SECOND QUARTER 2024

CONSTRUCTION MARKET UPDATE

AUSTRALIA / NEW ZEALAND

RLB Rider Levett Bucknall

Construction escalation for 2024 still considerably higher than forecast CPI

AUSTRALIA SUMMARY

CONSTRUCTION COST OUTLOOK FOR 2024 AND BEYOND: CHALLENGES AND REGIONAL VARIATIONS

The Australian construction industry is navigating a turbulent economic landscape in 2024. The Reserve Bank of Australia (RBA) has predicted subdued economic growth coupled with a constrained labour market. This scenario suggests a continuation of the upward trend in labour costs, a critical component of overall project expenditure. Further intensifying inflationary concerns is the stagnation of productivity growth within the construction sector. Since our Q1 2024 report, four of nine cities reported a rise in forecasted construction escalation for 2024, with the other five remaining steady. Overall, the rate of escalation remains significantly higher than the 4.0% CPI uplift anticipated for the full calendar year.

The anticipated rise in construction costs will have a significant impact on project delivery across various sectors:

- **Public infrastructure:** Increased construction costs will likely lead to delays and budget overruns for public infrastructure projects. This could impact the delivery of essential services such as transportation, utilities, and healthcare
- **Private sector development:** The rise in construction costs will make it more challenging for private developers to deliver projects within budget. This could lead to project cancellations, delays or a reduction in the quality of construction materials and methods
- **Residential housing:** The affordability of housing is likely to deteriorate further due to rising construction costs. This could exacerbate the housing supply shortage and make it even more difficult for Australians to achieve homeownership

COST PRESSURE IMPACT ON THE STATES

The impact of these cost pressures varies across different regions in Australia, as outlined below.

Queensland: A construction boom with labour woes

Queensland faces a particularly challenging construction cost environment. A robust pipeline of projects has created an environment of high demand for skilled labour. This existing labour shortage is being exacerbated by the construction program required for the 2032 Olympic Games in Brisbane. As a result, there is significant upward pressure on wages and strained resource availability. Queensland is likely to experience the most significant cost increases in the coming years.

New South Wales: Caught in a cost squeeze

New South Wales is grappling with a trifecta of challenges: high land prices, persistent construction cost escalation, and competition for skilled labour from Queensland. These factors threaten project feasibility as developers struggle to make the economics work within their budgets. This scenario may lead to a slowdown in new project commencements in New South Wales.

Victoria: Ambitious housing targets, limited resources

Victoria faces the challenge of meeting ambitious housing targets while burdened by developer taxes and limited land availability. These factors impede the construction of new housing units, further contributing to the existing housing supply shortage and keeping construction costs elevated. Policy reforms focused on streamlining development approvals and reviewing developer taxes could help alleviate cost pressures in Victoria.

Cover & page 3: AURA by Aqualand, Sydney, Australia

AUSTRALIA SUMMARY

South Australia: A potential bright spot with housing reform

South Australia is at the forefront of addressing affordability concerns. Housing reforms implemented by the state government, including land release and the abolition of stamp duty for first-time buyers, have shown promise in stimulating residential construction activity. This could potentially lead to an increase in housing supply and a moderation of construction costs in the state. The success of these reforms could serve as a model for other states grappling with affordability issues.

Western Australia: Project approvals don't necessarily mean affordability

Despite recent increases in project approvals, Western Australia is not immune to rising construction costs. The state is experiencing significant cost pressures, highlighting the broader national trend. However, increased project approvals offer a glimmer of hope for increased construction activity in the state, although affordability concerns remain.

NATIONAL FORCES DRIVING COST PRESSURES

Several national key forces are converging to drive up construction costs in Australia.

Policy and economic landscape

The potential for further interest rate hikes by the Reserve Bank of Australia (RBA) to combat inflation presents a complex situation for the construction industry. While higher interest rates may dampen demand for construction projects, they also increase financing costs for developers, potentially hindering project viability.

Calls for government policy changes are gaining traction, particularly regarding tax reforms aimed at improving housing affordability. These reforms could involve changes to negative gearing and capital gains tax arrangements, which currently incentivise property investment and, according to many industry commentators and analysts, contribute to the housing supply shortage.

Labour market shortfall: A critical challenge

A significant challenge lies in the industry-wide dearth of skilled tradespeople. BuildSkills Australia estimates a national shortfall of 90,000 skilled workers, will be required to meet the Government's National Housing Accord target of 1.2 million homes over five years, highlighting the severity of the issue. This shortage is particularly acute in Queensland due to the construction demands of the 2032 Olympic Games. The lack of skilled labour directly impacts project budgets as wages rise to attract available workers.

Stagnant productivity: Working harder for less output

The construction sector in Australia has experienced a concerning decline in productivity in recent years. Overall, Australia's labour productivity fell by 3.7%. In the constructor sector, labour productivity fell by 1.8% – well below the long-term average growth rate of 1.3%. This suggests a requirement for more resources, particularly labour and materials, to achieve the same level of output. This decline contributes to higher costs for construction projects.

RLB's following analysis of the construction output per worker highlights: the current productivity of the construction workforce; historical productivity changes in the construction workforce; and the impact these changes are having on overall output per worker.

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INDUSTRY ANALYSIS - OUTPUT PER WORKER

Across Australia, numerous media outlets, industry commentators and business leaders continue to discuss the critical shortage of skilled workers needed to meet current and future industry demands, along with the ongoing productivity challenges in the construction sector.

Based on RLB's analysis of construction activity and workforce data, over the past ten years (from December 2013 to December 2023), the number of workers within the construction workforce has increased while output per worker has reduced.

Since 2013 there has been a 26.5% increase in the number of workers within the construction workforce. On average, these people are working 2.0% less hours per annum and achieve 25.4% lower output.

WORKFORCE COMPOSITION	2003		2023	
	'000s	%	'000s	%
PROFESSIONAL CONSULTANTS	149.0	17%	377.8	26%
BUILDING TECHNICIANS	93.9	11%	169.5	12%
PROFESSIONAL WORKERS	**242.9**	**28%**	**547.3**	**38%**
TRADE WORKERS	426.5	49%	607.6	43%
PLANT OPERATORS	69.1	8%	76.8	5%
LABOURERS	134.5	15%	199.2	14%
TRADE & LABOURER WORKERS	**630.0**	**72%**	**883.6**	**62%**
TOTAL WORKERS	**872.9**	**100.0%**	**1,430.9**	**100.0%**

The data indicates that the proportion of 'professional' workers in the construction industry has risen at a much faster rate over the past 20 years compared to 'trade and labourer' roles.

In 2003, professional workers accounted for 28% of the construction workforce. By 2023, this had risen to 38%.

Nationally, the number of professional workers rose by 304,000—or 125%—between 2003 and 2023, while trade and labourer workers increased by 254,000—equivalent to 40%.

The analysis of worker output (construction work done divided by number of workers) appears to be trending positively when comparing 2003 to 2023 (refer to the chart). However, when data across the last five years (2018 to 2023) is analysed, that trend is reversed. A lower output per worker was achieved in 2023 ($180,100) compared to 2018 ($196,800).

While overall construction industry output per worker has trended slightly upwards since 2000, output per worker for 2023 is 3.4% lower than the 23-year average. Trades and labourers' output for the past year was 4.7% above the same average, but professionals' output was 17.4% below the average.

While output in the professional category has fallen 17.2% since 2003, within the trades and labourer's category, worker output has risen by 33%. Although not an accurate depiction of productivity in a formal economic sense, RLB's calculation of worker output provides some insight into why productivity in construction is under investigation by many industry bodies.

In 2023, the output per professional worker was 17.2% lower than 2003. Trade and labourer workers output was 33% higher.

The rapid rise in the number of professional workers that are now required to deliver projects across the country is at odds with the number of workers 'on the tools'.

Jobs and Skills Australia commissioned Victoria University in May 2023 to produce employment projections to 2033, using their Victoria University Employment Forecasting Model. Data is available by industry, occupation, and skill level. RLB has extracted these projections for the construction industry. The construction workforce in 2033 anticipates an increase of approximately 150,000 workers, with over 50% of these additional workers expected to fall into the professional category.

By 2033, it is projected that 150,000 additional construction industry workers will be required. Professional workers will comprise more than 50% of the total number, despite accounting for only 38% of the current construction workforce.

The demand for skilled workers continues to outpace the available supply according to both industry and professional associations. However, in the Australian Government's draft priority skills list for temporary migrants (published in June 2024), trades like plumbers, bricklayers and cabinetmakers only remain under consideration.

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INDUSTRY ANALYSIS - OUTPUT PER WORKER

Using the recently released Australian Construction Industry Forum (ACIF) activity forecasts and Job and Skills Australia worker forecasts, output per worker in 2033 remains at approximately $182,000 per worker. The average output per worker for the 23 years to 2023 was $186,000.

From 2000 to 2023, the average worker output was $186,000. Using projections from Jobs and Skills Australia and ACIF, projected worker output will remain close to $182,000 per annum for the years 2023 to 2033.

PROFESSIONAL WORKER GROWTH

Anecdotally there are several reasons why the proportion of professional workers has grown in the Australian construction industry over the past 20 years:

- **Increased complexity of projects:** Modern construction projects are becoming larger, more intricate, and often involve new technologies and materials. It requires a broader skillset to manage and supervise these complexities
- **Focus on efficiency and productivity:** As competition in the construction sector intensifies, companies are looking for ways to improve efficiency and productivity by implementing innovation, digitalisation and artificial intelligence
- **Regulatory requirements:** Building codes and regulations have become more stringent in recent years with a significant focus on Environmentally Sustainable Design (ESD). This necessitates a greater number of qualified professionals, such as certifiers and surveyors, to ensure compliance throughout the construction process
- **Technological advancements:** The adoption of new technologies like Building Information Modelling (BIM) requires professionals with specialised skills to design, manage, and analyse construction projects digitally

While the data predicts an overall growth in the workforce, with a higher proportion of professional workers, it's important to note that some industry bodies believe Australia still faces a significant skills shortage across many crucial construction trades.

Sources of data

Construction Work Done : ABS 8752 & 8762 series

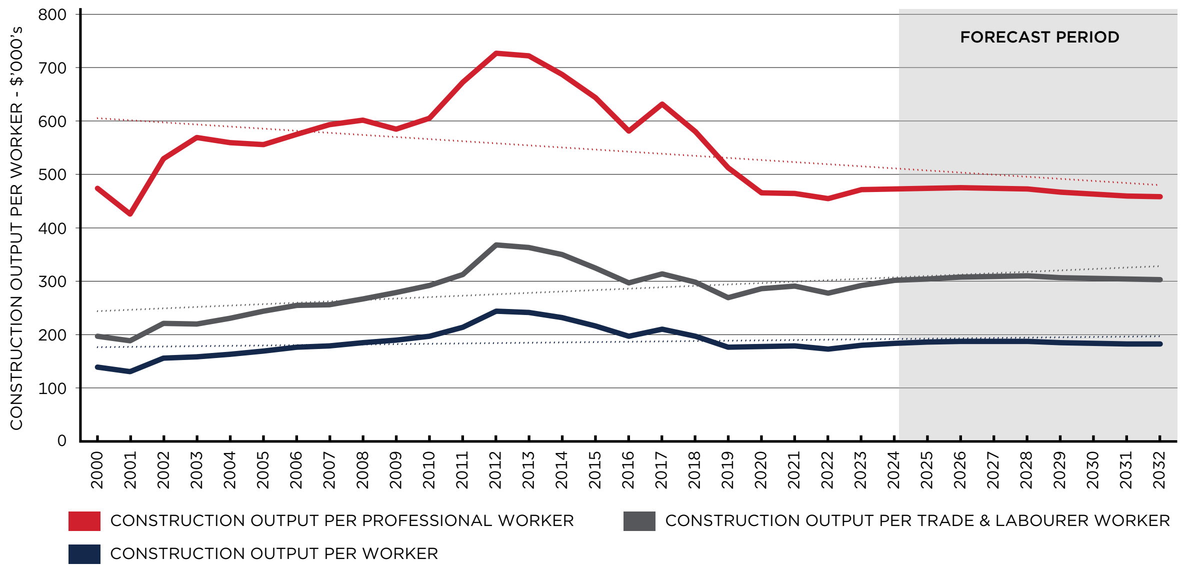
Forecast Work Done: ACIF May 2024

Workforce Composition: ABS 6291.0.55.001, Table EQ08

Workforce Composition Forecast: https://www.jobsandskills.gov.au/data/employment-projections#downloads

AUSTRALIA HISTORICAL AND FORECAST CONSTRUCTION OUTPUT PER WORKER

CONSTRUCTION OUTPUT PER WORKER – ACIF WORK DONE USING JOBS & SKILLS AUSTRALIA FORECASTS



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ADELAIDE

MARKET INSIGHTS

There is an ongoing commitment from both the South Australian and Australian Government to stimulate the South Australian market through significant investments in healthcare, education, defence and road infrastructure projects. These projects represent a substantial portion of current government expenditure.

The South Australian economy is experiencing near-capacity operation, particularly within the tier one contractor and subcontractor markets. This robust industry demand is positive but presents challenges. A scarcity of skilled labour is driving up wage costs. Contractors are seeking higher margins due to strong demand. Contractors are being more selective with projects, further limiting competition. These factors are expected to continue to collectively exert upward pressure on project pricing throughout 2024.

A lack of competition within the tier one contractor and subcontractor markets is inflating project costs and restricting options for developers and asset owners.

KEY FACTORS IMPACTING ESCALATION

- A persistent lack of skilled labour is driving up wage costs across the construction industry. While material prices have stabilised, this is being offset by the increasing cost of labour.
- The potential insolvency of subcontractors, both minor and major, remains a significant economic concern. This risk is present across all trades and market sectors.
- Project durations are exceeding original contractor forecasts, putting additional strain on budgets.
- Continued government commitment to major defence, infrastructure and healthcare projects, along with recent investments in the hydrogen sector, is stimulating industry demand. However, this strong demand also contributes to the pressure on labour and resources, potentially leading to further cost escalation.

CURRENT MARKET INDICATORS

CALENDAR YEAR 2024 CVM MOVEMENT Q1 24 vs Q1 23	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	9.3% ▲	-6.9% ▼	-0.9% ▼
YTD TO APRIL 2024 Y-O-Y	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	-3.9% ▼	-27.8% ▼	-15.9 ▼

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
ADELAIDE	5.1	**6.5**	5.0	4.5	4.0	3.5
BRISBANE	8.0	**7.2**	5.6	5.1	5.1	4.1
CANBERRA	4.5	**4.0**	3.8	3.5	3.0	3.0
DARWIN	5.5	**5.5**	5.0	4.5	4.0	4.0
GOLD COAST	10.5	**7.0**	4.5	5.0	5.0	4.0
MELBOURNE	8.0	**5.0**	4.0	3.5	3.5	3.5
PERTH	5.8	**5.0**	4.8	4.5	4.5	4.2
SYDNEY	6.0	**5.5**	4.5	3.5	3.5	3.5
TOWNSVILLE	5.0	**7.0**	6.0	5.0	4.0	4.0

BRISBANE

MARKET INSIGHTS

State government building programs in healthcare, corrections, education and infrastructure are driving high demand for construction services. This keeps the order books full for tier one contractors and subcontractors, leaving limited resources for the private sector. Tier two and three contractors have capacity but high demand for resources on major projects is driving costs to a level at which private sector projects are not sustainable. This is because tier two and three subcontractors are being forced to match EBA rates on the major projects to attract and retain labour. This overarching scarcity of skilled labour is driving wages upward.

Additionally, contractors are factoring in potential risks like industrial action and subcontractor insolvencies into their pricing.

Poor productivity is leading to longer project durations, increasing preliminary costs. Furthermore, tier one contractors are becoming selective in the projects they bid on, often preferring an ECI (Early Contractor Involvement) model where they manage the project risks, rather than competitively tendering for fixed price contracts.

This confluence of factors presents a significant challenge for the private sector. Revenue streams haven't kept pace with construction cost hikes, making many projects financially unviable. This situation exacerbates existing housing shortages and affordability issues, particularly for first-time homebuyers.

KEY FACTORS IMPACTING ESCALATION

- Poor productivity.
- Shortage of skilled resources for key trades particularly in formwork, plasterboard, building services trades and painting.
- Lack of competition in tier one contractors and subcontractors due to limited options.
- Risks of industrial action.
- Risks of contractor, subcontractor and supplier insolvencies.

CURRENT MARKET INDICATORS

CALENDAR YEAR 2024 CVM MOVEMENT Q1 24 vs Q1 23	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	-8.4% ▼	2.5% ▲	10.8% ▲

YTD TO APRIL 2024 Y-O-Y	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	-2.1% ▼	7.4% ▲	1.3% ▲

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
ADELAIDE	5.1	**6.5**	5.0	4.5	4.0	3.5
BRISBANE	8.0	**7.2**	5.6	5.1	5.1	4.1
CANBERRA	4.5	**4.0**	3.8	3.5	3.0	3.0
DARWIN	5.5	**5.5**	5.0	4.5	4.0	4.0
GOLD COAST	10.5	**7.0**	4.5	5.0	5.0	4.0
MELBOURNE	8.0	**5.0**	4.0	3.5	3.5	3.5
PERTH	5.8	**5.0**	4.8	4.5	4.5	4.2
SYDNEY	6.0	**5.5**	4.5	3.5	3.5	3.5
TOWNSVILLE	5.0	**7.0**	6.0	5.0	4.0	4.0

CANBERRA

MARKET INSIGHTS

Canberra's construction sector in 2024 presents a dynamic picture. While residential demand remains robust, particularly in suburbs like Belconnen, Denman Prospect and Taylor, some headwinds are present.

On the upside, government investment continues to fuel commercial and infrastructure projects. The recent ACT Budget allocation for health, education and arts strengthens this trend. Additionally, data centre construction and educational facility developments show positive signs.

Challenges persist for contractors. Skilled labour shortages, rising material and labour costs, and potential market saturation are ongoing concerns. Supply chain disruptions and interest rate hikes could further impact project timelines and budgets.

The Canberra construction market offers opportunities for growth in both the residential and infrastructure sectors. However, navigating market risks and economic uncertainties is crucial for success in 2024.

KEY FACTORS IMPACTING ESCALATION

- Skills shortage
- Market capacity
- Contractor insolvency

CURRENT MARKET INDICATORS

CALENDAR YEAR 2024 CVM MOVEMENT Q1 24 vs Q1 23	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	3.7% ▲	-25.0% ▼	42.8% ▲
YTD TO APRIL 2024 Y-O-Y	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	14.0% ▲	-50.9% ▼	-14.6% ▼

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
ADELAIDE	5.1	**6.5**	5.0	4.5	4.0	3.5
BRISBANE	8.0	**7.2**	5.6	5.1	5.1	4.1
CANBERRA	4.5	**4.0**	3.8	3.5	3.0	3.0
DARWIN	5.5	**5.5**	5.0	4.5	4.0	4.0
GOLD COAST	10.5	**7.0**	4.5	5.0	5.0	4.0
MELBOURNE	8.0	**5.0**	4.0	3.5	3.5	3.5
PERTH	5.8	**5.0**	4.8	4.5	4.5	4.2
SYDNEY	6.0	**5.5**	4.5	3.5	3.5	3.5
TOWNSVILLE	5.0	**7.0**	6.0	5.0	4.0	4.0

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DARWIN

MARKET INSIGHTS

The Northern Territory construction sector continues to experience strong growth, following the continued investment in defence and infrastructure upgrades. Additionally, the establishment of the Housing Australia Future Fund (HAFF) is set to generate a series of social and affordable rental housing projects across regional Northern Territory, further bolstering the Territory's development prospects.

Private commercial and residential sector investment continues to slow. Developers are finding it increasingly difficult to meet financial targets, due to higher construction costs combined with flattening in sale and rental prices.

Factors such as labour shortages, high demand, productivity issues and challenging economic conditions continue to drive market volatility.

KEY FACTORS IMPACTING ESCALATION

- While material prices have stabilised, the Northern Territory is experiencing labour shortages across key trades. This is continuing to drive up prices, particularly in regional communities.
- A lack of competition in the tier one contractor and subcontractor markets is increasing project costs.
- Project durations are extending beyond original contractor forecasts. This is due, in part, to skilled labour shortages and reduced productivity.
- Contractor margins remain steady at approximately 5-6% but are dependent upon contractors' appetite for each individual project.
- The Northern Territory Government and Australian Government remain committed to the major defence and infrastructure sectors, which continues to put pressure on the subcontractor market.

CURRENT MARKET INDICATORS

CALENDAR YEAR 2024 CVM MOVEMENT Q1 24 vs Q1 23	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	-16.2% ▼	31.5% ▲	-9.4% ▼
YTD TO APRIL 2024 Y-O-Y	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	-30.9% ▼	55.5% ▲	26.5% ▲

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
ADELAIDE	5.1	**6.5**	5.0	4.5	4.0	3.5
BRISBANE	8.0	**7.2**	5.6	5.1	5.1	4.1
CANBERRA	4.5	**4.0**	3.8	3.5	3.0	3.0
DARWIN	5.5	**5.5**	5.0	4.5	4.0	4.0
GOLD COAST	10.5	**7.0**	4.5	5.0	5.0	4.0
MELBOURNE	8.0	**5.0**	4.0	3.5	3.5	3.5
PERTH	5.8	**5.0**	4.8	4.5	4.5	4.2
SYDNEY	6.0	**5.5**	4.5	3.5	3.5	3.5
TOWNSVILLE	5.0	**7.0**	6.0	5.0	4.0	4.0

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GOLD COAST

MARKET INSIGHTS

The local market continues to experience construction cost pressures due to government construction programs across health, corrections, education, and infrastructure. This is leading to capacity challenges in the tier one market and diversion of resources from the private sector.

Construction projects in the private sector are struggling to find delivery models that achieve program and budget targets. In particular, the residential sector is being affected by the lack of competition and the demand on lower tier subcontractors to match EBA rates and conditions on major projects to attract and retain labour (for projects over $80 million).

The signs of a two-speed market are continuing. Lower value projects are showing improved competition and pricing, with smaller contractors looking to shore up workbooks in the wake of waning new private sector project commencement.

The challenge of productivity is driving longer project durations, increasing preliminary costs, and associated industrial risks and insolvency. Contractors are being selective in the projects they bid on, and tenders remain difficult. Contractors prefer to engage on an ECI basis.

The lack of feasible delivery options has led to increased adoption of developer-builder models and the slowdown of new construction starts is exacerbating the impacts of housing availability and affordability.

KEY FACTORS IMPACTING ESCALATION

- Skilled labour shortages are reducing productivity, leading to project delays and increased wage costs.
- Lack of competition in the tier one contractor and subcontractor markets, and their hesitancy to bid on projects (particularly private sector projects), is resulting in higher project costs and limited options for developers and asset owners.
- Insolvency risks and associated provisions in construction contracts are increasing project costs and financial uncertainty for the entire construction supply chain.
- National Construction Code changes and material bans are influencing material supply and installation methodologies.

CURRENT MARKET INDICATORS

CALENDAR YEAR 2024 CVM MOVEMENT Q1 24 vs Q1 23	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	-8.4% ▼	2.5% ▲	10.8% ▲
YTD TO APRIL 2024 Y-O-Y	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	-2.1% ▼	7.4% ▲	1.3% ▲

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
ADELAIDE	5.1	**6.5**	5.0	4.5	4.0	3.5
BRISBANE	8.0	**7.2**	5.6	5.1	5.1	4.1
CANBERRA	4.5	**4.0**	3.8	3.5	3.0	3.0
DARWIN	5.5	**5.5**	5.0	4.5	4.0	4.0
GOLD COAST	10.5	**7.0**	4.5	5.0	5.0	4.0
MELBOURNE	8.0	**5.0**	4.0	3.5	3.5	3.5
PERTH	5.8	**5.0**	4.8	4.5	4.5	4.2
SYDNEY	6.0	**5.5**	4.5	3.5	3.5	3.5
TOWNSVILLE	5.0	**7.0**	6.0	5.0	4.0	4.0

MELBOURNE

MARKET INSIGHTS

Continuous government investment in infrastructure, health, education and social housing is driving construction activity in Melbourne. The industry remains at risk of volatility in pricing, productivity levels, labour availability and the indirect impacts of the current economic climate.

Trade prices have continued to stabilise since RLB's Q1 report, with modest increases and recent tender returns within expectation. However, a reduction in pricing is not expected, particularly in light of the recent confirmation of EBA wage increases.

From a procurement perspective, there is a lack of consistency across the market. Sentiment has shifted for some contractors and subcontractors as they forecast the need to secure their pipeline towards the back end of 2024. Other contractors and subcontractors boast a full workbook, with their appetite for additional work only at a cost premium.

The residential apartment build-to-sell, and commercial office sectors continue to struggle; construction cost levels are still too high and large volume pre-sales and major tenants are a significant challenge. Elsewhere, build-to-rent and industrial continue their positive trajectory.

KEY FACTORS IMPACTING ESCALATION

- Activity levels remain high. However, the appetite for new work is not consistent across the market.
- Recent EBA wage increases are likely to result in labour contributing between 2.5-3.5% per annum of the annual forecast TPI uplifts of 5.0% in 2024.
- Labour availability remains an issue for traditional building trades, with infrastructure activity continuing as a source of higher paid work.
- The ongoing general economic outlook for Victoria is not positive, with high-risk contingency levels affecting pricing.
- Contractors continue to factor in pricing conservative program durations, impacting preliminaries and other time-related costs.
- Preliminaries costs continue to rise due to the upward pricing pressures of OH&S, compliance, insurances, and other non-construction related fees and charges.
- The requirement to comply with new building codes and Environmentally Sustainable Design (ESD) principles is placing additional premiums on projects.

CURRENT MARKET INDICATORS

CALENDAR YEAR 2024 CVM MOVEMENT Q1 24 vs Q1 23	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	1.2% ▲	-2.7% ▼	-13.0% ▼

YTD TO APRIL 2024 Y-O-Y	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	11.9% ▲	-6.0% ▼	4.3% ▲

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
ADELAIDE	5.1	**6.5**	5.0	4.5	4.0	3.5
BRISBANE	8.0	**7.2**	5.6	5.1	5.1	4.1
CANBERRA	4.5	**4.0**	3.8	3.5	3.0	3.0
DARWIN	5.5	**5.5**	5.0	4.5	4.0	4.0
GOLD COAST	10.5	**7.0**	4.5	5.0	5.0	4.0
MELBOURNE	8.0	**5.0**	4.0	3.5	3.5	3.5
PERTH	5.8	**5.0**	4.8	4.5	4.5	4.2
SYDNEY	6.0	**5.5**	4.5	3.5	3.5	3.5
TOWNSVILLE	5.0	**7.0**	6.0	5.0	4.0	4.0

PERTH

MARKET INSIGHTS

The Perth construction market has seen some pricing stabilisation continue through the first half of 2024. This has been assisted by material prices either holding steady or experiencing modest increases. This stability is expected to continue throughout the year, mainly on short duration, low risk projects. However, RLB continues to see a wide pricing spread across most trade and head contractor preliminaries and margin costs—even on lower risk projects.

The Western Australia construction market continues to operate at near capacity, with unemployment remaining at relatively low levels. Skilled labour shortages and rising wage costs will continue to drive pricing escalation across Western Australia, particularly in regional locations and on complex metropolitan projects.

CURRENT MARKET INDICATORS

CALENDAR YEAR 2024 CVM MOVEMENT Q1 24 vs Q1 23	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	-7.2% ▼	-4.9% ▼	28.7% ▲
YTD TO APRIL 2024 Y-O-Y	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	43.9% ▲	25.5% ▲	35.6% ▲

KEY FACTORS IMPACTING ESCALATION

- Market volatility continues, with supply chain and labour issues impacting pricing and partially offsetting material price stabilisation.
- Insolvency of major subcontractors and economic concerns are driving higher pricing.
- Head contractor preliminaries and margins costs have continued to rise on selected projects, particularly those with longer durations and a higher risk profile.
- A lack of competition in the tier one contractor and subcontractor markets, and their hesitancy to bid on projects, is resulting in higher project costs and limited options for developers and asset owners.
- These key factors are magnified by varying degrees in regional locations.

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
ADELAIDE	5.1	**6.5**	5.0	4.5	4.0	3.5
BRISBANE	8.0	**7.2**	5.6	5.1	5.1	4.1
CANBERRA	4.5	**4.0**	3.8	3.5	3.0	3.0
DARWIN	5.5	**5.5**	5.0	4.5	4.0	4.0
GOLD COAST	10.5	**7.0**	4.5	5.0	5.0	4.0
MELBOURNE	8.0	**5.0**	4.0	3.5	3.5	3.5
PERTH	5.8	**5.0**	4.8	4.5	4.5	4.2
SYDNEY	6.0	**5.5**	4.5	3.5	3.5	3.5
TOWNSVILLE	5.0	**7.0**	6.0	5.0	4.0	4.0

Rider Levett Bucknall

SYDNEY

MARKET INSIGHTS

With the uncertainties of material prices and general disruptions having abated, the focus now shifts to the upcoming Enterprise Bargaining Agreements (EBAs) set to be executed in July 2024, and their potential impact on construction pricing. It is likely that these agreements will sustain the trend of above-average cost escalation over the next 12 months, affecting not only labour rates but introducing additional benefits such as higher redundancy fund contributions.

The Sydney construction market continues to be sustained by ongoing government and infrastructure investment, capturing market share from the shrinking residential and commercial sectors, and maintaining high demand for labour.

Contractor and subcontractor insolvencies remain a prominent concern, with the question still looming as to how the residential sector will keep up with demand, noting the hesitation of tier two contractors to take on residential projects.

KEY FACTORS IMPACTING ESCALATION

- EBA negotiations continue, with likely increases of 6-8% per annum alongside additional benefits, such as additional RDOs, higher redundancy fund contributions, income protection and welfare payments, which will push actual labour costs higher.
- The proposed EBA Agreement also endorses the “same work, same pay” legislation, which may have an additional labour rate impact on projects that utilise both EBA and ABN labour. These impacts have already been seen across plasterboard trades.
- Material pricing generally remains steady.
- Project durations continue to extend 10-20% beyond expectations, with labour productivity remaining below pre-COVID levels.
- Infrastructure and government spending remains high and continues to bolster the industry.
- Hesitation to take on residential projects across the tier two contractor pool leaves minimal competition within the sector, keeping pricing high.
- The volume of construction liquidations has seen a marginal drop from last year’s YTD figures, suggesting the return of some stability. However, concerns remain generally for contractor and subcontractor insolvencies.
- Contract negotiation timelines are increasing as parties navigate risk allocation and commercial terms.

CURRENT MARKET INDICATORS

CALENDAR YEAR 2024 CVM MOVEMENT Q1 24 vs Q1 23	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	-2.5% ▼	-2.4% ▼	5.9% ▲
YTD TO APRIL 2024 Y-O-Y	**RESIDENTIAL**	**NON-RESIDENTIAL**	**TOTAL BUILDING**
APPROVALS	9.6% ▲	-25.1% ▼	-8.3% ▼

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
ADELAIDE	5.1	**6.5**	5.0	4.5	4.0	3.5
BRISBANE	8.0	**7.2**	5.6	5.1	5.1	4.1
CANBERRA	4.5	**4.0**	3.8	3.5	3.0	3.0
DARWIN	5.5	**5.5**	5.0	4.5	4.0	4.0
GOLD COAST	10.5	**7.0**	4.5	5.0	5.0	4.0
MELBOURNE	8.0	**5.0**	4.0	3.5	3.5	3.5
PERTH	5.8	**5.0**	4.8	4.5	4.5	4.2
SYDNEY	6.0	**5.5**	4.5	3.5	3.5	3.5
TOWNSVILLE	5.0	**7.0**	6.0	5.0	4.0	4.0

TOWNSVILLE

MARKET INSIGHTS

Trade increases are being driven by Queensland's Big Build scheme in the health and education sectors, as well as major defence and government funded social housing initiatives; the region's resources are being stretched.

As a result, contractors (specifically tier one contractors) struggle to secure trade coverage from subcontractors. This is leading to increased tender results.

The capacity pressures make it difficult for private developments to meet budget and program targets.

KEY FACTORS IMPACTING ESCALATION

- Labour shortages.
- Lack of competition in both the head contractor and subcontractor markets.
- Falling productivity levels.
- All these key factors are causing project delays and increased costs.

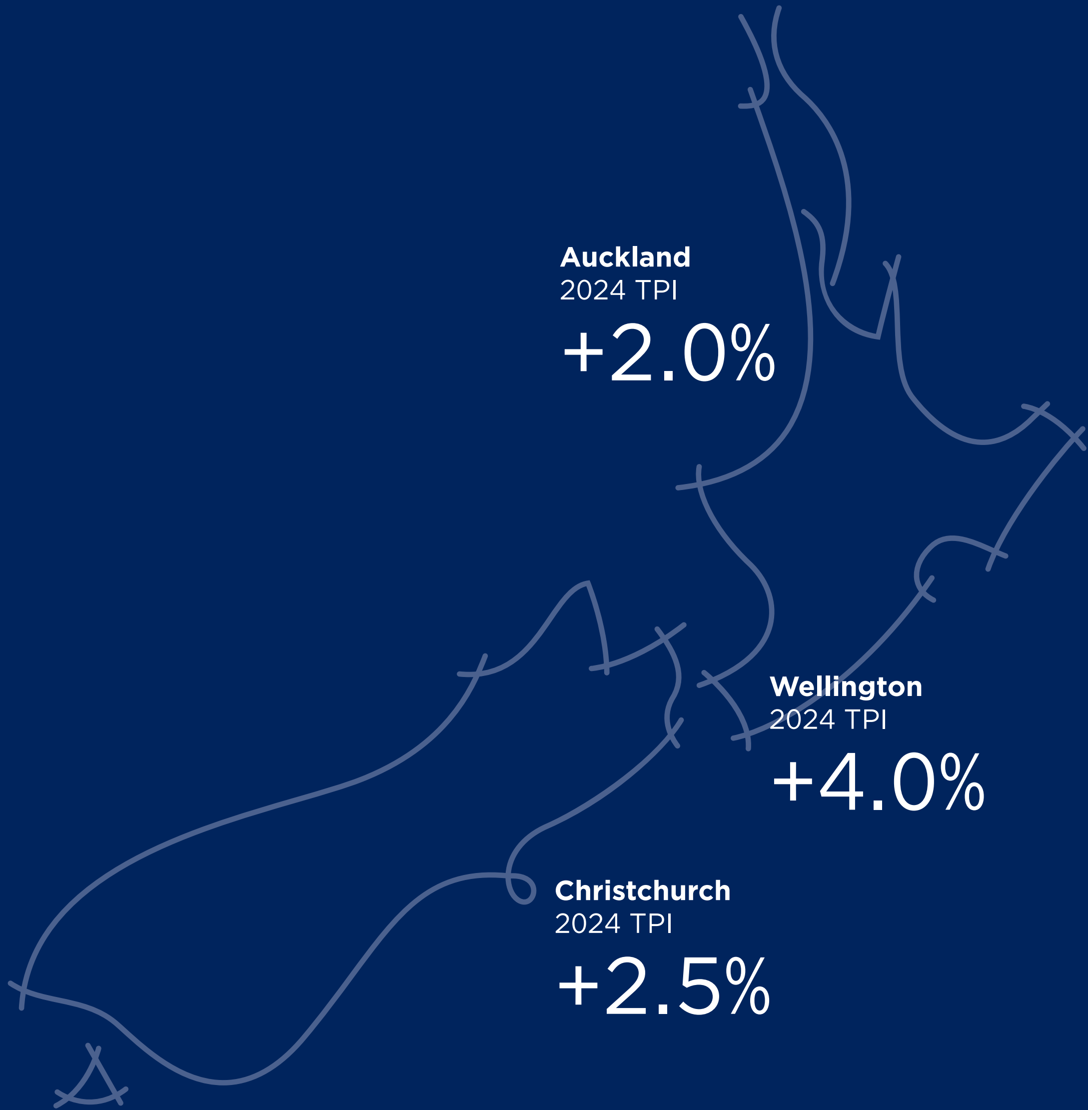
CURRENT MARKET INDICATORS

CALENDAR YEAR 2024 CVM MOVEMENT Q1 24 vs Q1 23	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	-8.4% ▼	2.5% ▲	10.8% ▲
YTD TO APRIL 2024 Y-O-Y	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	-2.1% ▼	7.4% ▲	1.3% ▲

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
ADELAIDE	5.1	**6.5**	5.0	4.5	4.0	3.5
BRISBANE	8.0	**7.2**	5.6	5.1	5.1	4.1
CANBERRA	4.5	**4.0**	3.8	3.5	3.0	3.0
DARWIN	5.5	**5.5**	5.0	4.5	4.0	4.0
GOLD COAST	10.5	**7.0**	4.5	5.0	5.0	4.0
MELBOURNE	8.0	**5.0**	4.0	3.5	3.5	3.5
PERTH	5.8	**5.0**	4.8	4.5	4.5	4.2
SYDNEY	6.0	**5.5**	4.5	3.5	3.5	3.5
TOWNSVILLE	5.0	**7.0**	6.0	5.0	4.0	4.0

Construction escalation forecasts point to moderation for 2024




INTERCONTINENTAL
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RLB Rider Levett Bucknall

NEW ZEALAND SUMMARY

NEW ZEALAND CONSTRUCTION SECTOR OUTLOOK: DAMPENED DEMAND BUT LONG-TERM POTENTIAL

In any economy, the construction sector is intricately linked to the broader economic climate. New Zealand's recent economic slowdown, marked by a technical recession in late 2023, has cast a shadow on construction activity. Higher interest rates, implemented to combat inflation, are achieving their intended outcome – dampening demand. This has led businesses to adopt a more cautious approach to investment, particularly in light of uncertainties surrounding the new government's spending plans and potential cutbacks in the public sector.

Despite the national slowdown, there are pockets of resilience within the construction sector. Auckland, the country's largest city, continues to hold a dominant position, accounting for approximately 41% of nationwide construction activity. This leadership role can be attributed to the city's strong population growth, fuelled by continued immigration. However, even Auckland has witnessed a recent plateau in activity, suggesting a potential shift in the market.

Looking beyond Auckland, Canterbury has experienced a positive trend, with its share of national construction activity increasing since early 2022. This growth suggests a potential diversification in the sector, with regional markets taking on a more prominent role.

A closer examination reveals regional variations in non-residential consent issuance, a key indicator of future construction activity. While Waikato has seen a decline in non-residential consents over the past year, regions like Bay of Plenty and Otago have registered robust growth. In Bay of Plenty, this growth reflects broad-based demand, encompassing healthcare facilities and office buildings. Similarly, Otago's increase in non-residential consents is driven by healthcare facilities and accommodation buildings. The anticipated recovery in international tourism is expected to further bolster demand for accommodation construction in Otago, presenting a specific opportunity for targeted investment.

A bright spot in the current landscape is the robust pipeline of infrastructure projects, valued at nearly $108.5 billion. This significant investment provides much-needed stability for the construction sector. The recent severe weather events in the North Island have further contributed to this pipeline, with reconstruction efforts requiring substantial investment.

The infrastructure pipeline is dominated by transport projects, with a total value exceeding $50.8 billion. Additionally, water infrastructure projects represent a significant portion with a value of $19.9 billion. The coming years will see substantial investment in these areas, ensuring continued activity for construction companies specialising in infrastructure development.

In the near term, the focus of the social sector is expected to be community facilities and housing projects. This focus on social infrastructure aligns with the government's potential priorities, and construction firms with expertise in these areas may see increased opportunities.

Construction cost inflation, which has been a concern in recent years, is moderating. This shift is largely due to easing capacity pressures within the sector. Building firms report a decline in labour shortages, suggesting a more balanced market. Furthermore, the dampening effect of weak construction demand is expected to further moderate pricing pressures. This trend towards cost stabilisation presents a potentially positive development for both construction companies and project owners.

Although the current economic climate presents certain challenges for the construction sector, the long-term outlook remains positive. The underlying driver of population growth through immigration continues to be a fundamental strength. This sustained population expansion will necessitate ongoing construction activity to meet the housing and infrastructure needs of a growing population.

The substantial pipeline of infrastructure projects further bolsters the long-term outlook. These government-led initiatives will ensure continued opportunities for construction companies specialising in infrastructure development. As economic conditions stabilise and business confidence recovers, the construction sector is well-positioned for renewed growth.

One Queen by Precinct Properties, Auckland, New Zealand

AUCKLAND

MARKET INSIGHTS

Despite strong migration-led population growth in New Zealand, construction demand remains weak due to higher interest rates and uncertainty over the new government's spending priorities. There has been a sharp drop in confidence in the construction sector, with companies expecting a deteriorating economic outlook over the coming months.

Although strong migration-led population growth is expected to support construction demand long-term, the uncertainty over the new government's plans, which includes public sector cutbacks, is presenting a challenging time for the industry.

KEY FACTORS IMPACTING ESCALATION

- A slump in activity is tightening margins and impacting profitability.
- Access to labour is easier. However, wage costs and expectations remain an issue.
- Material costs continue to rise moderately from recent historic highs.
- Underlying economic inflation and high borrowing costs are impacting the costs of doing business.
- Operational and regulatory compliance costs continue to add pressures to businesses.

CURRENT MARKET INDICATORS

Q1 24 vs Q1 23 CALENDAR YEAR 2024 YEAR ON YEAR MOVEMENT	ALL BUILDINGS	RESIDENTIAL	NON-RESIDENTIAL
WORK PUT IN PLACE	1.4% ▲	-7.2% ▼	21.2% ▲
CONSENTS	4.4% ▲	11.8% ▲	-11.2% ▼

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
AUCKLAND	5.5	**2.0**	2.0	3.5	4.0	4.0
CHRISTCHURCH	5.0	**2.5**	2.0	3.0	3.0	3.0
WELLINGTON	5.0	**4.0**	3.0	3.0	3.0	2.5

CHRISTCHURCH

MARKET INSIGHTS

Following the significant price escalations during the COVID-19 period, material prices have now stabilised. However, while general inflation seems to be settling, supply chain disruptions continue to pose a risk due to geopolitical factors.

Immediate labour shortages are less concerning than in recent years, thanks to declining activity and local expectations.

The effects of the recent governmental change are still unfolding, with increased fiscal restraint leading to a pause and reassessment of previously approved projects.

Although there is a reasonable workload currently in place, prospects appear to be varied across different sectors.

KEY FACTORS IMPACTING ESCALATION

- The outcome of the 2023 General Election and increased fiscal restraint are impacting forecasts for the industry, potentially leading to reduced growth and investment.
- Trade pricing is stabilising due to heightened competition, which could lead to more predictable project costs.
- Residential construction activity has slowed in recent months, indicating a potential downturn in this sector.
- A significant ongoing school program has been paused under the new government, delaying educational infrastructure developments.
- Variations in trade pricing for large and complex projects, reflecting differing risk assessments and the clarity of future workload, are affecting project budgeting and planning.
- While large pipelines of infrastructure work are expected nationally in the coming years, there is uncertainty about the scale of these projects in various regions. This may lead to uneven development and investment.

CURRENT MARKET INDICATORS

Q1 24 vs Q1 23 CALENDAR YEAR 2024 YEAR ON YEAR MOVEMENT	ALL BUILDINGS	RESIDENTIAL	NON-RESIDENTIAL
WORK PUT IN PLACE	-5.8% ▼	-4.2% ▼	-8.9% ▼
CONSENTS	12.7% ▲	29.4% ▲	-9.7% ▼

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
AUCKLAND	5.5	**2.0**	2.0	3.5	4.0	4.0
CHRISTCHURCH	5.0	**2.5**	2.0	3.0	3.0	3.0
WELLINGTON	5.0	**4.0**	3.0	3.0	3.0	2.5

Rider Levett Bucknall

WELLINGTON

MARKET INSIGHTS

Wellington continues to experience good volumes of existing and new construction work. With the May Budget indicating frugal government spending in the coming year, it is likely that several yet-to-be-commenced projects will be put on hold amid a lack of confidence and a poor economic outlook. These reductions in government spending have been anticipated over the past year, following the change in government. The new fiscal policy aims to balance the books after the extensive expenditures during the COVID-19 response.

The next few years promise to be challenging, marked by significant public service job cuts and a reduction in economic activity.

KEY FACTORS IMPACTING ESCALATION

- Public service job cuts.
- Construction related liquidations are increasing as cashflows dry up.
- Material costs have stabilised and may potentially reduce, as the economic slowdown bites.
- In the decelerating market, initiating construction projects could be strategically advantageous, assuming adequate financial resources are available.

CURRENT MARKET INDICATORS

Q1 24 vs Q1 23 CALENDAR YEAR 2024 YEAR ON YEAR MOVEMENT	ALL BUILDINGS	RESIDENTIAL	NON-RESIDENTIAL
WORK PUT IN PLACE	-4.9% ▼	-10.8% ▼	3.8% ▲
CONSENTS	-5.7% ▼	14.9% ▲	-24.1% ▼

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2023	2024 (F)	2025 (F)	2026 (F)	2027 (F)	2028 (F)
AUCKLAND	5.5	**2.0**	2.0	3.5	4.0	4.0
CHRISTCHURCH	5.0	**2.5**	2.0	3.0	3.0	3.0
WELLINGTON	5.0	**4.0**	3.0	3.0	3.0	2.5

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