

OCTOBER  
2024

# QUARTERLY UPDATE



# INTRODUCTION

Welcome to our Q3 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.



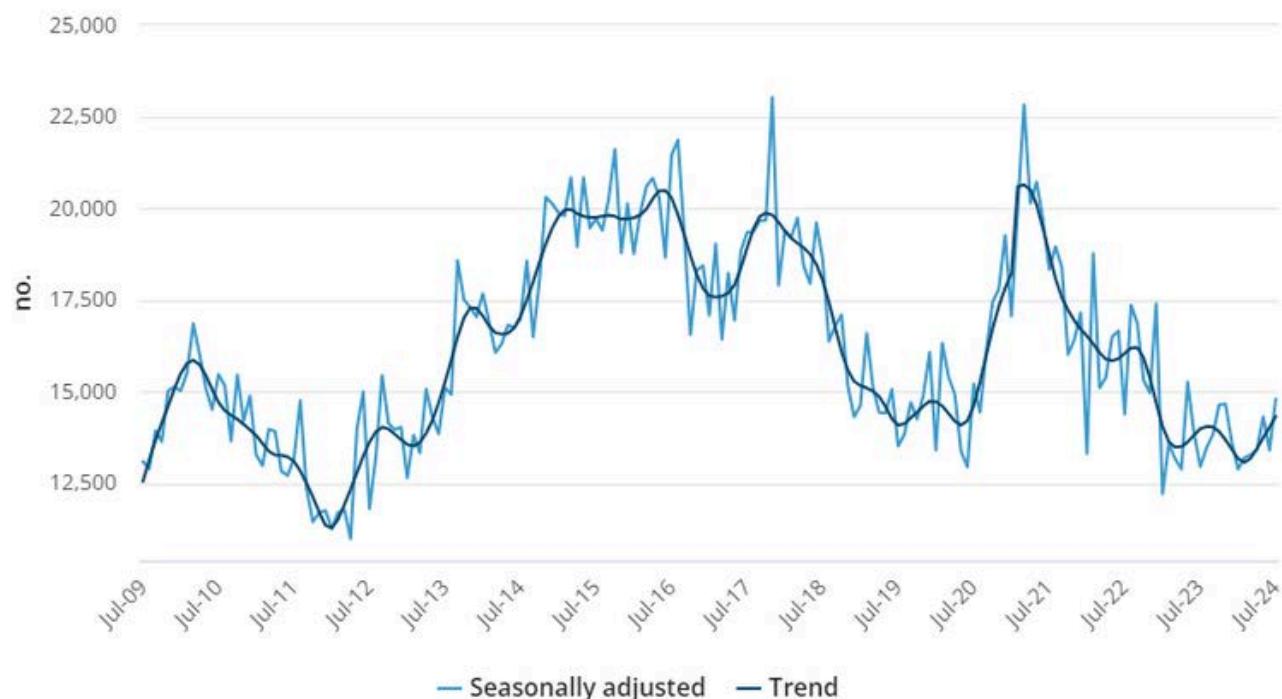
The biggest talking point in the construction industry in the past quarter were the revelations in ABC's investigation into outlaw motorcycle gangs infiltration within the construction arm of the CFMEU and the subsequent decision by the government to place all branches of the construction arm of the CFMEU into administration with immediate effect.

Whilst this news has not come as a shock to most, it has created further disruption within the construction industry. However many see this as a great opportunity within the construction sector to clean up the industry. The impact all this will have within the market is not yet understood.

Market activity is steady with dwelling approval rates recorded by the ABS increasing in all states with the exception of Queensland. Approvals for private sector housing were mixed with rises recorded in New South Wales, South Australia and Western Australia with the remaining states experiencing a decrease.

Historically high interest rates, contractor insolvencies, industrial relations issues, lack of skilled labour and continued geopolitical issues mean that market sentiment is low.

## Dwellings Units Approved (a)



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

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

	2021	2022	2023	2024*
New South Wales	\$45,763,621	\$44,101,036	\$46,650,867	\$24,685,712*
Victoria	\$47,902,351	\$50,986,413	\$46,319,368	\$26,954,007*
Queensland	\$27,052,491	\$28,938,597	\$38,183,409	\$18,696,626*
South Australia	\$7,956,565	\$10,598,651	\$8,619,956	\$5,537,097*
Western Australia	\$14,499,930	\$12,831,327	\$12,546,972	\$9,361,279*
Tasmania	\$2,276,604	\$2,380,721	\$2,100,584	\$1,329,489*
Northern Territory	\$1,309,183	\$939,248	\$1,192,827	\$1,012,167*
Australian Capital Territory	\$3,511,085	\$2,756,144	\$2,866,466	\$1,061,217*
<b>Australia</b>	<b>\$ 150,271,830</b>	<b>\$ 153,532,137</b>	<b>\$158,840,499</b>	<b>\$88,637,594*</b>

Source: ABS 8731 Building Approvals

\*Value is current value to date recorded up to July 2024 at the time of report writing.

## Quarterly Topic - Insurance Replacement Valuations

This quarter we are going to take a close look at Insurance Replacement Valuations and how Rawlinsonsons cost data can be used to compile accurate costs for insurance purposes.

### What is an Insurance Replacement Valuation?

An Insurance Replacement Valuation (IRV), also known as Replacement Cost Valuation, is a professional report that provides a building owner/manager with an accurate replacement value of a building or asset. This ensures that the building is adequately insured in the event of any loss or damage to the property.

### Who should prepare an Insurance Replacement Valuation?

Insurance replacement valuations should be prepared by a professional who possess adequate cost estimating skills, has a good understanding of the construction market, is familiar with strata property and has knowledge of strata insurance requirements.

### What costs are included in an Insurance Replacement Valuation?

An IRV should cover the following costs:

- Building replacement costs
- External works and services
- Regional loading where applicable
- Demolition and removal of debris
- Professional fees
- Development application (DA) fees
- Cost escalation during the demolition and re-design period
- Cost escalation during the potential insurance lapse period

An IRV does not usually include the following:

- Land costs
- Loss of income
- Temporary accommodation costs
- Legal fees
- Loose furniture, fittings and equipment (Contents)



## Insurance Replacement Valuations

### How can you use Rawlinson's Cost Data publications to aid in the calculation of IRVs?

Rawlinsons Australian Construction Handbook is the most comprehensive construction cost database in Australia. Our publications are used extensively by valuers, quantity surveyors and builders to help compile an accurate replacement value for buildings. They are an essential tool for anyone providing IRV's.



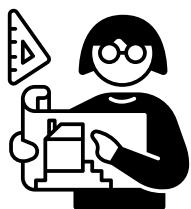
The starting point is to identify the relevant building type from our 'Building Cost Per Square Metre' Pages 19-47. A range is provided which covers the cost for the building Fully Enclosed Covered Area (FECA). Additionally, an appropriate cost for Unenclosed Covered Area (UCA) must be included for balconies, awnings and the like.



External works and services costs can then be estimated using either the 'Elemental Comparative Costs' Pages 107-169 and/or the 'Detailed Prices' Pages 171- 743. This should cover; site preparation, hard and soft landscaping and external building services such as sewer pumping stations, external lighting and stormwater drainage.



Demolition costs can be calculated using the demolition trade in the 'Detailed Pricing' section Pages 205-210 which provides costs for demolishing various building structures.



Appropriate percentage allowances can be found in the 'Professional Fees' section on Page 922 of the publication to cover design and documentation services.



Should the property be in a regional location, users can utilise Rawlinson's 'Regional Indices' Pages 833 - 844 to uplift the base cost.

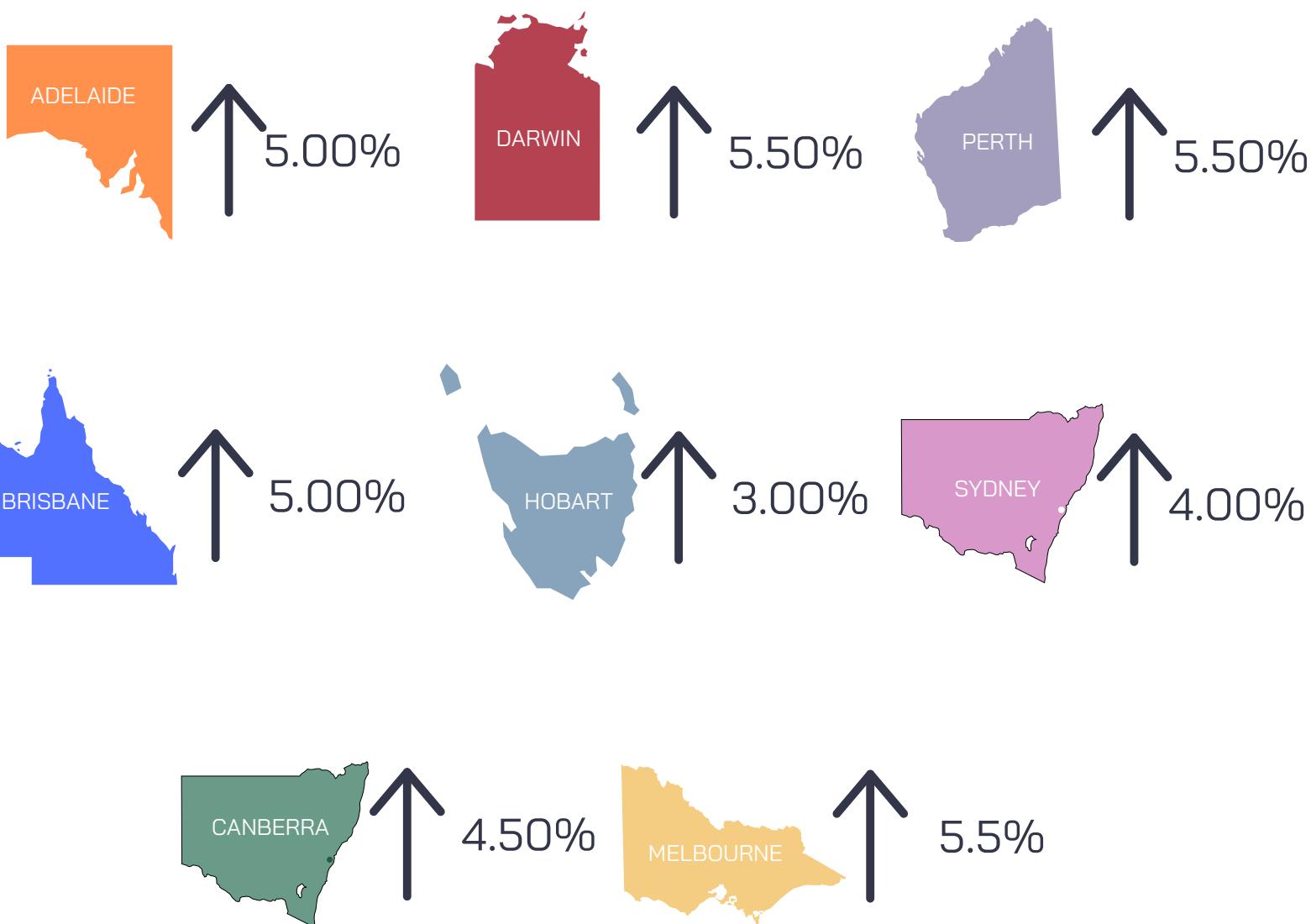
All costs should be adjusted appropriately to cover sloping sites, ESD allowances, adverse ground conditions and other unique characteristics.

# 2024 FORECASTED BUILDING PRICE ESCALATION

Cost escalation in most states and territories has largely stabilised, however we are still seeing many contractors include higher margins and higher preliminaries in their tenders to cover risk in larger, more complex projects. Skilled labour shortages are likely to persist for some time and will keep upward pressure on cost escalation in the short to medium term. This will prove to be the needle mover for cost escalation on many projects going forward.

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, program, material costs, project scale, builders margin and supply chain procurement.

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





# ADELAIDE

The outlook for the remainder of 2024 is mixed, given the complexity of the post COVID economic recovery. While material supply constraints have stabilised, labour issues remain persistent. The building and construction industry needs to increase and maintain skilled workers to ensure long term sustainability. To meet the high demand for technical skills, the South Australian government has initiated the construction of Technical Colleges in metropolitan and regional areas, to facilitate ongoing training, in conjunction with the Year 10-12 SACE course. This approach will assist in part in addressing skill shortages by creating interest in trade opportunities at the "grass roots".

Workforce shortages and consequential productivity issues require the Federal Government in conjunction with industry to examine all aspects, from industrial relations, skilled migration, skills training and project delivery statutory/regulatory requirements, to develop a coherent approach with the view to improve and enhance industry sustainability.

## 2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	1.5%
Q1 - Q2	3.5%
Q1 - Q3	4.5%
Q1 - Q4	5.0%

## PRICE FLUCTUATIONS



### Labour

	+4.5%
	+8%
	+4%
	+5%
	+10%

### Concrete supply

### Plumbing fittings

### Scaffolding

### Plasterboard supply

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

The residential sector, in particular medium density housing, is still very strong and will remain so into 2025. Notwithstanding, the housing supply side is under stress, due to delays in obtaining approvals (private building surveyors are struggling to keep up with demand) followed by the time required to secure project funding. This is also compounded by the Affordable Housing Initiative, which adds another layer of complexity to the process. Another delay has been the issue of Building Indemnity Insurance Certificates due to builder governance issues.

While there is a softening in the non-residential sector, industrial growth is still very strong and is expected to remain so into 2025.

Tendering opportunities are starting to decline with early signs that competitive pricing is occurring.

Despite the slowing of the construction sector, housing, defence, energy and e-commerce will maintain sustainable growth into 2025.



# BRISBANE

Cost increases to labour are the primary driver for cost escalation in the current quarter particularly for in-demand trades such as ceiling and partitions and building services. This is forecast to continue through the 4th quarter of 2024 and beyond into 2025.

Building approvals for dwellings has increased since the last quarter and is tracking towards yields similar to that of the past few years. It is unclear if a recent change in market direction is a result of increased market confidence or through necessity as rental vacancies remain low. These forecast activity levels are reflective of long-term averages which suggest the domestic sector will have the capacity to meet the current demand.

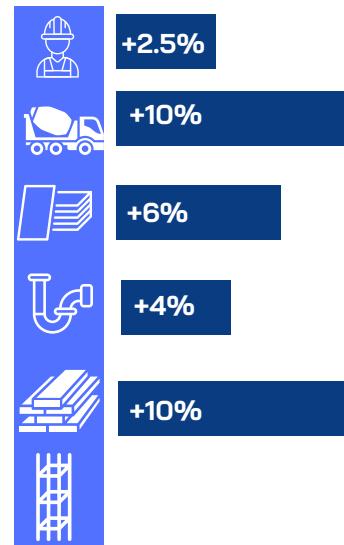
## 2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	2.5%
Q1 - Q2	4%
Q1 - Q3	4.5%
Q1 - Q4	5%

## PRICE FLUCTUATIONS



### Labour



### Concrete supply



### Plasterboard



### Plumbing supplies



### Formwork rates



### Re-bar

-5%



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Tender activity in the commercial sector has also increased in the current quarter in both public and private sectors with the level of activity across the majority of sectors remaining strong. Contractor and subcontractor insolvency continues to be a perceived risk in market sentiment and would appear to remain for the foreseeable future.

While some sectors such as industrial remain competitive, pricing on large scale projects is forecast to increase greatly as demand for key trades and services escalates. The upcoming State election will place a pause of public tendering activity but is likely to return when a government is sworn in as demand for public services remains high and significant commitments have been made by both parties. Activity for Olympic Games venues is yet to commence with this likely to start in 2025.



# CANBERRA

The slowdown in residential building construction in the ACT is expected to continue into early 2025 due to high inflation and interest rates. The ACT Government's planned expenditure on social and affordable housing has not yet seriously affected the workload of builders. However, if these funds take longer to enter the economy, it could significantly impact the capacity of local builders to deliver affordable homes within a short timeframe. Significant fluctuations in dwelling construction are undesirable as they negatively impact trade competition.

Smaller commercial projects in Canberra are either on hold or progressing very slowly. The ACT Chapter of the Association of Quantity Surveyors reports a significant slowdown in bank valuation work, indicating a lack of private and smaller commercial projects. They do not anticipate a substantial upturn in this sector until early 2025.

## 2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	1.5%
Q1 - Q2	3%
Q1 - Q3	4%
Q1 - Q4	4.5%

## PRICE FLUCTUATIONS

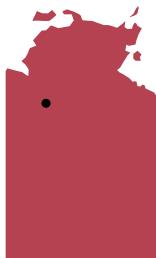


<b>Labour</b>	 +8-12%
<b>Concrete supply</b>	 +5%
<b>Bricklaying</b>	 +15%
<b>Plumbing supplies</b>	 +4%
<b>Glazing</b>	 +5%
<b>Plasterboard supply</b>	 +10-12%

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

The ACT and Federal Governments, along with educational institutions, are pursuing large commercial, defence, and education projects in Canberra. These projects will continue to compete for trade and management resources at the upper end of the market. While experienced project delivery professionals are still in demand, there are signs that the severe shortage is easing as other parts of the construction market take a break.

The civil sector (water, sewer, electrical infrastructure) and social infrastructure (health and education) remain strong, with large projects being planned, procured, and delivered over the next 12 to 15 months.



# DARWIN

The Northern Territory 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 the greater Darwin area and regional locations.

Continued investments in Defence and Government investment on infrastructure projects and remote housing is driving activity across the Northern Territory.

The Darwin construction market experienced some material price stabilisation in Q3 of 2024. However, labour shortages, high demand, and challenging economic conditions continue to drive market volatility. Significant pricing variations across most trades, as well as head contractor preliminary and margin costs are still being experienced.

## PRICE FLUCTUATIONS



<b>Labour</b>		<b>+7-8%</b>
<b>Concrete supply</b>		<b>+5%</b>
<b>Brick/block supply</b>		<b>+5%</b>
<b>Structural steel</b>		<b>+8%</b>
<b>Plumbing supplies</b>		<b>+4%</b>
<b>Plasterboard supply</b>		<b>+5%</b>

*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	5.5%

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 the record levels of defence spending continue to drive the construction industry and maintaining high demand for labour.

Works continue on the first multi-storey apartment building in the Darwin CBD for the last seven years. This project will be 10-storeys and consist of 24 three-bedroom apartments.

Other key projects currently underway include the Larrakia Cultural Centre, Northern Land Council new office, Darwin Ship Lift, State Square Art Gallery and ongoing remote homes program for regional NT communities.



There is some optimism from those who have experienced unfavorable pricing over the last few years that there may be a horizon in sight or at least a potential window for an increased level of competitive pricing. With many projects either stalled or proceeding at great additional cost since early in the COVID environment, we are now starting to see some positive tender results for those looking to build at a commercially sensible cost.

Having experienced shortages in both material and labour over the last few years, tender and quoting participation has been at consistently very low levels which led to inflated, opportunistic or non-existent pricing, but there is now much higher numbers of builders and sub-contractors seeking work leading to a slowdown of the cost escalation experienced in recent years.

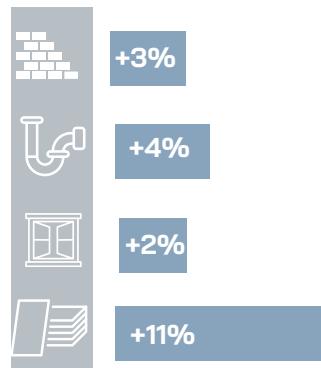
## 2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	1%
Q1 - Q2	2%
Q1 - Q3	2.5%
Q1 - Q4	3%

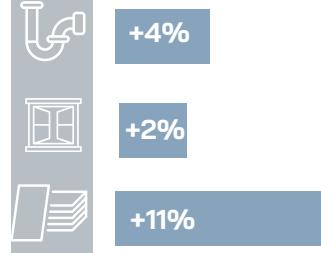
## PRICE FLUCTUATIONS



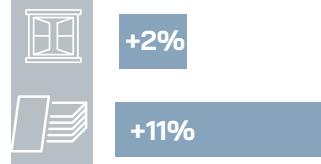
### Block supply



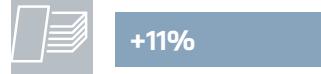
### Plumbing supplies



### Glazing



### Plasterboard



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It is perhaps unlikely to be an ongoing concern for industry participants at this stage with a plethora of projects in the pipeline. The State Government's recent budget announcements committed to ongoing funding support and investment in the built environment and infrastructure projects to continue the upward momentum that Tasmania has been experiencing for the majority of this century.

However, the State Government's grip on power is tenuous with a potentially destabilising breakdown in the agreed support of minority parties in the current hung parliament combined with an empowered Green party and a relatively hostile opposition under new leadership. This is particularly relevant to the proposed AFL Stadium project, which is experiencing intense scrutiny. The obvious hope of the construction industry is that the stadium and its supporting projects can find a clearer path through the approval and planning processes to come to fruition.



# MELBOURNE

It is anticipated that the last quarter for 2024 will see the continuance of the positive levels of activity, that were prevailing in previous quarters, continue across several construction sectors. On a positive note, and with the exception of some major construction materials, there are signs that general material construction price increases/adjustments are displaying signs of stabilising towards more acceptable levels.

Unfortunately, the industry, at large, continues to have to endure ongoing negative issues such as unskilled/skilled labour shortages, company insolvencies, increased costs associated with recent EBA wage adjustments, insurances, fees, etc. The government has, in recent months, appointed an administrator to take control of the construction arm of the CFMEU, which has been operating across several states. The ramifications and outcomes for the industry, if any, resulting from this action, are yet to be fully realised within the industry at large.

## PRICE FLUCTUATIONS



### Labour



### Concrete supply



### Brick/block supply



### Plumbing supplies



### 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%
Q1 - Q3	4.5%
Q1 - Q4	5.5%

The ongoing high levels of construction activity within the infrastructure sector continue to drive the construction industry at large. While activity within the general housing sector continues to remain reasonably strong, it still needs to progressively address not only the affordability and new sustainability challenges, but also the ongoing challenges in meeting the government's stated target housing numbers for the decade ahead.

Construction activity within the general apartment sector, is anticipated to remain steady, but slightly subdued. On the other hand, activity within the "Build to Rent" general apartment sub-sector is positive and continues to increase from strength to strength. Construction activity within the industrial, health and aged care sectors continues to remain strong and positive. Activity within the retail and hotel sectors, while being relatively flat, is showing early signs of potential positive upward movement in the medium to long-term ahead.



# PERTH

We are starting to see some signs of higher competitiveness in tender bids on the lower value projects up to \$10M. Contractors and sub-contractors alike are now more receptive to tender opportunities compared to the past 3-4 years. On the other end of the spectrum in the Tier 1 space, there is a very limited pool of both main contractors and sub-contractors that have the capacity and proven track records to deliver large scale projects and this is reflected through extremely high/opportunistic bids. Tier 1 formwork trades are a significant challenge at present, however with a lot of the PTA's Metronet program substantially complete, this may start to ease.

Issues with industrial relations and EBA agreements have been thrown into the spotlight with all the media coverage of the CFMEU issues and the government's decision to put them into administration. The effect of this on the industry is unknown at present.

## PRICE FLUCTUATIONS



<b>Labour</b>		<b>+3%</b>
<b>Concrete supply</b>		<b>+6%</b>
<b>Plumbing supplies</b>		<b>+4%</b>
<b>Pre-cast concrete</b>		<b>+4%</b>
<b>Plasterboard</b>		<b>+7%</b>
<b>Structural steel</b>		<b>-4%</b>
<b>Formwork</b>		<b>+8%</b>

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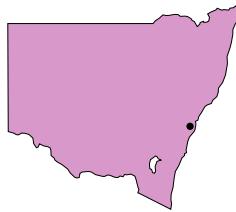
## 2024 FORECASTED BUILDING PRICE ESCALATION

2024	
Q1	1.5%
Q1 - Q2	3.0%
Q1 - Q3	4.0%
Q1 - Q4	5.5%

Material prices are generally quite stable and some price reductions have been noted in the supply of structural steel and re-bar, however any savings will be offset by increasing labour costs to nearly all key trades.

Contractors' insolvencies remain a concern and to help protect themselves contractors are trying to keep high margins on projects and are pushing for ECI procurement and D & C contracts on many complex projects.

Private residential project feasibilities are still struggling to stack up with the exception of more boutique, high end apartments. It will take additional increases to unit and house price sales to entice many of the developers in, who are currently holding tight hoping for some easing of construction cost and/or finance costs.



# SYDNEY

Sydney's property market remains robust, with home prices continuing to rise, albeit at a slower pace compared to previous years. The median price for houses is around \$1.47M, while units are approximately \$0.86M. Buyer demand remains strong, driven by low vacancy rates and high rental prices. Despite an increase in new listings, the market is absorbing them well, maintaining high auction clearance rates.

Economic indicators such as a low unemployment rate and potential interest rate cuts are boosting both buyer and seller confidence. However, the housing supply shortage persists, contributing to the ongoing rise in prices and rentals.

## PRICE FLUCTUATIONS



<b>Labour</b>	 +3.5%
<b>Concrete supply</b>	 +2.5%
<b>Bricklaying</b>	 +2.5%
<b>Timber supply</b>	 +0.5%
<b>Glazing</b>	 +1.5%
<b>Plasterboard</b>	 +2%

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## 2024 FORECASTED BUILDING PRICE ESCALATION

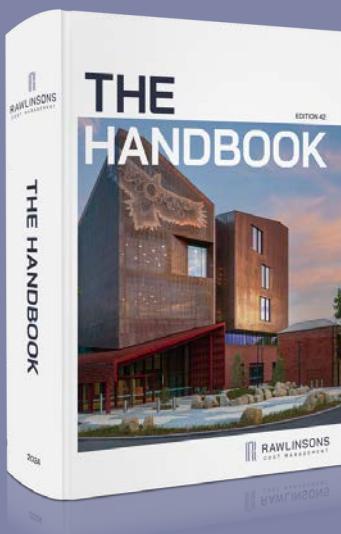
2024	
Q1	1.5%
Q1 - Q2	3%
Q1 - Q3	3.5%
Q1 - Q4	4%

Key growth drivers include infrastructure, energy and utilities, data centres, and the industrial sector. However, a decline in construction output is anticipated in 2024 due to elevated interest rates, high construction costs, labour shortages, and a downturn in residential construction.

The construction industry in Sydney faces several challenges in 2024. Rising construction costs, although slowing, continue to impact the sector. Labour shortages remain a significant hurdle, exacerbated by the high demand for skilled workers. Planning approvals are another bottleneck, slowing down project timelines. Additionally, the industry is grappling with the need to balance capacity and capability to meet the growing demand for infrastructure projects, particularly in transportation, utilities, and renewable energy. Despite these challenges, the outlook remains positive, with significant investments in infrastructure expected to drive growth.

# 2024 LEARN MORE

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# RAWLINSONS

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