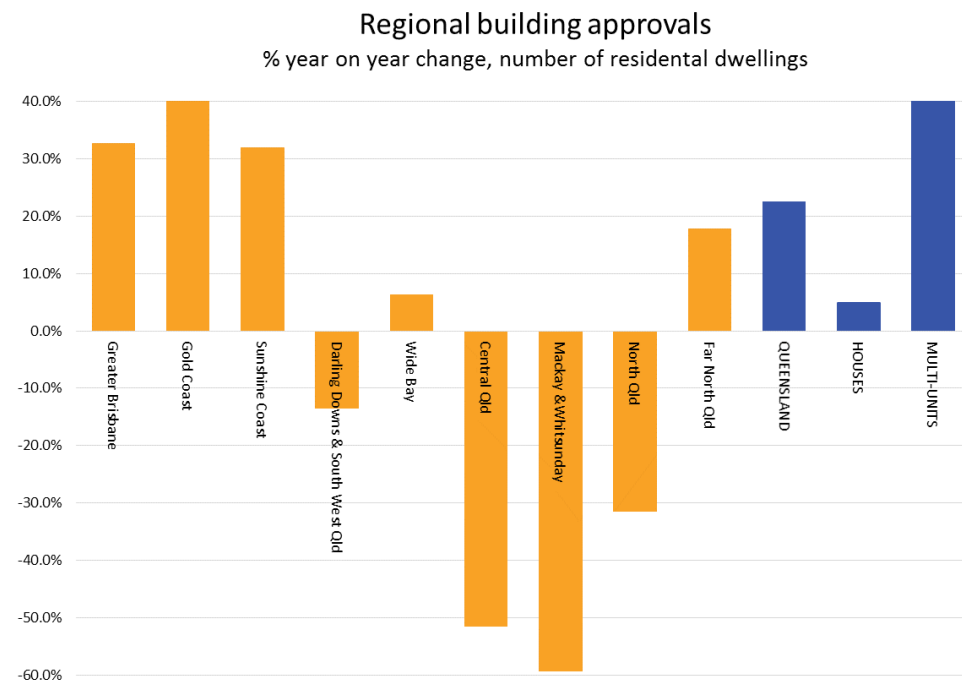
**Queensland dwelling approvals
12 month rolling total, seasonally adjusted**



Source Master Builders & ABS

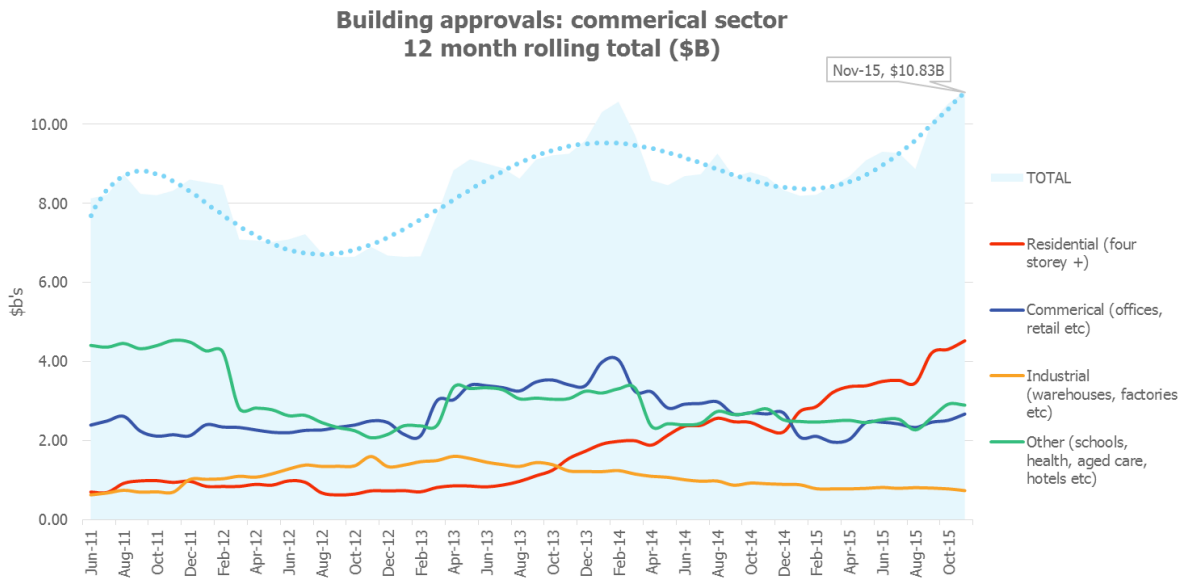
But look beneath the headlines and there is more to the story.

There is great disparity across the regions. Growth for the most part is concentrated in south-east Queensland. Central Queensland and Mackay & Whitsunday continue to struggle with little or no demand. Townsville and Toowoomba/Darling Downs are struggling and Wide Bay Burnett is only beginning to record modest gains. Far North Queensland is the one strong performer in the regions.



Source ABS & Master Builders

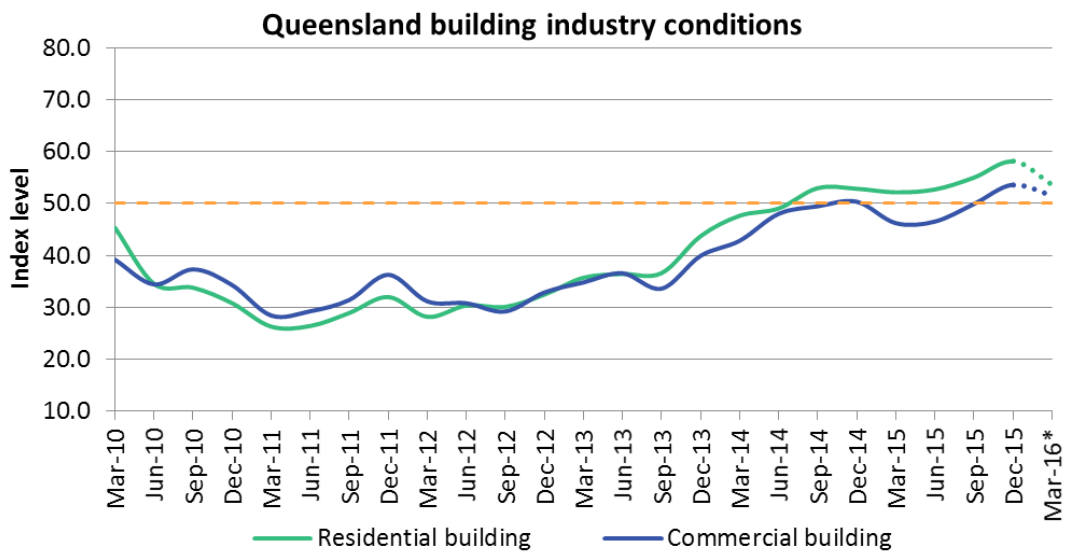
The commercial sector is only performing well to the extent that they are delivering large residential blocks. In 2014-15 public sector investment in non-residential buildings (schools, hospitals etc.) was nearly half the previous year. Down by nearly \$1 billion. Businesses are also failing to grow their investment in new warehouses, factories and offices.



Source Master Builders and ABS

The lack of demand has meant that the competition for the limited pool of available work remains strong, with businesses holding profit margins to razor thin levels in order to win contracts. The pressure this puts on contractors is not sustainable.

The mixed conditions are reflected in industry sentiment which, while improving are only just within positive territory.



Source: Master Builders

*Forecast

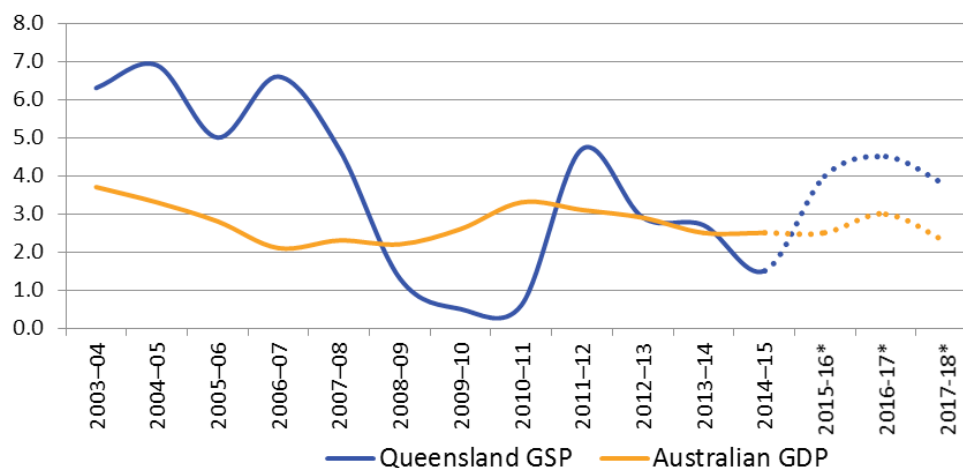
THE YEAR AHEAD

Economic growth

Globally the outlook for growth in the US economy is moderate, while Australia's Asian trading partners, especially China have been weaker than expected. The Australian economy is continuing to shift away from mining investment and growth is expected to continue at a modest 2-3 per cent.

Queensland economy continues to grow at a subdued rate – being hard hit by the slowdown in resource sector investment. The outlook though is good with the Queensland government forecasting a significant upturn on the back of LNG exports. Deloitte Access Economics predicts that Queensland will be the stand out performer as it “reaps the rewards of a rising Chinese middle class”. A low Australian dollar and record low interest rates is particularly good news for Queensland tourism, manufacturing and agriculture.

**Queensland GSP and Australian GDP
(annual % change)**



Source: Master Builders, Qld Govt, RBA & ABS

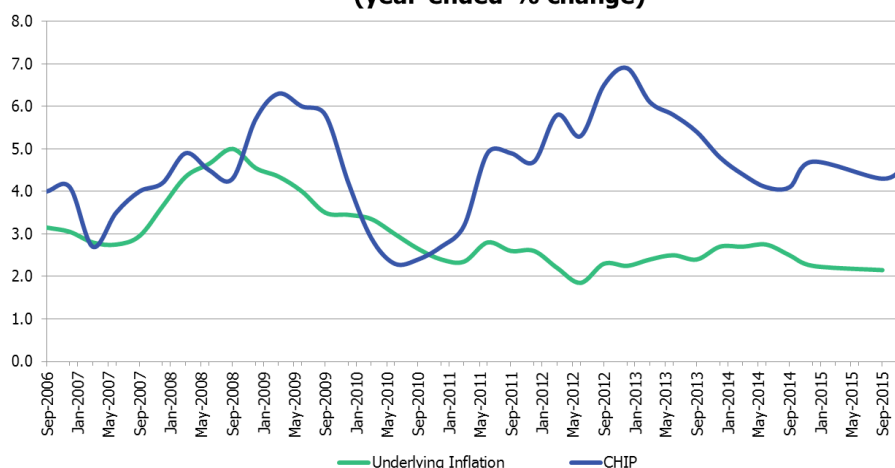
Inflation & construction costs

Inflation remains at the bottom of the RBA's target range of 2-3 per cent and there are no signs of movement anytime soon.

Queensland residential construction costs have been growing at a rate much faster than inflation. The Cordell Housing Index Price (CHIP Report) reports that the cost of residential building work has risen by 4.6 per cent over the year. As demand strengthens this is expected to continue.

While the commercial sector has also been subjected to similar cost increases, especially with respect to materials, it is not expected, in light of the continued weak demand, that this will be reflected in higher contract prices for at least the next 12 months.

Inflation - Australia and Housing Construction (year-ended % change)

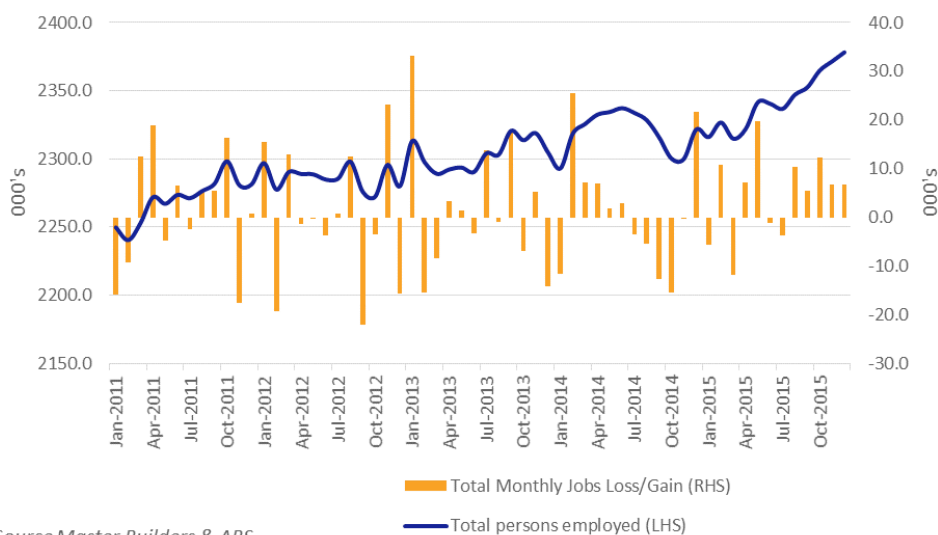


Source: Master Builders, ABS and Cordell

Employment

Helping along demand, especially for owner occupied housing, is Queensland's improved employment. Jobs are being created - 56,600 over the past 12 months. As a result the unemployment rate has been trending down and at 5.8 per cent (seasonally adjusted) is now at the lowest it has been in two years.

Queensland employment



Source Master Builders & ABS

There are still lower levels of wage growth, stifling demand for new construction. With continued spare capacity in the labour market it will be some time before this begins to turn around.

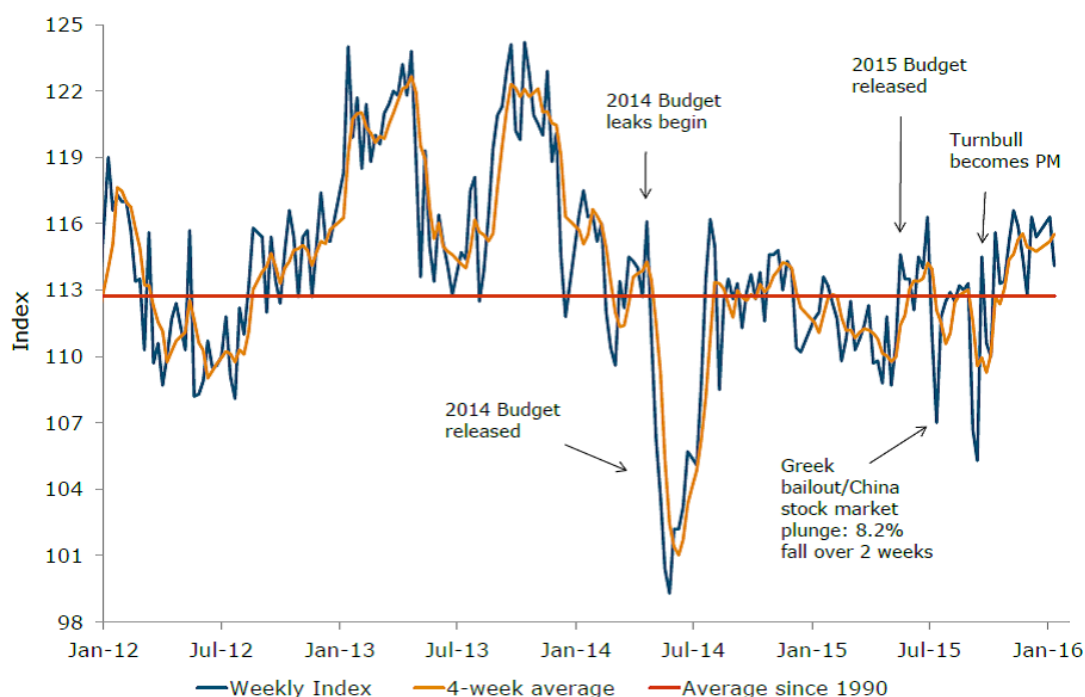
In terms of construction employment, the residential and commercial sectors have seen a growth while there has been a drop overall due to the loss of construction jobs in the mining sector. Reports of shortages of specific trades within the growth areas are emerging. This will only get worse as building activity increases.

Confidence

Meaningful improvement in building activity and industry conditions will require a sustained improvement in consumer and business confidence.

While swinging widely in response to specific events, consumer sentiment appears to be trending around the long-term average. The ANZ-Roy Morgan Consumer Confidence Survey reports that consumers were feeling more confident in their household finances but recent volatility on the financial markets has rattled that confidence to some extent. Improved employment prospects should help improve confidence going forward.

ANZ-Roy Morgan consumer confidence levels



Source: ANZ-Roy Morgan

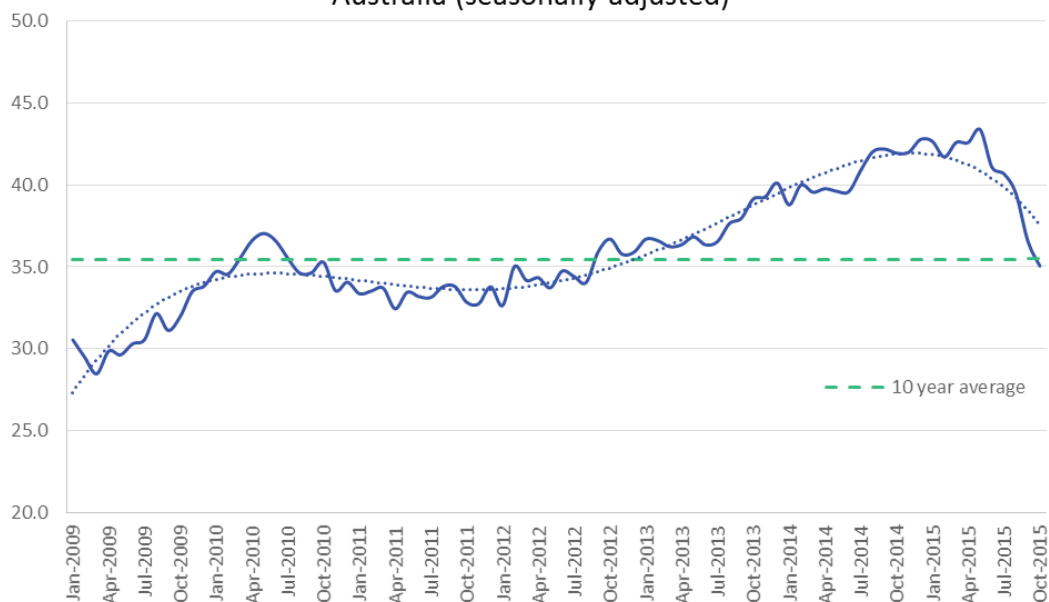
Business confidence remains flat and many businesses still lack the confidence to make substantial capital investments.

Investment

In the commercial sector, business investment is crucial for demand. While mining investment has fallen away dramatically, there has been little change in non-mining investment over the year. This is in spite of what the National Australia Bank regards as 'persistently strong' business conditions. Public spending is also expected to remain subdued with modest investment intentions from both the federal and state governments.

While housing for investment purposes has been the big story, increased regulatory controls and interest rate rises have served to put a damper on this. The proportion of housing finance that is for investment purposes has dropped back to the long-term average and now sits at 34.7 per cent (ABS). It is likely that this understates the amount of housing for investment, as it does not fully capture the significant amount of foreign investment in new construction (where there is no lender finance) that is driving the markets in the major capital cities, including Brisbane. There is reason to believe that as the Sydney and Melbourne markets reach their peak investors will look to new opportunities in Queensland, particularly in the south-east.

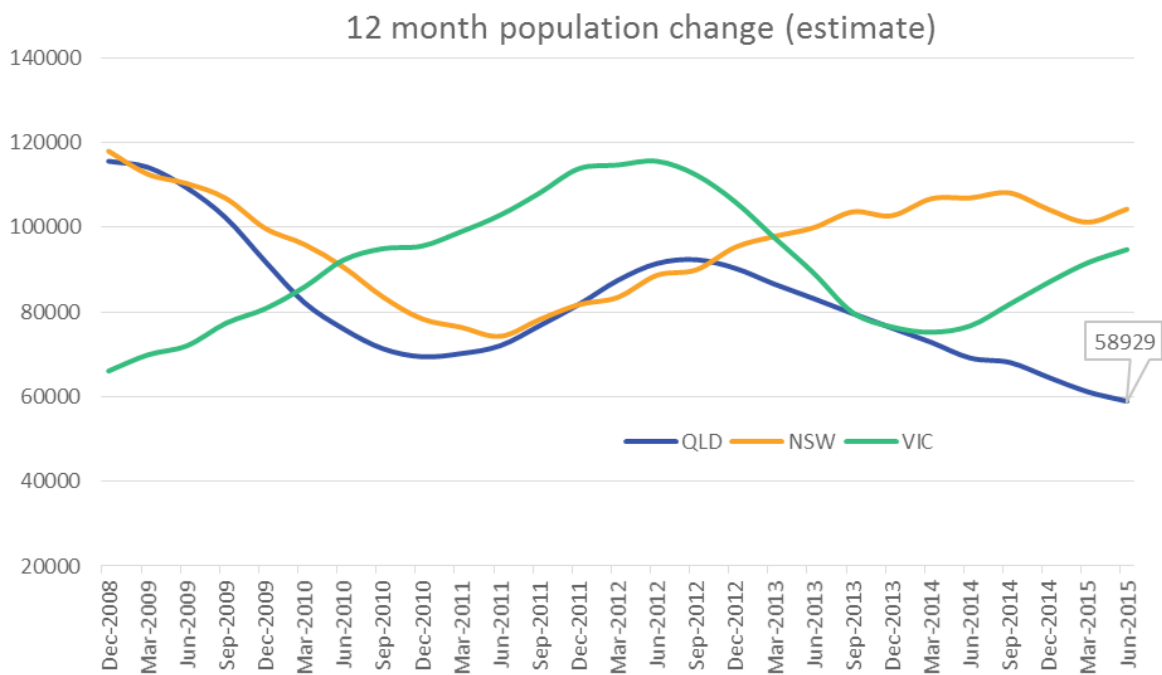
Percentage of Housing Finance for investment purposes:
Australia (seasonally adjusted)



Source Master Builders & ABS

Population growth

While Queensland's population continues to grow, it is not at the rate experienced in past years. There are expectations that Queensland's population growth will pick up once again as the house price gap rises with respect to the southern states and economic and employment growth returns.



Source Master Builders & ABS

Looking forward, Queensland's population growth is projected to continue at 2.0 per cent per annum. A rate which, while slightly lower than has been experienced historically, would result in approximately 40,000 new households each year.

INDUSTRY OUTLOOK 2016

Residential

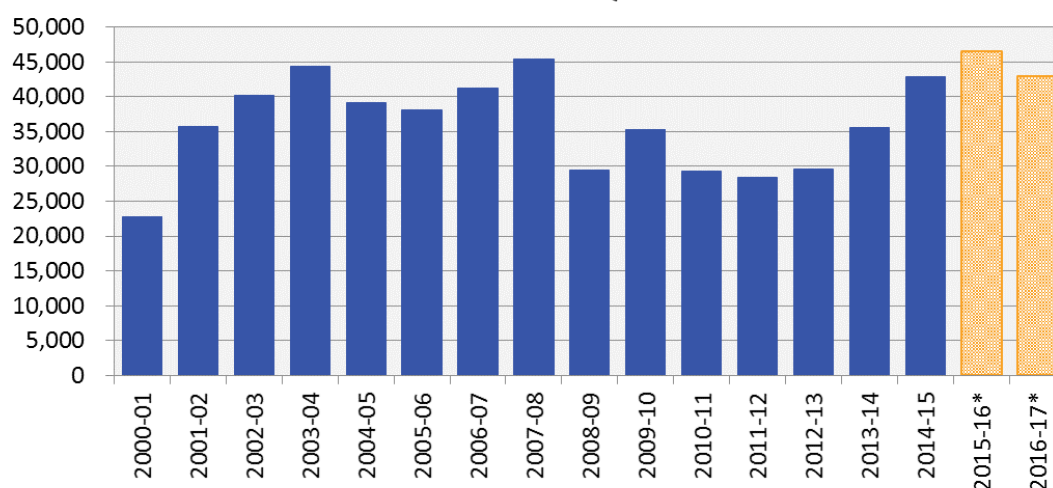
Looking forward, the prospects for the residential sector over the next 12 to 24 months are strong.

Low interest rates will continue to help stimulate demand and jobs are being created. Consumer confidence has improved and there is the prospect of economic growth ramping up once more. While income and population growth is subdued, this is expected to improve. Continued house price growth and low interest rates will help to attract both owner occupiers and investors into the market.

Master Builders forecasts 46,000 dwelling unit commencements in 2015–16, which equates to a rise of 6.1 per cent on the 43,357 starts in 2014–15. In 2016–17 we estimate dwelling unit commencements will begin to level off, returning to 43,000 starts.

The growth will spread further into the regions and across housing types, particularly detached houses. Owner occupiers will increasingly move into the market, while investors will become more cautious. High-rise residential developments in south-east Queensland will continue to be a strong performer as the large number of projects approved in 2015 move into the construction stage.

**New dwelling unit commencements
& forecast: Queensland**



*Forecast

Source: ABS & Master Builders

As with last year, renovation activity will remain solid. The high cost of buying a new home (stamp duty, agent commission, legal fees, etc) 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.

Unfortunately, affordability will remain an ongoing problem for the industry over the longer term. This is despite the fact that it has improved slightly over the past 12 months thanks to lower mortgage rates. Supply constraints such as those imposed by planning laws will compound affordability problems as will the significant 'on-costs' of government taxes and charges. Material and labour costs are also expected to continue to rise at a rate faster than inflation as demand picks up.

Non-residential

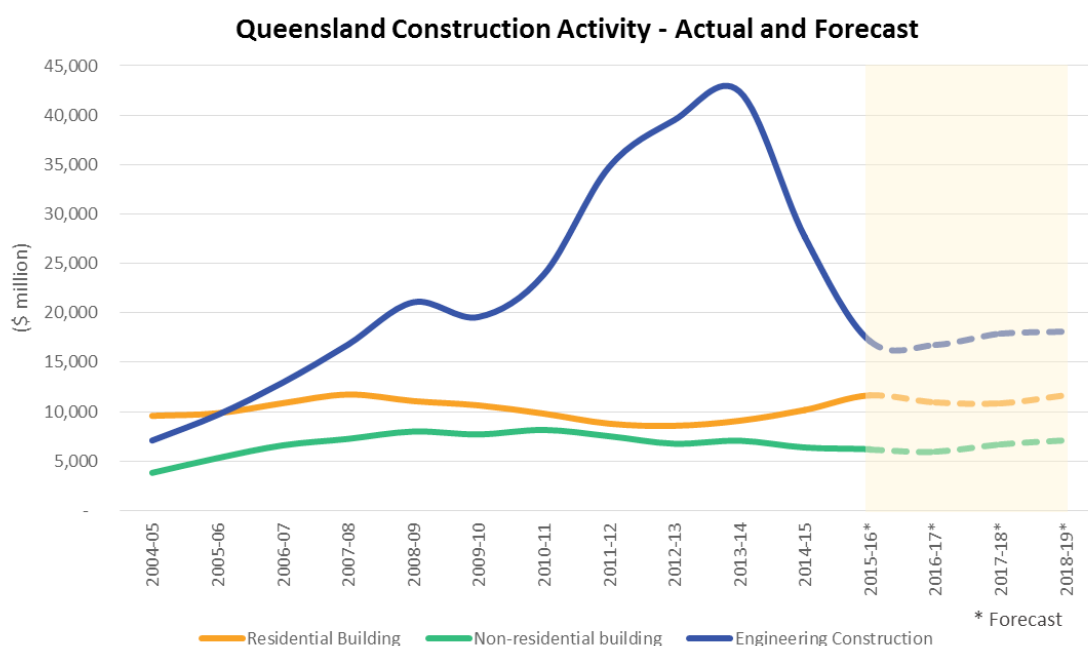
The ongoing weakness in private and public sector investment is the biggest issue for non-residential demand and there are few signs of this turning around. Many businesses are likely to remain hesitant to expend capital on non-essential assets until there is a clear and sustained improvement in the economic outlook.

The forecast is that 2015-16 will remain flat for non-residential construction.

Looking to the non-residential construction segments, there are few winners in 2016. There are a number of major retail projects coming to an end with no clear pipeline of new work. The office market continues to be over-supplied and the industrial segment will remain flat.

The tourism industry is experiencing an upturn and it is anticipated that this will gradually flow through to new investment in tourism infrastructure, though not in the short term. Over the next 12 months the health and aged-care segment will continue to benefit from demand due to an aging population and Queensland government investment in hospital infrastructure. For the longer term there will be a decline in public capital works funding in this area and the funding that is available will be focused on smaller regional projects.

The bulk of construction activity will continue to be in the engineering sector, despite this segment falling significantly. Going forward the sector will be more about 'traditional' engineering - the pipes, roads and earthworks needed for new residential communities and less about large LNG projects.



Source: Master Builders Australia

Greater Brisbane

Healthy jobs growth and a below average unemployment rate of 6.1%.

Moderate population growth of 1.9% per year in the region as a whole. Ipswich is expected to grow at a much faster rate of 3.7% per year.

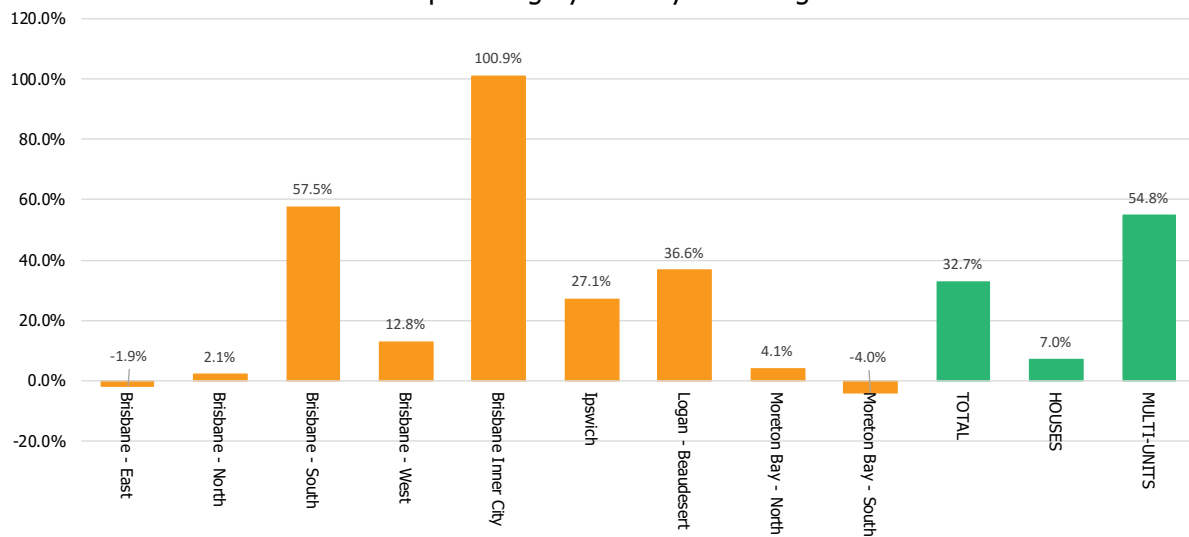
A younger population than the Queensland average, with 29.9% aged between 25 and 44. Nearly a quarter of Greater Brisbane residents were born overseas.

The average mortgage repayment is \$1,950 a month. \$100 more than the Queensland average.

Source: ABS & Queensland Government Statistician

Brisbane has been the focus of growth in multi-unit residential, securing two thirds of all multi-unit approvals for the state. Development is predominantly occurring in the inner Brisbane suburbs and is investor driven. Strong approvals in 2015 will translate to work on the ground in 2016.

Greater Brisbane - residential building approvals
percentage year on year change

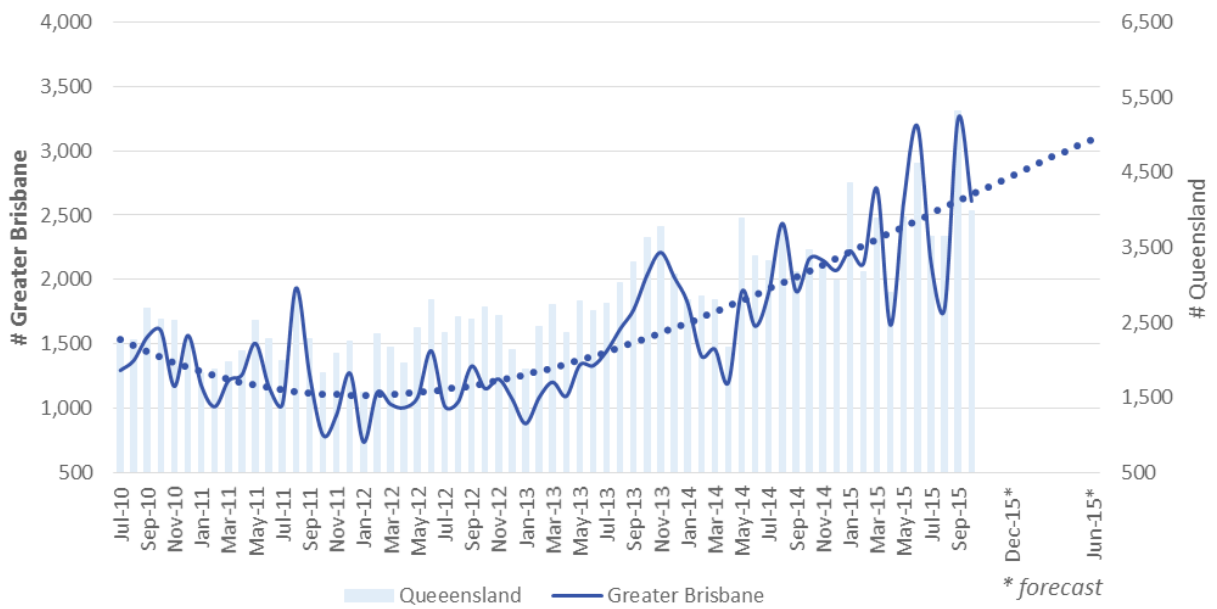


Source ABS & Master Builders

There appears to be a structural shift in demand taking place and no sign of the growth in inner-city apartment living abating just yet. Major projects such as Queens Wharf should further swell demand.

Approvals for detached houses have been healthy and will continue to be a strong area of growth for the region. Growth in this segment will be underpinned by the strong population growth and infrastructure investment underway in the Ipswich and Logan areas.

New dwellings approved & forecast Greater Brisbane (Source ABS and Master Builders)



Gold Coast

Healthy employment growth and an unemployment rate (5.8%) well below the state average.
 Moderate population growth of 1.9% per year.
 A mobile population with nearly half of the Gold Coast population having moved house in the last five years. One third are paying off their own home.
 Average mortgage repayment of \$2,075 a month. \$200 more than the Queensland average.
 Average sale price of a detached house is \$540,000 and an attached dwelling is \$365,000.
 Average cost of a new house is \$455,500 and vacant land \$232,000.

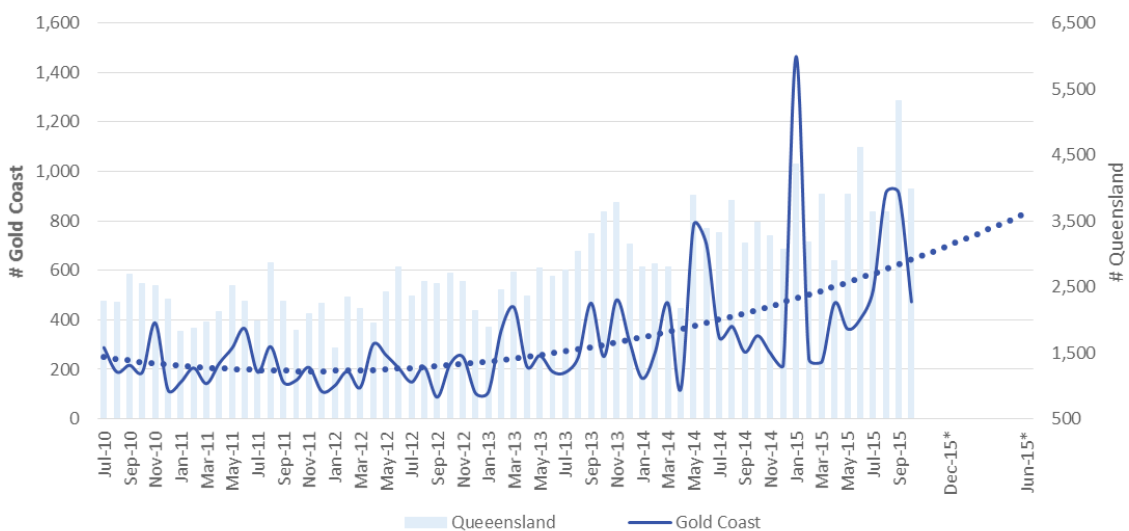
Source: ABS & Queensland Government Statistician

The Gold Coast has been the standout performer of 2015 and this is expected to continue. While its growth has been led, like Brisbane, by investor driven multi-unit developments, it is coming off a low base and is underpinned by employment growth. There is reason to believe that the city will further benefit from investor-led growth as it becomes a more viable proposition against Sydney and Melbourne’s rising prices.

The city is also benefiting from large scale infrastructure projects which will continue as the venue development for the 2018 Commonwealth Games moves into full stride and the second stage of the light rail network gets underway.

As 2015 draws to a close there are a large number of significant residential tower blocks in the pipeline and no evidence of a waning in confidence just yet.

New dwellings approved & forecast
Gold Coast (Source ABS and Master Builders)



Sunshine Coast

Unemployment is in line with the state average at 6.3%.

Below average population growth of 1.7% per year, largely due the very slow rate of growth expected in Noosa (1.1%).

An older population than the Queensland average, with one in five residents 65 years or older. Sunshine Coast residents are also more likely to have paid off their home (33.8%).

Average mortgage repayments (Noosa \$1,784 and Sunshine Coast LGA \$1,882) are in line with the state average.

Average price of a home in Noosa is \$550,000 and \$500,000 on the Sunshine Coast. By comparison a new house on average will cost \$480,000 in Noosa and \$457,660 in the Sunshine Coast.

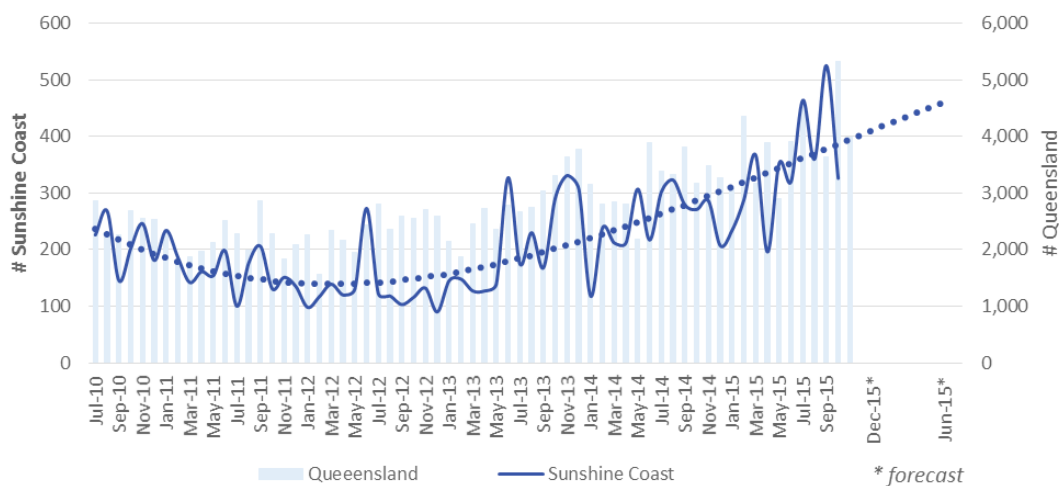
Source: ABS & Queensland Government Statistician

The Sunshine Coast Local Government Area benefits from significant capital investment and a regional Council who understands the importance of the right type of development.

The \$1.8 billion Sunshine Coast University Hospital is the latest addition to a thriving health and aged care sector that has been a stabilising factor for the local economy, attracting big business to the Coast and breaking the traditional boom bust cycle. Aura, a \$5 billion, three-decade long project being delivered by Stockland in Caloundra will become home to 50,000 people or a city the size of Gladstone. Planning is also underway for the Sunshine Coast Airport Expansion and Maroochydore CBD.

The Sunshine Coast residential sector will be one of the stand out performers over the next 12 months. While the local commercial sector will lag, there will be opportunities as projects related to the hospital get underway (hotel, accommodation and medical buildings) and the new Maroochydore city centre is developed.

New dwellings approved & forecast Sunshine Coast *(Source ABS and Master Builders)*



Toowoomba & Darling Downs

Healthy employment growth and an unemployment rate (5.8%) below the state average.

Below average population growth rate of 1.3% per year for the region as a whole. The neighbouring Lockyer Valley is expecting a much stronger rate of growth at 2.2%.

The population is aging rapidly with the average age increasing by two years over the past 10 years to 38 years.

The average mortgage repayment in Toowoomba is \$1,517 a month. \$300 less than the Queensland average.

The average price of a detached dwelling is \$355,000 and an attached dwelling \$305,000.

Average new house price in Toowoomba is \$379,000 and vacant land is \$170,000.

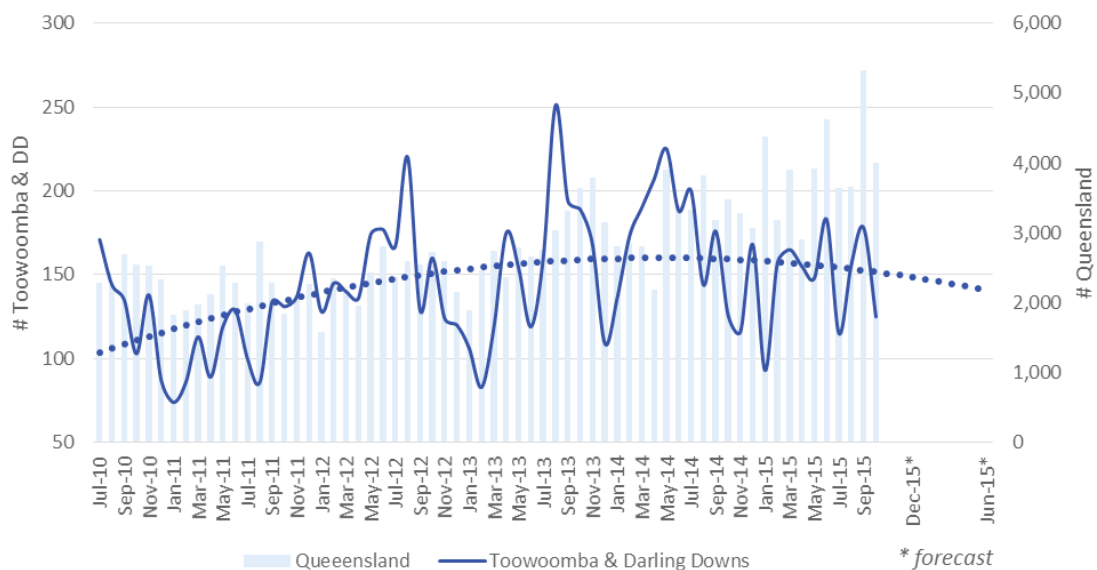
Source: Queensland Government Statistician

While the region, especially the city of Toowoomba, has a diverse economy and is a major employment hub it has been hard hit by the ongoing mining downturn and the drought.

While in the short-term the region will struggle, there are long-term opportunities to significantly grow the region's economy. The long-awaited Second Range crossing is finally underway, the new Brisbane West Wellcamp Airport is opened for business and the Grand Central shopping centre redevelopment is underway.

New dwellings approved & forecast Toowoomba & Darling Downs

(Source ABS and Master Builders)



Wide Bay Burnett

An unemployment rate of 4.6 per cent that is well below the state average.

Below average population growth rate of 1.3 % per year for the region as a whole. The Fraser Coast, Maryborough and Harvey Bay, have a slightly higher rate of 1.6 %.

An older population with an average age of 44.7 years, one of the highest in state. The largest household type is couples without children (47.5 %), well above the state average.

The average mortgage repayment in Bundaberg is \$1,350. \$500 less than the Queensland average. There is a high rate of home ownership in the region with 38.6 % owning their home outright.

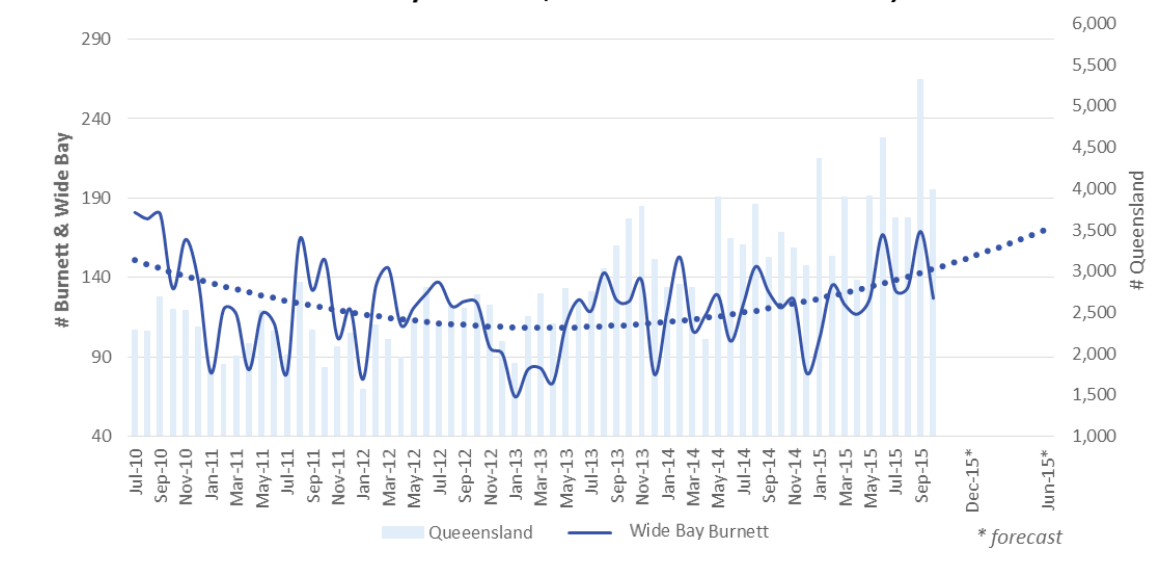
Average price of a home in Bundaberg is \$285,000 and the Fraser Coast \$300,000. A new house will cost on average \$385,000 in Bundaberg and \$329,958 on the Fraser Coast.

Source: ABS & Queensland Government Statistician

The Wide Bay Burnett region is starting to feel some of the benefits of the boom currently going on in its neighbour to the south, Sunshine Coast. The area is increasingly attractive to those seeking a sea change and to fly-in-fly-out workers. A previous oversupply of housing has now been absorbed and the region is moving forward again.

Bundaberg is a city with a proactive Council, ready to support and develop the economy. The state government is looking at ways to expand the Port of Bundaberg to build it into an economic hub for the region. Harvey Bay is enjoying a boost from the growth in tourism but remains a one-dimensional economy. Maryborough continues to struggle to find any kind of forward momentum. Gympie is similarly flat.

New dwellings approved & forecast
Wide Bay Burnett (Source ABS and Master Builders)



Central Queensland

A relatively high unemployment rate at 7.6% across the region. Gladstone is lower at 5.4% while job seekers in Rockhampton struggle (8.4%).

Above average population growth of 2.0% per year is expected with Gladstone even higher (2.9%).

A young population with a median age (35.3 years) that is below the Queensland average.

Average mortgage repayment for Gladstone is \$2,000. \$150 above the state average. Rockhampton (\$1,595) is \$250 below the state average.

Average price of a home in Gladstone is \$370,000 and Rockhampton \$299,000. A new house will cost on average \$425,000 in Gladstone and \$350,000 in Rockhampton.

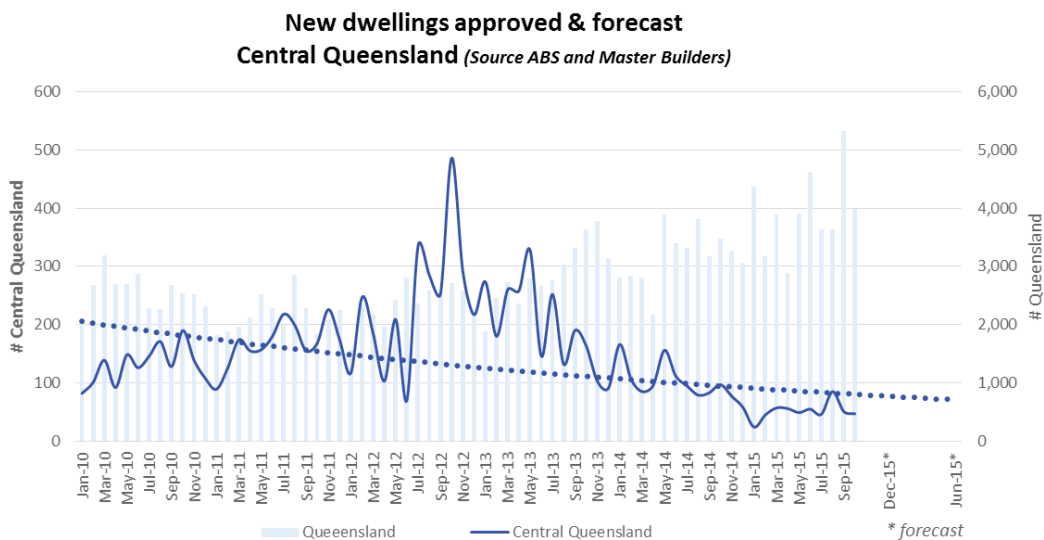
Source: ABS & Queensland Government Statistician

Central Queensland is poised to begin a slow comeback following the struggle with the after effects of the mining investment boom. Strong economic fundamentals are bringing people to the region. Low unemployment and a steady population growth are good news for housing demand.

While the oversupply of housing in Gladstone and Rockhampton will continue to keep the cost of new housing unviable in many cases, other sectors of the economy, such as tourism, will help to generate new demand.

The Capricorn Integrated Resort north of Yeppoon is one such project on the horizon. If it gets underway it will bring 8,500 construction jobs to the region and see \$600 million invested in a 300 room five-star resort and 8,000 dwelling community. The redevelopment of Great Keppel Island Resort has been given approval to proceed but still seeks funding.

Redevelopment of the Yeppoon foreshore is underway as is the Fitzroy Riverbank beautification. Several high rise unit developments are being proposed in Rockhampton on the riverbank. The completion of the Yeppen Flood Plain Bridge to alleviate flooding problems will see improved access during wet weather events.



Mackay & Whitsunday

Unemployment in the region is high at 7.8%.

Above average population growth of 2.0% per year, with most expected to go to Mackay (2.2%).

A young population with a median age (35.4 years) that is below the Queensland average.

Average mortgage repayments in Mackay (\$2,167) are well above the state average, while the Whitsundays (\$1,768) are more affordable.

Average price of a home in Mackay is \$372,000 and the Whitsundays \$363,000. A new house will cost on average \$409,530 in Mackay and \$429,000 in the Whitsundays.

Source: ABS & Queensland Government Statistician

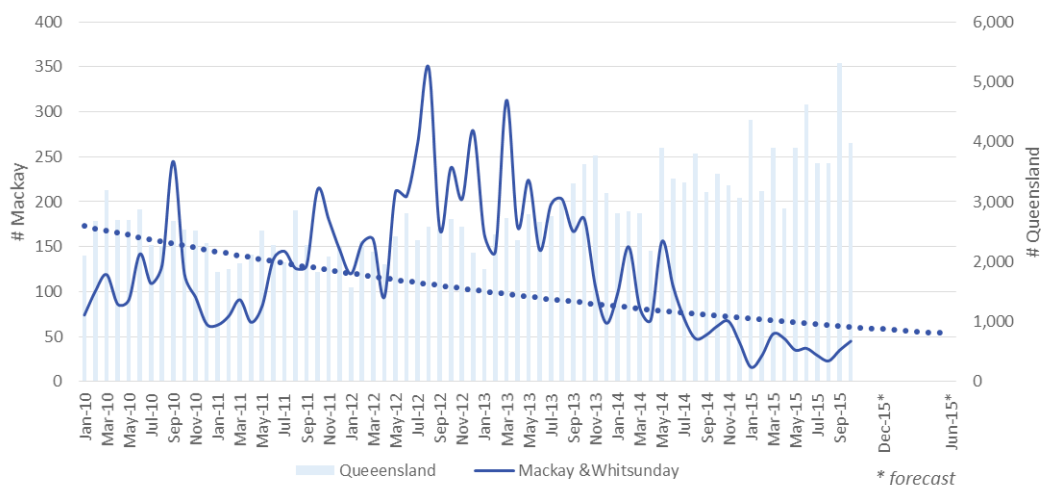
The Mackay region continues to struggle with the decline in mining investment and is currently recording building approval figures that are the lowest that they have ever been. The massive construction of investment housing during the high demand of 2012 has left an oversupply that continues to make it unviable to develop new housing in many cases.

Looking forward there are still a number of significant resource projects planned for the region and the tourism sector is enjoying strong growth. If it goes ahead the Lindeman Great Barrier Reef Resort Project will invest \$600 million in the region on the upgrade of the 335 room resort. The new Shute Harbour Marina and Dent Island Golf Course Resort will also bring construction work and economic growth to the region.

Off the back of these projects Mackay is projected to enjoy a healthy population growth which will help to revive the construction sector.

Mackay has come through the worst and will begin to stabilise during 2016.

New dwellings approved & forecast
Mackay & Whitsunday (Source ABS and Master Builders)



North Queensland

Unemployment is high at 7.4%. Townsville city unemployment is 8.2%.

Reasonable population growth is expected in Townsville city at 2.1% per year but below average growth in the regions to the west.

A young population. The median age in Townsville is more than three years younger than the Queensland average.

Average mortgage repayments in Townsville (\$1,860) is in line with the state average.

Average house price in Townsville is \$355,000, while a new house is \$407,800.

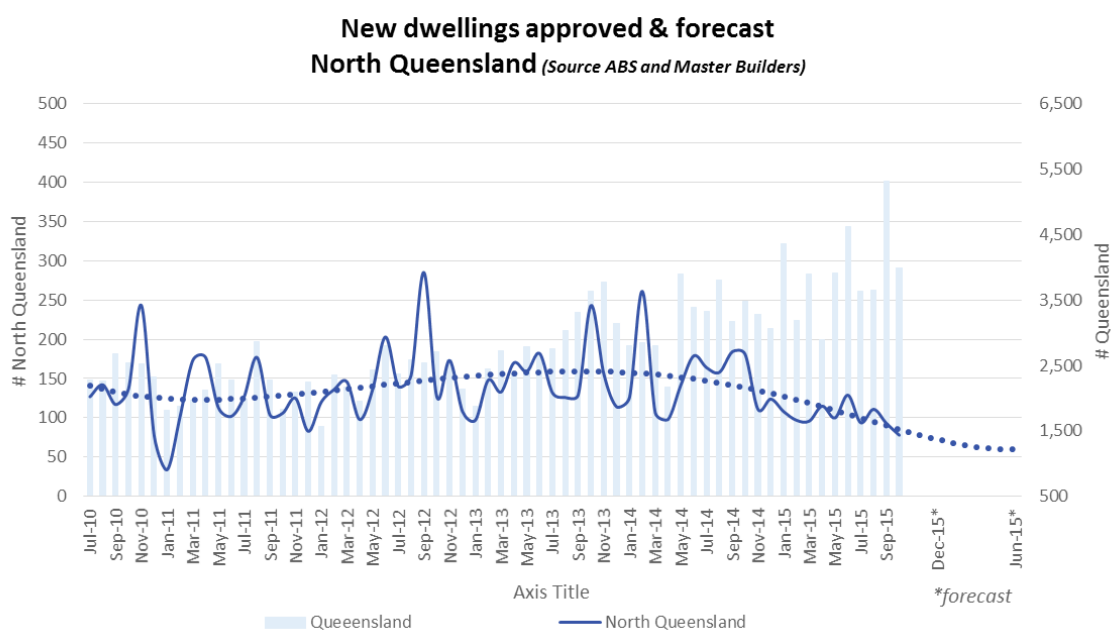
Attached dwellings sell for \$293,000 on average and vacant land \$160,000.

Source: ABS & Queensland Government Statistician

Townsville has struggled with the investment mining downturn and reduced government spending which has left high unemployment and muted demand. The west of the region continues to battle the effects of drought.

There are no signs that this will turn around in the coming 12 months.

In the longer term, confidence could be bolstered with the development of the Waterfront Priority Development Area adjacent to the CBD, and if funded, the Stadium Northern Australia – the ‘super stadium’. The Townsville Port Expansion, if approved, would be a significant shot in the arm for the economy with a \$1.49 billion investment and 139 construction jobs created.



Far North Queensland

Unemployment is high at 7.6% across the region and 7.1% in Cairns itself.

Below average population growth of 1.4% per year for the region but the rate of growth expected for Cairns is closer to the state average at 1.7%.

Average mortgage repayments in Cairns are \$1,729, just under the state average.

Average price of a new house in Cairns is \$415,000, while existing houses sell on average for \$395,000.

Average price of a vacant block of land is \$205,000.

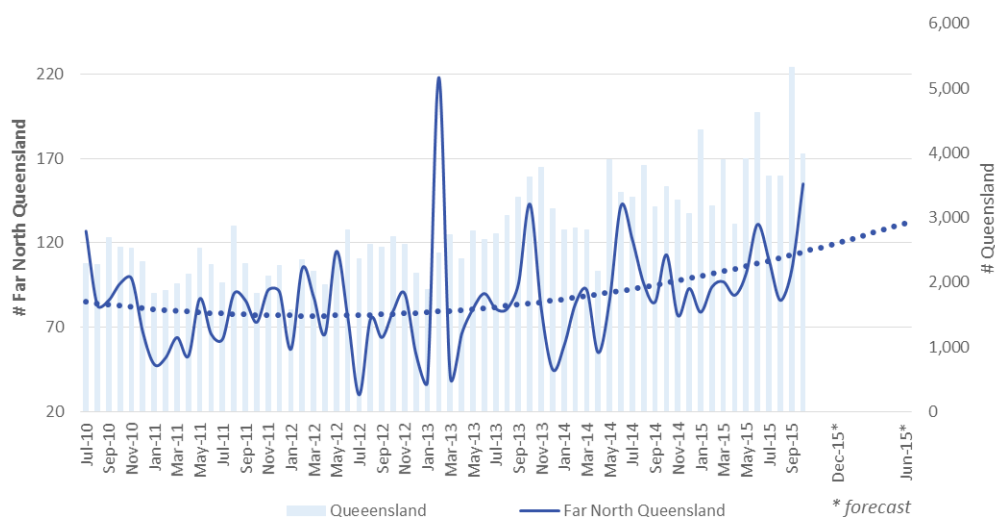
Source: ABS & Queensland Government Statistician

The building and construction industry in Cairns has strengthened over the past 12 months and this is set to continue as the tourism sector improves and major infrastructure projects get underway stimulating growth.

Driving demand in the region is the Cairns Aquarium, Aspiat Corporation's Central Park development, the Etheridge Integrated Agricultural project, the upgrade of Cairns airport, expansion of the Port of Cairns, the ongoing Cairns Base Hospital re-development and numerous energy and mining sector projects.

However, it is the \$8.15 billion Aquis Great Barrier Reef Resort that will be the real game changer if it goes ahead as planned. The completed resort will be of a scale not seen before in Australia and would become the largest tourist destination in the Asia-Pacific region and the largest private construction project in regional Australia. It will consist of eight new hotels, convention and exhibition centre, casino, two theatres, Indigenous cultural centre, one of the world's largest aquariums, golf course, shops and restaurants. It is expected to provide 3,750 jobs at peak construction and then have an operational workforce of 20,000, driving the construction industry in the region for years to come.

New dwellings approved & forecast
Far North Queensland (Source ABS and Master Builders)



OPPORTUNITIES & CHALLENGES FOR THE YEAR AHEAD

In summary, the outlook for the Queensland building and construction industry is for another year of growth. Different segments of the industry will continue to perform better than others, but growth will slowly spread as the year progresses.

Important to maintaining this growth will be continued improvement of employment and economic growth. It is this stability that will underpin consumer and business confidence and the confidence to invest in new construction.

It is important that we do not take growth for granted as there will continue to be many challenges for the industry to overcome. In response to these challenges, in 2016 Master Builders will focus on addressing six key areas:

- Stimulate broad-based demand for new construction
- Improve the affordability and quality of new construction
- Better manage construction risk
- Build a collaborative approach to industrial relations
- Promote workplace health and safety leadership
- Modernise the training and apprenticeship system



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MASTER BUILDERS HEAD OFFICE

417 Wickham Terrace, Brisbane Queensland 4000
p 3225 6444 | f 3225 6545 | e ask@mbqld.com.au

mbqld.com.au