

OCTOBER
2023

QUARTERLY UPDATE



RAWLINSONS
COST MANAGEMENT

INTRODUCTION

Welcome to our Quarter 3 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 industry activity levels.

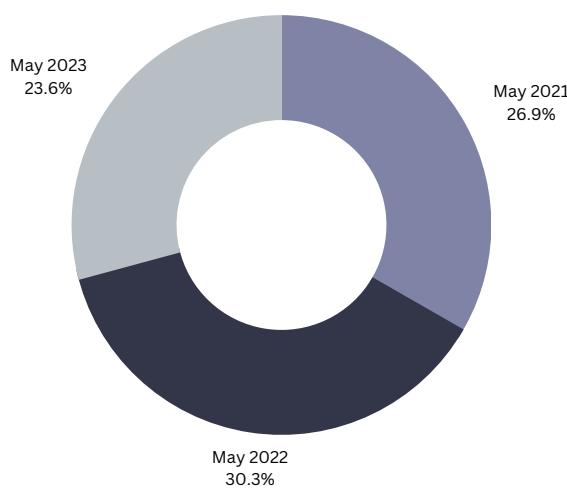


As we move into the final quarter of 2023 many on-going challenges remain in the construction sector throughout Australia including a significant lack of skilled labour availability, increasing fuel costs, contractor insolvencies and historically high interest rates. One of the other major challenges 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.

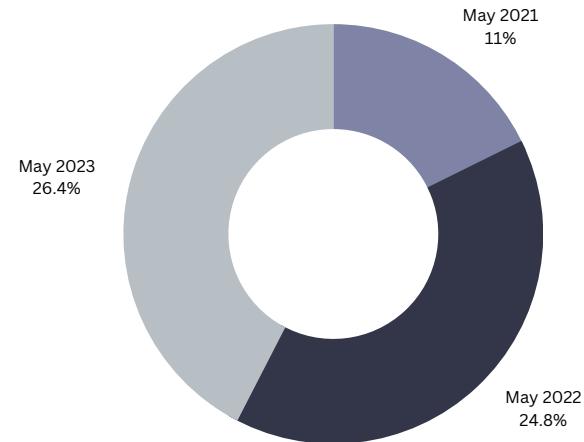
Some positive signs are: a significant decline in international freight costs, stabilising material costs, greater certainty around material lead-in times and increased tender participation levels from both main contractors and sub-contractors which will in-turn lead to increased competition for projects.

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 May 2023

The construction industry is struggling to attract the required volume of workers required to deliver the current and forecast pipeline of work. Many workers are 'burnt out' due to long hours, working Saturdays and the constant pressure of deadlines. In 2021 national data revealed that just 54 % of trade apprentices who started apprenticeships in 2017 had completed by the end of 2021. Additionally, the industry fails to attract a reasonable portion of female workers. These issues will only exacerbate the current skills shortage and real action is required to address the situation.



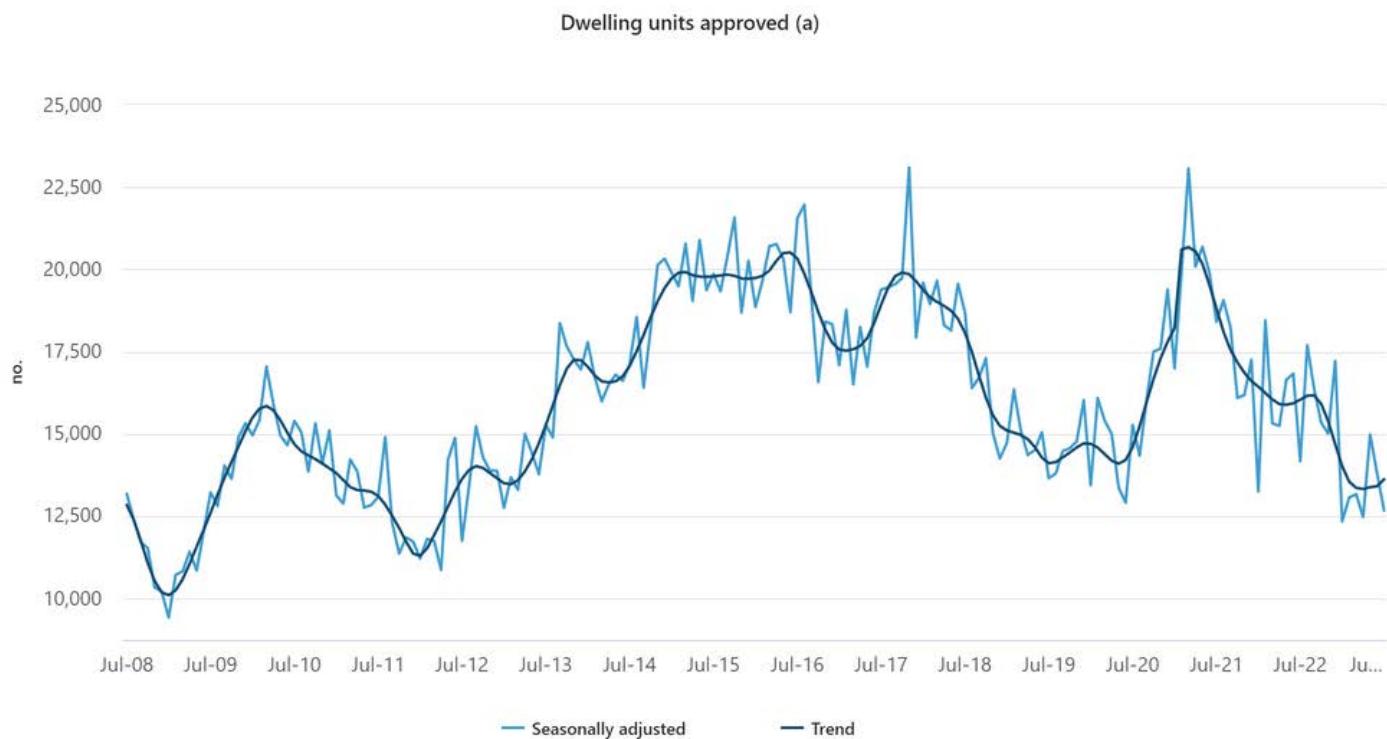
2023 OUTLOOK

The current outlook for the remainder of 2023 is mixed. Building Approvals have hit their lowest level since April 2012 with an 8.1% drop from June to July, as illustrated in the graph below. The biggest drop in approvals was in private sector dwellings excluding houses which fell 16.9% in the past 12 months.

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 has been a significant shift from Build to Sell (BTS) residential developments to Build to Rent (BTR) schemes. This is driven by the need for more social and affordable housing, as well as more attractive feasibility outcomes for developers/investors.

Dwelling Units Approved - Australia



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

Source: ABS - Dwelling Approvals

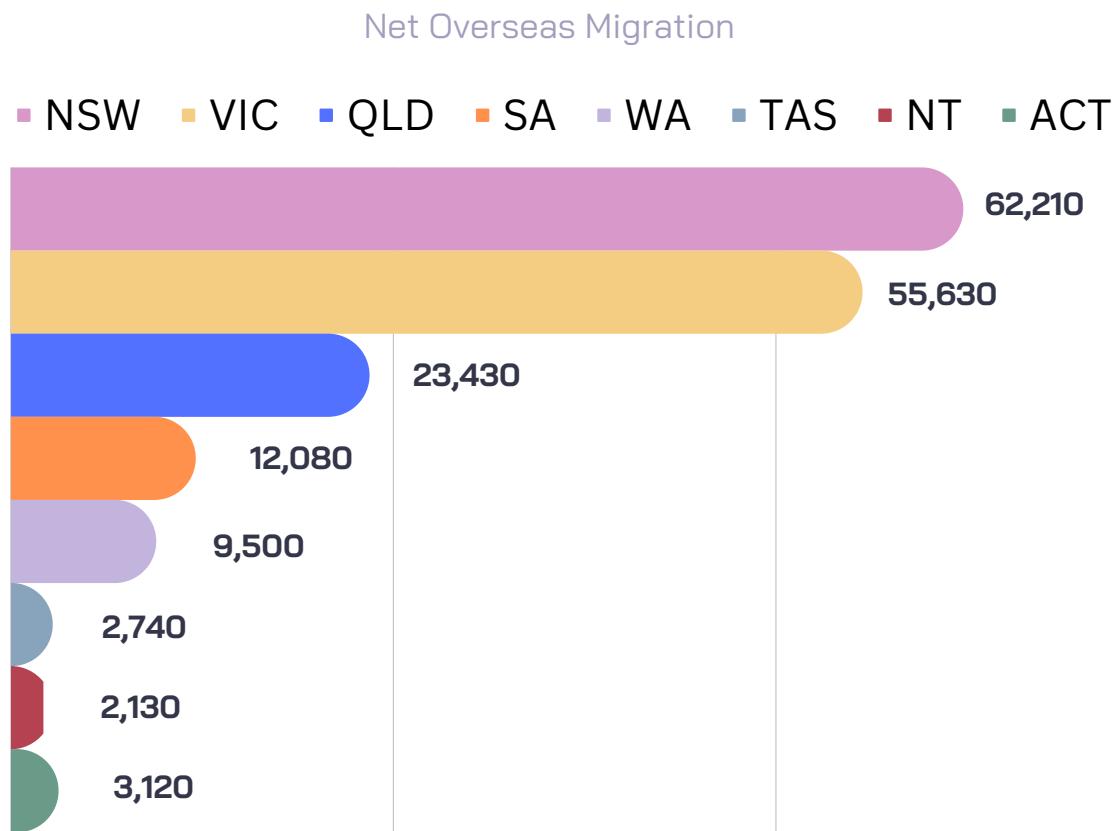
Value of Total Buildings Approved (\$M)- States and Territories

	2020	2021	2022
New South Wales	\$37,098,677	\$45,864,336	\$44,221,558
Victoria	\$39,218,035	\$47,850,302	\$51,242,534
Queensland	\$21,800,087	\$27,031,970	\$28,551,695
South Australia	\$7,901,629	\$7,957,699	\$10,622,694
Western Australia	\$9,756,067	\$14,417,548	\$12,719,890
Tasmania	\$1,764,696	\$2,274,779	\$2,377,925
Northern Territory	\$1,259,297	\$1,309,183	\$941,342
Australian Capital Territory	\$2,697,329	\$3,527,095	\$2,743,951
Australia	\$121,495,817	\$150,232,912	\$153,421,859

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 compounded the problem and current forecasts for these numbers to increase.



Source: ABS - Net Overseas Migration

The Federal Government's Housing Australian Future Fund (HAFF), which commits \$10 billion to deliver 20,000 new social homes and 10,000 new affordable homes in the next 5 years, has recently passed through the Senate. This is the largest commitment to social and affordable housing in over a decade. This agreement between the Government and the Greens is positive news for both those struggling to put a roof over their heads as well as the residential construction sector whose activity levels have dropped dramatically since the completion of the housing boom caused by government stimulus during the pandemic.

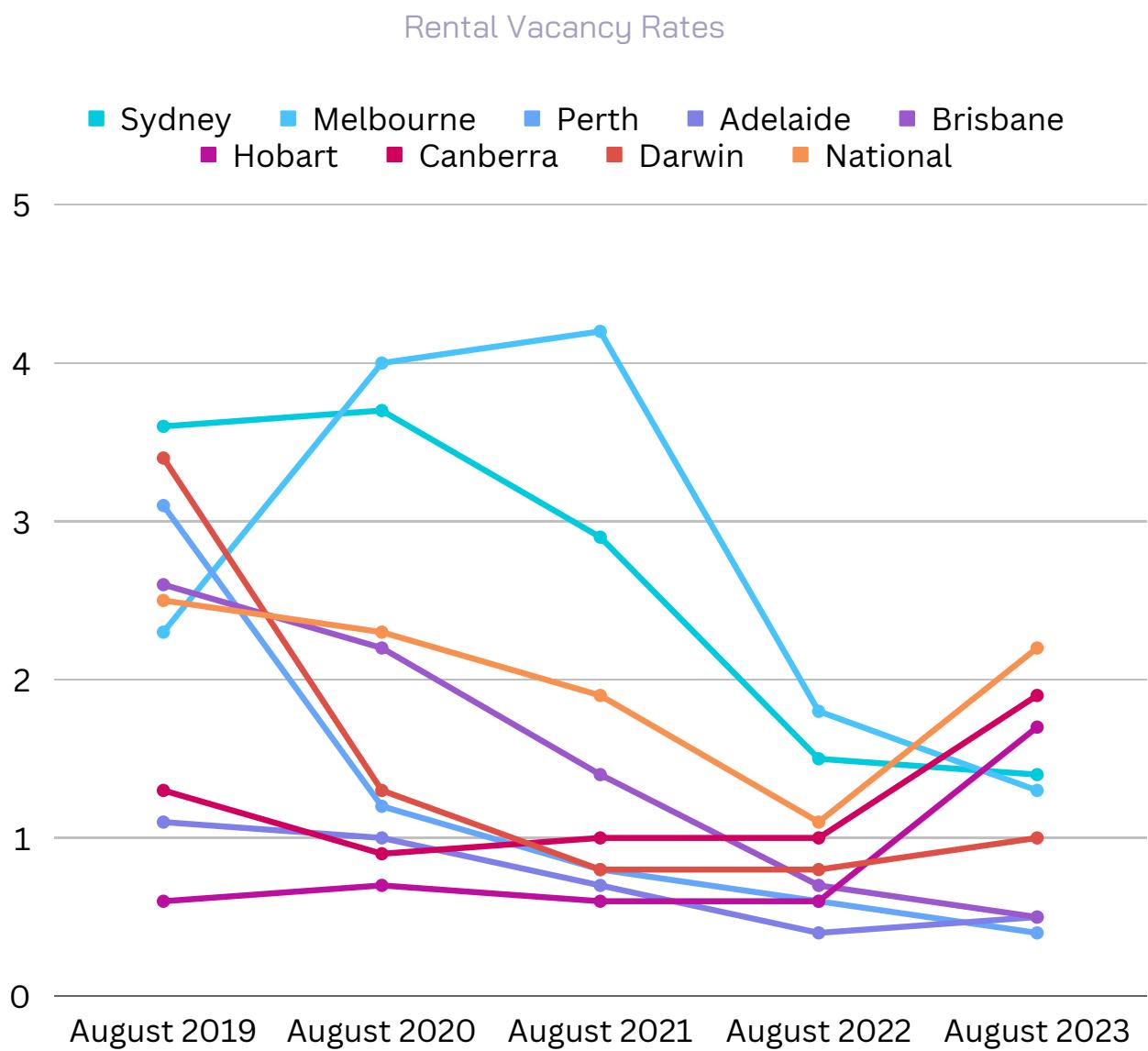
Many State Governments have also made their own commitments to social and affordable housing including \$2.6 billion by the WA Government over the next four years and NSW State Budget committing \$2.2 billion for housing, focusing on infrastructure investments to improve housing supply.

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 high construction costs, long deliver time-frames and lack of skilled labour availability. 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 or other innovative construction techniques to come to the fore. Innovation and collaboration through all levels of government along with Community Housing Providers (CHPs) and other key stakeholders in the industry is required to successfully overcome this challenge.

Rental Availability

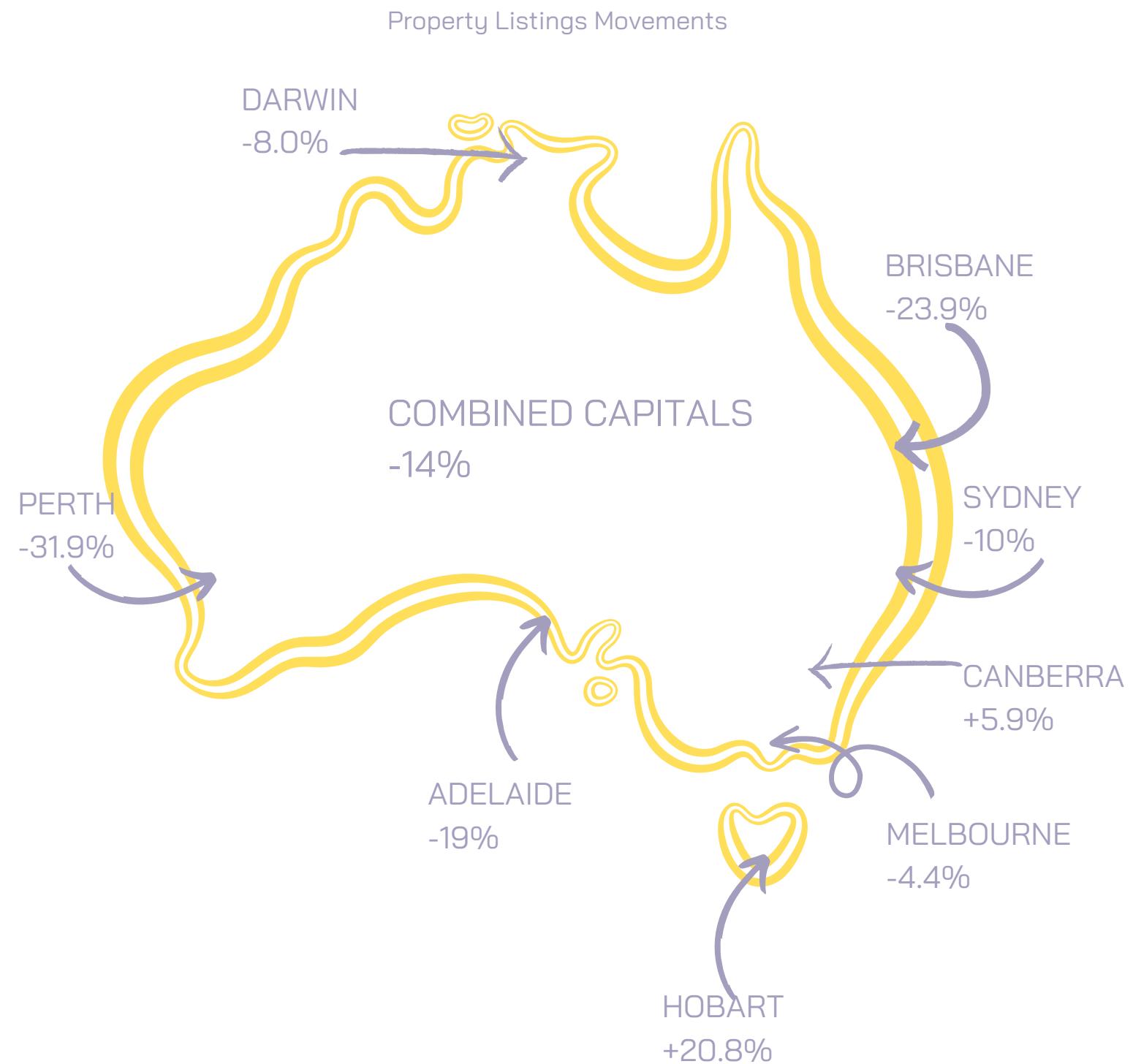
The availability of house rental stock has been on the decline in Australia for a number of years. The harsh reality of the situation is illustrated in the chart below. At present, national rental vacancy rates sit at 1.2%. With the general view that a balanced market sits between 2.5% - 3.5%, it is clear to see that a major problem exists in all states and territories. This problem will only worsen with forecasted migration numbers set to put further pressure on an already crippling situation.



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 14% 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.

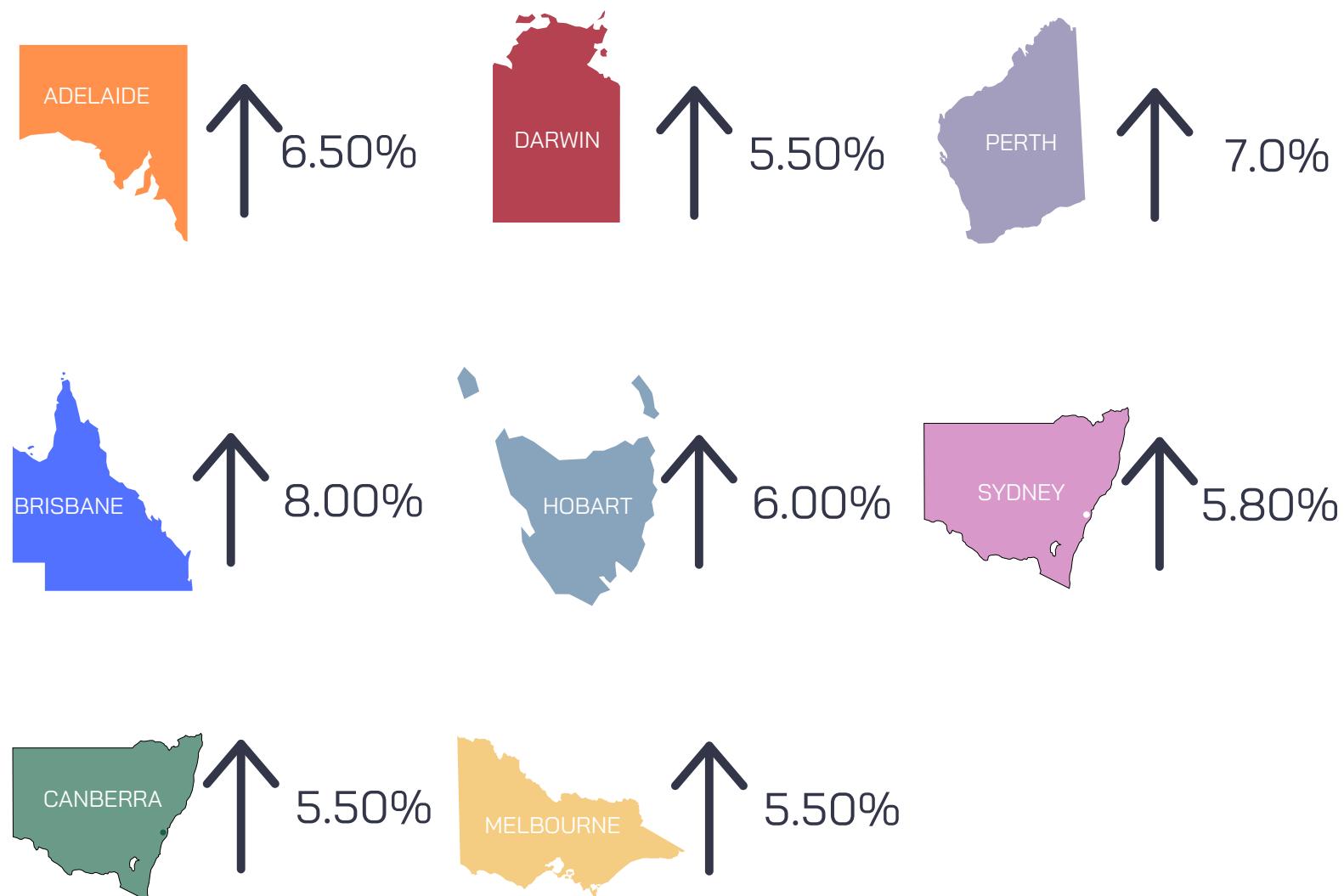


Source: Propertyupdate.com.au

2023 FORECASTED BUILDING PRICE ESCALATION

There is some clear evidence that Australia is over its peak of cost escalation. Material prices have largely stabilised, trades are more responsive to tendering opportunities and supply lead-times have stabilised. However, with a constrained labour market compounded by a lack of new skilled labour entering the workforce and those retiring from the industry increasing, it is likely that cost escalation will continue to creep upwards for the next few years, albeit at a slower pace than the past few years.

Cost escalation forecasts across 2023 have increased since our July report for Brisbane, Sydney, Hobart and Melbourne, whilst the forecast for Perth has decreased. The following are the forecasted percentage changes across each state over 2023:





ADELAIDE

To say that the current period is very challenging would be an understatement. The outlook is very complex with many factors contributing to the current market conditions, in particular, the risk that inflation could remain above the target expected by the RBA and that productivity growth does not improve. These factors will place further cost pressures into the 2024 period. Additionally, a further cash rate increase is expected later this year, should inflation prove more persistent.

The residential sector starts are approximately 9% down on the previous year. The rapid cost escalation that occurred in the past two years is still causing difficulty in all sectors notwithstanding a steady construction sector and strong population growth. Note, Adelaide's population increased by 1.1% in the 2020-2021 period and is expected to be maintained. Activity in the non-residential sector remains steady, with the budgeted Public Works to come on line, in the near future.

Q1 - Q3 PRICE FLUCTUATIONS

Labour		+5%
Concrete Supply		+9%
Brick laying		+7%
Precast Concrete		+10%
Timber Supply		-3%
Plasterboard supply		+8%

Detailed price changes are provided in Annexure 1 for customers of Rawlinsons 2023 publications.

2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	1.5%
Q1 - Q2	3.5%
Q1 - Q3	5.5%
Q1 - Q4	6.5%

Labour difficulties are still being experienced in most trade categories which is pushing up labour rates. The recent rise in oil prices, which is expected to remain for the foreseeable future, will add further upward pressure.

Indications are that the cost of living crisis is starting to have an impact on retail spending. The consensus is that a slowing Chinese economy will impact the global outlook and will test Australia's ability to manage these events.

The current indication is that the Adelaide CPI for the 2023-2024 period will reduce from 7.75% to approximately 3.25%. Notwithstanding, construction cost escalation will remain in the range of 5% to 7%.

Contractor insolvencies continue to rise with Qattro Builders recently going into administration. Unfortunately, this trend is expected to continue into the 2024.

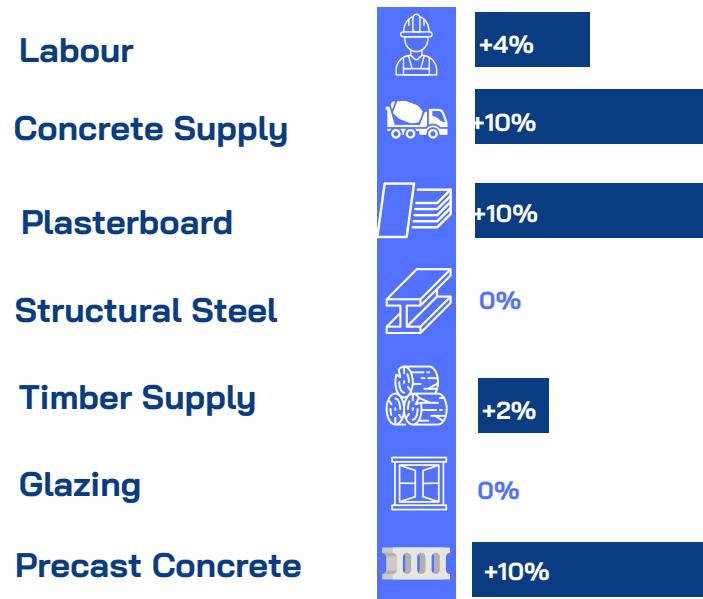


BRISBANE

Tender activity has continued to remain strong during the third quarter of 2023. Pricing on smaller projects has remained competitive with larger projects experiencing price volatility, in part, due to limited availability of contractors to perform the large volume of works.

Increases to project costs experienced in 2023 have not been limited to trade costs with contractor margins, preliminaries and project durations also increasing to mitigate project risks. This behavioural shift is unlikely to dissipate with high levels of activity forecast to continue into 2024 and beyond.

Q1 - Q3 PRICE FLUCTUATIONS



Detailed price changes are provided in Annexure 1 for customers of Rawlinsons 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%.



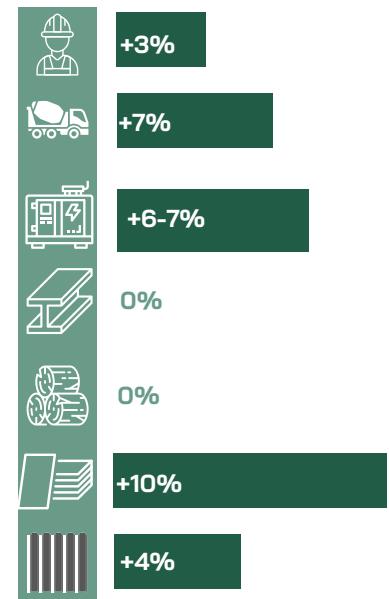
CANBERRA

The ACT construction sector is generally stabilising across all sectors. Material costs look to be returning to pre-pandemic levels, however some products are still rising, such as: precast concrete, plasterboard, copper pipe and fibre concrete products. On a positive note structural steel and re-bar is starting to see a reduction in cost.

The ACT Government's 'Major Projects Canberra" pipeline currently has 86 projects listed, with 66 of these projects already at the procurement stage.

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 - Q3 PRICE FLUCTUATIONS



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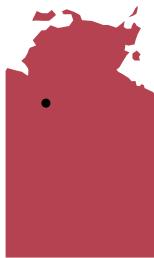
2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	1.5%
Q1 - Q2	3.5%
Q1 - Q3	4.5%
Q1 - Q4	5.5%

A snapshot of the ACT labour market as at June 2023 shows 264,245 people employed, with the unemployment rate at 3.9%. Of these people employed, 6.1% are in the construction workforce..

ASIC ACT insolvency statistics for the September quarter to August 2023 reports 9 companies entering into external administration within the Construction sector, with 2 companies in administration within the Mining sector.

The outlook for the remainder for 2023 is continued stabilising of the construction market, however continued pressure caused by a lack of skilled labour and record low housing stock will ensure that pricing remains elevated.



DARWIN

The Northern Territory construction market is experiencing a period of strong growth as it works towards a targeted \$40 billion economy by 2030. This is driven largely by an increase in activity in the Defence and Infrastructure sectors.

The Territory Government has allocated a record \$4.07 billion in the 2023-24 budget to spend on its infrastructure program. This includes the Darwin ship lift facility, and the establishment of new infrastructure, such as roads, aerodromes, jetties, bridges and public transport.

Q1 - Q3 PRICE FLUCTUATIONS



Detailed price changes are provided in Annexure 1 for customers of Rawlinsons 2023 publications.

2023 FORECASTED BUILDING PRICE ESCALATION

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

The escalation of construction costs in the Northern Territory is a pressing issue for both the public and private sectors. Labour shortages continue to put pressure on construction costs and material costs continue to fluctuate, due to high demand for certain materials like precast concrete, structural steel, joinery and electrical services. With limited suppliers in the NT, contractors are now trying to source materials from interstate, resulting in increased cost due to fuel and transport costs.

Cost pressures remain highest in the finishing trades such as tiling and painting.

Escalation in Darwin across 2023 is forecast at 5.5%, marginally higher than forecasted at the beginning of the year.



Whilst material and labour cost increases experienced over the last couple of years have generally been maintained, the pricing volatility witnessed on many proposed projects has now subsided. Many projects whose budget or feasibility was determined prior to the accelerated cost escalation period have been delayed or abandoned entirely, which whilst disappointing, has allowed the market to return somewhat closer to more sustainable levels. Unfortunately this has also impacted socially desirable projects such as health and housing.

Contractors continue to be busy with most having relatively full books going into next year, however there has been a return to tender participation which in-itself indicates some availability. Sub-contract tendering has also recovered resulting in more competitive pricing and reduced the impact of singular price submissions.

Q1 - Q3 PRICE FLUCTUATIONS

	Labour	+12%
	Concrete Supply	+10%
	Brick laying	+8%
	Timber Supply	-18%
	Glazing	+7%
	Plasterboard	+14%

Detailed price changes are provided in Annexure 1 for customers of Rawlinsons 2023 publications.

2023 FORECASTED BUILDING PRICE ESCALATION

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

The industry has seen an increase in expected construction durations brought about by the high activity levels, general lack of labour, and material availability. It remains to be seen whether or not this has yet to abate, but with the expectation of ongoing investment in several areas of development in the state, the capacity of what is realistically a small market when compared to mainland states will be a continuing consideration for Tasmania for many years to come.

A backlog of residential projects will see a continuance of high activity levels in that sector for the foreseeable future, although as with the commercial market, the pricing shock experienced by many over the last few years has meant many small and larger projects didn't proceed as planned which has resulted in many going back to the design stage to find a viable and affordable alternative.



MELBOURNE

The remaining quarter of 2023 in the Victorian construction industry is anticipated to see the continuance of some positive developing industry signs and trends, which have been observed, in patches, in previous quarters.

Activity within many of the various industry sectors is set to continue to perform at reasonably healthy levels. The volatility in the supply and pricing of materials appears to be easing and settling across a growing number of construction materials. Countering this, there remains the ongoing negative issues and concerns surrounding the availability of skilled labour, high fuel costs, high and increasing electricity costs, inflation, as well as that of interest rates. The state government's addressing of its expenditure issues, has seen a large number of infrastructure projects paused (one of the most notable, being the proposed rail line running from the airport to the CBD) and many others being cancelled. Having said this, the infrastructure (civil) sector, will continue to be the mainstay of the construction industry, at large.

2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	2.0%
Q1 - Q2	3.5%
Q1 - Q3	4.5%
Q1 - Q4	5.5%

Q1 - Q3 PRICE FLUCTUATIONS

	Labour		+4%
	Concrete Supply		+4%
	Brick laying		0%
	Re-bar Supply		-3%
	Timber Supply		0%
	Plasterboard Supply		+4%
	Precast Concrete		+4.5%

Detailed price changes are provided in Annexure 1 for customers of Rawlinsons 2023 publications.

The quarter ahead will continue to see activity in the social housing/accommodation sector being given a boost to assist in addressing the current crisis of lack of rental accommodation availability. Construction activity within the general housing sector will continue to remain reasonably strong, despite it continuing to be stretched in meeting supply demands.

Construction activity within the apartment sector is currently anticipated to remain steady, but slightly subdued, to some extent. However, there continues to be some positiveness in respect of 'Build to Rent' (BTR) developments. Construction activity within the health and aged care sector is positive and stable and is anticipated to remain as such. The hotel/leisure industry, which has seen 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 is finally starting to see some moderation in cost escalation after many years of rapidly escalating costs with double-digit percentage increases annually. However, that is not to say that Perth tendering costs are in decline, or that the industry does not face many other challenges including skilled labour shortages, lack of housing availability and contractor insolvencies.

The tender market is experiencing some volatility and large deviations in pricing as some contractors are still struggling to complete legacy projects, whilst others are keen to get some new projects on the books. The large spike in pricing experienced during the pandemic has flowed through all trades and is now at the tail end with finishing trades like tiling, flooring and painting difficult to source at reasonable costs.

Q1 - Q3 PRICE FLUCTUATIONS

	+7-8%
	+5%
	+15-20%
	+15%
	+7%
	+10%
	-10%

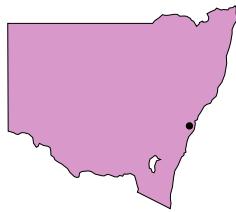
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2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	2.5%
Q1 - Q2	5.5%
Q1 - Q3	6.5%
Q1 - Q4	7%

There has been a significant shift in project procurement 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. There is a real lack of capable, large-scale contractors left in the Perth market, particularly for high-density residential apartments. Additionally, many of those who remain are unwilling to tender in the previously highly competitive commercial residential sector.

Market activity in Perth remains heated in the Government driven sectors of education, health, defence, social housing and transport infrastructure with the WA government estimated to spend \$10B in 2023 in publicly funded projects. These activity levels are in contrast to the private sector, which has cooled significantly over the past 12 months. This slowdown has been caused by high financing costs, exceptionally high cost of construction, longer construction programs and lower consumer confidence.



SYDNEY

During the most recent quarter, the construction industry continued to suffer from persistent labour and material shortages. Whilst there has been a modest easing of conditions in the labour market, the availability of skilled tradespeople remains constrained, particularly within critical trades. Additionally, some material prices have stabilised, certain materials have exhibited consistent price increases over the past quarter, stemming from factors such as rising energy and transportation costs, disruptions in raw material supply chains, and challenges related to quality and technical specifications.

The prevailing market sentiment has shifted its focus from immediate pricing concerns to uncertainties surrounding future projects. Consequently, it is foreseeable that both tenders and construction prices will experience upward trajectories for the remainder of 2023.

Q1 - Q3 PRICE FLUCTUATIONS



Labour		+3%
Concrete Supply		+8%
Brick laying		+6%
Structural Steel		-9.5%
Timber Supply		+4%
Glazing		+3%
Plasterboard		+12%

Detailed price changes are provided in Annexure 1 for customers of Rawlinsons 2023 publications.

2023 FORECASTED BUILDING PRICE ESCALATION

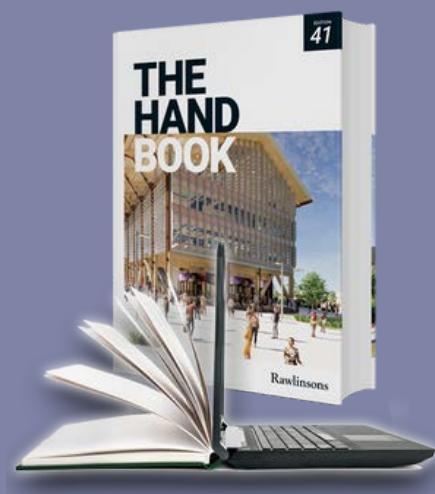
2023	
Q1	2%
Q1 - Q2	4%
Q1 - Q3	4.9%
Q1 - Q4	5.8%

Activity levels have declined in comparison to the previous quarter, primarily attributed to elevated inflation rates, increasing interest rates, and shortages in both skilled labour and some materials. The demand for commercial office spaces has also not re-bounded post pandemic due to more flexible working arrangements being implemented across numerous sectors. It is anticipated that this trend of decreasing activity levels will persist throughout the rest of 2023.

In light of the prevailing market uncertainty and volatility, along with disruptions in the supply chain and escalating costs of both materials and labour within critical trades, contractors are proactively incorporating substantial contingencies into their pricing strategies. This proactive approach is aimed at mitigating potential unforeseen risks and has been consistently observed as a prevalent strategy in response to the current market conditions.

2023 LEARN MORE

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1057	32	13,000
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

330	27	6,337
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

COST MANAGEMENT

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- Preparation of Bill of Quantities and Schedule of Rates
- Tender Analysis and Recommendation
- Contract Administration
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