

JULY 2023

# QUARTERLY UPDATE



**RAWLINSONS**  
COST MANAGEMENT

# INTRODUCTION

Welcome to our Quarter 2 Update Report for the Australian Construction Market. This report provides insights into the current state of play in the Australian Construction Market with a particular focus on cost movements and activity levels.

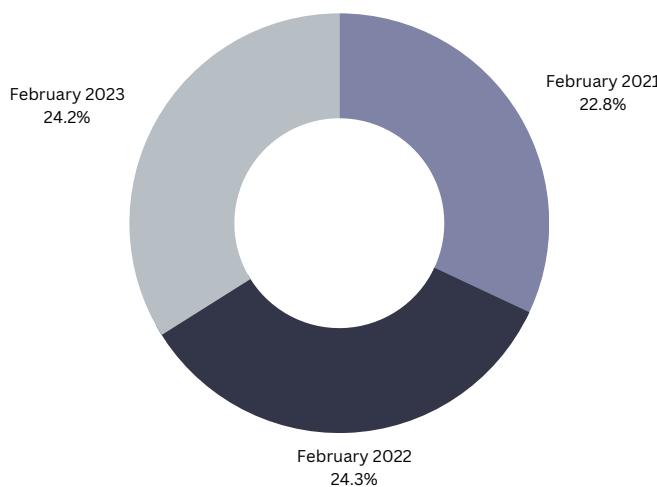


The first half of 2023 has seen some familiar challenges affect the construction sector throughout Australia including a significant lack of skilled labour availability, material price increases, contractor insolvencies and ever-increasing interest rates. One of the other major challenges in the industry at present is the severe lack of housing availability and affordability across all states. This housing supply problem is only likely to worsen before it improves as dwelling approval rates have decreased to their lowest rate since 2012.

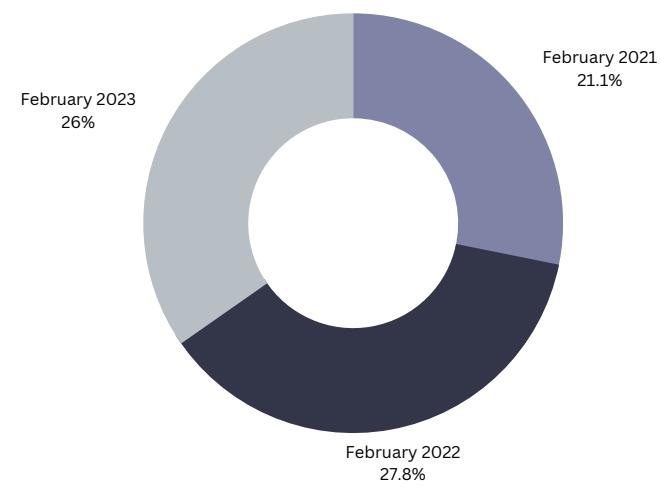
Some positive signs are; a significant decline in international freight costs, greater certainty around material lead-in times and a higher focus from the construction industry in general on sustainable construction methods and a reduction in embodied carbon in the design and construction of projects.

Although the percentage of businesses within the construction industry reporting at least one vacancy has dropped in the last quarter from 28.5% to 24.2%, the supply and availability of skilled labour still remains a major challenge through 2023. The below graph shows the percentage of businesses reporting at least one vacancy in the construction sector and mining sectors.

**Construction Sector**



**Mining Sector**



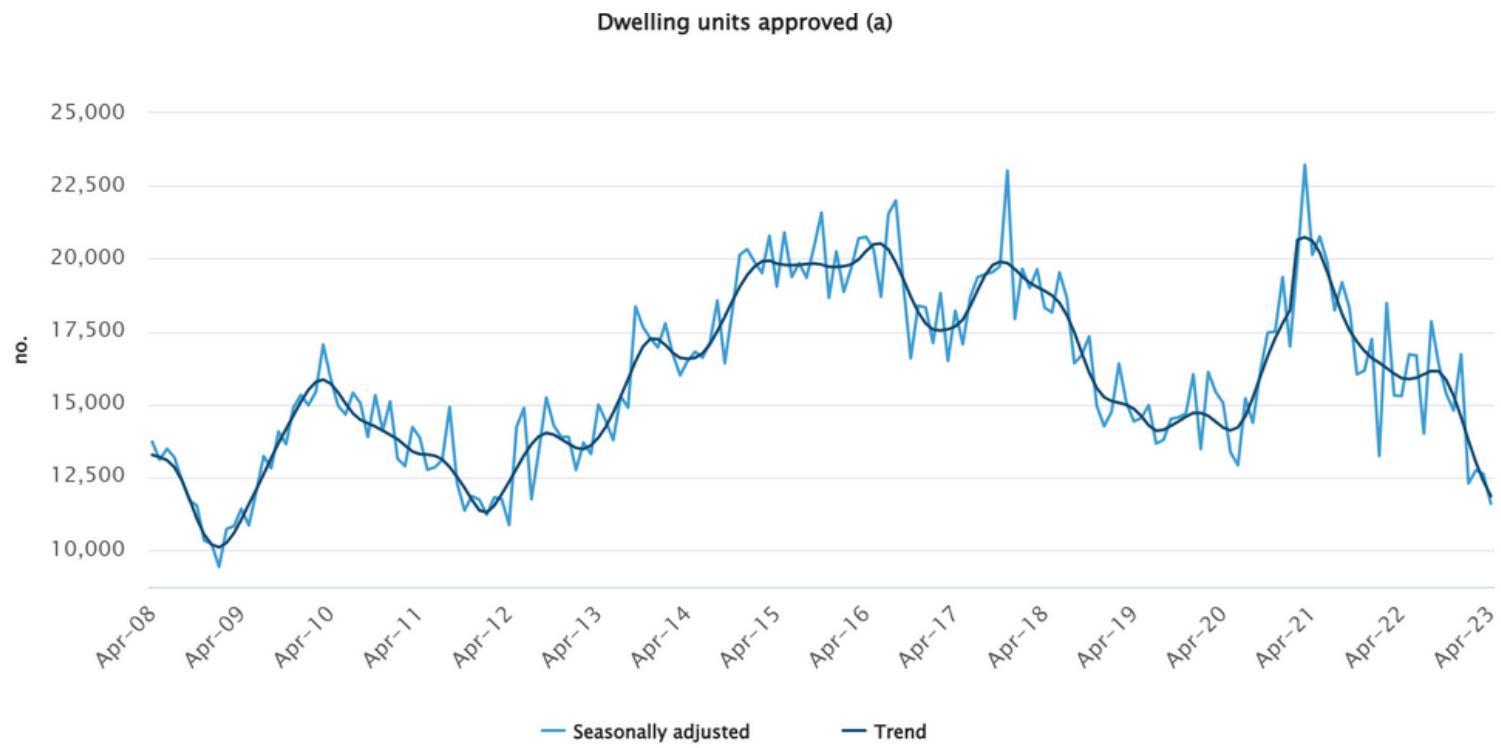
Source: Australian Bureau of Statistics (ABS) - Job Vacancies, Australia February 2023



# 2023 OUTLOOK

The current outlook for 2023 is mixed. Building Approvals have hit their lowest level since April 2012 with an 8.1% drop from May to April, as illustrated in the graph below. The biggest drop in approvals was in private sector dwellings excluding houses which fell 16.5%. Many investors and developers are proceeding cautiously in the current economic conditions with numerous projects deferred or put on hold indefinitely. Public sector spending has continued at record levels with huge investment in transport, health and social housing. There are still many projects from previous government stimulus packages struggling to reach the finish line and therefore there is limited capacity and availability for many contractors to take on new work. This has created continued upward pressure on construction costs with a particular stress on labour availability.

Dwelling Units Approved - Australia



a. Trend break added to 'Total dwelling units approved' trend series for February 2021

Source: Australian Bureau of Statistics, Building Approvals, Australia April 2023

Source: ABS - Dwelling Approvals

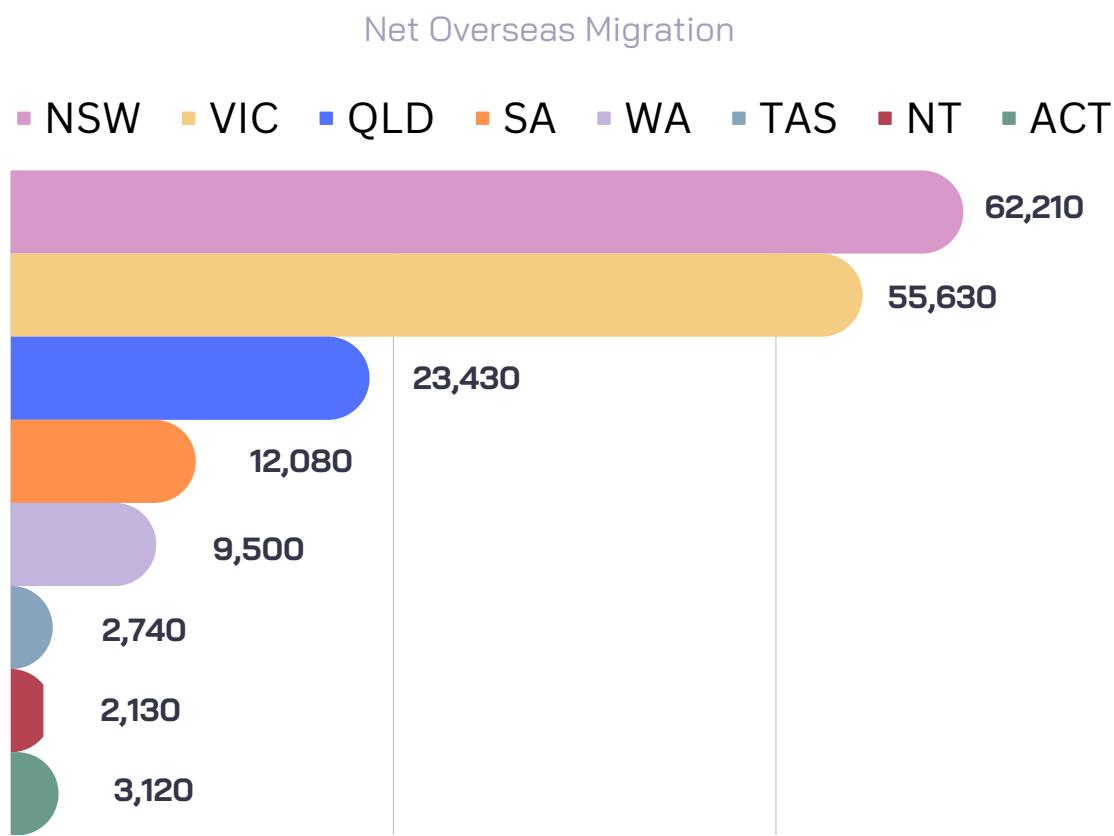
## Value of Buildings Approved (\$M)- States and Territories

	2020	2021	2022
New South Wales	\$37,098,677	\$45,863,012	\$43,705,875
Victoria	\$39,218,035	\$47,844,922	\$51,036,324
Queensland	\$21,800,087	\$27,003,525	\$28,463,812
South Australia	\$7,901,629	\$7,957,699	\$10,510,135
Western Australia	\$9,756,067	\$14,417,548	\$12,682,760
Tasmania	\$1,764,696	\$2,274,779	\$2,347,855
Northern Territory	\$1,259,297	\$1,309,183	\$941,342
Australian Capital Territory	\$2,697,329	\$3,527,095	\$2,711,231

Source: ABS 8731 Building Approvals

## Housing Supply

A common theme across all states is the current lack of housing availability and in particular social and affordable housing. An increase in recent immigration numbers with a net gain of 170,900 people across 21-22 as shown in chart below has exacerbated the problem.



Source: ABS - Net Overseas Migration

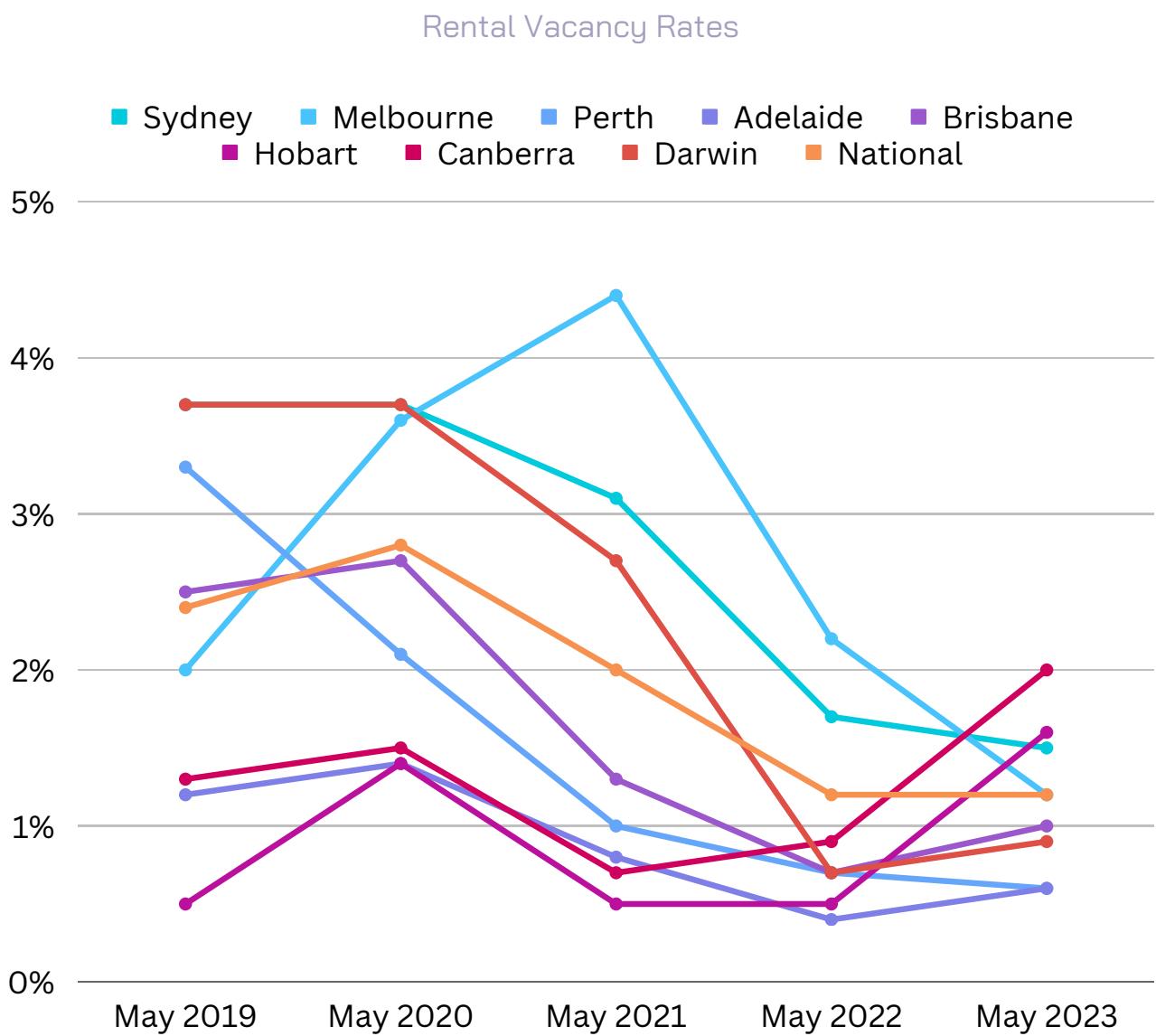
The Federal Government's plan for the Housing Australian Future Fund, which commits \$10 billion to the construction of 30,000 social and affordable homes in the next 5 years, has stalled in the Senate. The Albanese Government has also announced a one-off \$2 billion investment in social housing across Australia which would need to be committed to projects in the next 2 years.

These initiatives are a clear indication of the current dire situation and lack of housing around the states. Additionally, many State Governments have also made their own commitments to social and affordable housing including \$2.6 billion by the WA Government over the next four years.

Whilst these commitments are commendable and will indeed take up some of the current demand, these programs are also likely to face many challenges that have plagued the industry over the past few years including a current lack of skilled labour in the construction sector, contract insolvencies and rising construction costs. A fine line must be walked by providing the necessary housing required whilst not over stimulating the market. A well thought-out and co-ordinated procurement plan based on in depth research of the capacity and capability within the industry must first be established. This may be an opportunity for modular construction to come to the fore and provide a shorter project program from feasibility through to handover. Innovation and collaboration through all levels of government along Community Housing Providers (CHPs) and other key stakeholders in the industry is required to successfully overcome this challenge.

## Rental Availability

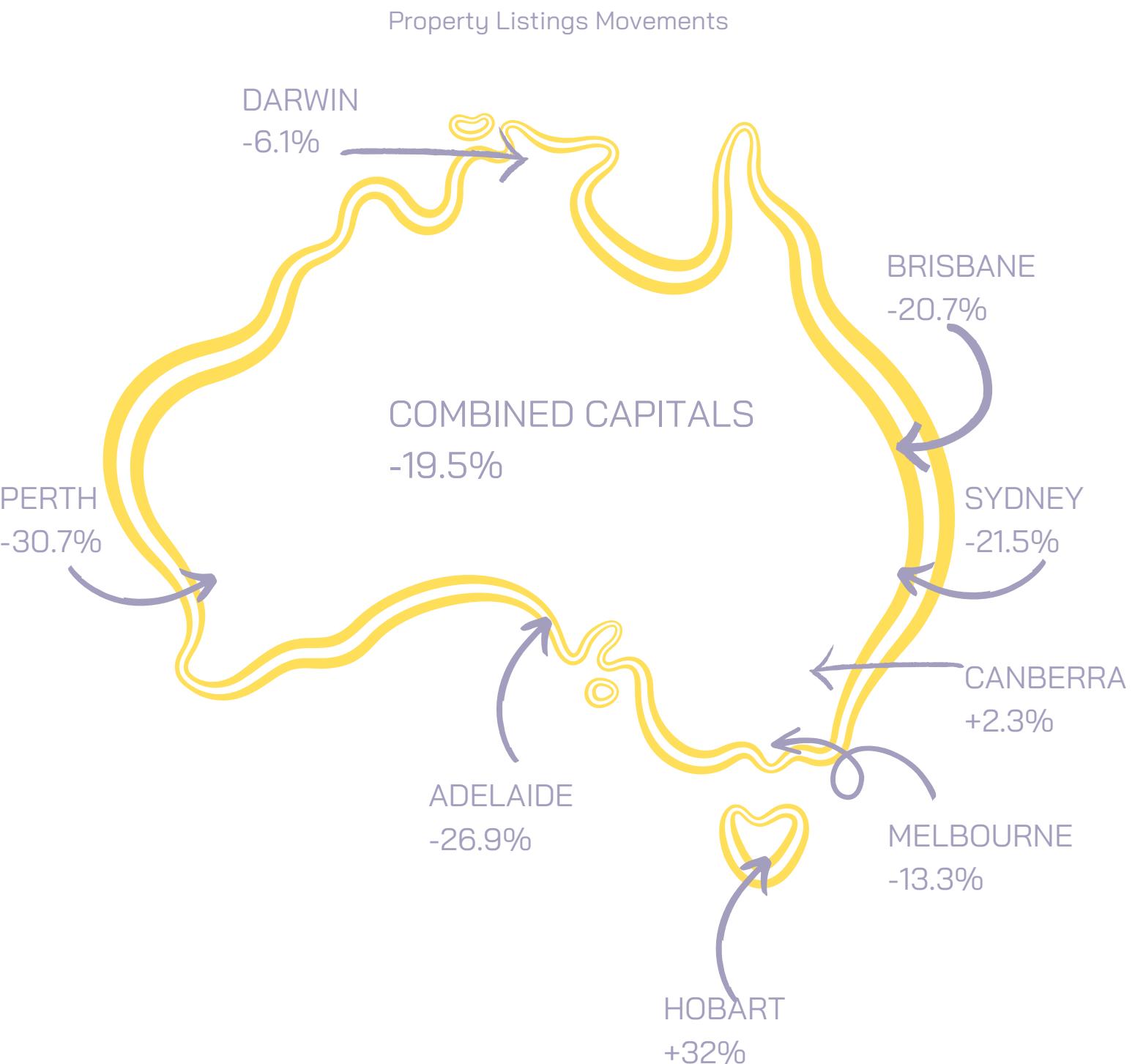
The availability of house rental stock has been on the decline in Australia for a number of years. The harsh reality of the situation is illustrated in the chart below. At present, national rental vacancy rates sit at 1.2%. The need for new, affordable housing stock is clear to be seen but with the RBA continuing to push up interest rates it is not only increasing the cost of living pressure but also making property development and investment less appealing for developers and investors alike.



Source: SQM Research - Rental Vacancy Rates

## Property Listings

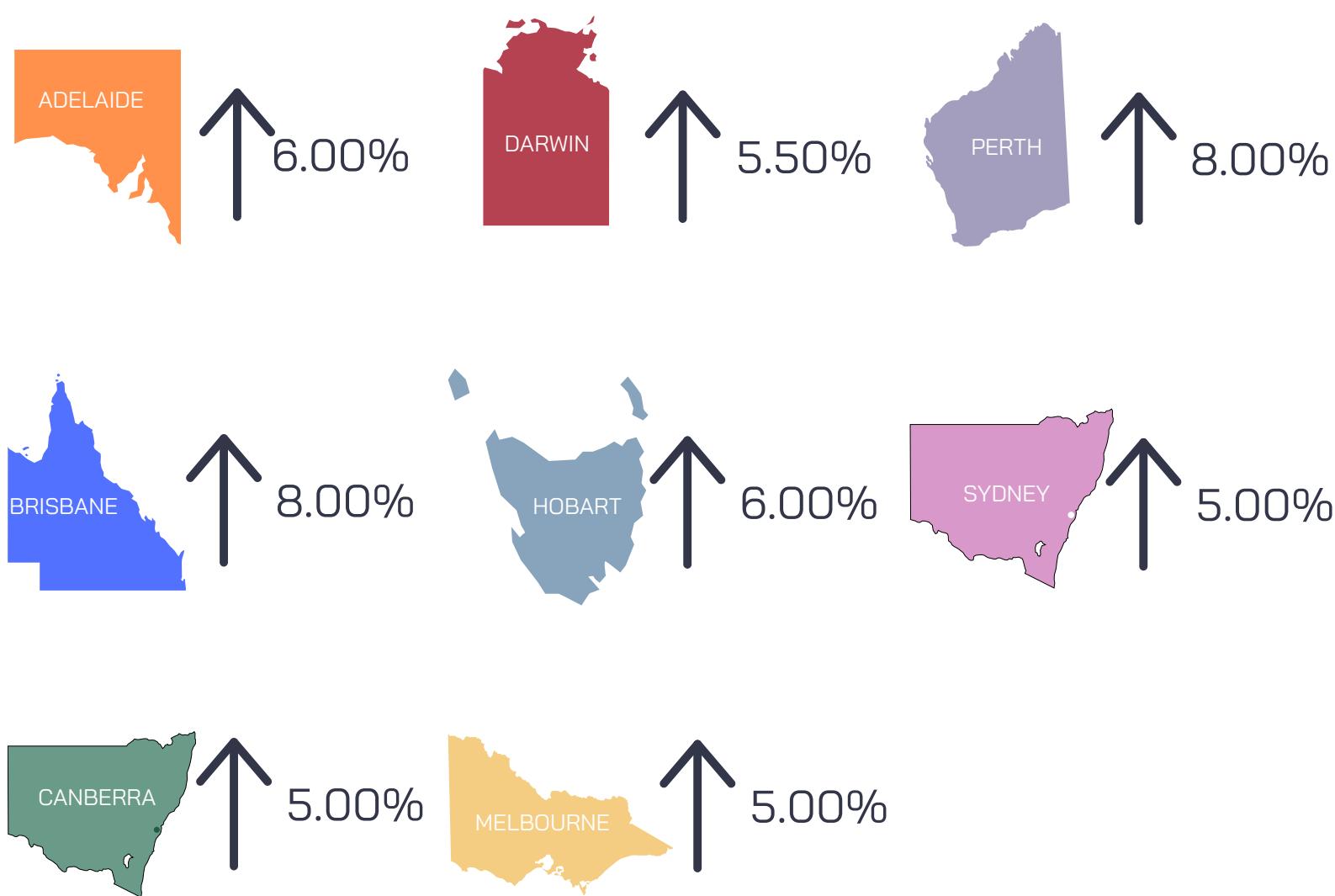
The below diagram shows the annual percentage drop in property listings across each of the capital cities, with significant drops in all but two. The combined capitals are down 19.5% in the past 12 months. This lack of stock further compounds the rental crisis and highlights the dire requirement for significant volumes of new housing stock to be built but with approvals at a 10 year low it will be some time before supply and demand can balance.



Source: [Propertyupdate.com.au](http://Propertyupdate.com.au)

# 2023 FORECASTED BUILDING PRICE ESCALATION

Despite some positive signs there are still cost pressures in the industry which are continuing to drive costs up and the general view from the states is that costs will continue to increase across 2023 albeit at a slower pace than has been experienced through the past 3 years. A number of the forecasts have been increased since the first quarter including both Perth and Brisbane. Client hopes and/or expectations that escalation and building costs will drop or 'return to norm' are unlikely in the short term. The following are the forecasted percentage changes across each state over 2023:





# ADELAIDE

The implementation of further interest rate increases expected through the rest of the year will greatly impact on the entire economic outlook for some time. Interest rate increases appear the only mechanism utilised at this point in time to curtail inflation, with dire consequences to many aspects of the economy. Consumer confidence is struggling, as cost of living pressures continue to increase.

Activity in the construction sector continues to be steady, but is moderate in comparison to the past few years. This applies to both residential and non-residential sectors. Varied feedback from both consultants and contractors indicate that tender opportunities are showing signs of slowing.

The quantum of contractor insolvencies, trade payment defaults and reduced revenue expectation, appears to be worsening and is expected to rise further as interest rate increases bite.

## Q1 - Q2 PRICE FLUCTUATIONS

<b>Labour</b>		+3%
<b>Concrete Supply</b>		+2%
<b>Brick laying</b>		+7%
<b>Structural Steel</b>		0%
<b>Timber Supply</b>		-3%
<b>Glazing</b>		+2.5%

*Detailed price changes are provided in Annexure 1 for customers of Rawlinson's 2023 publications.*

## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	1.5%
Q1 - Q2	3.5%
Q1 - Q3	5%
Q1 - Q4	6%

The \$10 billion Housing Australia Future Fund is finding a difficult passage in achieving approval. It would appear that a fresh approach that encourages private sector investment with appropriate tax incentives should be examined.

The increased immigration intake expected over the ensuing period will challenge all sectors that contribute to the construction industry, as to the planning and execution, for the supply of the various forms of housing and infrastructure required to satisfy this demand as well as existing domestic demand. The State Government is addressing some of this demand in the CBD, with a 392 apartment complex, with 137 units allocated for affordable housing.

In relation to the budget the State Government has allocated \$21 billion over four years, for infrastructure spending relating to roads, health, water, housing and education, which will create opportunities going forward.

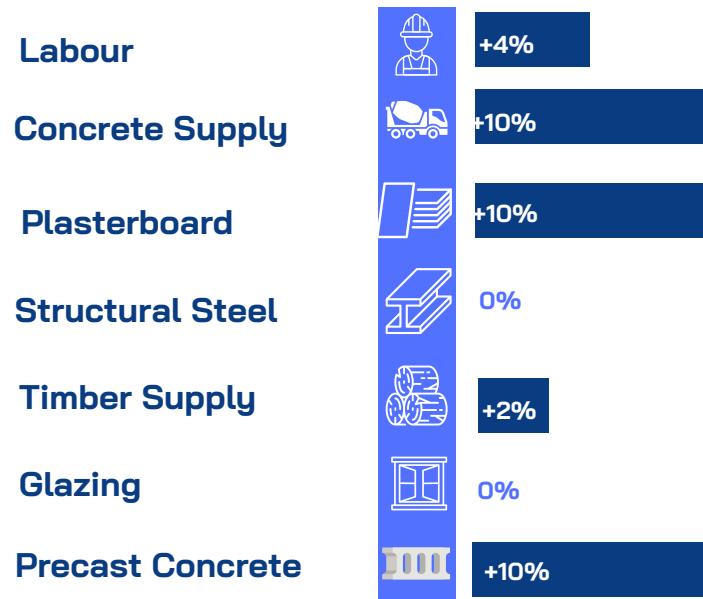


# BRISBANE

Whilst the second quarter of 2023 has seen further softening of Building Approvals this has not yet transposed into moderation of price increases. Significant price increases to key trades has been maintained. This coupled with risk adverse contractors being selective in project tendering, is resulting in increases to preliminaries and disclosed margins due to a high level of activity still existing within multiple market sectors of the industry.

Large spreads in tender prices are being experienced, implying that a cooling of activity is starting to occur. However, with the State Government recently announcing large capital works programs the softening of price increases is likely to be delayed.

## Q1 - Q2 PRICE FLUCTUATIONS



*Detailed price changes are provided in Annexure 1 for customers of Rawlinson's 2023 publications.*

## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	2.5%
Q1 - Q2	5%
Q1 - Q3	7%
Q1 - Q4	8%

Major projects under construction in Brisbane CBD include the Waterfront Precinct and the Queens Wharf. As with many other capital cities, the increases in interest rates by the RBA has had a negative impact on the apartment sector with the feasibility of many projects just not stacking up. Infrastructure remains an active sector with major projects such as Cross River Rail, Inland Rail and the Brisbane Metro.

The escalation forecast across 2023 has risen from previously forecasted 6% to 8%.



# CANBERRA

The Canberra market remains stable, however the number of dwelling approvals decreased in the Australian Capital Territory by 15.1% from March to April. This is despite the fact that the ACT Government has a plan to increase the states housing supply by 30,000 units in the next 5 years.

The ACT Government's 'Major Projects Canberra' pipeline currently has 48 projects listed, a reduction of 7 since the last quarter. 23 of these projects are already at the procurement stage which is likely to lead to a tightening of the labour market in the construction sector. Some notable projects are: Whitlam Residential Estate Stage 4A Civil Engineering and Landscape Construction (Est \$20-\$50m), Throsby District Playing Fields Construction (Est \$15-\$20m), Canberra Theatre redevelopment (Est \$0.5-\$2m), JESC Upgrade works Mitchell (EST \$2-\$5m) and R2R Pavement Rehabilitation David Walsh Ave (Est \$2-\$5m).

## Q1 - Q2 PRICE FLUCTUATIONS

	<b>Labour</b>	+3%
	<b>Concrete Supply</b>	+5%
	<b>Generators</b>	+6-7%
	<b>Structural Steel</b>	0%
	<b>Timber Supply</b>	0%
	<b>Plasterboard</b>	+10%
	<b>Metal Sheeting</b>	+4%

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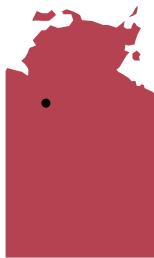
## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	1.5%
Q1 - Q2	3.5%
Q1 - Q3	4.5%
Q1 - Q4	5%

There has been a stabilising of some material costs, however overall construction costs remain higher, mainly driven by increased labour costs as well as higher financing costs. Lead-in times have become more certain but durations are still longer than pre-COVID timeframes.

Insolvency levels are trending up and expected to continue rising as business conditions become more challenging. External administration was up 35% in the year to May. These troubles continue to plague the construction industry with the rate of external administrations sitting at its highest point since June 2020.

Businesses are suffering in the face of rising interest rates, high inflation, weakening demand and declining forward orders. The latest monthly inflation and unemployment data suggests that the ACT will be hit with more rate rises in the coming months, adding to the challenge.



# DARWIN

The Northern Territory is experiencing a growing construction industry, through Government funding which is helping bolster construction activity, particularly the Civil & Infrastructure and Defence sectors. For example, the Australian Government (as well as international governments like the United States) are investing significantly in the defence sector throughout the Northern Territory. In addition, both the Australian and Northern Territory Governments are investing in major road infrastructure.

Cost increases have been experienced in most trades, caused by both fragmented supply chain issues and labour shortages which have led to volatile pricing in areas of the subcontract market. Contractor margins are also moving upwards and are now dependent upon Contractors' appetite for each individual project.

## Q1 - Q2 PRICE FLUCTUATIONS

	<b>Labour</b>		<b>+3.5%</b>
	<b>Concrete Supply</b>		<b>+8.5%</b>
	<b>Brick laying</b>		<b>+9.5%</b>
	<b>Structural Steel</b>		<b>0%</b>
	<b>Timber Supply</b>		<b>+4%</b>
	<b>Plasterboard Supply</b>		<b>+12.5%</b>
	<b>Precast Concrete</b>		<b>+13%</b>

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## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	1%
Q1 - Q2	4.5%
Q1 - Q3	5%
Q1 - Q4	5.5%

The industrial sector is growing with various projects in the planning phase, mainly outside the CBD of Darwin itself.

Whilst the issues around labour shortages continue to put pressure on construction costs, the material supply and shipping costs appear to have stabilised resulting in some escalation in this quarter but not to the levels we have seen in 2022.

Escalation in Darwin across 2022 is forecast at 5.5%, marginally higher than forecasted at the beginning of the year.



Indications of a softening in the market are encouraging, however tendering and activity levels across the industry remain high. Although there is evidence of increased subcontractor participation in tendered projects, negotiated projects continue to be utilised as a major source of project delivery. Main contractors continue to have ample projects on their books for the rest of the year with most likely to only have potential vacancies available in the New Year.

It remains to be seen if projects put on hold due to becoming unviable or limited contractor availability will recommence and compete with new projects. The likelihood of this outcome will become clearer over the next six months.

## Q1 - Q2 PRICE FLUCTUATIONS

	Labour		+3%
	Concrete Supply		+0%
	Brick laying		+3%
	Timber Supply		-10%
	Glazing		+0%
	Plasterboard		+14%

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## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	2%
Q1 - Q2	4%
Q1 - Q3	5%
Q1 - Q4	6%

Whilst pricing levels remain high, opportunistic pricing appears to have predominantly subsided and pricing increases appear to be slowing down to more acceptable levels. Material availability has also increased with confidence in supply pricing and lead times steadily improving. The residential sector remains buoyant although the impact of recent cost increases, contractor insolvency and continued interest rate rises is yet to be fully felt due to the substantial backlog built up over the last few years.

The accelerated population growth experienced over the last few years due to the Federal Government's regional location program has now abated somewhat reducing some of the pressure on housing supply although there is a continued under supply which will take considerable time to correct. House prices have also remained fairly steady to this point but are now expected to increase, reducing the likelihood of more dwellings entering the market and impacting new house construction. The more likely outcome is for continued demand on the residential construction sector for some time to come.



# MELBOURNE

The construction industry continues to perform at a reasonably strong level, despite still having to deal with the ongoing effects of a shortage of skilled labour availability, company insolvencies, increasing interest rates, the RBA and Federal Government's addressing of issues associated with the current levels of inflation, as well as the growing 'whispers' of a possible looming recession.

The Victorian State Government is currently under pressure to urgently reign in expenditure, which, in the past few years, has been climbing up to unsustainably high levels. The government is currently finalising the process of identifying major projects, which may need to be trimmed, delayed, put on hold, or even ultimately, abandoned. The outcomes of this review on the future pipeline of government funded construction works, is still to be fully assessed and realised within the industry at large. Despite the government's intention to reduce its public construction expenditure, construction activity within the social housing/accommodation sector is expected to receive a priority boost in the period ahead.

## Q1 - Q2 PRICE FLUCTUATIONS

<b>Labour</b>		-2.5%
<b>Concrete Supply</b>		+4%
<b>Brick laying</b>		+3%
<b>Re-bar Supply</b>		-3%
<b>Timber Supply</b>		0%
<b>Plasterboard Supply</b>		+2%
<b>Precast Concrete</b>		+4%

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## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	2.0%
Q1 - Q2	3.5%
Q1 - Q3	4%
Q1 - Q4	5%

Construction activity within the general housing sector, remains reasonably strong, despite the fact that capacity is continuing to be stretched in meeting supply demands. Activity within the apartment sector, is currently subdued, but there remains some opportunities in respect of 'build to rent' type developments.

Activity within the health and aged care sector is positive and stable and is anticipated to remain so in the immediate future. Activity within the industrial sector continues to remain strong, as it has done for some time now. The infrastructure (civil) sector, also continues to be the mainstay of the construction activity, at large. The hotel/leisure industry, which has seen some high levels of activity in recent years, is anticipated to see a reduced level of future activity, in the short term.



# PERTH

The construction market in Perth still faces many challenges at present including; skilled labour shortages, long lead times for some materials, lack of housing availability and continued cost escalation increases. Although the pace of escalation has slowed in comparison to its peak in 2021 the current forecast is still above the average of the past 20 years. Some clients have an unrealistic expectation that there will be a significant drop in the cost of construction but this is far from likely.

There has also been somewhat of a shift in project procurement procedures with many contractors reluctant to use a traditional competitive tender process with alternative ECI, GMP and D&C procurement models being utilised. A key driver for this change is the number of contractor insolvencies in the past 18 months. Contractors are more selective about the type of client they wish to work with as well as the risk profile of the project, chosen procurement route and proposed contract conditions.

## Q1 - Q2 PRICE FLUCTUATIONS

	<b>Labour</b>	+7-8%
	<b>Concrete Supply</b>	+12%
	<b>Re-bar Supply</b>	+5-6%
	<b>Pre-cast Concrete</b>	+15%
	<b>Lifts</b>	+7%
	<b>Plasterboard</b>	+10%
	<b>Generator</b>	+6-7%

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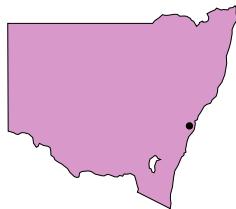
## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	2.5%
Q1 - Q2	5.5%
Q1 - Q3	7%
Q1 - Q4	8%

Some of the factors causing upward pressure on cost escalation include new wage awards and Enterprise Bargaining Agreements (EBA's) for many contractors. Additionally key materials such as concrete, re-bar, copper, ductwork and Colorbond products are continuing to increase each quarter. These materials form part of almost all projects and therefore impact pricing across the board.

Market activity in Perth remains heated with the building, infrastructure and resources sectors all pulling from a relatively small pool of resources. Government has committed to high levels of spending in transport, health and social and affordable housing. Meanwhile the private sector is still grappling with the feasibility of many projects and have the added cost of the continuing increase to interest rates which makes the viability of many projects less appealing. This coupled with the cost escalation in the market has seen a number of projects put on hold or deferred until a future date.

The escalation forecast for Perth has increased to 8% across the year with the majority of this being incurred in the first half of the year.



# SYDNEY

A continued levelling of material escalation, from pre and post COVID highs, was experienced across all sectors in the construction industry in the last quarter, as the effect of the easing of border restrictions and opening of supply chain procurement routes continues to ease. These moderate material/commodity price increases have however been more than offset by a large increase in labour costs, driven largely by a shortage of skilled labour across Sydney, and NSW generally. These labour issues, and resultant market conditions, have seen tender pricing increase across all sectors. With border openings since COVID-19 not doing much to alleviate the skilled labour shortage, it is forecast that tender and construction prices will remain elevated throughout the remainder of 2023.

## Q1 - Q2 PRICE FLUCTUATIONS



<b>Labour</b>		+9%
<b>Concrete Supply</b>		+2%
<b>Brick laying</b>		+6.5%
<b>Structural Steel</b>		0%
<b>Timber Supply</b>		+5%
<b>Glazing</b>		+5.5%
<b>Plasterboard</b>		+10%

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## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	2%
Q1 - Q2	4%
Q1 - Q3	4.5%
Q1 - Q4	5%

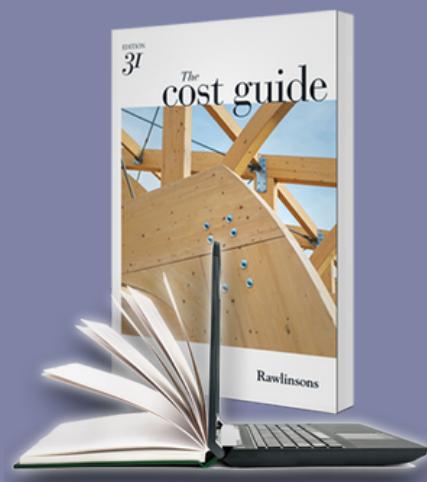
Activity levels have dropped since the previous quarter, due to a combination of still inflated construction costs (labour and material), and consistently increasing interest rates. Activity levels are forecast to decline throughout the remainder of 2023.

Due to the high uncertainty and volatility in the current market, along with supply chain disruptions, and increasing material and labour costs across key trades, contractors are adding high contingencies into their pricing as a strategy to mitigate potential unforeseen risks.

Cost escalation across 2023 is forecast to be 5% an increase to the outlook at the start of 2023.

# 2023 LEARN MORE

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<b>1057</b>	<b>32</b>	<b>13,000</b>
Pages	Trades	Lines of Cost Data

- ✓ COMPREHENSIVE DATA SOURCE
- ✓ ESTIMATING RATES
- ✓ DETAILED PRICES
- ✓ BUILDING PRICE INDEX
- ✓ LABOUR AND PLANT CONSTANTS
- ✓ RECYCLING & REFURBISHING
- ✓ BUILDING REGIONAL INDICES

<b>330</b>	<b>27</b>	<b>6,337</b>
Pages	Trades	Lines of Cost Data

- ✓ PROJECTS UP TO \$1.5 MILLION
- ✓ ESTIMATING RATES
- ✓ DETAILED PRICES
- ✓ BUILDING PRICE INDEX
- ✓ LABOUR AND PLANT CONSTANTS
- ✓ RENOVATIONS
- ✓ BUILDING REGIONAL INDICES



# RAWLINSONS

## C O S T M A N A G E M E N T

In addition to our construction cost data we also provide the full suite of cost management services including :

- Feasibility Studies, Estimating, Project Cost Planning and Management
- Preparation of Bill of Quantities and Schedule of Rates
- Tender Analysis and Recommendation
- Contract Administration
- Building Information Modelling (BIM) 5D Take Off
- Value Engineering
- Peer Reviews
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