Turner & Townsend

Australia and New Zealand market insight report

Q1 2021

making the difference

Australia market overview

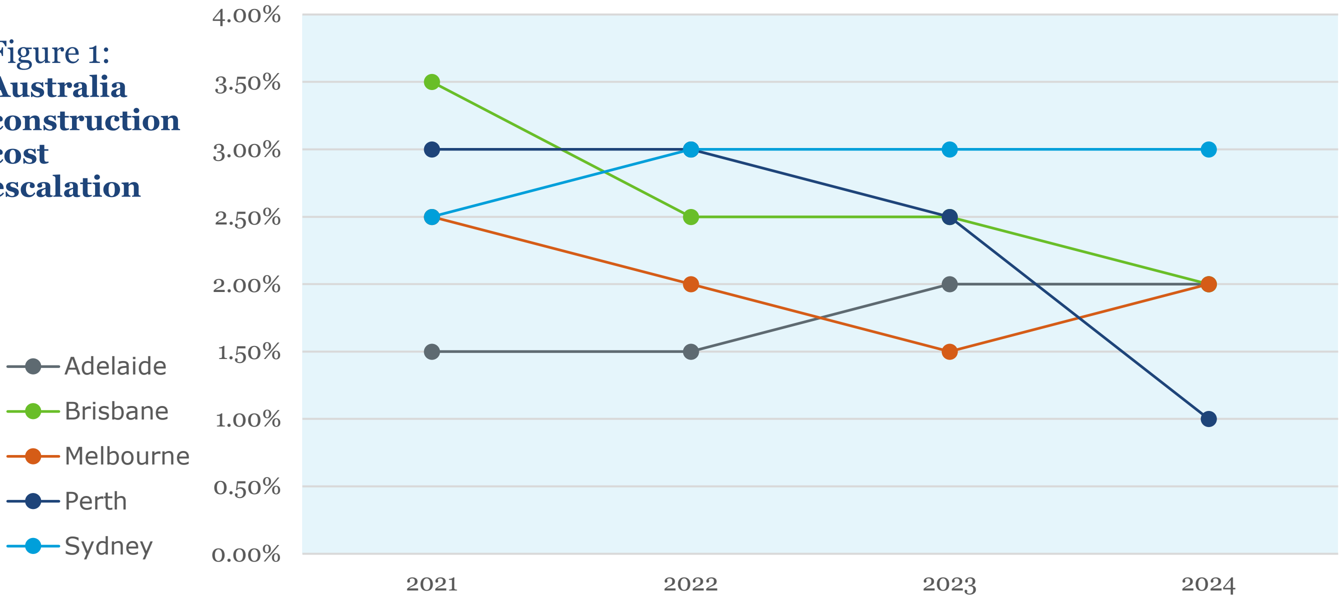
A surge in new housing construction and a growing pipeline of major infrastructure projects is expected to put significant pressure on Australia's construction markets over 2021, with shortages of building materials and increased costs highly likely.

Government policy is driving a surge in housing and civil infrastructure construction across Australia, while non-residential construction activity remains subdued following weak private investment in 2020. The government's HomeBuilder stimulus, coupled with record low interest rates is seeing housing construction surge across most states, particularly in regional areas. Additionally, increased funding to fast-track major infrastructure projects in response to the COVID-19 pandemic, has created a robust pipeline of major civil infrastructure projects across the country.

Whilst non-residential activity is expected to be weak over the first half of 2021, housing construction and civil infrastructure activity is expected to impact resource availability in the non-residential sector. Material costs are expected to increase due to a surge in demand, as well as supply shortages and constraints. Turner & Townsend has received feedback from suppliers on price increases for steel and timber materials, due to increased global demand and ongoing global and domestic supply shortages. We predict further price increases will be likely and other materials may be impacted, as activity in housing and civil infrastructure increases over 2021. Additionally, residential and civil construction trades are highly likely to experience skills shortages, particularly in smaller markets outside of metropolitan areas. We anticipate that the impact of these skills and material shortages will be felt in the non-residential sector and this will likely result in higher construction costs over 2021.

Private sector investment into non-residential projects appears to be recovering, with a modest increase in non-residential projects currently out for tender. Market sentiment has dramatically improved over the last six months, in line with GDP and employment exceeding expectations. We expect this strong growth in the economy, and faster than anticipated recovery in the labour market, will continue to help increase confidence and drive further investment in the private sector throughout 2021.

Figure 1: Australia construction cost escalation



New Zealand market overview

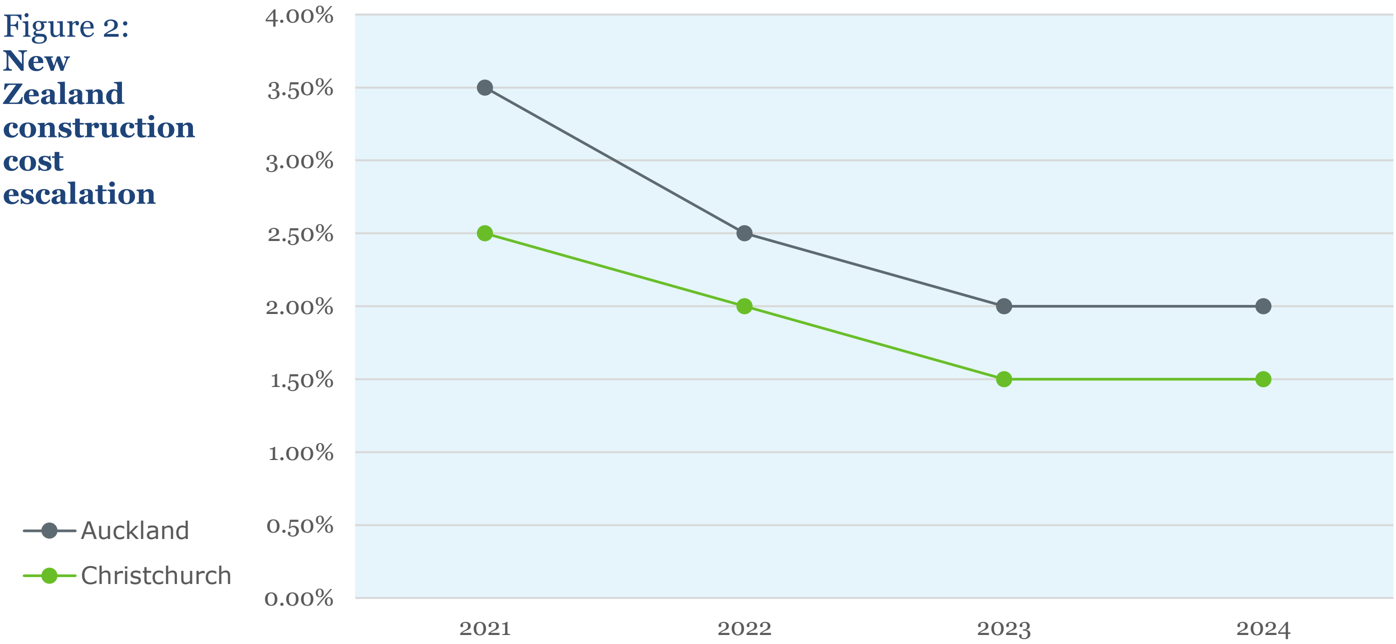
Supported by significant government stimulus, the outlook for New Zealand's construction market is improving, however, skills shortages and supply chain constraints continue to be the biggest challenge in the industry.

New Zealand's construction market continues to feel the impact of the COVID-19 pandemic, declining by 7.3 percent in 2020. Reductions in heavy and civil construction, as well as non-residential construction led this decline. Residential construction remains strong due to the significant housing shortage being experienced across the country and the backing of government stimulus funding for new housing construction.

In response to the economic downturn, the New Zealand government introduced significant monetary and fiscal policy to support the industry. The Infrastructure Industry Reference Group (IIRG) has now approved more than 150 shovel-ready projects valued at NZ$2.6bn to commence within the next six months. Additionally, major stimulus has been introduced to increase housing supply and address housing affordability.

Whilst there is a robust pipeline of infrastructure construction to come, the industry is still facing significant resource shortages. Additionally, the surge in housing demand will continue to add to these pressures. Skills shortages and supply chain constraints continue to be the biggest challenges faced by contractors across New Zealand. Border closures further add to these challenges, with no new skilled labour able to enter the country and ongoing supply disruptions on imported goods. Therefore, higher labour and material costs are expected over 2021.

Figure 2: **New Zealand construction cost escalation**



New South Wales

Key price indicators

Movement (%)

Q1 2020 to Q1 2021

0%	**15%**	**5.8%**	**4.3%**	**11.2%**	**-10%**
Site foreman / hr	Group 1 tradesman	Concrete 32 MPa / m³	Plasterboard 13mm thick to stud wall/m²	Structural steel / tonne	Main contractors margin movement

Confidence has returned to the New South Wales market with contractors and consultants reporting an uptick in enquiries over the period and several projects that were put on hold last year now restarting.

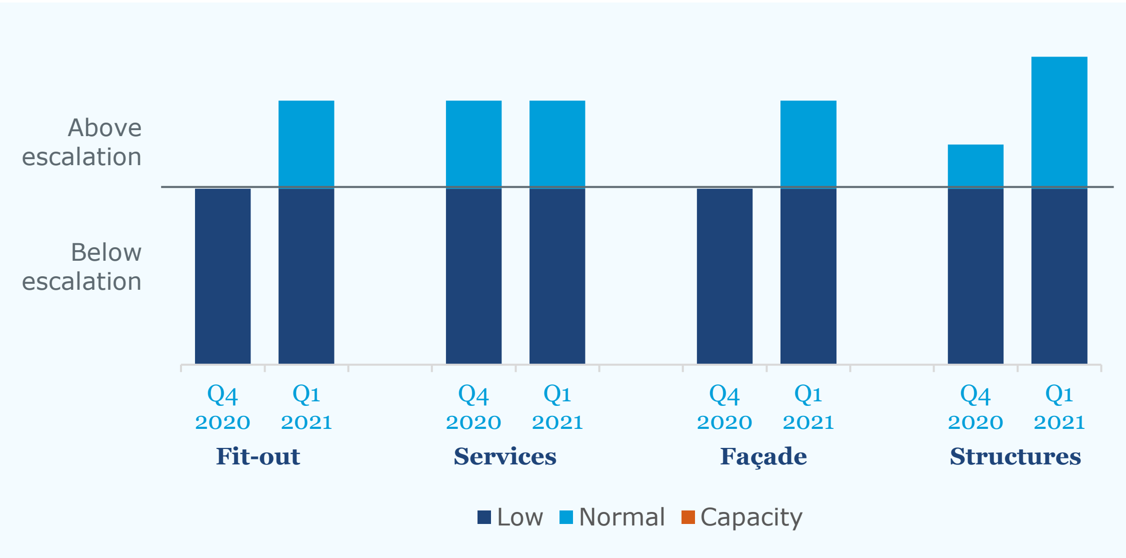
Government projects continue to dominate the activity in the market for the period with the roll out of spending on social infrastructure such as schools and hospitals. Consequently, most consultants and contractors have shifted their business development efforts to the public sector. However, there is still significant private sector investment and there is a lot of focus on Western Sydney which has a large pipeline of works around Aerotropolis and many industrial developments.

During the period, New South Wales was hit with one-in-100-year floods causing significant damage to parts of the state. The repair works for the damage will absorb both materials and labour in the short term.

We are seeing pricing now generally back to pre-COVID-19 levels with sub-contractors' costs increasing but main contractors maintaining their preliminaries costs and margins to remain competitive.

We are anticipating the supply chain to heat up over the next six months as there is a delay in supply of materials coming from COVID-19 impacted countries. Due to the border closures, there will also be a reduced availability of overseas labour. The increasing activity in housing construction and robust pipeline of infrastructure projects is expected to impact building material costs across all sectors in 2021. We anticipate that construction costs for non-residential projects will increase over 2021, as activity in other sectors ramps up.

Figure 3: **Supply chain capacity in New South Wales Q4 2020 to Q1 2021**



Queensland

Key price indicators
Movement (%)
Q1 2020 to Q1 2021

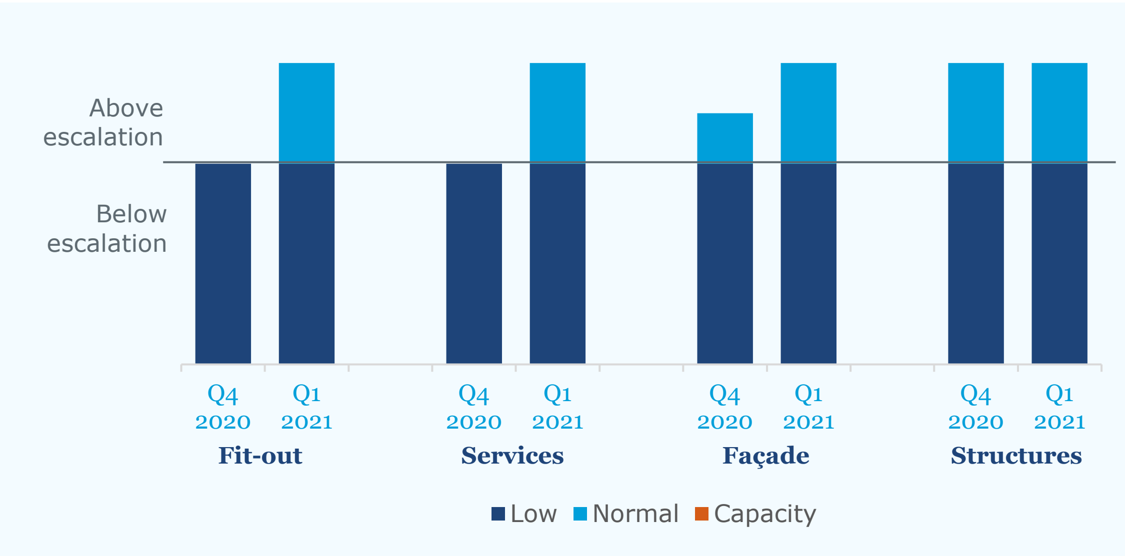
Site foreman / hr	Group 1 tradesman	Concrete 32 MPa / m^3	Plasterboard 13mm thick to stud wall/m^2	Structural steel / tonne	Main contractors margin movement
0%	0%	0%	4%	3.33%	-30%

There has not been a lot of new major commitments from the state government over the last six months and tenders received for commercial projects remain competitive. Tendering opportunities have increased, though decision-making has been slow, and several projects have fallen behind program.

The residential market is starting to heat up due to the government's HomeBuilder stimulus. This increase in residential construction coincides with the Cross River Rail and Queens Wharf construction projects ramping up, which is expected to significantly reduce capacity in the market. The majority of major projects including Cross River Rail, Queens Wharf, Greenvale and Metro have been let and construction has commenced, or is about to commence. Defence continues to be a growth sector, along with the health sector, albeit with smaller projects. We are anticipating that this ramp up in activity across Queensland will result in skills shortages and labour availability constraints.

The surge in housing construction in Queensland is now starting to create shortages for residential construction materials such as steel, reinforcement, plasterboard, timber and roofing. This is starting to put pressure on pricing, and we are seeing increases of up to 20 percent on certain materials. Adding to these shortages are global supply issues and the ramping up of activity on major projects across Queensland. We expect these price increases will start to be felt on non-residential projects over the coming months.

Figure 4: **Supply chain capacity in Queensland Q4 2020 to Q1 2021**



South Australia

Key price indicators

Movement (%)

Q1 2020 to Q1 2021

5.6%	0%	-6.1%	2%	8.3%	0%
Site foreman / hr	Group 1 tradesman	Concrete 32 MPa / m^3	Plasterboard 13mm thick to stud wall/m^2	Structural steel / tonne	Main contractors margin movement

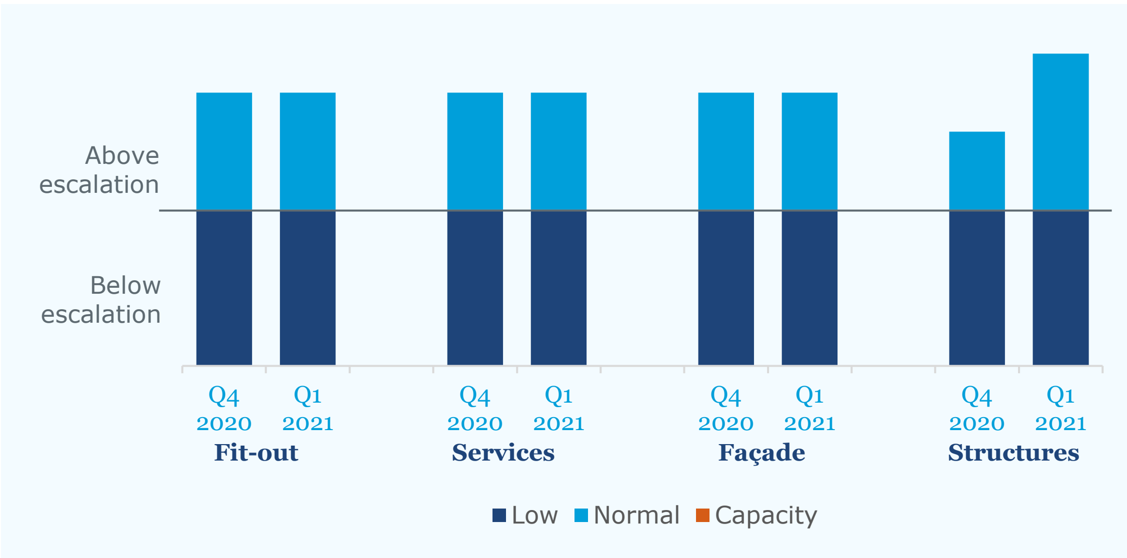
The state government is supporting the construction industry with announcements of a $700m 15,000 seat sports arena. In addition to this, the state government in partnership with local councils, has announced a $290m jobs creation program with $118m of the funding provided by local government. This includes a variety of projects including infrastructure works.

There is a strong pipeline of works for subcontractors with major projects about to commence including the $450m mixed use development at 60 King William Street in Adelaide, and the $300m office development at 83 Pirie Street in Adelaide's CBD.

There are also several major projects nearing completion including the Sofitel Hotel and the Festival Plaza upgrade projects. There is strong activity in the health sector with the commencement of the Queen Elizabeth Hospital, Lyell McEwin Hospitals and SAHMRI Stage 2.

We anticipate that tendering in the commercial market will be steady over the next quarter. The residential sector has ramped up with a healthy start in the number of projects commencing. This increased residential output has put pressure on the supply chain for structural and services trades specifically, as well as some building materials. We expect that these increased material costs will be felt on non-residential projects over 2021.

Figure 5: **Supply chain capacity in South Australia Q4 2020 to Q1 2021**



Victoria

Key price indicators

Movement (%) Q1 2020 to Q1 2021

0%	9.1%	5.88%	0%	8%	0%
Site foreman / hr	Group 1 tradesman	Concrete 32 MPa / m^3	Plasterboard 13mm thick to stud wall/m^2	Structural steel / tonne	Main contractors margin movement

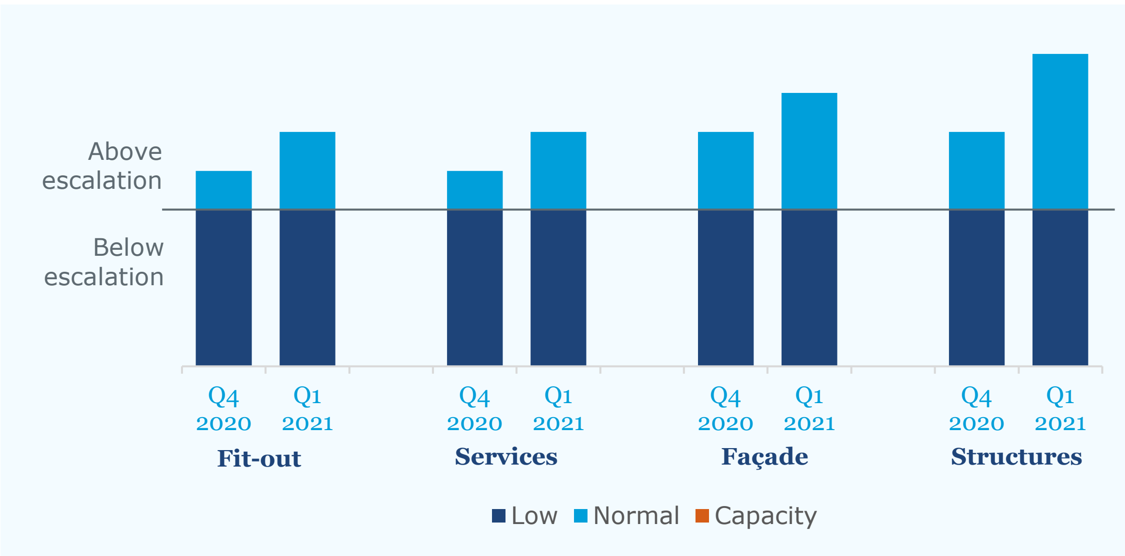
Construction activity in Melbourne has continued to hold steady over the last quarter. The development of large infrastructure projects such as the Melbourne Metro tunnel and stations, together with the Level Crossing Removal and Westgate tunnel projects have upheld construction activity over recent months and continue to draw on available resources.

Projects supported by government stimulus funding continue to provide some relief to the industry, while several private sector projects remain on hold due to the pandemic. These government funded projects are largely focused in the health, education and transport infrastructure sectors.

Clients are continuing to face requests from contractors for extensions of time due to COVID-19-related delays. Some clients are strictly applying the contract terms and rejecting claims, whilst others are approaching each request individually on the basis of not wanting to delay a project.

Tender returns are indicating that sub-contractor trades costs have started to increase since falling during COVID-19 and main contractor margins appear to be returning to pre-pandemic levels. This highlights that sentiment is improving in the market, which should help to drive new private sector investment. Whilst activity in non-residential projects remains subdued, housing construction is seeing a significant increase due the government's HomeBuilder stimulus. We anticipate that this growth in residential construction, coupled with the growing pipeline of public sector projects, will result in material shortages over the coming months.

Figure 6: **Supply chain capacity in Victoria Q4 2020 to Q1 2021**



Western Australia

Key price indicators
Movement (%)
Q1 2020 to Q1 2021

10.6%	2.9%	10.3%	7.3%	10.5%	11.1%
Site foreman / hr	Group 1 tradesman	Concrete 32 MPa / m^3	Plasterboard 13mm thick to stud wall/m^2	Structural steel / tonne	Main contractors margin movement

The Western Australian market appears to have recovered following a period of uncertainty throughout 2020. The government has implemented its multisector stimulus drive which has retained key skillsets, suppliers and trades. Western Australia's recent election results in March will also enable allocation of funding for projects which have been delayed due to the caretaker period.

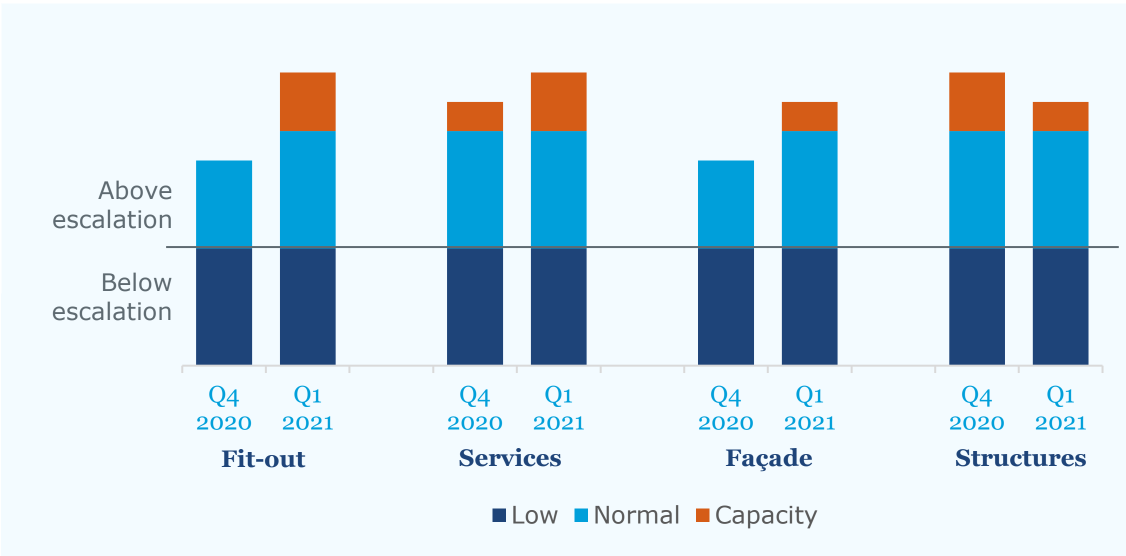
Infrastructure investment will continue to dominate the supply chain with several accelerated stimulus projects from the METRONET programme commencing Alliance Development stage or starting works onsite which will run for the next three to four years.

Real estate investment has centred around reinvigorating the CBD, with significant funds allocated to universities developing integrated CBD teaching hubs. This in turn has resulted in private sector developments in retail, student accommodation and high-tech sectors.

The impact of the multisector stimulus drive will probably see tender prices increase due to the limited availability of skilled labour and materials. We have tracked various rail infrastructure projects commencing procurement/starting onsite in parallel which will directly increase competitive tension in the market. We are already seeing significant cost increases in civil construction, steelwork, concrete and reinforcement due to the unavailability of skilled labour related to these trades.

Supply and demand impact will be exacerbated by a restriction in overseas skilled labour entering the market, this will probably result in low competition in labour rates and drive a price spike over the next quarter. Other contributing factors relate to the migration of skilled trades and materials being consumed by the residential sector boom because of the government incentivisation schemes.

Figure 7: **Supply chain capacity in Western Australia Q4 2020 to Q1 2021**



Auckland

Key price indicators
Movement (%)
Q1 2020 to Q1 2021

-13.6%	0%	37.9%	-3.8%	9.76%	0%
Site foreman / hr	Group 1 tradesman	Concrete 32 MPa / m^3	Plasterboard 13mm thick to stud wall/m^2	Structural steel / tonne	Main contractors margin movement

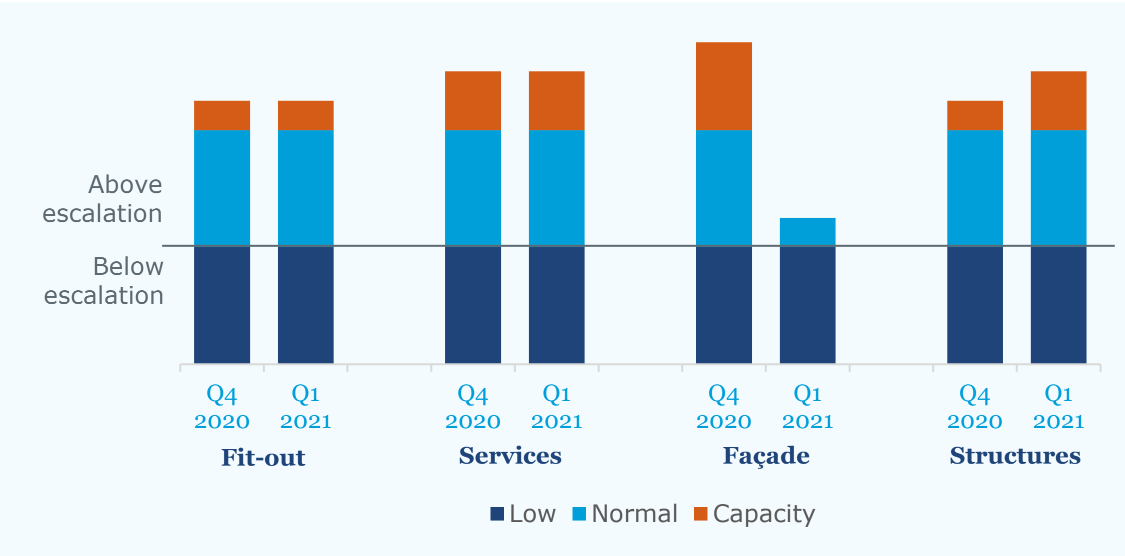
In contrast to the wider economy, the construction sector in New Zealand has shown some resilience with projects progressing in the public and private sectors. The government has invested money into infrastructure and housing projects to stimulate the local economy and to prepare New Zealand for rapid population growth over the coming decades. Restrictions on immigration during the COVID-19 pandemic have made it harder to source workers. The supply chain for imported materials has also come under strain because of the pandemic, increasing the lead time for materials procured overseas.

The Auckland construction market is likely to be relatively stable over the next six months. We forecast that the government will invest in major programmes to stimulate the economy and future-proof infrastructure to meet projected population growth.

The local economy has been badly affected by COVID-19 as the country relies heavily on overseas tourists for income, including in Auckland. The government has implemented strict restrictions on non-residents entering the country, which has meant no overseas tourists or business travellers can enter the country. This has had a detrimental impact on local businesses and the availability of skilled labour.

As more construction work gets underway in both the residential and infrastructure sectors, we anticipate that skilled labour shortages will continue to worsen. As such, the cost of labour is forecast to increase over 2021 while there is an absence of international workers available to meet this growing demand.

Figure 8: **Supply chain capacity in Auckland Q4 2020 to Q1 2021**



Christchurch

Key price indicators

Movement (%) Q1 2020 to Q1 2021

7.1%	**7.7%**	**5.9%**	**12.4%**	**18.18%**	**33%**
Site foreman / hr	Group 1 tradesman	Concrete 32 MPa / m^3	Plasterboard 13mm thick to stud wall/m^2	Structural steel / tonne	Main contractors margin movement

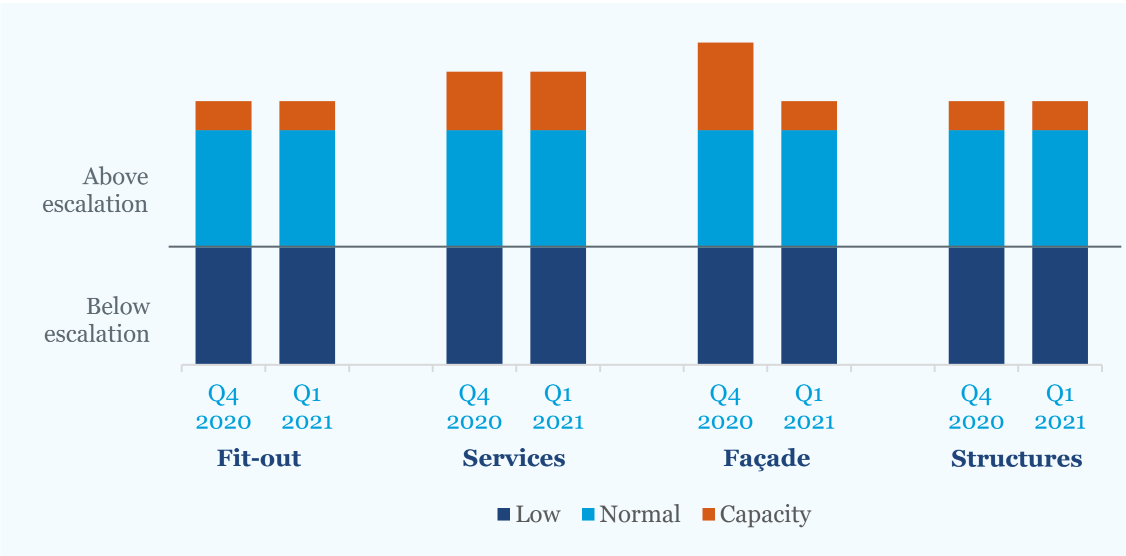
The Christchurch market has cooled in the last quarter due to a decline in the post-earthquake construction activity, and the near completion of the schools' programme in the greater Canterbury region. The market has generally continued to take a conservative approach as the full implications of COVID-19 are still to be determined.

The new housing market policies announced at the end of the quarter include the most significant change to the housing market in 30 years, aimed at dissuading speculative investors. Whilst this new policy has been implemented, the Christchurch housing market continues to be under supplied and it remains to be seen if this will negatively affect developers' appetite. The newly announced housing policy will probably see a cooling of the housing market in the short term. However, we are likely to see a stronger rebound in the housing sector once the proposed $2bn government-funded compulsory land purchase for housing is underway.

The Christchurch and greater Canterbury markets are likely to remain sluggish despite the announcement of the new Christchurch stadium. The Marlborough and Otago regions of the South Island are expected to see increased activity as work on the Picton Ferry Terminal Redevelopment, Marlborough College, and Dunedin Hospital get underway.

The recently announced Trans-Tasman travel bubble will provide some much-needed optimism to the tourism and leisure sectors. However, no significant construction activity is likely to start in the next six months while developers continue to adopt a more cautious approach. The market continues to experience COVID-19-related delays due to the disruption to supply chain and shortage of labour, which continues to push up construction costs. Despite this, we are seeing contractors and clients who are 'organised' reaping the benefits for their seamless delivery of work.

Figure 9: **Supply chain capacity in Christchurch Q4 2020 to Q1 2021**



Australia's economic overview

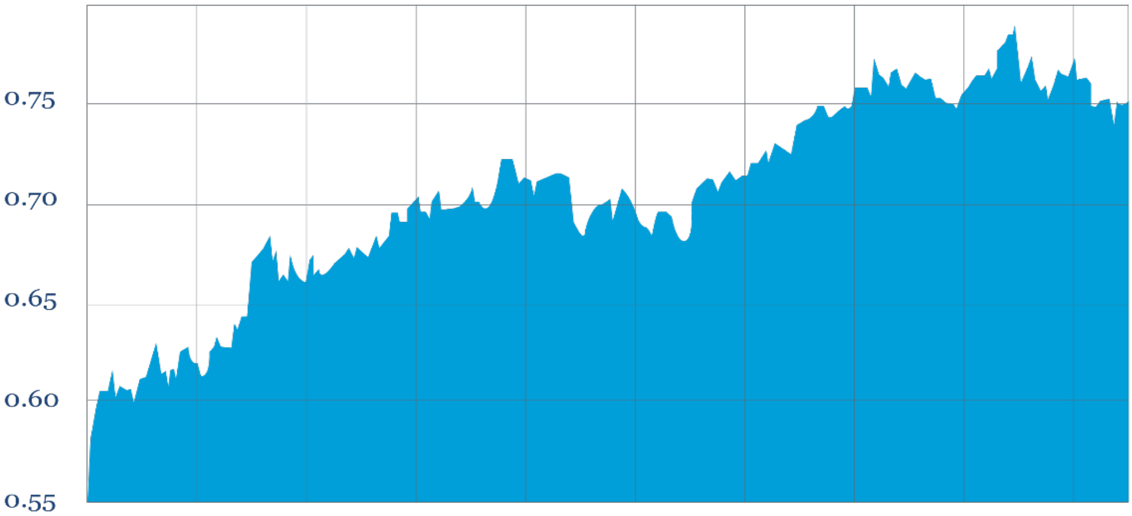
Australia's economic recovery continues to beat expectations, with GDP rebounding by 3.1 percent in the December quarter of 2020.

The key drivers of this strong growth were the further relaxation of trading restrictions and the pent-up demand in Victoria, following the Melbourne lockdown over Q3 2020. As restrictions eased, household spending increased as services become more readily available.

Unemployment exceeded expectations, falling to 5.6 percent over March 2021. In February, total employment returned to pre-pandemic levels, reaching 13 million. This strengthening of the labour market indicates the success of the government's JobKeeper policy, which concluded at the end of March. Although many businesses have stopped accessing government support measures, there are still concerns around the resilience of the labour market now that JobKeeper has come to an end. Both unemployment and underemployment could increase over the coming months as businesses transition away from government support.

Strong economic growth and low unemployment are continuing to improve business and consumer confidence. Dwelling investment has increased significantly over the past six-months, driven by the government's HomeBuilder stimulus. Business investment also increased for the first time since 2019, driven by the tax incentives on machinery and equipment investment. Ongoing COVID-19 outbreaks, lockdowns, and timing of the roll-out of the vaccine will all play a key part in growth momentum.

Figure 10:
AUD USD performance (Q1 2020 – Q1 2021)



Forex movement of +25% in 12 months

Figure 11:
AUD FOREX forecasts

	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
USD	0.75	0.75	0.75	0.75	0.76
GBP	0.54	0.55	0.54	0.54	0.54
EUR	0.64	0.64	0.63	0.64	0.64
YUAN	5.00	5.04	4.97	4.94	4.97

	Current	Previous
GDP quarterly growth rate	3.1% Sep 20 – Dec 20	3.4% Jun 20 – Sep 20
GDP annual growth rate	-1.1% Dec 19 – Dec 20	-3.8% Sep 19 – Sep 20
Inflation (annual)	0.9% Dec 20	0.7% Sep 20
Unemployment rate	5.6% Mar 21	5.8% Mar 21
Business confidence index	16 Feb 21	12 Jan 21
Retail sales	9.1% Feb 20 – Feb 21	10% Jan 20 – Jan 21
Interest rate	0.10% Mar 21	0.10% Dec 21

New Zealand's economic overview

New Zealand's economy shrank by 1 percent over the December quarter, driven by disappointing market expectations and weak construction activity.

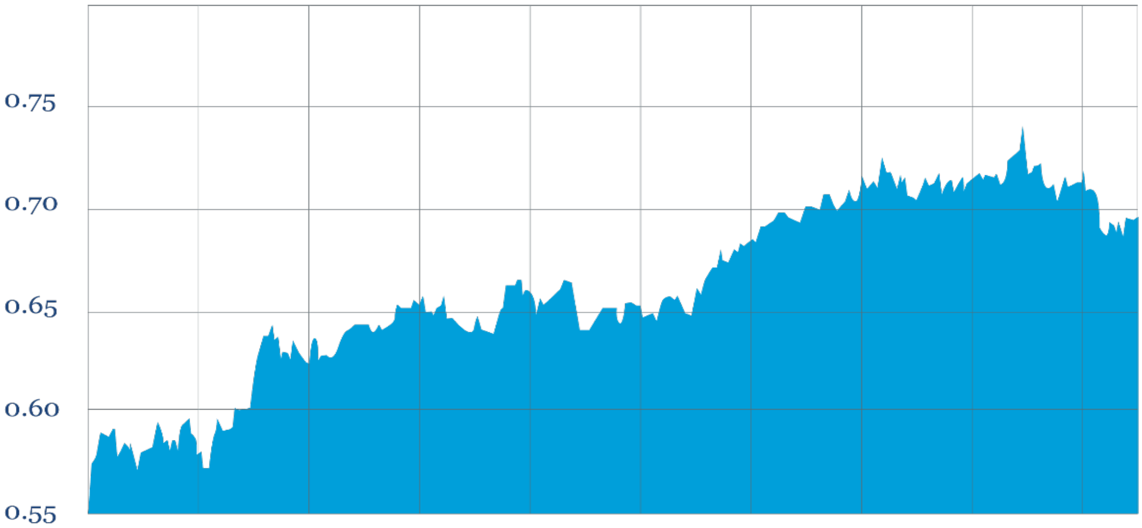
After rebounding by a record 13.9 percent over the September quarter, momentum slowed over Q4 as industries continued to face challenges brought on by the pandemic. Annual growth also declined by 0.9 percent, after growing 0.2 percent in the 12 months to September 2020.

COVID-19 restrictions are relatively low across the country, however, the ongoing absence of international visitors continues to have an adverse effect on economic activity. Tourism-related industries, particularly services such as retail, accommodation and restaurants, saw a decline in activity over the December quarter.

Unemployment continues to improve, falling by 5.3 percent to 4.9 percent in the December quarter. However, further job creation is needed before employment reaches pre-pandemic levels.

Monetary and fiscal policies have been effective and continue to support the economy. Current policies are not expected to be withdrawn in the short-term, as the economy continues its bumpy recovery over 2021. The outlook for 2022 is expected to be much more positive, with economic conditions expected to return to pre-pandemic levels. It is expected that with the successful roll-out of the vaccine globally, many economies may be in recovery and international borders will have re-opened by 2022.

Figure 12: **NZD USD performance (Q1 2020 – Q1 2021)**



Forex movement of +18% in 12 months

Figure 13: **NZD FOREX forecasts**

	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
USD	0.69	0.69	0.69	0.69	0.70
GBP	0.50	0.50	0.49	0.50	0.49
EUR	0.59	0.59	0.58	0.58	0.58
YUAN	4.59	4.64	4.58	4.56	4.58

	Current	Previous
GDP quarterly growth rate	-1.0% Sep 20 – Dec 20	13.9% Jun 20 – Sep 20
GDP annual growth rate	-0.9% Dec 19 – Dec 20	0.2% Sep 19 – Sep 20
Inflation	1.4% Dec 20	1.4% Sep 20
Unemployment rate	4.9% Dec 20	5.3% Sep 20
Business confidence index	0 Mar 21	7 Feb 21
Retail sales	4.8% Dec 19 – Dec 20	8.3% Sep 19 – Sep 20
Interest rate	0.25% Dec 20	0.25% Sep 20

From insight to execution: driving better outcomes across capital programmes

Our quarterly market insight report shines a light on construction industry trends and challenges. If understood and used correctly, this type of information can drive the intelligence needed to make better-informed decisions about capital programme delivery.

Five success factors

Effective governance and decision making

Robust assurance on delivery

Value-for-money and commerciality to achieve the best deal for the bank

Simple and clear organisation structure

Efficient program and project controls

However, insights without the ability to act upon them are at best interesting, at worse, distracting. Organisations that have a culture of continuous improvement, and a desire to challenge the status quo, benefit the most from this data.

Our consulting team works with many forward-looking organisations to establish the most effective and appropriate governance delivery and data management frameworks to enable realisation of organisational aspirations.

These performance improvement initiatives drive better outcomes across capital programmes and accelerate the return on capital investment while uplifting internal capability and efficiency.

Five areas to drive better outcomes

As humans, self-awareness, and a commitment to continually develop and improve is at our core. The same is true for successful organisations who operate in a continuous improvement mindset, focusing on developing high performance teams and culture.

1. Governance

Put simply, does your process support satisfactory project outcomes and enable effective decision-making? Governance provides clarity to all those responsible for delivering capital plans and ensures alignment and consistency while providing much needed structure to the teams tasked with delivery.

Governance should not be a mechanism that creates unnecessary effort, but rather remove inefficient processes and establish optimum ways of working.

2. Assurance

Organisations that define different types of projects and programmes by establishing assurance expectations and frameworks, gain more control over the performance of their programme and the eventual outcomes.

As a basic principle, all management processes, reporting tools and governance controls should provide a level of assurance. Without assurance, the true performance cannot be known. It is through the establishment of appropriate assurance mechanisms that the basis of everyday delivery and planning activities give leaders the assurance required to steer the organisation.

Implementing decision-points alongside gateways and consistent processes provide the basis for an effective delivery and assurance framework. Assurance mechanism should not be about controlling how professionals do their job, but rather enabling insights at critical points in time to maintain positive programme momentum.

3. Commerciality

Driving best returns from every dollar should be a strategy that drives every programme. This starts from the top; by defining the risk appetite, preferred delivery models, supply chain approach (local vs global) and contract strategies.

A commitment to partnering with the market rather than an adversarial approach can reap long-term rewards but it needs to be a strategy set by leadership. Creating a commercial mindset approach across the various delivery roles ensures they understand their contribution to wider commercial objectives.

Every procurement exercise should be driven by a solid and consistent commercial strategy which forms part of the day-to-day delivery process rather than being treated as a separate activity.

4. Organisation structure

Ensuring that every team member understands their role, understands other people's roles, has the required skills, and is supported with a clear training and development plan is at the centre of effective capital program delivery.

A collaborative and motivated team will drive performance more than any process or system. If the organisation structure is confusing, leadership is absent, and skills are stagnating then programs will go wrong.

It is important to set a clear resourcing strategy and a plan to deliver it. Organisations are encouraged to understand efficient ways of delivering capital programmes as new methodologies are used globally and are having an impact on resources and team structures.

5. Controls

Every programme needs to understand time, cost, and risk performance across the investment portfolio. It needs to be understood in an integrated way and balanced to drive the required outcomes of the organisation. This requires the right processes, systems, and capabilities to be effective. The controls framework should be designed by the client organisation, even if parts of its operation are outsourced to the supply chain.

To support governance and assurance, define what you want to see and when you want to see it. Build a controls solution that captures data efficiently and can produce reports with minimal manual intervention. This is the engine room for the programme and data is the fuel to make the engine perform, it needs to be designed and planned accordingly.

Accelerating outcomes

These five programme success factors need to be understood before current performance is assessed for future improvements. Organisations typically vary as far as weighted importance goes against each of the five improvement areas and as such should understand the effort and skills required to successfully implement these.

Ultimately, uplifts in program delivery will result in accelerated outcomes and return on investment. Organisations that focus on these five areas will have a head start in uplifting capability and enabling assurance to drive success across their capital portfolios.

About Turner & Townsend

We are an independent professional services company specialising in program management, project management, cost and commercial management and advisory across the real estate, infrastructure and natural resources sectors.

With 111 offices in 45 countries, we draw on our extensive global and industry experience to manage risk while maximising value and performance during the construction and operation of our clients' assets.

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