

APRIL
2024

QUARTERLY UPDATE



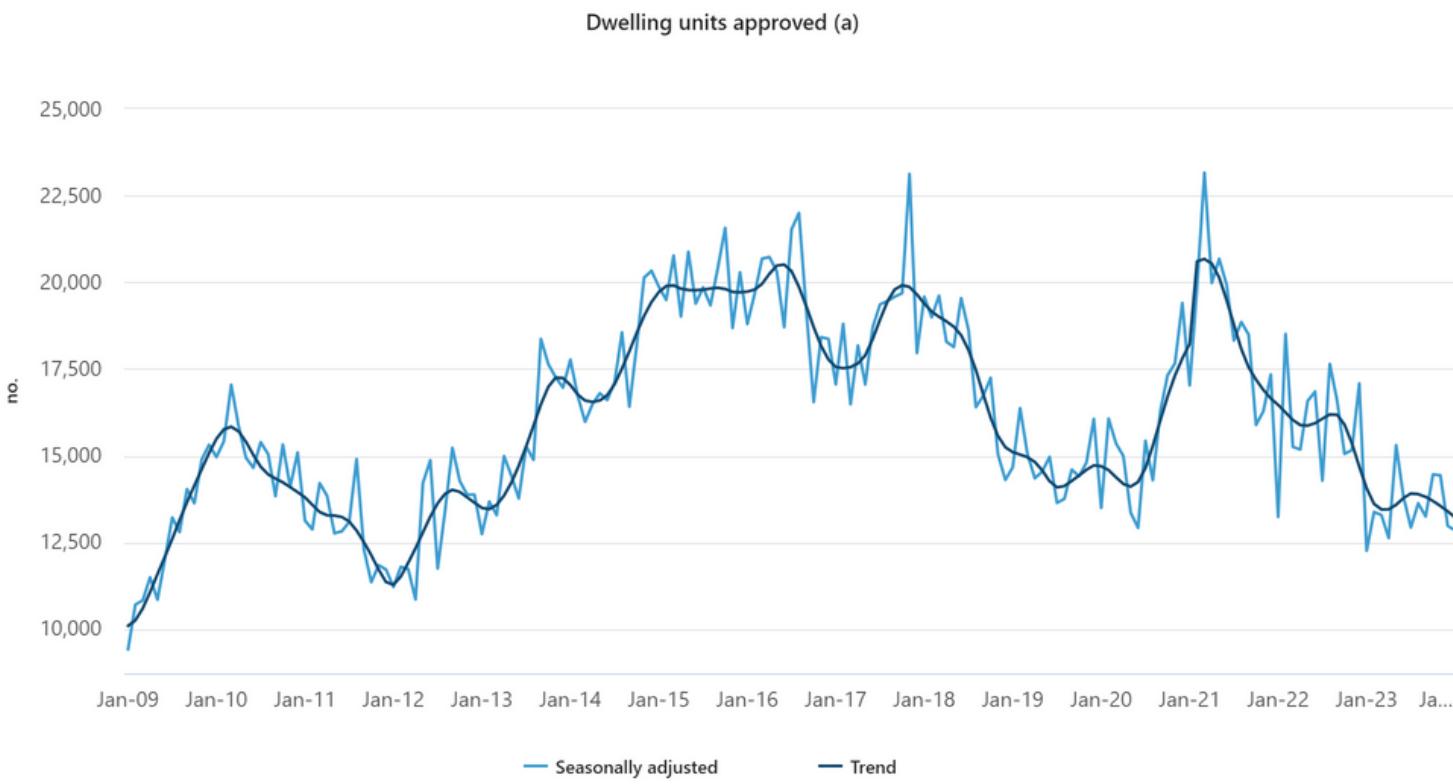
RAWLINSONS
COST MANAGEMENT

INTRODUCTION

Welcome to our Q1 2024 report for the Australian Construction Market. This report provides insights into the current state of play in the construction industry with a particular focus on cost movements, current challenges and industry activity levels.

As we settle into 2024, it is clear that the single biggest challenge facing the industry at present is a lack of skilled labour. The industry needs to find new ways of enticing people into the industry and providing them with adequate training to enable them to prosper in their careers. An extreme lack of female workers in the construction trade cannot be ignored any longer and further steps must be taken to improve the current situation. To supplement any increased employment in the industry, an improvement in productivity needs to be achieved through all components of the project life-cycle. Embracing AI and other forms of technology may lead to new and innovative ways of approaching construction projects from design through to delivery.

Another major challenge in the industry at present, is the lack of affordable housing availability across all states and territories. This housing supply problem is only likely to worsen before it improves as dwelling approval rates have decreased to their lowest rate since 2012. The number of new dwelling commencements has fallen sharply since its peak in 2021. The total number of dwelling unit commencements has fallen by 10.4% across the nation in the September 2023 quarter. This is illustrated in the chart below. This information comes as bad news for those hoping to purchase a property in the foreseeable future.



Source: Australian Bureau of Statistics, Building Approvals, Australia January 2024



2024 OUTLOOK

The outlook for the construction industry across Australia in 2024 is a mixture of positive and negative. There is currently a steady pipeline of construction projects throughout all states and territories, which is encouraging. On the flip side there is a lack of adequately skilled workers available within the industry to meet the current and projected demand which will continue to push up construction costs which are already putting a lot of strain on project viability.

Although interest rates have steadied, they are still at historically high levels. The high cost of finance effects the feasibility of projects from multiple angles. The impact of this is particularly evident in the private sector, with many projects on hold or scrapped completely. Publicly funded projects continue to prop up the industry due to record levels of investment. However, a recent review by the Federal Government of the Infrastructure Investment Program recommended the cancellation of 82 major projects.



It is likely that we will see a slowing of the construction industry in the coming years. Despite this, a number of sectors including defence, renewable energy, data centres and social and affordable housing are likely to see an increase in activity.

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

	2020	2021	2022	2023
New South Wales	\$37,210,798	\$45,763,621	\$44,101,036	\$46,456,010
Victoria	\$39,406,654	\$47,902,351	\$50,986,413	\$46,009,458
Queensland	\$21,866,002	\$27,052,491	\$28,938,597	\$37,824,854
South Australia	\$7,865,388	\$7,956,565	\$10,598,651	\$8,533,441
Western Australia	\$9,779,505	\$14,499,930	\$12,831,327	\$12,522,639
Tasmania	\$1,766,296	\$2,276,604	\$2,380,721	\$2,102,629
Northern Territory	\$1,259,167	\$1,309,183	\$939,248	\$1,193,132
Australian Capital Territory	\$2,758,603	\$3,511,085	\$2,756,144	\$2,423,177
Australia	\$ 121,912,413	\$ 150,271,830	\$ 153,532,137	\$157,065,340

Source: ABS 8731 Building Approvals

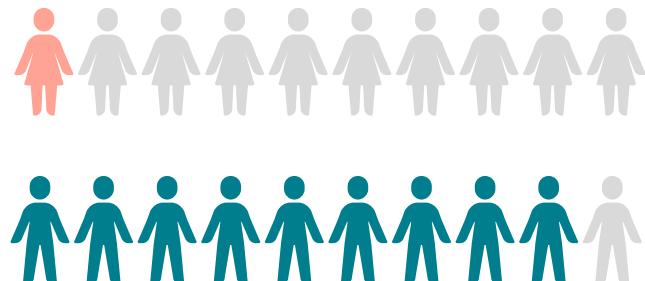
Gender Imbalance in the Australian Construction Industry

The Australian construction industry has long been dominated by men and, despite efforts to increase gender diversity, women remain significantly underrepresented. According to statistics, women make up only 13% of the construction workforce, of which 11% are construction professionals and only a marginal 2% are tradespersons.

Stereotypes and preconceptions about the roles and capabilities of women in traditionally male-dominated fields can create significant barriers to entry and advancement.

According to a 2022 survey conducted by The National Association of Women in Construction (NAWIC), 74% of construction trade respondents said they found it challenging to complete their apprenticeship. Some reasons cited were; the work environment was not supportive, toxic presence of all white, male management, a lack of female colleagues or supportive mentors, and not being given enough opportunity to learn and practically implement the knowledge.

Construction Industry by Gender



Women in Construction Roles



Professional



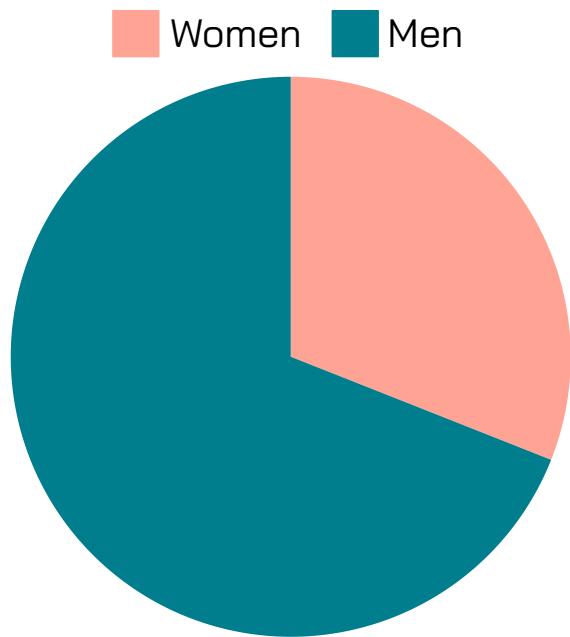
Trades

Inexcusably, 71% of overall respondents reported sexual harassment, abusive comments, aggression/intimidation, gaslighting and bullying throughout their career. The trade apprentice category (39% of the survey recipients) reported the highest-level of harmful behaviour.

Gender Imbalance in the Australian Construction Industry

Gender pay gap remains a stubborn issue, with the construction industry still the largest of any industry in Australia at 31.8%. Data produced from the Workplace Gender Equality Agency shows that women in leadership roles links to a lower company gender pay gap, not including the remuneration of the CEO and Director roles. The data is clear, employer gender pay gap decreases as the proportion of women in management increases. The recommended goal is for a balance of at least 60/40 men vs women in any leadership team to make real change.

Construction Gender Pay Gap



Encouragingly, despite these challenges and obvious areas for improvement, there is growing recognition of the importance of gender diversity in the construction industry. Many companies are implementing initiatives to attract and retain more women, including targeted recruitment efforts, mentorship programs, and diversity training for employees. Government policies and industry associations are also advocating for greater gender equality and inclusion in construction. For example, the NSW Government is investing \$20.2 million in the Women in Construction program over 3 years.

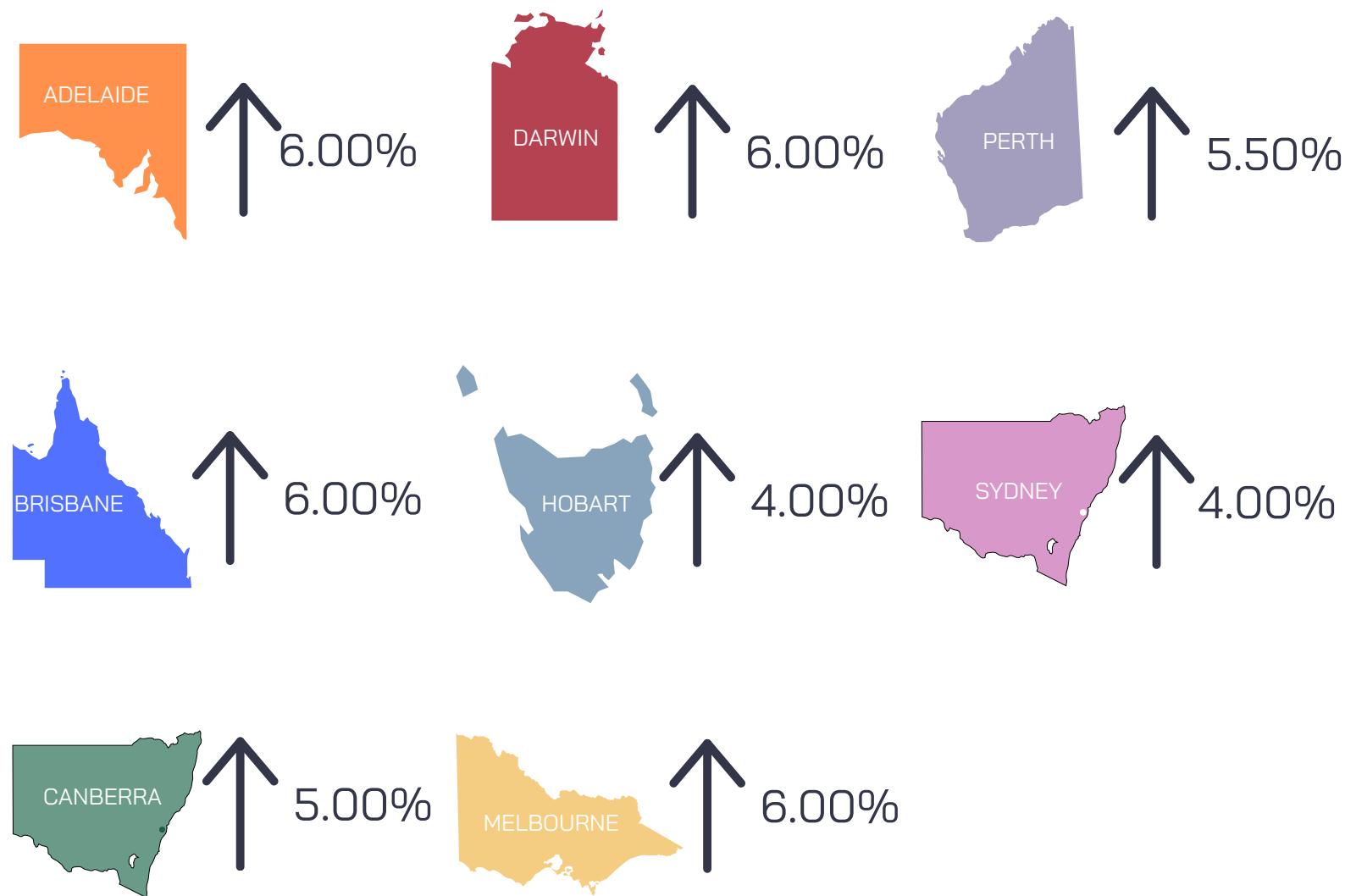
While women continue to face significant challenges in the Australian construction industry, there are some promising signs of change. Social attitudes are evolving, and knowledge of gender issues is increasing.

By raising awareness and addressing issues of gender bias and discrimination and promoting diversity and inclusion, the industry can create a fairer and more balanced future workforce.

2024 FORECASTED BUILDING PRICE ESCALATION

Cost escalation in most states and territories has largely stabilised. That is not to say that prices have reduced or remained steady, but, that the rate of escalation has slowed in comparison to the past two to three years. Forecasted escalation is still higher than historical averages and therefore the issue is still a key point of discussion on all projects. The rate of escalation can vary dramatically from project to project and is driven by various factors including, but not limited to; labour availability, energy prices, finance rates, material costs, builders margin and supply chain procurement.

The following are the forecasted percentage changes across each state over 2024:





ADELAIDE

Industry trends for 2024 confirm a patchy outlook. Building approvals continue to maintain a downward trend, with little indication that the housing shortage will ease in the short to medium term. Improvement is not expected to occur until early to mid-2025.

Development approval has recently been granted for the first "Build to Rent" project, comprising 240 units in a 12-storey development, with construction to commence later this year. Build to Rent accommodation has become an important segment in the Adelaide wider housing market. Other projects are currently being developed to augment this demand.

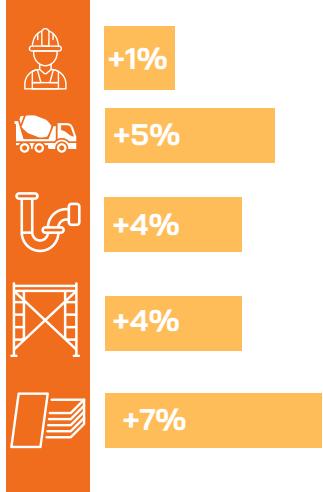
The non-residential sector appears to be sound and maintaining momentum, in particular public works, whereby there is urgency to complete within the current election cycle.

The industrial sector remains strong, given the number of projects under construction, but there are signs that this will slow in early 2025.

Q1 - PRICE FLUCTUATIONS



Labour



Concrete supply

Plumbing fittings

Scaffolding

Plasterboard supply

Detailed price changes are provided in Annexure 1 for customers of Rawlinsons 2024 publications.

2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	1.5%
Q1 - Q2	3.5%
Q1 - Q3	5.0%
Q1 - Q4	6.0%

The importance of productivity cannot be understated. Improvement in both labour and capital productivity is essential to create a thriving industry. The requirement to improve labour procurement, training, coupled with tax reform and sensible industrial relations and provision of energy certainty is essential, otherwise we risk the much-needed investment required for sustainable growth.

The requirement for skilled workers (trade and management) is only going to get worse, with analysis by the Federal Government Taskforce indicating that the Construction Sector will be 28% below that required by 2042 to maintain a sustainable industry. Although, there is an expectation that overseas migration will assist in expanding the current workforce, it is essential that government and industry develop and promote a vigorous career pathway to attract the younger cohort, both men and women. There should be greater emphasis to attract industry retirees to take up teaching/mentoring roles to assist in this training process. Years of experience is being lost and not passed on to the next generation of workers.



BRISBANE

Building approvals for private domestic dwellings continues to soften and represent a significant decline from activity levels of recent years. Given demand for housing remains high, the decrease in approvals would appear to be a result of cost and finance pressures being experienced by the wider community.

Activity levels in the medium/high density residential sectors continue to remain strong with a significant number of projects pending, post approval, which indicates project feasibility and contractor availability is becoming an increasing issue. Despite this financial challenge, activity in these sectors is forecast to remain high as large private, institutional and Government sector clients continue to address the housing issue.

Q1 - PRICE FLUCTUATIONS



Labour		+1.5%
Light fittings		+3%
Plasterboard		+6%
Plumbing supplies		+4%
Formwork rates		+2%

Detailed price changes are provided in Annexure 1 for customers of Rawlinsons 2024 publications.

2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	1.5%
Q1 - Q2	3.5%
Q1 - Q3	5%
Q1 - Q4	6%

Current Government commitments, at all levels, are expected to maintain higher levels of activity in community infrastructure for the foreseeable future. This high level of activity is not limited to residential sectors as competition for resources is being experienced industry wide.

Recently, there has been an increase in tender activity which is resulting in a large spread in pricing being observed. Continued contractor and subcontractor insolvency together with limited capacity within select market sectors and trades to deliver projects is a key factor in sustained price increases. Material price volatility has stabilised with trade increases attributed to labour increases, productivity, and project risk. Project timeframes continue to prolongate as contractors attempt to manage risk resulting in increased project preliminaries and contingencies.



CANBERRA

The ACT construction economy continues to demand more from the residential sector than what the builders and trades people can provide. This demand drives continuing increasing building costs, but with paper-thin margins, on what appears to be substantially fixed-priced contracts, which are required to secure bank funding for those projects. There seems to be a growing reluctance by builders accepting fixed price contracts, and this appears to be causing a slowdown in the middle and lower end of the market.

Land which traditionally was highly contested, is now offered for sale over the counter by the land agencies. Higher-end residential projects seem unaffected at this time.

Q1 - PRICE FLUCTUATIONS



Labour	 +1.5%
Concrete supply	 +5%
Bricklaying	 +15%
Plumbing supplies	 +4%
Glazing	 +5%
Metal sheeting	 +10-12%

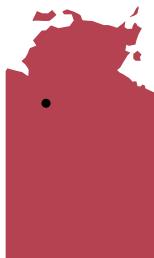
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2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	1.5%
Q1 - Q2	3%
Q1 - Q3	4.5%
Q1 - Q4	5%

From the commercial and infrastructure sectors' viewpoint, projects appear to be continuing at a high pace, although the previously low participation rates for public tenders continue to be a challenge. This is affecting the budget outcomes for those projects. There is some evidence now that builders in these sectors are seeking to establish arrangements for clients to fund off-site materials or substantial deposits for mechanical and electrical trades to procure their services. Those clients who are willing to accommodate these payments are finding it easier to procure builders for their projects.

There continues to be a shortage of experienced project management and contract administrative personnel, and this is evidenced by a substantial movement between contractor companies of the small cohort of project managers and contract administrators.



DARWIN

Following continued investments in Defence and infrastructure upgrades, the Northern Territory boasts a robust pipeline of work. 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 NT, further bolstering the region's development prospects.

Key projects currently underway include the Northern Land Council new office, Darwin Ship lift, Tiger Brennan Drive overpass, Civic and State Square revitalisation, CDU city campus, ongoing remote homes program for regional communities and large Defence projects including P0009, NCIS and Air7000 in Tindal.

Q1 - PRICE FLUCTUATIONS



Labour



Concrete supply



Brick/block supply



Structural steel



Plumbing supplies



Re-bar



Detailed price changes are provided in Annexure 1 for customers of Rawlinsons 2024 publications.

2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	2%
Q1 - Q2	3.5%
Q1 - Q3	5%
Q1 - Q4	6%

Escalation of construction costs in the Northern Territory still continues. Labour shortages are putting pressure on construction costs and material costs continue to fluctuate due to high demand for certain materials. The ongoing rise in construction costs remains a concern for both the public and private sectors in the Northern Territory, with no noticeable improvement since the last quarter.

Meanwhile, the private sector is experiencing a downturn in investment. Developers are finding it increasingly difficult to justify projects financially as escalating construction expenses coincide with stagnating sale prices.

Escalation in Darwin across 2024 is forecast at 6%.



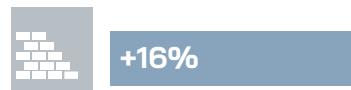
Although 2024 has started off in similar fashion to the previous year with high activity levels and confidence in the industry, this was somewhat offset by the announcement of the impending State election and the caretaker period that goes with it. Many Government projects have been put on hold until the result of the election is known and approvals to proceed have been provided, resulting in a lull compared to the fast pace of the previous few years.

A major election issue has been the AFL requirement for a new Hobart stadium which sports and events supporters and the broader construction industry have been keeping an eager eye on. With support for the stadium and its significant expenditure requirements split down party lines, the election result is likely to have a considerable impact on the outlook of the construction industry for several years to come.

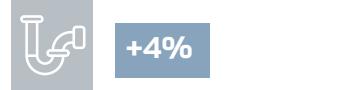
Q1 - PRICE FLUCTUATIONS



Brick supply



Plumbing supplies



Glazing



Plasterboard



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2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	1%
Q1 - Q2	2%
Q1 - Q3	3%
Q1 - Q4	4%

Labour availability has generally improved from the unsustainable level of recent years with increased tender participation having returned across most trades and industry sectors. It remains to be seen whether some of the larger projects that were abandoned or postponed due to limited contractor availability or cost blow-outs will be revisited, although there are still considerable projects remaining in the pipeline.

The ever-present requirement for more housing continues unabated and threatens to slow the population growth Tasmania has recently experienced. Whoever is in power following the election will have a major challenge to face to accelerate the increase of housing stock in the State.



MELBOURNE

The market conditions prevailing in the last quarter of 2023 within the Victorian construction industry, have flowed on, in part, into the 1st quarter of 2024 and they are anticipated to continue to exert varying levels of influence, thru the next quarter and beyond. Company insolvencies remain a problem across the various industry sectors. Skilled labour shortages are continuing to remain a big issue for the industry at large. While there has been some improvement to the general supply chain issues in the industry, it remains an issue of concern.

New union EBA wage agreements for 2024 have recently been, or are being, finalised and it is anticipated that the new wages increase on the previous agreement could be in the order of 5% per annum. This wage increase provision will provide additional pressures on the construction/escalation costs currently prevailing in the industry.

Q1 - PRICE FLUCTUATIONS



Labour

	+1.5%
	+1%
	+1%
	+4%
	+4%

Concrete supply

Brick/block supply

Plumbing supplies

Plasterboard supply

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2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	1.5%
Q1 - Q2	3.5%
Q1 - Q3	5%
Q1 - Q4	6%

The Victorian construction industry continues to be reasonably healthy across numerous sectors. The industry continues to be driven via the ongoing high level of activity and expenditure that is associated with the infrastructure sector. Activity within the general housing sector will continue to remain reasonably strong, despite the sector continuing to be stretched in meeting increasing supply demands and being affected by other issues, including the level of ongoing company insolvencies, labour shortages, current immigration levels, etc.

Construction activity within the general apartment sector, is anticipated to remain steady, but slightly subdued. There continues to be an ongoing appetite and positiveness towards 'Build to Rent' type developments and this is anticipated to continue to ramp up, through 2024 and beyond. Construction activity within the industrial, health and aged care sectors continues to remain stable and positive. The retail and hotel sectors currently appear to be in a relatively flat state of activity..



PERTH

The start of 2024 has seen a continuation of market patterns from late 2023, with material supply costs largely stabilising but a shortage of skilled labour availability keeps upward pressure on cost escalation. There are multiple sectors within the construction industry still competing for a limited pool of skilled trades people and consultants. The mining and rail infrastructure are largely winning this battle at present due to the high salaries on offer.

Head contractor insolvencies over the past number of years has created a major challenge in the Tier 2 contracting space with the number of available contractors at low levels. Despite this, there is a level of competitiveness returning to the tender market.

Q1 - PRICE FLUCTUATIONS



Labour		+1.5%
Concrete supply		+3%
Plumbing supplies		+4%
Pre-cast concrete		+4%
Plasterboard		+7%
Structural steel		-4%

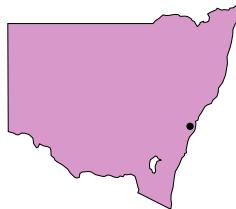
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2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	1.5%
Q1 - Q2	2.5%
Q1 - Q3	3.5%
Q1 - Q4	5.5%

Housing sector activity levels remains stagnant despite the number of dwelling approvals increasing month on month in January by 3.4%. The high-density residential market has seen a significant shift to Build to Rent projects. There are several social and affordable housing projects in the pipeline, and this is likely to continue with the first round of Housing Future Fund Australia (HAFF) applications recently closed. Should a number of these projects commence then it is likely that construction costs will continue to rise further. Other sectors including defence, health, and recreation continue to perform well with a steady flow of projects projected over the coming years.

Master Builders WA estimates that the Western Australia Construction Industry will require an additional 55,000 workers by 2026. The WA State Government has committed \$47.6million to help grow Western Australia's construction workforce. Initiatives include increased local training, campaigns to attract workers from overseas or interstate and an increase to Base Employer Grants for apprentices. It is likely that the lack of sufficient skilled workers will be an on-going challenge for the construction industry for the coming years.



SYDNEY

In the first quarter of 2024, despite some moderation, inflation and interest rates remain high causing increasing concern for project financing. The scarcity of skilled workers in Australia presents a significant obstacle for the industry with escalating labour expenses exerting strain on profit margins. It is expected that the deficit of labour in the Australian construction sector will continue and intensify through 2025. Contractors have less visibility on construction pipeline with larger projects progressing whilst smaller projects undergo review.

Despite challenges, the construction industry maintains a positive outlook, primarily bolstered by significant government investment in infrastructure with proactive measures to address material shortages and supply chain disruptions. Anticipated increases in activity from manufacturing, transportation, and clean energy investments are expected. Tender pricing has often exceeded expectations, driven by persistently high insolvencies, labour shortages, inflation, and EBA labour rate negotiations.

2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	1.5%
Q1 - Q2	3%
Q1 - Q3	3.5%
Q1 - Q4	4%

Q1 - PRICE FLUCTUATIONS



Labour		+2%
Concrete supply		+1.5%
Bricklaying		+4%
Structural Steel		-2%
Timber supply		+2%
Glazing		+2%
Plasterboard		+2.5%

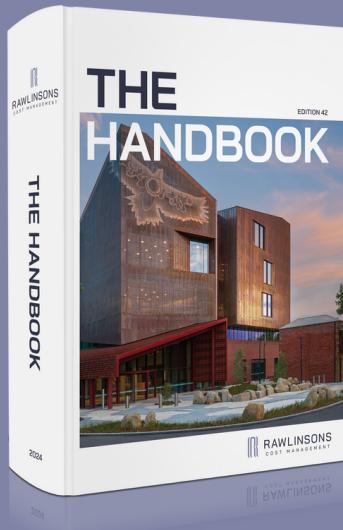
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Activity levels have declined in comparison to the previous quarter, primarily attributed to inflation rates, interest rates, and shortages in both skilled labour and some materials. According to ABS, dwelling commencement rates for private sector housing declined since last quarter. It is anticipated that this trend of decreasing activity levels will persist throughout the first half of 2024.

Due to higher rates of insolvencies, general labour shortages, high inflation and continued EBA negotiations, contractors are actively incorporating substantial contingencies into their pricing strategies. This proactive approach aims to mitigate potential unforeseen risks and has consistently been observed as a primary strategy in response to the current market conditions.

2024 LEARN MORE

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COST MANAGEMENT

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