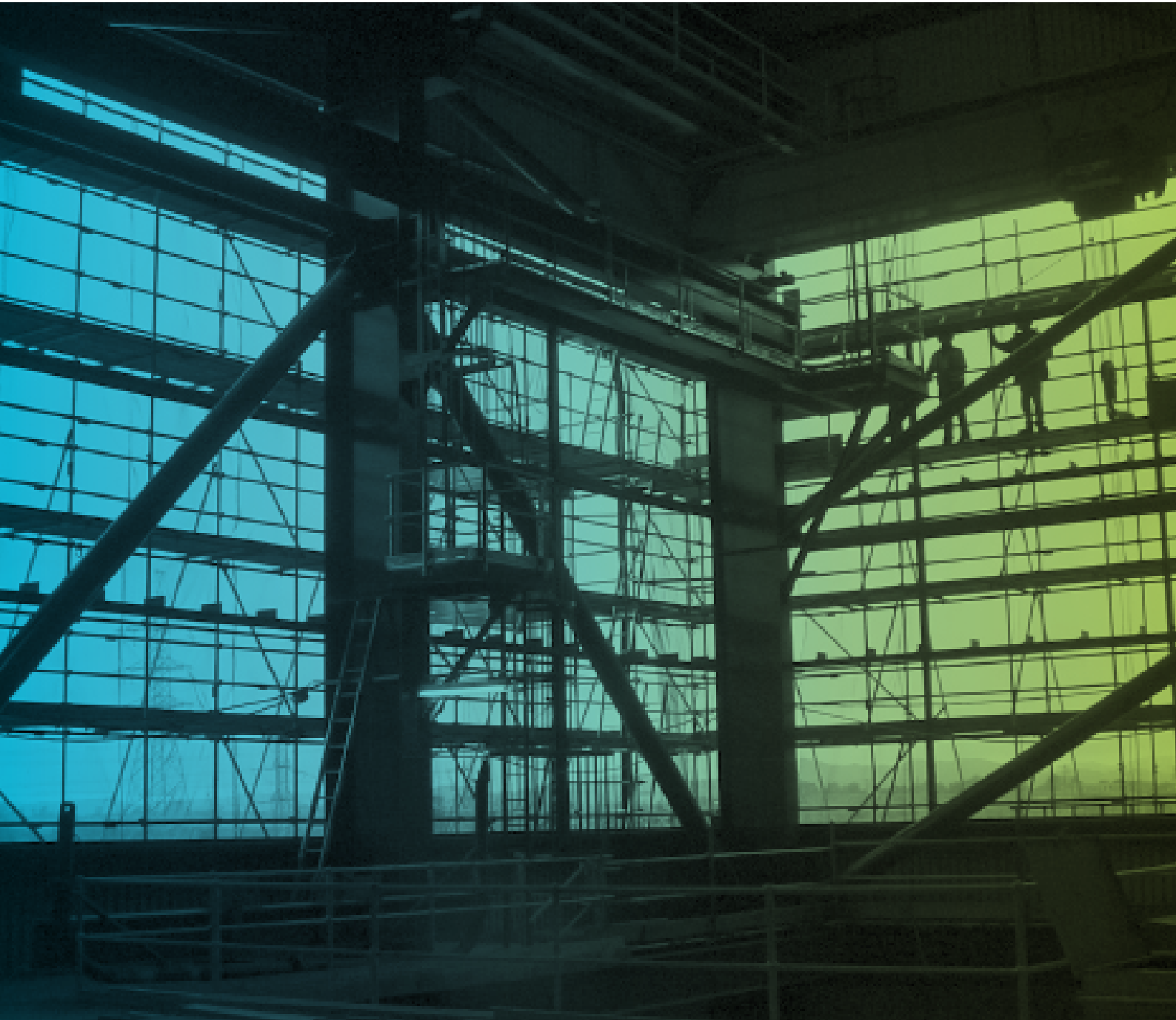


Construction Sentiment Survey



Executive Summary

Findings Report 17

Q4 2011

During our final quarterly survey for 2011, the country's economic outlook was coloured by the heightened disarray in the Euro zone, wholesale funding market contractions and an ongoing struggle for many non-mining sectors. The December Quarter Construction Sentiment Survey confirmed a poorer outlook for the property and construction industry. Our key indicator, Net Workload Expectation, moved further into negative, from -11 to -20 percent this quarter – representing the increasing ratio of respondents who expect a decline in industry workloads over the coming year.

Some private investment has been filtering through but public spending is expected to tighten as governments attempt to rein in spending following a decline in revenue for some regions. This will leave many in 2012 waiting for

the private sector to send more work their way. Others will find they are lacking the resources to deal with the influx of work in their region, or are unable to meet the low cost expectations of clients.

However, two consecutive rate cuts at the end of 2011 (and the prospect of more in 2012) are expected to make the soft housing market more attractive to buyers and provide relief to other sectors reliant on household spending. The gap between the state by state results shows that while some regions such as Queensland are improving, this is mainly due to engineering construction work, while most parts of the residential and non-residential building sectors continue to languish.

Key Findings

- **Our key indicator of industry sentiment falls to -20 percent**
- **Public sector spend expected to shrink**
- **Evidence of widespread industry cost-cutting**
- **Ongoing concerns about increased competition and industrial relations**

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Workload Outlook

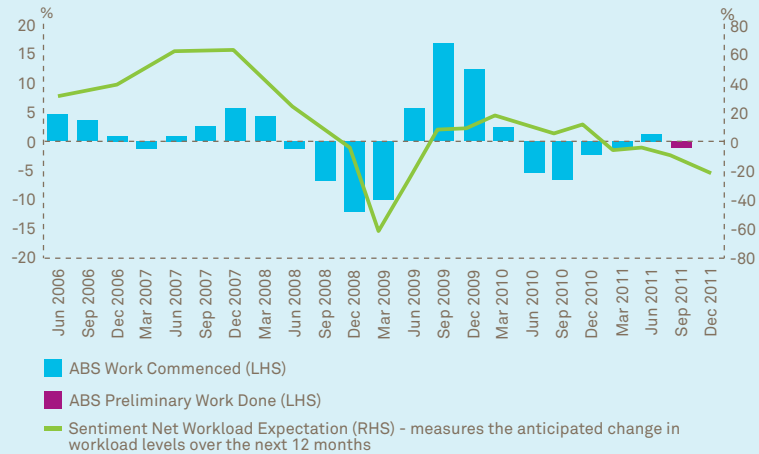
In the final quarter of 2011, our key indicator of industry sentiment, Net Workload Expectation, dropped further into negative territory to a reading of -20 percent. This confirmed the weak sentiment seen throughout 2011 as a larger proportion of participants expect workloads to reduce over the coming year.

The 2011 Sentiment Net Workload Expectation trend continues to provide an advanced projection of the Australian Bureau of Statistics (ABS) building activity values. Following a very slight rise in building work commenced during the June quarter, preliminary activity figures suggest further declines are likely in the last two quarters of 2011.

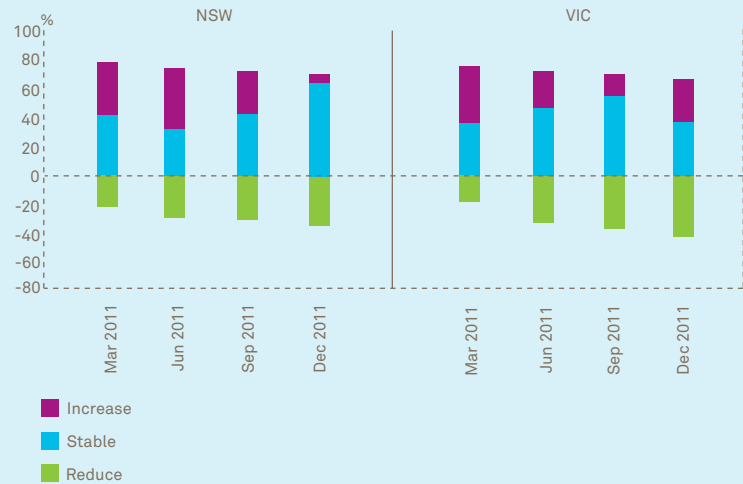
While some would suggest that the decline in industry confidence is more about attitudes, rather than an actual reduction in investment, ABS statistical indicators demonstrate a real slowing, particularly in the building sector. Engineering construction, however, has strengthened considerably — as can be seen in the contrasting conditions emerging from the different states.

Both NSW and Victoria have progressively worsened in their outlook. Our December Sentiment Survey found only 5 percent in NSW expect a lift in work for the industry in 2012, while 60 percent expect a steady flow of work. At the start of 2011, there was a healthier proportion of NSW (37 percent) and Victorian (36 percent) respondents anticipating improved workloads. ABS data shows that the value of building work completed in NSW has dropped 22 percent from a high in the June quarter 2010 of \$5.5 billion to a low of \$4.5 billion in the September quarter 2011.

Sentiment Workload Expectations and Change in Building Work Values



Workload Expectations By State



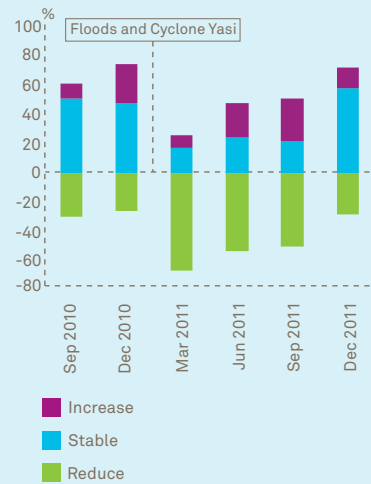
Workload Outlook Continued

As seen in the chart focussing on Queensland’s workload outlook, the state has inched its way back to see industry sentiment return to pre-flood confidence levels. Looking back to the December 2010 Sentiment Survey, 74 percent believed workloads would remain steady or increase, and now, after a dip in sentiment during 2011, this has returned to 71 percent. The state may be encouraged by the influx of engineering work and the prospect of flow-on project work in the broader construction industry. Heavy engineering work done for the private sector in Queensland – valued at nearly \$10 billion in the financial year 2010/11 – was almost double the value completed in the previous year.

The majority of this work is for resources-related projects and there is yet to be any real impact in terms of residential and non-residential building activity. The value of building work done in Queensland for the September 2011 quarter dropped by 22 percent from the BER-peak period in June 2010 of \$4.8 billion. Conversely, in the same period, the value of engineering work rose by 54 percent to \$7.3 billion completed in the September 2011 quarter.

A similar story can be found in Western Australia where the ABS reports that the value of engineering work almost doubled from \$5.5 billion in the September 2010 quarter to \$10.7 billion completed in the September 2011 quarter. The state’s residential and non-residential building activity continues to flatline with little movement from the \$3 billion completion mark quarterly throughout 2010 and 2011.

QLD Focus on Workload Expectations



New Business Outlook

The outlook varied from a range of industry practitioner groups about their own businesses.

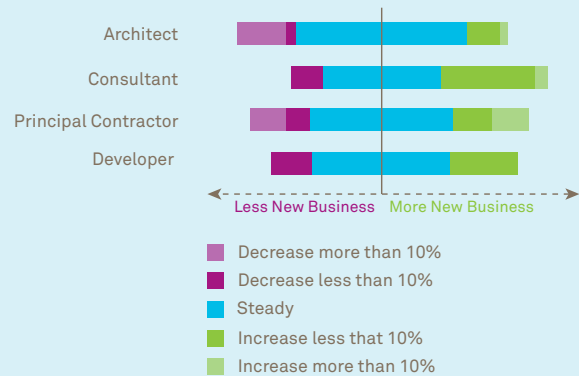
In general, more respondents are expecting a steady trickle of new business. Architects and Developers have become less optimistic since our survey in September 2011. Currently only 16 percent of Architects believe their business levels will expand over 2012, compared to 42 percent in the September quarter 2011. For Developers this figure has moved from 66 percent in our previous survey to 29 percent now.

In contrast, Consultants and Principal Contractors were more optimistic heading into 2012. Nearly half of our Consultant respondents believe their business will expand, while 17 percent of Principal Contractors anticipate an increase in new business levels of more than 10 percent.

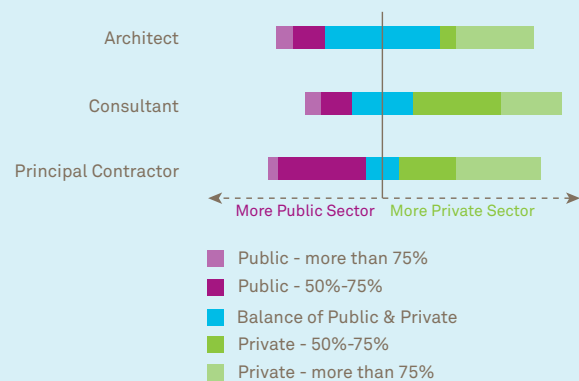
These results suggest that perhaps these two sections of the industry are expanding into areas with a greater current influx of work, such as engineering related projects, while many Architects and Developers are yet to see a stronger rebound in the buildings sector.

We also asked participants about the ratio of new work they expected to come from the private and public sectors. Reaffirming sentiments expressed elsewhere in this survey, the industry believes it will see a greater proportion of private sector enquiries and a drop in public sector business. Overall, 45 percent of respondents currently believe that they will generate more than half of their new business from the private sector, while only 28 percent believe more than half will come from the public sector.

New Business Expectations



Public vs Private Sector New Business



Industry Challenges

Our respondents pointed to several problems that have contributed to the industry's falling sentiment.

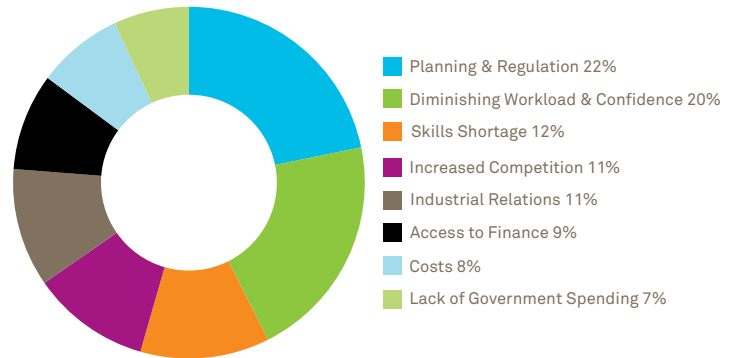
More participants felt beleaguered by regulatory restrictions. One summed up the issue as a “poor level of understanding by all levels of government of the degree of difficulty being experienced across the whole of the industry”. The other most notable problem was the “ridiculous amount of competition and absurd pricing levels”. Many were concerned that this may lead to solvency issues and questioned why upstream costs had not eased significantly in this environment.

Industrial Relations and Skills Shortages also troubled industry respondents. As cost-cutting abounds, some worried about the lack of dollars spent on training and the loss of knowledge following the retrenching of senior personnel.

There has been some improvement in the outlook for financing projects in the property and construction sectors following the cash rate cuts towards the end of 2011, but worries persist about external funding requirements putting the squeeze on our local banks.

This chart shows perceptions about funding in certain sectors have gotten better since the September Quarter survey in 2011. Industry participants believe that accessing finance for Office, Industrial and Retirement & Aged Care projects is no longer quite as difficult. In September,

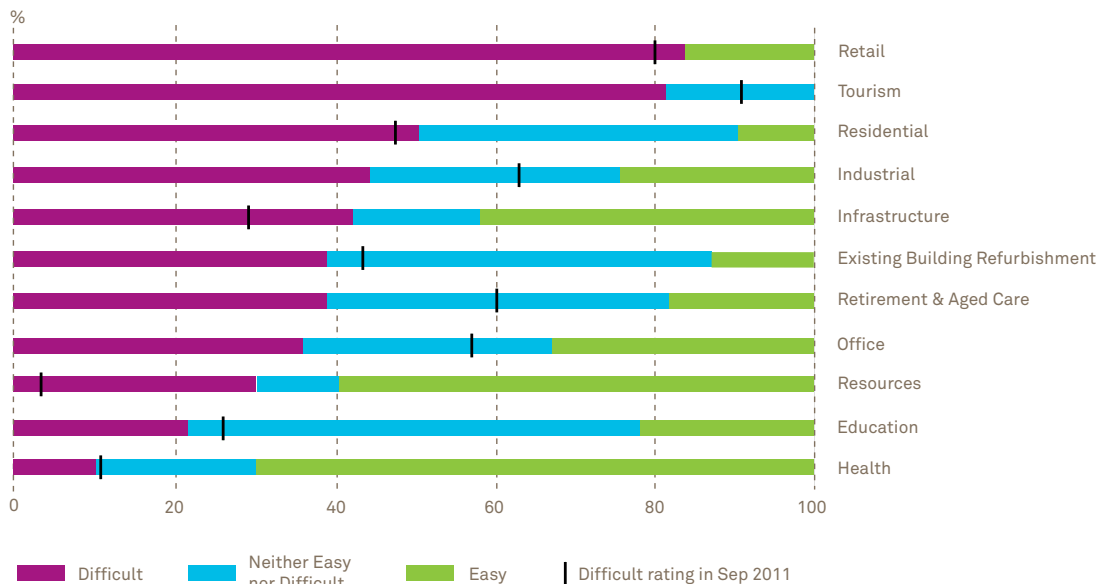
Prominent Industry Problems



56 percent classified Office projects as difficult to finance, whereas this figure dropped to 36 percent in our December Quarter Sentiment Survey.

However, Health, Education and Resources projects remain the easiest to finance according to our respondents.

Access to Finance by Sector

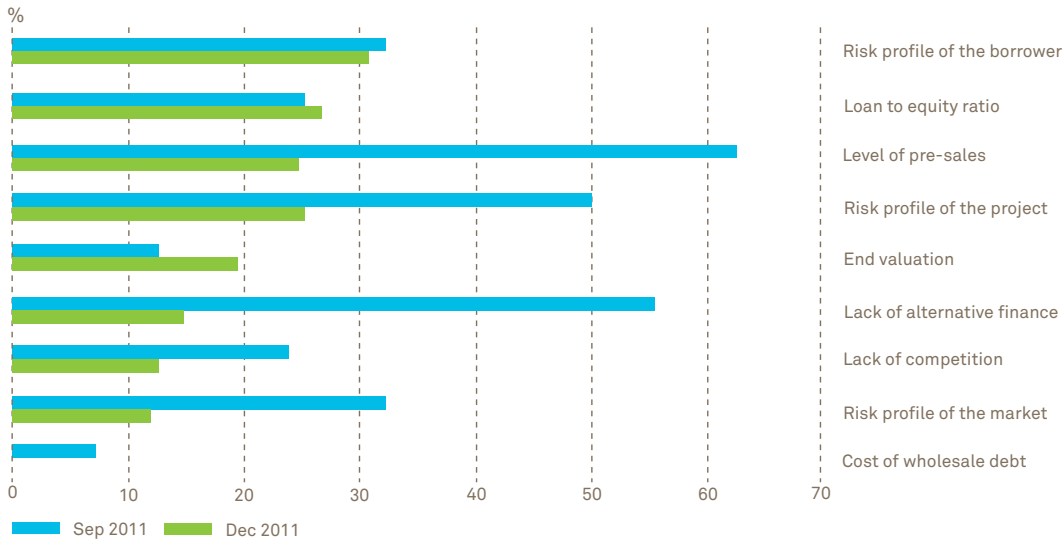


Industry Challenges Continued

Pre-sales remains one of the most prominent barriers to financing projects, however, there was a lower proportion of respondents who classified it as one of the greatest barriers compared to our September Quarter survey in 2011.

In the December Quarter survey, the risk profile of the borrower and levels of equity also emerged as important factors for financial institutions. Concerns about the end valuation of the project gained some prominence, while fewer were concerned about a lack of alternative finance.

Greatest Barriers to Finance



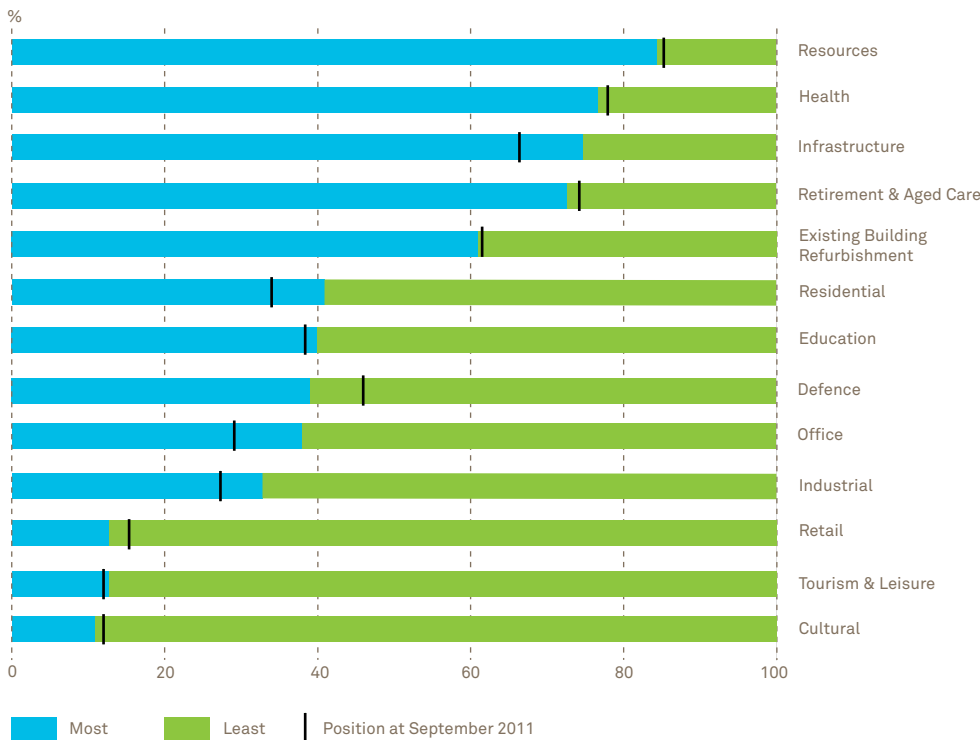
Future Opportunities

The Resources and Health sector remain the top picks for growth across 2012 according to our industry participants.

However, several not so popular sectors, such as Office and Residential have made some inroads in terms of prospects for growth since our previous survey in the third quarter of 2011. In the December Quarter survey, 41 percent of respondents nominated the Residential sector as most likely to contribute to growth, up from 34 percent in the third quarter.

This continues a trend of erratic confidence levels in the Residential sector, as industry participants are perhaps swayed by conflicting reports on the local economy and the direction of house prices. The Office sector, however, has been gaining ground steadily as the industry seeks to capitalise on the supply gaps in several markets.

The Sectors Most Likely to Contribute to Growth



Future Opportunities Continued

We also asked industry participants about their views on other key opportunities for the property and construction industry in 2012.

Unsurprisingly, there was an increase in those expecting the resources industry to generate profits in 2012 – 57 percent ranked it as a medium to great opportunity over the next 12 months. As was evident in the earlier state-level workload outlook, there is plenty of work being generated in the engineering construction sector. In Queensland, ABS data shows that 79 percent of engineering construction work yet to be done in the private sector is for the heavy engineering sub-sector.

Work related to infrastructure development remains near the top of the opportunities list for 2012. There are several infrastructure works already under way or just about to start, but beyond these projects, the industry remains concerned about anticipated reductions in public spending. Housing is also seen as unlikely to offer opportunities as dwelling commencements continue to dwindle and the residential market shows ongoing signs of softness.

Industry Opportunities



Planning and Procurement

Planning Challenges

Three quarters of our respondents continue to perceive planning approval timeframes as excessive or protracted. In response to this ongoing concern, we asked participants to rate their experiences with particular planning application types. These results broken down by state highlight where the challenges lie for the industry.

The development approval process for residential buildings greater than three storeys was the most problematic, with 73 percent of participants having a poor experience. This is consistent with the results from our September Quarter survey in 2011.

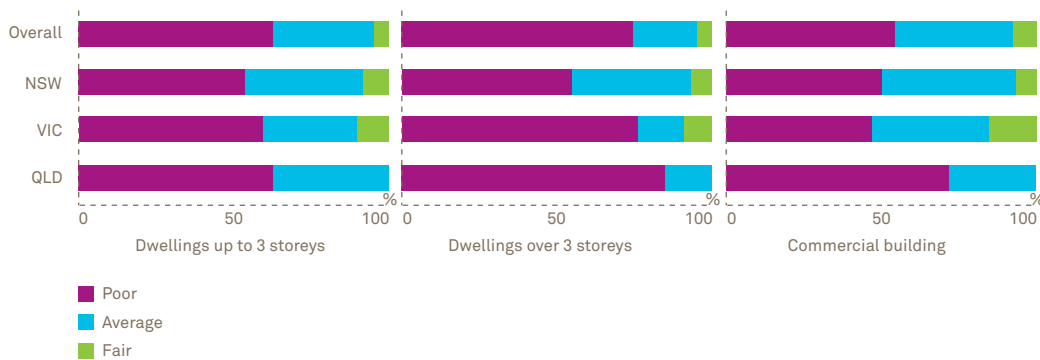
On a state level, the worst results came out of Queensland where at least 60 percent of respondents were unhappy with their experiences in the most prominent planning application processes. The best results came out of

Victoria in the commercial projects category, where 18 percent classified the application process as fair, compared to 7 percent in NSW and none in Queensland.

Respondents also offered several suggestions about how the process could be improved. “Feedback earlier in the process from councils would allow an opportunity to modify plans during the process.”

Others suggested refining the decision making process by allowing “planners to apply their own discretion more readily when appropriate design driven alternate solutions are presented” or “utilise architects more to assess applications”. This idea of injecting more relevant knowledge into the process was also evident in other suggestions, such as setting up “panels of various disciplines who adjudicate on applications as local councillors are, in the main, not expert in planning matters”.

How Respondents Rate their Planning Experience



Planning and Procurement Continued

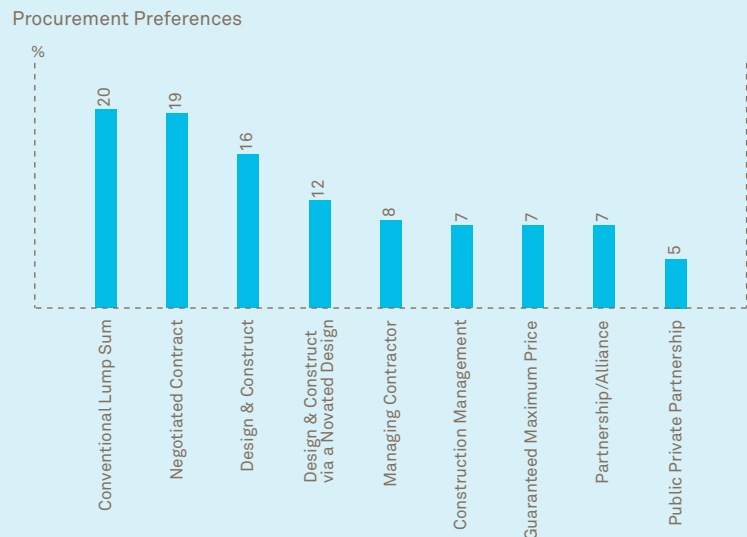
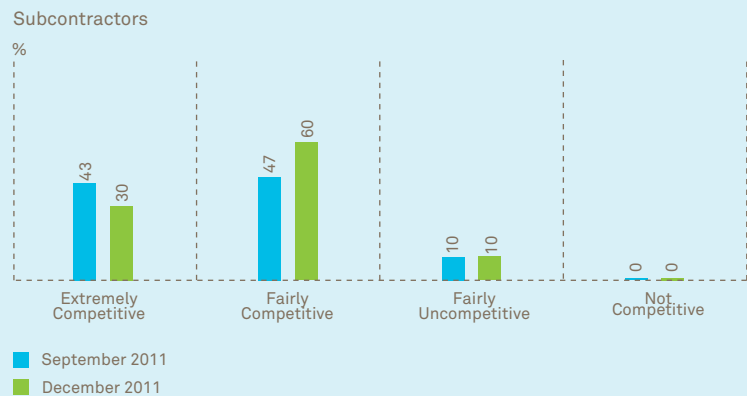
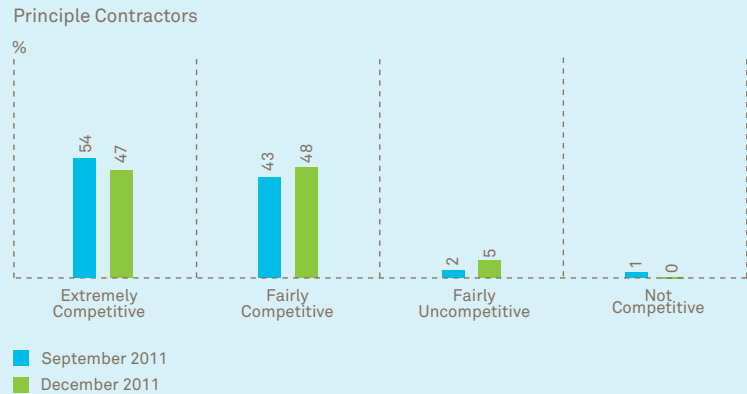
Industry competition levels remained high in our December Quarter Sentiment Survey in 2011.

There was little change in industry perceptions of competition among Principal Contractors but there was a slight shift away from the extreme end of the scale for Subcontractors.

Comments elsewhere in our Sentiment Survey indicate that the level of competition in some areas also depends on the tier of the contractor. In some cases, contractors are already tied up on major projects in the area, whereas elsewhere there has been a shift towards more competitive behaviour across the board.

The prominent procurement types remain unchanged. Conventional Lump Sum contracts are the preferred method of procurement for most participants. Negotiated Contracts and Design and Construct are also popular.

Public Private Partnerships were nominated by the fewest number of respondents this survey.



Labour Force and Industrial Relations

In our final survey for 2011, we observed a notable jump in industry participants reporting a decrease in permanent staffing levels over the previous six months in their workplaces. This figure has been increasing over the past year – reaching 49 percent in our latest survey, compared to only 19 percent 12 months ago in the December Quarter 2010 survey.

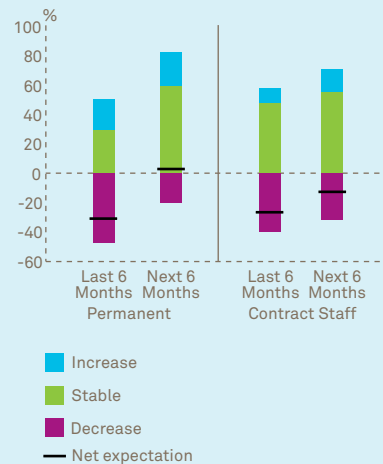
There has also been a steady rise over the last year in the expectations of contract staffing cuts. The ratio of respondents anticipating a drop in contract staff rose to 30 percent in our final quarter survey for 2011, up from 18 percent in the final quarter survey for 2010. These results point to the significant level of cost cutting in staffing and other areas which is becoming more evident across the industry.

Skills shortages persist in the industry – 66 percent of respondents were concerned about this problem in our December 2011 survey.

Construction and Project Management Services remain one of the most sought after roles in the industry with 18 percent of respondents identifying shortages in this area. Plasterers, Plumbers and Form Workers are also in demand and the proportion of participants in our December survey who listed shortages in these trades were all above the average level for the past year.

Respondents were worried about a “lack of consultant coordination”, the availability of trades and “the quality of their output, particularly on complex jobs”. Shortages were also exacerbated by a lack of continuity of work, particularly in regional areas.

Staffing Expectations



Prominent Skills Shortages



Labour Force and Industrial Relations Continued

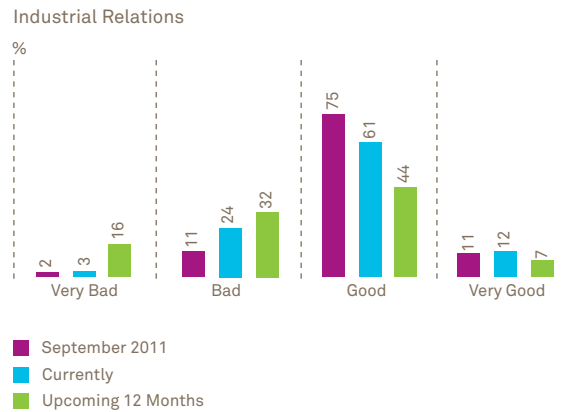
In addition to skills concerns, respondents shared their views on the outlook for Industrial Relations. Participants are increasingly pessimistic about the industry’s IR environment. While 73 percent currently believe conditions are on the good end of the scale (down from 86 percent last survey), this number drops to 51 percent when asked about the coming 12 months.

Our December Quarter survey was undertaken a short time after the Qantas dispute in November 2011 when industrial action in the broader economy was receiving considerable media attention. These Construction Sentiment Survey results add the perspective of the property and construction industry to this wider debate.

Concerns exist about unions holding up work on new developments “especially in the commercial sector”.

Another respondent pointed to the increased risk faced by normally unaffected parts of the industry: “We generally are not of a scale to attract union attention and have a good relationship with the people working on our projects however I am concerned that there is a high risk of union interference in the coming 12 months”.

Others believe that remuneration should be more specifically tied to project goals: on “major construction projects it would be beneficial to both workers and management to target the most efficient way of delivering projects and, on completion ‘share the spoils’ (eg. rationalise RDOs until completion and pay bonuses on target achievements)”. This echoes concerns from other industries about how remuneration relates to productivity in response to the federal government’s upcoming review of the Fair Work Act.



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