

Wishing and Hoping

Half-Year Australian
Construction Market View

June 2025

Executive Summary

Economic recovery remains consumption-led

GDP growth forecasts suggest a relatively stable outlook, with gradual recovery predicted at 1.5% for both 2025 and 2026. However, construction activity continues to lag broader economic recovery, hindered by persistent structural challenges and slow progress across major sectors.

Labour shortages driving cost escalation

The construction sector faces a severe skills deficit, with estimates indicating a need for between 90,000 and 130,000 additional workers. Wage inflation is amplifying costs, and while initiatives such as relocation packages have been introduced, tangible improvements remain elusive.

Public investment pipeline under pressure

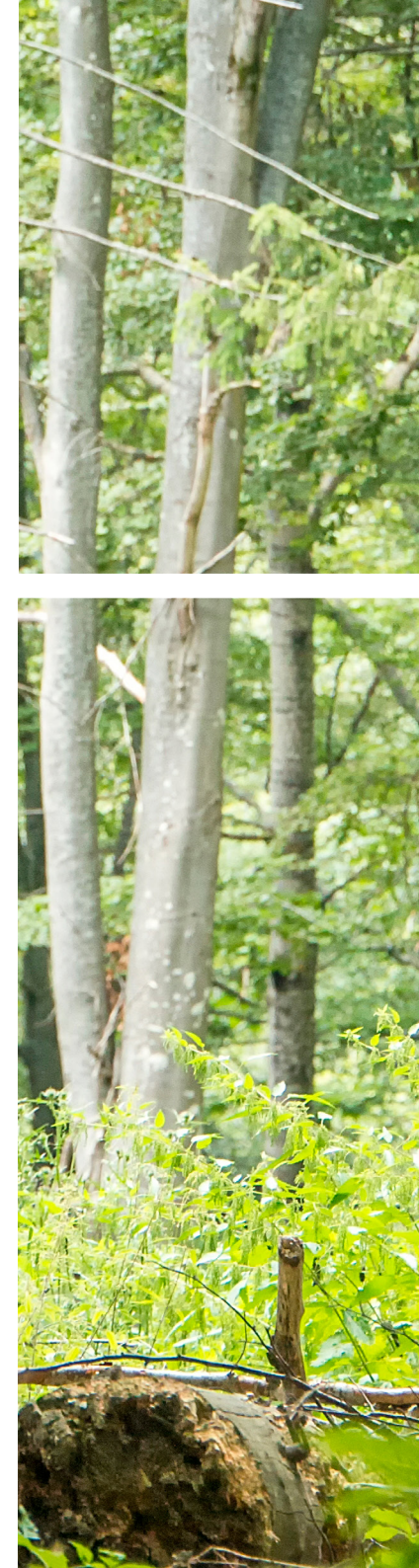
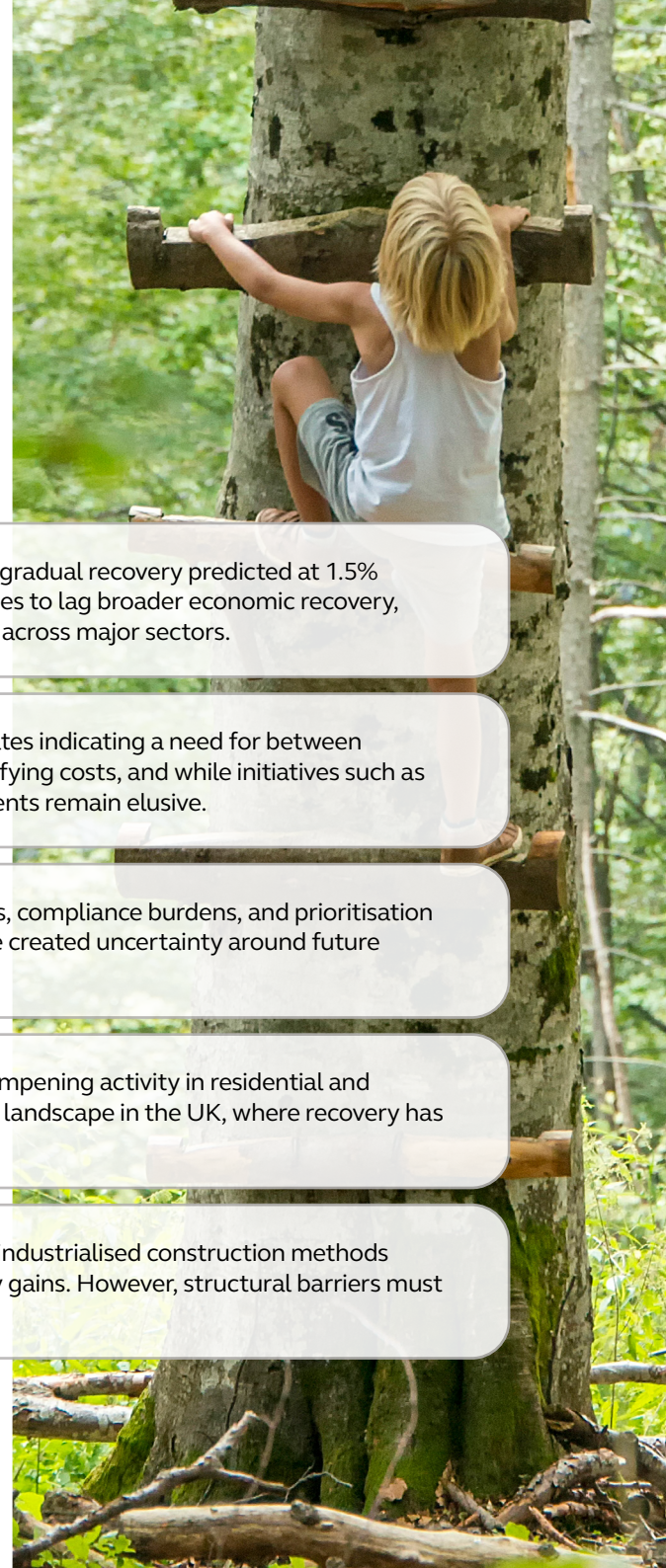
Key infrastructure projects are stalled due to delayed approvals, compliance burdens, and prioritisation efforts aimed at easing resource constraints. These delays have created uncertainty around future growth opportunities and capacity in the sector.

Private sector confidence remains subdued

Rising costs, affordability barriers, and viability concerns are dampening activity in residential and commercial markets. These challenges mirror the construction landscape in the UK, where recovery has been slow and fragmented.

Emerging opportunities in renewable energy

Despite challenges, Australia's focus on renewable energy and industrialised construction methods provides potential avenues for long-term growth and efficiency gains. However, structural barriers must be overcome before these opportunities can be fully realised.



Overview

Australia's construction sector remains stuck in a fragmented state of recovery. Structural barriers, subdued confidence, and a looming labour crisis continue to weigh heavily, requiring coordinated efforts, bold decisions, and innovation to unlock sustainable growth opportunities. Progress will depend on the sector's ability to adapt and overcome viability hurdles in the face of these persistent challenges.

Economic recovery across Australia is consumption-led, with modest GDP growth forecasts of 1.5% for both 2025 and 2026 pointing to stability rather than expansion. However, the construction sector is lagging behind a broader recovery, hindered by structural inefficiencies that have eroded its ability to adapt to changing market conditions. Labour shortages remain a critical concern, with estimates suggesting the sector requires between 90,000 and 130,000 additional workers to meet demand. This shortfall has driven wage inflation, exacerbating already high construction costs, and leaving stakeholders searching for solutions to address these capacity constraints.





The public investment pipeline, traditionally a stable driver of sector activity, remains under pressure. Delays in project approvals and compliance burdens - aimed at mitigating risks and managing resource constraints - have slowed progress on key infrastructure projects. While government prioritisation efforts are designed to stagger these programs to ease pressure on the supply chain, they have inadvertently created uncertainty around timelines, project execution, and the sector's ability to deliver long-term growth. Critical sectors such as transport, health, and education are facing significant bottlenecks, and until decisive action is taken, the public sector's ability to drive construction activity will remain limited.

Private sector confidence is equally subdued, with rising costs, affordability barriers, and viability concerns restricting activity in residential and commercial markets. Developers are cautious, with limited appetite for new projects as financial pressures mount. This mirrors trends seen in the UK construction market, where developers face similar viability challenges, leading to a fragmented and patchy recovery.

Australia's housing crisis is particularly acute, with ambitious targets set by the National Cabinet falling short of expectations as delivery rates struggle to keep pace with demand.

Despite these challenges, there are glimmers of optimism that could reshape the sector in the longer term. Emerging opportunities in renewable energy and industrialised construction methods offer potential for sustainable growth and improved efficiency. Australia's push toward renewable energy mirrors the UK's focus on water and energy networks, with programs aimed at developing renewable energy hubs and expanding utility infrastructure. However, resource constraints and high demand pose risks to delivery timelines, requiring collaboration between clients, contractors, and suppliers to boost productivity and ensure successful execution.

Large-scale projects, including data centres, and renewable energy zones, are gaining traction, offering a pipeline of opportunities for stakeholders willing to tackle the complexity of delivery. Yet, the challenge lies in developing contractual models that balance risk transfer with market appetite. Without innovative approaches to project management and financing, these mega projects risk stalling in the face of persistent challenges.

Australia's construction sector, like its UK counterpart, remains stuck in a state of fragmented recovery. The sector's ability to move beyond the current stagnation will depend on coordinated efforts to address structural barriers, drive innovation, and unlock opportunities for growth. While challenges persist, the focus on renewable energy and sustainable practices offers hope for the future. The question remains whether the sector can transform its potential into meaningful progress - or whether it will be left wishing and hoping for solutions that fail to materialise.

A Four-Tier Market is emerging

During the first half of 2025, we have seen contractor-delivered construction evolve into a four-tier market. This has implications for resource availability and sector specific price pressures.

Residential and Commercial Development

The residential and commercial sectors are under significant pressure, with rising construction costs, affordability barriers, and viability concerns limiting activity. Development pipelines have slowed as investors and developers struggle to overcome the cost of materials, labour shortages, and compliance burdens. In the residential market, housing affordability remains an acute issue. The National Cabinet's five-year target of 1.2 million new homes is falling behind schedule due to delays in approvals, land availability challenges, and viability barriers. Build-to-Rent and affordable housing projects offer potential solutions but require greater policy support and incentives to scale. Without these interventions, the sector risks stalling further, exacerbating the housing crisis.

In the commercial sector, demand for new office and retail spaces remains muted as higher borrowing costs and economic uncertainty weigh on investor confidence. However, there is a growing trend toward retrofitting existing buildings to meet ESG (environmental, social, and governance) standards and energy efficiency goals. While this shift aligns with global trends, it does little to stimulate growth in greenfield construction, leaving the sector heavily reliant on broader economic stability to regain momentum.



Public Sector Infrastructure

The public sector remains a cornerstone of the Australian construction market, but it is facing mounting challenges. Delays in project approvals, compliance requirements, and prioritisation efforts aimed at alleviating resource constraints have slowed the pipeline of key infrastructure projects. Transport infrastructure, including metro systems, regional rail, and road networks, is a particular focus area. However, escalating costs and constrained supply chains are forcing governments to stagger timelines and reprofile programs. This has created uncertainty for contractors and suppliers, limiting their ability to plan and allocate resources effectively. Health and education infrastructure is similarly affected. Aging facilities require urgent upgrades, but funding constraints and compliance burdens continue to slow progress. The adoption of construction methods, such as modular building systems, is being explored to accelerate delivery and reduce costs. However, these innovations require greater buy-in from public and private stakeholders to achieve meaningful impact.





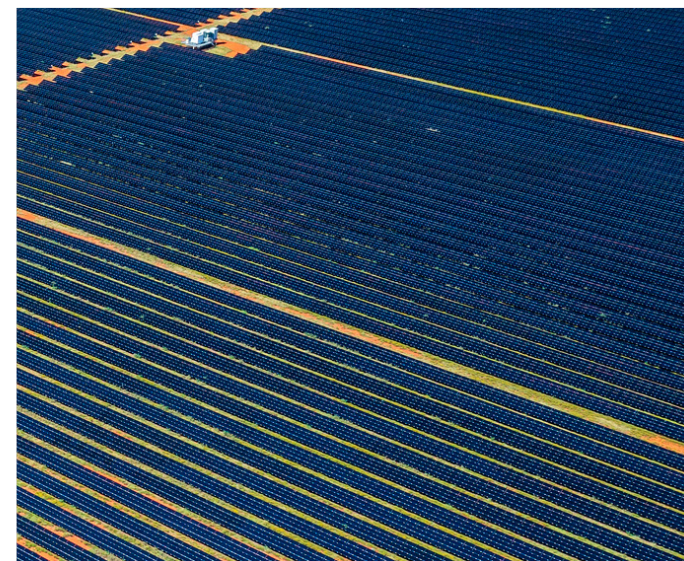
Utilities and Renewable Energy

Utilities and renewable energy are emerging as transformative sectors within the Australian construction market, driven by the need to modernise infrastructure and transition to a low-carbon economy. Yet, these opportunities come with significant challenges, including resource shortages and the complexity of integrating new technologies into existing systems

The renewable energy sector is expanding rapidly, with large-scale solar farms, wind energy projects, and green hydrogen hubs leading the charge. These initiatives align with global trends and offer opportunities for innovation and industrialised construction techniques. However, they require coordinated efforts to secure financing, manage supply chains, and address skills shortages.

These projects are essential for achieving Australia's net-zero emissions targets, but their delivery is complicated by financing gaps, regulatory hurdles, and competition for skilled labour. Collaboration between stakeholders will be critical to overcoming these constraints and ensuring timely execution.

Utilities infrastructure, particularly water and power networks, also requires significant investment. Aging systems are under pressure to meet rising demand while aligning with sustainability goals. Advanced delivery models that incorporate digital tools and smart technologies are gaining traction, offering the potential to enhance productivity and efficiency. However, the sector must address manufacturing capacity issues and long lead times for critical equipment to avoid delays.





Mega Projects

Mega projects represent some of the most complex and high-profile opportunities in the Australian construction market. These include renewable energy hubs, large-scale transport infrastructure, and data centres, all of which are essential for supporting population growth and economic development. However, delivering these projects presents unique challenges, particularly around risk allocation, resource capacity, and stakeholder coordination.



Transport mega projects, such as regional rail links and metro expansions, are critical for improving connectivity and addressing urbanisation pressures. However, these projects require significant upfront investment, and cost overruns remain a persistent risk. Developing contractual models that balance risk transfer between clients and contractors will be essential to ensuring successful delivery.

Data centres are another growing segment, reflecting the increasing demand for digital infrastructure. These projects bring unique challenges, including securing sufficient power and water supplies and integrating ESG-compliant designs. Contractors must navigate these complexities while meeting tight delivery schedules to capitalise on this expanding market.

The implications of this four-tier market include a divergence in commercial pressures, differing opportunities and risk exposure. The commercial sector is the most flexible and easy for contractors to enter but needs a step change to address productivity and affordability challenges. The public sector looks promising, but opportunities could still be a long time coming. Both sectors risk losing access to industry capacity as network clients crowd in capital at breakneck speed. The future of Australia's construction market will depend on its ability to adapt to these dynamics, balancing risk with opportunity to unlock sustainable growth. While challenges persist, emerging technologies, collaboration, and bold decision-making offer a path forward for the sector.

The Arcadis Forecast

Australia's construction market is at a crossroads, grappling with labour shortages, rising costs, and stalled projects, yet buoyed by investment in health, education, and renewable energy. As sentiment improves and cost pressures ease, the sector faces a critical opportunity to transform challenges into growth by embracing innovation, collaboration, and efficient delivery models.





A Mixed Outlook for Australian Construction

Australia's construction sector is navigating a fragmented recovery, with contrasting trends across key markets. Increased investment in renewable energy zones, such as the Central West Orana and Hunter Central Coast projects, is driving significant demand in the utilities and energy sectors.

These sectors are under intense pressure to deliver infrastructure critical to Australia's net-zero emissions goals, but resource constraints, labour shortages, and supply chain inefficiencies are straining project delivery timelines. As competition for capacity intensifies, utilities and renewable energy firms are increasingly operating as price takers, unable to control escalating costs.

Meanwhile, the residential housing market remains subdued, with affordability constraints and viability barriers slowing progress. Despite government-led initiatives such as NSW's Build-to-Rent programs and WA's \$75 million Build-to-Rent kickstart fund, delivery rates are falling short of expectations. Developers remain cautious about committing to new projects amid escalating construction costs, leaving the private housing market unable to meaningfully contribute to recovery. The viability pressures in the buildings sector are further limiting contractors' ability to absorb costs, putting smaller players in the market at greater risk of insolvency.

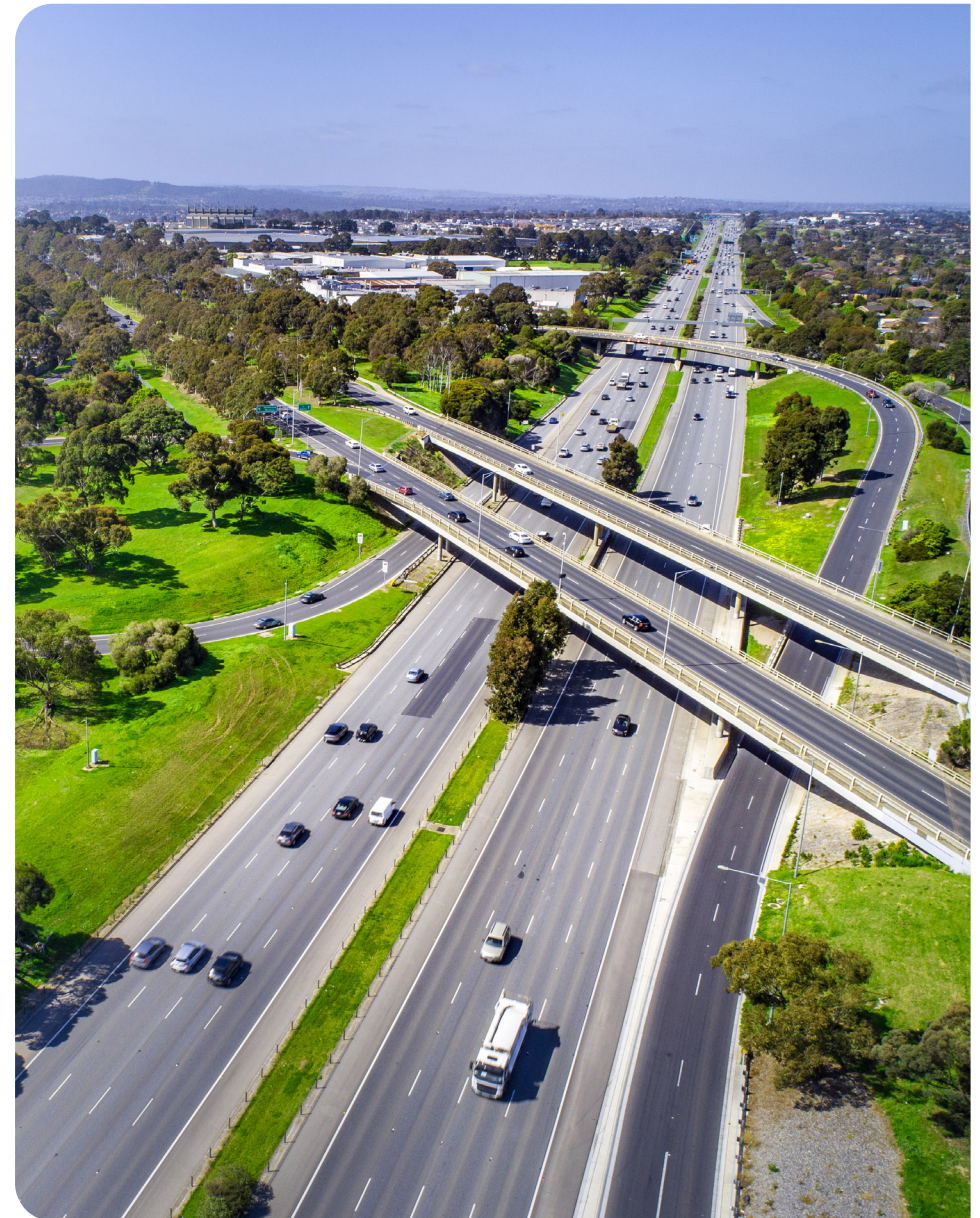
Infrastructure as a Stabilising Force

Infrastructure investment continues to anchor activity in Australia's construction sector, providing stability even as other markets falter. Growth in transport, health, and education infrastructure is offsetting declines in residential and commercial construction, helping to maintain overall activity since 2022.

Projects such as WA's \$1.8 billion Women and Babies Hospital and NSW's \$13.4 billion health infrastructure pipeline are critical drivers of opportunity for contractors and suppliers across the country.

The industrial sector is also proving resilient, with demand for logistics hubs, data centres, and renewable energy facilities creating long-term opportunities. These projects align with Australia's transition to sustainability and digital innovation, providing a bright spot for the sector amid broader challenges.

However, declining productivity remains a concern, with inefficiencies limiting the ability of states to deliver projects at scale. In 2024, real term construction output fell by 2.7% compared to 2023, reflecting the sector's inability to fully capitalise on public sector investment. This highlights the urgent need for improved workforce strategies, streamlined delivery models, and technological innovation to enhance productivity and unlock greater value.





Future Pipeline: Strength with Fragile Confidence

Australia's construction pipeline is showing promising signs of growth, with major projects in renewable energy, transport, and social infrastructure set to drive activity in the coming years. Renewable Energy Zones, Brisbane 2032 Olympic infrastructure, and state-led housing initiatives suggest a diverse and expanding portfolio of opportunities.

However, optimism is tempered by uncertainty surrounding project commitment. Delayed procurement for Olympic infrastructure, scaled-back state budgets (such as Victoria's spending cuts), and stalled private housing developments risk undermining confidence and sentiment. Developers and contractors are seeking greater clarity on funding, timelines, and delivery frameworks to ensure this pipeline materialises into actionable projects.

What this all means for Construction Costs

While Australia's construction sector is poised for recovery, cost escalation remains a critical challenge. Inflation in the buildings market was generally lower than expected across major states in 2024, with the exception of Melbourne:

5.2%

Brisbane

(forecast: 6.0%)

5.5%

Melbourne

(forecast: 3.2%)

5.1%

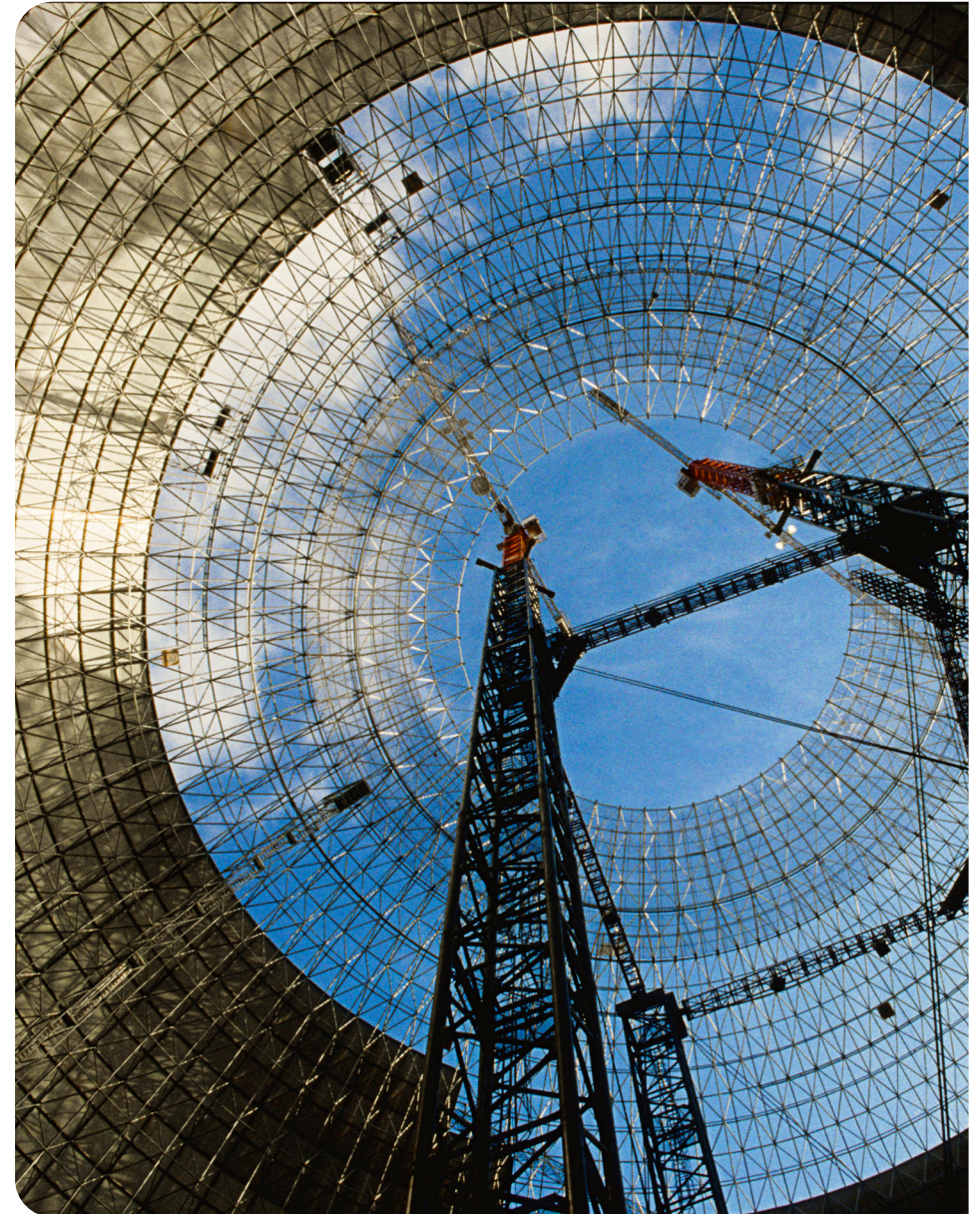
Sydney

(forecast: 5.2%)

10.4%

Perth

(forecast: 11.1%)



Looking ahead, we forecast above long-term trends for construction cost escalation over the next few years, though not at the levels anticipated 12 to 18 months ago. This outlook is influenced by several key factors:

- **Labour Market Pressures:** A constrained workforce with upward wage growth due to Enterprise Bargaining Agreements (EBAs) continues to drive costs higher across all major states.
- **Rising Insolvencies:** Construction insolvencies are reducing available capacity, further exacerbating cost pressures.
- **Positive Sentiment:** Improving industry sentiment, especially in states like Queensland and Western Australia, is driving optimism and increasing competition for resources.
- **Solidifying Pipeline:** A stronger pipeline of projects, particularly in areas like South East Queensland, is expected to accelerate cost pressures sooner than in other regions due to immediate demand.

Regional Trends and Short-Term Symptoms

Cities like Brisbane are likely to experience greater cost escalation sooner than others due to the urgency of their project pipeline, particularly with Olympic-related infrastructure. On the other hand, cities such as Melbourne and Sydney are seeing tenders for some projects coming in below current expectations. This is largely driven by contractors seeking to fill gaps in their order books, rather than reflecting a sustained trend. While lower tenders may provide temporary relief, they are unlikely to define the longer-term trajectory of cost escalation, which remains underpinned by broader market challenges such as constrained capacity and rising wages.

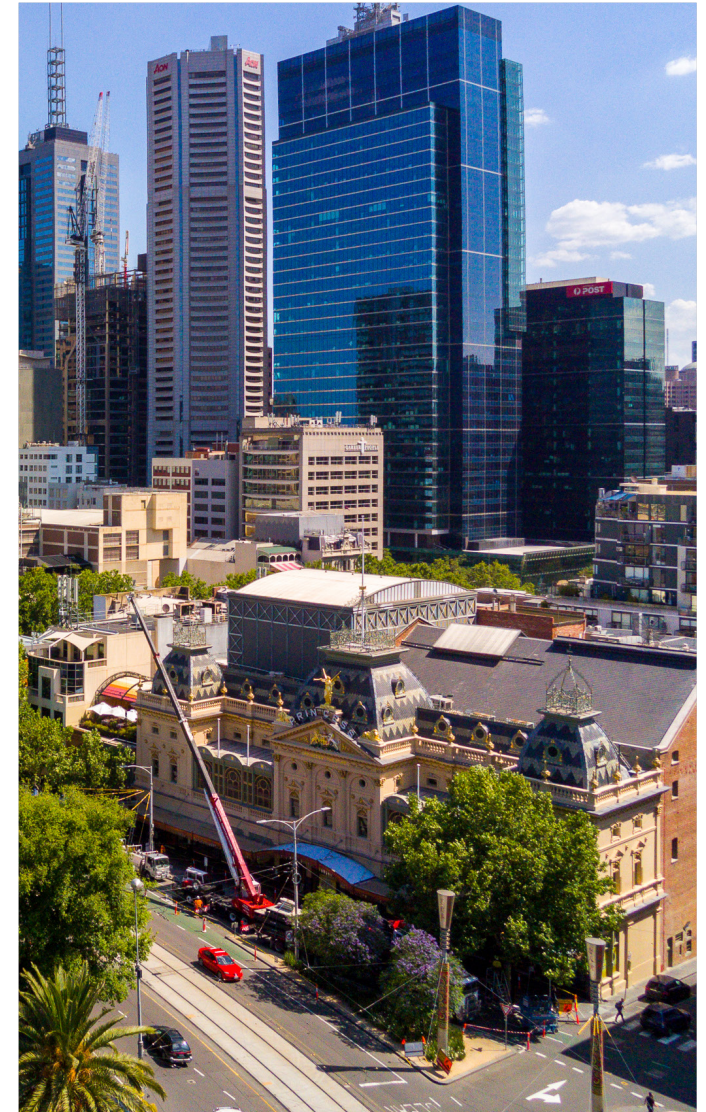


Transport Infrastructure Costs

For infrastructure, established programs and longer delivery cycles are helping stabilise costs across the various transport sectors. However, there is the potential for infrastructure programs to overlap creating greater levels of cost pressure as clients try to navigate the capacity challenges prevalent in the market. In addition, heightened demand in renewable energy and utilities is driving resource competition, which could amplify pricing pressures in these sectors over time.

Navigating a Complex Recovery

Australia's construction sector is evolving amid a fragmented recovery, balancing strong public infrastructure investment and renewable energy opportunities with persistent challenges in housing affordability, labour shortages, and insolvencies. While the sector's pipeline is solidifying, uncertainties surrounding commitment and capacity could stall momentum. To navigate these challenges, stakeholders must prioritise efficiency, workforce strategies, and collaboration across sectors. If managed effectively, Australia's construction sector has the potential to transition from stability to sustained growth in the years ahead.



Please note that the figures denoted in brackets reflect the forecast included in our previous Market View, which was released in December 2024.

Arcadis Buildings Cost Escalation Forecast

	Brisbane	Melbourne	Sydney	Perth
2024	5.2% (6.0%)	5.5% (3.2%)	5.1% (5.2%)	10.4% (11.1%)
2025	5.0% (6.0%)	4.5% (3.0%)	4.6% (4.6%)	8.5% (8.5%)
2026	5.0% (6.5%)	4.0% (3.5%)	4.5% (4.9%)	8.0% (8.0%)
2027	4.8% (6.5%)	3.5% (3.5%)	4.4% (4.4%)	6.5% (6.5%)
2028	5.0% (7.0%)	4.0% (4.0%)	4.5% (3.5%)	4.5% (4.5%)
2029	5.5%	4.0%	4.8%	4.5%
Total	30.5%	25.5%	27.9%	42.4%

Arcadis Heavy Civil Infrastructure Cost Escalation Forecast

	Queensland	Victoria	New South Wales	Western Australia
2024	4.1% (4.1%)	4.0% (4.0%)	4.3% (4.3%)	3.3% (3.3%)
2025	7.1% (6.0%)	4.8% (3.8%)	5.4% (5.5%)	5.8% (3.2%)
2026	6.6% (5.9%)	4.5% (3.4%)	5.4% (4.6%)	5.3% (3.8%)
2027	6.5% (6.0%)	4.3% (4.0%)	5.1% (4.2%)	5.0% (4.0%)
2028	6.7% (6.0%)	4.1% (4.3%)	5.0% (4.5%)	4.9% (4.0%)
2029	6.0%	4.0%	4.9%	4.8%
Total	37.0%	25.7%	29.7%	25.8%

Arcadis Rail Infrastructure Cost Escalation Forecast

	Queensland	Victoria	New South Wales	Western Australia
2024	4.5% (4.5%)	4.1% (4.1%)	4.3% (4.3%)	3.1% (3.1%)
2025	6.5% (5.9%)	4.6% (3.8%)	5.8% (5.0%)	5.8% (3.2%)
2026	6.3% (5.9%)	4.2% (3.4%)	4.0% (4.0%)	5.4% (3.8%)
2027	6.3% (6.1%)	4.2% (4.0%)	3.8% (3.8%)	4.8% (4.1%)
2028	6.5% (6.2%)	4.3% (4.3%)	4.3% (4.1%)	4.5% (4.2%)
2029	5.5%	4.3%	4.0%	4.0%
Total	35.6%	25.7%	26.2%	27.6%

Bringing into focus: Construction markets by state

While there are many factors impacting the construction industry across Australia, each state continues to face local challenges as well as opportunities.



Queensland: Navigating Uncertainty with Opportunity

Queensland's construction market is facing significant challenges, including labour shortages, project delays, and housing affordability issues. Yet opportunities in public sector investments, Olympic infrastructure, and reform-driven health projects are providing a foundation for optimism. With sentiment rising, innovative delivery models emerging, and procurement activities on the horizon, the state's construction sector is poised to transition from uncertainty to growth - if it can tackle the barriers standing in its way.

Project Delivery Under Pressure: The Search for Viable Solutions

Queensland's construction sector is grappling with widespread delays and postponements across key projects. Developers and builders are exploring new delivery models, including shared profit structures, as a way to improve viability and mitigate financial risks. These innovative approaches aim to unlock stalled projects, but the sector urgently needs more decisive action to accelerate timelines and break through bottlenecks.

Labour Deficit: A Growing Crisis for Major Projects

Labour shortages remain a critical challenge for Queensland, with the Public Infrastructure Workforce Supply Dashboard reporting a shortfall of 41,600 workers in February 2025. This deficit is being further compounded by Enterprise Bargaining Agreements (EBAs) that lock in a 5% annual wage increase, driving up costs for contractors and straining budgets. Additionally, competition from neighbouring regions, particularly South East Queensland, is drawing workers away from the regions, adding to the pressure on the state's broader construction pipeline.

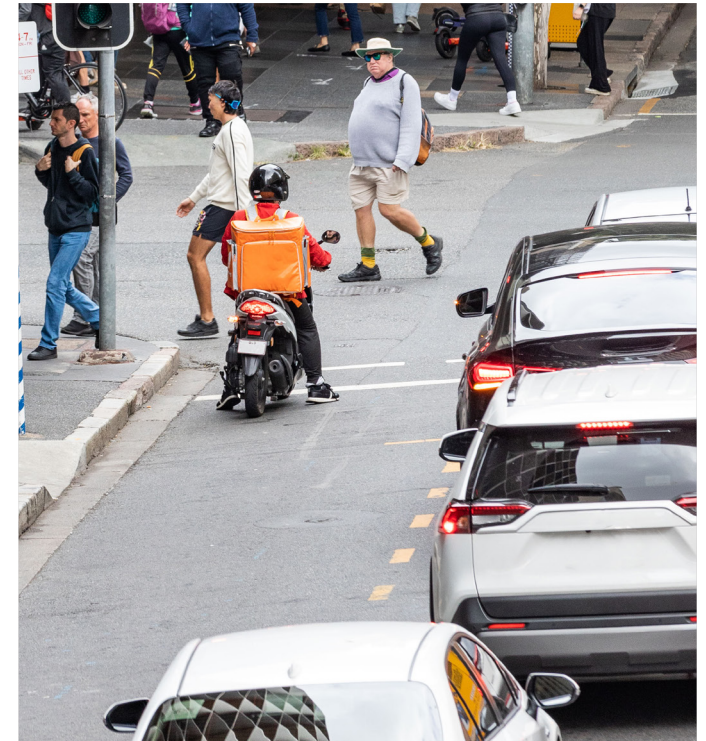


Housing Affordability: A Growing Crisis for Major Projects

Queensland's housing affordability crisis has created additional barriers to attracting and retaining skilled workers for major projects. In response, the Queensland Government has scrapped stamp duty for home buyers in an effort to ease access to housing. While this initiative provides some relief, broader measures are required to address workforce shortages and support the sector's long-term growth.

Olympic Infrastructure: Certainty Secured, But Time is Ticking

The Queensland Government has finally confirmed the venues, stadiums, and infrastructure projects to be delivered for the Brisbane 2032 Olympic Games. This long-awaited certainty is welcome news for the construction sector, but procurement activities have yet to commence. With the clock ticking and delivery timelines tightening, the industry must act quickly to ensure these projects are completed on time and within budget. The Olympic and Paralympic Games represent a once-in-a-generation opportunity to showcase Queensland's capabilities, but delays in initiating contracts could jeopardise this potential.





Health Infrastructure: Reforms to Drive Efficiency

The Queensland Government recently released the Independent Review Report of the Capital Expansion Program by Health Infrastructure, providing critical insights into optimising project delivery. The report highlights the need for improved project management frameworks, better alignment of funding cycles to construction timelines, and prioritisation of urgent projects. With a significant pipeline of health infrastructure investment totalling \$13.4 billion over four years, these reforms offer a roadmap for enhancing efficiency in delivering new and upgraded hospitals and health facilities across the state.

Commercial Sector: Limited Office Supply Amid Growing Demand

Brisbane's office vacancy rate remains well below the national average at 10.2%, according to Property Council data. However, limited future supply and longer project delivery timelines are creating concerns about office space shortages in the medium to long term. With Brisbane's economy continuing to expand, the commercial sector must address these bottlenecks to meet growing demand for premium office spaces that align with ESG standards and evolving workplace needs.

Optimism Rising: Sentiment Points to Recovery

Queensland's construction sector is showing signs of renewed optimism, according to the latest Property Council Survey. Sentiment has been steadily rising since mid-2024, with a 5.5% increase reported in the last quarter alone. This growing confidence reflects the sector's ability to adapt to challenges and unlock opportunities in health, education, and Olympic infrastructure.

New South Wales: Turning Challenges into Opportunities

The NSW construction market is navigating a challenging landscape, with rising costs, constrained private sector activity, and slowed public sector momentum. Despite these hurdles, targeted investments in health, education, and housing are driving opportunities for growth, while easing cost pressures and improving sentiment offer hope for stabilisation. Developers, contractors, and suppliers must remain agile, harnessing emerging opportunities while addressing structural barriers. With innovative approaches and coordinated action, NSW's construction sector is poised to turn challenges into opportunities and transition toward sustainable growth in the years ahead.



Public Sector: Education and Health Lead the Way

NSW remains focused on delivering critical infrastructure projects, with significant investments in health and education sectors driving activity. The NSW Government has allocated \$118.3 billion to social infrastructure over the next four years, prioritising schools, hospitals, and public transport projects.

- **Health Infrastructure:** The NSW Government has committed \$13.4 billion over four years to health capital investment, supporting the construction of new hospitals and upgrades to existing facilities. These projects aim to improve healthcare access and outcomes across the state, creating significant opportunities for contractors specializing in large-scale health infrastructure.
- **Education Pipeline:** The Department of Education plans to release \$2.4 billion in tenders this financial year, with \$800 million scheduled before June 30. These tenders encompass new schools, upgrades, preschools, and flood recovery initiatives. Over 100 projects have already been tendered this year, with upcoming capital works expected to be bundled to boost delivery efficiency. This sustained focus on education infrastructure highlights the state's commitment to meeting the demands of its growing population and creating stable pipelines for contractors and suppliers.

- **Private Sector: Build-to-Rent Gains Momentum**
The private sector continues to face constraints, with rising construction costs and affordability barriers limiting activity. However, targeted housing initiatives and Build-to-Rent (BTR) projects are emerging as solutions to the housing crisis, offering new opportunities for developers and investors.
- **Housing Developments:** Eleven housing proposals were declared State Significant Developments (SSD) in February, enabling capacity for 6,400 new homes. Additionally, the Housing Delivery Authority has reported significant interest from developers, receiving over 160 expressions of interest since inviting proposals in January 2025.
- **Build-to-Rent Initiatives:** Landcom's first major project will transform the former WestConnex dive site in Camperdown into 500 units, including 200 BTR homes for essential workers and 300 affordable housing units. These projects reflect growing interest in Build-to-Rent as a viable model to address housing affordability and long-term rental shortages. With government backing and developer interest increasing, BTR is set to play a larger role in stabilising NSW's residential market.
- **Office Market Challenges:** In the commercial sector, Sydney's CBD office vacancy rate rose to 12.8% in January 2025, according to Property Council data. This high vacancy rate reflects structural issues in the office market, with oversupply and shifting tenant preferences creating challenges for landlords and developers. The "flight to quality" continues to shape demand, with tenants prioritizing premium office spaces that meet ESG standards and evolving workplace needs.

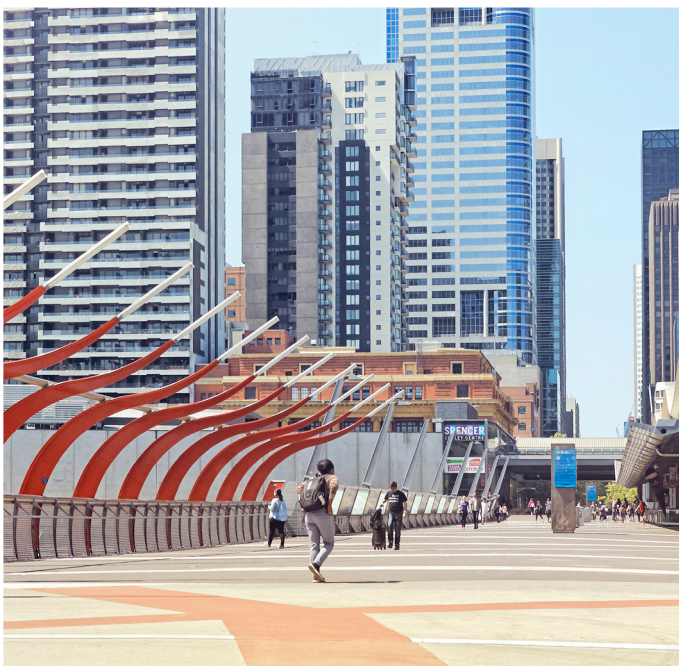


Economic Outlook: Easing Cost Pressures

While NSW's construction market has been constrained by rising costs, there are signs of stabilisation. The latest ABS data revealed that construction cost escalation in 2024 reached 5.2%, closely aligning with our forecast of 5.1%. Moving forward, declining levels of escalation are expected as contractors look to secure their order books. This easing of cost pressures provides cautious optimism for the sector, particularly as sentiment begins to recover. Lowering costs could help unlock stalled projects, enabling developers and contractors to plan with greater certainty and confidence.

Sentiment Recovery: Optimism on the Rise

The latest Property Council sentiment survey indicates improving confidence in NSW's construction market, with sentiment rising by 6% in the last quarter alone. This upward trend reflects the sector's resilience and adaptability, with stakeholders recognising the opportunities presented by public sector investments, housing initiatives, and easing cost escalation. The sentiment shift is particularly important in an environment defined by affordability challenges and constrained activity. Rising optimism suggests that the sector is beginning to look beyond immediate pressures, focusing instead on long-term opportunities and solutions.



Victoria: A Market at a Crossroads

Victoria's construction market is navigating significant challenges, from spending cuts and insolvencies to labour cost pressures and high office vacancy rates. Yet opportunities in residential densification, coupled with improving sentiment and potential labour reforms, provide a foundation for cautious optimism. Contractors and developers must remain agile, balancing short-term risks with long-term opportunities to ensure sustainable growth. While uncertainty remains a defining feature of the market, the green shoots of recovery are beginning to emerge.

Spending Cuts: Public Sector Under Pressure

The Victorian Government has launched an independent review of public sector spending in a bid to rein in costs and address budgetary pressures. This review could result in up to 3,000 public sector job losses, with significant implications for infrastructure delivery and project management capacity. The government's focus on fiscal discipline may lead to reduced investment in public projects, creating uncertainty around future procurement pipelines.

These cuts come at a time when Victoria is already facing challenges in delivering key infrastructure projects, with stalled timelines and rising costs exacerbating the situation. While the review is necessary to manage state finances effectively, the resulting contraction in public investment could further dampen activity in the sector. Contractors and suppliers must prepare for a more competitive environment as opportunities dwindle.

Residential Development: Density Targets Driving Growth

The Victorian Government has announced plans to increase building height limits in ten designated "activity centres" across Melbourne to at least 10 storeys. These areas aim to deliver 60,000 new homes by 2051, part of a broader strategy to address housing demand through high-density development.

Initial plans for these activity centres were scaled back after community consultations, reflecting the complexities of balancing urban densification with local concerns. While these developments represent a significant opportunity for residential construction, the extended timeline to 2051 underscores the gradual nature of this growth. Builders and developers will need to navigate community engagement processes carefully while capitalising on the potential for long-term project pipelines. If executed effectively, these initiatives could provide much-needed housing stock and support the sector's recovery.

Office Sector: Vacancy Rates Creating Challenges

Melbourne's office market remains the most challenging in the country, with a CBD vacancy rate of 18% as of January 2025 - 4.3% above the national average, according to Property Council data. The oversupply of office space and subdued tenant demand have created a difficult environment for commercial developers, further straining the sector. The "flight to quality," where tenants seek premium office spaces that meet ESG standards and evolving requirements, continues to shape demand. However, the high vacancy rate highlights structural issues in Melbourne's office market that will take time to resolve. Developers and landlords must adapt to changing tenant preferences, focusing on retrofitting existing spaces to meet demand rather than relying on greenfield office developments.

Labour Workforce: Rising Costs and Emerging Reforms

Labour costs in Victoria are forecast to rise by 5% annually over the next four years due to Enterprise Bargaining Agreements (EBAs). This escalation adds further pressure to already strained project budgets, worsening affordability issues for contractors and developers. The CFMEU's current administration could lead to reforms aimed at improving labour competitiveness, potentially easing some of these pressures. If successful, these reforms could reduce industrial action and improve efficiency on major project sites - offering hope for stabilising costs in the medium term. However, any benefits will depend on the extent and effectiveness of these changes, with stakeholders eager for clarity on the union's reform agenda.

Insolvencies: Rising Costs Fuel Industry Collapse

Victoria is grappling with a wave of construction insolvencies, with 972 collapses reported in 2024, with 233 more in the first quarter of 2025. Insolvencies in the state account for more than 30% of the national total. High-profile projects have stalled as builders struggle to manage escalating costs, creating ripple effects across the industry. The collapse of major players like Roberts Co has amplified risks for developers and contractors alike, highlighting the fragility of the sector. Insolvencies are forcing stakeholders to rethink delivery models, placing greater emphasis on risk management and financial viability. Until costs stabilise and confidence returns, insolvency risks will continue to weigh heavily on Victoria's construction market.



Sentiment: Green Shoots of Recovery

Industry sentiment has remained subdued since late 2023, reflecting the challenges facing the sector. However, the latest Property Council data signals improvement, with sentiment rising by 13.6% in the last quarter alone. This surge in sentiment suggests growing optimism among stakeholders, likely driven by stabilising costs, emerging opportunities in residential densification, and the prospect of labour reforms. While challenges persist, the sentiment shift demonstrates the sector's resilience and ability to adapt to changing conditions. It also points to cautious optimism that Victoria's construction market may be turning a corner in the months ahead.



Western Australia: Building Momentum

Western Australia's construction market continues to exhibit strength and adaptability, with public sector investments in health and community infrastructure laying a solid foundation for future growth. The state's robust economic performance, coupled with new initiatives like the Build-to-Rent fund, is helping address housing shortages while fostering opportunities for residential and commercial development. As sentiment recovers and WA maintains its position as the nation's top economic performer, the construction sector is poised to build momentum despite lingering cost pressures and workforce challenges. Western Australia's balance of resilience and innovation ensures it will remain a leader in shaping Australia's construction future.

Economic Resilience: WA Tops National Rankings

Western Australia remains Australia's leading economic performer, as highlighted in the January 2025 CommSec State of the States report. The state ranks first for retail spending, unemployment, population growth, housing finance, and dwelling starts, reflecting its robust economic fundamentals.

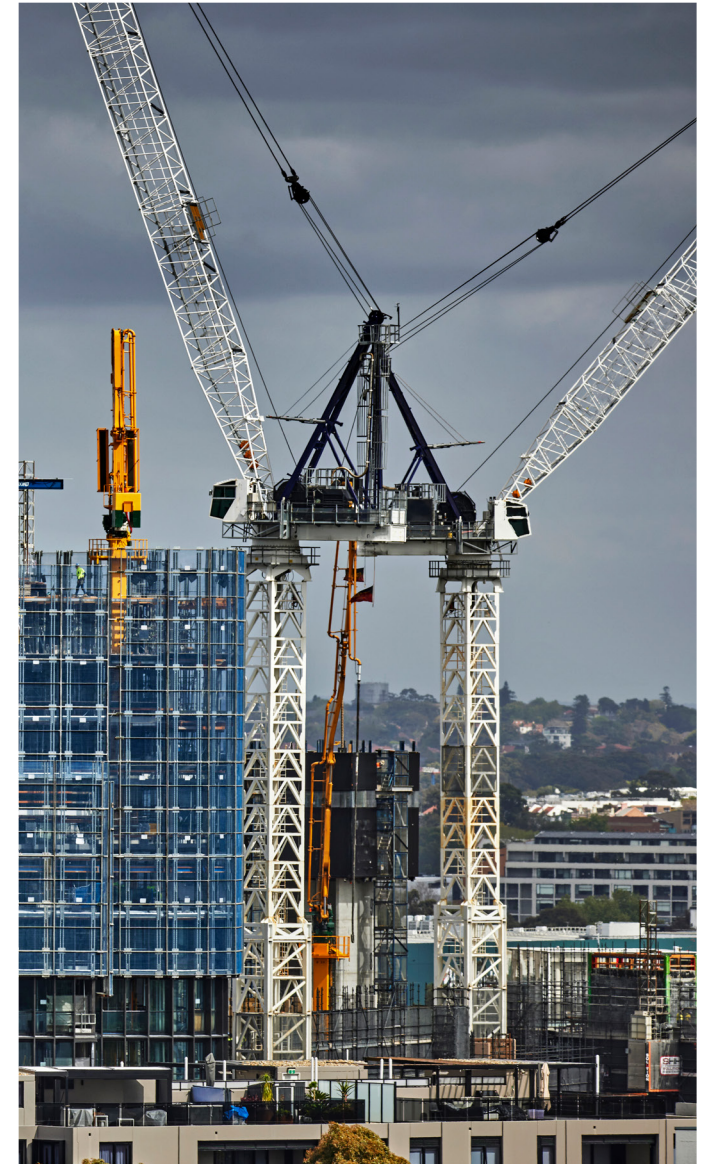
WA's construction sector saw annual growth of 12.2% in construction work completed - the highest in the nation. This strong performance is underpinned by the state's ability to attract investment and deliver large-scale projects despite broader industry challenges. WA's low unemployment rate and strong population growth are driving demand for housing and infrastructure, while steady retail spending signals consumer confidence in the state's economic outlook. The combination of these factors positions WA as a standout performer in Australia's construction market and offers contractors long-term stability and opportunities for growth.



Public Sector: Steady Investment in Health and Community Infrastructure

The WA Government remains committed to delivering critical health and education infrastructure, with construction on the \$1.8 billion Women and Babies Hospital set to commence this year. The hospital, which will include advanced birthing suites, neonatal units, and specialised care facilities, represents a significant milestone in WA's healthcare pipeline. As part of the project, a contract for a 2,200-bay carpark has already been awarded, signalling the start of preliminary works. The hospital will provide a much-needed upgrade to maternity care in WA and is expected to create substantial opportunities for contractors specializing in healthcare-focused projects.

Local councils are also driving activity in smaller-scale community infrastructure projects, such as surf life-saving clubs, sporting facilities, and recreational centres. These projects offer a lower bar to entry than state government contracts, attracting smaller businesses and creating opportunities for local contractors. This investment in community-based infrastructure is vital for supporting WA's growing population and maintaining the state's reputation as a leader in liveability.





Residential: Build-to-Rent Initiatives Offer Relief

The WA Government has launched a \$75 million Build-to-Rent (BTR) kickstart fund to address Perth's tightening rental market. The city's rental vacancy rate rose to 2% in January 2025, the highest since mid-2020, reflecting the ongoing challenges in housing supply. BTR developments are seen as a key solution to reinvigorate Perth's rental market, providing affordable housing options while enabling developers to capitalize on long-term revenue streams. The BTR kickstart fund aims to incentivise development and create a more dynamic rental market. These initiatives, combined with WA's growing population and demand for housing, provide significant opportunities for residential developers and investors. However, rising construction costs and labour shortages remain challenges that must be addressed to ensure timely delivery of these projects.

Sentiment: Confidence on the Rise

Following a decline in the September 2024 quarter, sentiment in WA's construction market has rebounded, with growth of 11.5% recorded in the last quarter. This rise in sentiment reflects increasing confidence among stakeholders, driven by WA's strong economic performance, public sector investments, and the introduction of initiatives such as the BTR fund. The recovery in sentiment is a positive indicator for the sector's resilience, suggesting that contractors and developers are adapting to cost pressures while recognising the opportunities presented by WA's buoyant market. This renewed optimism will be critical to maintaining momentum in both public and private sector projects as WA continues to lead the way in construction activity nationwide.



Zoom into: Housing, Defence and Regulation – how the 2025 Federal Election will Shape Construction

The 2025 Federal Election has concluded, ushering in a renewed mandate for Labor to deliver on its ambitious plans for Australia's future. Housing affordability, defence spending, and industry regulation are at the heart of Labor's policy agenda - shaping what could be a transformative period for the Australian construction industry.



With significant commitments aimed at addressing systemic housing challenges, bolstering national security infrastructure, and modernising industry standards, Labor's victory promises to drive demand in the construction sector while introducing new complexities that contractors must navigate. From tackling the housing crisis to delivering large-scale infrastructure investments, Labor's policies signal sustained construction activity across residential, commercial, and defence sectors. However, critical challenges - including workforce shortages, cost pressures, and regulatory compliance - remain, requiring the sector to adapt strategically to meet rising demand.

Labor's Housing Strategy: A Game-Changer for Residential Construction

Housing affordability remains a cornerstone of Labor's policy platform, with sweeping initiatives designed to address Australia's housing shortage and enable more Australians to secure homeownership. A key commitment is Labor's \$10 billion Housing Australia Future Fund, which is projected to deliver approximately 30,000 social and affordable homes over five years. This fund aims to address housing accessibility for vulnerable Australians, creating sustained demand for residential construction projects.

In addition, Labor has pledged \$500 million to incentivise Build-to-Rent developments, a move designed to increase housing stock and offer long-term rental solutions. By encouraging institutional investors to enter the housing market, this policy could stimulate new construction activity in urban centres while easing rental pressures.

To further improve housing affordability, Labor has committed to expanding the Help-to-Buy scheme, enabling eligible Australians to purchase homes with government equity support. This policy now targets individuals earning less than \$90,000 and couples earning less than \$120,000 annually, making homeownership accessible to a broader demographic. Additionally, Labor's Regional First Home Buyer Guarantee will support up to 10,000 Australians each year to purchase homes in regional areas with low deposit requirements, boosting construction activity in these communities.

These housing initiatives have the potential to generate significant opportunities for residential construction contractors. However, the sector faces critical challenges, including skills shortages and rising material costs, which could delay delivery timelines and increase project costs. Contractors will need to focus on workforce development, supply chain management, and innovative building practices to meet increased demand efficiently.



Defence Spending: Infrastructure for National Security

Labor's election commitments also place defence infrastructure at the forefront of its agenda, reflecting the government's focus on Australia's strategic security. The party has pledged to increase defence spending to \$79 billion annually by 2029-30, with substantial investments earmarked for military bases, shipyards, and advanced aerospace facilities.

The recently announced Defence Strategic Review outlines a range of infrastructure upgrades, including naval base expansions, missile storage facilities, and the development of long-range strike capabilities.

These projects represent significant opportunities for contractors specialising in large-scale infrastructure and defence-related construction. However, defence projects often require specialised expertise, rigorous compliance with security standards, and complex procurement processes. Contractors seeking to enter this market will need to invest in workforce training, technical capabilities, and project management tailored to the defence sector's unique demands.

Regulation and Property Market Dynamics

Labor's housing policies are also set to reshape property market dynamics, with implications for investors and developers alike. The government has maintained its ban on foreign investors purchasing established residential properties, a measure aimed at reducing speculative activity and supporting local buyers. While this policy may cool demand in certain segments of the property market, it is expected to bolster affordability for first-home buyers and renters in key markets.

Additionally, Labor's \$1 billion investment in the National Housing Supply and Affordability Council will help streamline planning and development processes, addressing bottlenecks that have historically slowed construction projects. By focusing on modernising planning frameworks and accelerating approvals, Labor aims to enhance efficiency in the development pipeline, creating new opportunities for contractors and developers.

At the regulatory level, Labor has committed to ongoing updates to the National Construction Code, prioritising sustainability, accessibility, and safety standards. These reforms align with broader industry trends, but they may also increase compliance costs for contractors and developers as they adapt to new requirements.



Forecasting the Impact: Opportunities and Challenges

Labor's policies signal sustained growth in the construction sector, driven by residential housing initiatives, defence infrastructure projects, and planning reforms. However, the industry faces persistent challenges that could impact its ability to deliver on these commitments. Workforce shortages are expected to remain a critical issue, particularly in the face of heightened demand for skilled labour across multiple sectors. Rising material costs and supply chain disruptions also pose risks to project timelines and profitability.

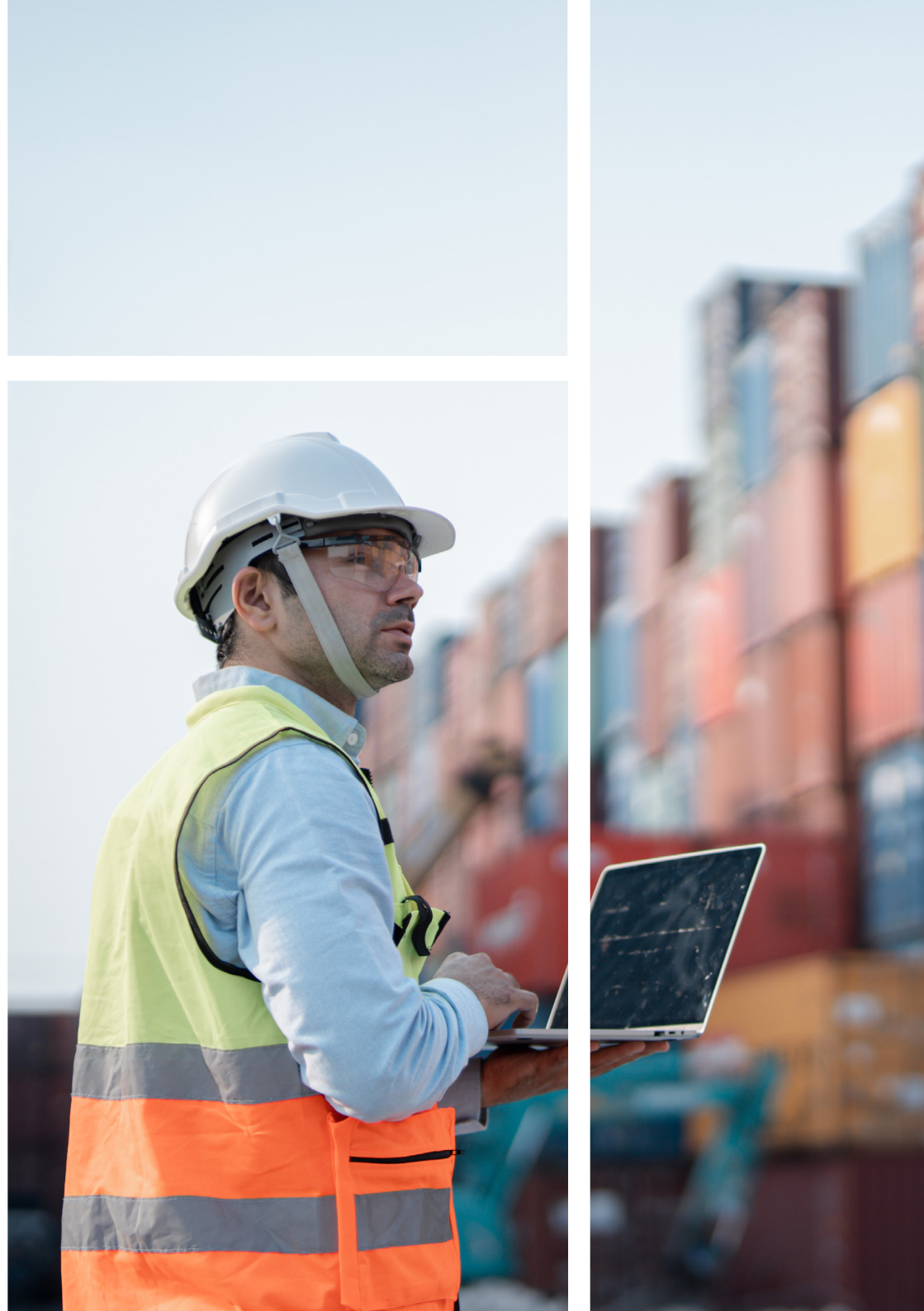
For contractors and developers, the ability to seize these opportunities will depend on strategic planning and risk mitigation. Investments in workforce development, innovative building technologies, and streamlined project management will be critical for navigating this period of heightened activity.

With Labor's ambitious agenda set to drive demand across housing, defence, and infrastructure, the Australian construction industry is entering a pivotal era. While the opportunities are vast, the sector must remain agile and proactive to overcome challenges and deliver on the promises of this transformative election.



Spotlight on: Trade Tensions and Timelines – the toll on Australian Construction

The construction sector in Australia is bracing for the ripple effects of a potential global trade war, as rising import costs, supply chain disruptions, and market uncertainty threaten to increase project costs and delay timelines. With the sector heavily reliant on imported materials, the imposition of tariffs and escalating geopolitical tensions could reshape the way Australia builds homes, infrastructure, and commercial projects. From higher home prices to diversification strategies, the industry must adapt to navigate this challenging landscape.



Increased Import Costs: A Pressing Concern

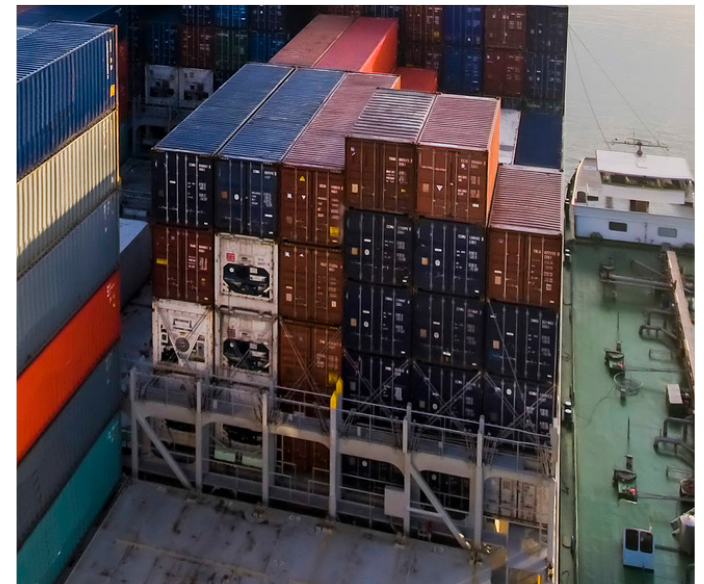
One of the most immediate impacts of a trade war is the introduction of tariffs on imported goods, which act as taxes on products entering the country. For Australia's construction sector, this could mean higher costs for essential materials such as steel, timber, glass, and manufactured components. If the United States imposes tariffs on construction materials destined for the Australian market, builders and developers may find their budgets stretched, forcing them to either absorb the costs or pass them on to consumers.

Higher costs for imported materials such as steel - an essential component in residential and commercial construction - could result in significant financial pressure across the sector. Australian builders often rely on cost-effective imports from countries such as China and the US, and any tariff-related price increases could lead to a sharp rise in construction costs. According to industry analysts, this could jeopardise the affordability of housing and infrastructure projects, with the ultimate burden falling on homebuyers and investors.



Supply Chain Disruptions: A Global Domino Effect

Beyond tariffs, trade wars can disrupt established supply chains, creating logistical hurdles and delays. Many Australian builders rely on global supply networks to source construction materials and equipment, and any geopolitical tensions or trade restrictions could lead to shortages and increased prices. For example, if Australian importers face difficulty sourcing materials from traditional suppliers in tariff-affected countries, they may need to turn to alternative suppliers, potentially at higher costs or with longer lead times. The construction sector's reliance on global logistics means it is particularly vulnerable to these disruptions. A shortage of materials can delay projects, increase operational costs, and undermine investor confidence. This is especially concerning for major infrastructure projects and urban housing developments, where delays can lead to significant financial losses and reputational damage.



Higher Home Prices and Delayed Timelines

The knock-on effect of higher construction costs is likely to be felt by Australian homebuyers, as builders pass on increased material expenses to consumers – a scenario that we have seen play out following the pandemic. Rising costs could significantly impact housing affordability, pushing up prices in an already strained market. This would exacerbate challenges for first-time buyers and those seeking affordable housing, further widening the gap between supply and demand.

Additionally, construction timelines may lengthen as builders struggle to source materials and adapt to higher costs. The increased uncertainty could lead to project delays, with developers forced to wait for materials or adjust designs to accommodate alternatives. For an industry already grappling with workforce shortages, these disruptions place further strain on productivity and delivery schedules.

Diversification Strategies: A Lifeline for Builders

To mitigate the impact of a trade war, the Australian construction industry may need to diversify its sourcing of materials. Builders could look to alternative markets not subject to tariffs, such as Southeast Asia or domestic suppliers, to reduce reliance on countries affected by trade tensions. This strategy, while offering some relief, may require significant investment in new supplier relationships and logistical adjustments.

Moreover, increasing the focus on locally manufactured materials could provide long-term benefits for the sector. Encouraging domestic production of essential construction goods may reduce exposure to international trade risks but achieving this will require government support and incentives to scale up manufacturing capacity.



Uncertainty and Its Impact on Investor Behaviour

One of the most insidious effects of a global trade war is the uncertainty it creates in the market. Investors tend to be cautious during periods of geopolitical instability, as forecasting becomes difficult and risks rise. This hesitation can deter investment in large-scale construction projects, further slowing growth in the sector. Uncertainty also makes it harder for businesses to plan for the future. Developers may delay new projects or scale back investments as they wait for clarity on trade policies and global market conditions. This stagnation could ripple through the sector, affecting job creation and economic activity tied to construction.

Looking Ahead: Preparing for the Challenge

The Australian construction sector must prepare for the potential impacts of a global trade war by adopting proactive strategies to manage costs, mitigate disruptions, and diversify supply chains. While higher import costs, supply chain delays, and market uncertainty pose significant risks, opportunities

exist for innovation and adaptation. Builders and developers should focus on sourcing alternatives, strengthening domestic manufacturing, and exploring growth areas such as data infrastructure. Collaboration between industry stakeholders and government agencies will be critical in ensuring the sector remains resilient and capable of meeting Australia's construction needs in the face of geopolitical challenges.

The global trade war is not just a test of economic policies between nations; it is a challenge that demands strategic foresight and action from Australia's construction industry. As the sector navigates these turbulent waters, its ability to adapt and innovate will determine whether it can emerge stronger in the years ahead.



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