


BUILDING INDUSTRY OUTLOOK 2018



Welcome to the 2018 edition of Master Builders' Building industry outlook, a snapshot of the state of Queensland's building and construction industry.



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Foreword

Welcome to the 2018 edition of Master Builders' Building industry outlook, a timely and comprehensive snapshot of the state of Queensland's building and construction industry: an assessment of business sentiment and outlook for the medium term.

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.

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.



Grant Galvin

CEO

Master Builders Queensland

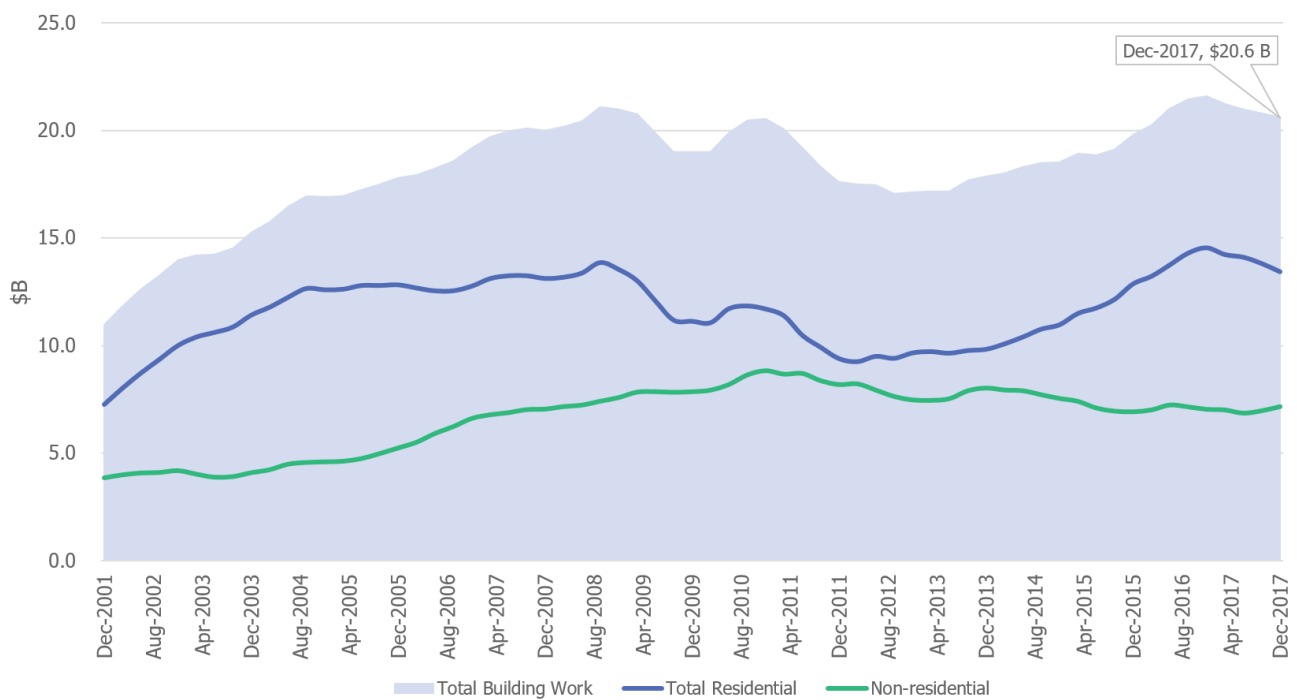
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Our industry today

2017 was a healthy year for the building and construction industry, with a total of 40,930 dwellings started, and \$20 billion of work completed. While these figures are down from record numbers in previous years, it's still an impressively high level of work.

**Queensland total building work done
rolling 12 month total, original**



Source Master Builders, ABS

Work has been concentrated in the south east and in large residential unit blocks in inner Brisbane, the Gold Coast and, to a lesser extent, the Sunshine Coast. This is now changing with approvals for units sliding by 35 per cent over the past 12 months. Approvals for units now make up just 39 per cent of approvals, compared to 50 per cent a year ago.

In contrast, demand for detached houses has been trending up with building approvals increasing by 3 per cent over the year.

Out in the regions demand is also shifting. For the first time since the end of the resources boom, Central Queensland and Mackay & Whitsunday have a steady stream of work coming in. Far North Queensland, Wide Bay Burnett and Downs & Western continue to hum along, while North Queensland is experiencing a marked upturn in non-residential work.

The non-residential building work has been focused on retail and wholesale trade building, and education buildings and offices.

In 2017 public sector investment in non-residential buildings, i.e. schools, hospitals etc., remained low. A total of \$0.9 billion was spent over the year. This is a level that hasn't been seen since the mid-90s. 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.

Demand drivers

The Queensland economy is performing well, helped along by high LNG exports, post-Cyclone Debbie spending and a strong global economy – in particular, a sturdy Chinese economy. The commodity prices are also benefitting the economy and we're seeing growth in tourist numbers and international student enrolments.

A fall in the unemployment rate is also good news, currently sitting at 5.9 per cent. Over the past 12 months there's been an increase of 100,000 jobs. There's also finally some good news for wages too, which have been stagnant. Wage growth, while still minimal, is the highest it's been in three years.

Queensland's population growth is projected to remain modest at 1.6 per cent per annum. There's an expectation that this will pick up if employment and wages growth continues and people head north to take advantage of the relatively affordable housing in Queensland. 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. Though continued reports of a looming oversupply of Brisbane units is hampering investor confidence.

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, including sharp increases to energy bills.

Industry outlook 2018

Looking ahead in 2018, there will be more work overall and it will be more widely spread across the state.

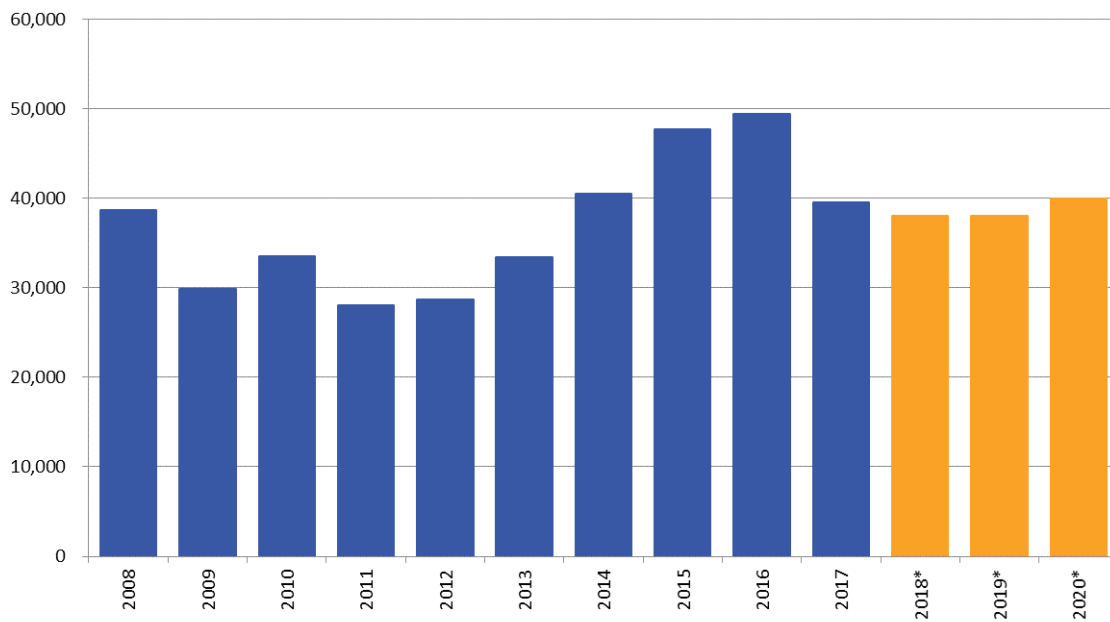
It will be a challenging year for those who have come to rely on work on high-rise unit blocks, but there will be new opportunities in other sectors, such as tourism, aged care and student accommodation. It will be a much-improved year for those who build detached houses and those who operate out in the regions.

RESIDENTIAL

Master Builders forecasts 38,000 dwelling commencements in 2018 which will be a further moderation on the record highs seen in the past few years, equating to a drop of 4 per cent on the anticipated total for 2017.

In 2019 we estimate dwelling commencements will remain low before beginning to move back up in 2020.

Queensland dwelling commencements & forecast



Source: Master Builders & ABS

*forecast

Owner occupiers will increasingly move into the market, while investors will remain cautious. This will help to hold up the total value of work which won't drop as sharply as the number of new dwellings.

Demand will continue to shift away from large unit blocks. Concentrated population growth focused on the south east will favour unit developments, but smaller infill developments, like townhouses and boutique unit developments. Detached housing will also see growth where there's land available.

Renovation activity will remain solid. The high cost of buying a new home 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

2018 will see improvement in the demand for non-residential construction work with increased investment in a number of key industries that have been performing well.

The tourism industry will continue to perform well, requiring further investment in hotels and other short-term accommodation.

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 statewide totals.

Retail and wholesale trade buildings which is the largest source of demand for non-residential work, has already seen an increase in building approvals which bodes well for the coming year.

The office market will continue to work through an excess of supply and the industrial segment will see no growth.

Each of the regions will be able to attract their share of non-residential work.

Greater Brisbane

A structural shift in demand is underway in greater Brisbane with construction of inner city apartments moving past their peak.

Smaller infill unit projects and townhouse developments in the suburbs will receive more attention in 2018.

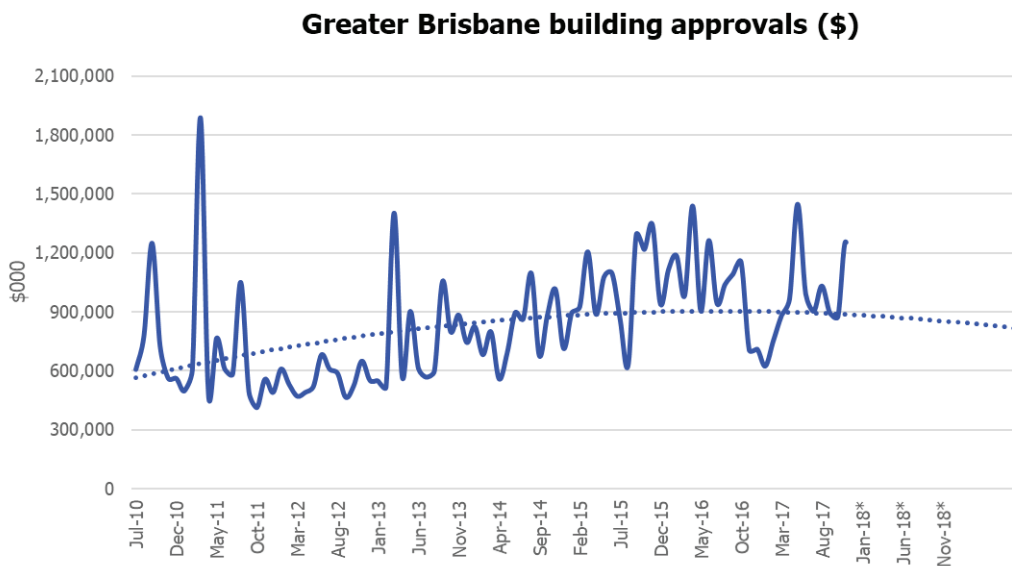
Detached housing will be a strong area of growth and will be focused in the residential land releases in Ipswich and Logan.

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

While there will be some adjustment in the short-term, long-term growth in the region will be underpinned by the strong population growth and infrastructure investment.

Major projects, such as Queens Wharf and the ICON Ipswich renewal project, now underway will also support demand.

The uncertainty will be whether the supply of land can keep pace with the demand.



Source Master Builders & ABS

Gold Coast

While the Gold Coast has been a standout performer in years past, this is now beginning to change.

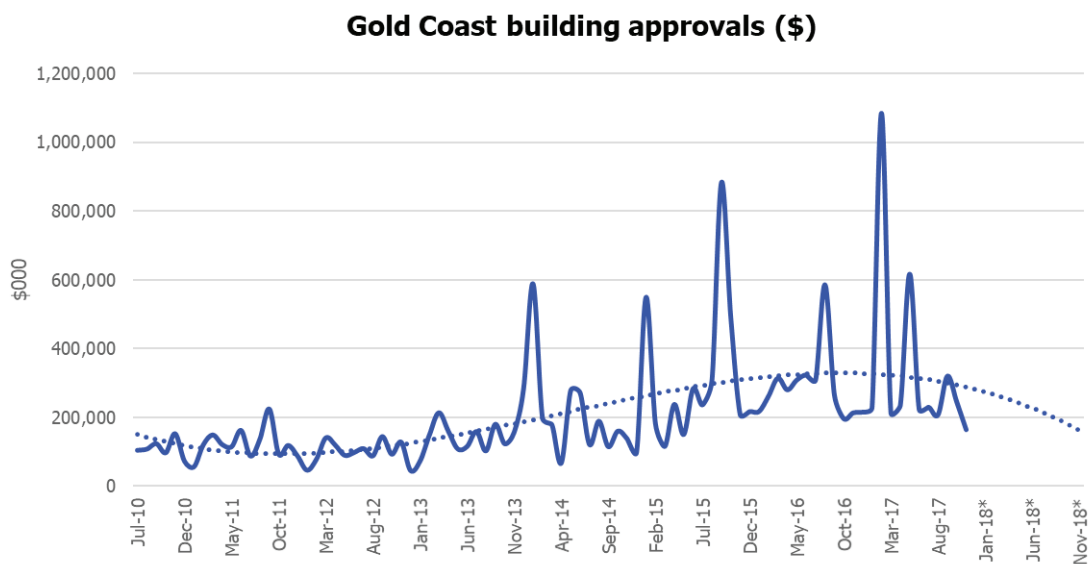
Growth has been led, like Brisbane, by investors seeking out unit developments and the region has also benefited from a strong tourism sector.

In 2018 work from the Commonwealth Games will have come to an end and businesses in the city will be hampered by significant travel restrictions.

Investors will have a more cautious approach to the region which is known for its boom and bust cycles. A shortage of land will hamper housing development.

This will lead to some readjustment over the coming twelve months.

In the longer-term, a strong population growth (2.1 per cent per annum) and a low unemployment rate (4.8 per cent) bodes well for demand.



Source Master Builders & ABS

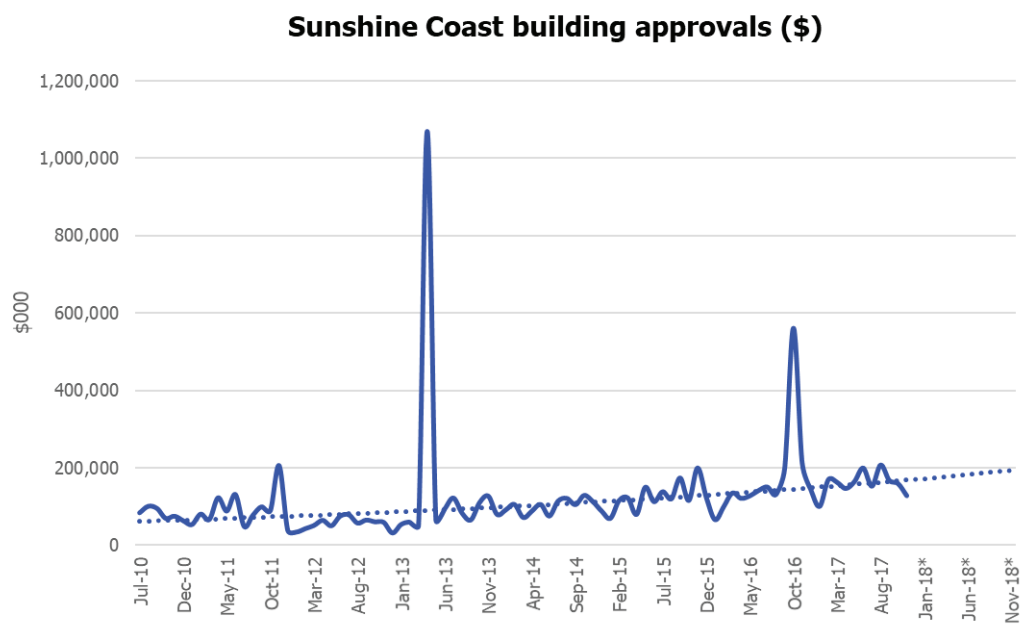
Sunshine Coast

In 2018 the Sunshine Coast will continue to be a standout performer.

The Sunshine Coast local government area benefits from significant capital investment and a regional council that understands the importance of the right type of development.

Demand will also be underpinned by low unemployment (4.9 per cent), above average population growth (1.9 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 also help non-residential work along.



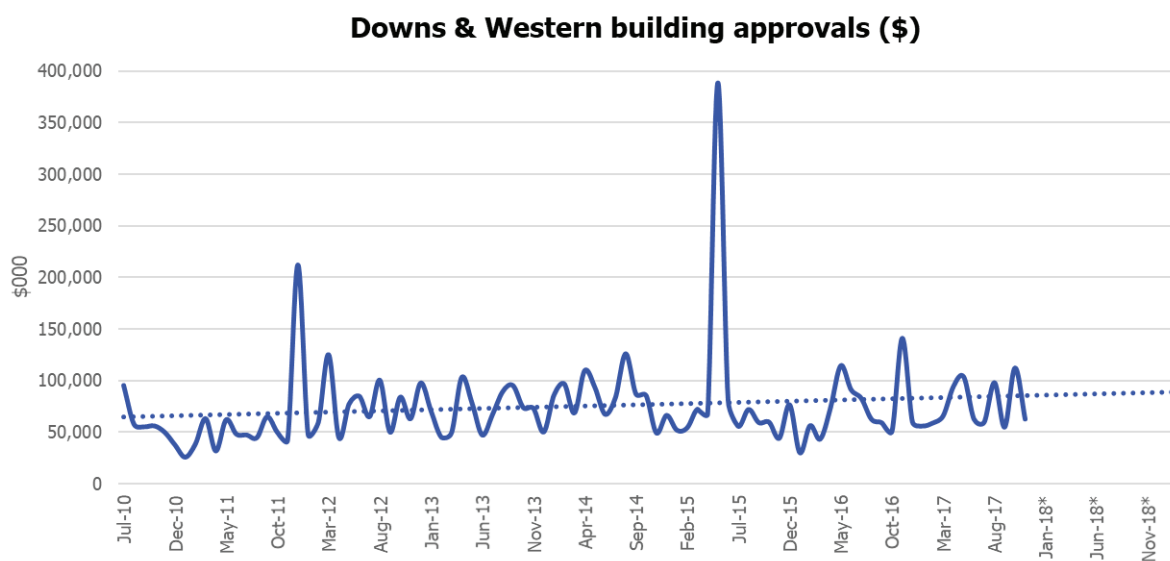
Source Master Builders & ABS

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.

Investment in the region, including the long-awaited Second Range and the Brisbane West Wellcamp Airport, are providing opportunities.

In Toowoomba a low unemployment rate (5.4 per cent) and a modest population growth rate (1.3 per cent) point to future opportunities for growth. Further west, conditions are weaker and the supply of work will continue to be limited.



Source Master Builders & ABS

Wide Bay Burnett

The region has been enjoying good growth in new construction. This is expected to moderate in 2018 with recent approvals for units falling in line with the statewide trend.

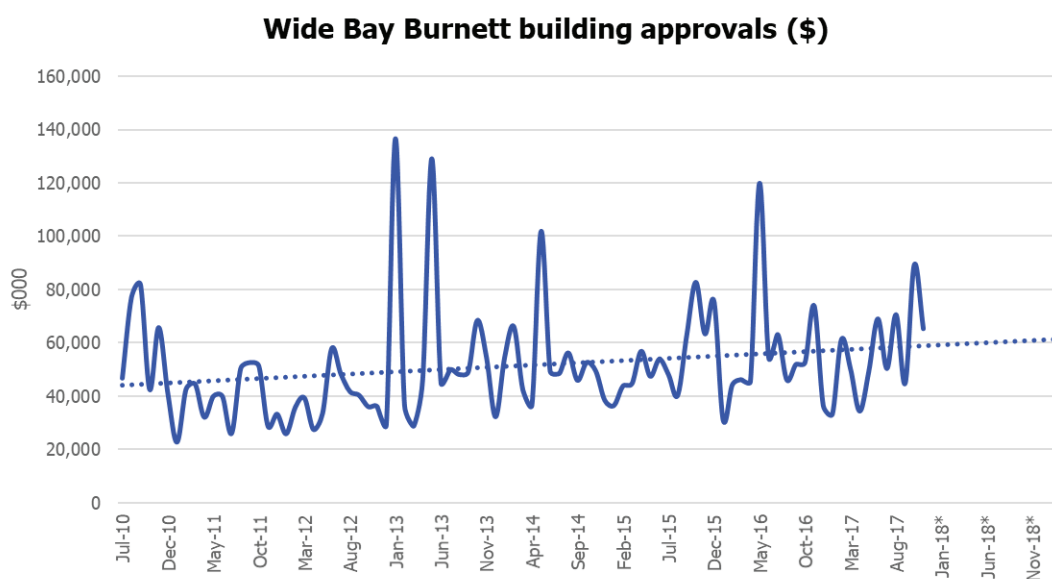
The region also struggles with a very high unemployment rate at 9.1 per cent and a below average population growth (1.1 per cent per year) for the region as a whole.

Still, 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.



Source Master Builders & ABS

Central Queensland

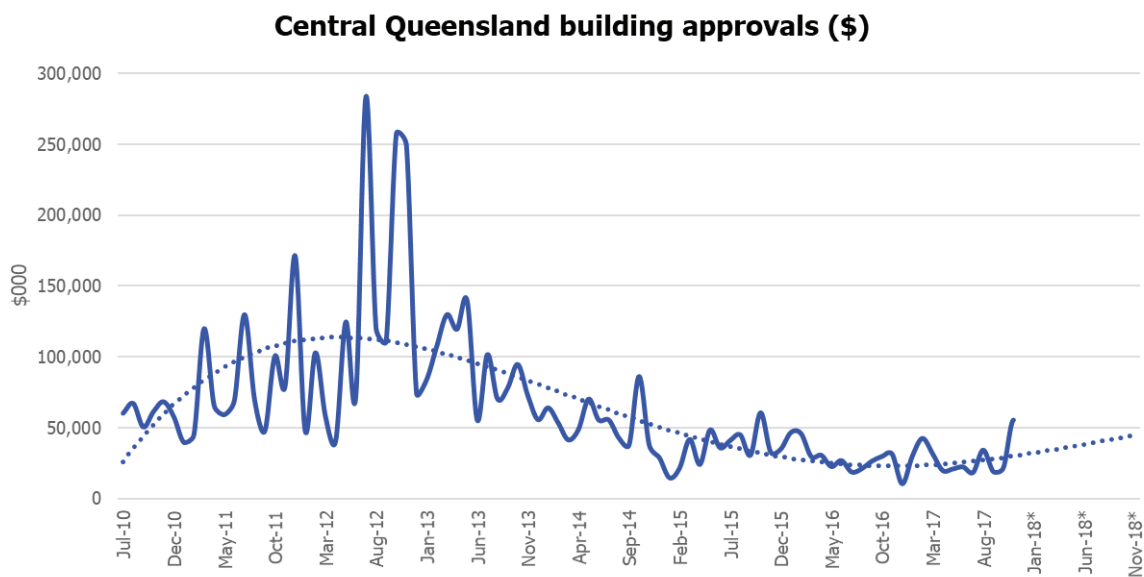
In 2018 the region will be able to put the after effects of the mining investment boom behind them.

While a continued high unemployment rate (7 per cent) will be a challenge, the modest population growth (1.6 per cent) and improving rental yields point to new demand.

Refurbishment and expansion of commercial premises has been strong and the residential sector is showing signs of improvement.

The Australian Defence Force continues to invest heavily in the area and there are a number of resource projects helping to drive the local economy.

Several high-rise unit developments continue in Rockhampton and redevelopment of the Fitzroy riverbank and the Yeppoon foreshore are underway.



Source Master Builders & ABS

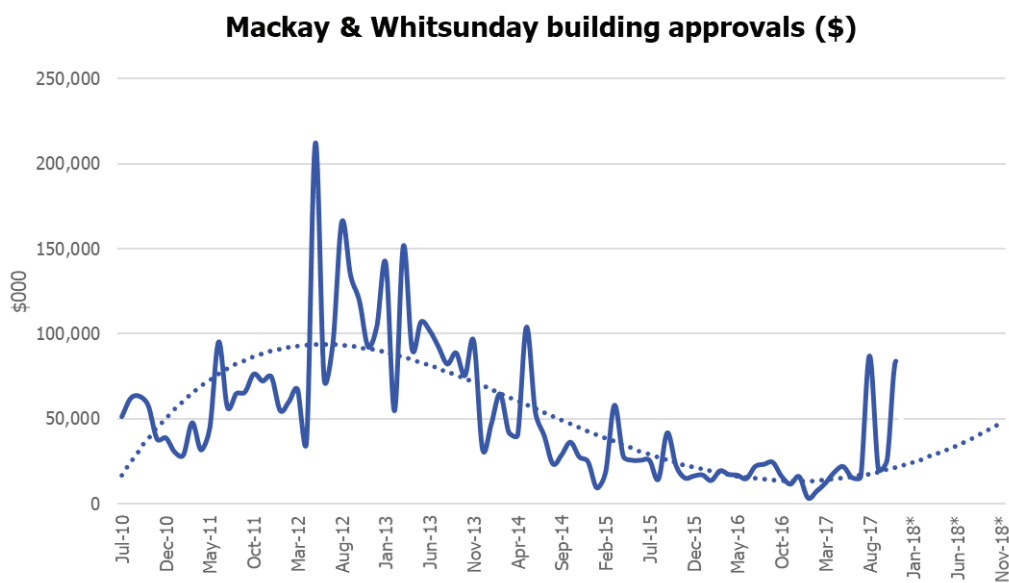
Mackay & Whitsunday

Mackay has come through the worst and is likely to continue to stabilise during 2018.

Unemployment in the region has been falling and is now down to 5 per cent, well below the Queensland average. The region is also benefiting from modest population growth of 1.5 per cent per year.

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 now more viable with the upswing in commodity prices. The region will also benefit from an increase in tourism numbers.



Source Master Builders & ABS

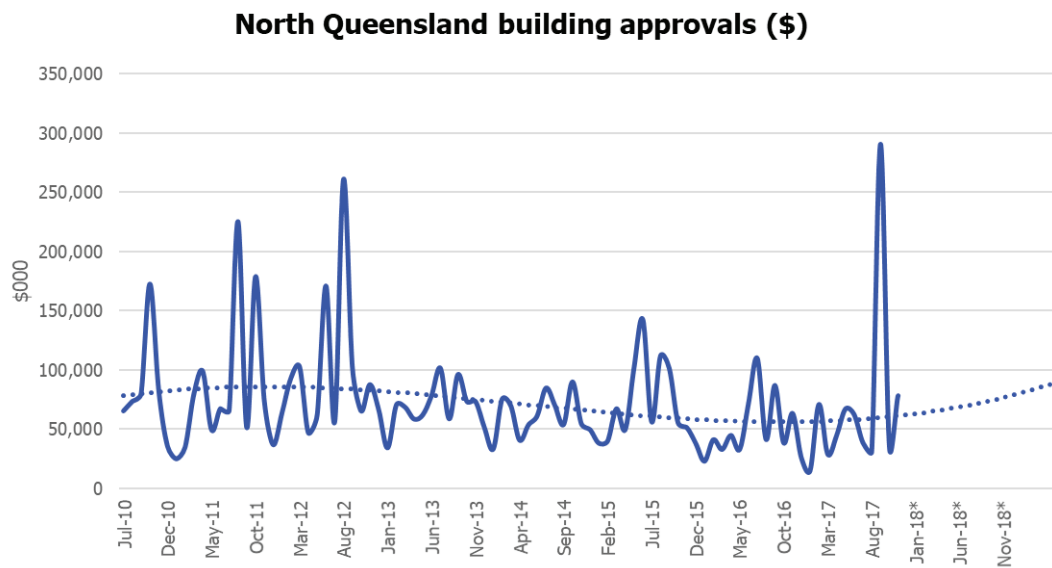
North Queensland

Work has finally begun on the 'super stadium' (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 is also benefiting from additional defence spending under the Australian-Singapore defence agreement. The Townsville Port Expansion has now been approved and will be a significant shot in the arm for the economy with a \$1.49 billion investment and 139 construction jobs created.

The high unemployment rate is hampering demand and although it's improved it remains at 8.7 per cent in Townsville.

Reasonable population growth is expected in Townsville city at 1.9 per cent per year but small growth in the regions to the west.



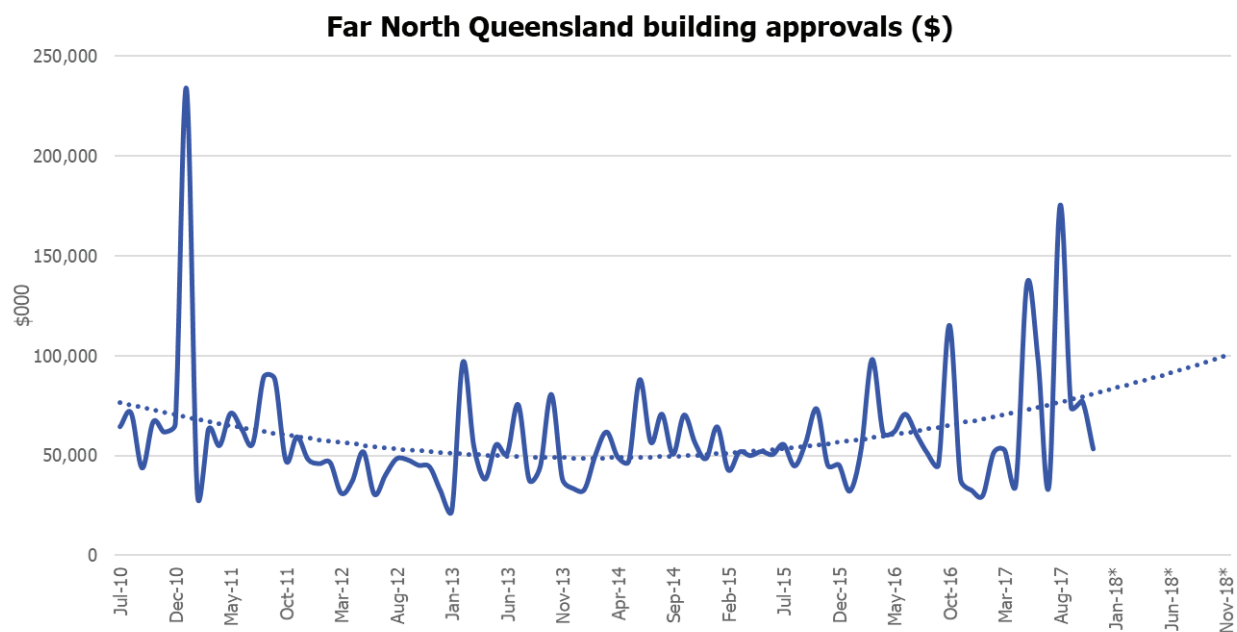
Source Master Builders & ABS

Far North Queensland

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.

The high unemployment rate (10 per cent across the region and 7.9 per cent in Cairns) and below-average population growth of 1.2 per cent per year is continuing to hinder growth.

A tight rental market points to untapped demand but unrealistic valuations continue to block finance to new projects.



Source Master Builders & ABS





The home of building

Master Builders Head Office

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

mbqld.com.au