Australian Construction Market Conditions Report

JUNE 2025

Empowering growth.

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About the author

Damon Roast joined WT Australia in 2022 as our construction economist, bringing more than 20 years of experience in economic analysis and output communication. He began his career as a classical economist before turning to the construction sector, specialising initially in infrastructure and mining.

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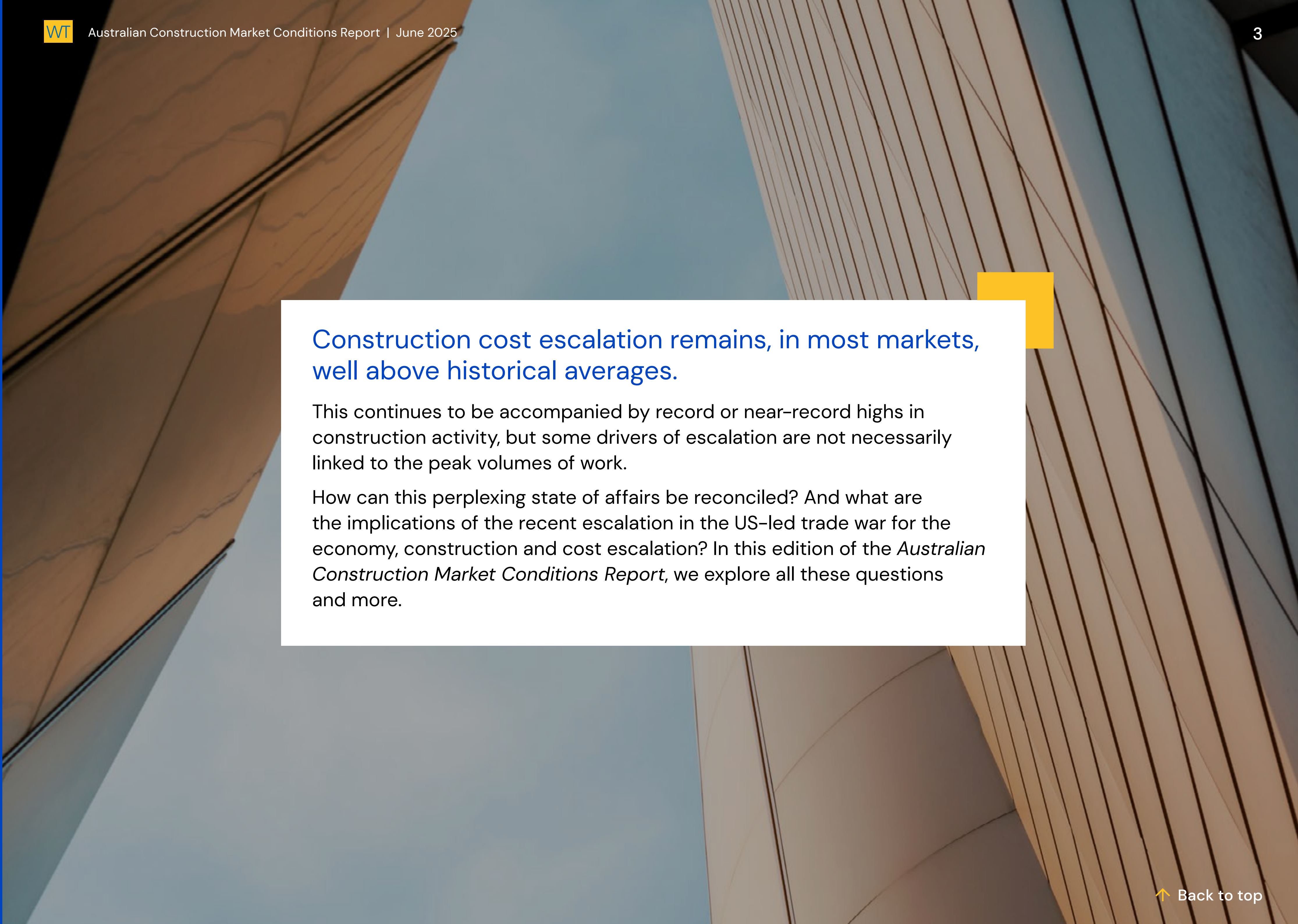

Construction cost escalation remains, in most markets, well above historical averages.

This continues to be accompanied by record or near-record highs in construction activity, but some drivers of escalation are not necessarily linked to the peak volumes of work.

How can this perplexing state of affairs be reconciled? And what are the implications of the recent escalation in the US-led trade war for the economy, construction and cost escalation? In this edition of the *Australian Construction Market Conditions Report*, we explore all these questions and more.

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Cost escalation
Building

WT's view on cost escalation by city

	2024	2025	2026	2027
Sydney	5.0%	4.6%	4.8%	4.9%
Melbourne	5.5%	5.0%	4.5%	5.0%
Brisbane	7.5%	7.0%	6.0%	7.5%
Adelaide	5.0%	5.0%	6.0%	5.5%
Perth	5.0%	5.5%	6.0%	6.5%
Hobart	5.5%	6.0%	6.0%	5.5%
Canberra	4.0%	3.0%	3.5%	3.5%
Darwin	4.3%	4.5%	5.0%	4.5%
Newcastle	5.5%	4.3%	4.8%	5.0%
Geelong	6.0%	4.8%	4.3%	4.5%
Gold Coast	7.5%	7.0%	6.5%	7.8%
Cairns	7.0%	5.0%	5.0%	6.0%
Weighted average	**5.5%**	**5.3%**	**5.2%**	**5.6%**

Contribution to cost escalation by input

	2025	2026
Labour (direct)	Makes escalation somewhat worse	Makes escalation somewhat worse
Materials	Improves escalation somewhat	Has no major impact on escalation
Plant and equipment (hire)	Makes escalation somewhat worse	Has no major impact on escalation
Energy	Makes escalation somewhat worse	Makes escalation somewhat worse
Freight	Improves escalation significantly	Has no major impact on escalation
Exchange rates	Makes escalation much worse	Makes escalation somewhat worse
Indirect costs	Makes escalation much worse	Makes escalation much worse
Total	Makes escalation much worse	Makes escalation much worse

Legend
(vs. long-term escalation averages)

- Improves escalation significantly
- Improves escalation somewhat
- Has no major impact on escalation
- Makes escalation somewhat worse
- Makes escalation much worse

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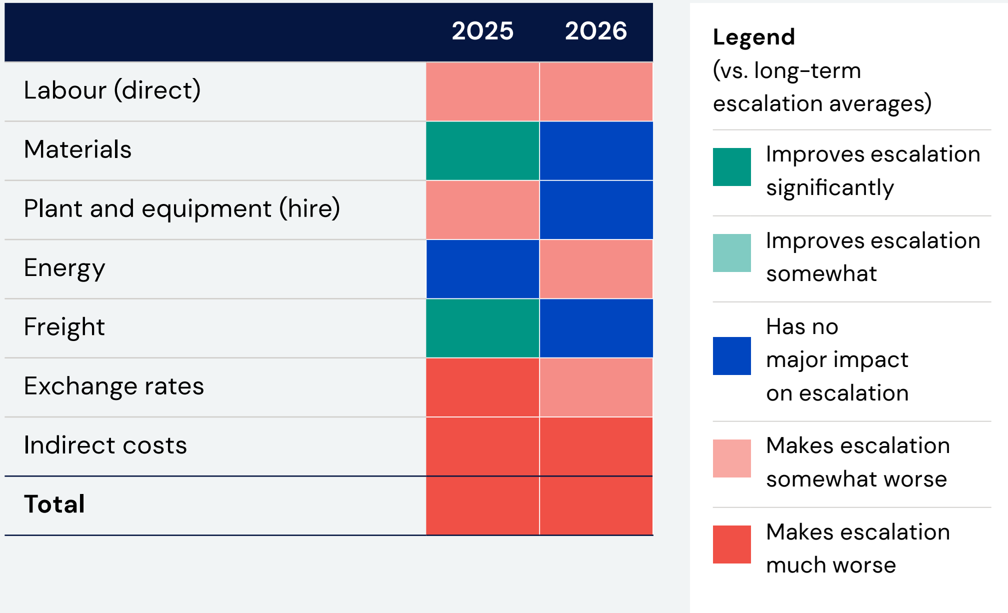
Cost escalation
Infrastructure

WT's view on cost escalation by city

	2024	2025	2026	2027
Sydney	4.8%	5.3%	5.5%	5.5%
Melbourne	5.0%	5.0%	5.0%	5.3%
Brisbane	5.5%	6.5%	5.8%	7.0%
Adelaide	4.5%	4.5%	6.0%	5.0%
Perth	4.0%	4.3%	5.5%	4.8%
Hobart	4.8%	3.5%	4.5%	5.5%
Canberra	6.0%	5.0%	4.3%	4.5%
Darwin	3.0%	4.8%	4.8%	6.0%
Weighted average	**4.8%**	**5.1%**	**5.4%**	**5.5%**

Contribution to cost escalation by input



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Construction activity
Barometer/outlook

Construction activity barometer by broad sector

	Starts 2024 (inflation-adjusted)	vs. starts 2014–2023 (average annual)	Lead indicators 2024 (inflation-adjusted)
Building			**Approvals**
Commercial	$20b	6%	$20b
Apartments	$30b	–8%	$28b
Industrial	$12b	41%	$13b
Social	$31b	22%	$27b
Infrastructure			**Work yet to be done**
Transport	$33b	–7%	$47b
Utilities	$52b	32%	$54b
Resources	$24b	–15%	$35b

Source: ABS, WT

Legend

- 2024 activity more than 20% above the annual average of the prior decade
- 2024 between 10 and 20% above the annual average of prior decade
- 2024 activity between +10 and -10% vs annual average of prior decade
- 2024 activity between 10 and 20% below annual average of prior decade
- 2024 activity more than 20% below annual average of prior decade

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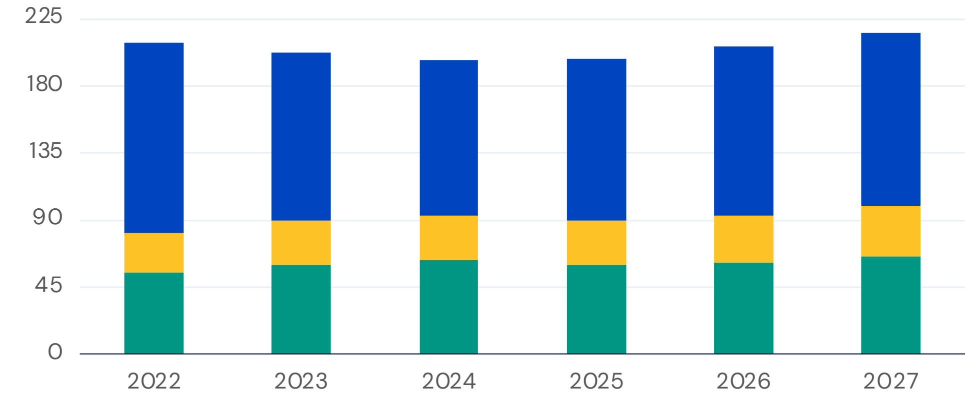
Construction activity overview and outlook by key sector

Sector	Outlook to 2027	2027 $b ($2024 $b)
Commercial	Data centres and transport are expected to lead the way, with office and retail to recover by 2027. The timing and number of interest rate cuts will be crucial.	$28b ($20b)
Apartments	There is an acute need for housing activity to move higher, although ongoing sector issues are likely to dampen the speed of upturn.	$34b ($30b)
Industrial	Cyclical easing is likely, but the strength of fundamental drivers is expected to keep activity elevated.	$13b ($12b)
Social	Activity will be robust as stadiums, defence, student accommodation and aged care move higher. State government finances will be crucial here.	$25b ($31b)
Transport	Rail is likely to be the key driver here, although some mega-projects are at risk of postponement.	$33b ($33b)
Utilities	Utilities are set to be the star performer with strong activity across renewables, transmission and water/wastewater.	$59b ($52b)
Resources	A cyclical uplift is expected across gas and base and critical metals but nothing like the strength seen in the early 2010s.	$29b ($24b)

Source: ABS, WT

Construction activity outlook by sector

$b, inflation-adjusted / calendar years, 2025+ = forecasts



Source: ABS, WT

Legend

Non-residential Attached residential Infrastructure

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Key points by year, key risks/implications

2025

- The remainder of 2025 should see recent sector momentum continue, with potential for some improvement in underlying economic performance.
- However, various cost pressures persist, with skills shortages continuing and various indirect costs still stubbornly increasing. There are some signs of moderating escalation in some markets, but not generally across the whole.
- For building, we expect a national (weighted) average of escalation of 5.3%, and 5.1% for infrastructure.

2026

- Moving into 2026, there may be some opportunity for an investment-led easing in escalation pressures. If the sector has enough confidence in the outlook to invest significantly in capacity and capability through 2025 and into 2026, the first signs of softer escalation should be seen. However, initial data on 2024/25 sector investment suggests a decline from the strength of 2023/24.
- The broader impact of the trade war may start to be felt in 2026. Even though our base case view is for no substantial economic downturn or supply chain issues, new sector investment in capacity/capability could well be paralysed in such a setting, which would sow the seeds for an uplift in market price.
- For building and infrastructure, we expect a national (weighted) average of escalation of 5.2% and 5.4% respectively.

2027 and beyond

- By 2027, the combination of strong key drivers since the early 2020s and improved economic growth should see the start of the next upturn in construction activity in most markets.
- This improvement in market conditions might normally be associated (perhaps from 2026) with a lift in sector investment to capture improved profits. However, the risk of prolonged uncertainty related to the trade war could see this new investment delayed.
- For 2027, we expect a national (weighted) average of 5.6% escalation for building and 5.5% for infrastructure. Brisbane and south-east Queensland will continue to experience the strongest escalation, while smaller markets such as Canberra are likely to see below-average escalation.
- Prolonged elevated escalation – with reduced prospects for an investment-led easing compared with our November report – could instead see the nascent upturn in construction activity run prematurely out of steam. This could mean weaker escalation via reduced construction activity, with the vicious circle of further downward pressure on investment and a greater risk of escalation spiking once construction activity recovers.

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Risks/implications

Trade war / China / supply chains

The escalation of the trade war in early April presents the most significant risk to the outlook. While our base case is that the potentially calamitous financial market ructions and major supply chain disruptions will be avoided, the potential is much greater for a US recession and/or increased exports of Chinese building materials.

Housing / interest rates

Numerous federal election campaign promises to aid first-home buyers to more easily access the property market may see house construction move notably higher, perhaps as far as the federal government's lofty construction target, which could see additional pressure on builders of attached residential and non-residential property.

Economic impacts of the trade war could see more interest rate cuts than we expected in our November report. This could be a catalyst for a sustained increase in residential activity. However, it may instead boost activity in the commercial, high-rise and mixed-use sectors, especially in major markets such as Sydney, Melbourne and Brisbane.

State government spending/debt

The combination of elevated interest rates and strong investment programs, often involving considerable cost blowouts, have seen state government debt profiles continue to rise. While there is no 'magic number' at which state government spending is curtailed, the risk of more cuts to state spending have likely increased. Nevertheless, we expect state government spending in Queensland to remain most resilient towards the 2032 Olympics.

Investment in capacity/capability – or lack thereof

For some time now, we have argued for the importance of investment in sector capacity and capability. A major legacy of the shortfall of sector investment is the persistence of elevated escalation. In November, we noted a path by which the necessary sector investment could legitimately be expected to arrive – and that may have held, were it not for the broad economic impact and elevated uncertainty of the trade war. Hence, risks have increased that this necessary investment fails to come through as required, which would ultimately hinder construction activity.

For many years in the construction sector, we've seen an unstoppable force (escalation) and an immovable object (construction activity). This situation cannot be sustained indefinitely, and the risks have now shifted the balance towards escalation 'winning'.

(Legislated) project pipeline

We continue to advocate for a legislated project pipeline as a solution to ongoing sector woes (weak margins, high insolvencies and inadequate profits). This would provide greater sector certainty to help incentivise investment and perhaps also aid government in rebuilding internal expertise in construction matters. Most importantly, it could lead to a climate in which more moderate escalation becomes the norm again.

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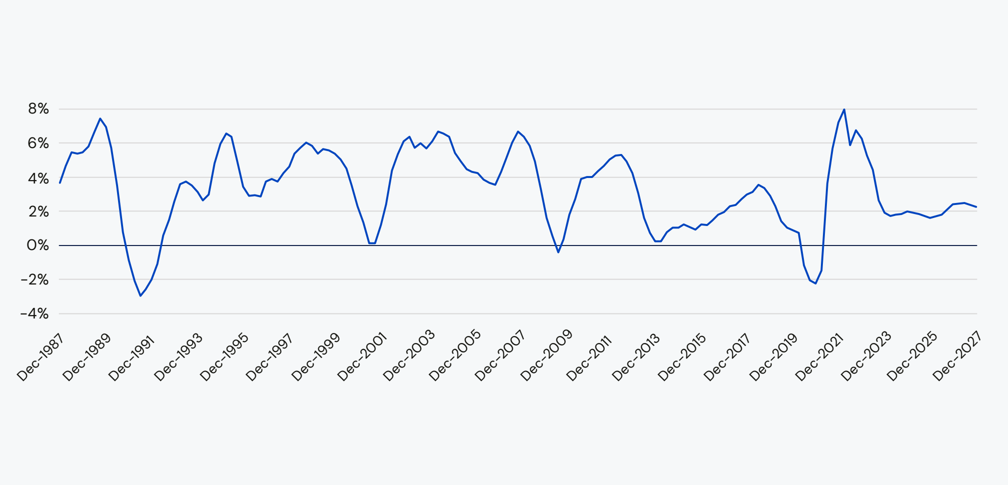
Underlying economic and construction sector assumptions and projections

Economy

Australia: economic growth (domestic)

Annual % change / 2025+ = forecasts



Source: ABS, WT

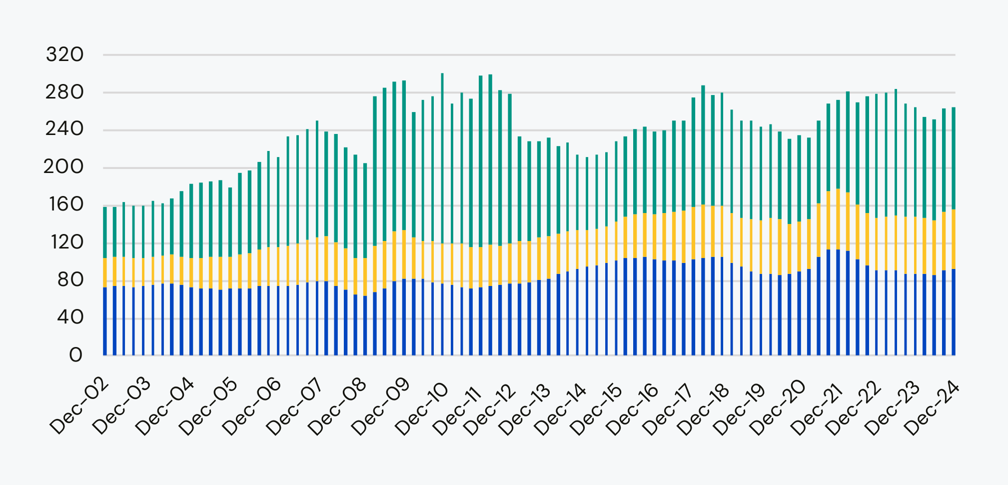
There is an elevated risk of impacts related to the trade war, but the economy should remain resilient, albeit underperforming, before prospects for improved conditions emerge from 2027.

Construction

Overall

Construction activity by broad sector

$b / commencements basis, moving annual total, inflation-adjusted



Source: ABS, WT

Legend Residential Non-residential Infrastructure

Despite increasingly patchy economic growth, construction activity remains close to record high levels. Most recently, increases have been seen in residential and non-residential (notably health), but infrastructure played a key role in the rise in activity in the pandemic years.

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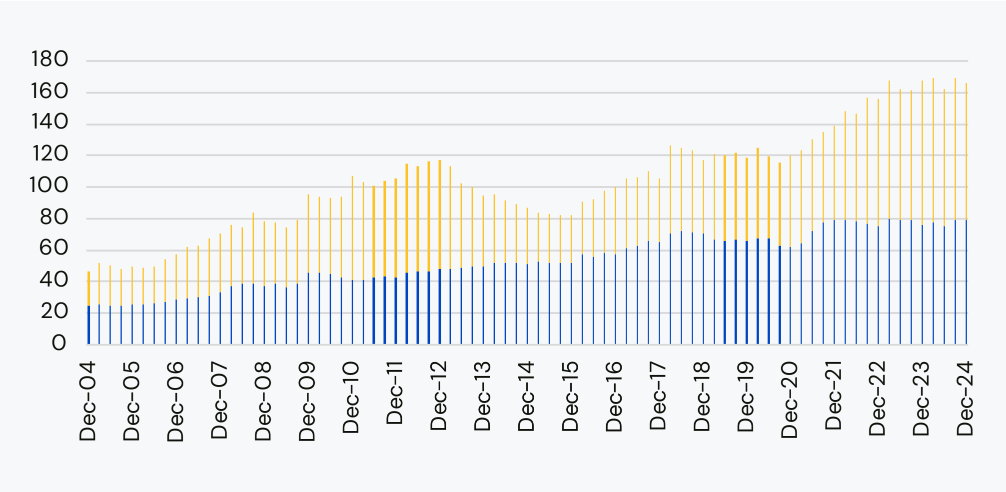
Work still in the system

Work yet to be done by broad sector

$b / inflation-adjusted



Source: ABS, WT

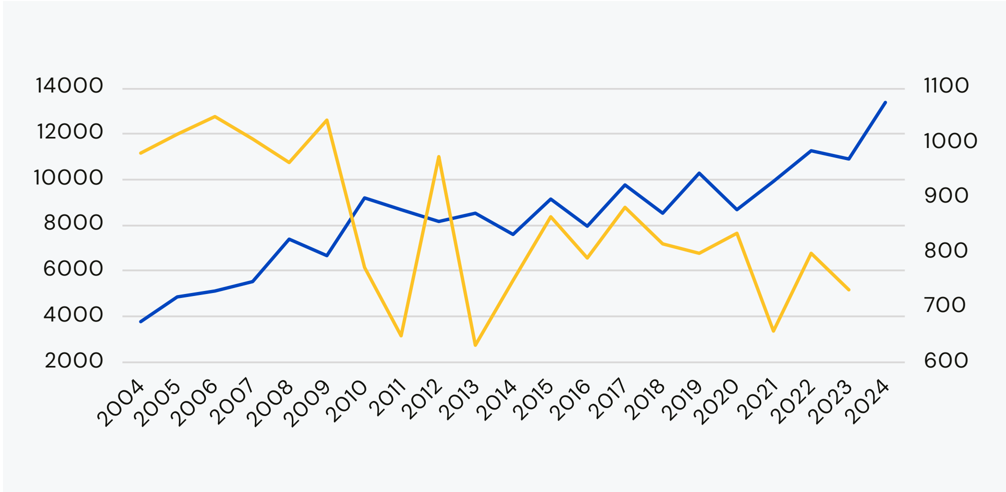
Legend Building (non-residential) Infrastructure (ex-mining)

Meanwhile, work yet to be done hit a new high in the September quarter. While supply chain disruption has largely ended, these remain stretched, with continued shifts towards larger and more complex projects also playing a key role.

Investment in sector capacity/capability

New investment in sector capacity/capability

$m / inflation-adjusted



Source: ABS, WT

Legend Construction Non-metallic mineral products manufacturing

New investment in sector capacity and capability stagnated since 2010, especially in the manufacture of building materials – but the solid increase in 2023/24 may be the beginning of a necessary jump. However, the shortfall is such that strong increases in spending over several years would be needed to create an environment in which escalation could begin to moderate without a slump in construction activity.

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Sydney

Key trends

Despite some recent signs of weakness, Sydney should see a solid outlook, with a robust pipeline, ongoing strength in infrastructure, and the potential for a boost in commercial sectors if the potential for more interest rate cuts than expected materialises.

- Building approvals: Approvals have by and large trended downwards since the late 2010s. While the pipeline includes many projects in commercial, attached residential and mixed-use sectors waiting for further interest rate cuts, these can often not be reflected in the approvals numbers (or they may have been approved years earlier).
- Job vacancies: Similarly, vacancies numbers are quite weak (back to 2020 levels and behind those seen for most of the 2010s) despite numerous signs of strength elsewhere. Notably, these are in job vacancies outside of Sydney and broader labour force data for New South Wales (with construction unemployment close to 2%).

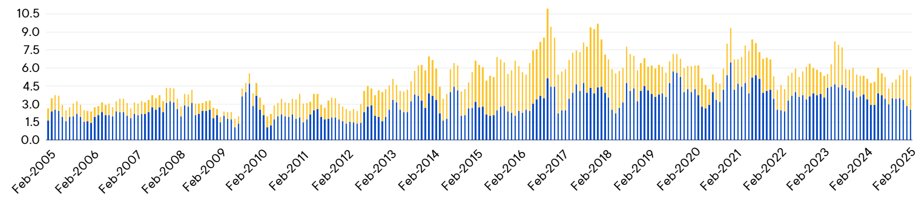
Local insights

- The story in Sydney is increasingly softening market conditions. This is perhaps best seen by Tier 2 builders becoming more desperate to fill order books (with Tier 3s benefiting at their expense). Meanwhile, insolvencies remain high, and these have fed back into ongoing reluctance of subcontractors on some bids.
- With that said, Sydney is perhaps where the trajectory of interest rate cuts will be most crucial but also where local (economic and other) implications of the trade war could be strongest. Our updated escalation view is based largely on softening market conditions, but escalation may come in stronger than expected should an interest rate cuts-led revival happen in commercial, attached residential, and/or mixed use.
- The other notable area of strength in Sydney construction is in infrastructure, especially major road and rail. The demand for resources from these major projects remains elevated and is competing for certain key trades with major building and residential works.

Cost escalation	2024	2025	2026	2027
Building	5.0%	4.6%	4.8%	4.9%
Infrastructure	4.8%	5.3%	5.5%	5.5%

Building approvals by sector

$b / inflation-adjusted / last quarter reported monthly

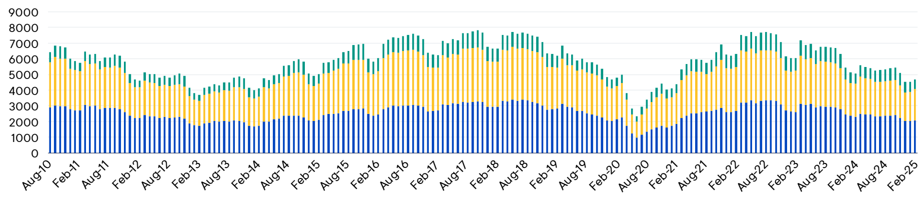


Source: ABS, WT

Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months



Source: Jobs and Skills Australia (JSA), WT

Legend White collar Technicians and trades Plant operators / labourers

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NEXTDC S3 Data Centre, Sydney

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Melbourne

Key trends

Signs continue to point to a long-awaited turnaround in Melbourne market conditions, including the strength of many fundamental drivers and some moderation of escalation. We continue to expect prospects to improve from 2026, perhaps sooner with more rate cuts.

- Building approvals: There has been a notable uplift in the last 6 months, largely in attached residential activity. Non-residential, however, remains in an ongoing period of weakness.
- Job vacancies: Steady decline in demand for labour saw vacancies fall to a 9-year low (outside of 2020).

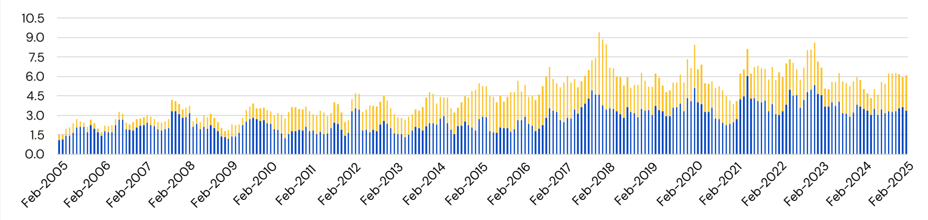
Local insights

- There are increased reports of both head contractor and sub-contractor markets becoming hungry for work. This is likely due to some softness in labour escalation due to the return of some skilled labour from major infrastructure projects into building, plus the soft non-residential pipeline.
- For materials, there are some signs of lower costs due to reduced freight costs (e.g. façades, joinery and steel).
- However, continued elevated insolvency numbers in Victoria, plus some contractors exhibiting 'permanent' hesitancy on bids (i.e. remaining in their favoured sectors only), will maintain pressure on indirect costs.
- The strength of Melbourne's fundamental drivers and the prolonged period of weakness should ultimately lead to a significant cyclical uplift. However, the longer that current conditions persist, the more likely it is that escalation may jump in response to the eventual cyclical uplift.

Cost escalation	2024	2025	2026	2027
Building	5.5%	5.0%	4.5%	5.0%
Infrastructure	5.0%	5.0%	5.0%	5.3%

Building approvals by sector

$b / inflation-adjusted / last quarter reported monthly

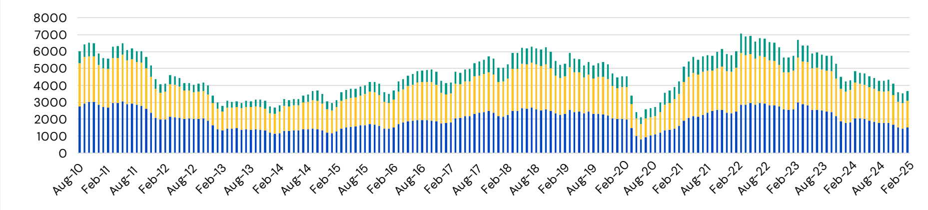


Source: ABS, WT

Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months



Source: JSA, WT

Legend White collar Technicians and trades Plant operators / labourers

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Frankston Hospital Redevelopment (render), Melbourne

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Brisbane

Key trends

Brisbane is still the standout, from the perspectives of both construction and escalation. Cost pressures have continued despite a small lull (between major hospital spending and Olympics 2032 projects ramping up). Infrastructure will also see strong conditions, while there may be upside risk for escalation if enough resources cannot be lured from interstate.

- Building approvals: That approvals have tracked recently around historical averages would normally suggest construction activity is set to remain in line with recent trends. However, this neglects two key points: the surge in approvals in 2023 and 2024, largely hospitals, and the significant spending in future years relating to the 2032 Brisbane Olympics.
- Job vacancies: Brisbane and south-east Queensland's skills shortage is clearly seen in the job vacancies data, which remains close to pandemic highs and is very strong compared with data over the last decade. If Brisbane is unable to attract considerable numbers of trades from interstate, cost pressures could ratchet up markedly.

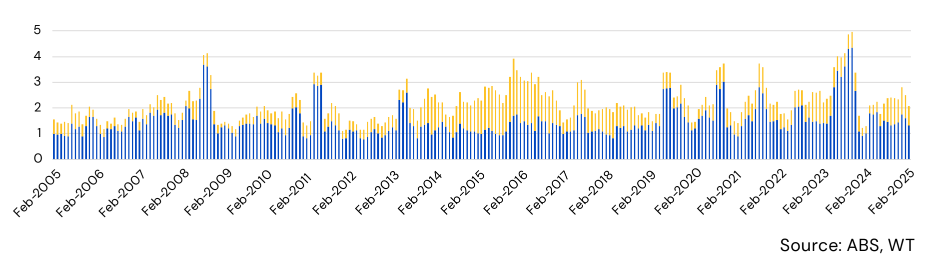
Local insights

- Early signs of momentum in institutional and civic sector work, if realised, will put additional pressure on a pipeline already elevated due to health, education and Olympics-related builds.
- Brisbane may see a number of commercial, residential or mixed-use projects become more attractive should interest rate cuts materialise.
- The infrastructure side could be ultimately as important in driving cost pressures, especially given the increasing proportion of works in regional and rural areas (e.g. renewables, hydrogen, water and transport).
- These points may increase upside risk, particularly later in the period to 2027.

Cost escalation	2024	2025	2026	2027
Building	7.5%	7.0%	6.0%	7.5%
Infrastructure	5.5%	6.5%	5.8%	7.0%

Building approvals by sector

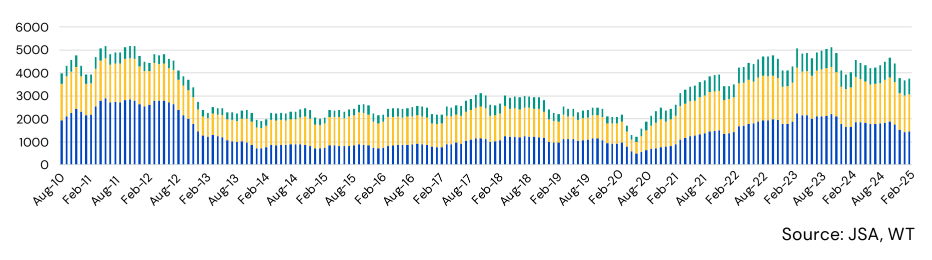
$b / inflation-adjusted / last quarter reported monthly



Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months



Legend White collar Technicians and trades Plant operators / labourers

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Adelaide

Key trends

Adelaide is a quiet performer with strong market conditions and a healthy pipeline. However, skills shortages and difficulty sourcing trades are challenges. Like Brisbane, escalation may see upside risks.

- Building approvals: Adelaide has seen a solid uplift in approvals in recent months. While not nearly as strong as that seen for the Women's and Children's Hospital approval in 2022, the recent uplift may be more important for the sector given the WCH's use of interstate labour.
- Job vacancies: Brisbane's status as a market with strong demand for labour is now well-known, but Adelaide has a similar story to tell. Demand for labour has only barely moderated in recent years and is greater than almost all pre-pandemic data.

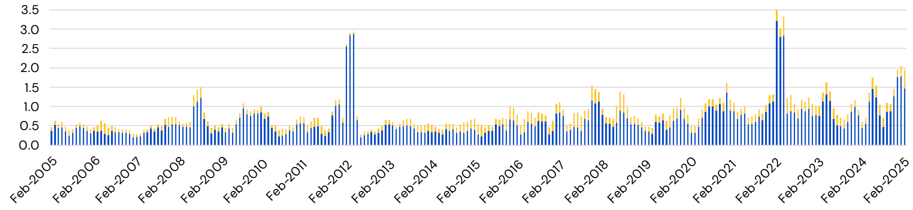
Local insights

- Skills shortages and difficulty sourcing trades could soon become much worse given a strong pipeline of major projects (across building and infrastructure sectors).
- Strong conditions and tightness across the sector haven't been matched by new investment. This is the case for building materials (such as precast concrete) but also in the housing needed to accommodate the required interstate trades.
- While some planned spend in rural South Australia may now be on the backburner, the strength of the pipeline in Adelaide may mean there are risks to the upside for the escalation forecasts shown.

Cost escalation	2024	2025	2026	2027
Building	5.0%	5.0%	6.0%	5.5%
Infrastructure	4.5%	4.5%	6.0%	5.0%

Building approvals by sector

$b / inflation-adjusted / last quarter reported monthly

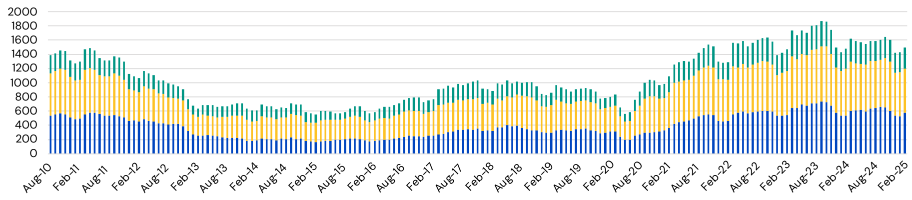


Source: ABS, WT

Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months



Source: JSA, WT

Legend White collar Technicians and trades Plant operators / labourers

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Perth

Key trends

Perth has the ingredients in place for market conditions to strengthen. The city is overdue for a cyclical jump in activity, and state government finances are very conducive to support increased spending. The escalation outlook is expected to remain robust, with skills shortages key.

- Building approvals: While not at the highs of early 2021, approvals in Perth have been elevated in a sustained manner not seen since 2018.
- Job vacancies: Perth's skills shortage is certainly evident in the job vacancies profile; however, demand has moderated somewhat faster than in other strong markets such as Brisbane or Adelaide.

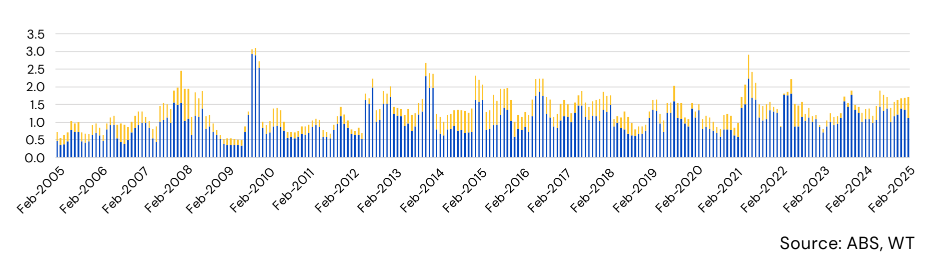
Local insights

- The Perth market has typically risen and fallen on the back of booms and busts in mining in Western Australia's north. Perth remains closely linked to the fortunes of mining but not as closely as in past decades.
- Hence, Perth's construction sector is quite strong, and cost pressures are evident despite no sign of a boom in mining investment.
- Fundamentals (e.g. population growth/sprawl, state government finances) point to a healthy uplift in construction activity but this has not materialised yet. This is surprising given how WA's economic weakness through the late 2010s hit construction activity. Our view is that construction activity should enter a stronger period in coming years – but that ongoing skills shortages and other concerns with sector capacity and capability will stymie this uplift.

Cost escalation	2024	2025	2026	2027
Building	5.0%	5.5%	6.0%	6.5%
Infrastructure	4.0%	4.3%	5.5%	4.8%

Building approvals by sector

$b / inflation-adjusted / last quarter reported monthly

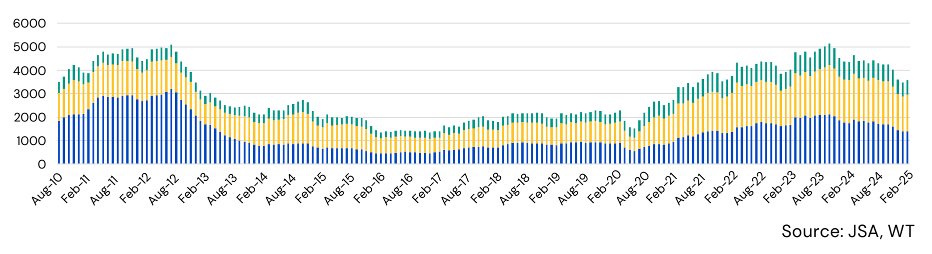


Source: ABS, WT

Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months



Source: JSA, WT

Legend White collar Technicians and trades Plant operators / labourers

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Hobart

Key trends

The Hobart market, and Tasmania more broadly, is in a lull, perhaps made worse by the (surprise) state election last year. The pipeline remains strong, which should keep escalation elevated (especially if interstate resources are needed), but further delays to the pipeline may see escalation moderate.

- Building approvals: Numbers have been quite weak since the Hobart Airport upgrade was approved early in 2024.
- Job vacancies: However, job vacancies remain at an elevated level given this soft backdrop. They have returned to the previous peak (2019) but remain well above numbers seen over most of the rest of the decade.

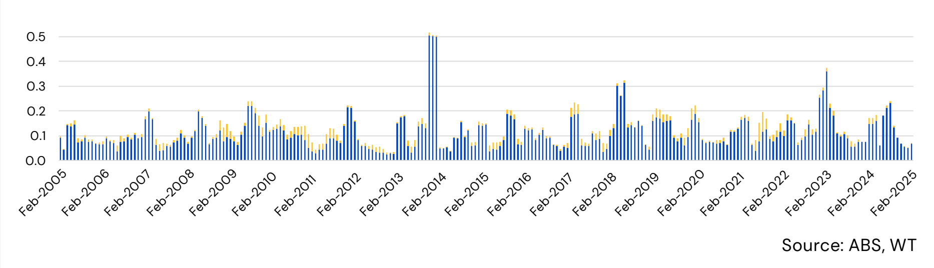
Local insights

- Despite market fundamentals being relatively supportive and a strong pipeline of work ahead, conditions have been fairly quiet. The 2024 state election – and that this was a surprise election – may have been a factor here.
- This weakness has now been seen in some materials prices.
- A key factor putting upward pressure on costs is recent and forthcoming major projects, which will increase interstate (largely Tier 1) labour as well as housing-related costs.
- Major renewables and transmission line projects are likely to be less resource-intensive and hence less of a factor driving higher escalation.
- A strong pipeline of work is still to come, both in Hobart and across northern Tasmania. However, the longer the delay in the larger works coming to market, the greater the risk that some projects may be postponed.

Cost escalation	2024	2025	2026	2027
Building	5.5%	6.0%	6.0%	5.5%
Infrastructure	4.8%	3.5%	4.5%	5.5%

Building approvals by sector

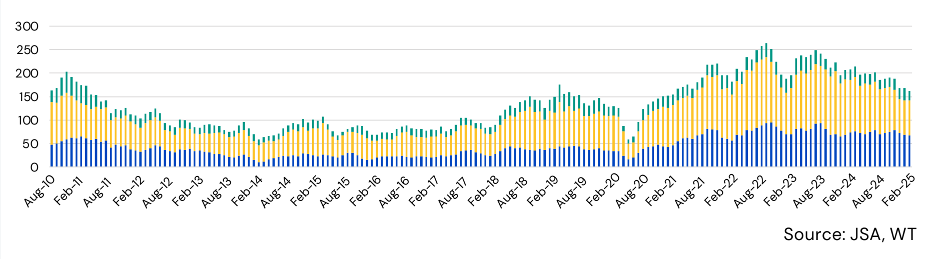
$b / inflation-adjusted / last quarter reported monthly



Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months



Legend White collar Technicians and trades Plant operators / labourers

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Bradfield City Centre's Central Park (render), Sydney

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Canberra

Key trends

The combination of a soft pipeline, few signs of pressures relating to key trades, and a financially struggling territory government has seen escalation moderate. There is a strong medium-term pipeline of major projects, but uncertainty as to when these will be delivered.

- Building approvals: These have tracked notably weaker in recent months, including a strong fall in attached residential (a powerhouse contributor to Canberra construction in recent years) but also more moderate non-residential numbers.
- Job vacancies: Vacancies have fallen steadily to their lowest point since 2014.

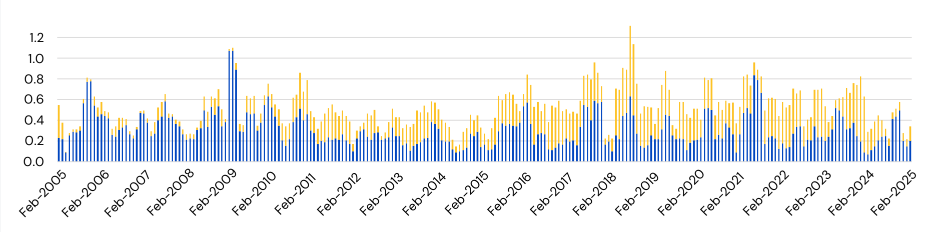
Local insights

- Canberra is a federal government city. This remains so despite solid population growth (including just outside the ACT) and less reliance generally on the federal government to generate economic activity.
- Conditions are currently soft. Vacancies and, to a lesser extent, approvals numbers are akin to those in the first years of a new conservative federal government (where cost-cutting tends to take place).
- Despite speculation that it may have been called early, the federal election (which took place in May) appears to have been an important driver of market weakness. Few signs of new major projects in the near-term has seen improved sub-contractor feedback and project prices coming in close to or under budget.
- There is a healthy pipeline of major projects, which could see conditions strengthen over the medium term. However, the territory government is in a difficult financial position and appears reluctant to move forward with these.
- Elsewhere, momentum towards the introduction of latent defects insurance, which could add 3-5% to detached housing prices, may put upward pressure on construction costs across the sector. With that said, its introduction is still being considered and may be a year or two away.

Cost escalation	2024	2025	2026	2027
Building	4.0%	3.0%	3.5%	3.5%
Infrastructure	6.0%	5.0%	4.3%	4.5%

Building approvals by sector

$b / inflation-adjusted / last quarter reported monthly

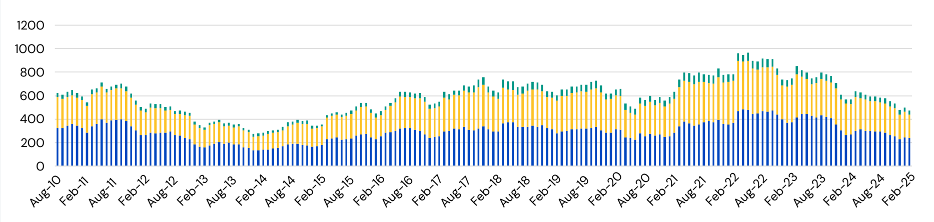


Source: ABS, WT

Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months



Source: JSA, WT

Legend White collar Technicians and trades Plant operators / labourers

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Darwin

Key trends

Darwin's prospects are linked closely to resources and defence spending. Current conditions are somewhat robust, but escalation could jump with difficulties in sourcing trades, especially for complex/major work, should these projects materialise.

- Building approvals: Approvals have been higher and remained elevated over the last year or more. Notably, however, this elevation came off a low base of approvals in 2022 and 2023.
- Job vacancies: Vacancies remain elevated, although they are below levels of most of the 2010s (even those prior to the Inpex project). Labour can be quite mobile into and out of Darwin, so caution should be applied when looking at Darwin's vacancies numbers.

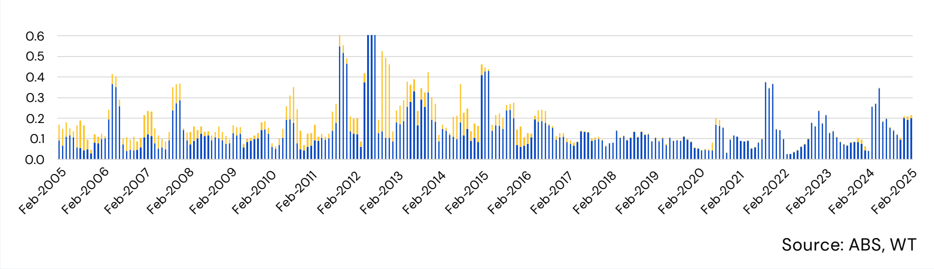
Local insights

- Darwin's cost pressures and escalation profile tend to closely follow the prospects of major spending in the resources and, less so, defence sectors.
- While there can often be skills shortages, constrained competition among large contractors can be a greater constraint and contribute more to cost pressures.
- While the outlook should see periodic investment in resources (largely gas), it is defence where more action could be seen over the medium term. A sustained uplift in defence construction more broadly across the country would make efforts to recruit key trades even more important. Should these efforts fail, escalation would be likely to increase.

Cost escalation	2024	2025	2026	2027
Building	4.3%	4.5%	5.0%	4.5%
Infrastructure	3.0%	4.8%	4.8%	6.0%

Building approvals by sector

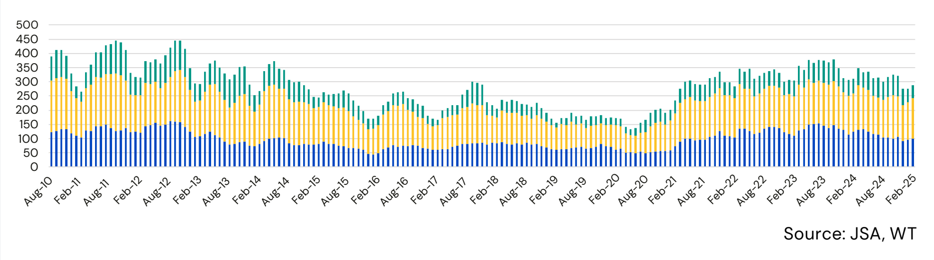
$b / inflation-adjusted / last quarter reported monthly



Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months,
axis cropped at $0.6b (removes Inpex project)



Legend White collar Technicians and trades Plant operators / labourers

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Newcastle

Key trends

Market conditions in Newcastle have been quite robust lately, although major projects are nearing completion. Fundamentals remain healthy but there are some signs of softness, both locally and in Sydney, which could see escalation fall further and bottom out before rising again.

- Building approvals: Approvals have tended to remain around historically normal levels – but with major projects underway and nearing completion, the pipeline has been quite elevated in recent years.
- Job vacancies: Demand for key trades has moderated somewhat since peaking in mid-2023 but remains solidly above that seen for most of the 2010s.

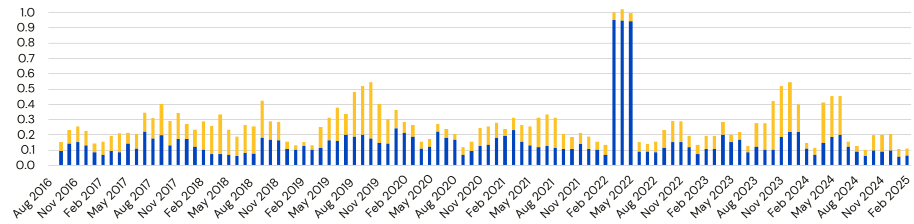
Local insights

- Much of the recent pipeline is nearing completion. This, combined with some softening in the Sydney market, is easing some cost pressures.
- This has led to reports of a hungrier subcontractor market.
- Infrastructure investment remains healthy in the Hunter region (with additional spending in later years to follow from the federal election campaign), which together with the impending build-out of student accommodation ensures an elevated floor in cost escalation, most likely during this year.

Cost escalation	2024	2025	2026	2027
Building	5.5%	4.3%	4.8%	5.0%

Building approvals by sector

$b / inflation-adjusted / last quarter reported monthly

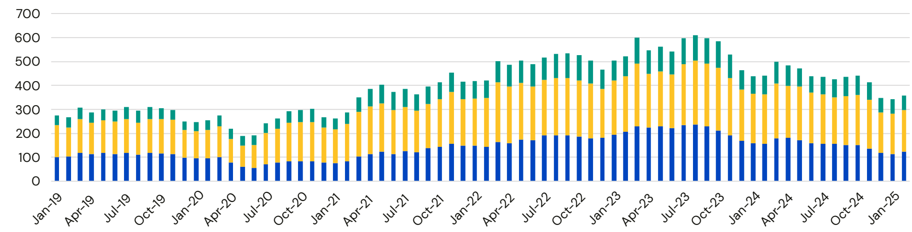


Source: ABS, WT

Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months



Source: JSA, WT

Legend White collar Technicians and trades Plant operators / labourers

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Geelong

Key trends

Geelong has seen solid market conditions, with a steady pipeline of major projects keeping escalation elevated. Signs of a two-speed market have increased, however, and this points to some softness going forward. An expected uplift in Melbourne conditions could drive escalation higher in Geelong towards 2027.

- Building approvals: Geelong has maintained a healthy level and pipeline of approvals, interspersed with major projects (Geelong Convention and Exhibition Centre and Geelong Women's and Children's Hospital).
- Job vacancies: In contrast to the robust approvals, demand for labour is on the soft side, having fallen back to late-2020 levels. This is most likely explained by trades not based in Geelong (especially on major projects).

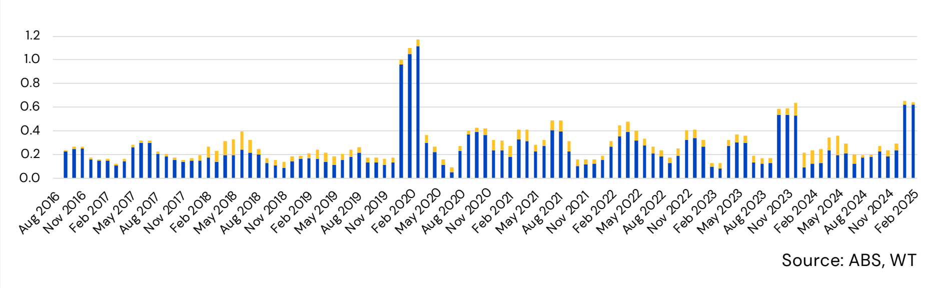
Local insights

- There are suggestions of a two-speed market, with those involved in major projects and those who missed out. Reports are increasing of subcontractors becoming keen for work.
- Continued market growth has seen progress towards key planning goals across commercial/residential development in the CBD. Supporting infrastructure will be important for these plans to come to fruition.
- Geelong is closely connected with Melbourne's market conditions. While Geelong should continue to have robust growth prospects, Melbourne is likely to see recovery and uplift by 2027 which would see some resources return to the larger and more diverse Melbourne market.

Cost escalation	2024	2025	2026	2027
Building	6.0%	4.8%	4.3%	4.5%

Building approvals by sector

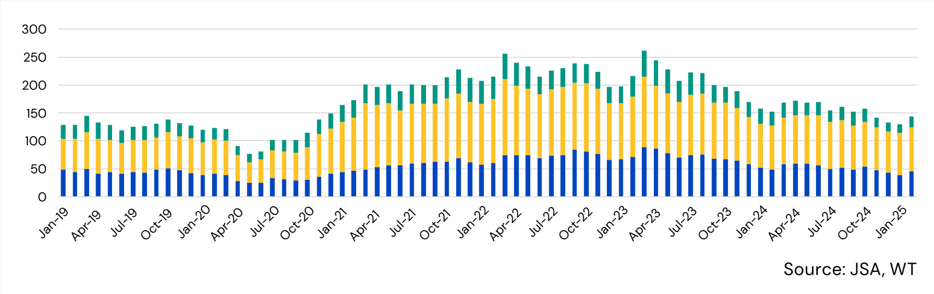
$b / inflation-adjusted / last quarter reported monthly



Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months



Legend White collar Technicians and trades Plant operators / labourers

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Gold Coast

Key trends

On the Gold Coast, strong demand for new high-rise residential is contrasting with a lack of enthusiasm from builders. This is continuing to play a key role in elevated escalation, while strong conditions in Brisbane are keeping local skills in short supply.

- Building approvals: The approvals picture is healthy, especially in the attached residential space. However, reluctance from builders to become involved in large, complicated projects means that the strength in approvals is not moving to commencements as quickly as it would usually.
- Job vacancies: Despite difficulties in converting attached residential approvals to commencements, demand for labour has moderated only slightly from recent record highs. The combination of strong local activity (including in the non-residential space) and skills shortages in Brisbane has seen a relatively greater demand for labour on the Gold Coast.

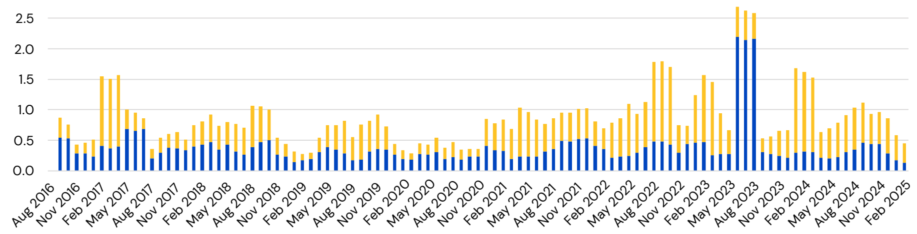
Local insights

- In Gold Coast housing, feasibilities tend to stack up more at the upper end of the market. This inevitably means larger and more complex projects – and demand for premium locations.
- Meanwhile, for contractors, supply chain disruption has not receded completely. The presence of ongoing high escalation and low margins/profits leads to reluctance to take on projects such as these.
- Workarounds – such as developer/builders or ECIs – are becoming more common but are not a silver bullet.
- With Brisbane now more firmly on the path to 2032, the status quo is likely to continue on the Gold Coast for some time.

Cost escalation	2024	2025	2026	2027
Building	7.5%	7.0%	6.5%	7.8%

Building approvals by sector

$b / inflation-adjusted / last quarter reported monthly

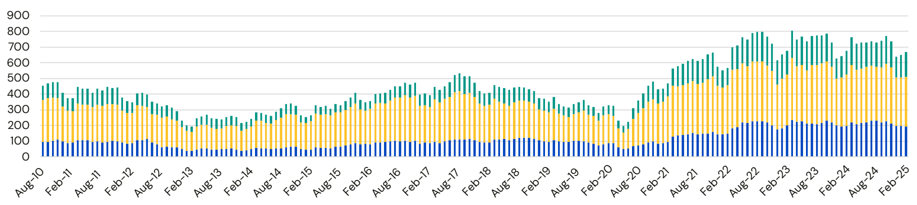


Source: ABS, WT

Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months



Source: JSA, WT

Legend White collar Technicians and trades Plant operators / labourers

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Cairns

Key trends

Strong conditions in tourism, population growth and demands from natural disaster rebuilds have not materially contributed to escalation. The risk of the Cairns Hospital expansion being delayed may hurt local capability and lead to a later spike in escalation.

- Building approvals: Despite broad economic and construction drivers having improved of late, approvals have weakened markedly since mid-2024.
- Job vacancies: Demand for labour remains elevated. It reduced from its peaks only in recent months and is likely to remain at decade-plus highs. However, like Darwin, this metric may not be the best to gauge labour demand.

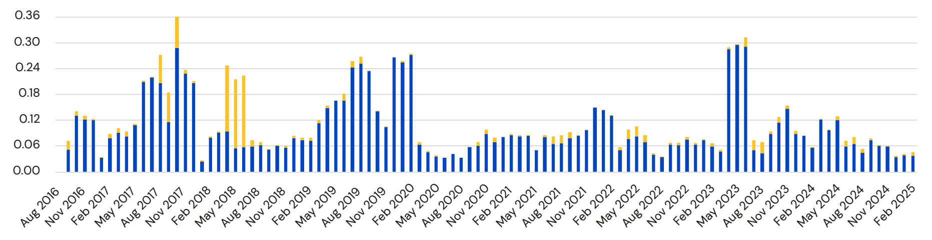
Local insights

- Cairns has seen tourism and population growth recover strongly post-COVID, while natural disasters have seen an ongoing rebuild for local infrastructure. One impact of this has been sustained high demand for concrete and roofing trades.
- The Cairns Hospital project, like many projects in the Queensland Government's massive recent phase of hospital building, is experiencing increasing financial pressure. Should this project be postponed or delayed, it may add to the ongoing issues and see a loss of capability to nearby cities or other sectors.
- Such an outcome would likely see the next upturn in construction activity accompanied by a greater jump in escalation pressures.

Cost escalation	2024	2025	2026	2027
Building	7.0%	5.0%	5.0%	6.0%

Building approvals by sector

$b / inflation-adjusted / last quarter reported monthly

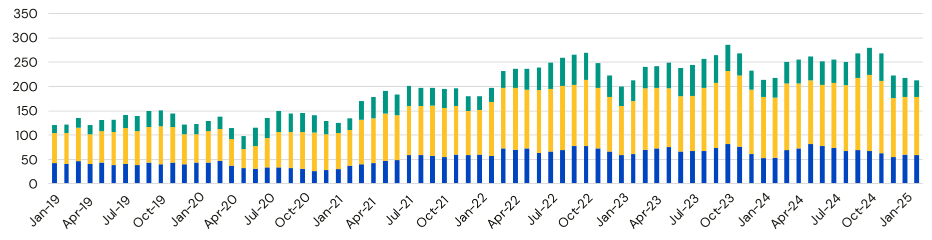


Source: ABS, WT

Legend Non-residential Attached residential

Job vacancies by construction occupation

Reported monthly as average of last 3 months



Source: JSA, WT

Legend White collar Technicians and trades Plant operators / labourers

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Woree Social and Affordable Housing Precinct (render), Cairns

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Disclaimer
Methodology

This report and the market data it represents are general market information only. WTP Australia Pty Ltd (WT) does not make or imply any specific advice or applicability of this information to any individual recipient. WT has taken care to ensure accuracy and that all data and details are correct to the best of our knowledge but does not warrant completeness or infallibility of the information. WT and its staff do not accept any liability for any loss or damage arising from the use or dissemination of any part of this report (via any medium).

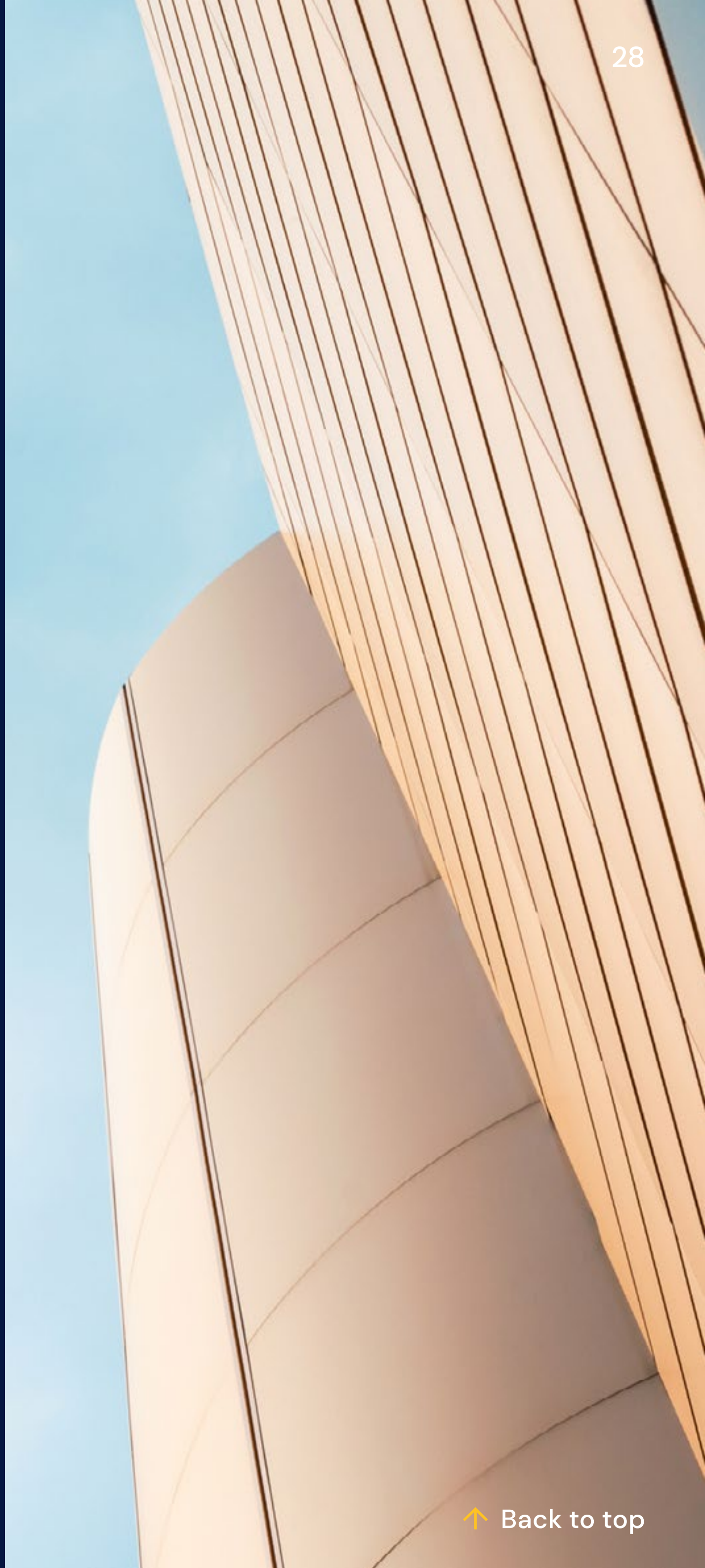
While our view is based on a variety of sources (led by our own market insight), the general approach is based on escalation from the input cost perspective. This aligns with the traditional QS approach to escalation but also allows rationalisation of bottom-up (i.e. input-level) and top-down (i.e. sector or economy level) escalation perspectives.

There is no single market-level data series that conceptually matches ours. However, data available by key inputs provides checks and balances on the overall WT view for key markets.

Please note:

- All escalation shown is on a calendar year basis and is the % change between the full-year average vs the previous year's full-year average.
- Escalation contribution by input is on a general, Australia-wide basis, while state-by-state figures are general across sub-sectors, project types and values (i.e. contractor tiers).
- In addition, escalation contribution by input assumes no other major drivers of escalation (e.g. large productivity increases, significant regulation changes re approvals).

For more information on escalation relative to your project or sub-sector, please contact us.



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WT

About us

At WT, we empower our clients to grow, inspiring confidence through independent advice and inventive thinking to create sustainable value across all aspects of the built environment.

We are a leading international project advisory firm with more than 75 years of multi-sector experience.

Our clients can tap into the collective thinking of over 2,000 of the best people in the industry, operating from 70+ offices throughout Australia, New Zealand, Asia, India, Middle East, North America, Africa, the UK, and Europe.

In Australia, we support our clients across property, construction, and infrastructure with an award-winning team of 500 specialists in portfolio and program advisory, cost management and quantity surveying, commercial advisory, carbon and sustainability, asset and facilities management, and digital solutions.

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