FIRST QUARTER 2025

CONSTRUCTION MARKET UPDATE

AUSTRALIA

RLB Rider Levett Bucknall

Construction escalation for 2025 still considerably higher than forecast CPI

AUSTRALIA SUMMARY

When this report was being prepared, its original commentary was overtaken by global developments, particularly the implementation of the United States' Reciprocal Tariff Regime. As this announcement came after data collection for the Q1 2025 Tender Price Index (TPI), all escalation forecasts included are based on conditions prior to that event. RLB will update these assumptions once greater clarity emerges on the impact on construction costs.

Given the current uncertainty, we have maintained our existing methodology for forecasting escalation and interpreting market trends. However, evolving global trade conditions, including shifting exchange rates and supply chain disruptions, may materially alter these projections.

Australia's construction industry operates within a globally integrated system that relies heavily on imported materials, equipment, and technologies. As a result, shifts in international trade, particularly US tariff policies, pose immediate and tangible risks to cost structures.

POTENTIAL COST PRESSURES FROM IMPORT TARIFFS

While Australia retains a free trade agreement with the US (AUSFTA), recent protectionist shifts and sector-specific tariffs–especially on aluminium, machinery, and building technologies–are increasing the landed cost of critical imports.

US-manufactured tools, HVAC systems, modular components, and construction software are essential to Australian projects. Tariffs on these items are elevating procurement costs, compressing margins for developers, and delaying or downsizing infrastructure and housing initiatives.

IMPACT OF FOREIGN EXCHANGE VOLATILITY

Recent depreciation of the Australian dollar is compounding cost pressures:

- AUD fell to **0.5955 USD**, its lowest in five years.
- Against the Chinese yuan: **4.37 CNY**
- Against the euro: **0.5427 EUR**
- Against the yen: **86.96 JPY**

This currency shift makes imports from key global partners, including the US, China, Japan, and the EU, significantly more expensive. Long-term construction contracts priced under stronger foreign exchange (FX) conditions now face margin erosion, especially if not adequately hedged.

IMPLICATIONS FOR INDUSTRY STABILITY

The dual impact of tariffs and a weakened AUD is placing sustained pressure on Australia's construction sector. Notable consequences include:

- **Inflated Input Costs:** Higher prices for imported steel, mechanical systems, insulation, and high-tech components are increasing project budgets.
- **Project Delays:** Procurement disruptions are extending timelines, especially for large-scale infrastructure and commercial work.
- **Limited Local Substitution:** Some materials can be sourced locally; however, options may not meet the standards of availability, quality, or compliance.
- **Contractual and Financial Risk:** Fixed-price contracts are particularly vulnerable to unforeseen cost increases, creating risk for both contractors and developers.

Cover: Dawn by Mosaic, Mermaid Beach
Credit: Plus Architecture

AUSTRALIA SUMMARY

CONCLUSION

Australia's construction industry is being squeezed from both ends: US-imposed tariffs are raising costs on key imports, while a weaker dollar is amplifying those increases. While export sectors may benefit from currency depreciation, the import-intensive nature of construction means the net effect is negative.

Navigating this volatile environment will require a combination of financial strategy, strengthened local capabilities, and continued policy engagement to minimise exposure to global shocks.

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2024	2025 (F)	2026 (F)	2027 (F)	2028 (F)	2029 (F)
ADELAIDE	6.5	**5.0**	4.5	4.0	3.5	3.5
BRISBANE	7.2	**5.6**	5.1	5.1	5.1	5.1
CANBERRA	4.0	**3.75**	3.5	3.0	3.0	3.0
DARWIN	5.5	**5.0**	4.5	4.0	4.0	4.0
GOLD COAST	7.5	**5.0**	5.0	5.5	5.5	5.5
MELBOURNE	5.0	**4.0**	3.5	3.5	3.5	3.5
PERTH	5.3	**5.1**	4.8	4.5	4.2	4.0
SYDNEY	5.5	**4.5**	3.5	3.5	3.5	3.5
TOWNSVILLE	7.0	**5.0**	5.0	4.0	4.0	4.0

ADELAIDE

CURRENT MARKET INSIGHTS

The South Australian economy is expected to remain positive in 2025, despite a softening in price indices across Q3 and Q4 of 2024.

Growth is forecast to continue in defence, healthcare, renewable energy, residential, and infrastructure sectors. However, the market is still operating at near full capacity, particularly within the Tier 1 contractor and subcontractor space.

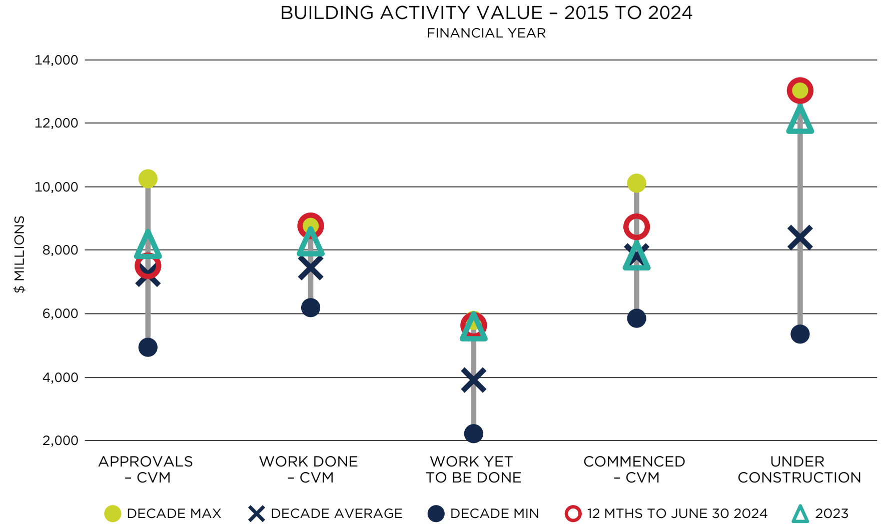
This sustained demand is pushing up wages due to a shortage of skilled labour. Contractors are becoming more selective about which projects to pursue, further limiting competition and driving up costs.

Material supply chains, which had stabilised, are now facing renewed pressure due to global shipping delays and emerging geopolitical risks.

KEY FACTORS IMPACTING ESCALATION

- Ongoing skilled labour shortages in key trades, especially engineering and structural.
- Limited competition in Tier 1 contractor and subcontractor markets is driving up costs.
- Material prices remain steady but are vulnerable to new tariffs, FX fluctuations, and global instability.
- Project durations are extending beyond initial contractor forecasts.
- The government remains committed to major projects across defence, healthcare, and infrastructure.

KEY BUILDING MARKET INDICATORS



Despite a fall in building approvals compared to 2023, levels remained above the decade average, suggesting a mild slowdown in new project initiations. However, project commencements rose, indicating healthy activity ahead.

Work done increased slightly, hitting a decade high, while the value of work yet to be done (WYTBD) held firm above the long-term average. Projects under construction also reached their highest level in ten years.

Outlook: Near-term construction activity in SA is expected to remain strong, but declining approvals may moderate activity into 2026.

BRISBANE

CURRENT MARKET INSIGHTS

Construction costs continue to rise. While government programs in health, corrections, education, and infrastructure are sustaining Tier 1 contractor pipelines, the private sector is struggling to make projects feasible due to cost pressures.

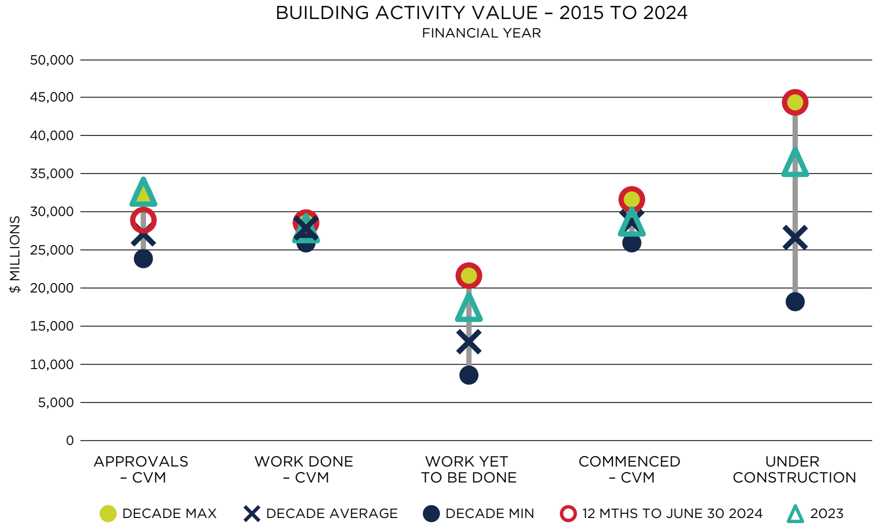
High resource demand from public projects has forced Tier 2 and 3 subcontractors to match EBA wage rates, further limiting affordability for private developments. Low productivity and risk pricing around industrial action and insolvency are also contributing to higher preliminaries.

Tier 1 contractors are becoming increasingly selective, often favouring ECI procurement over competitive tenders.

KEY FACTORS IMPACTING ESCALATION

- Poor productivity is extending project durations and inflating costs.
- Skilled labour shortages persist in key trades.
- Insolvency risk is being priced into contractor margins.
- Limited competition among Tier 1 subcontractors and contractors.
- Heightened risk of industrial action.

KEY BUILDING MARKET INDICATORS



Building approvals declined in 2024, although they remained above the decade average. Project commencements increased, as did the amount of work completed, with WYTBD reaching a 10-year high.

Projects under construction also hit a decade peak, suggesting robust ongoing activity.

Outlook: The construction sector remains active in the mid-term, but continued falls in approvals could threaten momentum.

CANBERRA

CURRENT MARKET INSIGHTS

The outlook for 2025 is positive, underpinned by significant investments from the ACT Government and the federal government.

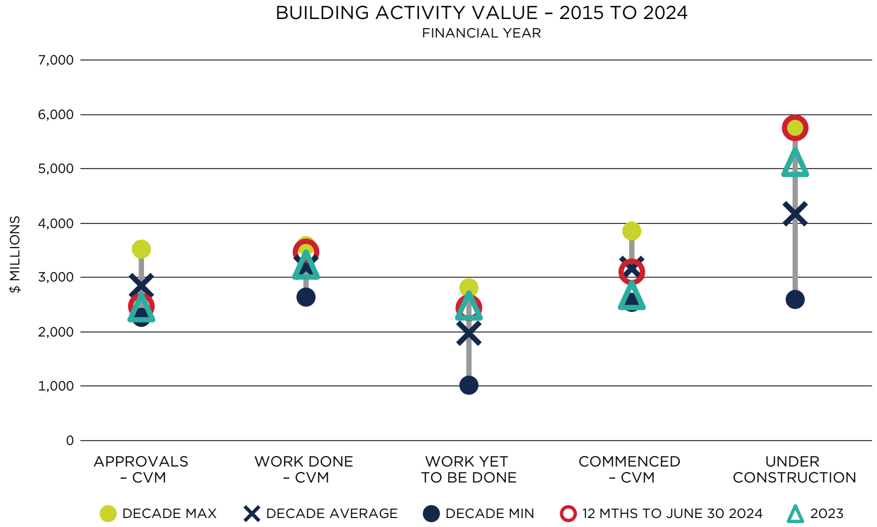
Key projects include the North Canberra Hospital, Canberra Theatre redevelopment, Light Rail Stage 2, and the National Security Office Precinct. Significant federal projects, including those at the Australian War Memorial and UNSW, are also driving demand.

However, challenges remain for SMEs, including labour shortages, rising material and labour costs, and supply chain issues.

KEY FACTORS IMPACTING ESCALATION

- A strong major project pipeline is constraining skilled labour supply.
- Broader inflation remains elevated.
- Risk pricing is increasing due to ongoing uncertainty.

KEY BUILDING MARKET INDICATORS



Approvals remained stable and close to the decade average. Work done and project commencements both increased and remained above long-term norms.

WYTBD stayed high, despite a slight dip from 2023, and under-construction activity reached its highest level in 10 years.

Outlook: A stable pipeline and substantial backlog are expected to keep activity strong, even if approvals remain flat.

DARWIN

CURRENT MARKET INSIGHTS

Darwin's construction market remains active, though NT Government investment has slowed under the new CLP government, which is prioritising Corrections and Emergency Services projects in regional areas.

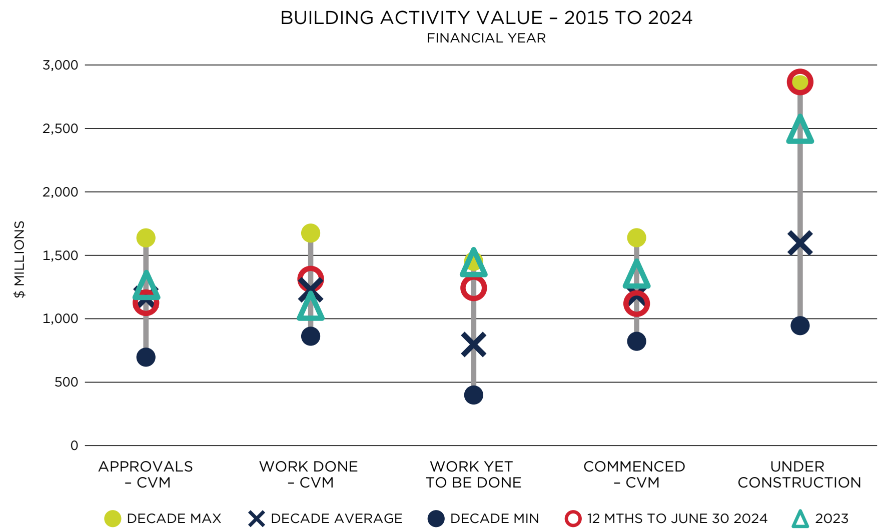
Federal tourism investment has increased in locations like Kakadu and Mutitjulu, influenced by the upcoming federal election. The private sector is also seeing growth, with several large-scale projects expected to commence this year.

Labour capacity remains a constraint, especially in key trades, while defence projects continue to pull resources by offering higher wages.

KEY FACTORS IMPACTING ESCALATION

- A 4% increase in steel reinforcement prices was reported last quarter.
- Market capacity remains tight, especially on significant projects.
- Skilled labour shortages in structural, blockwork, electrical and mechanical trades.
- Limited subcontractor competition is inflating pricing.
- Cost inflation persists across most trades.

KEY BUILDING MARKET INDICATORS



Approvals fell below the decade average. While work done rebounded and surpassed historical norms, commencements dropped and WYTBD declined from a decade high.

Projects under construction reached a 10-year high, indicating longer delivery times.

Outlook: Momentum is weakening, with fewer new projects and a shrinking backlog indicating a slowdown ahead.

GOLD COAST

CURRENT MARKET INSIGHTS

Cost pressures remain, although the new Queensland Government's review of BPIC legislation and significant health and Olympic projects may temporarily ease labour demand. However, Olympic projects remain time-critical and cannot be delayed.

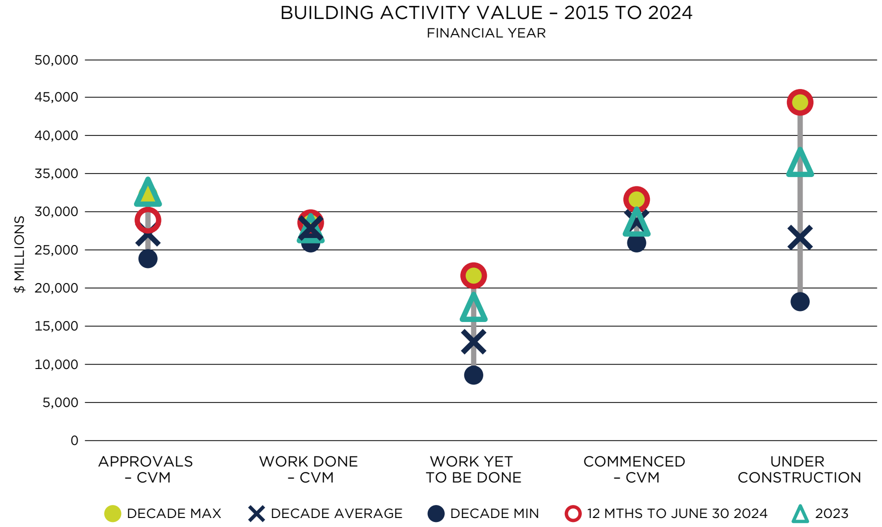
The private sector continues to face challenges in terms of feasibility, particularly in residential and commercial projects. This is exacerbating the housing crisis, particularly for first-home buyers.

There are signs of a two-speed market, with improved competition and pricing in lower-value projects as smaller contractors seek work.

KEY FACTORS IMPACTING ESCALATION

- Low productivity is extending project durations.
- Skilled labour shortages continue.
- Insolvency risk is inflating pricing.
- Weak competition among Tier 1 contractors and subcontractors.
- Elevated risk profiles are being priced into contracts.

KEY BUILDING MARKET INDICATORS



All primary building metrics rose in 2024 – except approvals, which declined sharply. Both WYTBD and commencements were strong, and most indicators reached decade highs.

Outlook: Activity is expected to remain high in the short term; however, falling approvals could limit future growth.

MELBOURNE

CURRENT MARKET INSIGHTS

The Victorian construction market remains mixed. Government support is aiding housing activity, although private residential is subdued. Data centres, healthcare, and education are driving growth in the non-residential sector.

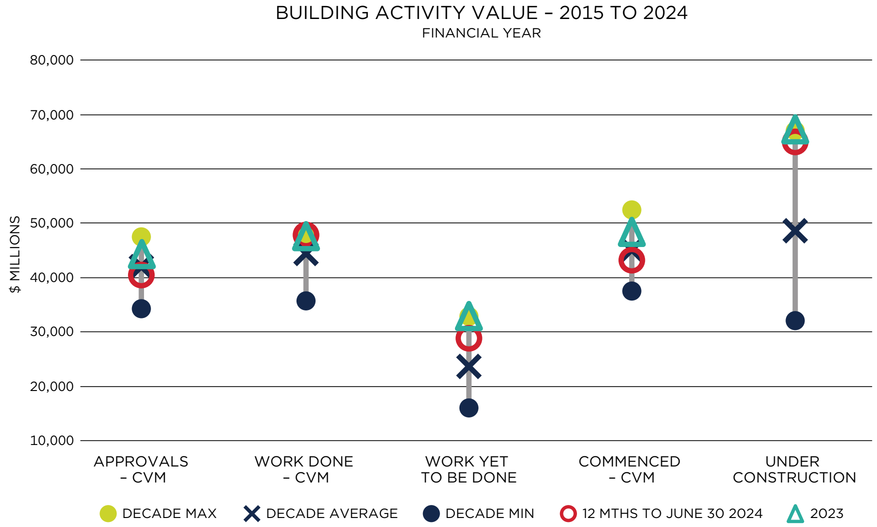
Infrastructure – particularly energy, waste, and transport – is performing well, with pricing stabilisation continuing from Q3/Q4 2024 into Q1 2025.

Feasibility remains a challenge due to regulatory complexity and cost growth. However, interest rate cuts and a substantial project pipeline may support near-term recovery.

KEY FACTORS IMPACTING ESCALATION

- Market variability is affecting project viability.
- Productivity constraints are inflating costs.
- Labour shortages in key trades.
- Insolvency risk is pricing into bids.
- ECI procurement is increasingly common.
- Business costs continue rising across wages, energy, insurance, and occupancy.

KEY BUILDING MARKET INDICATORS



Approvals and commencements dropped below both the 2023 levels and the decade average. However, work completed remained solid, and WYTBD was still above average. Projects under Construction levels remained close to decade highs.

Outlook: High current activity is expected to persist in the short term, though decreasing new project volumes may gradually slow down the market over time.

PERTH

CURRENT MARKET INSIGHTS

Western Australia's market remains near full capacity. Unemployment ticked up slightly to 4.1% in January 2025, but labour and wage pressures remain significant, particularly on complex and regional projects.

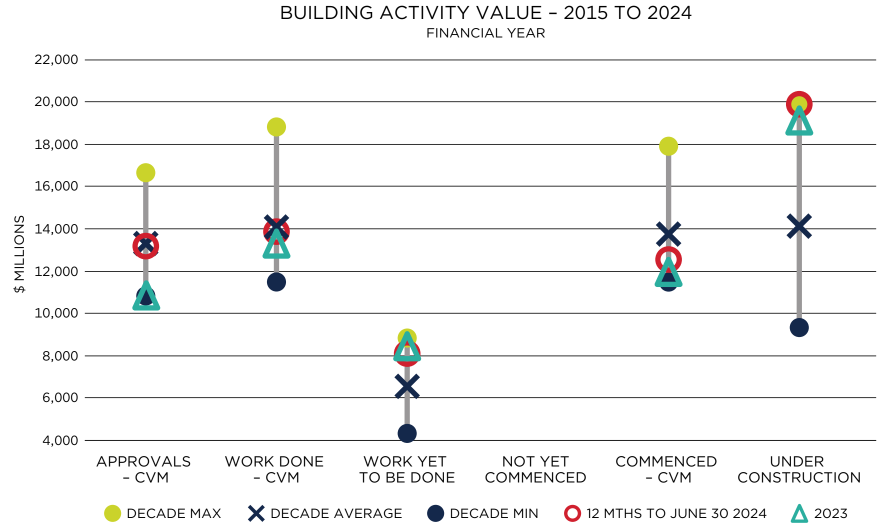
Material prices largely stabilised in 2024, and transportation costs began to fall. However, currency depreciation has offset some gains. Pricing volatility remains across trades and preliminaries, even on smaller jobs.

Major infrastructure projects are winding down, but new projects are entering the pipeline.

KEY FACTORS IMPACTING ESCALATION

- Labour and supply chain volatility is offsetting stable material pricing.
- Contractor insolvencies are affecting confidence and pricing.
- Limited competition among Tier 1 builders is raising project costs.
- Regional pressures are amplifying market issues.

KEY BUILDING MARKET INDICATORS



Approvals and work done increased in 2024, aligning with the decade's average. Commencements rose modestly. Projects under construction reached a 10-year high, although the WYTBD declined slightly.

Outlook: Solid growth is expected to continue, with new projects replacing those winding down.

SYDNEY

CURRENT MARKET INSIGHTS

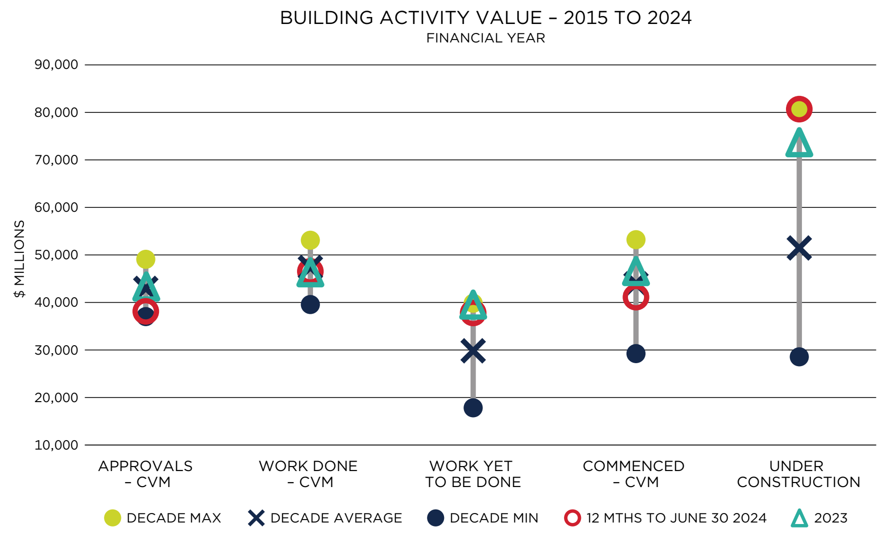
Sydney's market continues to face cost escalation due to labour shortages and rising wages. While material prices have stabilised, some imports, such as electrical components, remain affected by global supply chains.

Residential construction is subdued, with high land and build costs dampening appetite. Tier 2 builders remain cautious about re-entering the Build-to-Sell market. Public infrastructure continues to lead activity and compete for labour.

KEY FACTORS IMPACTING ESCALATION

- Labour shortages are extending project durations and inflating wages.
- Interest rates are raising financing costs.
- Compliance and planning costs remain high.
- Public infrastructure demand is driving sector-wide price inflation.
- Energy, insurance, and transport costs are impacting margins.
- Site productivity constraints persist.
- The AUD is expected to remain stable, with a slight upward movement anticipated in early 2025.

KEY BUILDING MARKET INDICATORS



Approvals fell to decade lows, and commencements also declined. Work done held steady, while WYTBD remained high.

Projects under construction reached a decade high, suggesting longer delivery timelines.

Outlook: Despite a decline in new project activity, the existing pipeline is expected to sustain the sector in the short term.

TOWNSVILLE

CURRENT MARKET INSIGHTS

The Queensland Government is undertaking reviews of major capital works programs, including those in the health sector. This has led to pauses–and, in some cases, cancellations–of previously committed projects in the region. As a result, competition has increased for the remaining projects now coming to market.

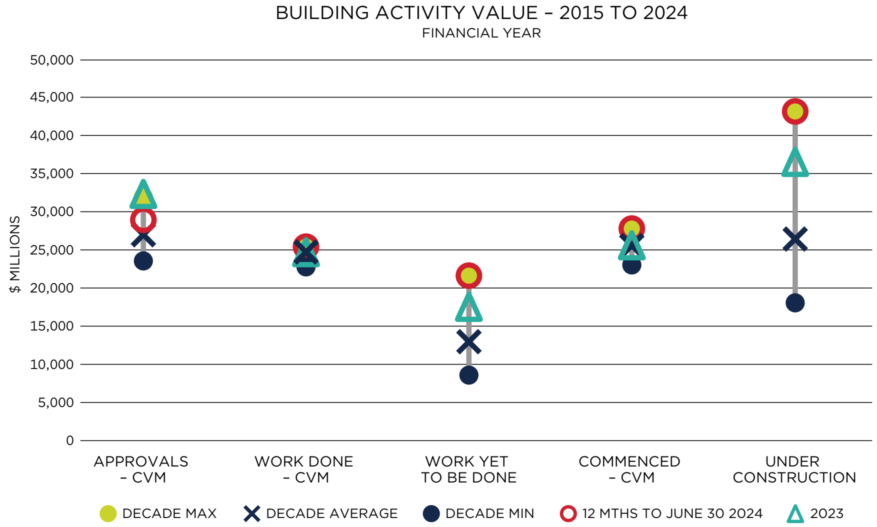
While some major projects are still moving forward, this shift has allowed head contractors to secure more competitive subcontractor pricing.

Private developers continue to grapple with high construction costs, making feasibility difficult. However, there are early signs that construction price growth is easing and beginning to stabilise.

KEY FACTORS IMPACTING ESCALATION

- Reduced volume of tender-ready projects is increasing market competition.
- Subcontractor pricing remains volatile and project-specific.
- US tariffs and a weaker Australian dollar are contributing to input cost pressures.
- The recent change in state government has prompted a reassessment of major projects.
- Skilled labour shortages continue to impact project delivery.

KEY BUILDING MARKET INDICATORS



In 2024, Townsville saw strong growth across all major construction metrics, except for approvals, which declined sharply from the previous year.

The high values of WYTBD and commencements suggest robust activity is likely to continue over the next 12 months. However, the drop in approvals may lead to fewer new project starts in the near future. Notably, four of the five key building indicators reached decade highs.

Outlook: Townsville's construction market remains active, but future momentum may hinge on a recovery in approvals and improvements to project feasibility.

OCEANIA OFFICES

AUSTRALIA

ADELAIDE
Level 1, 8 Leigh Street,
Adelaide, SA 5000
T: +61 8 8100 1200
E: adelaide@au.rlb.com

BRISBANE
Level 13, 10 Eagle Street,
Brisbane, QLD 4000
T: +61 7 3009 6933
E: brisbane@au.rlb.com

CAIRNS
Suite 7, 1st Floor,
Cairns Professional Centre,
92-96 Pease Street,
Cairns, QLD 4870
T: +61 7 4032 1533
E: cairns@au.rlb.com

CANBERRA
16 Bentham Street,
Yarralumla, ACT 2600
T: +61 2 6281 5446
E: canberra@au.rlb.com

COFFS HARBOUR
Level 1, 9 Park Avenue,
Coffs Harbour, NSW 2450
T: +61 2 4940 0000
E: northernnsw@au.rlb.com

DARWIN
Level 4, 62 Cavenagh Street,
Darwin, NT 0800
T: +61 8 8941 2262
E: darwin@au.rlb.com

GOLD COAST
45 Nerang Street,
Southport, QLD 4215
T: +61 7 5595 6900
E: goldcoast@au.rlb.com

MELBOURNE
Level 13, 380 St. Kilda Road,
Melbourne, VIC 3004
T: +61 3 9690 6111
E: melbourne@au.rlb.com

NEWCASTLE
Suite 4, Level 1, 101 Hannell Street
Wickham, NSW 2293
T: +61 2 4940 0000
E: newcastle@au.rlb.com

PERTH
Level 9, 160 St Georges Tce,
Perth, WA 6000
T: +61 8 9421 1230
E: perth@au.rlb.com

SUNSHINE COAST
Suite 307, La Balsa, 45 Brisbane Road
Mooloolaba, QLD 4557
T: +61 7 5443 3622
E: suncoast@au.rlb.com

SYDNEY
Level 19, 141 Walker Street,
North Sydney, NSW 2060
T: +61 2 9922 2277
E: sydney@au.rlb.com

TOWNSVILLE
Level 1, 45 Eyre Street, North Ward,
Townsville, QLD 4810
T: +61 7 4771 5718
E: townsville@au.rlb.com

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RLB Rider Levett Bucknall