

An aerial photograph of a city skyline, likely Sydney, Australia. The image shows a dense cluster of skyscrapers, including a prominent one with a unique, rounded, metallic facade. In the foreground, a large bridge with a white, curved structure spans across a body of water. The scene is captured from a high angle, showing the intricate details of the buildings and the surrounding infrastructure.

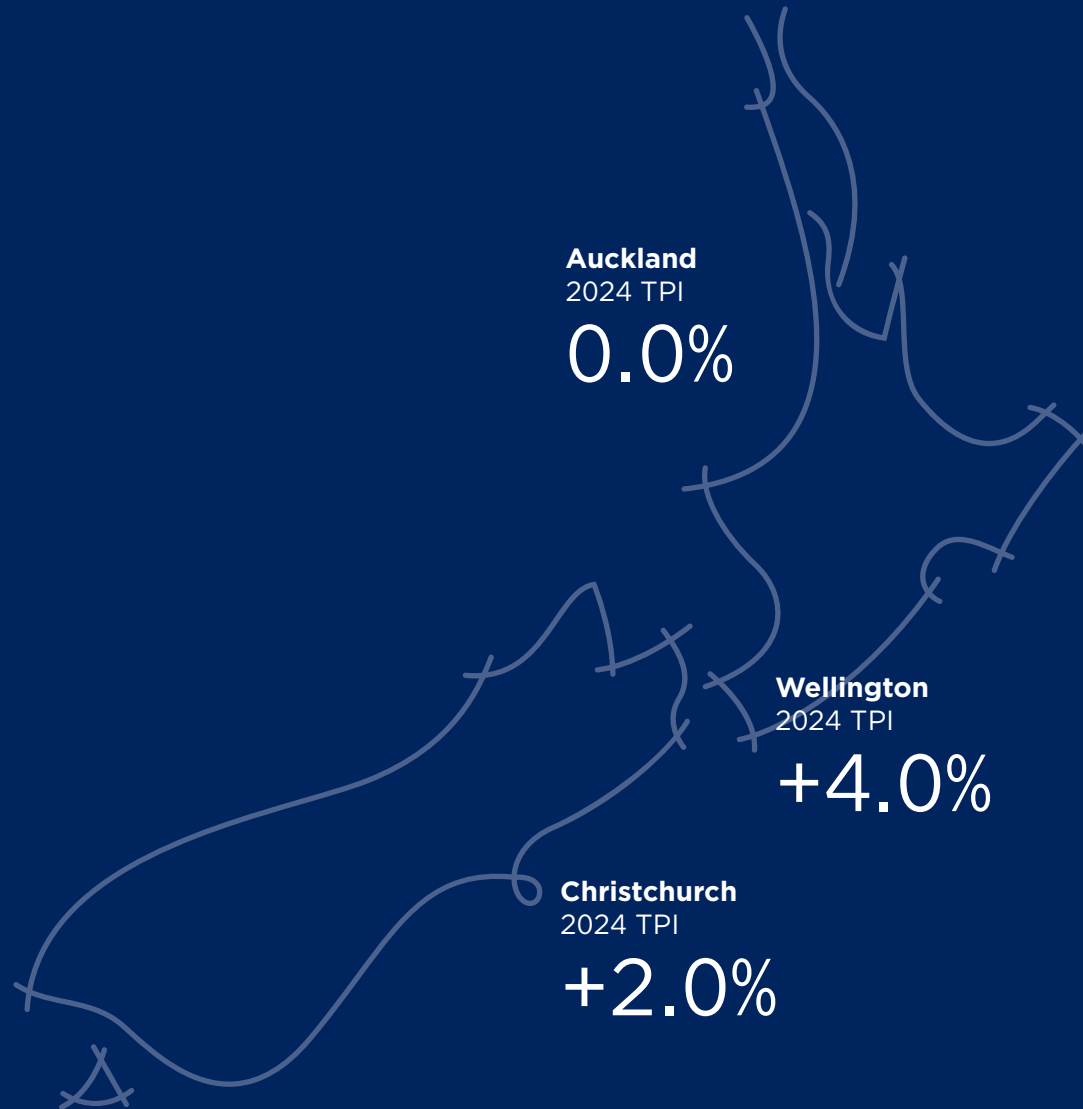
THIRD QUARTER 2024

# CONSTRUCTION MARKET UPDATE

NEW ZEALAND / AUSTRALIA



# Construction escalation forecasts for 2024 indicate a further slowdown



# NEW ZEALAND SUMMARY

## NEW ZEALAND CONSTRUCTION SECTOR OUTLOOK: WEAK PIPELINE OF CONSTRUCTION FOR THE COMING YEAR BUT A RECOVERY IN CONSTRUCTION DEMAND FROM 2025

The outlook for New Zealand's construction industry remains weak in the near term. Building activity indicators such as the New Zealand Institute of Economic Research (NZIER) Quarterly Survey of Business Opinion (QSBO) measure of architects' work in their own office, along with consent issuance, point to a weak pipeline of construction for the coming year. Beyond that, RLB expects the combination of lower interest rates and migration-led population growth to support a recovery in construction demand from 2025. Non-residential consent issuance has been mixed across the regions. Demand has weakened across most regions over the past year, with Auckland being the exception. Stronger demand for the construction of industrial and storage facilities has driven the growth in non-residential consent issuance in Auckland over the past year.

The continued contraction in manufacturing activity reported in the June 2024 Business NZ Performance of Manufacturing Index (PMI) suggests that demand for industrial buildings will slow over the coming year. With manufacturing activity reported to be particularly weak in the North Island, RLB expects this will impact construction demand for industrial buildings in Auckland.

Te Waihanga, the New Zealand Infrastructure Commission, reported in its March 2024 Pipeline Snapshot2 that infrastructure projects totalled \$121.2 billion in value. Of this, approximately \$44 billion is estimated to be under construction and \$11 billion in procurement. The \$12.7 billion increase in the value of infrastructure projects in the pipeline over the March quarter reflects a combination of new infrastructure projects (worth \$11.4 billion), increases in the value of existing projects, and new contributors to the pipeline. Transport infrastructure continues to be a dominant part of the pipeline, with the value of transport projects totalling \$61.9 billion. Meanwhile, the value of water infrastructure in the pipeline totalled \$20.6 billion.

In terms of projected spend over the coming years, \$12.1 billion of infrastructure investment from the pipeline is expected to take place in 2024, while expectations for infrastructure investment for 2025 remain at \$11.6 billion. Over the near term, infrastructure investment in the transport, social (including community facilities and housing) and water sectors is expected to dominate the pipeline.

The Stats NZ release of the March 2024 GDP showed a 0.2% increase in New Zealand economic activity for the quarter. This pickup in activity follows contractions in the previous two quarters, effectively ending the technical recession. However, annual GDP growth remained subdued at 0.3% for the year as at the end of March 2024, pointing to continued weakness in overall economic performance. The result suggests the economy may be slowly emerging from the recent weakness, but recovery remains fragile and uneven across sectors. Weak demand is still broad-based across the sectors, reflecting the headwinds faced by households and businesses in the current environment of high interest rates and heightened uncertainty.

There was a decline in construction activity across the regions. Auckland remains the dominant driver of construction activity, making up around 40% of nationwide construction activity (on a nominal basis). This reflects the continued concentration of migration-led population growth in the region. Meanwhile, Waikato's share of nationwide construction activity has eased in recent quarters and currently makes up 9% of nationwide construction activity.

Building activity indicators point to continued weakness in the construction pipeline in the near term. Dwelling consent issuance has continued to decline in recent months, with a reduction in demand across all types of dwellings since the beginning of the year. The annual number of dwelling consents issued eased below 35,000 for the year to May 2024.

Cost pressures have reduced in the construction sector, and the weak demand environment is putting downward pressure on prices. This suggests further easing in construction cost inflation over the coming year.





# AUCKLAND

## MARKET INSIGHTS

The Auckland construction market remains downbeat. Recessionary economic conditions, high interest rates and central government belt tightening have continued to squash demand. Contractors' margins and prices are dropping in an effort to secure work despite ongoing cost pressures. With the downturn in activity, access to labour has eased and is no longer an issue for contractors, particularly unskilled and semi-skilled labour.

The market is forecast to remain very competitive for the balance of 2024 and into 2025, particularly in the tier two and three contractor market. There is concern for the potential loss of local skills and investment to other regions and countries if the downturn continues for a sustained period.

## KEY FACTORS IMPACTING ESCALATION

- Recessionary conditions leading to low demand and reduced prices and margins.
- Raw material costs continue to increase slowly.
- The cost of doing business is increasing, but with little ability to pass these costs on.
- Access to labour has improved, particularly unskilled and semi-skilled.
- Falling New Zealand dollar.

## CURRENT MARKET INDICATORS

Q2 24 vs Q2 23  
FINANCIAL YEAR 2024  
YEAR ON YEAR MOVEMENT

	ALL BUILDINGS	RESIDENTIAL	NON-RESIDENTIAL
WORK PUT IN PLACE	1.8% ▲	0.7% ▲	4.4% ▲
CONSENTS	-12.8% ▼	-17.9% ▼	-0.6% ▼

## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
AUCKLAND	0.0	2.7	3.0	3.3	4.5	6.0
CHRISTCHURCH	2.0	2.0	3.0	3.0	3.0	4.0
WELLINGTON	4.0	3.0	3.0	3.0	2.5	2.5

# CHRISTCHURCH

## MARKET INSIGHTS

While there is still a reasonable number of large projects underway and in evidence around the city (such as the stadium, university and hospital projects), there is a lack of new and proposed projects coming online to fill the gap once they are completed.

Combined with the current recessionary pressures, there is reasonably high competition for the few opportunities that are available. The suspension of the Christchurch Cathedral reconstruction project has added to the negativity. Anecdotally, both contractors and consultants are under pressure in terms of forward workload and looking to 2025 for relief.

## KEY FACTORS IMPACTING ESCALATION

- Low numbers of new and planned projects are leading to increased competition.
- Recessionary conditions.
- Uncertainty for contractors and design firms in terms of forward workload.
- Volatile New Zealand dollar.
- Anticipated reduction in interest rates in coming months.
- Labour is becoming more widely available (both skilled and unskilled).

## CURRENT MARKET INDICATORS

Q2 24 vs Q2 23  
FINANCIAL YEAR 2024  
YEAR ON YEAR MOVEMENT

	ALL BUILDINGS 	RESIDENTIAL 	NON-RESIDENTIAL 
<b>WORK PUT IN PLACE</b>	0.2% ▲	-0.3% ▼	1.3% ▲
<b>CONSENTS</b>	-14.0% ▼	-12.8% ▼	-16.4% ▼

## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
AUCKLAND	0.0	2.7	3.0	3.3	4.5	6.0
<b>CHRISTCHURCH</b>	<b>2.0</b>	2.0	3.0	3.0	3.0	4.0
WELLINGTON	4.0	3.0	3.0	3.0	2.5	2.5

# WELLINGTON

## MARKET INSIGHTS

Wellington remains relatively buoyant, with a substantial number of ongoing projects yet to be completed. However, the outlook for 2025 and 2026 appears challenging, with a limited number of new projects in the pipeline. Local design firms are reporting a decrease in workload and potential staff reductions.

The local economy is under strain, exacerbated by public sector job cuts and a declining number of workers in the city, which has significantly impacted business viability throughout 2024. This trend is expected to persist into 2025 and 2026.

While further reductions in the cash rate may eventually enhance spending power and stimulate recovery, we anticipate this will take some time.

## KEY FACTORS IMPACTING ESCALATION

- The decreasing number of projects coming into the market is resulting in an increasingly competitive market
- Access to labour has improved dramatically
- Cost escalation appears to be reducing
- Increasing number of company liquidations in the construction sector

## CURRENT MARKET INDICATORS

Q2 24 vs Q2 23  
FINANCIAL YEAR 2024  
YEAR ON YEAR MOVEMENT

	ALL BUILDINGS	RESIDENTIAL	NON-RESIDENTIAL
WORK PUT IN PLACE	-4.2% ▼	-3.9% ▼	-4.6% ▼
CONSENTS	-16.0% ▼	-24.6% ▼	-1.1% ▼

## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
AUCKLAND	0.0	2.7	3.0	3.3	4.5	6.0
CHRISTCHURCH	2.0	2.0	3.0	3.0	3.0	4.0
WELLINGTON	4.0	3.0	3.0	3.0	2.5	2.5

# Construction escalation for 2024 still considerably higher than forecast CPI





# AUSTRALIA SUMMARY

## CONSTRUCTION CHALLENGES AND REGIONAL VARIATIONS

The construction industry in Australia is currently navigating a multi-faceted and challenging landscape. Skilled labour shortages are a significant concern, driving up wage costs and creating intense competition for available workers. This issue is compounded by rising material costs, influenced by global supply chain disruptions and increased transportation expenses. These factors are exerting considerable pressure on project budgets and timelines.

Government investment in infrastructure and major projects continue to be a primary driver of market activity across various regions. This investment is crucial for sustaining demand and fuelling economic growth. However, it also contributes to the heightened competition for resources, as both public and private sector projects vie for the same pool of skilled labour and materials.

While some cities, such as Perth and Melbourne, are experiencing a degree of pricing stabilisation for certain project types, market conditions remain challenging overall. Persistent cost escalation pressures are evident, particularly in areas like Sydney, where strong demand for labour and materials, coupled with supply chain issues and global inflationary trends, continue to drive construction costs up.

In cities such as Adelaide and Darwin, the lack of competition among tier one contractors and subcontractors is inflating project costs and limiting options for developers and asset owners. This situation is exacerbated by the scarcity of skilled labour, which is driving contractors to be more selective with projects and seek higher margins.

Australia's construction markets are experiencing diverse conditions, with common challenges including skilled labour shortages, rising costs, and strong demand influencing project pricing and market dynamics.

### KEY INSIGHTS

#### 1. Labour and Cost Pressures

- Across all regions, skilled labour shortages are driving up wage costs and creating competition for available workers.
- Rising material costs, influenced by global supply chain issues and increased transportation costs, are adding to overall project expenses.

#### 2. Regional Variations

- **Adelaide:** The market remains resilient with potential upward pressure on project pricing due to strong demand and limited competition among contractors.
- **Brisbane:** Escalating construction costs are making private projects unviable. Government-funded projects are keeping tier one contractors busy. However, the upcoming state government election may influence future project opportunities.
- **Canberra:** Positive outlook with strong government commitment to major projects, but challenges include skilled labour shortages and rising costs.
- **Darwin:** Despite some material price stabilisation, labour shortages and high demand continue to drive market volatility and cost increases.





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# AUSTRALIA SUMMARY

- **Gold Coast:** Government construction programs are leading to capacity challenges and cost pressures, with a two-speed market emerging between high-value and lower-value projects.
- **Melbourne:** Pricing stabilisation continues but concerns over Construction, Forestry and Maritime Employees Union (CFMEU) activities and a mixed pipeline of new projects suggest potential market slowdown.
- **Perth:** Pricing has stabilised for low-risk projects, but rising transportation costs for imported materials are expected to push prices up. The market operates near capacity with low unemployment.
- **Sydney:** Persistent cost escalation pressures are driven by strong demand for labour and materials, compounded by supply chain issues and inflationary pressures.
- **Townsville:** Trade pricing is driven by major projects, impacting contractors and private developments. The upcoming state government election may influence project feasibility and competitiveness.

## 3 Government Influence

Government investments in infrastructure and major projects are a significant driver of demand across all regions. Upcoming elections in some states may lead to new project commitments, influencing future market conditions.

## 4 Market Outlook

While pricing is stabilising in some regions, overall market conditions remain challenging due to labour shortages, rising costs, and strong demand. The construction industry is likely to continue grappling with these pressures, though extent and impact will vary across regions.



# ADELAIDE

## MARKET INSIGHTS

The South Australian market has demonstrated resilience over the quarter, with the 2024 Tender Price Index (TPI) forecasts being challenged by recent ABS results. Should this trend persist, there may be a rise and potential surpassing of the RLB 2024 TPI forecast, exerting upward pressure on project pricing throughout the remainder of 2024.

The South Australian economy continues to operate near capacity, bolstered by ongoing government commitments, 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, and contractors are seeking higher margins due to strong demand. Consequently, contractors are becoming more selective with projects, further limiting competition.

A lack of competition within the tier one contractor and subcontractor markets is inflating project costs and restricting options for developers and asset owners. Additionally, the previously stabilised material supply chain is now under pressure from global shipping delays.

## KEY FACTORS IMPACTING ESCALATION

- Continued skilled labour shortages for some key trades including engineering services and structural trades, particularly at tier one level
- A lack of competition in the tier one contractor and subcontractor markets is increasing project costs
- Material prices have stabilised albeit shipping and transportation costs have increased again due to geopolitical tensions
- Project durations are under pressure, and typically extending beyond original contractor forecasts
- Government remains committed with major defence, infrastructure, and healthcare projects, which has been bolstered by recent projects announced within the Hydrogen Sector

## CURRENT MARKET INDICATORS

FINANCIAL YEAR 2024 CVM % MOVEMENT FY24 vs FY23			
	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	5.1% ▲	1.8% ▲	0.5% ▲
	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	-2.8% ▼	-2.1% ▼	-2.5% ▼

## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
ADELAIDE	6.5	5.0	4.5	4.0	3.5	3.5
BRISBANE	7.2	5.6	5.1	5.1	5.1	5.1
CANBERRA	4.0	3.75	3.5	3.0	3.0	3.0
DARWIN	5.5	5.0	4.5	4.0	4.0	4.0
GOLD COAST	7.5	5.0	5.0	5.0	5.0	5.0
MELBOURNE	5.0	4.0	3.5	3.5	3.5	3.5
PERTH	5.2	4.9	4.5	4.0	3.7	3.7
SYDNEY	5.5	4.5	3.5	3.5	3.5	3.5
TOWNSVILLE	7.0	6.0	5.0	4.0	4.0	4.0

# BRISBANE

## MARKET INSIGHTS

**Rising construction costs—driven by multiple factors—continue to make it increasingly challenging for the private sector to maintain project viability. However, government construction programs in health, corrections, education, and infrastructure are ensuring that order books for tier one contractors and subcontractors remain full. Tier two and three contractors have capacity, but the high demand for resources on major projects is driving costs to unsustainable levels for private sector projects. These contractors must match the EBA rates on major projects to attract and retain labour.**

Poor productivity is extending project durations and increasing preliminary costs. Additionally, contractors are pricing in the risk of industrial action and insolvencies. Tier one contractors are being selective about the projects they bid on, often preferring to engage on an Early Contractor Involvement (ECI) basis rather than tendering competitively.

The situation is particularly concerning for the private sector, as revenues have failed to keep pace with construction cost increases. Without a reprofiling of public sector capital programs, there appears to be no immediate trigger for change. This exacerbates housing shortages and affordability issues, particularly for first-time home buyers.

With an upcoming state government election in Q4, there may be changes to the forecast pipeline of works into 2025, potentially creating some opportunities.

## 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.
- Risk of industrial action and insolvencies.

## CURRENT MARKET INDICATORS

FINANCIAL YEAR 2024  
CVM % MOVEMENT  
FY24 vs FY23

	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
<b>WORK DONE</b>	3.7% ▲	3.0% ▲	12.2% ▲
	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
<b>APPROVALS</b>	-3.6% ▼	-11.1% ▼	-7.0% ▼

## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
ADELAIDE	6.5	5.0	4.5	4.0	3.5	3.5
<b>BRISBANE</b>	<b>7.2</b>	5.6	5.1	5.1	5.1	5.1
CANBERRA	4.0	3.75	3.5	3.0	3.0	3.0
DARWIN	5.5	5.0	4.5	4.0	4.0	4.0
GOLD COAST	7.5	5.0	5.0	5.0	5.0	5.0
MELBOURNE	5.0	4.0	3.5	3.5	3.5	3.5
PERTH	5.2	4.9	4.5	4.0	3.7	3.7
SYDNEY	5.5	4.5	3.5	3.5	3.5	3.5
TOWNSVILLE	7.0	6.0	5.0	4.0	4.0	4.0

# CANBERRA

## MARKET INSIGHTS

**The construction market outlook for Canberra in 2024 remains positive. Multi-unit developments are providing the majority of new residential starts, while government-funded projects remain steady.**

The Australian Capital Territory (ACT) Government is committed to the delivery of the new Northside Hospital, with the successful opening of the Clinical Service Building at the main Canberra Hospital campus. Two shortlisted contractors are currently bidding for the Early Contractor Involvement phase to commence design in early 2025. The National Security Precinct is expected to commence in early 2025 to deliver a multi-agency precinct with a mix of public and private tenants that will accommodate 5,000 workers.

However, challenges for the industry continue. While there is a strong pipeline for major projects and civil infrastructure, the small to medium market is struggling. The shortage of skilled labour is a major impediment, along with supply chain issues, rising costs for materials and labour, and potential market capacity concerns.

## KEY FACTORS IMPACTING ESCALATION

- Skilled labour shortages across trades and professions.
- Insolvency risks due to contract terms with no ability to re-negotiate.
- Market capacity concerns continue with a strong pipeline of major projects.
- Allocation of contract risk seeing increases in contractor pricing around time related costs

## CURRENT MARKET INDICATORS

FINANCIAL YEAR 2024  
CVM % MOVEMENT  
FY24 vs FY23

	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
<b>WORK DONE</b>	-4.9% ▼	27.0% ▲	-16.5% ▼
	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
<b>APPROVALS</b>	19.5% ▲	-21.4% ▼	1.9% ▲

## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
ADELAIDE	6.5	5.0	4.5	4.0	3.5	3.5
BRISBANE	7.2	5.6	5.1	5.1	5.1	5.1
<b>CANBERRA</b>	<b>4.0</b>	<b>3.75</b>	<b>3.5</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
DARWIN	5.5	5.0	4.5	4.0	4.0	4.0
GOLD COAST	7.5	5.0	5.0	5.0	5.0	5.0
MELBOURNE	5.0	4.0	3.5	3.5	3.5	3.5
PERTH	5.2	4.9	4.5	4.0	3.7	3.7
SYDNEY	5.5	4.5	3.5	3.5	3.5	3.5
TOWNSVILLE	7.0	6.0	5.0	4.0	4.0	4.0



# DARWIN

## MARKET INSIGHTS

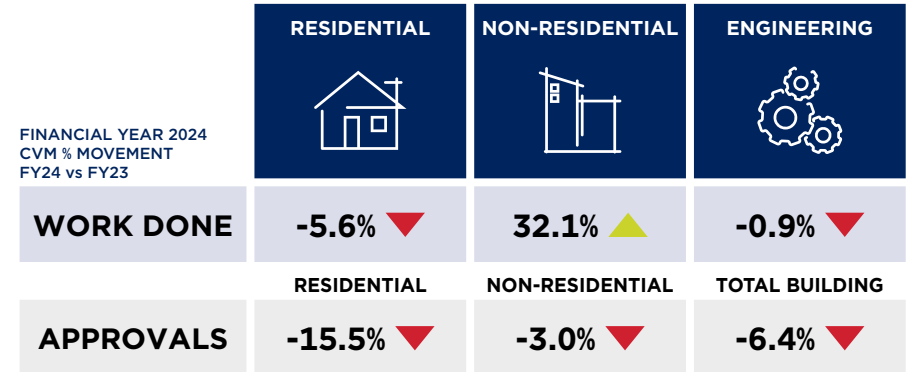
The Darwin construction market experienced some material price stabilisation in Q3 2024. However, labour shortages, high demand and challenging economic conditions continue to drive market volatility. RLB notes that significant pricing variations remain across most trades, as well as head contractor preliminary and margin costs.

A lack of competition within the tier one contractor and subcontractor markets continues to inflate project costs, making it increasingly difficult for developers and asset owners. Government investment in infrastructure projects, along with record levels of defence spending, continue to drive the construction industry and maintain high demand for labour.

## KEY FACTORS IMPACTING ESCALATION

- Material pricing generally remains steady compared to the last quarter.
- Labour availability remains an issue for traditional building trades, with defence activity continuing as a source of higher paid work.
- Defence and government spending on infrastructure projects remains high and continues to bolster the industry.
- A lack of competition in the tier one contractor and subcontractor markets is increasing project costs.

## CURRENT MARKET INDICATORS



## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
ADELAIDE	6.5	5.0	4.5	4.0	3.5	3.5
BRISBANE	7.2	5.6	5.1	5.1	5.1	5.1
CANBERRA	4.0	3.75	3.5	3.0	3.0	3.0
<b>DARWIN</b>	<b>5.5</b>	5.0	4.5	4.0	4.0	4.0
GOLD COAST	7.5	5.0	5.0	5.0	5.0	5.0
MELBOURNE	5.0	4.0	3.5	3.5	3.5	3.5
PERTH	5.2	4.9	4.5	4.0	3.7	3.7
SYDNEY	5.5	4.5	3.5	3.5	3.5	3.5
TOWNSVILLE	7.0	6.0	5.0	4.0	4.0	4.0

# 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.

Private sector construction projects are struggling to find delivery models that achieve program and budget targets. The residential sector is particularly impacted by limited competition, and the pressure on lower-tier subcontractors to match EBA rates and conditions on major projects (over \$80 million) in order to attract and retain labour.

The signs of a two-speed market persist, with lower-value projects seeing improved competition and pricing, as smaller contractors seek to shore up workbooks in the wake of waning new private sector project commencements. With an upcoming state government election in Q4 of 2024, there may be changes to the forecast pipeline of works into 2025, which could provide some opportunities. Due to the lack of feasible construction delivery options, the increased adoption of developer-builder models continues, with high levels of support from financiers.

## 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.
- Larger, higher-tier subcontractors are employing pricing models that allow for a greater risk profile, which could lead to inflated costs for construction projects.

## CURRENT MARKET INDICATORS

FINANCIAL YEAR 2024  
CVM % MOVEMENT  
FY24 vs FY23

	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
<b>WORK DONE</b>	3.7% ▲	3.0% ▲	12.2% ▲
	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
<b>APPROVALS</b>	-3.6% ▼	-11.1% ▼	-7.0% ▼

## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
ADELAIDE	6.5	5.0	4.5	4.0	3.5	3.5
BRISBANE	7.2	5.6	5.1	5.1	5.1	5.1
CANBERRA	4.0	3.75	3.5	3.0	3.0	3.0
DARWIN	5.5	5.0	4.5	4.0	4.0	4.0
<b>GOLD COAST</b>	<b>7.5</b>	5.0	5.0	5.0	5.0	5.0
MELBOURNE	5.0	4.0	3.5	3.5	3.5	3.5
PERTH	5.2	4.9	4.5	4.0	3.7	3.7
SYDNEY	5.5	4.5	3.5	3.5	3.5	3.5
TOWNSVILLE	7.0	6.0	5.0	4.0	4.0	4.0

# MELBOURNE

## MARKET INSIGHTS

**Pricing stabilisation has continued through Q3 2024, with little volatility and generally improved tendering conditions compared to earlier in the year. The recent and ongoing activities of the CFMEU and its placement into administration are concerns for the market, with potential impacts on productivity levels and labour availability across major sites.**

While activity levels remain consistent, market sentiment is forecasting a slowdown as the pipeline of new project starts is mixed across sectors. Government spending is expected to ease, while the private sector continues to struggle to align project feasibility.

Recent tender pricing suggests a healthy appetite from contractors, with some reports of gains being seen across certain trades. However, pricing is not expected to fall as the agreed EBA wage increase of 5% for 2025 will, on average, increase the labour component cost of a project by approximately 2.5% to 3%.

## KEY FACTORS IMPACTING ESCALATION

- Forecast tender activity to soften, resulting in recent stabilised and competitive pricing.
- Labour availability (as has been the case for a long period) has not improved.
- Head contractors are reporting an improvement in trade responses from the subcontractor market.
- Pricing pressure on key materials (steel, concrete and so on) has steadied and is forecast to remain steady for 2024.
- The recent placement of the CFMEU into administration has had minimal effect on the market so far, but the potential for a spike in influence remains.
- Supply chain risk is easing, which is evident in recent tender pricing.
- Timelines from tender to project start have increased as all parties navigate risk allocation and commercial terms.
- Subcontractor insolvency remains a concern.

## CURRENT MARKET INDICATORS

	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
FINANCIAL YEAR 2024 CVM % MOVEMENT FY24 vs FY23			
<b>WORK DONE</b>	6.5% ▲	1.9% ▲	-1.6% ▼
	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
<b>APPROVALS</b>	-0.7% ▼	-10.2% ▼	-4.6% ▼

## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
ADELAIDE	6.5	5.0	4.5	4.0	3.5	3.5
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CANBERRA	4.0	3.75	3.5	3.0	3.0	3.0
DARWIN	5.5	5.0	4.5	4.0	4.0	4.0
GOLD COAST	7.5	5.0	5.0	5.0	5.0	5.0
MELBOURNE	5.0	4.0	3.5	3.5	3.5	3.5
PERTH	5.2	4.9	4.5	4.0	3.7	3.7
SYDNEY	5.5	4.5	3.5	3.5	3.5	3.5
TOWNSVILLE	7.0	6.0	5.0	4.0	4.0	4.0





# PERTH

## MARKET INSIGHTS

Pricing continued to stabilise through the first three quarters of 2024 on shorter-duration, low-risk projects valued up to \$50 million. This has been assisted by steady or modest increases to material prices. However, international transportation costs have risen significantly since the last quarter, which will start to increase the price of imported materials. There is still a wide pricing spread across most trades and head contractor preliminaries and margin costs, even on lower-risk projects.

The Western Australian 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.

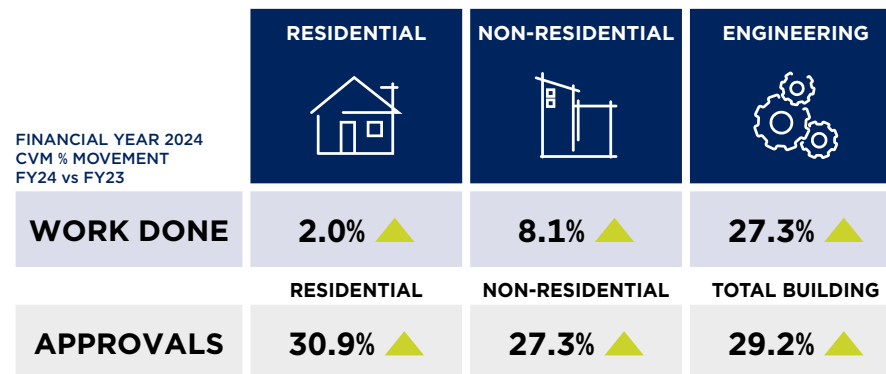
Several major transport infrastructure projects are nearing completion. This will likely be offset by other major projects currently in the planning phases. With a state government election early next year, it is typical to see several new projects committed to leading up to the election.

## 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, especially those with longer durations and/or a higher risk profile.
- A lack of competition in the tier one contractor and subcontractor markets, and some hesitancy to bid on projects, is resulting in higher project costs and limited options for developers and asset owners.
- The above issues are magnified by varying degrees in regional locations.

Design and Built Environment, Curtin University, Perth, Australia

## CURRENT MARKET INDICATORS



## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
<b>ADELAIDE</b>	6.5	5.0	4.5	4.0	3.5	3.5
<b>BRISBANE</b>	7.2	5.6	5.1	5.1	5.1	5.1
<b>CANBERRA</b>	4.0	3.75	3.5	3.0	3.0	3.0
<b>DARWIN</b>	5.5	5.0	4.5	4.0	4.0	4.0
<b>GOLD COAST</b>	7.5	5.0	5.0	5.0	5.0	5.0
<b>MELBOURNE</b>	5.0	4.0	3.5	3.5	3.5	3.5
<b>PERTH</b>	5.2	4.9	4.5	4.0	3.7	3.7
<b>SYDNEY</b>	5.5	4.5	3.5	3.5	3.5	3.5
<b>TOWNSVILLE</b>	7.0	6.0	5.0	4.0	4.0	4.0







# SYDNEY

## MARKET INSIGHTS

The construction market in NSW is experiencing persistent cost escalation pressures. Key drivers include strong demand for both labour and materials, compounded by supply chain issues and inflationary pressures from the global market. While materials like steel and energy commodities have seen price reductions, domestic factors such as high demand for quarry materials and skilled labour shortages continue to push construction costs up.

Wage growth in the construction sector is another major contributor, driven mostly by recent EBAs, which will largely be honoured by contractors, notwithstanding the recent CFMEU administration. Looking ahead, while some global factors might ease cost pressures, local market conditions, such as the ongoing infrastructure boom and housing targets, are expected to keep escalation rates elevated, particularly for labour and locally sourced materials.

## KEY FACTORS IMPACTING ESCALATION

- EBA agreements stipulate wage growth of 6% to 8% per annum, alongside additional benefits. This is likely to remain, despite the CFMEU being placed into administration.
- Material pricing generally remains steady. However, due to significant activity in the infrastructure sector there has been pressure on local quarry material supply.
- Steel pricing has softened.
- Infrastructure and government spending remains high and continues to bolster industry.
- Hesitation remains within the tier two contractor pool to take on residential projects, keeping pricing high.
- Productivity remains low, and construction programs remain 10% to 20% beyond expectation.
- Concerns remain generally for contractor and subcontractor insolvencies.
- Shipping costs have increased again due to geopolitical tensions, which will affect prices of imported materials in the short to medium term.

Quay Quarter Tower, Sydney, Australia

## CURRENT MARKET INDICATORS

FINANCIAL YEAR 2024 CVM % MOVEMENT FY24 vs FY23			
	RESIDENTIAL 	NON-RESIDENTIAL 	ENGINEERING 
<b>WORK DONE</b>	7.1% ▲	2.1% ▲	10.3% ▲
	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
<b>APPROVALS</b>	-9.3% ▼	-10.9% ▼	-10.0% ▼

## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
<b>ADELAIDE</b>	6.5	5.0	4.5	4.0	3.5	3.5
<b>BRISBANE</b>	7.2	5.6	5.1	5.1	5.1	5.1
<b>CANBERRA</b>	4.0	3.75	3.5	3.0	3.0	3.0
<b>DARWIN</b>	5.5	5.0	4.5	4.0	4.0	4.0
<b>GOLD COAST</b>	7.5	5.0	5.0	5.0	5.0	5.0
<b>MELBOURNE</b>	5.0	4.0	3.5	3.5	3.5	3.5
<b>PERTH</b>	5.2	4.9	4.5	4.0	3.7	3.7
<b>SYDNEY</b>	5.5	4.5	3.5	3.5	3.5	3.5
<b>TOWNSVILLE</b>	7.0	6.0	5.0	4.0	4.0	4.0





# TOWNSVILLE

## MARKET INSIGHTS

Trade pricing continues to be driven by major projects in the pipeline, including those in the health, education and defence sectors. This primarily impacts tier one contractors but also has a flow-on effect on lower-value projects and private development projects.

Capacity pressures and higher rates experienced on larger project sites put additional pressure on lower-value projects. Private developments are struggling to pass feasibility stages.

The upcoming state government election in Q4 2024 may usher in changes, but the extent of the changes remains uncertain. The result of the election could impact the number of committed state government projects proceeding into 2025, affecting the supply-demand ratio from subcontractors and their competitiveness. This may present opportunities for more competitive rates and for lower-value and private developments to achieve more favourable outcomes.

## KEY FACTORS IMPACTING ESCALATION

- Labour shortages.
- Lack of competition in both head contractor and subcontractor markets.
- Lower productivity levels.
- Above leading to project delays and increased costs.
- Queensland state government election results in Q4 may impact these factors.

Woolworths, Gordonvale, Australia

## CURRENT MARKET INDICATORS

FINANCIAL YEAR 2024 CVM % MOVEMENT FY24 vs FY23			
	RESIDENTIAL 	NON-RESIDENTIAL 	ENGINEERING 
<b>WORK DONE</b>	<b>3.7%</b> ▲	<b>3.0%</b> ▲	<b>12.2%</b> ▲
	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
<b>APPROVALS</b>	<b>-3.6%</b> ▼	<b>-11.1%</b> ▼	<b>-7.0%</b> ▼

## RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
<b>ADELAIDE</b>	6.5	5.0	4.5	4.0	3.5	3.5
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<b>CANBERRA</b>	4.0	3.75	3.5	3.0	3.0	3.0
<b>DARWIN</b>	5.5	5.0	4.5	4.0	4.0	4.0
<b>GOLD COAST</b>	7.5	5.0	5.0	5.0	5.0	5.0
<b>MELBOURNE</b>	5.0	4.0	3.5	3.5	3.5	3.5
<b>PERTH</b>	5.2	4.9	4.5	4.0	3.7	3.7
<b>SYDNEY</b>	5.5	4.5	3.5	3.5	3.5	3.5
<b>TOWNSVILLE</b>	7.0	6.0	5.0	4.0	4.0	4.0



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