



VICTORIA

BUILDING AND CONSTRUCTION INDUSTRY SNAPSHOT



December 2017

Disclaimer

This document is not legal advice. Whilst every care has been taken in preparing this document, no responsibility will be accepted for action taken in reliance upon information contained in this document.

HIGHLIGHTS

- Economic growth topped 3.6% over the year-to September 2017, the highest level of annual growth since June 2016
- At 2.4% over the past year, Victoria is the only State with population growth above the national average of 1.6%. Given the state only accounts for around 22% of the national economy, this achievement should not be underestimated
- A big pipeline of major public transport infrastructure projects will be a source of activity for the next few years
- Retail activity is well above the national average
- International tourist numbers and international student numbers are both performing well
- Non-residential building construction approvals are up by a third in the last 12 months, supported by better private investment
- Small business confidence is strong and has been improving for a number of months
- The cost of rent in Victoria jumped in the September quarter, up by 1.2%, adding to growth of 3.9% over the year – above average wages growth and above price growth recorded in the broader CPI measure
- The total number of full-time and part-time jobs in Victoria was recorded at over 3.16 million as at the end of the September quarter 2017, representing a gain of 3.2% over the previous 12 months
- Unemployment is 6.1%, above the national rate of 5.5%. This is perhaps expected given Victoria's high population growth rate
- By sector in Victoria the value of work done in the June quarter 2017 :
 - \$5.7 billion in residential construction activity
 - \$2.5 billion in non-residential construction activity, and
 - \$3 billion in engineering construction activity.

C O N T E N T S

1	Economic Outlook	2
2	Victorian Economic Summary	4
3	Prices in the Building and Construction Industry	6
4	Confidence	8
5	Population	9
6	Labour Market	10
7	Housing Affordability	12
8	Industry Outlook	13

1 Economic outlook

Despite a raft of challenges, which are perhaps too well known by all, the Australian economy is hitting its straps. So much so that the Federal Government's Mid-Year Economic and Fiscal Outlook (MYEFO) showed the economy (not policy reform) is doing most of the hard work on Budget repair.

This economic success is a product of two very important drivers. The first and most important being jobs growth, which is as strong as it has been in years – and most recently has been dominated by growth in full time positions.

The other is business profits, which have been up for a while and are now supporting better jobs growth as businesses expand. This is a great example of how a more supportive business environment supports greater prosperity and better jobs growth in the economy.

As MYEFO showed, these 'better-than-expected' improvements, led by business (not the government), are also expected to support better wages growth and higher

inflation into the future. This isn't just good for those who haven't had a pay rise in a while (don't worry most of us sit in this group), it's better for our future economic stability and prosperity.

Real GDP growth was recorded at 3% over the year to September 2017, and 0.8% in the quarter. Perhaps more important, the outlook is for this growth to hang around for a few years.

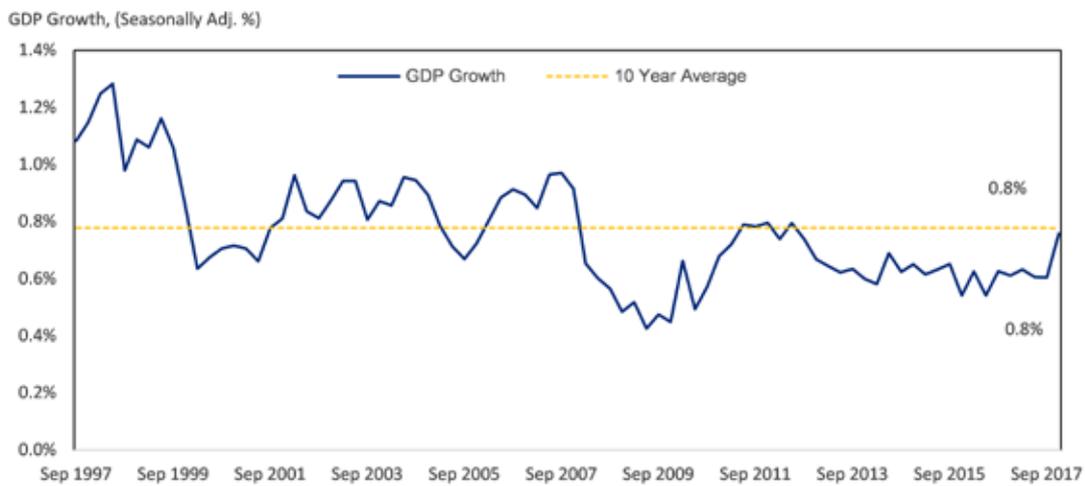
As **Chart 1** shows, we are not out of the woods yet. The economy has been performing below average for years and a number of challenges, domestic and from abroad, will need to be traversed before we can safely say we're out of danger.

But as long as China's construction sector keeps pace, house prices and housing construction remain relatively robust, and regional squabbles keep cool, we should be in for a more prosperous period ahead.

Real GDP growth was recorded at 3% over the year to September 2017, and 0.8% in the quarter. Perhaps more important, the outlook is for this growth to hang around for a few years yet.



CHART 1: Australian Quarterly GDP Growth



Source: ABS, Master Builders Australia

As long as China's construction sector keeps pace, house prices and housing construction remain relatively robust, and regional squabbles keep cool, we should be in for a more prosperous period ahead.

2 Victorian Economic Summary

Low interest rates have been pumping up the state's housing sector for a number of years and are expected to continue to do so for at least another year or so.

The two key things to look out for if you want to get an idea of where the Victorian economy is going, are exchange rates and interest rates.

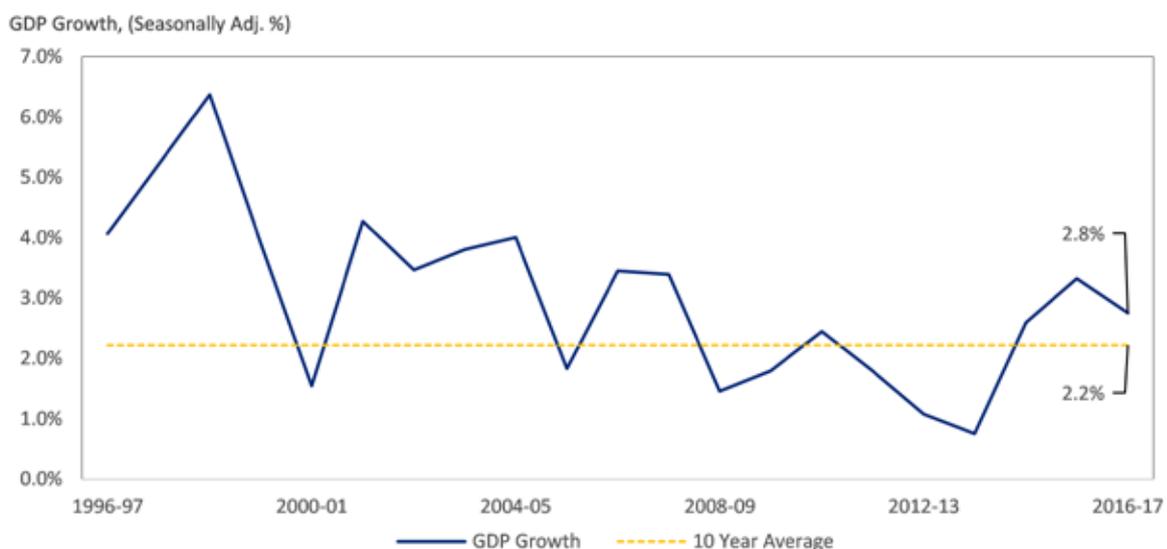
Happily we can report good news on both fronts. Low interest rates have been pumping up the state's housing sector for a number of years and are expected to continue to do so for at least another year or so.

Victoria's economy is more dollar-dependant than its northern counterparts. This is

due to it's larger than average (or at least larger than NSW) manufacturing sector. But a low exchange rate has also helped prop up activity in tourism, international education, and agriculture.

The real differentiator for Victoria in the last year or so has been its show stealing performance on population growth. The latter has been great for housing construction, but it has also accounted for almost all of the growth in the wider economy.

CHART 2: Victorian Annual GDP Growth



Source: ABS, Master Builders Australia



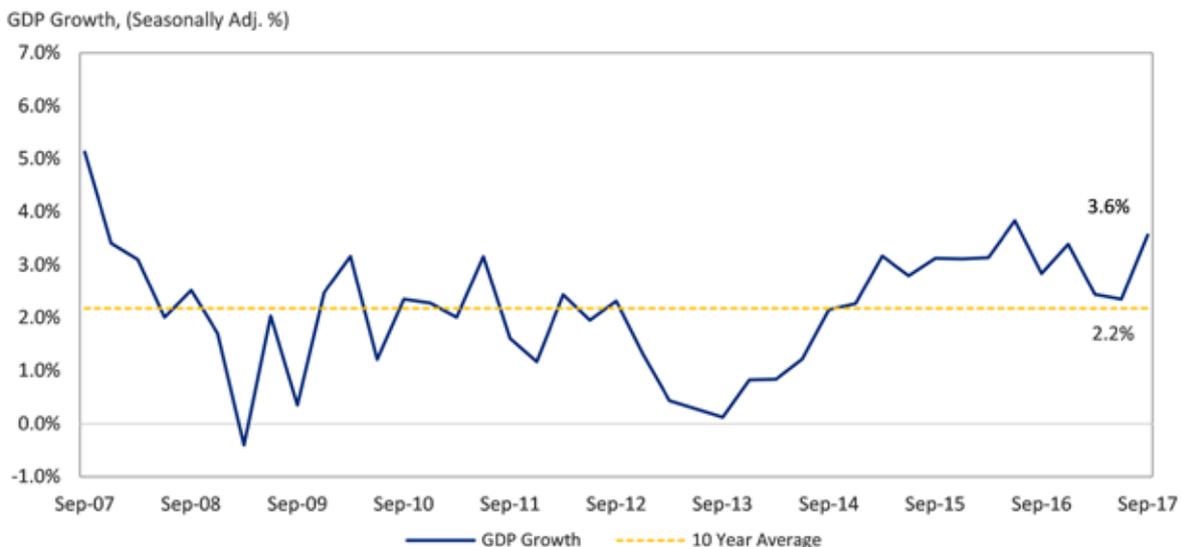
At 2.4% over the past year, Victoria is the only State with population growth above the national average of 1.6%. Given that the state only accounts for around 22% of the national economy, this achievement should not be underestimated.

Other key positives include:

- The construction industry is still making a positive contribution to growth, with house prices and rents holding up
- A big pipeline of major public transport infrastructure projects will be a source of activity for the next few years
- Retail activity is well above the national average
- International tourist numbers are up
- International student numbers are also up
- Non-residential building construction is on the mend, supported by better private investment, and,
- Small business confidence is strong and has been improving for a number of months.

A big pipeline of major public transport infrastructure projects will be a source of activity for the next few years.

CHART 3: Victorian Quarterly GDP Growth



Source: ABS, Master Builders Australia

3 Prices in the Building & Construction Industry

The blue line in the charts below shows the trajectory of price growth for building products in Australia and Victoria. It is indexed so that it can be compared to other costs – the yellow line shows the cost of rents in Australia and Victoria. This comparison is given because it is generally accepted that in a competitive market increases (or decreases) in production costs, manifest, at least in part, in the price consumers pay for goods or services.

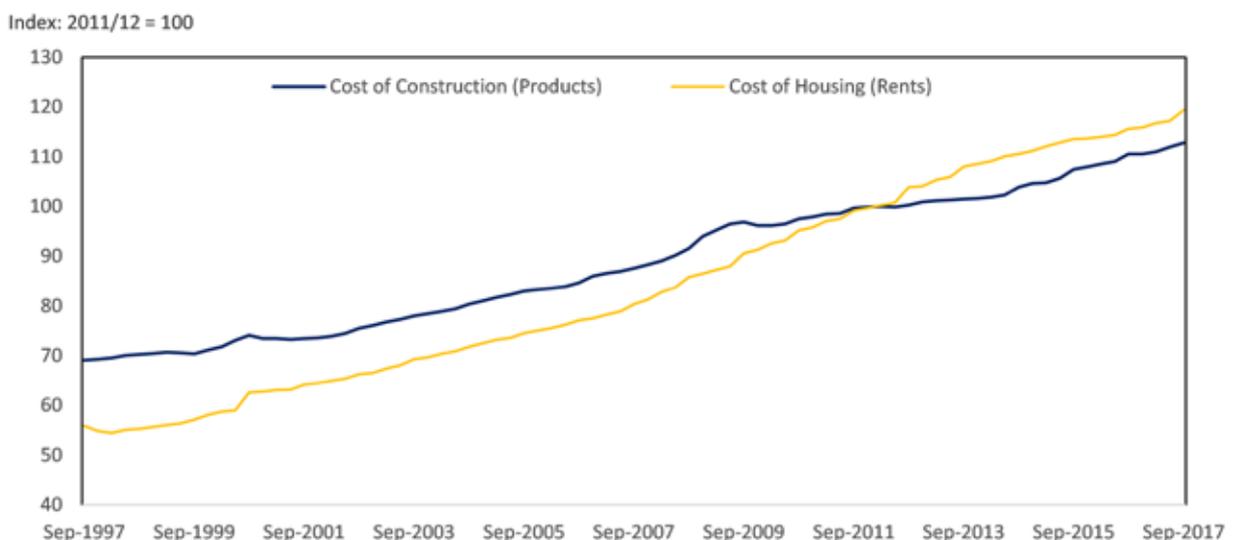
As the charts show, the cost of housing in terms of rents, has outpaced the rising cost of building materials for a number of years. While only modest, this trend does support the position that Australia, and perhaps, Victoria, have a shortage of housing.

The cost of housing in terms of rents, has outpaced the rising cost of building materials for a number of years.

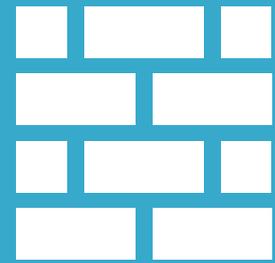
Key insights:

- The cost of construction, measured as growth in the Australian Bureau of Statistics Producer Price Index for housing

CHART 4: Australian Housing and Construction Costs

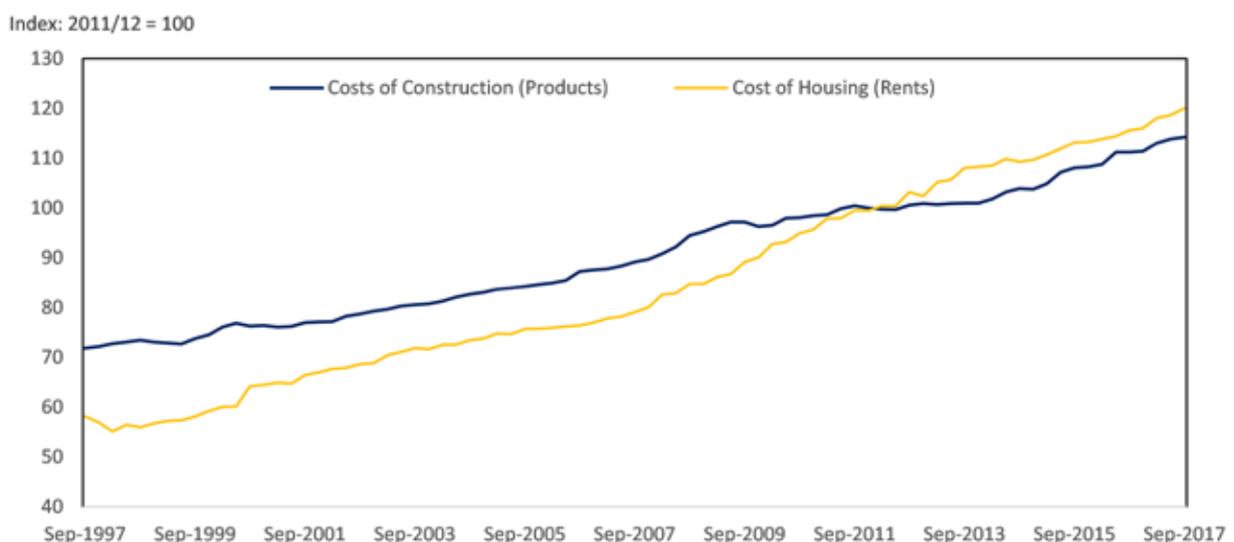


Source: ABS, Master Builders Australia



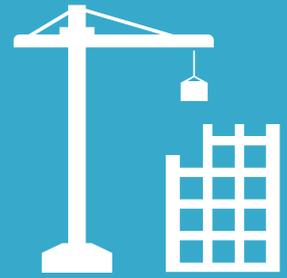
- construction materials, has grown by 0.4% in the September quarter 2017, adding to growth of 2.4% over the year
- The cost of housing, measured as growth in the Australian Bureau of Statistics Consumer price Index for housing (rents), has grown by 1.9% in the September quarter 2017, adding to growth of 3.3% over the year
- In Victoria, growth in the costs of construction was up by 0.4% in the September quarter, and up by 2.8% over the year,
- The cost of rent in Victoria jumped in the quarter, up by 1.2%, adding to growth of 3.9% over the year - above average wages growth and above price growth recorded in the broader CPI measure.

CHART 5: Victorian housing and construction costs



Source: ABS, Master Builders Australia

4 Confidence



Business confidence improved in the September quarter, driven primarily by an expectation for ongoing strength in the residential construction sector.

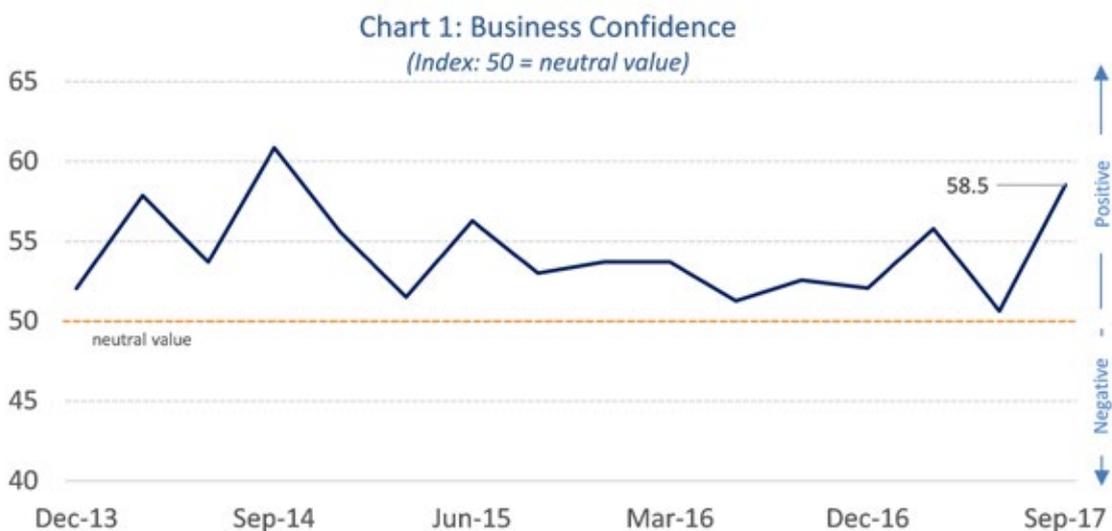
Business confidence improved in the September quarter, driven primarily by an expectation for ongoing strength in the residential construction sector.

Work on the books continues to be a point of strength, particularly for residential builders in the detached housing and town housing sectors. There is some emerging concern in the apartments sector, and as

Chart 7 shows below, the index for business confidence has bounced around somewhat over 2017.

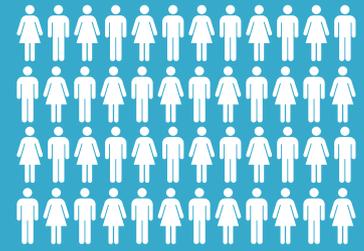
The September quarter index score for confidence in Victoria was recorded at 58.5, slightly above the national index for business confidence of 57.4.

CHART 6: Confidence in the Building and Construction Industry, Australia (June 2017)



Source: Master Builders Australia, National Survey of Building and Construction

5 Population



The latest data shows Australia's population growth continues to improve, up by 1.6% over the 12 months to September 2017.

This is well above comparable countries including the UK, US and Canada and is close to three times above the average across developed countries.

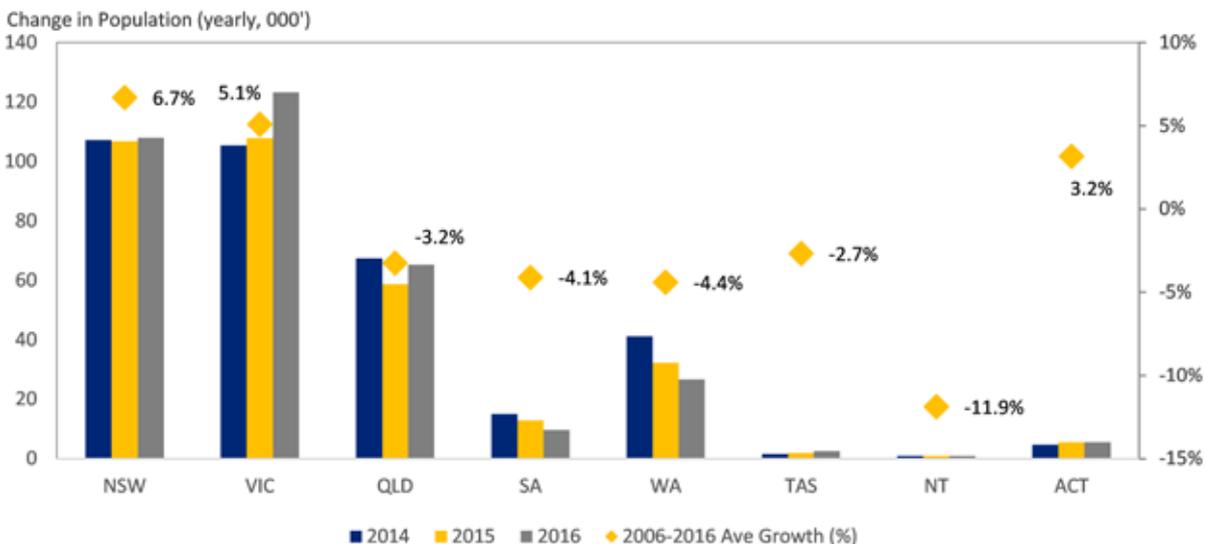
And while Australian population growth is a standout on the international stage, Victoria's

population growth is the show stopper domestically. At 2.4% over the past year, Victoria is the only State with population growth above the national average and has reaped the benefits in terms of a stronger economy and a more robust housing sector.

This trend is expected to continue, with Victoria's population expected to reach 7.4 million by 2027.

Australian population growth is a standout on the international stage, Victoria's population growth is the show stopper domestically.

CHART 7: State Population Growth



Source: ABS, Master Builders Australia

6 Labour Market

Employment growth in Victoria continues to outpace national employment growth, with Victoria's share of employment growing from 25.1% to 25.5% in the last 12 months.

Chart 8 below shows growth in the Australian labour market and Victoria's share of employment.

The total number of full-time and part-time jobs for Victoria was recorded at over 3.16 million as at the end

of the September quarter 2017, representing a gain of 3.2% over the 12 months to September 2017.

Key insights

- Victoria continues to face challenges in terms of some big factory closures including the closure of Holden's engine plant in Port Melbourne and the shutdown of the Toyota factory in Altona

- Unemployment is 6.1%, above the national rate of 5.5%. This is perhaps expected given the States high population growth rate,
- High population growth is also generally not great for wages growth, but at 2.3% in the September quarter 2017, it is above the national average of 2.1%.

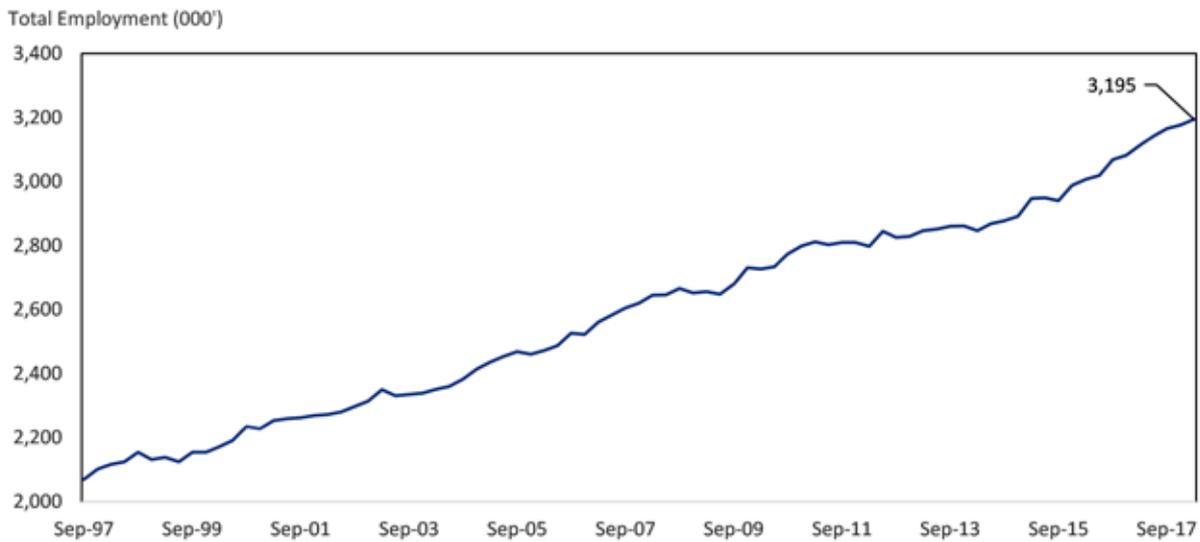
CHART 8: Victoria's Share of Total Employment



Source: ABS, Master Builders Australia

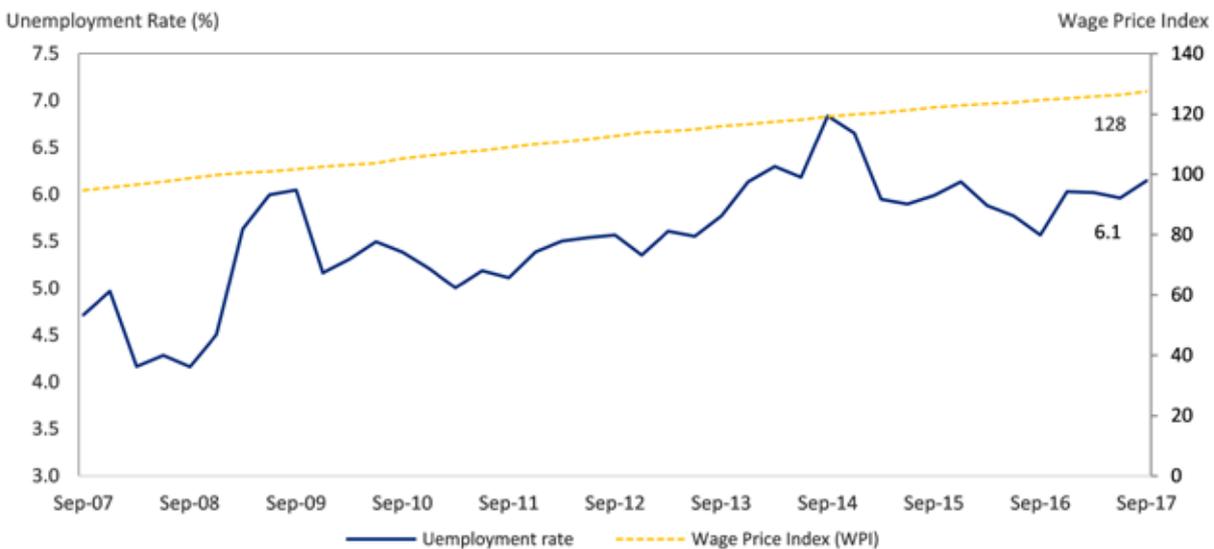


CHART 9: Total Employment, Victoria



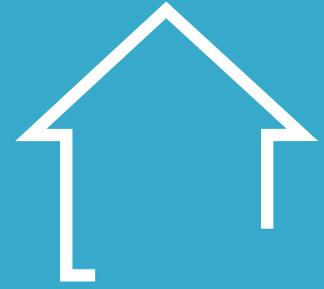
Source: ABS, Master Builders Australia

CHART 10: Unemployment and Wages, Victoria



Source: ABS, Master Builders Australia

7 Housing Affordability



At 1.1%, house price growth in the September quarter was around half the quarterly decade average.

House prices in Victoria are beginning to moderate. Some regional areas have seen relatively soft price growth for some time, but now the Melbourne market has joined ranks.

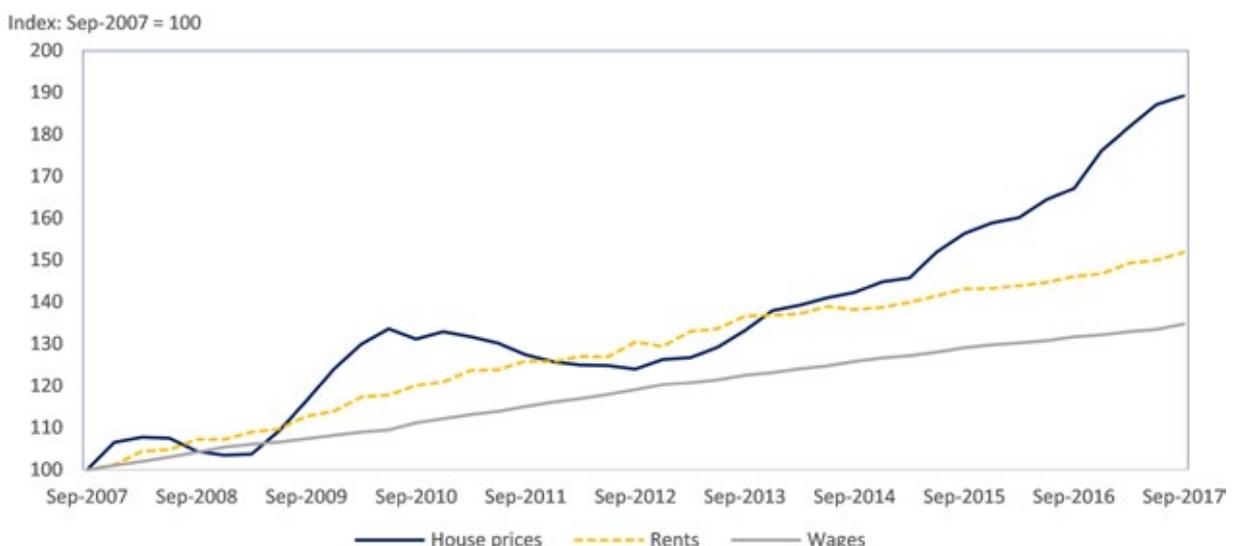
The latest ABS Residential Property Price Index survey (RPPI) showed house prices, on average, increased by 1.1% in Melbourne over the September quarter.

House price growth has moderated considerably in Melbourne in recent months. At 1.1%, house price growth in the September quarter was around half the quarterly decade average, and the lowest level since March 2016.

Due to higher price growth recorded earlier in the year, annual house price growth to September 2017 was 13.2%, the second highest out of all eight capital cities behind Hobart.

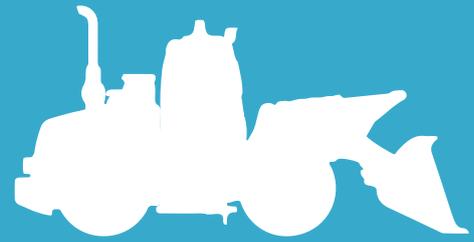
Higher rents, particularly in the inner city continues to cause higher rental stress, with a growing number of people also noting difficulty getting affordable accommodation near to their work or study.

CHART 11: House Prices, Rents and Wages, Victoria



Source: ABS, Master Builders Australia

8 Industry Outlook



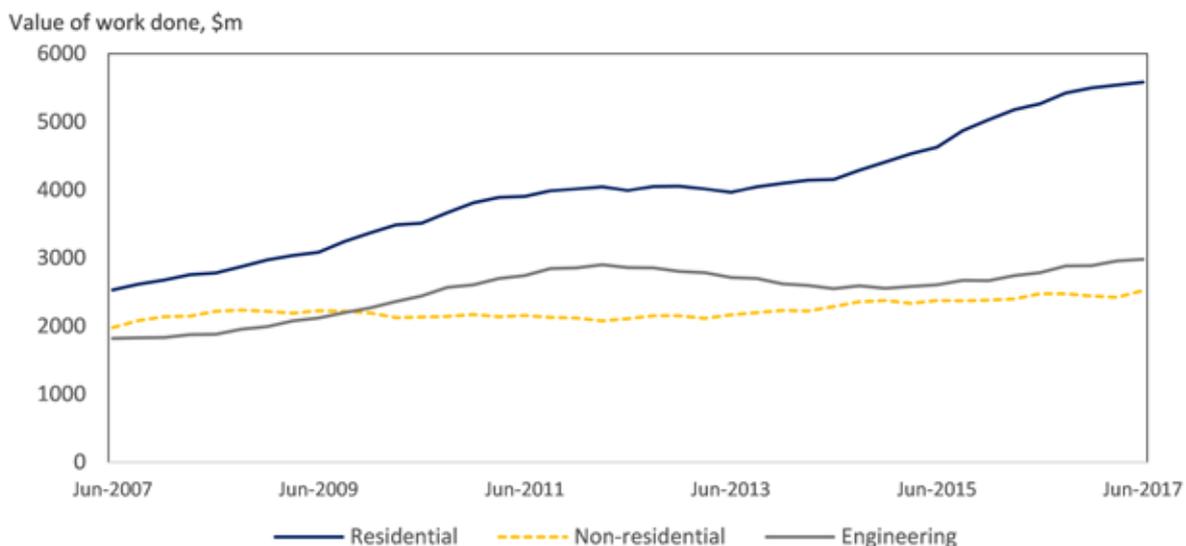
When combined across the three construction sectors (shown in **Chart 13**), the total value of work done in Victoria topped \$44 billion and recorded growth of around 5.9% over the 12 months to June 2017.

By sector in Victoria the value of work done in the June quarter 2017 included :

- \$5.7 billion in residential construction activity
- \$2.5 billion in non-residential construction activity, and
- \$3 billion in engineering construction activity.

The total value of work done in Victoria topped \$44 billion and recorded growth of around 5.9% over the 12 months to June 2017.

CHART 12: Total Value of Work Done, Victoria



8 Industry Outlook, continued

The stock of housing in Victorian has grown by more than 10% over the last five years.

Housing

Of the total \$5.7 billion in residential construction activity undertaken in the September quarter 2017, close to half was in the detached housing sector, 40% was in units and apartments construction and the remaining was accounted for by renovation and maintenance work.

By value, detached housing work was valued at around \$2.8 billion, units and apartments were valued at \$2.2 billion and renovations were valued at just under \$750 million.

The number of new houses being built in Victoria has increased markedly in the past couple of years, supported by high population growth and a boom in new apartment construction. As a result the stock of housing in Victoria has grown by more than 10%

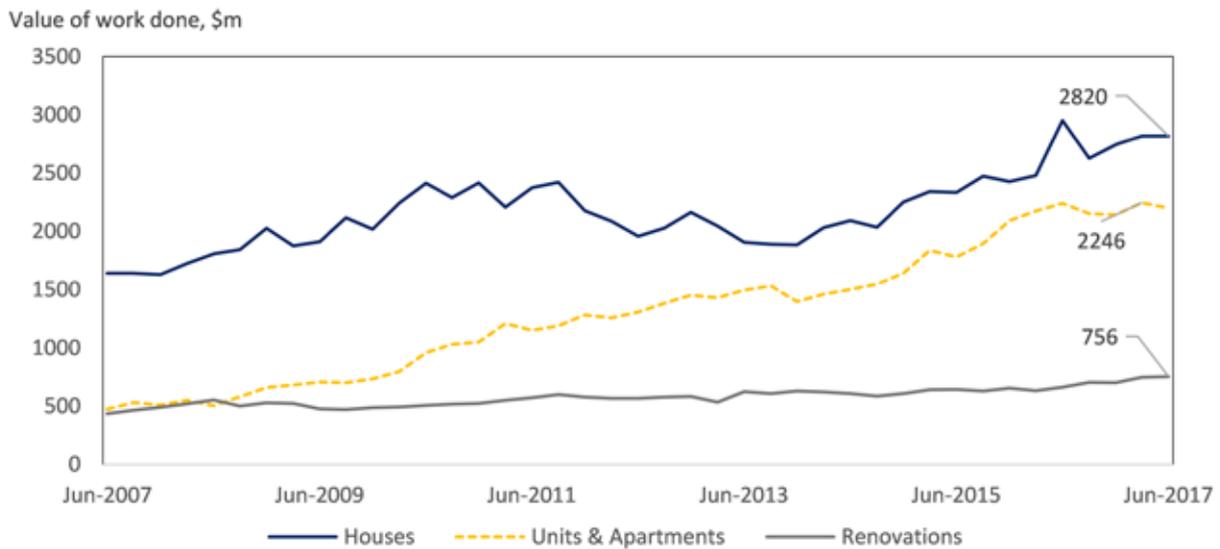
over the last five years.

Approvals of new detached dwellings continue remain at a high level but as **Chart 14** shows, there has been little growth in the number of new approvals for the past 12 months or so. Overall, the peak in dwelling approvals may have passed, suggesting there may be a fall in future residential construction activity going forward:

- Total dwelling approvals in Victoria in the September Quarter 2017 were recorded at 16,450
- 9,130 were for detached houses, and
- 7,320 were for units and apartments.

Over the year-to September 2017 total dwelling approvals in Victoria fell by 1.7%, with unit and apartment approvals down by 6.5% offset by an improvement in detached housing of around 2.5%.

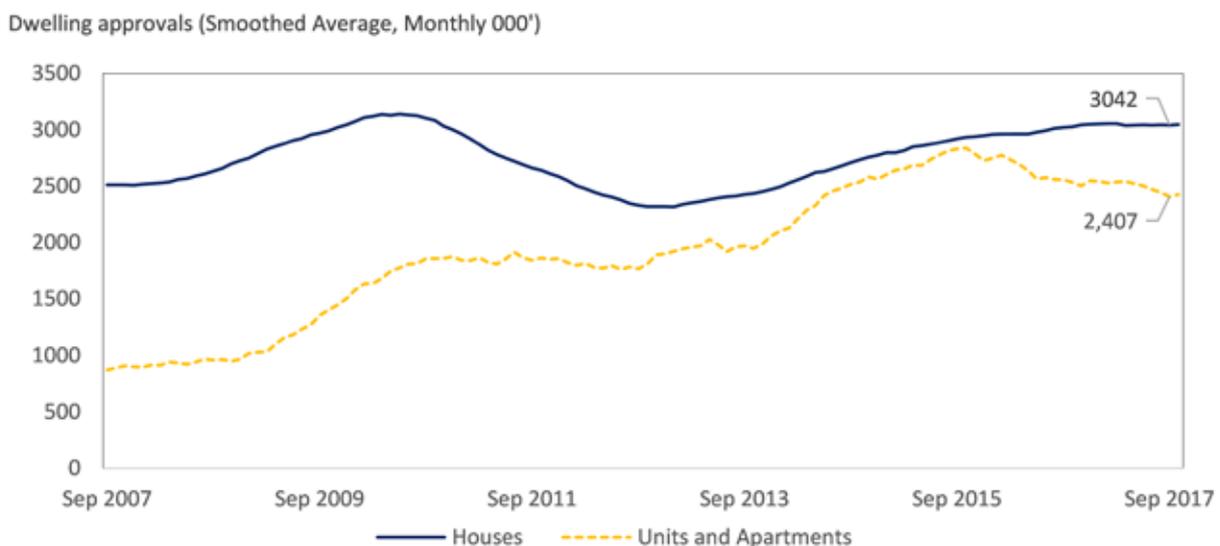
CHART 13: Value of Housing Construction, Victoria



Source: ABS, Master Builders Australia

Over the year-to September 2017 total dwelling approvals in Victoria fell by 1.7%, with units and apartment approvals down by 6.5% offset by an improvement in detached housing of around 2.5%.

CHART 14: Number of Residential Dwelling Approvals, Victoria



Source: ABS, Master Builders Australia

8 Industry Outlook, continued

New unit and apartment commencements took a flogging in the June quarter 2017, down by over 27%, recording the lowest number of new commencements in a quarter since March 2014.

Dwelling commencements slipped again in the June quarter 2017, down by 8.9% on the March quarter, equal to over 1,500 fewer houses and apartments.

As **Chart 15** shows, there is a growing divergence between the market for units and apartments, and detached houses.

New unit and apartment commencements took a flogging in the June quarter 2017, down by over 27%, recording the lowest number of new commencements in a quarter since March 2014.

On the other hand, new detached housing commencements grew by 8.8% to record the highest

number of commencement in the last 12 months.

In total there were:

- 9,400 new detached housing commencement in the June quarter 2017, and
- 6,079 new apartment or townhouse commencements in the June quarter 2017.

Total dwelling approvals in Australia topped \$3 billion in the latest October monthly data, while over the September quarter 2017 total dwelling finance almost topped \$9 billion.

A recent positive trend has seen more activity in relative terms for owner occupiers, as regulatory constraints by the Victorian Government and by the federal financial regulator, APRA begin to bite investor activity.

As **Chart 17** shows, dwelling finance commitments in Victoria are the highest on record. This is despite regulators turning the screws on foreign and domestic investors. On the other hand, the latest data suggests the market has responded

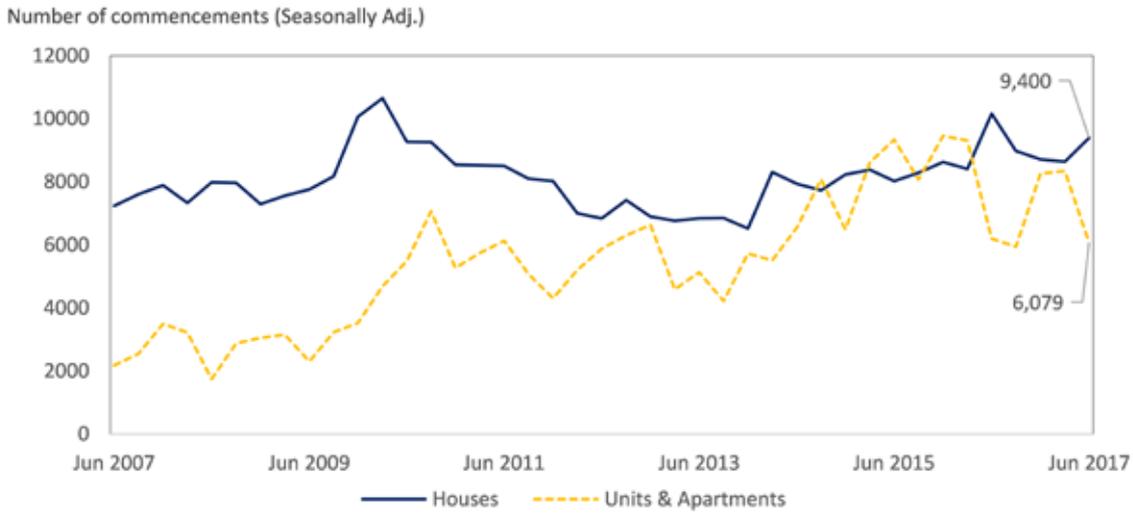
positively to a number of initiatives aimed at improving housing affordability and giving greater access to first home buyers.

These include, abolishing stamp duty for first home buyers for purchases below \$600,000, and concessions for first home purchases valued between \$600,000 and \$750,000 on a sliding scale, effective July 1 2017.

Total dwellings financed grew by 7.4% in the September quarter, coming within a whisker of 50,000 new commitments for the quarter.

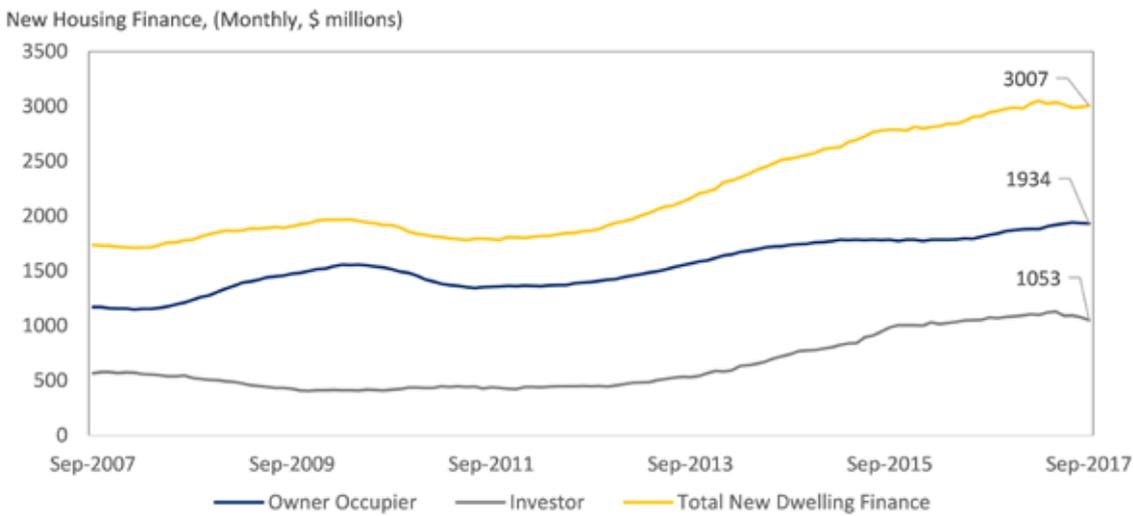
Over the year to September 2017 the number of new dwelling finance commitments grew by 2.6%.

CHART 15: Number of Residential Dwelling Commencements, Victoria



Source: ABS, Master Builders Australia

CHART 16: Value of Dwelling Finance, Australia



Source: ABS, Master Builders Australia

CHART 17: Number of Dwellings Financed, Victoria



Source: ABS, Master Builders Australia

8 Industry Outlook, continued

Non-residential

The total value of non-residential work in the June quarter 2017 was recorded at \$2.9 billion, an increase of 16% on the value of work recorded in the March quarter 2017.

Over the year-to June 2017 the total value of non-residential work done was recorded at \$9.9 billion, up slightly by 0.5% on the previous 12 months.

Chart 18 shows the value of non-residential work done

in Victoria. Activity is well above the decade average and the pipeline of major projects, shown in **Table 1** suggests activity may continue to improve over the next 12 months.

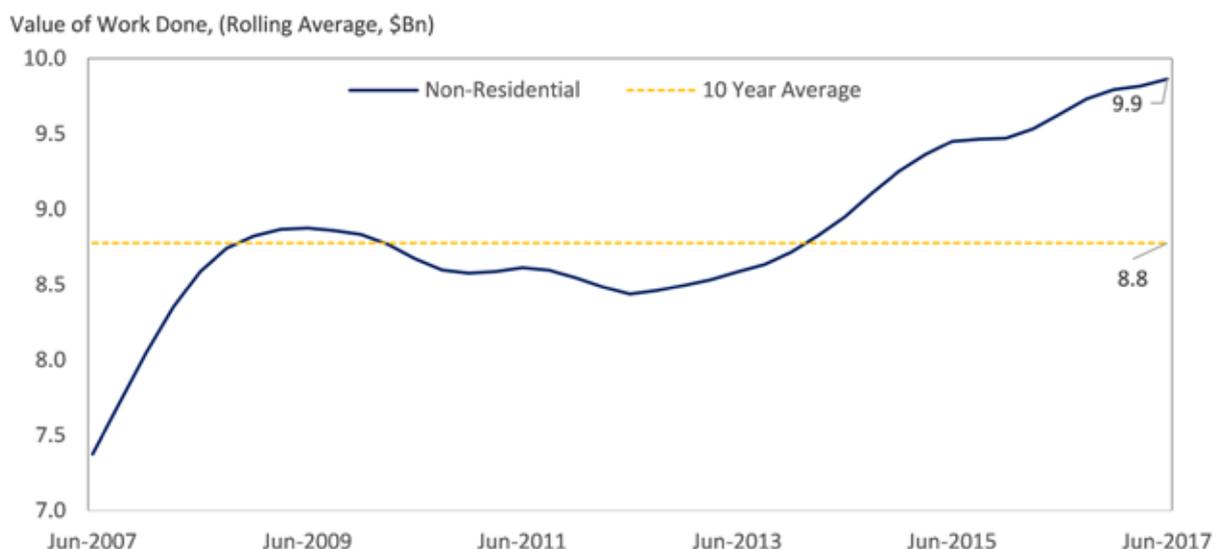
Commercial building approvals in Victoria have increased by more than one third in the last twelve months, supporting an outlook for a much better year for the sector ahead. The improvement has also come across a number of sectors, with strong growth in each

of the office, education, and health sectors.

The pipeline was also boosted by the announcement of plans for the \$7 billion Koo Wee Rup International Airport.

As **Table 1** shows the pipeline of work underway is as healthy as it has been for a while with a number of major projects set to support activity for the next 12 months.

CHART 18: Non-residential Value of Work Done, Victoria



Source: ABS, Master Builders Australia

TABLE 1: Major Non-Residential Projects, Victoria

Company	Project	Cost	Industry
<i>Under construction or committed</i>			
Kuok Group / Lang Walker	"Collins Square" - 5 Commercial towers	2,500	Mixed use
Lend Lease	Melbourne Quarter mixed-use development	1,500	Mixed use
MAB Corporation Pty Ltd / Gibson Property	Merrifield development	1,200	Finance, Property & Business services
Grocon	former Carlton and United Breweries site	1,200	Mixed use
Salta Properties / Qube Logistics	Lyndhurst (Dandenong South) and Altona inland ports	1,000	Transport & Storage
Brookfield Multiplex	405 Bourke Street - 156m tower	800	Mixed use
Vic Dept of Justice	New 628-bed prison, Ravenhall site	670	Community & Other services
Queensland Investment Corp	Office and retail tower at 80 Collins Street	550	Finance, Property & Business services
Pacific Group	Werribee Plaza redevelopment	400	Trade
Cbus Property	Collins Arch	250	Accommodation
<i>Under consideration or possible</i>			
Paragon Premier Investment Fund	Koo Wee Rup Airport	7,000	Transport & Storage
JTX International	Humex mixed use development	1,700	Mixed use
Australia Post and Cbus Property	Melbourne Police Headquarters, 311 Spencer Street	800	Community & Other services
Mirvac	Office tower at 477 Collins St, Melbourne	600	Finance, Property & Business services
QIC Global Real Estate	Collins Street Paris end development	550	Mixed use
Westfield	Extension of Westfield Doncaster Shopping Centre	500	Trade
Westfield Holdings Ltd	Westfield Knox shopping centre	450	Trade
Leighton Properties	Wesley Church on Lonsdale Street, Melbourne	450	Finance, Property & Business services
Mandarin Oriental Group	Mandarin Oriental Melbourne	375	Accommodation
SP Setia Berhad Group	Shangri La Melbourne	375	Accommodation

Source: Deloitte Access Economics

Note: (1) Projects under construction are those where work has commenced.

Projects where a decision has been announced but construction has not yet started are shown as committed. Projects where a decision to proceed is expected in the near future, or where the projects is in planning but no decision has been announced are deemed either under consideration or possible.

8 Industry Outlook, continued

Engineering Construction

Chart 19 below shows the value of engineering work done in Victoria. Current activity remains well above the decade average.

Commitments made by the State and Federal Governments into some major transport infrastructure projects are beginning to show up in the activity data, and there is plenty still to come.

Over the next couple of years we expect to see most of the growth in broader engineering activity come from the transport sector – it may well

outdo the utilities in terms of dollars spent over the next 12 months.

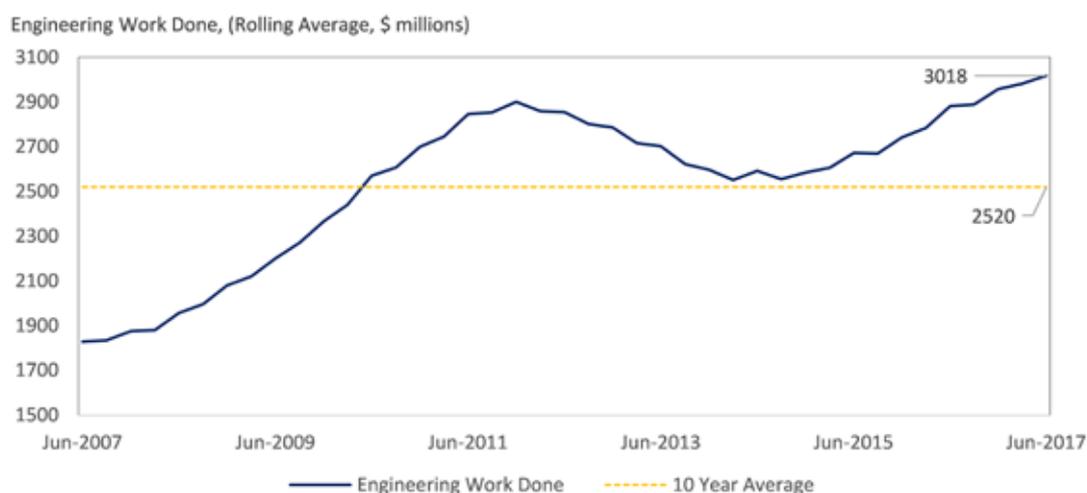
The total value of engineering work in the June quarter 2017 was recorded at just over \$3 billion, an increase of 1.2% on the value of work recorded in the March quarter 2017.

Over the year-to June 2017 the total value of engineering work done was recorded at \$11.8 billion, growth of 7% on the previous 12 months, as a number of major transport projects ramp up.

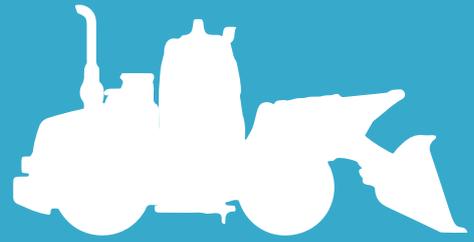
By sector in Victoria:

- Transport construction was recorded at \$1.2 billion in the June quarter and \$4.6 billion over the year-to June 2017 – growth of 8.8%
- Utilities construction was recorded at \$1.3 billion in the June quarter and \$5.1 billion over the year-to June 2017 – growth of 7.4%, and
- Resources construction was around \$216 million in the June quarter, with activity in the year topping \$881 million. Resources construction was down by 12.3% against the previous 12 months.

CHART 19: Engineering Value of Work Done, Victoria



Source: ABS, Master Builders Australia

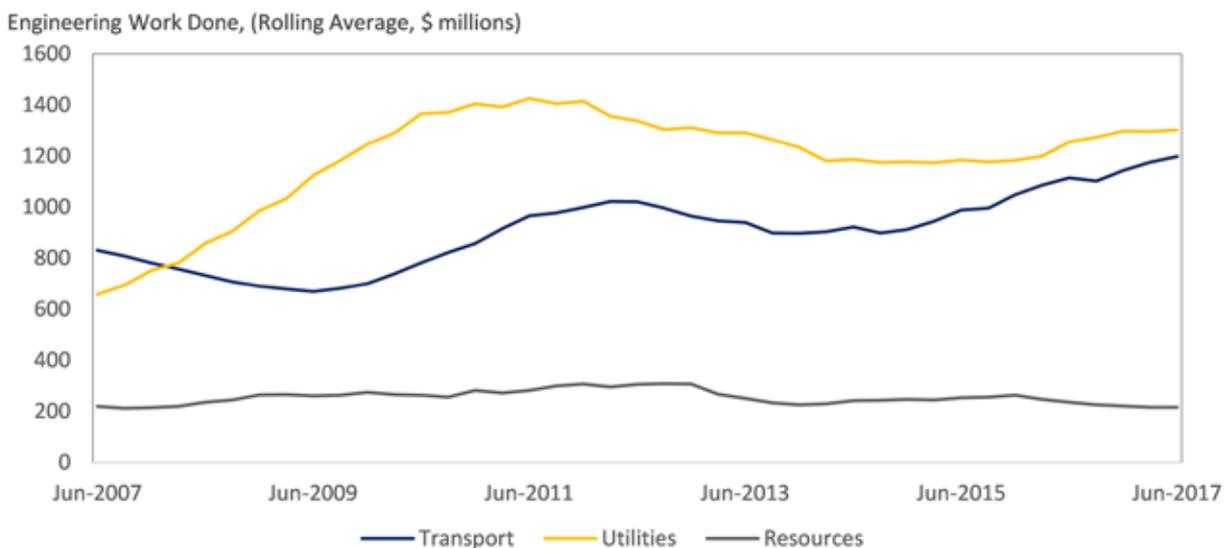


As **Table 2** shows, Victoria's engineering construction sectors is dominated by a number of major transport projects. Of the top 10 largest projects underway, 9 of them are in the transport sector.

This is likely the beginning of a boom in transport investment in Victoria with the value of projects in the various planning stages three times larger than those under construction. Other than the

transport sector, the biggest project underway is the \$500 million construction of the Yatpool, Karadoc and Wemen solar farms. Construction is also underway at the \$258 million Mt Gellibrand wind farm near Winchelsea and the \$140 million Yaloak South wind farm.

CHART 20: Engineering Value of Work Done, Victoria



Source: ABS, Master Builders Australia

8 Industry Outlook, continued

TABLE 2: Major Engineering Construction Projects, Victoria

Company	Project	Cost	Industry
<i>Under construction or committed</i>			
Victorian Rail Track	Melbourne Metro Rail Project	10,900	Transport & Storage
Victorian Rail Track	Cranbourne-Pakenham Rail Upgrade	1,600	Transport & Storage
Vic State Government	Dandenong Rail Corridor	1,600	Transport & Storage
Port of Melbourne	Port of Melbourne redevelopment, Webb Dock	1,600	Transport & Storage
Transurban Group	CityLink upgrade	1,300	Transport & Storage
Victorian Rail Track	Metropolitan rail infrastructure renewal program	700	Transport & Storage
VicRoads	Western Highway Duplication - Ballarat to Stawell	659	Transport & Storage
Victorian Rail Track	Mernda rail extension project	597	Transport & Storage
Melbourne Metro Rail Authority	Ballarat Line Upgrade	518	Transport & Storage
Overland Sun Farming and Island Green Power	3 solar farms in the Mildura and Swan Hill districts	500	Electricity, Gas & Water
<i>Underconsideration or possible</i>			
VicRoads	"North East Link" (Missing Link)	10,000	Transport & Storage
Transurban	Western Distributor project	5,500	Transport & Storage
Latrobe Magnesium	Magnesium plant	1,000	Manufacturing
Origin Energy	Stockyard Hill Wind Farm	900	Electricity, Gas & Water
Santos Ltd	Shaw River 1,500MW gasfired power station	880	Electricity, Gas & Water
VicRoads	M80 Ring Roads upgrade	673	Transport & Storage
Trustpower	Wind farm near Dundonnell	650	Electricity, Gas & Water
AGL Ltd	Tarrone Power Station	600	Electricity, Gas & Water
Australian Energy Company / Latrobe Fertilisers	Urea Plant (Stage 1), Latrobe Valley	550	Manufacturing
Astron Industries Pty Ltd	Donald mineral sands project	518	Mining



Master Builders Association of Victoria
332 Albert Street
EAST MELBOURNE VIC 3002
Tel: (03) 9411 4555
Email: mbassist@mbav.com.au
www.mbav.com.au

