

APRIL 2023

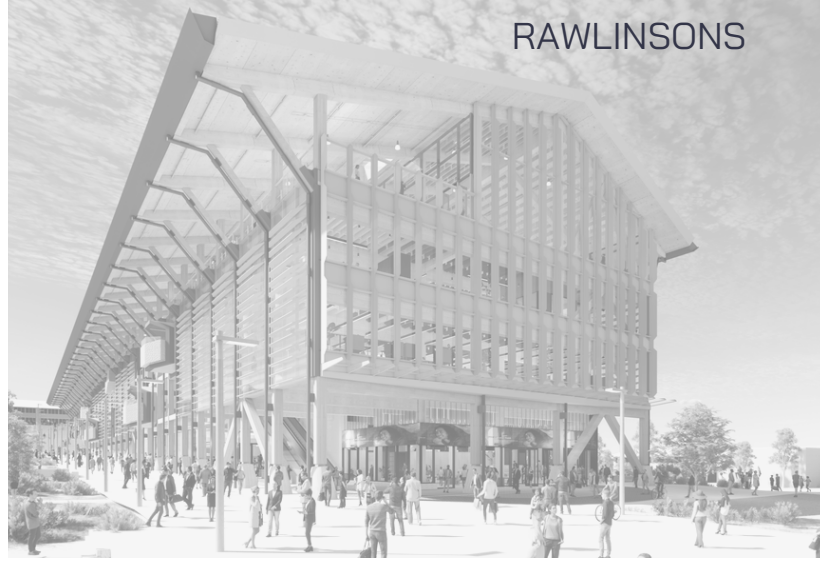
# QUARTERLY UPDATE



**RAWLINSONS**  
C O S T   M A N A G E M E N T

# INTRODUCTION

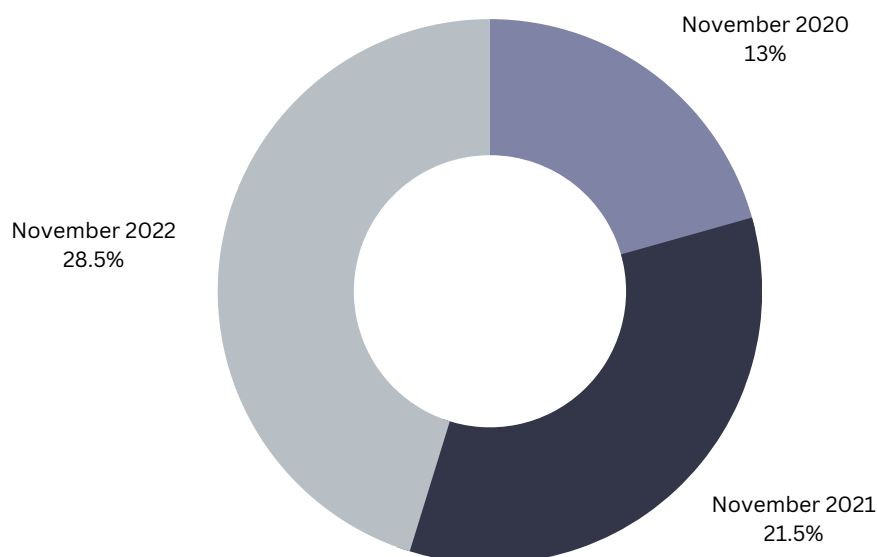
Welcome to our new look quarterly update report for the Australian Construction Market. This report provides insights into the current state of play in the Australian Construction Market with a particular focus on cost movements and activity levels.



The construction sector throughout Australia has experienced an extremely volatile and challenging couple of years due to the effects and disruption caused largely by the COVID-19 Pandemic, the Russia/Ukraine conflict and numerous natural disasters within Australia. This has caused unprecedented cost pressures and delays throughout all sectors of the construction industry. Now, as lockdowns are a thing of the past the question everyone is asking is *'are markets returning to some form of normality?'*.

The first quarter of 2023 suggests that whilst there are signs that the market is stabilising, there are still numerous challenges around the sourcing of skilled labour, housing supply shortages and contractor insolvencies.

Supply and availability of skilled labour will be the biggest challenge faced by the industry in 2023. The below graph shows the percentage of businesses reporting at least one vacancy in the construction sector. The percentage has increased in each of the past two years with almost 30% of all companies reporting job vacancies at November 2022.



Source: Australian Bureau of Statistics (ABS) - Job Vacancies, Australia November 2022

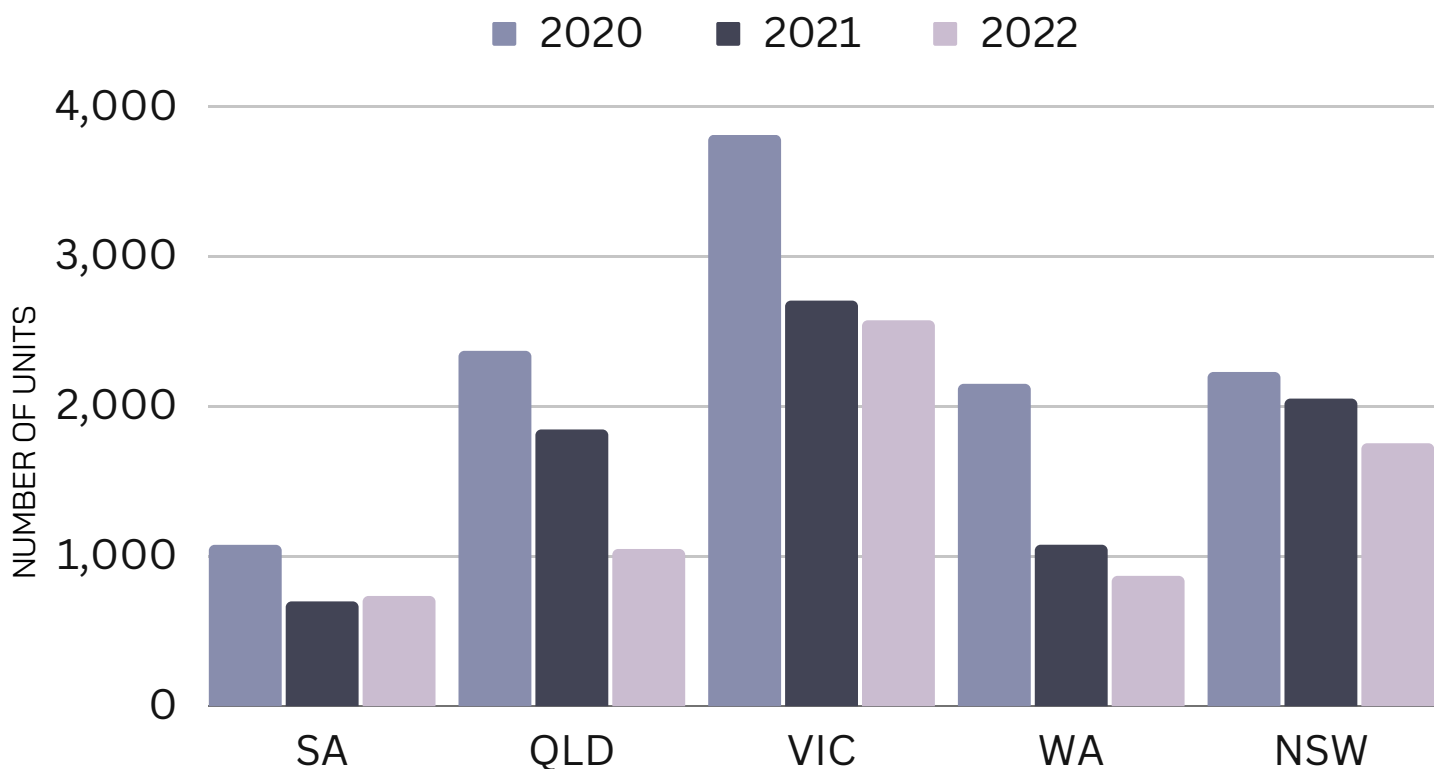
On a more positive note, supply chain issues that have crippled the industry for the last few years have eased, international shipping costs have reduced, lead in times, although still longer than pre COVID-19 durations, come with a lot more certainty and inflation is trending downwards.

# 2023 OUTLOOK

The current outlook for 2023 is mixed. There is still a lot of activity in most sectors due largely to residual projects from previous government stimulus spending in both housing and infrastructure. The transport infrastructure sector is continuing to invest large sums of money on capital projects and this is forecast to continue for the next few years with *Infrastructure Australia* reporting that \$237 billion will be spent on major public infrastructure projects between FY21-22 to FY25-26 in Australia. The resources sector remains buoyant with most commodity prices retaining high values.

The outlook for private sector spending is not as positive as many investors and developers are proceeding cautiously in the current economic conditions. As can be seen from the graph below the number of dwelling unit approvals has generally dropped in most states.

## Dwelling Units Approved - Australia



Source: ABS - Dwelling Approvals

A large number of high rise commercial projects have been put on hold in the past 12 months as rising construction costs have outpaced sales costs meaning many projects are simply not feasible in the present market. Continued rising interest rates by the RBA have put the brakes on many home purchases for both investors and owners and consumer sentiment is falling.

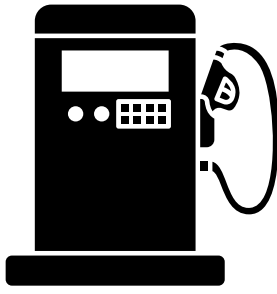
## Value of Buildings Approved (\$M)- States and Territories

	2020	2021	2022
New South Wales	\$37,098,677	\$45,744,360	\$43,203,760
Victoria	\$39,218,035	\$47,823,412	\$50,974,099
Queensland	\$21,800,087	\$27,000,611	\$28,210,923
South Australia	\$7,901,629	\$7,955,169	\$10,406,000
Western Australia	\$9,756,067	\$14,435,384	\$12,366,109
Tasmania	\$1,764,696	\$2,265,462	\$2,191,995
Northern Territory	\$1,259,297	\$1,299,183	\$941,342
Australian Capital Territory	\$2,697,329	\$ 3,527,105	\$2,721,345

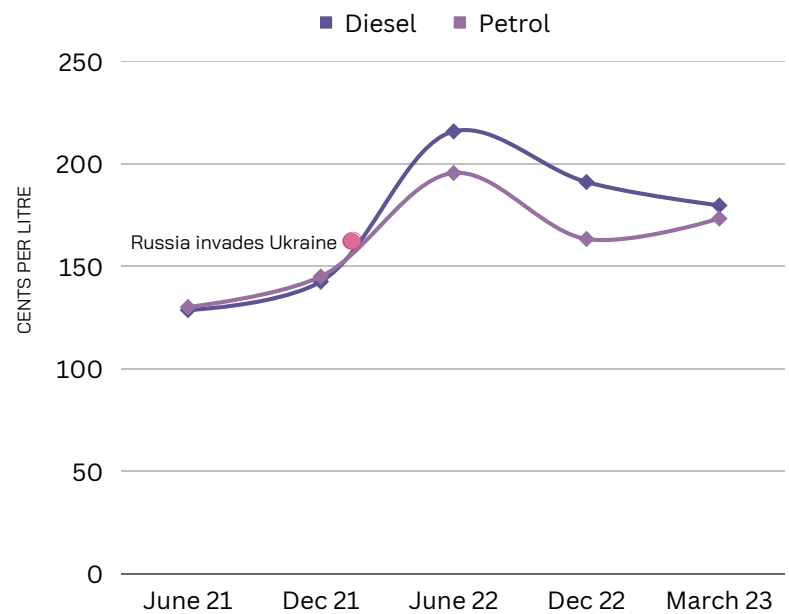
Source: ABS 8731 Building Approvals



## Transport Costs

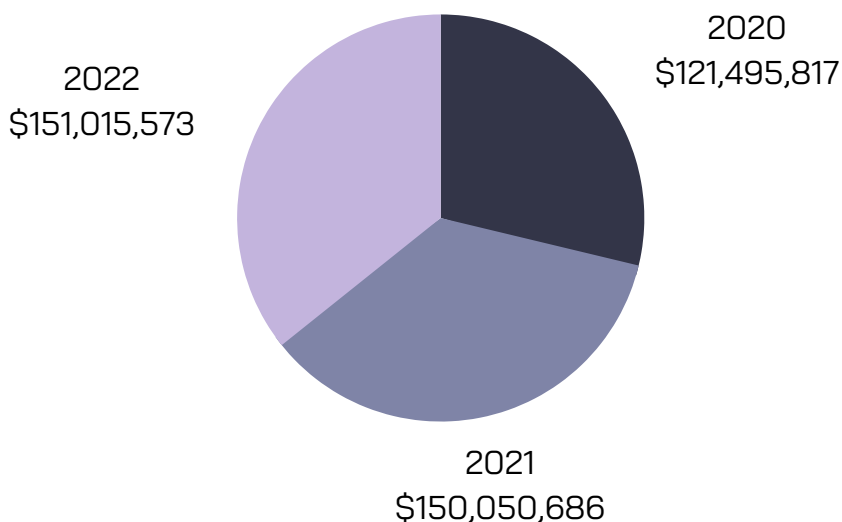


Fuel prices for both diesel and petrol have almost returned to pre Russia/Ukraine conflict levels. Despite this, local freight costs have been rising due to both labour and truck shortages. Domestic price increases have largely been offset by a reduction in international shipping costs with prices reducing over the past 6 months.



Source: Australian Institute of Petroleum - Terminal Gate Prices (TGP) national average

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



The total value of building approvals has increased year on year over the past three years driven largely by government stimulus packages. Values include both commercial and residential building sectors.

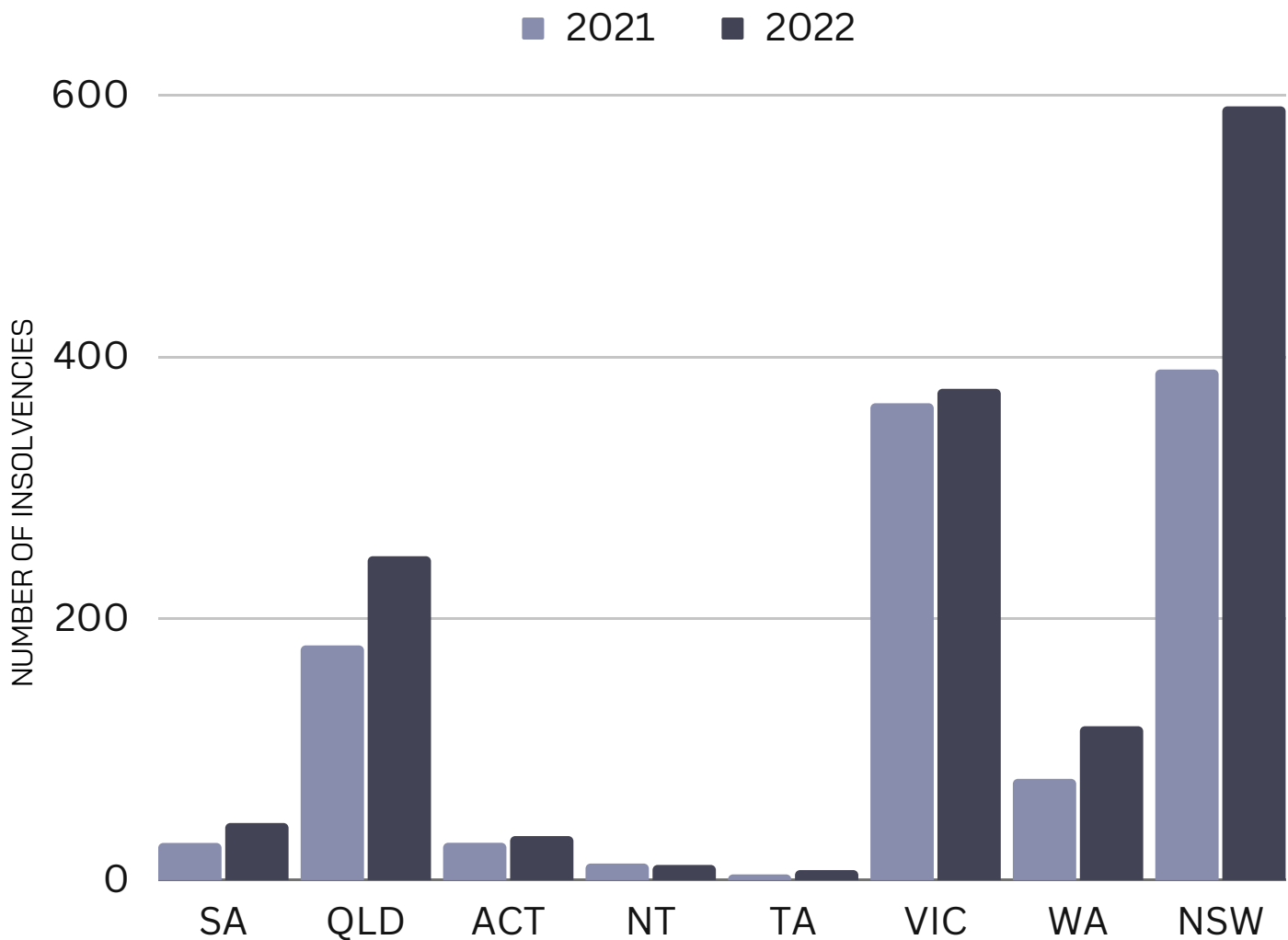
The federal government has recently announced an extension for people to submit their Home Builders documentation from 30th April 2023 to 30th June 2025. This change will relieve the pressure on people adversely affected by supply chain and industry delays out of their control.

Source: ABS 8731 Building Approvals - Combined States and Territories

## Contractor Insolvencies

A 'profitless boom' has been the term used to describe the past few years for many contractors. Industry is currently experiencing high levels of contractor insolvencies ranging from the small home builders and sub-contractors right through to the large tier one contractors. The graph below illustrates the issue with all but one state recording a higher number of contractor insolvencies in 2022 than in 2021. This is in part caused by fixed price contracts with rise and fall clauses struck out. This issue has resulted in a significant shift in standard contracts to often include price fluctuations as the default.

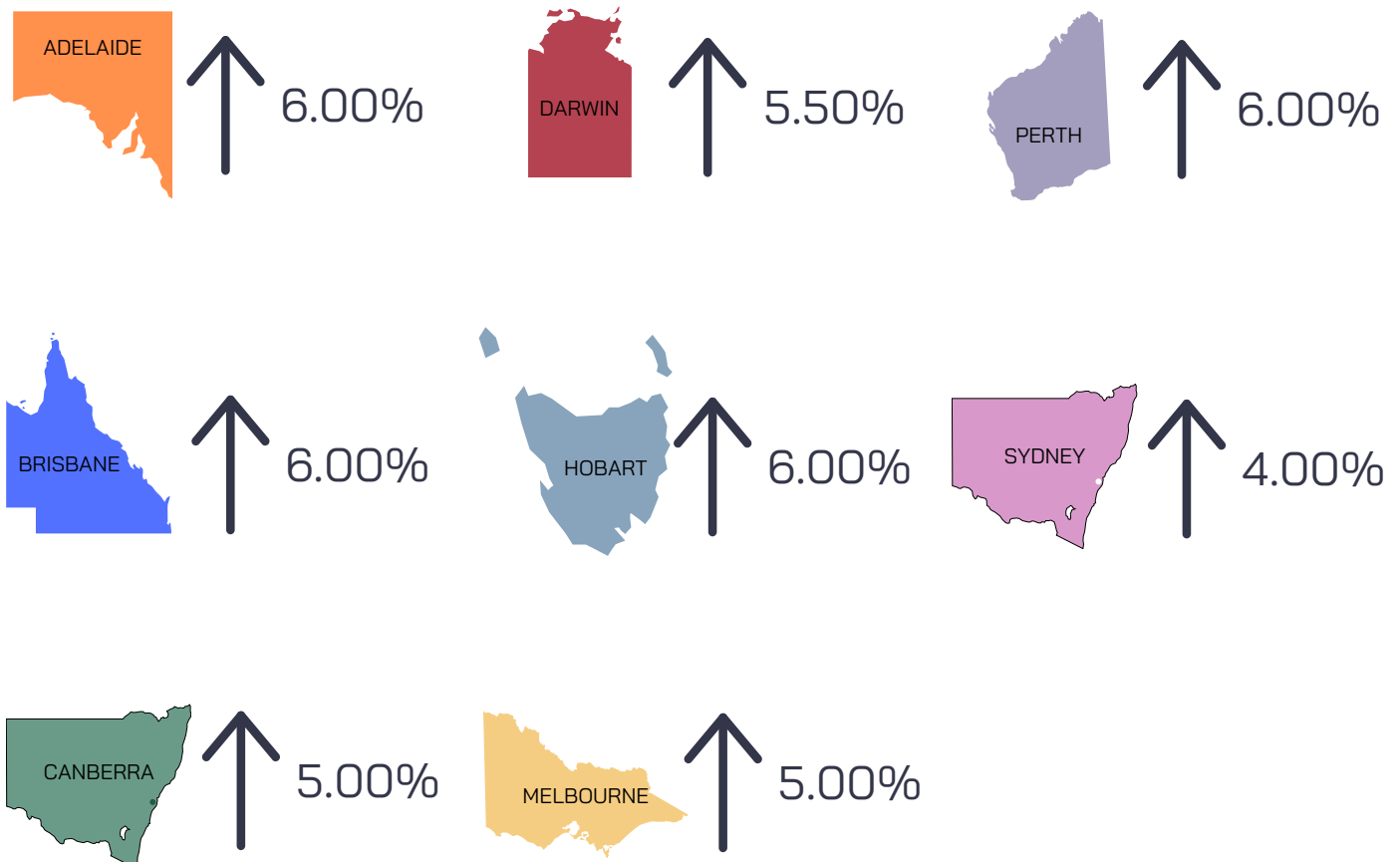
Most contractors are being a lot more selective about the type of project that they are willing to tender. This has also resulted in contractors increasing margins and/or factoring in higher risk percentages to cover some of the unknowns. Many clients have also embraced Early Contractor Engagement (ECI) to mitigate some of the cost increases and build stronger relationships with their preferred contractors.



Source: ABS - Series 1A Companies entering external administration in the construction industry.

# 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. The following are the forecasted % changes across each state over 2023:





# ADELAIDE

Construction faces a difficult year, after rapidly rising interest rates, impacting in particular, the domestic and medium rise residential sectors. This is reflected in the reduction of planning approvals and difficulty for developers to obtain finance to commence new projects as well as completing existing projects due to time overruns by anything from 6 to 12 months.

Activity in the domestic residential sector is expected to decline over the 2023 and 2024 period. The high rise residential sector still appears to be strong, with projects currently being completed and new projects set to commence later this year. The non-residential sector appears to be maintaining a steady momentum, in particular the civil and industrial sectors. Student accommodation is now expected to generate opportunities, as international students returning to Australia and universities revert to on-campus learning in lieu of the online learning model that has been required throughout COVID-19.

## Q1 PRICE FLUCTUATIONS



Labour



+1.5%

Concrete Supply



+1%

Brick laying



+5%

Structural Steel



0%

Timber Supply



0%

Glazing



+1.5%

*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%

Current and future defence arrangements note that South Australia will be a significant beneficiary of the AUKUS alliance, providing the construction sector further opportunities for growth.

Material supply issues are starting to moderate, due to the slowing of the residential construction market, notwithstanding that there is still 12 to 18 months of construction in the pipeline to be completed. The backlog of work is in part due to labour shortages being experienced in most trades.

The pandemic and current geopolitical issues have heightened the need for increased investment in the development of skills and competencies in the trade, technical, and tertiary sectors. This will be essential for ensuring the sustainability of a productive construction sector.

The forecast for general price escalation across 2023 is 6% with the majority of price increase forecast to be experienced in the first half of the year.





# BRISBANE

Queensland's construction industry activity levels remain steady, with the commercial sector seeing a marginal gain of 0.6% expected for 2023. New home building starts are set to fall back to 31,000 during 2023, a reduction of 20.2 per cent on the previous year. Building approvals continue to soften from record levels although strong demand remains across the construction sectors as a whole. The softening of market conditions is anticipated to continue throughout 2023 and is forecast to result in the moderation of price increases in the second half of the year.

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 project such as Cross River Rail, Inland Rail and the Brisbane Metro.

## Q1 PRICE FLUCTUATIONS



### Labour



+2%

### Concrete Supply



+10%

### Plasterboard



+10%

### Structural Steel



0%

### Timber Supply



+2%

### Glazing



0%

### Precast Concrete



+10%

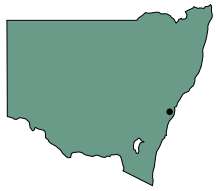
*Detailed price changes are provided in Annexure 1 for customers of Rawlinson's 2023 publications.*

## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	2.5%
Q1 - Q2	4%
Q1 - Q3	5%
Q1 - Q4	6%

Some builders have advised that they can't meet the proposed timeline for implementation of the new NCC changes, which will cause housing costs to increase if more time is not given to transition adequately. The software tools to determine design changes to meet 7 star energy efficiency are not yet developed or available and the accessible housing rules are still being drafted, which creates delays and uncertainty for designers who cannot implement these changes, placing a delay or hold on new commercial and domestic projects.

Despite softening of the market, prices are forecast to increase across 2023 by 6% with the majority of this being incurred in the first half of the year.



# CANBERRA

The Canberra market remains positive with projects like the \$632m Canberra Hospital Extension currently at 50% completion. The ACT Government's 'Major Projects Canberra' pipeline currently has 55 projects listed, with almost half of these projects already at the procurement stage. Some notable projects are: Canberra Light Rail Stage 2A (Est \$2m), Gungan Gulwan Youth Aboriginal Corporation New Accommodation (Est \$20m), Canberra Theatre Development (Est \$2m) and the Whitlam 4A Residential Estate Construction (Est \$50m). Some of the upcoming procurement packages are: The Marrabundah College Modernisation (Est \$50m), Yurauna Centre (Est \$10m) and Throsby District Playing Fields (Est 20m).

An extra 30,000 homes will be built in Canberra over the next 5 years under the ACT Government's plan to significantly increase the city's housing supply, to meet demand. This will continue to put a strain on the construction market across both the Residential and Commercial sectors. The median house price in Canberra fell by 5.8% to \$1.096m, the steepest drop on record.

## Q1 PRICE FLUCTUATIONS



### Labour



+1.5%

### Concrete Supply



+1%

### Brick laying



+5%

### Structural Steel



0%

### Timber Supply



0%

### Glazing



+1.5%

### Sanitary Fixtures



0%

*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%
Q1 - Q3	4%
Q1 - Q4	5%

There has been a stabilising of some material costs, however overall construction costs remain higher, mainly driven by increased labour costs and inflation rates. Fuel costs have reduced slightly, but still remain higher than prices seen prior to the Ukrainian/Russian conflict. International ocean freight costing for inbound has reduced between 15-25%, Domestic has risen between 25-30% especially on the inner state and the rising infrastructure costings at the ports. Escalation is forecast at 5% across 2023.



# 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 PRICE FLUCTUATIONS



### Labour



+2%

### Concrete Supply



+7%

### Brick laying



+8%

### Structural Steel



0%

### Timber Supply



0%

### Plasterboard Supply



+10%

### Precast Concrete



+10%

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

## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	1%
Q1 - Q2	3%
Q1 - Q3	4.5%
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.



Construction activity remains high across the industry despite continuing restraints with contractor resourcing and volatile pricing. The feasibility of many projects has been threatened with many on hold pending further negotiations or a potential future softening of the market, however unlikely that currently seems. There is evidence of more realistic pricing windows due to some of the delays, however these are generally limited to more attractive projects, either due to reduced complexities, favourable timeframes or the likelihood of them progressing, such as Government projects that may be more likely to fund overruns.

Transport infrastructure projects including; Bridgewater Bridge project valued at \$768M, will ensure high levels of activity in this space over the next few years.

## Q1 PRICE FLUCTUATIONS



Labour



+1.5%

Concrete Supply



+5%

Brick laying



+0%

Timber Supply



+6%

Glazing



+0%

Plasterboard



+14%

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

## 2023 FORECASTED BUILDING PRICE ESCALATION

Material pricing has generally stabilised, however there have been notable increases in supply costs for both timber and plasterboard.

Escalation forecast across 2023 is currently at 6% and in line with our forecast in January 2023.

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





# MELBOURNE

Generally the construction industry is in a reasonably good state of health, albeit that many of the critical issues affecting the industry over the past year are set to continue into the next quarter and beyond. Company insolvencies, inflation, skilled labour shortages, etc, continue to remain as challenges. The resultant effects of the RBA's ongoing interest rate increases, to date, are yet to be fully realised.

Supply chain issues are starting to show signs of easing. A high level of activity within the infrastructure sector, continues to drive the industry. Activity within the industrial, commercial and mixed-use sectors, is anticipated to remain reasonably solid, while activity in new housing construction is showing signs of contraction.

## Q1 PRICE FLUCTUATIONS



### Labour



+2%

### Concrete Supply



+4%

### Brick laying



0%

### Re-bar Supply



-3%

### Timber Supply



0%

### Plasterboard Supply



+2%

### Precast Concrete



+4%

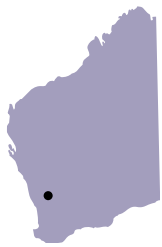
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## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	2%
Q1 - Q2	3.5%
Q1 - Q3	4%
Q1 - Q4	5%

Although supply chain issues are starting to ease, the lead in times on many items are still a lot longer than pre COVID-19 levels. It is forecast that this will start to reduce throughout 2023. International freight costs have reduced, giving some relief to sub-contractors. Tendering for both commercial and residential projects is competitive.

Escalation in Melbourne across 2023 is currently forecast at 5% and in-line with predictions from early 2023.



# PERTH

The current construction market in Perth remains heated, with a lot of demand still evident for major construction projects. The supply chain issues that have beset the market for the past 3 years have eased somewhat with suppliers advising that availability of building materials has increased. One of the biggest challenges facing the Perth market is the availability of labour. This is generally true across all trades but is particular to steel riggers, roofers and building services trades. The shortages of labour continue to put upward cost pressures on trades and also contribute to significant delays on many projects.

Prices for supply of many materials have now stabilised including insulation, brickwork, reinforcement and light fittings, with price increases unlikely until the second half of the year. However, there are still numerous materials that have seen an uplift in costs in the early part of 2023 including concrete supply, stainless steel sanitary fixtures, plumbing supplies and electrical transformers. International freight costs have stabilised and often reduced, however local freight increases have generally offset any savings.

## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	2.5%
Q1 - Q2	4%
Q1 - Q3	5.5%
Q1 - Q4	6%

The high density residential sector has seen numerous projects stall over the past 12 months as recent cost increases have outstripped house price growth making many projects currently unfeasible. The State Government recently announced an \$80m funding package aimed to offset some of the utility costs associated with large scale residential developments. The residential home sector still has high levels of activity from delayed or postponed projects from the COVID-19 stimulus packages. A large number of these projects are likely to be complete by mid-year which will ease some of the labour shortages. Infrastructure projects and in particular rail are struggling to recruit enough skilled labour as well as professional consultants. With a significant pipeline of major projects it is likely that this trend will continue for some time whilst also indirectly increasing cost pressures for other sectors for structural trades including concrete and steel.

The escalation forecast for Perth has increased to 6% across the year with the majority of this being incurred in the first half of the year.

## Q1 PRICE FLUCTUATIONS



### Labour



+4%

### Concrete Supply



+7%

### Re-bar Supply



-3%

### Pre-cast Concrete



+11%

### Timber Supply



0%

### Plasterboard



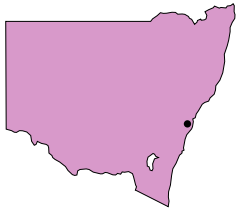
+1.5%

### Generator



+7%

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# 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 PRICE FLUCTUATIONS



### Labour



+1.5%

### Concrete Supply



+1%

### Brick laying



+5%

### Structural Steel



0%

### Timber Supply



0%

### Glazing



+1.5%

### Sanitary Fixtures



0%

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

## 2023 FORECASTED BUILDING PRICE ESCALATION

2023	
Q1	2%
Q1 - Q2	3%
Q1 - Q3	3.5%
Q1 - Q4	4%

Activity levels have dropped since the previous quarter, due to a combination of still inflated construction costs (labour & material), and consistently increasing interest rates. 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 4% an increase to the outlook at the start of 2023.

# 2023 LEARN MORE

To gain full access to Australia's most comprehensive source of cost data visit our website [www.rawlhouse.com.au](http://www.rawlhouse.com.au) to purchase one of our publications.


**1057**

Pages

**32**

Trades

**13,000**

Lines of Cost Data

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


**330**

Pages

**27**

Trades

**6,337**

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
- ✓ Embodied Carbon Quantification

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