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Slattery National Market Update

From volatility to vision

March 2025

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From volatility to vision

Australia's building and construction industry continues to balance geopolitical and economic uncertainty with strong fundamentals and growth potential. This update examines the key factors shaping the sector in 2025 and their cost impacts. Amid the present volatility, visionary leaders are steering towards a positive future.

Overview

In this update, Slattery breaks down the macroeconomic forces and market-specific factors driving construction costs across Australia. We explore key cost pressures nationwide, and offer state-by-state insights.

The forecast

Slattery forecasts that construction escalation rates in Australia's major markets will rise by an average of 4-6% per annum in 2025.

While annual escalation rates are gradually returning to the historical range of 3–4% per annum, we recommend our clients assess escalation rates by material, project and location. Aggregate figures can obscure significant variations, and a single escalation rate does not provide an accurate representation of the market.

City	2025 forecast	2026 forecast
Sydney	4-5%	4-5%
Melbourne	4-5%	3.5-5%
Brisbane	4-6%	4-6%
Adelaide	5-6%	5.5-6.5%
Hobart	6%	4.5%
Perth	4.5-5.5%	4.5-6.5%

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National overview

Australia's building and construction industry is the second-largest driver of economic growth, supporting nearly one in 10 jobs. We examine the main factors influencing the industry below.

Global outlook

The International Monetary Fund projects global growth at 3.3% for 2025 and 2026, trailing the 2000–19 average of 3.7%.

The full impact of US tariffs is still unfolding, while China's economic trajectory remains in flux, shaped by policy shifts and global trade tensions.

The World Economic Forum's 2025 Global Risks Report paints a stark picture: rising geopolitical tensions, extreme weather, widening societal fractures and the spread of misinformation fuelled by rapid technological change.

Domestic economy

Australia's Reserve Bank cut the cash rate to 4.10% in February – its first reduction in more than four years. This could boost demand for new projects and stimulate construction activity, but most developers are likely to take a 'wait-and-see' approach.

Inflation has eased, but Governor Michele Bullock warns that the "outlook remains uncertain". Weak productivity, slow recovery in household spending, labour market constraints and global risks add to the caution.

Business conditions rose marginally in February, according to NAB, but confidence is in negative territory. Consumer sentiment is flat – the Westpac-Melbourne Institute Consumer Sentiment Index increased by 4% in March. Households are wary but hopeful about their finances.

Construction insolvencies

Construction insolvencies for the financial year to date stand at 2,215 according to corporate regulator ASIC. This surpasses failure rates in every other industry. Slattery has observed that banks are applying stricter due diligence requirements to project financing. Lenders are demanding more detailed quantity surveying reports to better assess and manage insolvency risks.

Labour, skills and productivity

The unemployment rate remains steady at 4.0%. Job vacancies increased slightly over the quarter to November 2024. Skills shortages across the infrastructure sector are expected until mid-2028, according to Infrastructure Australia.

The Productivity Commission's February report on housing construction reveals a 53% drop in housing completions per hour worked since 1995. After adjusting for quality and size, productivity has fallen 12%. In contrast, labour productivity in the broader economy has increased by 49% over the same period.

Australian Constructors Association CEO Jon Davies recently described the placement of the CFMEU into administration as a "1-in-100-year event" that could pave the way for a more collaborative, productive, solutions-focused industry.

Materials

Infrastructure Australia estimates material costs have risen by an average of 4.3% over the past 12 months, and by 30% over three years. This aligns with Slattery's experience.

Material costs, particularly for structural materials like steel and timber, have stabilised and cost escalation has become more predictable. However, costs for energy-intensive materials such as concrete and insulation continue their ascent with rising energy prices.

The Australian dollar's recent drop to a five-year low presents a small material cost risk for imported goods tied to the US dollar. This volatility could increase costs for some construction materials. However, labour costs remain the fundamental driver of construction expenses.

National overview *cont.*

Sustainability

From 1 January 2025, companies with $500 million or more in revenue must disclose their climate impact in an annual statement. Smaller companies will follow. This will drive supply chain transparency, awareness and accountability, but also increase reporting burdens.

The NABERS Embodied Carbon tool, launched in late 2024, provides certification for carbon intensity, incorporating materials, transport and construction emissions. Buildings will be eligible at practical completion, and up to two years after. The NABERS tool has already been integrated into the NSW Government's State Environmental Planning Policy (SEPP).

Commercial

- **Office:** Australia's CBD office vacancy increased marginally from 13.6% to 13.7%, according to the January 2025 Property Council Office Market Report. The non-CBD office vacancy rate was static at 17.2%. As the 'return-to-office' movement gathers pace, there are some suggestions the market has turned a corner.
- **Retail:** There are positive signs for the retail sector, with limited assets on the market. JLL's Asia Pacific Capital Tracker notes "institutional investors may be shifting from net sellers to buyers".
- **Industrial:** Industrial and logistics has been Australia's top performing asset class since 2023, according to Savills' February Shed Briefing. As warehouses cool from record growth, investor focus is shifting to data centres.

Residential

Master Builders Australia warns the National Housing Accord will miss its 1.2 million new homes target by 350,000 dwellings.

- **Build-to-sell:** Many projects have stalled as developers struggle with financial viability. Luxury and boutique developments for owner-occupiers dominate, as these pose lower pre-sale risks and can absorb higher construction costs.
- **Build-to-rent:** Now at 14,000 completions, the total BTR pipeline stands at 75,000 units. Oxford Economics Australia has found BTR developments are typically larger, premium-end stock.
- **Purpose-built student accommodation:** The 132,700 student accommodation beds nationwide represents a 90% increase in a decade, according to the Student Accommodation Council. Around 29,500 beds are in the supply pipeline.

> "Uncertainty is unavoidable in 2025, but clients can navigate costs with clarity. With cost escalation easing and market competition improving, opportunities exist for those who plan strategically."
>
> **David Martin**
> CEO, Slattery

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National overview *cont.*

Infrastructure

The 2024 Infrastructure Market Capacity Report reveals a $213 billion five-year major public infrastructure pipeline, representing nearly a quarter of Australia's total $1.08 trillion of construction activity.

But the focus is shifting from transport to energy and water projects. Infrastructure Australia's analysis suggests a six-fold increase in renewable energy projects over the next five years.

- **Victoria:** The federal government approved the release of $2.2 billion for the first phase of the Suburban Rail Loop (SRL), but the state government's request for an additional $9.3 billion remains in limbo due to cost and value capture concerns. Expressions of interest for works related to Melbourne Airport Rail are open, with works including upgrades to Sunshine and Albion stations and new twin tracks dedicated to airport services.
- **New South Wales:** Transport project funding has tightened. Major projects like Sydney Metro continue, but the focus has shifted to regional rail and water infrastructure. Sydney Water is set to invest $34 billion over the next decade.
- **Queensland:** The Olympic Games continue to draw investment, and skilled trades are in demand. The Queensland Government is set to announce the Brisbane Olympics stadium decision on 25 March.
- **Tasmania:** State and federal government greenhouse gas emissions targets have stimulated around $7 billion in identified renewable energy projects, with Tasmania the big winner. With projects like Marinus Link and Battery of the Nation underway, the target is for Tasmania to generate 200% of its energy needs with renewables by 2040 with surplus generation to be exported to the national grid instead of coal-fired power stations.

State-by-state trends

Australia's construction costs are shaped by local challenges and constraints. Our state-by-state analysis highlights the key cost drivers in each market where Slattery and its partners operate.

Jump ahead to:

New South Wales

Queensland

South Australia

Tasmania

Victoria

Western Australia

New South Wales

Public sector projects have slowed, with fewer rolling contracts and increased auditing. Private development remains constrained with rising costs of construction. Yet opportunities are emerging, with government investments in health, education and build to rent gaining momentum.

Social infrastructure

The NSW Government's budget allocates $118.3 billion over four years, prioritising schools and hospitals, as well as public transport. The health infrastructure pipeline stands at $13.4 billion over the next four years. The Department of Education expects to release $2.4 billion worth of tenders this financial year.

New developments

Eleven housing proposals were declared State Significant Development (SSD) in February, creating capacity for 6,400 new homes. The Housing Delivery Authority has received over 160 expressions of interest since it invited proposals in mid-January 2025.

Build-to-rent

In February, Landcom announced its first project, set to transform the former WestConnex dive site in Camperdown into 200 BTR units for essential workers and 300 affordable housing units.

Office market

The Sydney CBD vacancy rates rose from 11.6% to 12.8%, according to the Property Council, primarily driven by an influx of new office supply. The "flight to quality" continues to shape the market.

Resilience

Extreme weather events continue to underscore the need for resilience planning. The federal government's $580 million flood resilience package to support the Hawkesbury-Nepean Valley and the state government's $100 million Resilient Lands Program are recent examples.

Summary

While the NSW construction market has more certainty, caution remains the prevailing sentiment. Cost escalation is expected to hold at **4-5% per annum** in 2025, before returning to 3-4% per annum in 2026.

Queensland

Queensland's construction market is closely watching the state government's 100-day review of Olympic infrastructure, now extended to include hospitals and broader capital works. The focus has shifted from "what's needed" to "what's affordable". Other key market movements to watch include:

Project delays

Although opportunities exist, many projects are facing delays or postponements. Developers and builders are exploring new delivery models, such as shared profit structures, to make projects viable.

Labour shortages

With Enterprise Bargaining Agreements (EBAs) locking in a 5% annual wage increase, Queensland is grappling with a severe shortage of tradespeople. The Public Infrastructure Workforce Supply Dashboard shows a shortfall of 41,600 workers across the state in February 2025.

Housing challenges

The labour shortage is compounded by a lack of affordable housing, further straining the workforce for major projects. In response, the Queensland Government has scrapped stamp duty for some first-home buyers.

Office market

Brisbane's office vacancy rate remains significantly lower than the national average at 10.2%, a trend set to continue due to limited future supply, according to Property Council data. As projects take longer to deliver, there is a looming shortage of new office space in the medium to long term.

Brisbane Airport

Brisbane Airport Corporation is advancing its $5 billion major expansion, increasing capacity to 50 million passengers per year. Learn more about airport developments in Slattery Aviation Insights: Counting the costs of airside construction.

Summary

While cost escalation currently hovers between **4-6% per annum**, this could potentially come under further pressure as public infrastructure projects worth billions break ground.

South Australia

South Australia's construction market continues its momentum, with diverse activity across multiple sectors. Contractors have healthy workbooks as they manage a substantial volume of work, especially healthcare and education projects. Tier 1 contractors are looking interstate to fill skills shortages. Key market movements include:

State of states

South Australia leads the nation on real economic growth, according the January 2025 CommSec State of the States report. Economic activity was up 8.4% above the long-term average. Construction work completed for the September 2024 quarter, according to CommSec, was 15.4% above the decade average.

Housing supply

South Australia ranked first in the HIA Housing Policy Scorecard. The Property Council, conversely, is concerned that current supply levels do not align with the state's share of the National Housing Accord target. While 3,104 dwellings were completed across South Australia in the third quarter of 2024, Property Council analysis of ABS data finds a shortfall of 1,087 dwellings per quarter.

Office demand

Adelaide's CBD office vacancy rate fell to 16.4% in January, from 17.5% six months previously. Adelaide has the second highest vacancy rate in the country, according to Property Council data, but future supply is limited.

Key projects

The Department for Infrastructure and Transport boasts a healthy pipeline of projects and the Adelaide Economic Development Agency continues to monitor a significant list of private developments. A sizeable backlog of private developments is poised to progress, with developers watching for further interest rate cuts before committing to new projects.

Infrastructure review

As part of the state government's Housing Roadmap, it is reviewing regulatory frameworks governing water and wastewater infrastructure investment. State Treasurer Stephen Mulligan has acknowledged that water infrastructure delivery has not kept pace with demand in key growth areas. In 2024, SA Water reduced development approvals for new homes in Adelaide due to its inability to provide essential connections.

Summary

Despite uncertainties – such as potential shifts in U.S. defence policy under the Trump administration and the SA Government's recent takeover of the Whyalla steelworks – the state's construction industry remains resilient and confident. Our cost escalation range of **5-6% per annum**, slightly above the national average, indicates a steady upward trend in costs while remaining within manageable levels.

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Tasmania

The Tasmanian construction market is gearing up for a busy period, with major projects in the pipeline and a steady stream of infrastructure investment. Questions remain around resourcing, affordability and government budget constraints. While economic headwinds persist, there is confidence in Tasmania's long-term trajectory. Key market shifts this quarter include:

Major projects

Tasmania's infrastructure pipeline exceeds $30 billion, with significant investments in energy, transport, health and housing. The five largest projects – each valued at over $1 billion – are energy-related, including Marinus Link and the Robbins Island Wind Farm. The state's largest ever construction project – the new Bridgewater Bridge – is nearing completion.

Stadium progress

The Macquarie Point Stadium project is progressing through the Tasmanian Planning Commission's assessment, with recent additions of over 800 pages of new information. However, concerns over the state's budget deficit and competing priorities – such as healthcare and education – continue to fuel debate over funding. Meanwhile, construction is underway on the University of Tasmania Stadium redevelopment in Launceston.

Public investment leads

Government-backed projects dominate the pipeline, including the $580 million Launceston General Hospital redevelopment and the new Northern Mental Health Precinct. Homes Tasmania aims to deliver 10,000 homes, yet concerns remain about the feasibility of private developments.

University activity

University of Tasmania is planning a new $500 million STEM campus at Sandy Bay. If this timeline aligns with the stadium and other major infrastructure projects, it will place significant pressure on local resourcing.

Capacity challenges

Contractors are positioning themselves for a busy two years, but workforce shortages remain a key issue. Wage growth in Tasmania lags the national average, and with increased competition for skilled labour, cost pressures are expected to build.

Summary

While the short-term outlook suggests competitive pricing over the next six to 12 months, speculative pricing may emerge. We anticipate **6% per annum** cost escalation in the short term, with a gradual decrease over the next 12-24 months as the market tightens.

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Victoria

The Victorian construction market is benefiting from strong competition among builders and suppliers, providing more predictability in costs. However, a host of headwinds prevail, including the cost of capital and value stagnation. While some sectors are seeing opportunities, uncertainty remains a defining feature of the market. Key local market shifts this quarter include:

Spending cuts

The Victorian Government has launched an independent review of public sector spending, aiming to rein in costs. This may result in up to 3,000 job losses.

High-rise housing

Building height limits will be increased in 10 “activity centres” in Melbourne to at least 10 storeys, although initial plans were scaled back after community consultation. The state government aims to deliver 60,000 new homes in these locations by 2051.

Commercial vacancy

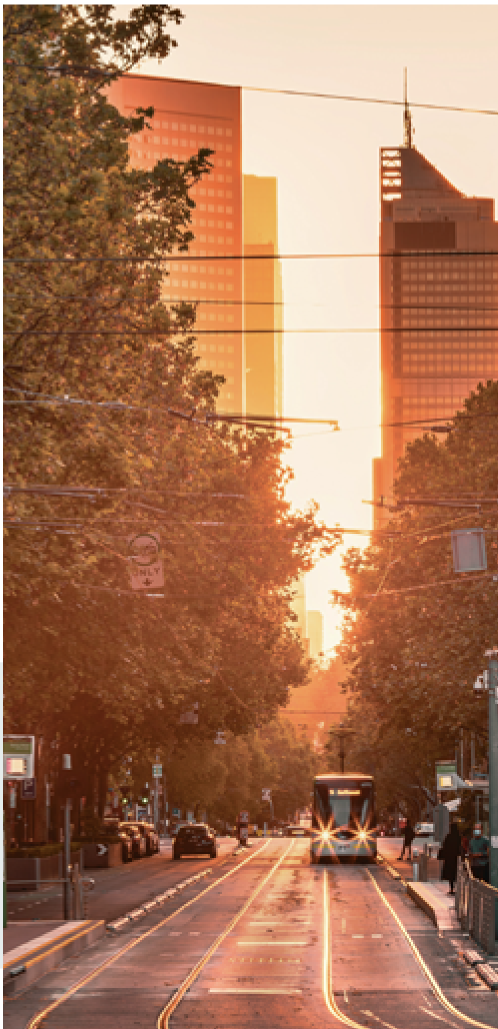
The vacancy rate in Melbourne offices remains the- highest in the country, according to the Property Council. Melbourne’s CBD office vacancy in January was 18% – 4.3% above the national average.

Insolvencies

High construction costs continue to cause headaches. Several high profile projects have stalled in recent weeks as more builders collapse, creating more risk for the industry. The state is responsible for 661 construction insolvencies this year – 30% of the national total – according to data reported in the Australian Financial Review.

Labour dynamics

Labour costs are set to rise by 5% over the next four years due to EBAs. The CFMEU’s current administration could lead to reforms which could improve labour competitiveness.



Summary

Despite these challenges, some stabilisation in costs is emerging. We expect cost escalation of **4-5% per annum** for 2025, with labour accounting for 3% of the increase. This forecast remains consistent with previous estimates, reflecting a cautious but gradually rebalancing market.

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Western Australia

The state's construction market remains buoyant. However, challenges persist, with cost pressures and housing shortages influencing investment decisions across the public and private sectors. Notable developments this quarter include:

Economic strength

WA leads the January 2025 CommSec State of the States report, topping rankings for retail spending, unemployment, population growth, housing finance and dwelling starts. The state was the strongest performer, up 12.2%, for annual growth in construction work completed.

Public sector spending

The state government continues its commitment to education and health infrastructure. Construction on the $1.8 billion Women and Babies Hospital will commence this year with the contract awarded for a 2,200-bay carpark.

Build-to-rent

WA Labor has promised to introduce a $75 million BTR kickstart fund, aiming to reinvigorate Perth's rental market. The city's rental vacancy rate nudged up to 2% in January 2025, the highest since mid-2020.

Local government projects

Councils across the state are investing in community infrastructure projects, from surf life-saving clubs to sporting facilities. With a lower bar to entry than state government projects, these works are attracting smaller businesses.

Airports

Perth Airport's $5 billion infrastructure program is gaining momentum, with contractors appointed and work on the first of two multi-storey carparks underway. Site preparation for the new parallel runway will start shortly.

Summary

While Western Australia's construction market remains robust, cost challenges linked to skilled labour persist. As a result, we are maintaining our cost escalation forecast at **4.5-5.5% per annum** for 2025 and rising to 4.5-6.5% in 2026.

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Slattery is a property and construction advisory firm specialising in quantity surveying, cost management, carbon planning and project control measures. We're at the forefront of providing knowledge and insights to the industry.

If you would like further information or to discuss anything in this Market Update, please reach out to:

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Brisbane Meeanjin	**Hobart** Nipaluna	**Launceston** Kanamaluka
Melbourne Naarm	**Perth** Boorloo	**Sydney** Warrang

Thank you to **Travis Swigart, Managing Director** from **Chris Sale Consulting**, for contributing to this construction market update with on-the-ground knowledge of the market in South Australia.

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