

BCI

CONSTRUCTION
OUTLOOK

ANALYSING AUSTRALIA'S CONSTRUCTION PIPELINE

Q3 2021 - Q3 2024

November 2023

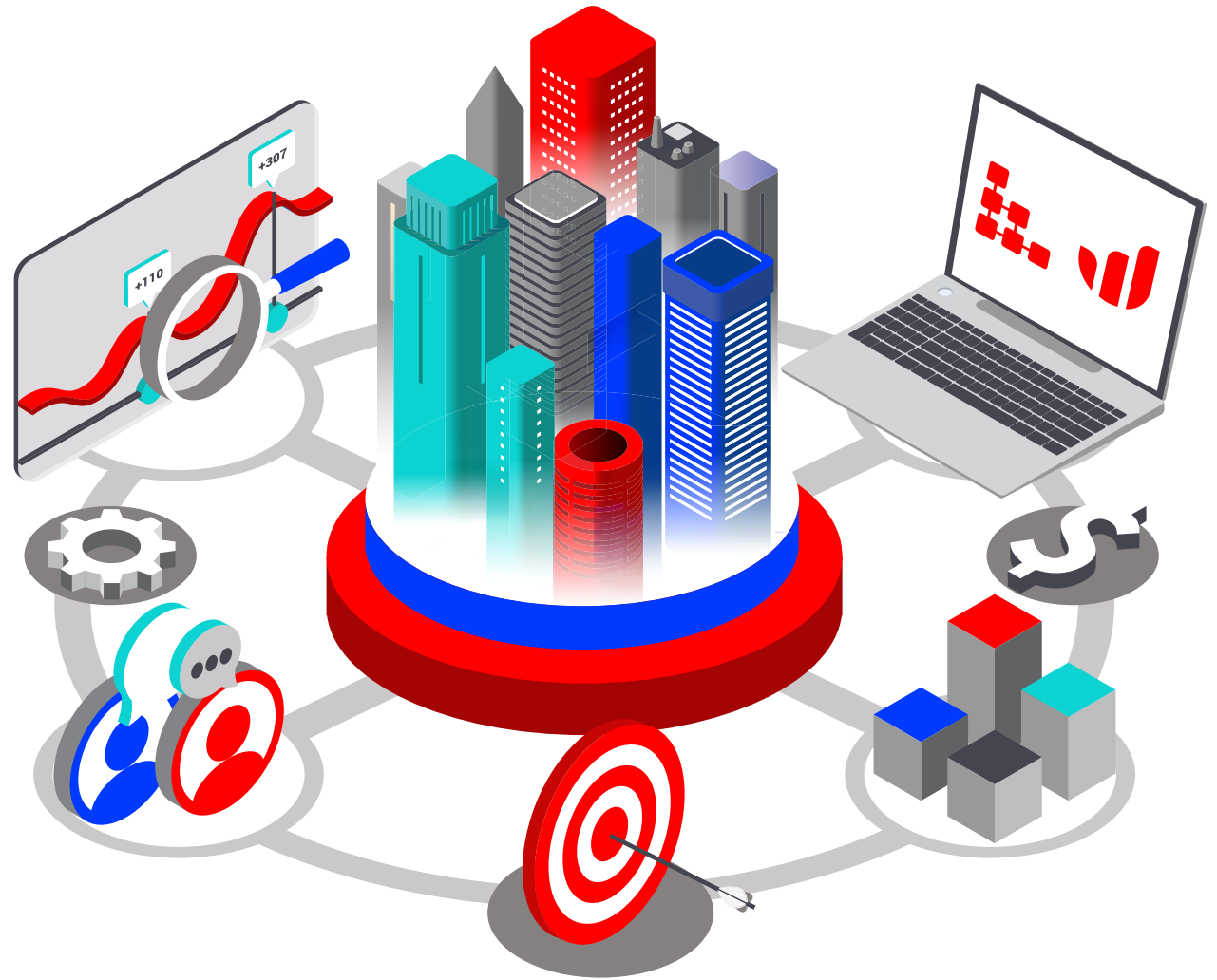


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Intro

Despite a high volume of work filling construction pipelines, the industry continues to tackle the challenges of a post-pandemic landscape: skilled labour shortages, inflation driving up construction costs, and builder/subcontractor insolvencies to name a few.

Australia's construction leaders are striving to decarbonise the built environment, aligning with the nation's net-zero goals by 2050 and embracing emerging initiatives such as sustainable materials, passive design, and retrofitting existing buildings. The industry, grappling with the housing crisis and the pursuit of net-zero emissions, urges robust government support in the face of a challenging, low-profit-margin landscape.

What lies ahead for Australia's construction industry? Analysing pipeline data and exclusive industry commentary provides insights into current impacts and market resilience, offering a glimpse into the upcoming year.

The BCI Construction Outlook shines valuable light on how key building sectors and project regions have performed since late 2021. Looking into where the industry is heading over the next 12 months, we'll examine project data on a national, state and sector basis. Harnessing our industry-leading construction information, the BCI Analytix team presents projects entering, blocking and exiting the pipeline, and forecasts project activity for the year ahead.

In addition to what the data shows us, key industry stakeholders—developers, architects and builders—share their take on the trends and issues shaping today's built environment and impacting the people contributing to it. Amid diverse opinions on environmental sustainability, government support, and regulation, stakeholders are committed to bettering the industry. Responding to challenges, companies are exploring both internal improvements and global insights.

Examining the nation's project pipeline through cutting-edge technologies like BCI paints a nuanced picture that provides more clarity into anecdotal trends. The BCI Construction Outlook aims to support our industry, as together, we navigate challenges and find opportunities in uncertain times.

Leadership



Robert Krups
Co-Chief Executive
Officer



Ashleigh Porter
Chief Operating
Officer - ANZ

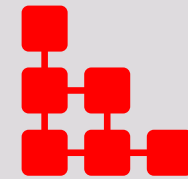
About BCI

BCI Central data covers all construction sectors, including commercial, residential, education, health, legal, renewable energy, industrial, civil and infrastructure, mining, oil and gas. BCI reports on projects across Australia, New Zealand, Pacific Islands,, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Myanmar, Cambodia and the USA. Our data fuels our software solutions, including LeadManager and Analytix.

Our flagship software, LeadManager provides users with a database of live construction project information, delivering unparalleled project opportunities and company insights. Analytix uses our historical construction data powered by AI to support users in understanding today's market, identifying key players and mapping stakeholder networks.



Construction Sales Leads



LeadManager

From early planning right through to construction, explore thousands of projects across your choice of locations and project sectors.

Find new leads and connect with decision makers using live construction project information.

Book a demo →



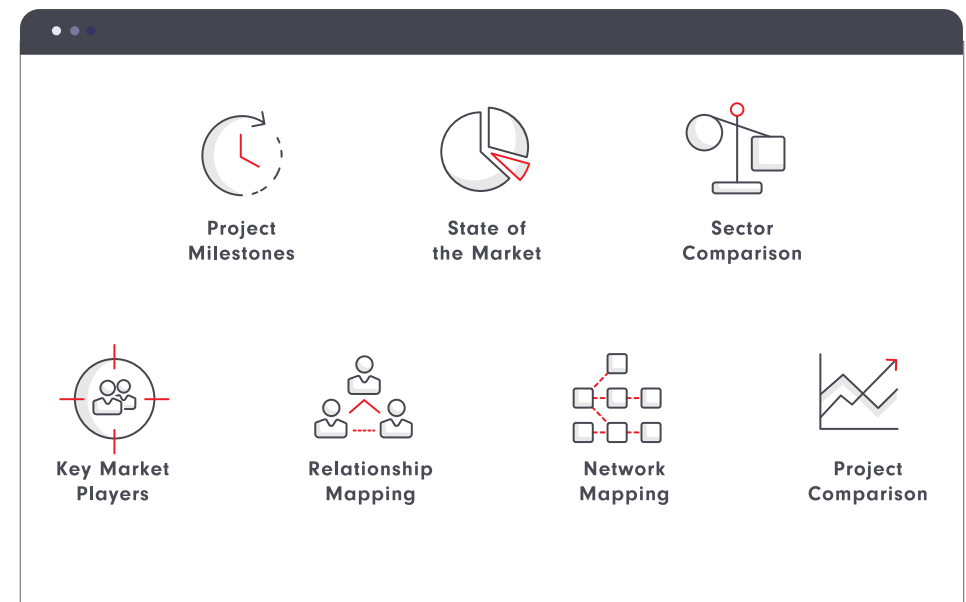
Explore the past to navigate the future

Our customers have always relied on BCI LeadManager to keep them informed regarding live project opportunities; we tell them who they need to contact to put their hat into the ring for the job. Traditionally, customers have had to wait until each contract is confirmed before they can act. BCI Analytix changes that.

Using hundreds of thousands of project data points from BCI LeadManager, our Analytix division pieces together patterns and reveals relationships, helping BCI customers get ahead of decisions and their competition.

Analytix services include:

- **Analytix Platform:** A live online tool that uses historical construction data to uncover stakeholder networks, facilitate proactive strategic planning and direct sales effort towards high-probability opportunities with construction data powered by AI.
- **Reports:** Our monthly, bi-monthly and annual reports forecast where the industry is heading, allowing clients to identify opportunities, anticipate critical market changes and inform and strengthen decisions.
- **Custom Research:** From sector and project data generation to a range of market studies, our team of analysts are experts in providing tailored research solutions for the construction industry, allowing clients to gain exclusive insights that drive actionable business and operations strategies.



Executive Summary

The lingering effects of the pandemic have continued to send shockwaves through Australia's construction industry, disrupting and destabilising established norms. Major construction companies are grappling with inflation pressures, rising wages and interest rates, and shortages of skilled labour and materials, leading to increased costs. These challenges have resulted in progressively unprofitable contracts and, in some cases, have contributed to high-profile insolvencies.

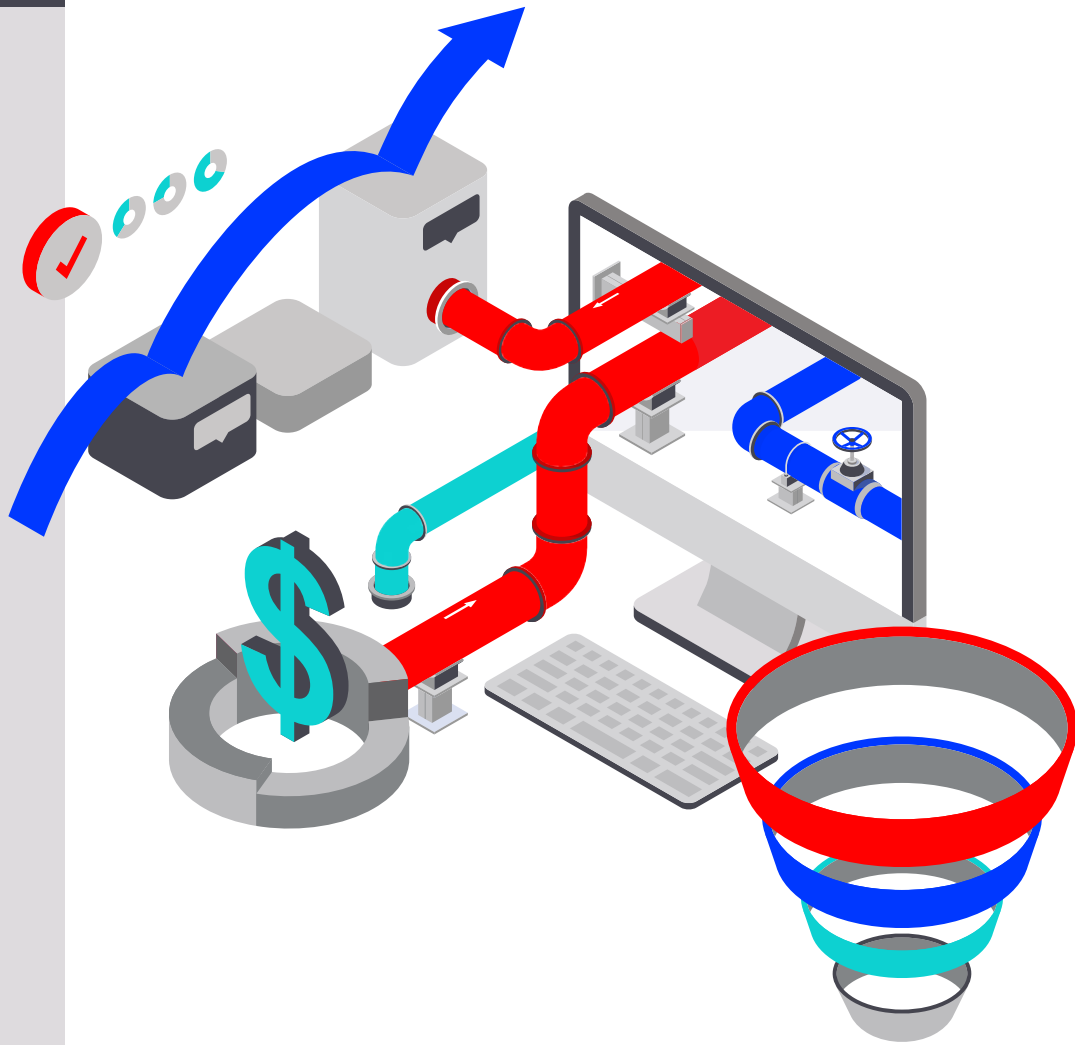
Amid these industry challenges, Australia grapples with an unparalleled housing crisis, confronting a substantial target of 1.2 million homes driven by a robust year of migration and low building approvals. While the evolving build-to-rent sector and increased medium-density development in the "missing middle" are touted as potential remedies, a coordinated national effort to address multifaceted challenges beyond 2023 is needed—spanning financial, regulatory, technological and sustainability concerns.

In Q3/Q4 2022 the industry experienced a peak in the value of projects entering the pipeline. This high was met with quite a sudden trough in early 2023, followed by a slight uptick then continued decline into the back end of the year. However, looking at project proposals (Concept, Development Application/Approval and Documentation stage) across the nation, the volume of work indicates ongoing high levels of activity.

The percentage of abandoned projects started to increase between Q4 2022 and Q1 2023, after a continued downward trajectory in the years prior. The steady rise in deferred projects from the last quarter of 2022 is likely a result of increased construction costs putting pressure on project timelines. On a national scale, the residential, commercial and hospitality sectors have seen higher abandonment rates than deferrals. Across the major states, abandonment rates are mostly declining into Q3 2023 except for in Victoria.

Project commencements are robust for the forecast period Q4 2023 – Q3 2024. The industrial, infrastructure and transport sectors, together with the energy and resources sectors, are contributing more than 60% of total project values over the coming 12 months. Project commencements in the major states of NSW/ACT, VIC, QLD, and WA make up more than 80% of the total on average for the forecast period Q4 2023 – Q3 2024. period. Across these states, the forecasted value of construction activity is highest in NSW/ACT.

In the face of volatile market conditions, savvy builders, designers and developers are strategically capitalising on recovering demand across several sectors. Despite no easy or short-term solutions to resolve complex challenges, the industry demonstrates a strong capacity to navigate project risk, adapt and innovate.



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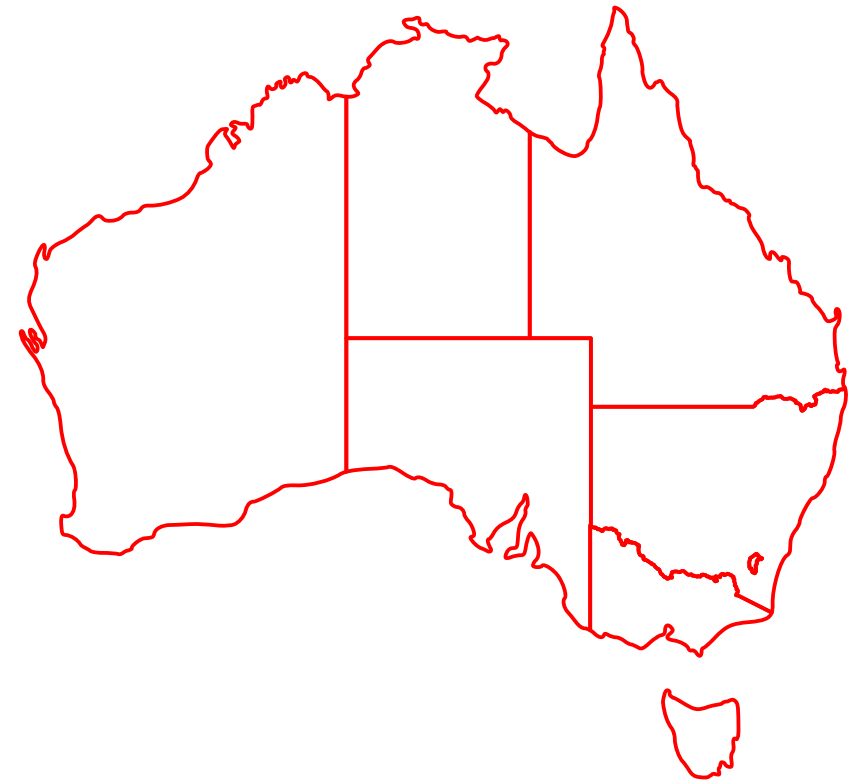
Pipeline Analysis

Entering the Pipeline: Concept + Design & Documentation

Australia

The Australian economy expanded by 2.1% in the June quarter of 2023, a slower pace than the previously recorded result in March. Several factors affecting the quarter's reading include rising inflation, increasing interest rates, and ongoing global uncertainties, including the effects of China's sluggish post-Covid recovery. On the other hand, the main drivers of GDP growth in the quarter were investment and exports. GDP was boosted by consumption by 0.1 percentage points. Although the growth of household consumption is declining, it continues to be within positive territory. As inflation starts to ease, and headwinds such as the tight labour market and supply chain pressures are moderating, the Australian economy is seen to remain resilient.

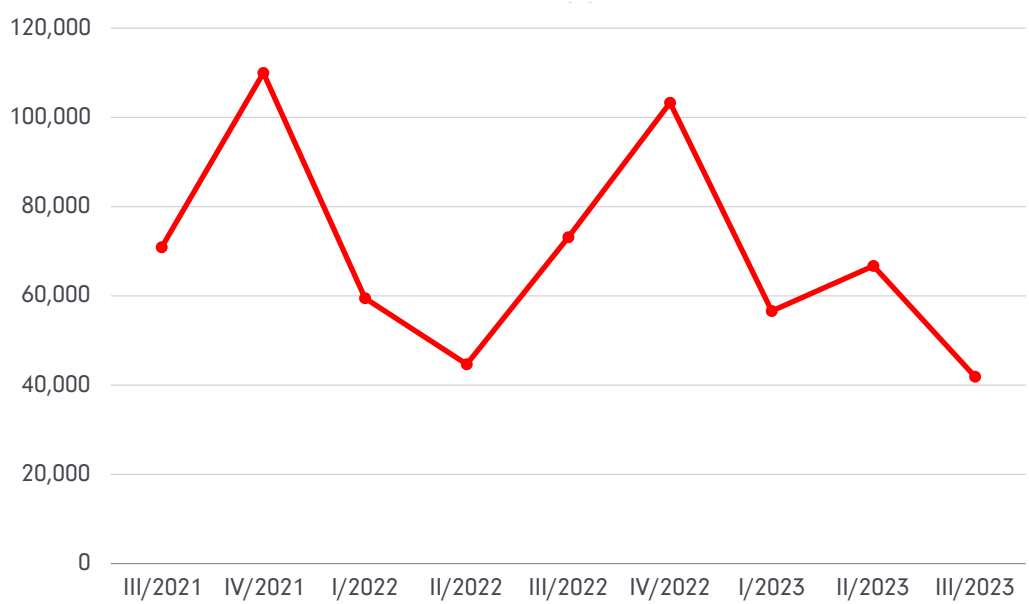
The value of early-stage projects is seemingly declining since the peak in Q4 2022. However, the ongoing trend exhibits a major topping up of project proposals (Concept, Development Application/ Approval and Documentation stage) around the end of the year, replenishing the supply for next year and facilitating ongoing high levels of activity. Investments in the community and public buildings and energy and resources sectors are contributing more than half of early-stage project values at 55% of the total in Q3 2023..



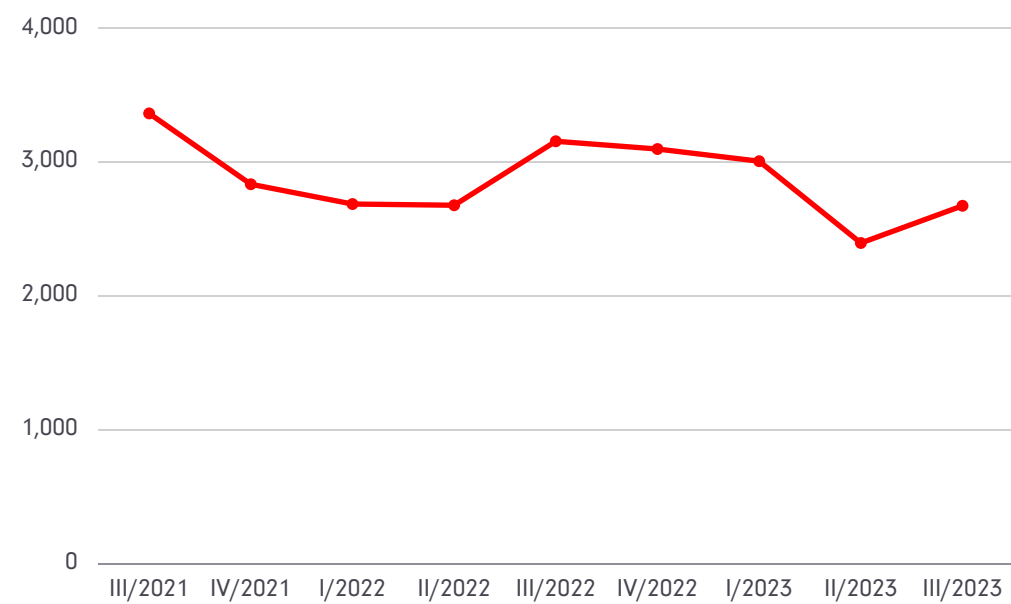
Entering the Pipeline: **Concept + Design & Documentation**



Australia
All Sectors (\$ million)

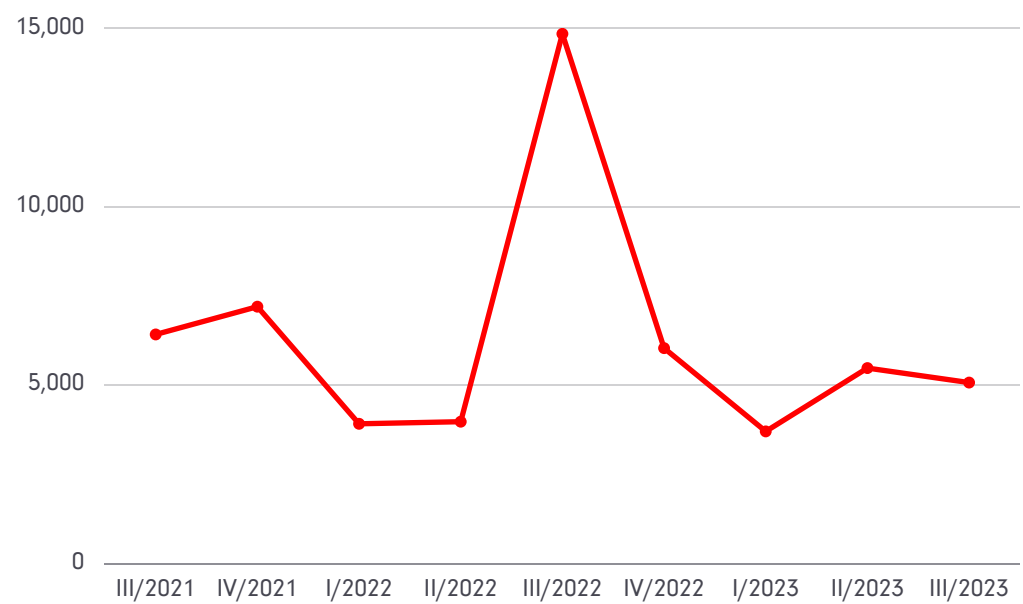


Australia
All Sectors (number of projects)

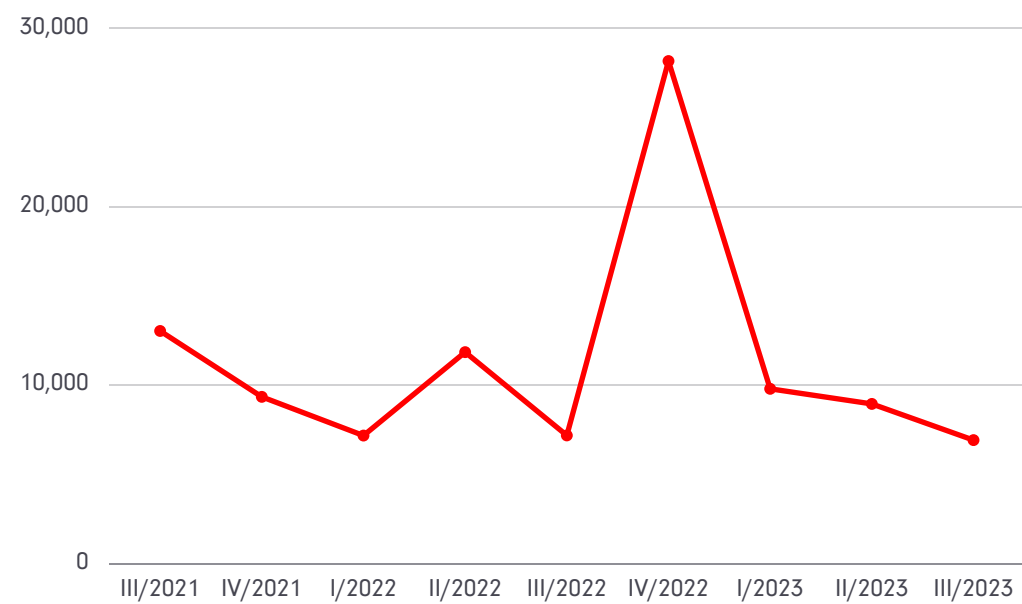


Entering the Pipeline: **Concept + Design & Documentation**

 Australia
Commercial & Hospitality (\$ million)

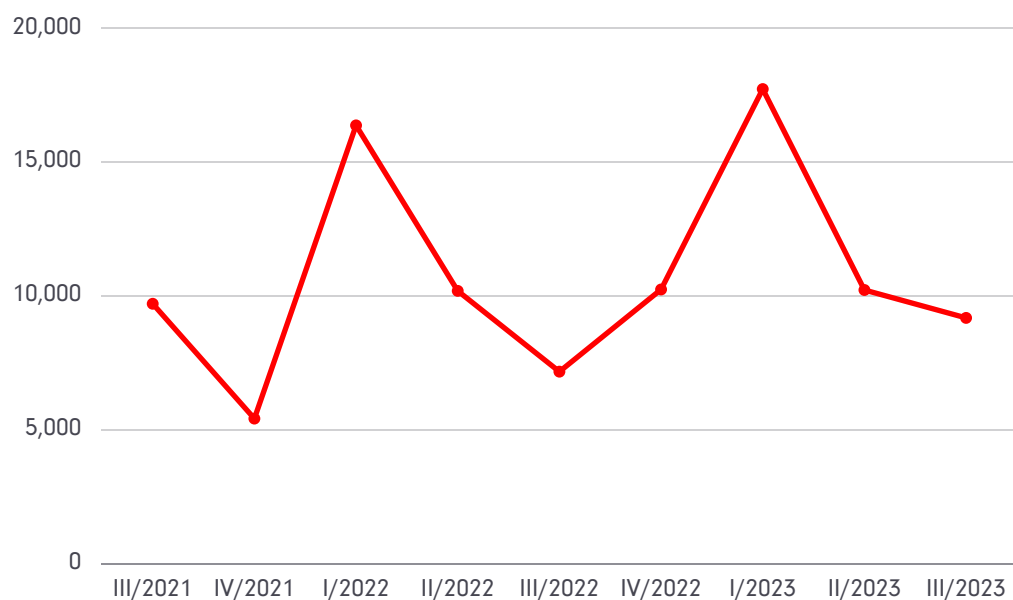


 Australia
Residential (\$ million)

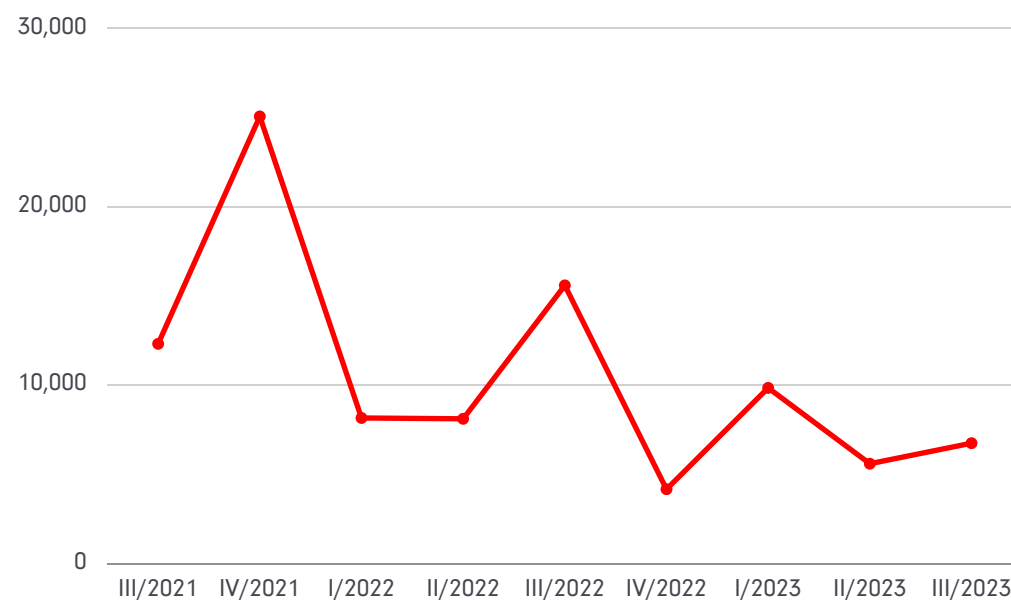


Entering the Pipeline: **Concept + Design & Documentation**

 Australia
Community & Public Buildings (\$ million)



 Australia
Industrial, Infrastructure, Transport (\$ million)

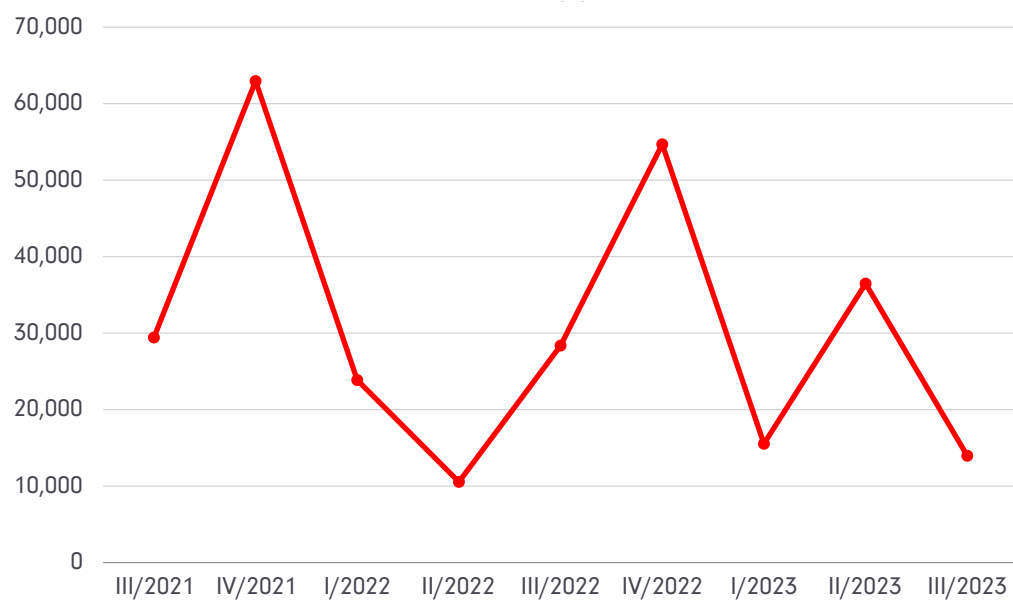


Entering the Pipeline: **Concept + Design & Documentation**



Australia

Energy & Resources (\$ million)

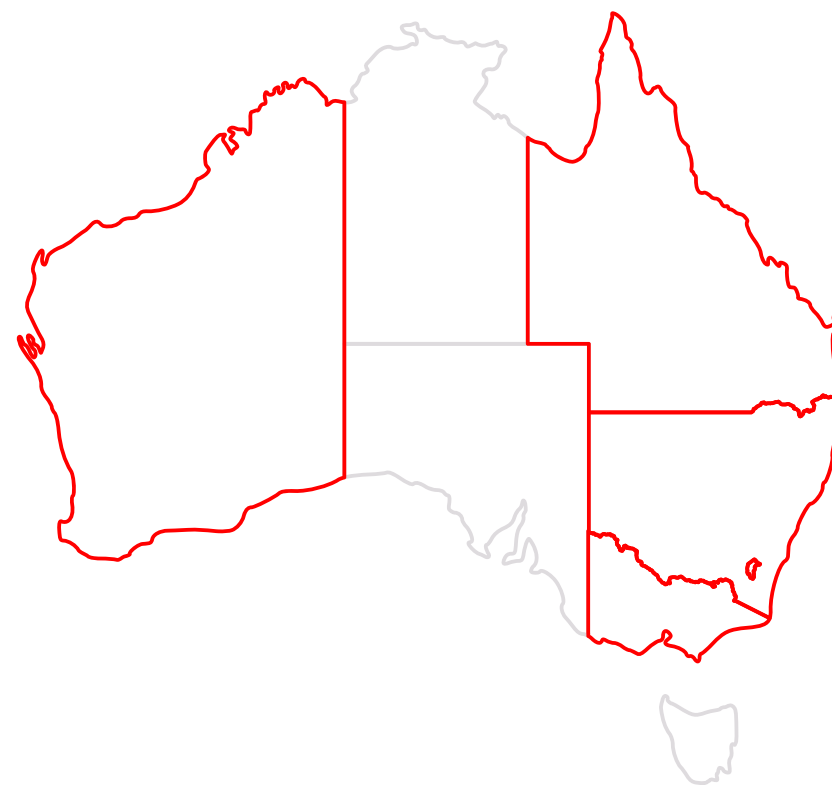


Entering the Pipeline: Concept + Design & Documentation

Key States

The states of NSW/ACT, VIC, QLD, and WA make up almost 80% of total project proposals (Concept, Development Application/Approval and Documentation stage) in Australia for the period. Notably, the states of NSW/ACT and QLD are the country's leading contributors to project investments. NSW/ACT exhibits a stellar performance in the residential sector with several developments lined up such as West Gables (PID 325067017), and Macquarie Rise (PID 48036021). as residential demand increases the existing pipeline. With the boost in the tourism sector, NSW/ACT also stands out in the commercial and hospitality sectors as we report proposals such as the Hotel redevelopment (PID 322312017) in York St., Sydney, and the Hotel Indigo (PID 318081017) at Kings Cross Rd, Potts Point.

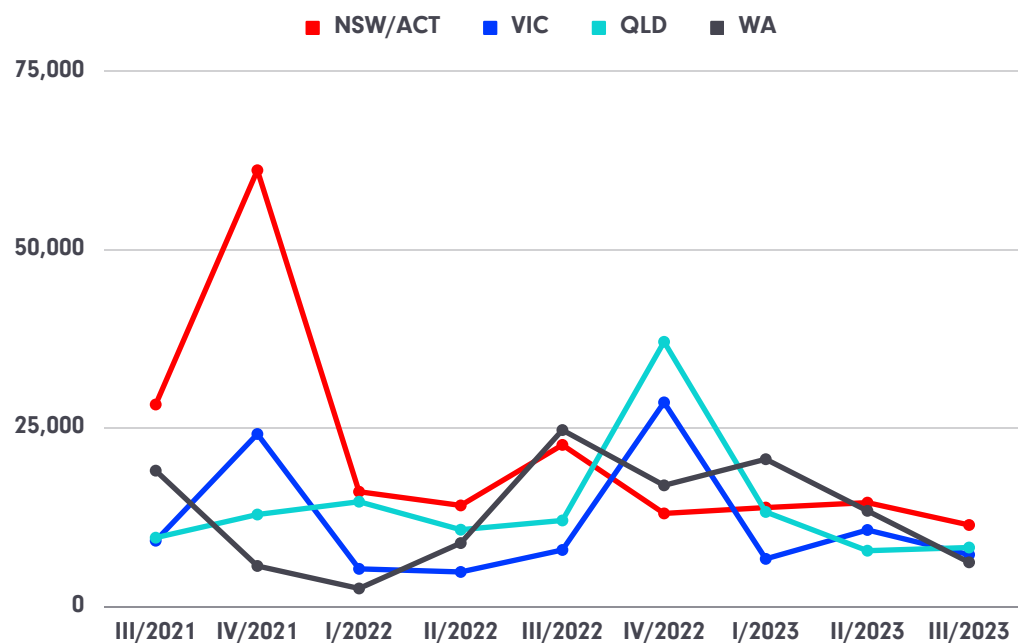
Across the board, the energy and resources sectors in WA are remaining sturdy with key project investments in renewable energy, such as the AUS \$1Mn Solar and Wind Farm, and Battery Energy Storage System (PID 319544017) in Roebourne, and the AUS \$3Bn Pollination/Aboriginal Clean Energy (ACE) - East Kimberley Clean Energy Project (PID 319430017) in Kununurra. In other developments, the VIC community and public buildings sector are getting a boost from the AUS \$1.05Bn Queen Elizabeth II Hospital Redevelopment (PID 318729017) in Ringwood East.



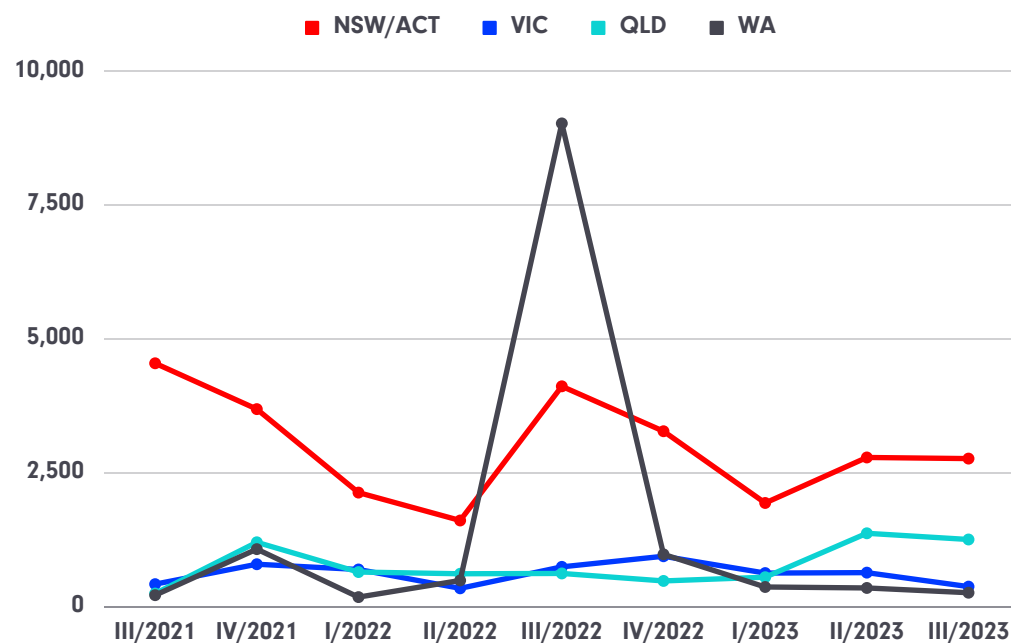
Entering the Pipeline: **Concept + Design & Documentation**



Key States
All Sectors (\$ million)



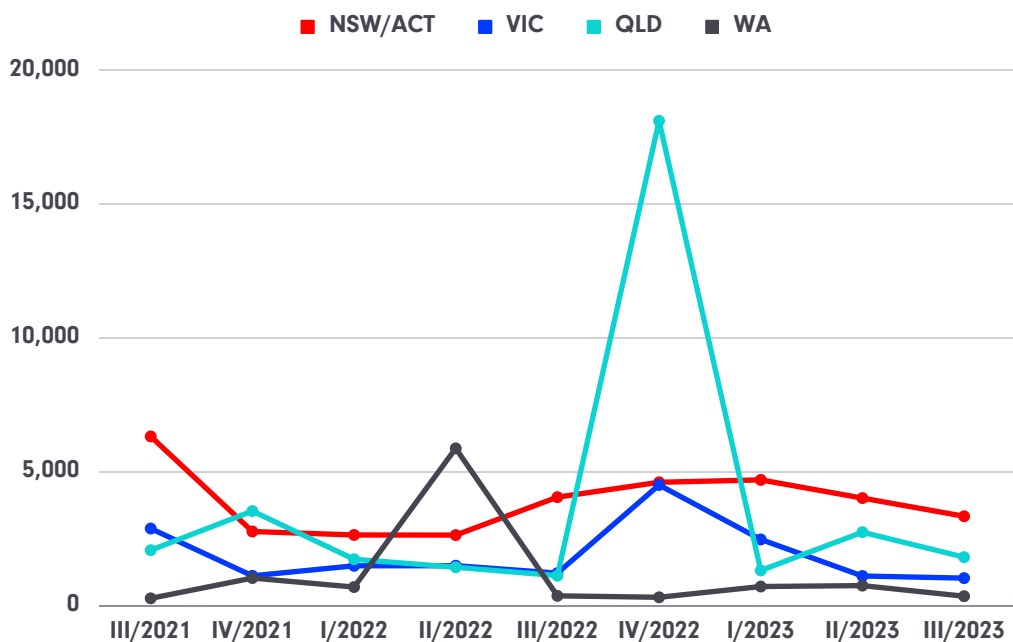
Key States
Commercial & Hospitality (\$ million)



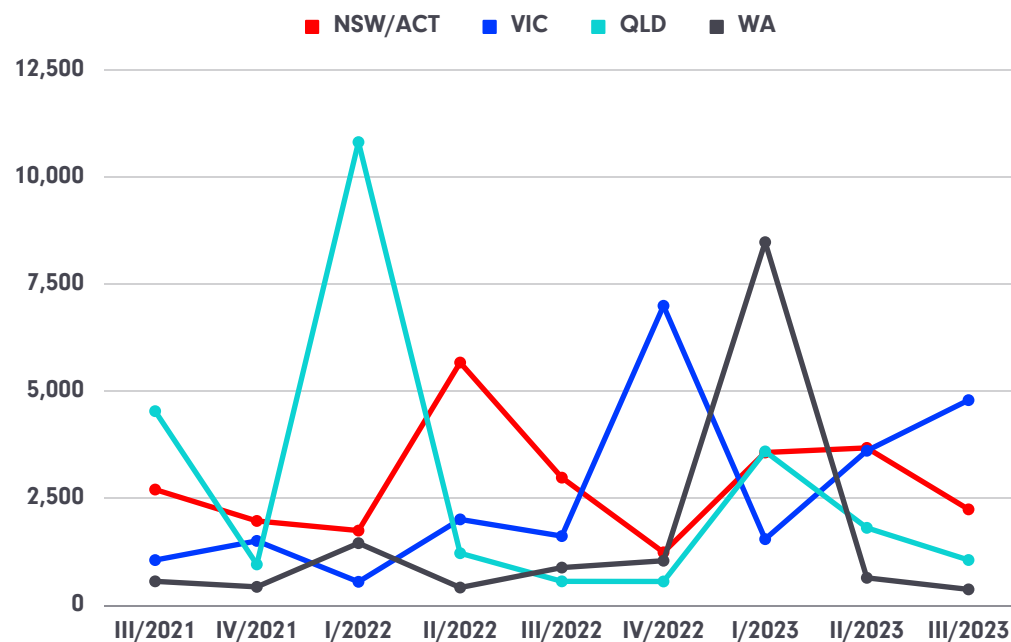
Entering the Pipeline: **Concept + Design & Documentation**



Key States
Residential (\$ million)



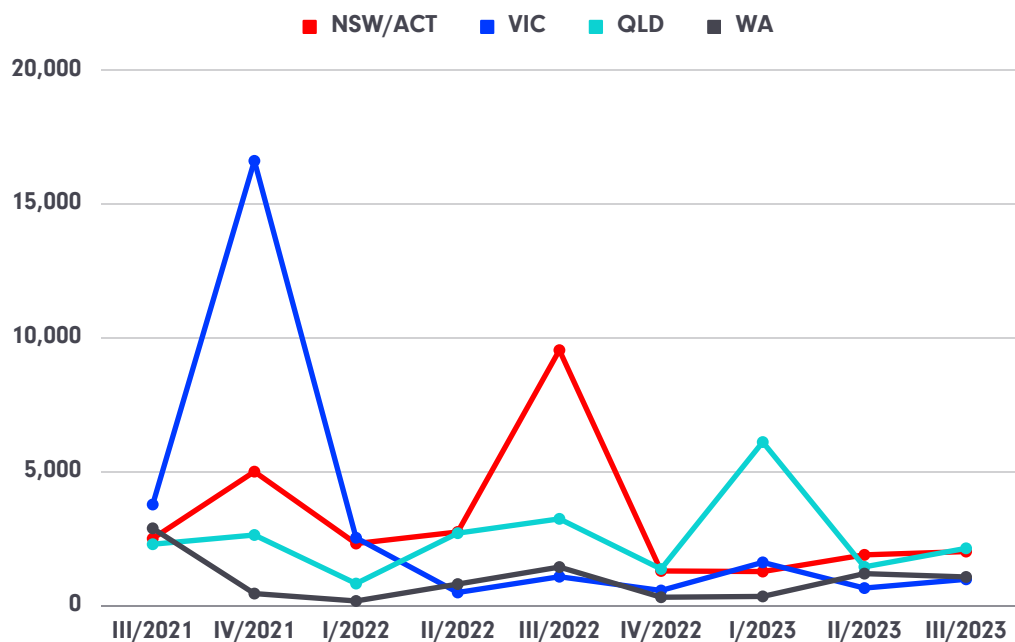
Key States
Community & Public Buildings (\$ million)



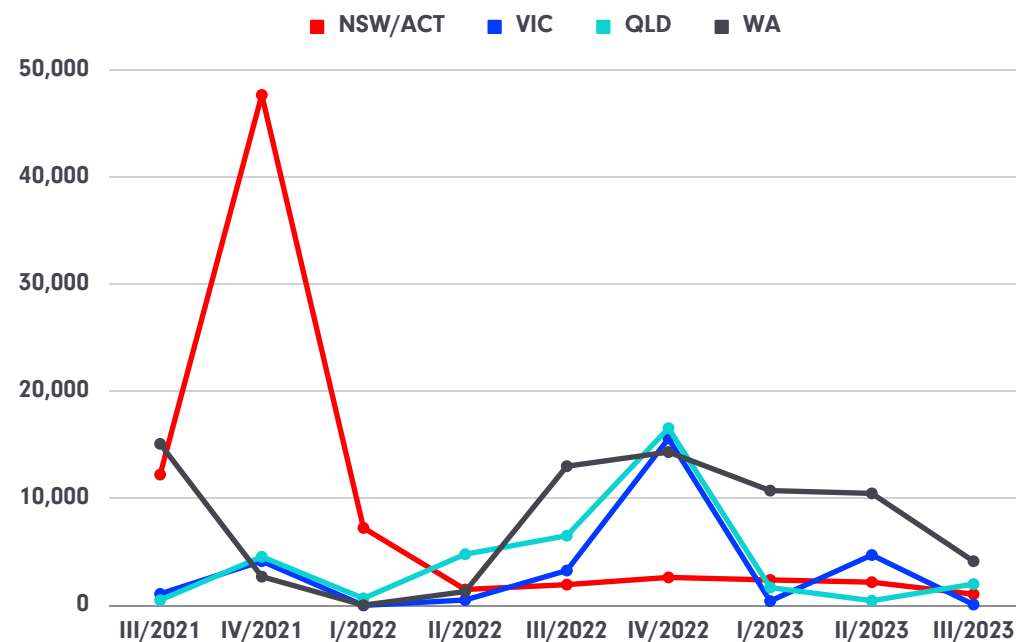
Entering the Pipeline: **Concept + Design & Documentation**



Key States
Industrial, Infrastructure, Transport
(\$ million)



Key States
Energy & Resources (\$ million)

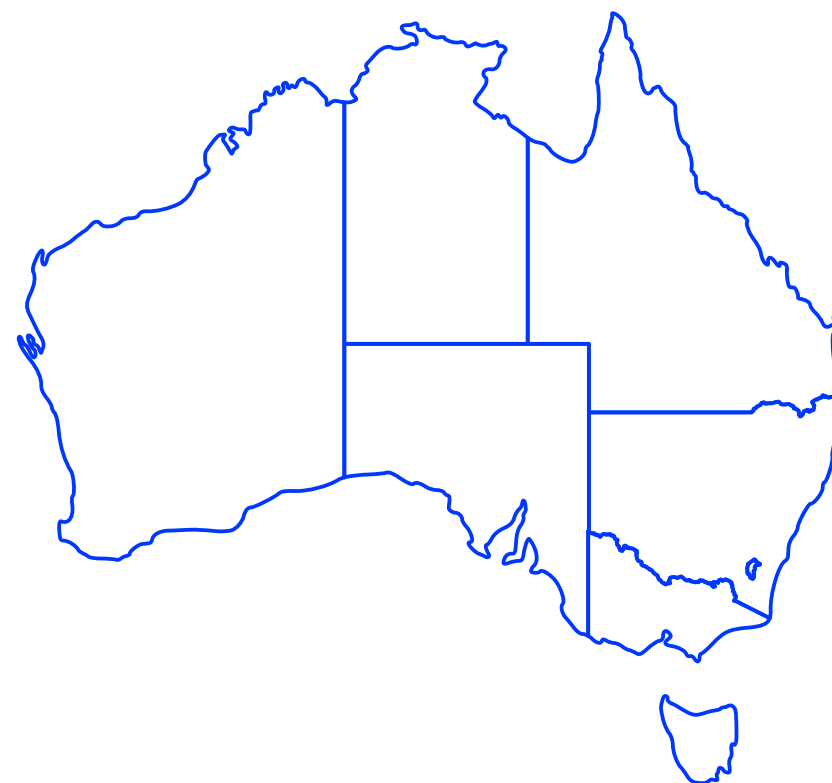


Blockages in the Pipeline: Deferred & Abandoned

Australia

Project deferral and abandonment rates can be seen generally moving in opposite directions and converging before Q3 2023. Although abandonment rates have seemingly started to decrease, the rise in deferral rates signals the turmoil currently faced by the construction industry as several factors cause constraints on construction firms and owners/businesses alike. Increasing interest rates are causing financial pressure and affecting the prospects and sentiments towards the industry. The tight squeeze caused by supply chain issues is stretching delivery times. Labour shortages and significant weather disturbances have also caused substantial timeline delays.

The energy and resources sectors exhibit the general trend of abandonment and deferral rates moving in opposite directions. Also, with the general trend being that deferral rates are rising towards Q3 2022, it is not surprising that only the commercial, hospitality, and residential sectors are seeing a lower deferral rate than abandonment rate in the third quarter of 2023. Apart from the industrial, infrastructure and transport sectors, the commercial and hospitality sectors are the two segments with a narrow spread between their deferral and abandonment rates in the most recent quarter. On the other hand, the energy, resources, and residential sectors have the wider spread between rates.

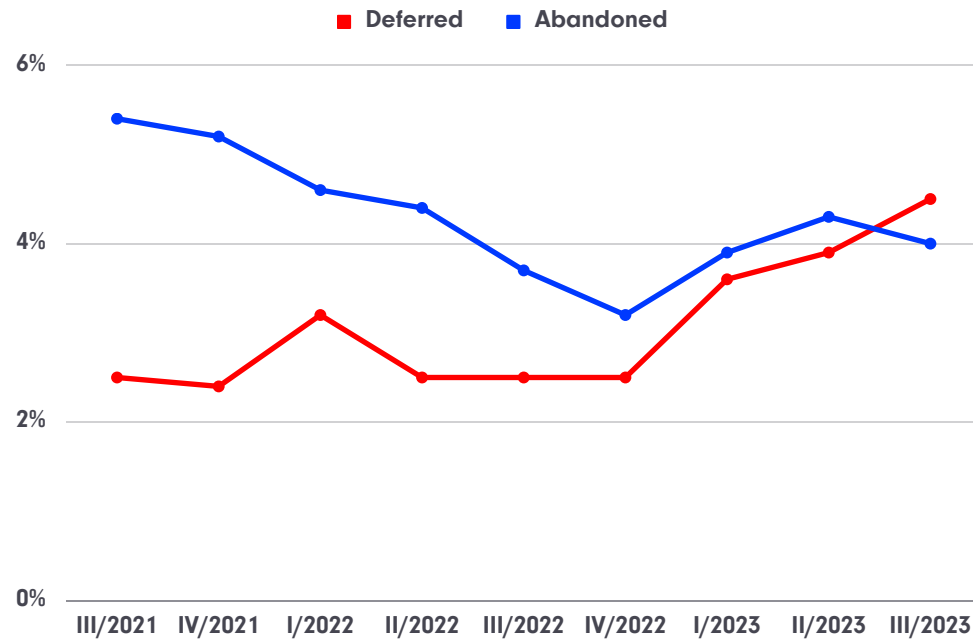


Blockages in the Pipeline: **Deferred & Abandoned**



Australia

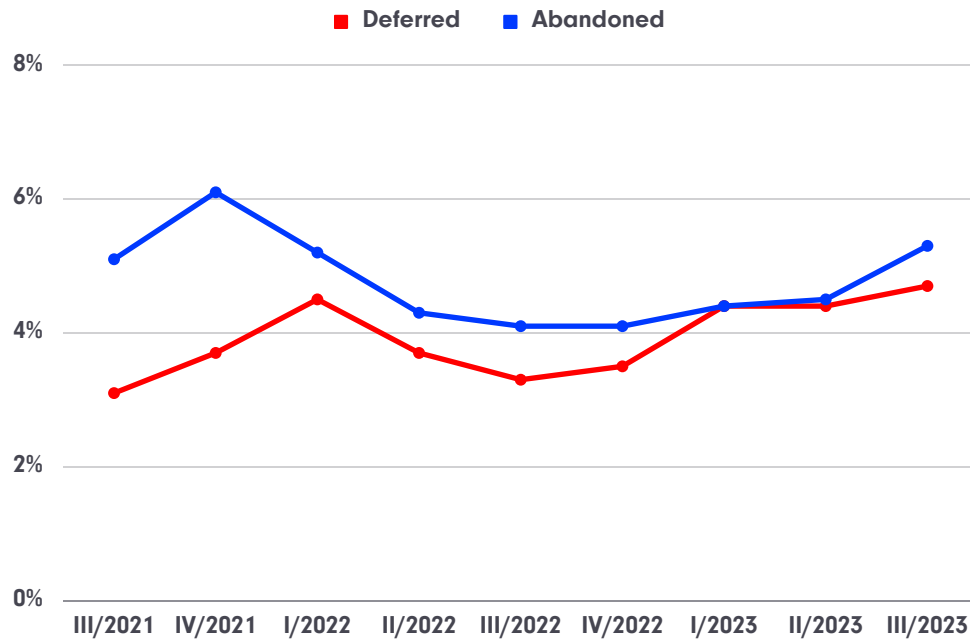
All Sectors (% deferred and abandoned)



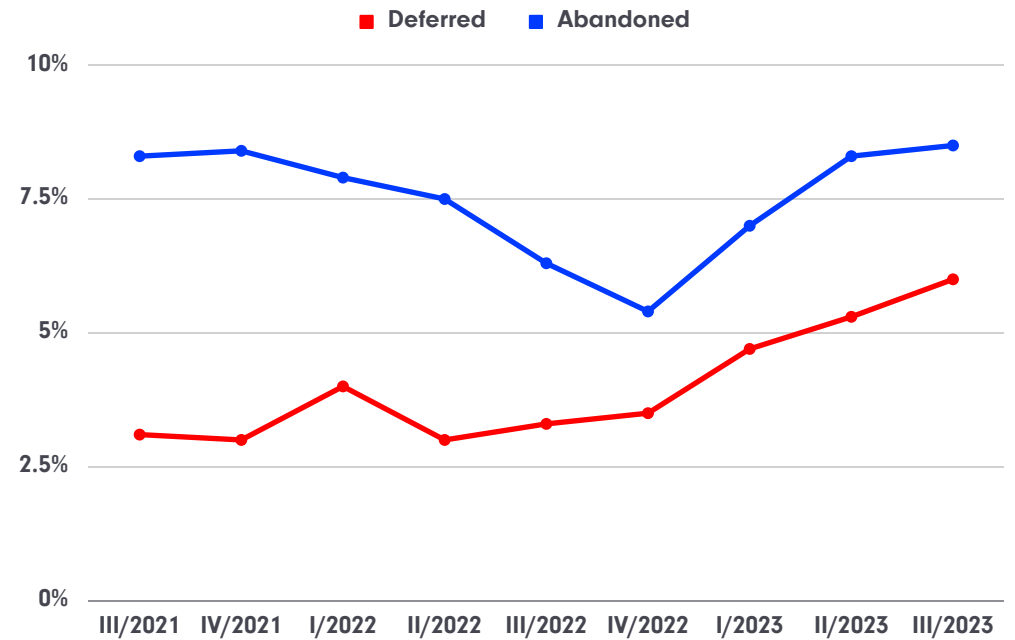
Blockages in the Pipeline: **Deferred & Abandoned**



Australia
Commercial & Hospitality
(% deferred and abandoned)



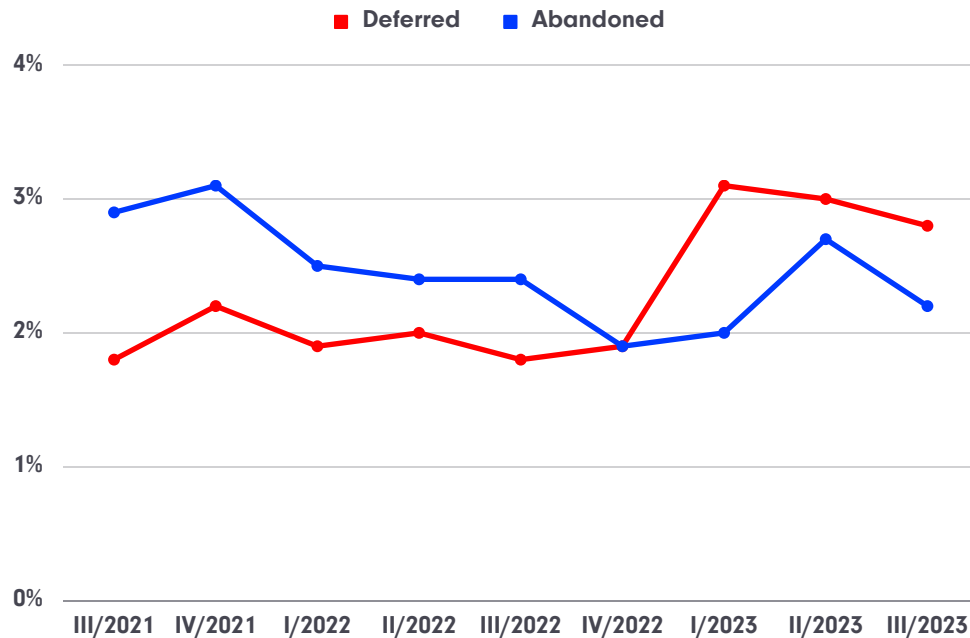
Australia
Residential (% deferred and abandoned)



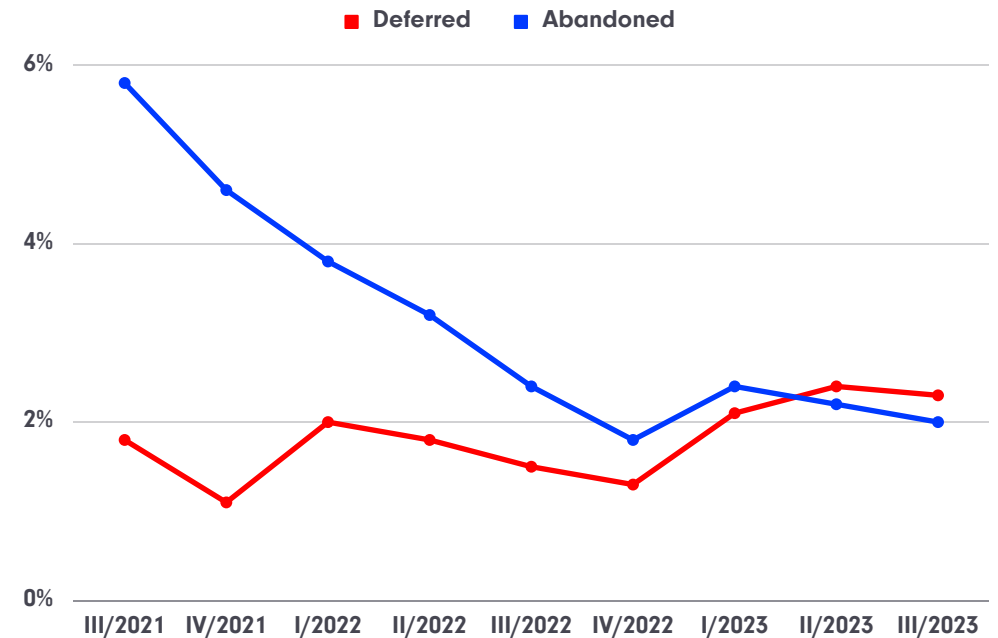
Blockages in the Pipeline: **Deferred & Abandoned**



Australia
Community & Public Buildings
(% deferred and abandoned)



Australia
Industrial, Infrastructure, Transport
(% deferred and abandoned)



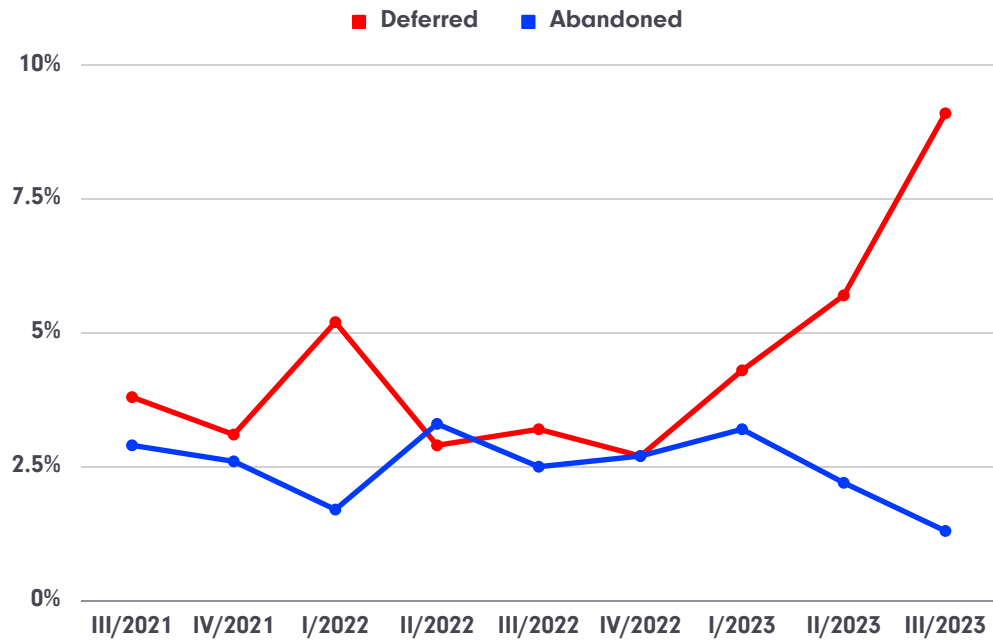
Blockages in the Pipeline: **Deferred & Abandoned**



Australia

Energy & Resources

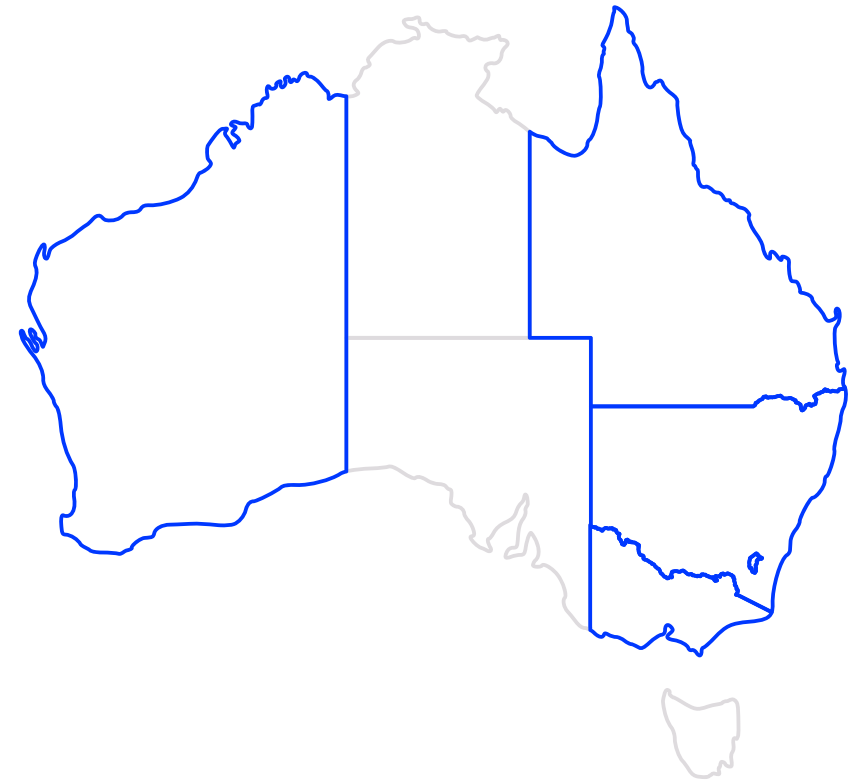
(% deferred and abandoned)



Blockages in the Pipeline: Deferred & Abandoned

Key States

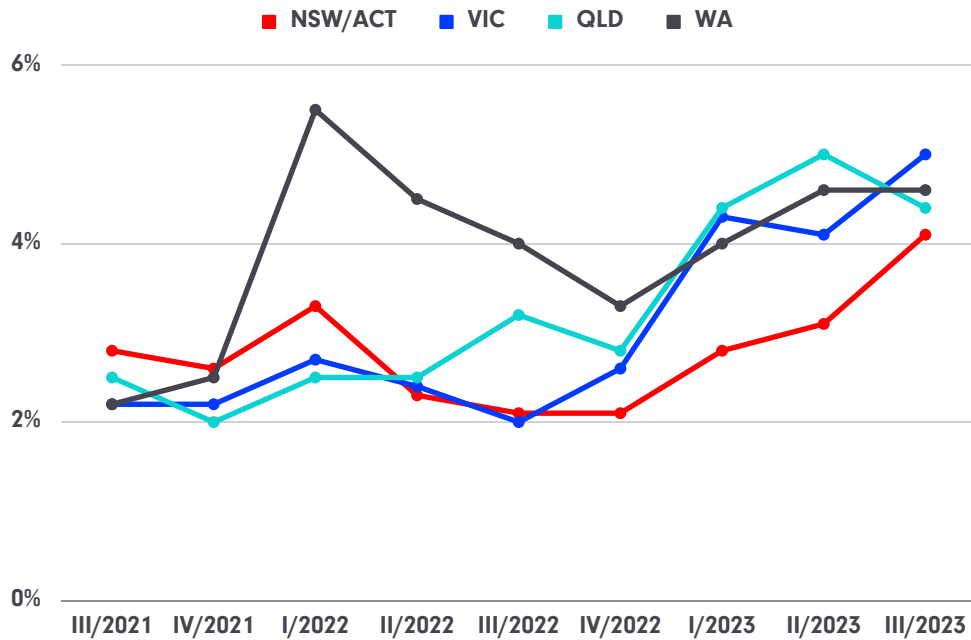
Total deferral rates across the four major states are moving in a similar direction heading into Q3 2023 from the tail end of 2022. Rising deferral rates are pronounced in the energy and resources sectors for most states except for WA which is only seeing a moderate increase. On the other hand, the industrial, infrastructure and transport sectors exhibit a general decrease in deferral rates except for VIC. Meanwhile, abandonment rates can be seen mostly declining into Q3 2023 for the major states, except for VIC. A general decline in abandonment rates can be observed in many sectors such as in community and public buildings, as well as in residential, industrial, infrastructure and transport, and the energy and resources sectors, but with VIC trading the opposite direction.



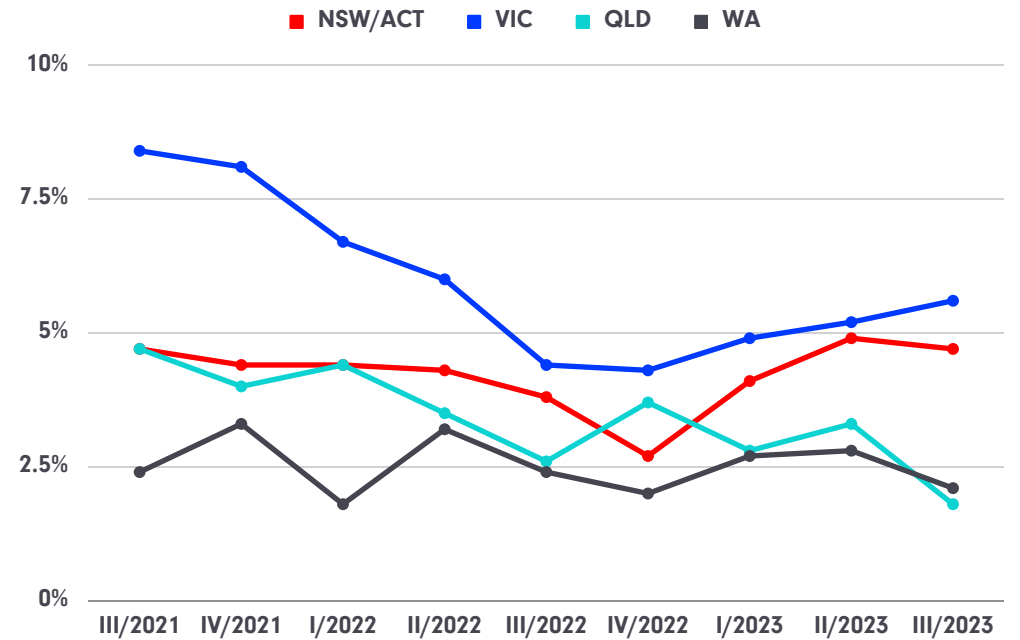
Blockages in the Pipeline: **Deferred & Abandoned**



Key States
All Sectors (% deferred)



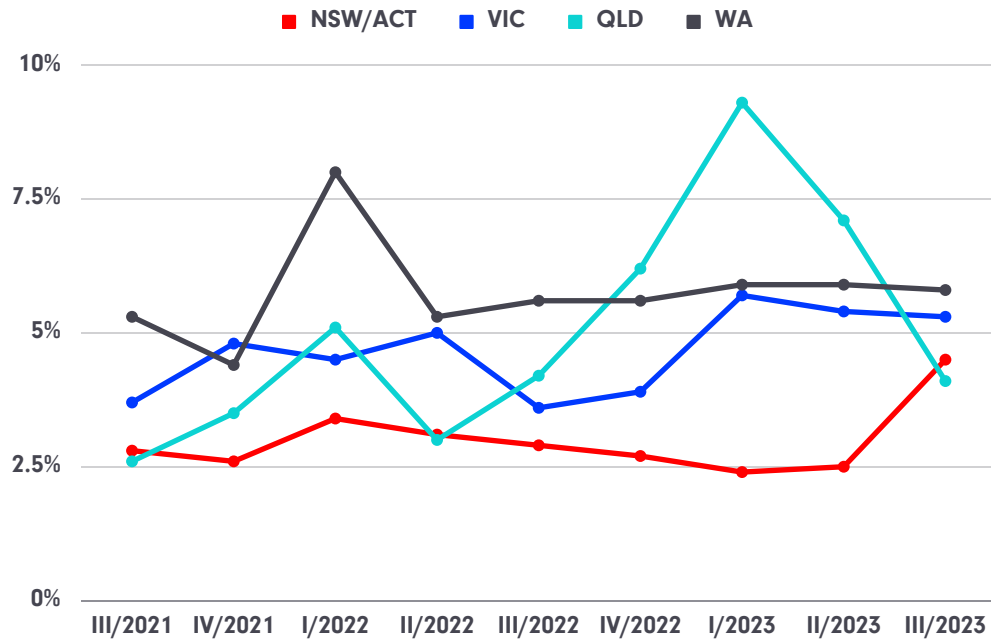
Key States
All Sectors (% abandoned)



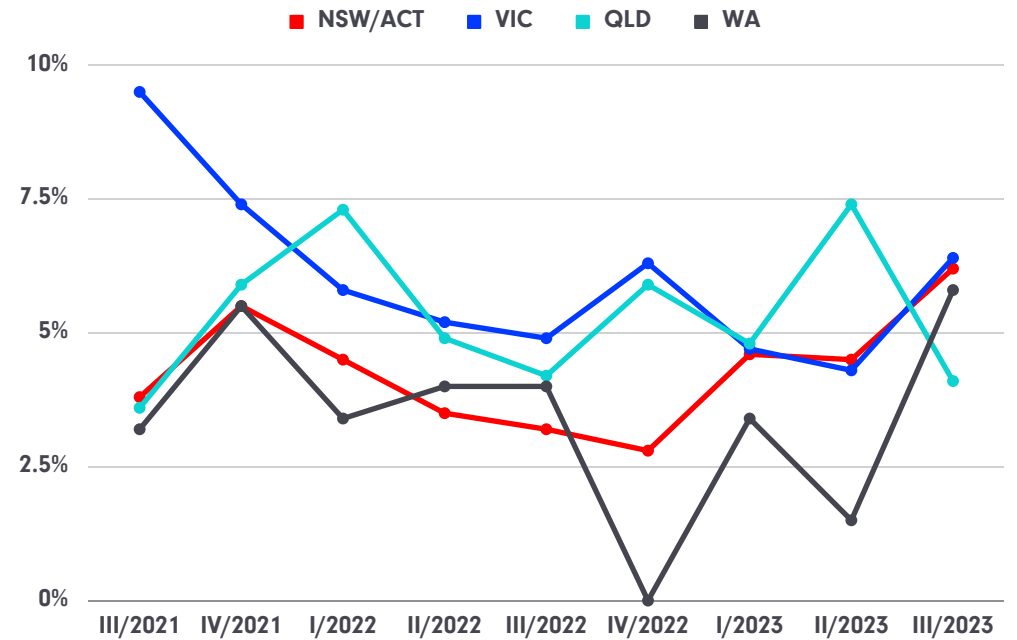
Blockages in the Pipeline: **Deferred & Abandoned**



Key States
Commercial & Hospitality
(% deferred)



Key States
Commercial & Hospitality
(% abandoned)

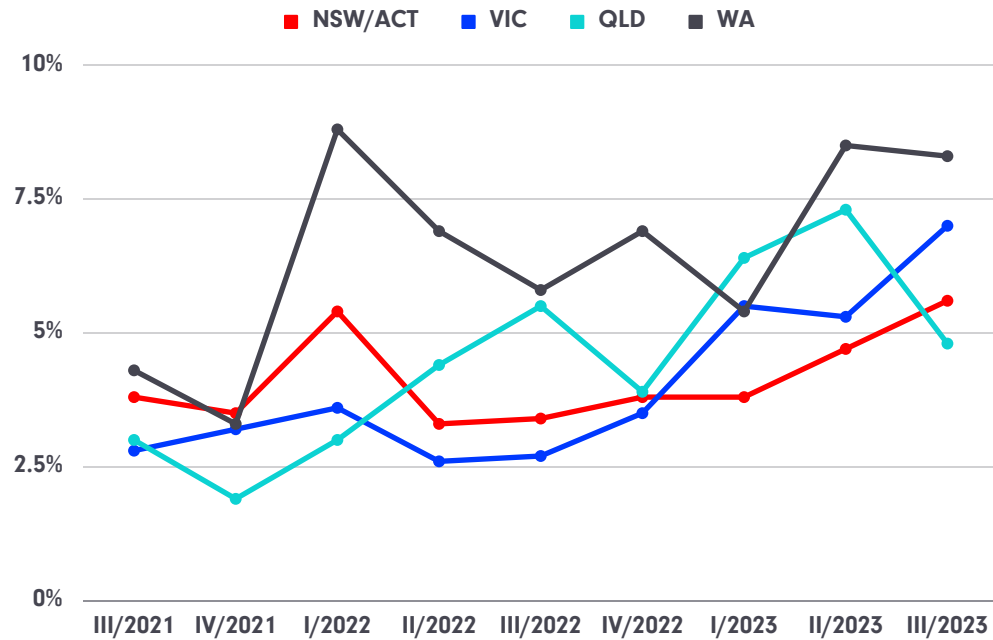


Blockages in the Pipeline: **Deferred & Abandoned**



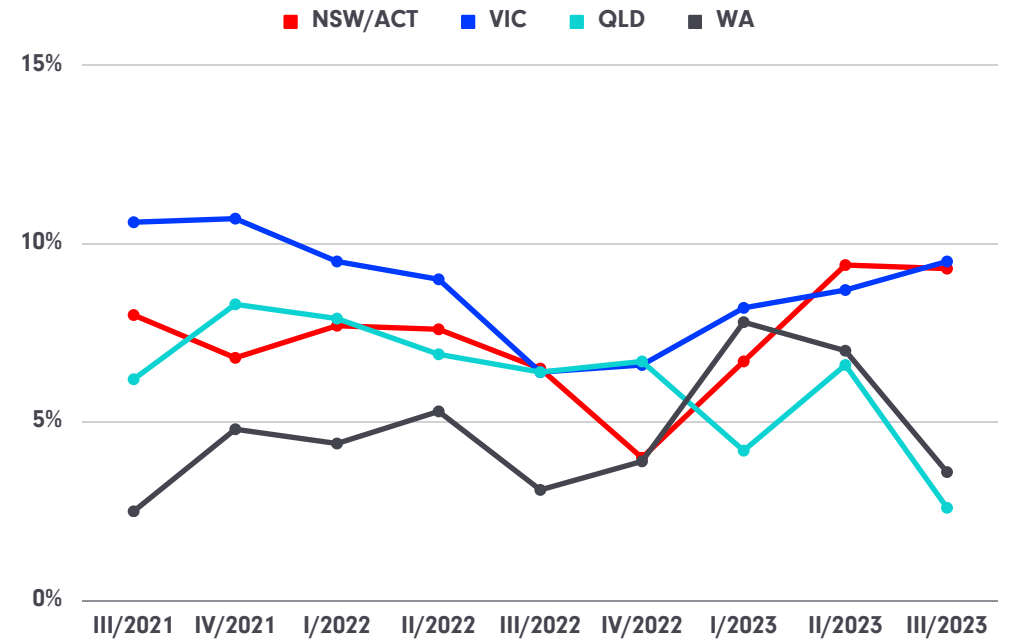
Key States

Residential (% deferred)



Key States

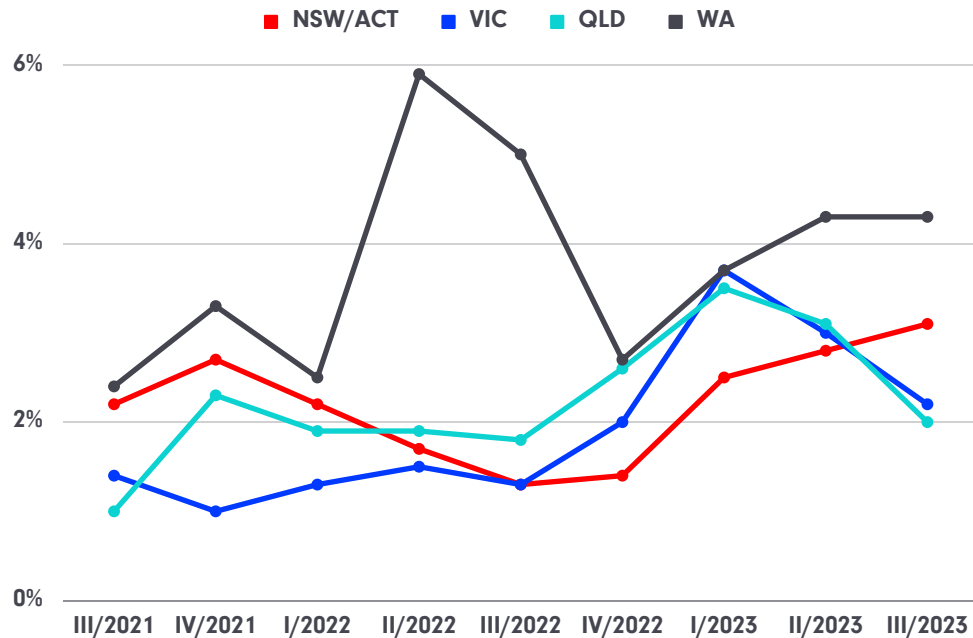
Residential (% abandoned)



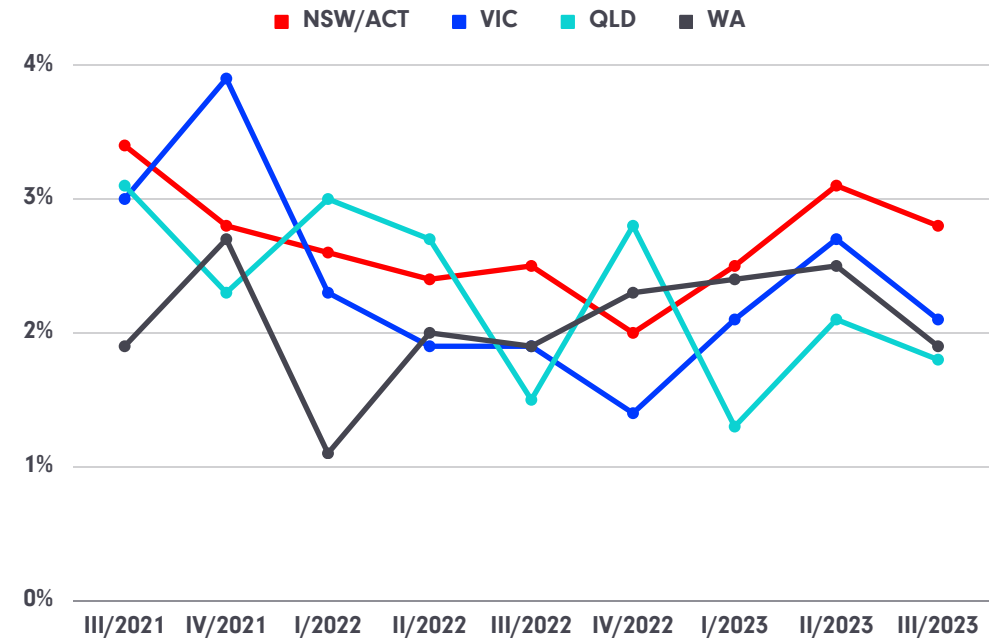
Blockages in the Pipeline: **Deferred & Abandoned**



Key States
Community & Public Buildings
(% deferred)



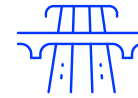
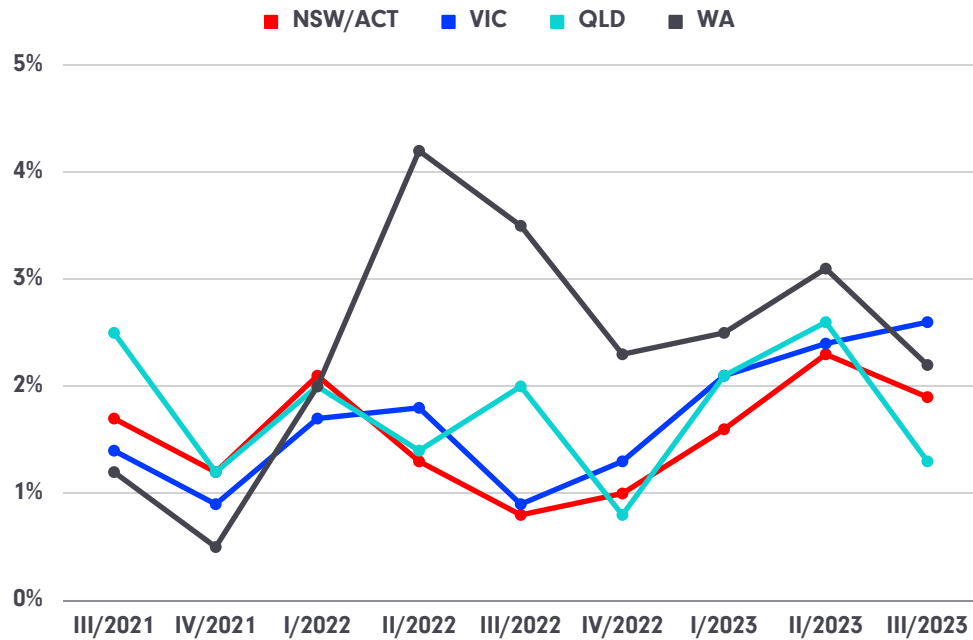
Key States
Community & Public Buildings
(% abandoned)



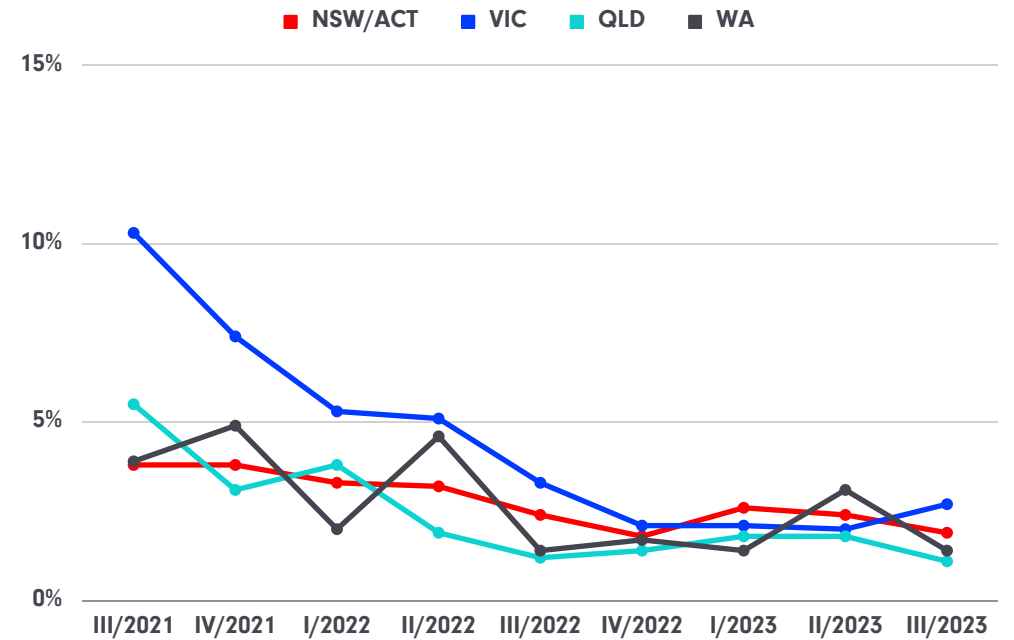
Blockages in the Pipeline: **Deferred & Abandoned**



Key States
Industrial, Infrastructure, Transport
(% deferred)



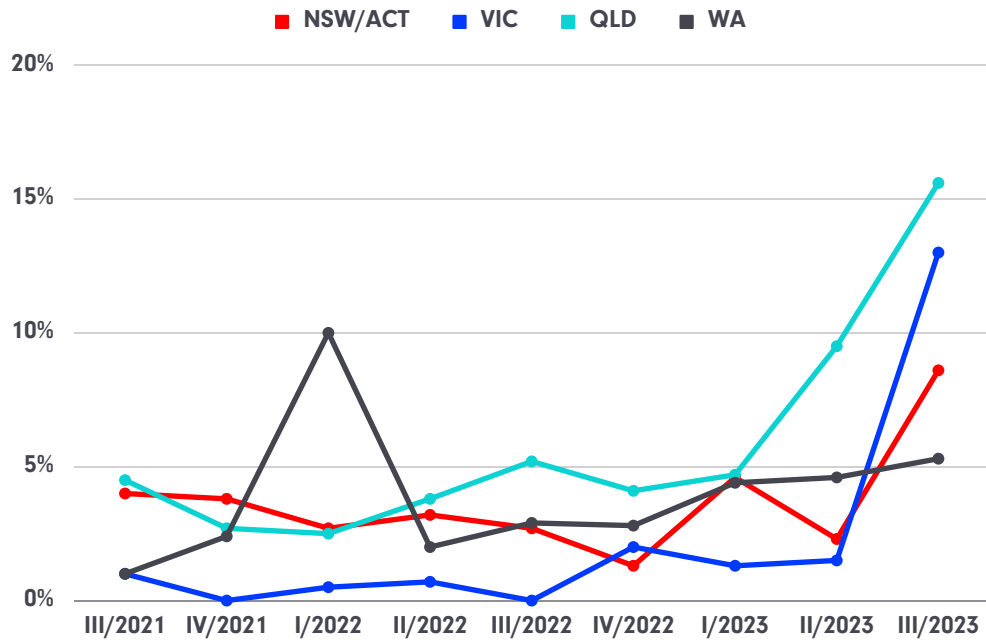
Key States
Industrial, Infrastructure, Transport
(% abandoned)



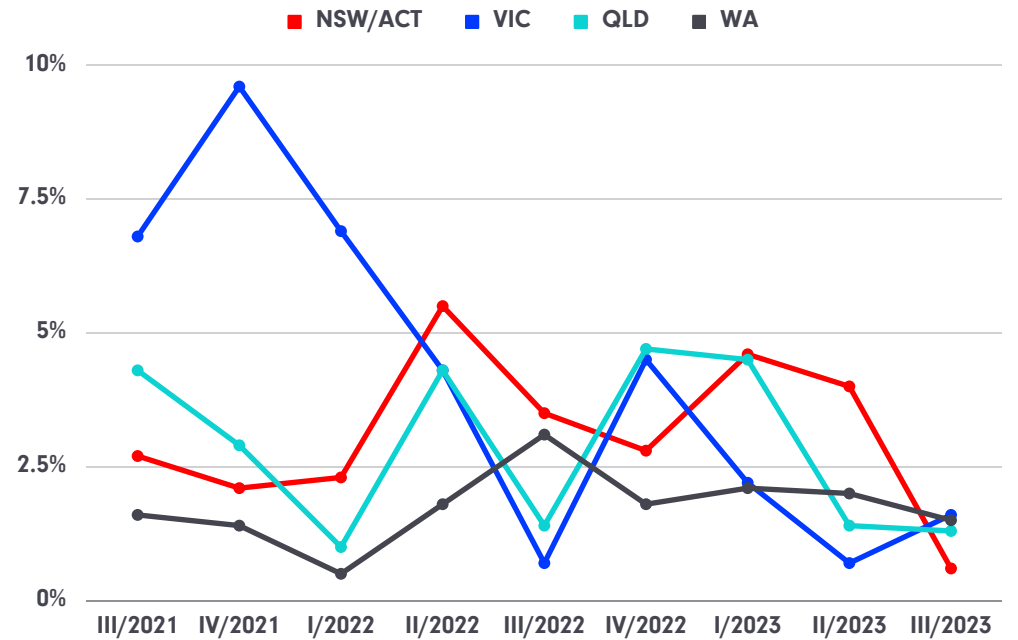
Blockages in the Pipeline: **Deferred & Abandoned**



Key States
Energy & Resources (% deferred)



Key States
Energy & Resources (% abandoned)

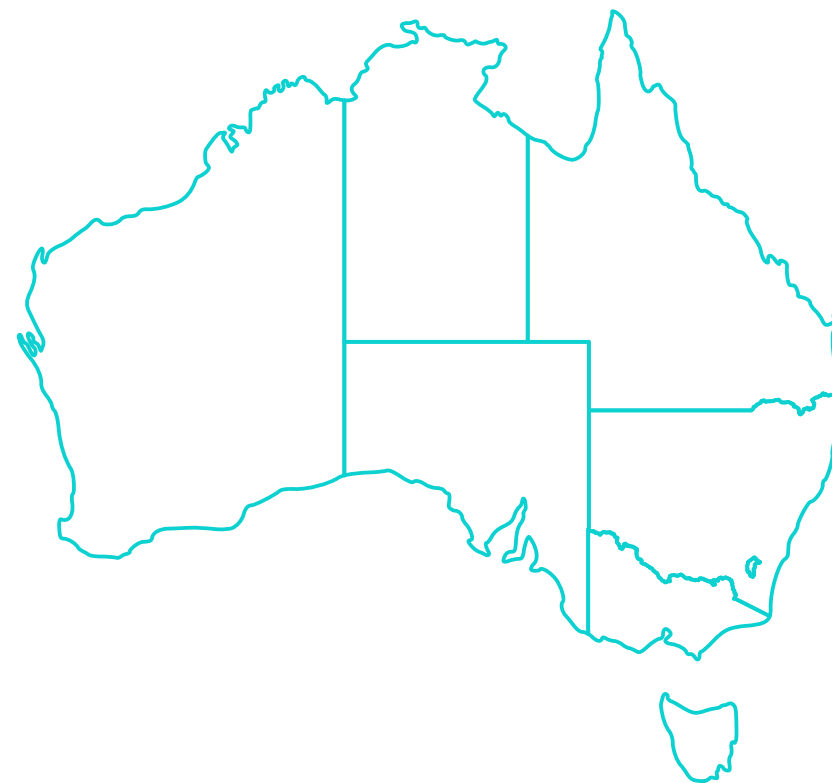


Exiting Pipeline & Forecasts: Construction Commencements

Australia

According to the Reserve Bank of Australia (RBA), the outlook for underlying inflation in the long term is set to decline with the help of the measures put in place to temper it down, with current projections at 3% at the tail end of 2024. This is seen to take place as several factors, such as the predicted resolution of supply disruptions, ease the rapid increase of goods prices. The labour market is also seen to ease, although this might take effect later on in the forecast period. Despite this, there is still significant risk in the management of inflation as to the manner it will fall back in the coming periods.

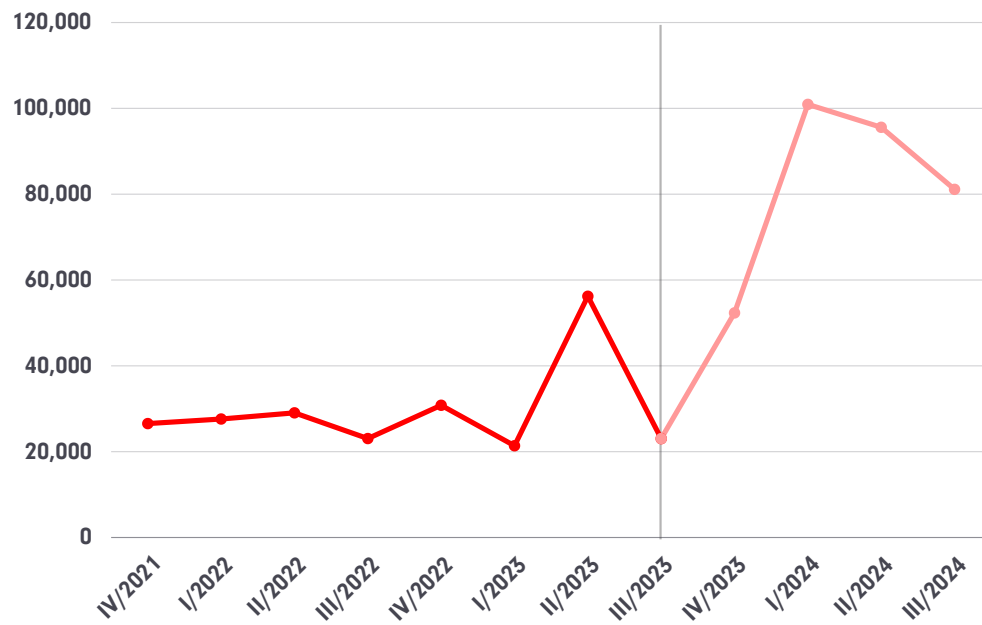
Project commencements are robust for the forecast period Q4 2023 – Q3 2024. Similar to the previous year's trend, the forecasted result for the next four quarters is seen to be boosted by the industrial, infrastructure and transport sectors, as well as the energy and resources sectors, which, together, are contributing more than 60% of total project values for this year. This is a welcome development as these sectors commonly feature large-scale and high-value projects.



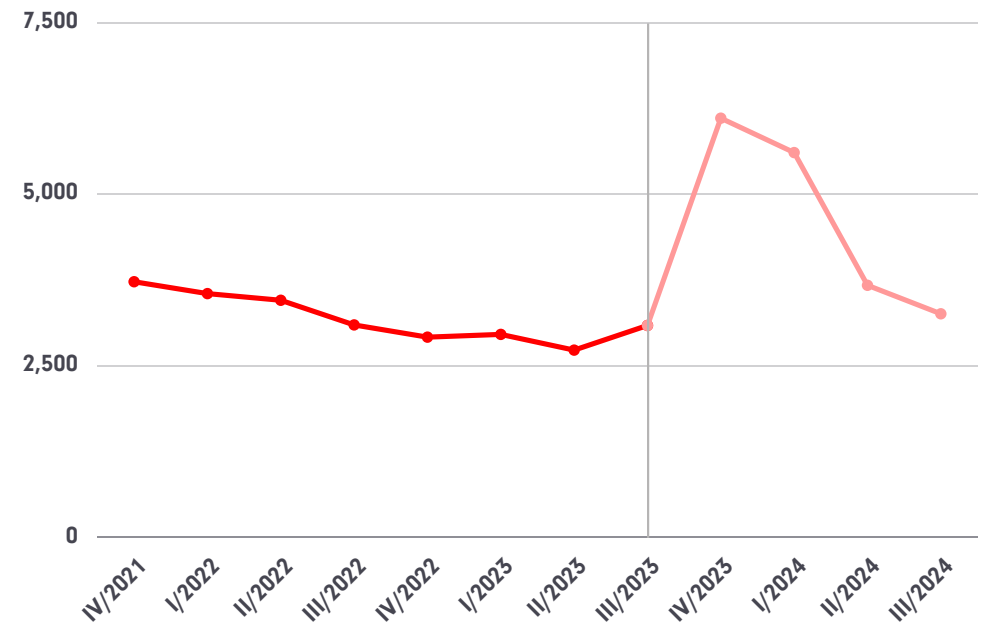
Exiting Pipeline & Forecasts: **Construction Commencements**



Australia
All Sectors (\$ million)



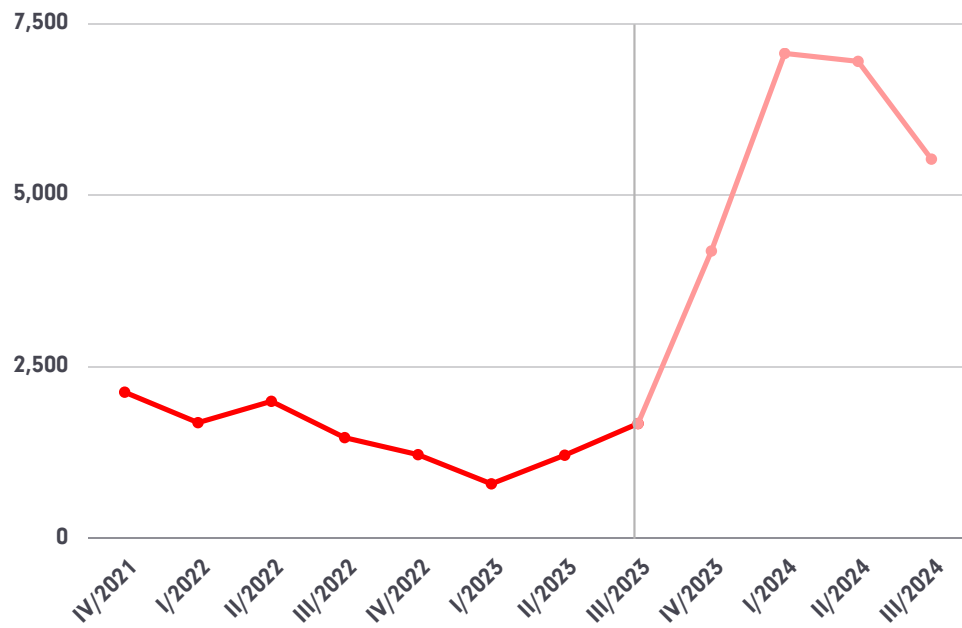
Australia
All Sectors (Number of Projects)



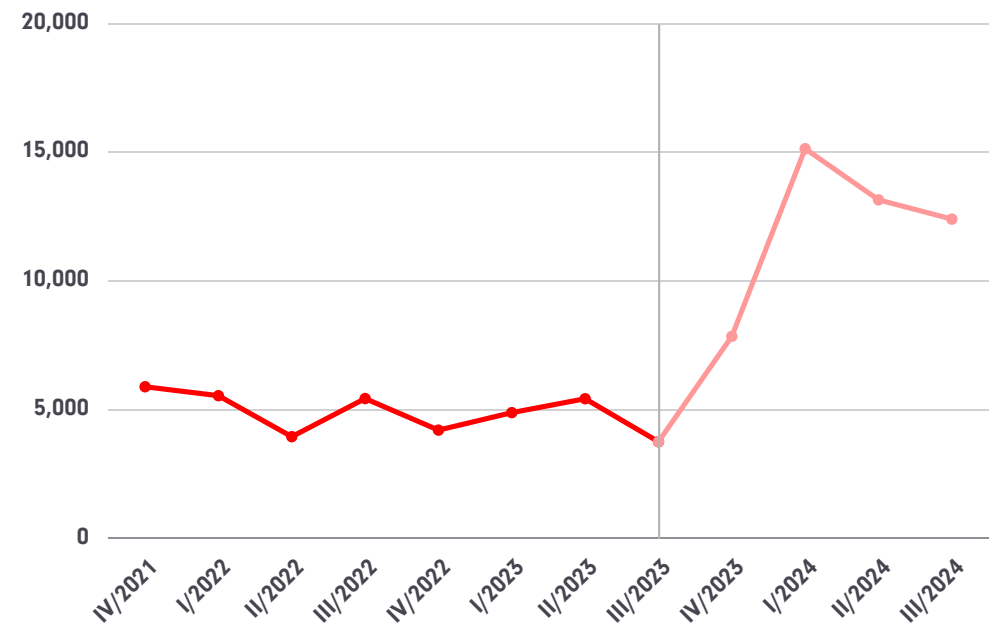
Exiting Pipeline & Forecasts: **Construction Commencements**



Australia
Commercial & Hospitality (\$ million)



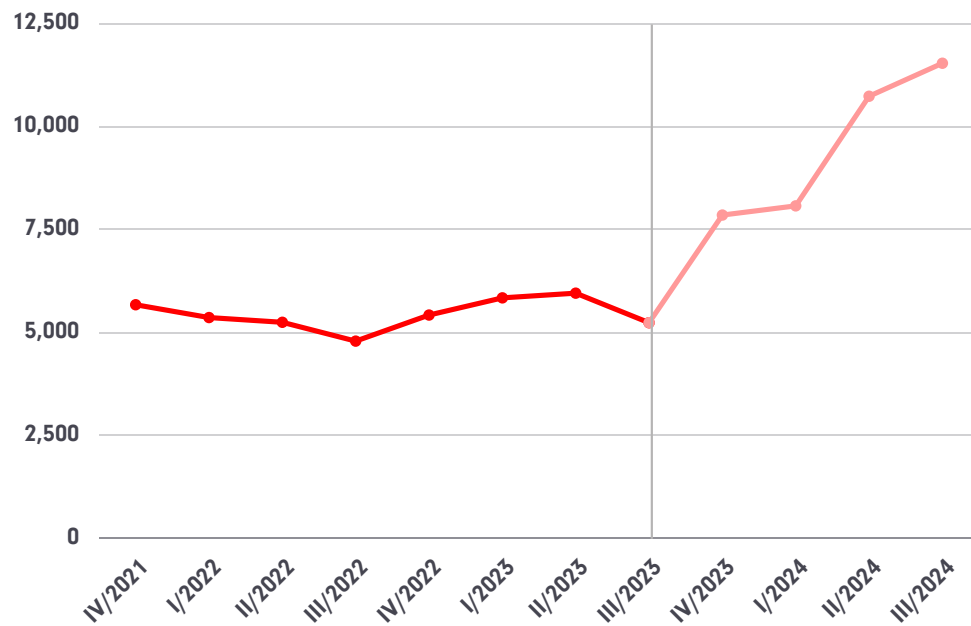
Australia
Residential (\$ million)



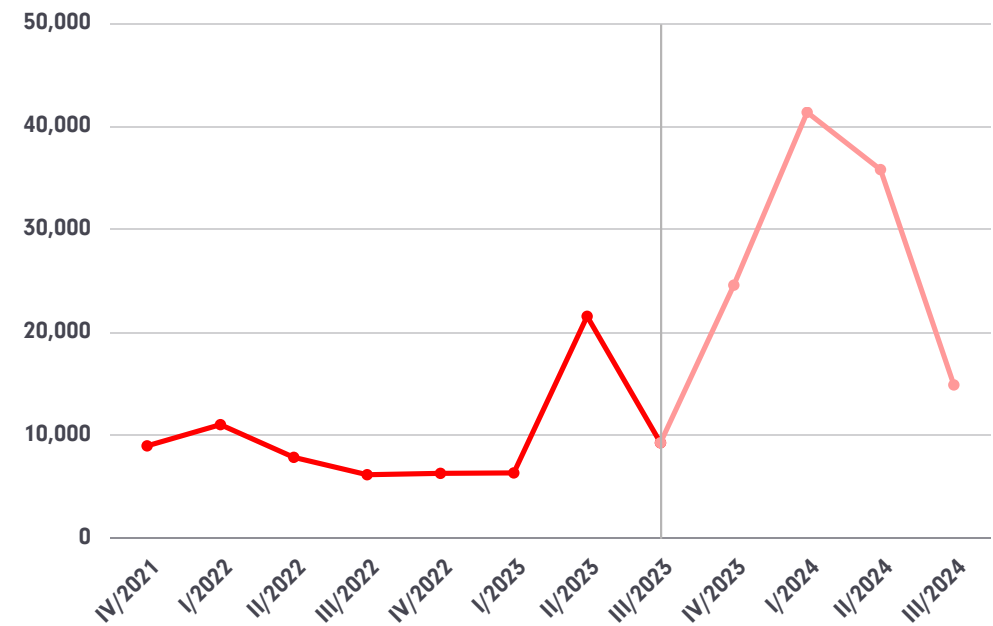
Exiting Pipeline & Forecasts: **Construction Commencements**



Australia
Community & Public Buildings (\$ million)



Australia
Industrial, Infrastructure, Transport (\$ million)

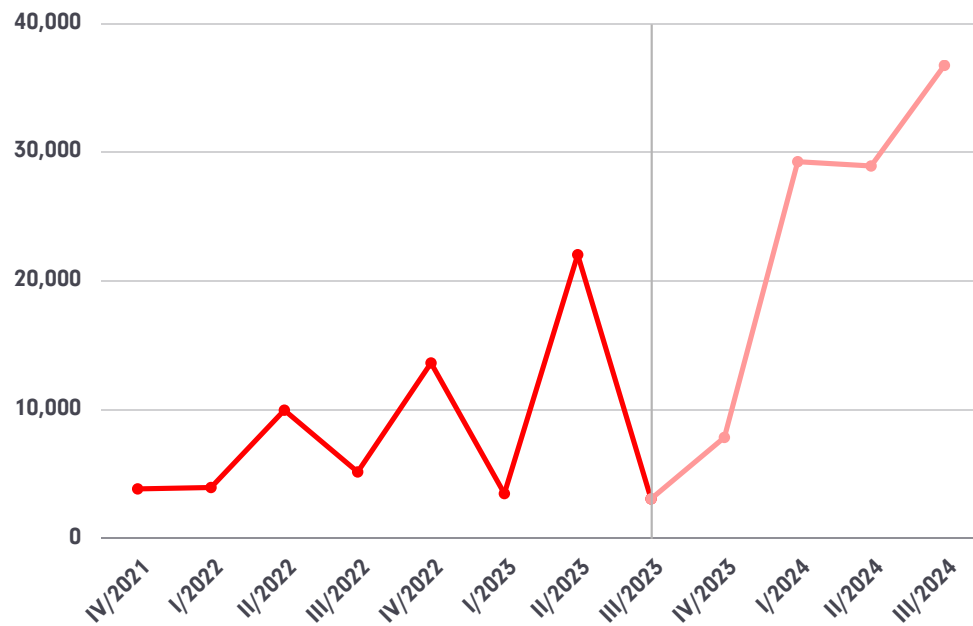


Exiting Pipeline & Forecasts: **Construction Commencements**



Australia

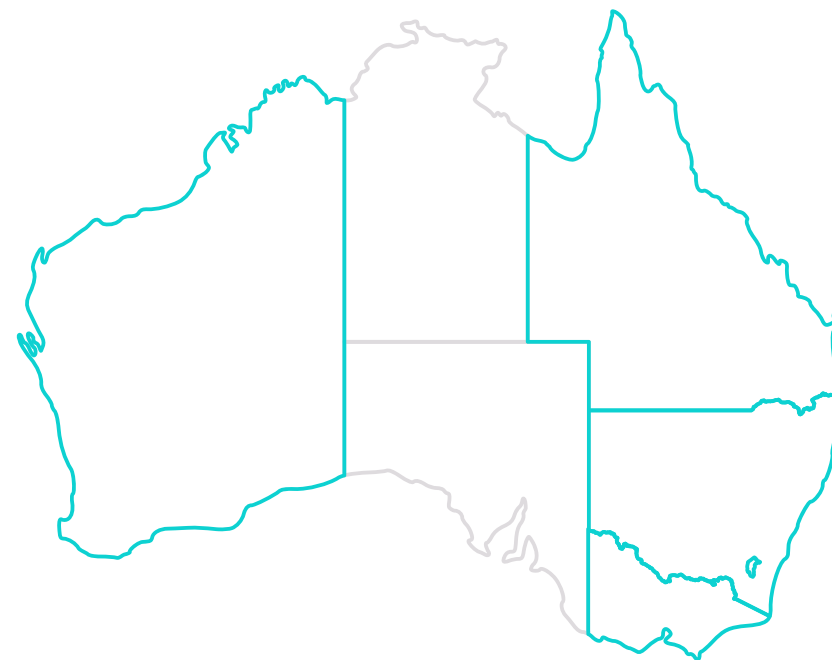
Energy & Resources (\$ million)



Exiting Pipeline & Forecasts: Construction Commencements

Key States

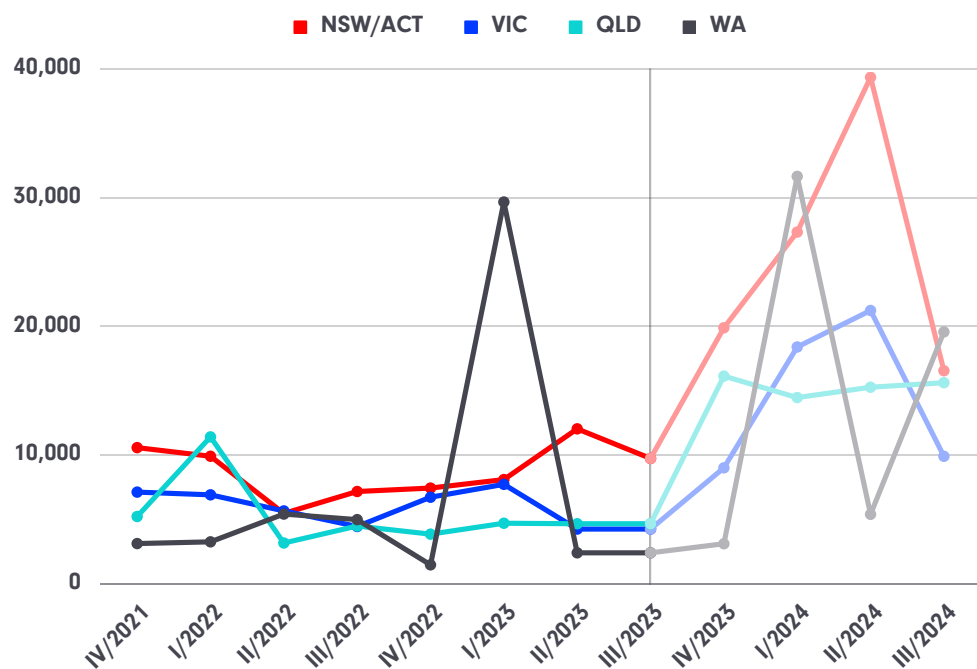
Project commencements in the major states of NSW/ACT, VIC, QLD, and WA make up more than 80% of the total construction starts nationally for the forecast period Q4 2023 - Q3 2024. Across these states, forecasted construction activity is highest in NSW/ACT at 36% of the total for the four-quarter period. This is followed distantly by QLD, WA, and VIC. NSW/ACT is seen to boost project values in the industrial, infrastructure and transport sectors, as well as the energy and resources sectors over the four-quarter period.



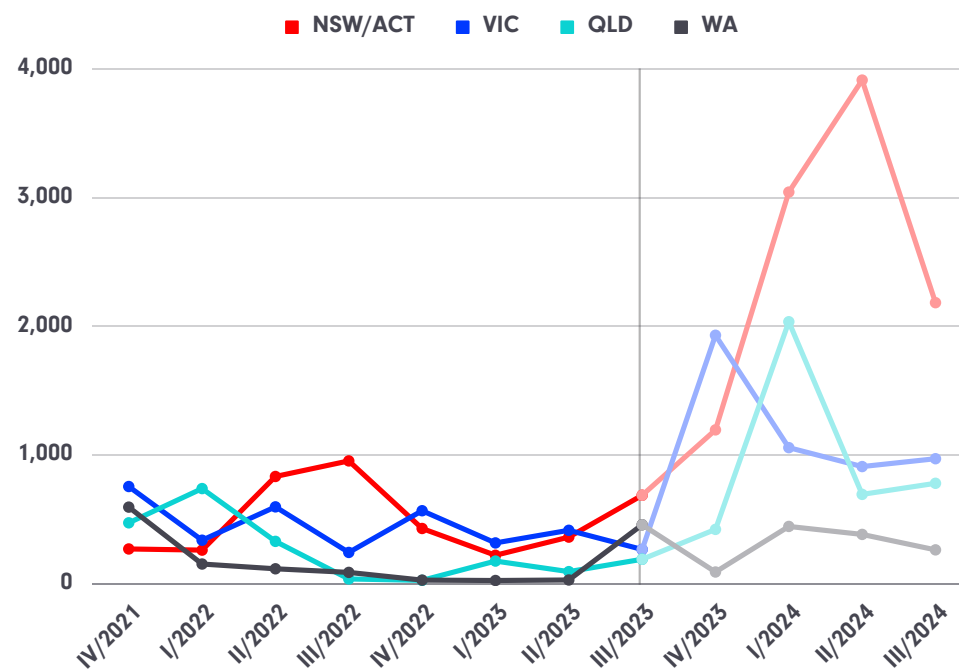
Exiting Pipeline & Forecasts: **Construction Commencements**



Key States
All Sectors (\$ million)



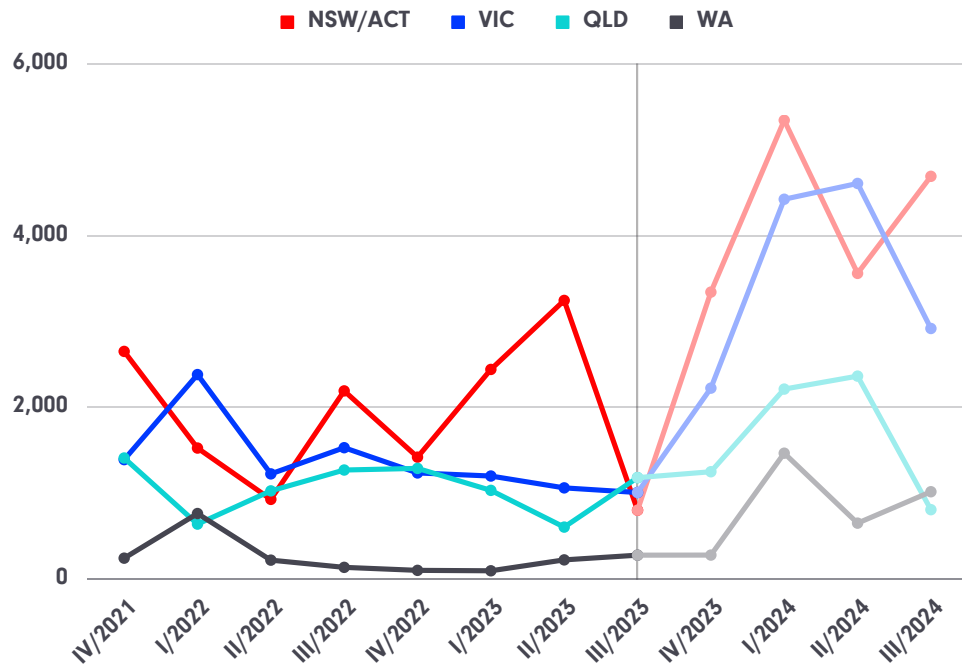
Key States
Commercial & Hospitality (\$ million)



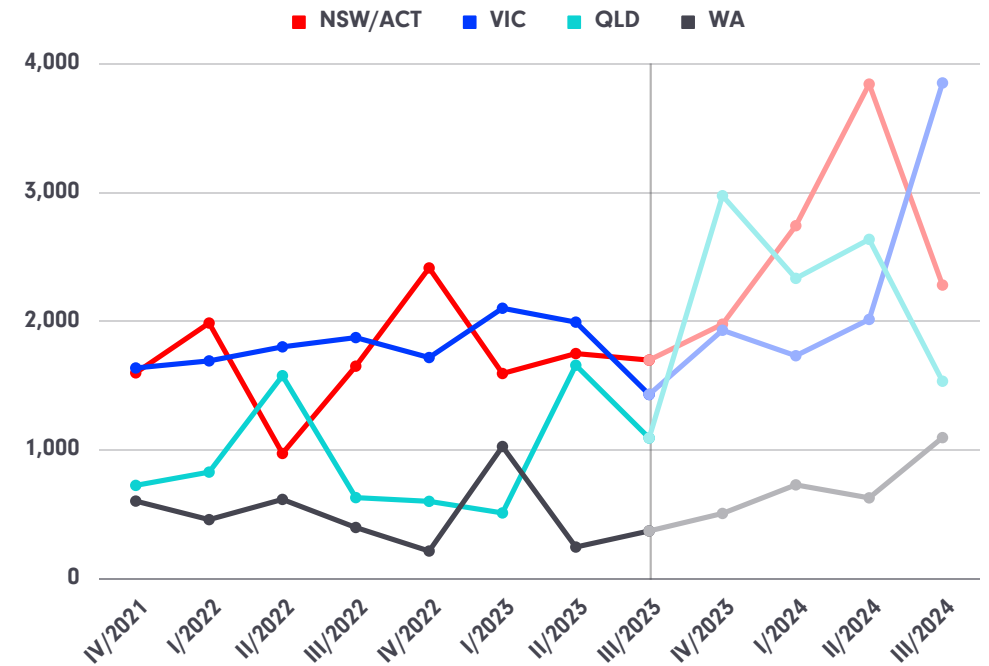
Exiting Pipeline & Forecasts: **Construction Commencements**



Key States
Residential (\$ million)



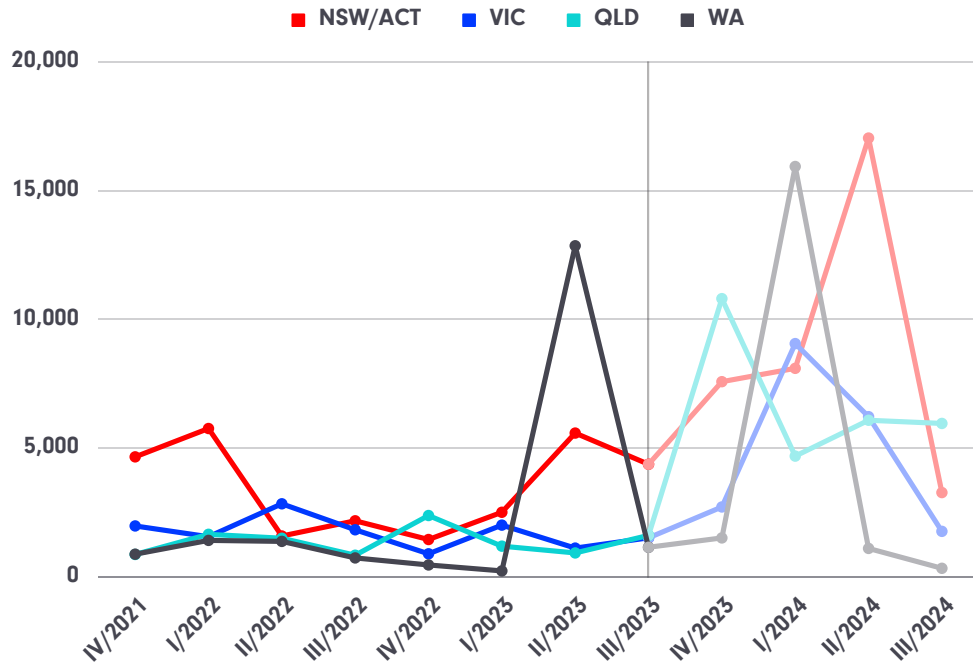
Key States
Community & Public Buildings (\$ million)



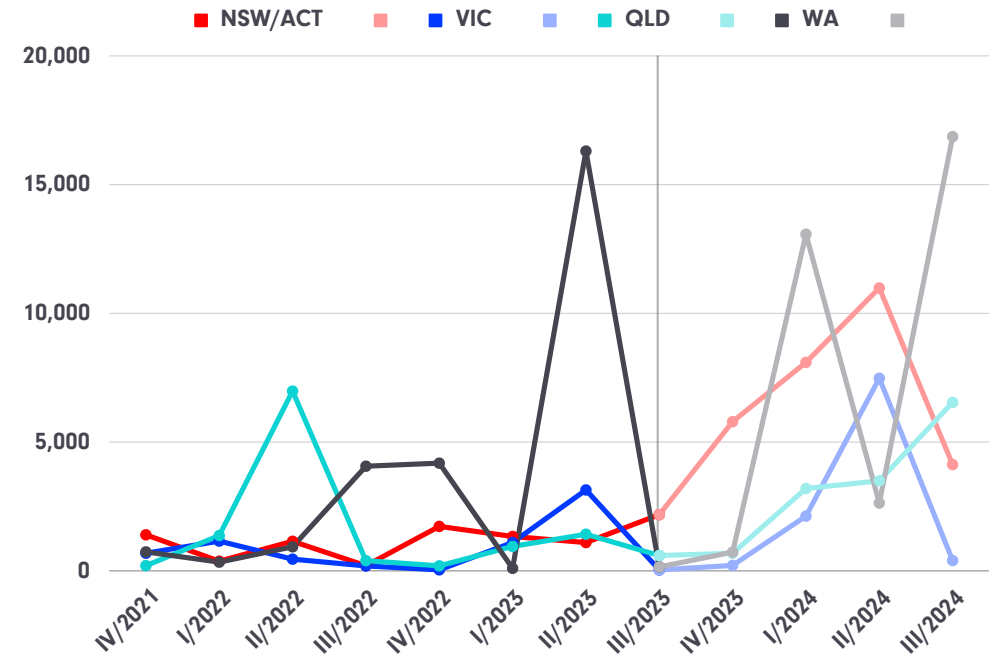
Exiting Pipeline & Forecasts: Construction Commencements



Key States
Industrial, Infrastructure & Transport
 (\$ million)



Key States
Energy & Resources (\$ million)





02

Industry & Market Insights

SENTIMENT SURVEY

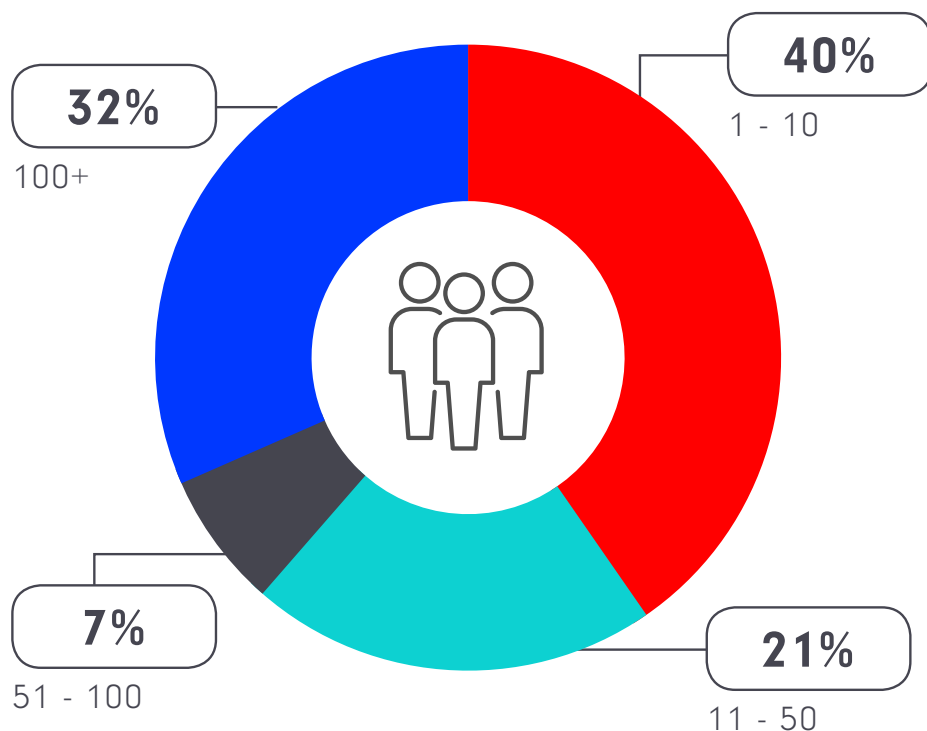
BCI's 2023 Sentiment Survey saw key market players provide their feedback on the construction industry. Stakeholders—including developers, architects/designers and builders—provided insight into challenges they have faced, the main ways they acquire work, the amount of work they anticipate having in 2024, and more.



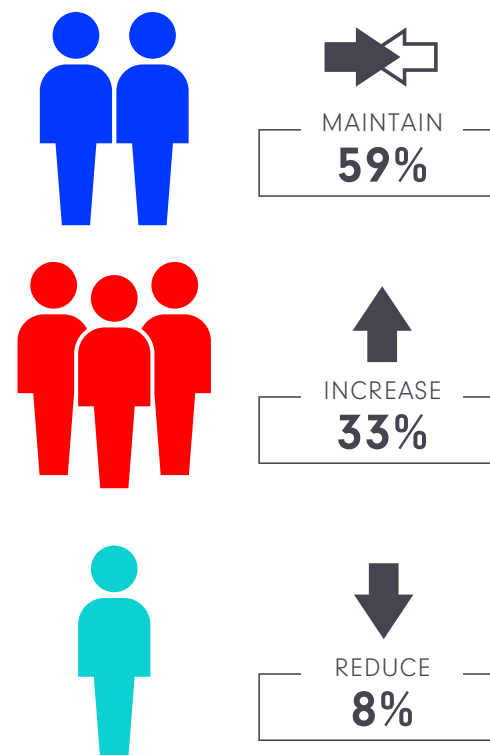
SIZE OF FIRMS

There was almost an even split between developers from small-sized firms, with only one to 10 employees, and those from companies of over 100 personnel. Just under half of the respondents who identified as builders were from firms with more than 100 employees; a quarter of the architects and designers' group listed that they had similar numbers at their practices.

? How many staff are on your firm's payroll?



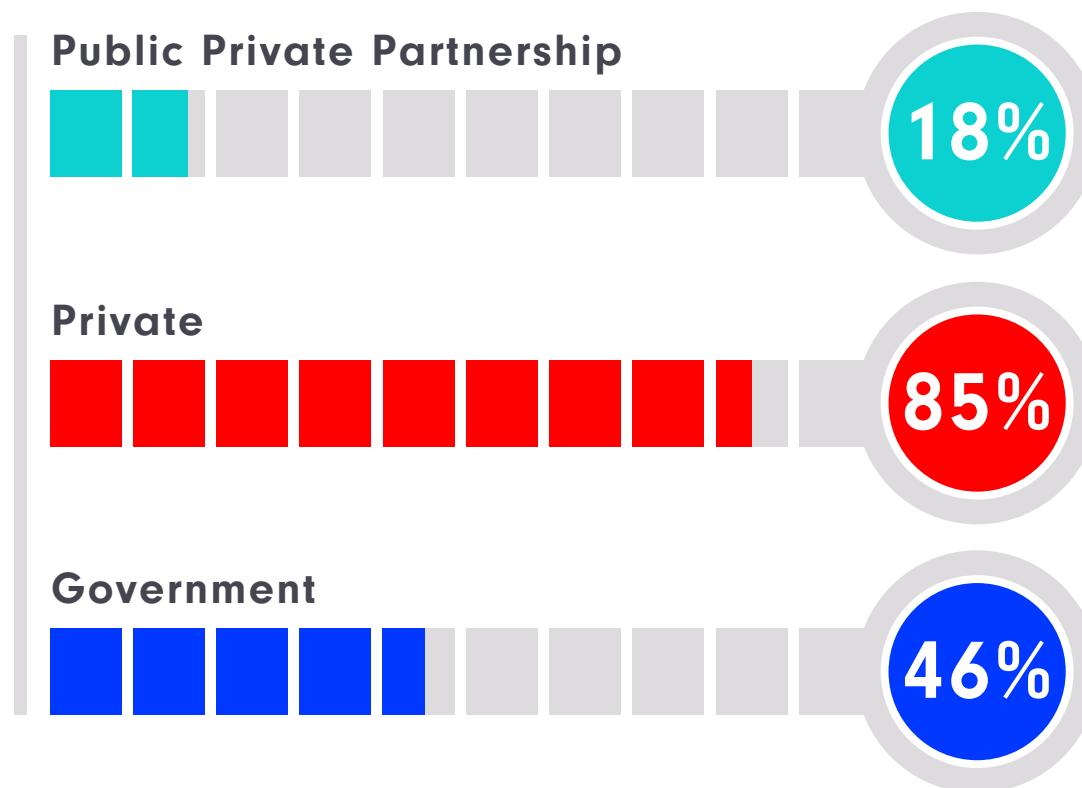
? In terms of staff numbers, what do you anticipate in the next 12 months?



PROJECT OWNERSHIP

Across the board, respondents indicated that their projects are mostly privately owned. A closer look at the builders reveals that work is also government-owned for more than half of these stakeholders.

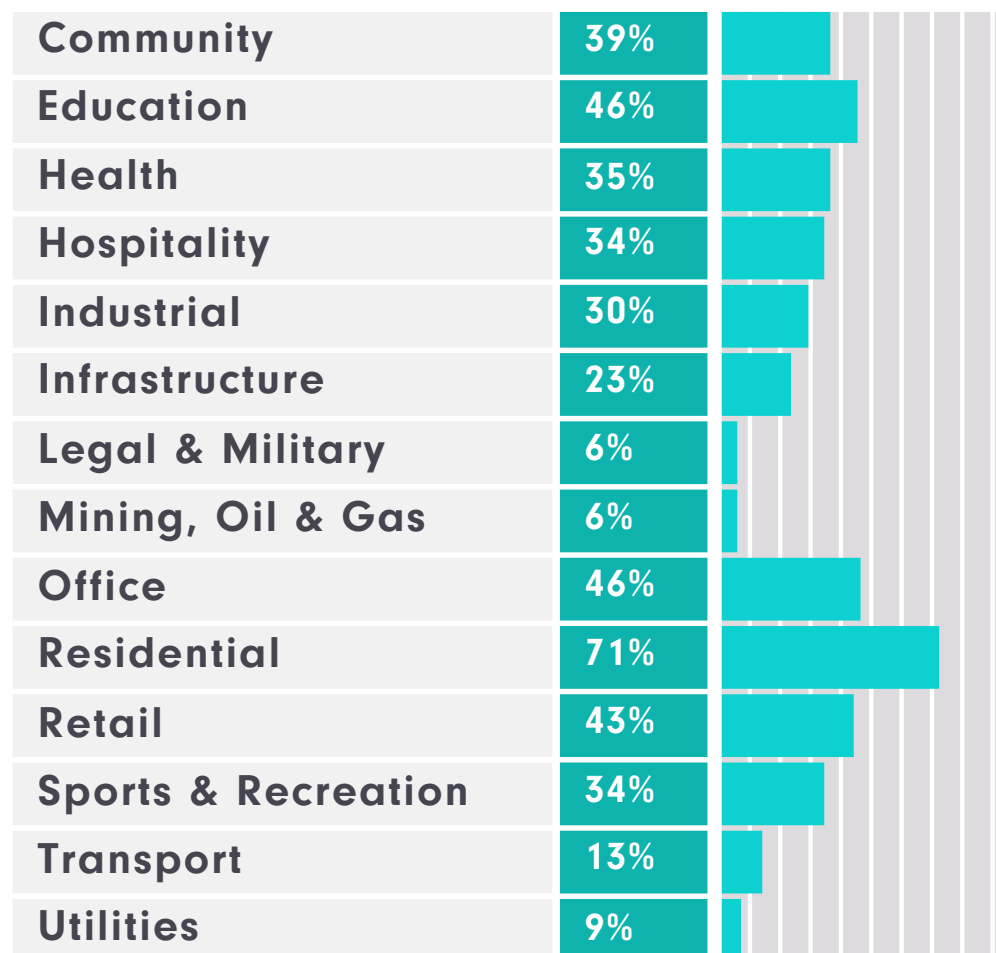
? In terms of project ownership, in which sector(s) do you operate?



PROJECT SECTORS

The majority of most respondents listed the residential sector as the area in which they operate. Other noteworthy categories included the Education and Office sectors, both coming in at 46%. For builders, Health also ranked highly, while architects indicated that another one of their key sectors is Retail.

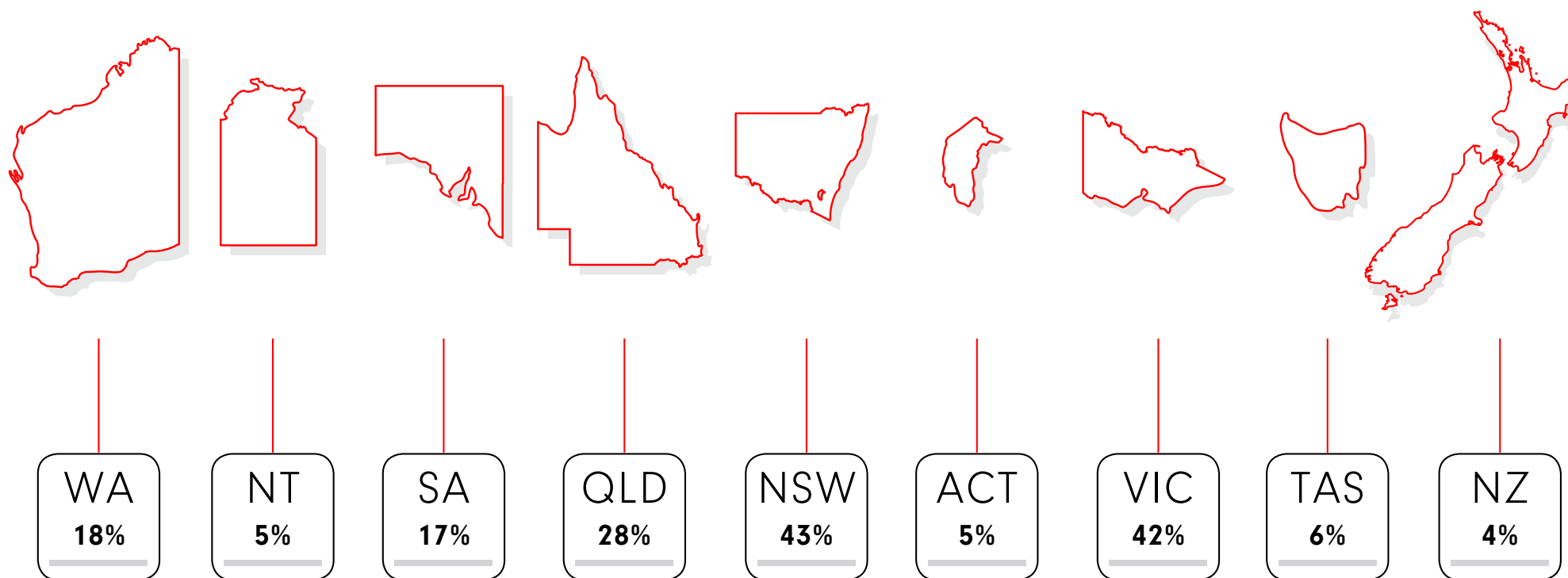
? In terms of project categories, in which sector(s) do you operate?



PROJECT LOCATIONS

The East Coast continues to be the main hub of activity, with the top three project locations listed as New South Wales, Queensland and Victoria. Western Australia and South Australia were the next most popular project locations according to survey respondents, with an almost even percentage of work.

? In which locations is your work primarily located or utilised?



PEOPLE CHALLENGES

Using a multiple-choice question, the survey asked participants to select which challenges, in terms of people, applied most to their business. Whether they were a developer, architect or builder, the primary challenge facing construction stakeholders is acquiring talent. Holding onto talent was among the top three challenges identified by respondents.

? In terms of people, which of the below challenges apply most to your business?

DEVELOPERS

1 Acquiring talent | **43%**

2 Holding onto talent | **30%**

3 Staff motivation and engagement | **26%**

ARCHITECTS

1 Acquiring talent | **51%**

2 Staff motivation and engagement | **37%**

3 Holding onto talent | **36%**

BUILDERS

1 Acquiring talent | **79%**

2 Holding onto talent | **48%**

3 Staff motivation and engagement | **27%**

PROJECT CHALLENGES

Respondents identified the challenges that are having the biggest impact on their projects. Each stakeholder group conveyed that delays across the lifecycle of a project are a challenge for their businesses. The cost of products and equipment was ranked as one of the top three project challenges for developers, architects and builders, but by varying degrees: 48%, 34% and 52% of the groups respectively.

? In terms of projects, which of the below challenges apply most to your business?

DEVELOPERS

1 Delays: Early stage, post approval, and construction | **61%**

2 Cost of products and equipment | **48%**

3 Cashflow issues | **30%**

ARCHITECTS

1 Delays: Early stage, post approval, and construction | **60%**

2 Low margins | **39%**

3 Cost of products and equipment | **34%**

BUILDERS

1 Delays: Early stage, post approval, and construction | **61%**

2 Cost of products and equipment | **52%**

3 Low margins | **42%**

BUSINESS FOCUSES

Upskilling staff is one of the top three focuses over the next 12 months for each stakeholder group. The same number of builders who listed this as a focus also indicated that their company would look at diversifying into new project sectors. With many respondents working in the residential sector, which has been on the downwards trend, it comes as no surprise that developers and architects are also looking at diversifying their projects.

? What will your business focus on over the next 12 months?

DEVELOPERS

1 Hiring staff | **30%**

2 Upskilling staff | **22%**

3 Diversifying into new project sectors | **17%**

ARCHITECTS

1 Upskilling staff | **43%**

2 Incorporating new technologies into workflows | **40%**

3 Diversifying into new project sectors | **39%**

BUILDERS

1 Diversifying into new project sectors | **61%**

1 Upskilling staff | **61%**

3 Incorporating new technologies into workflows | **36%**

ACQUIRING NEW WORK

When it comes to acquiring new work, repeat clients, referrals and networking featured as the top three methods for all respondents. Architects and builders mirror each other in this space, with more than 70% of each of these groups tending to find new work via repeat customers. On the other hand, only 22% of developers identified repeat clients as the main way they acquire new work, with more respondents erring towards referrals.

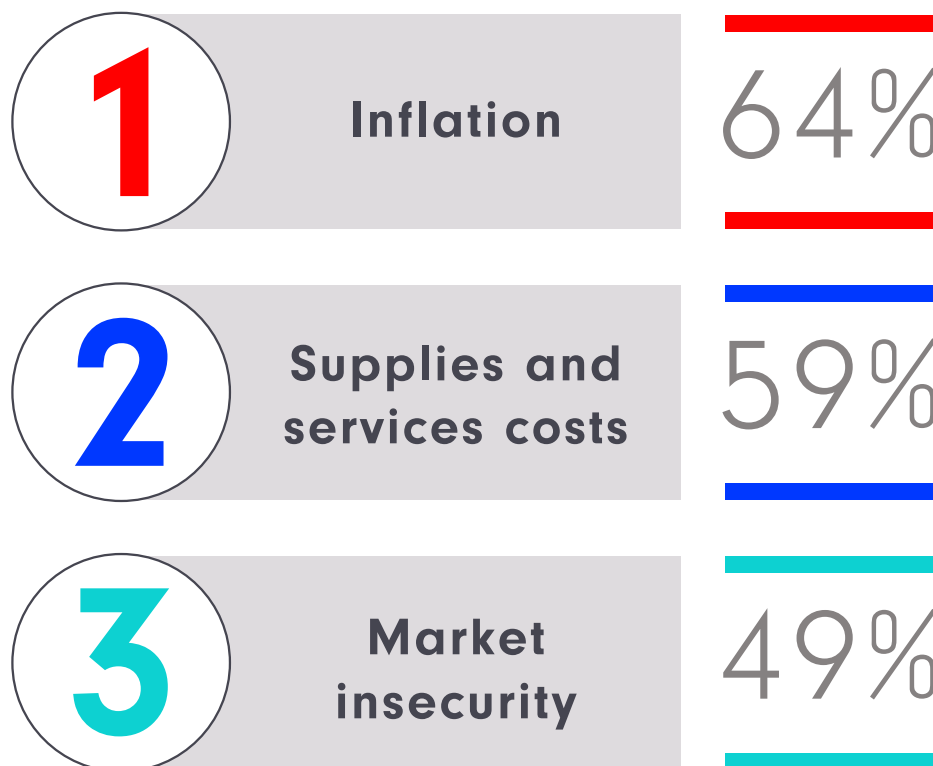
? What are the main ways you acquire new work?



FINANCIAL IMPACTS

The rate of inflation is being felt throughout the industry, with developers, builders and architects all listing it as a top three financial impact. While supplies and services costs were highlighted as a factor across the stakeholder groups, 48% of developers also identified interest rates as having had an impact on their companies.

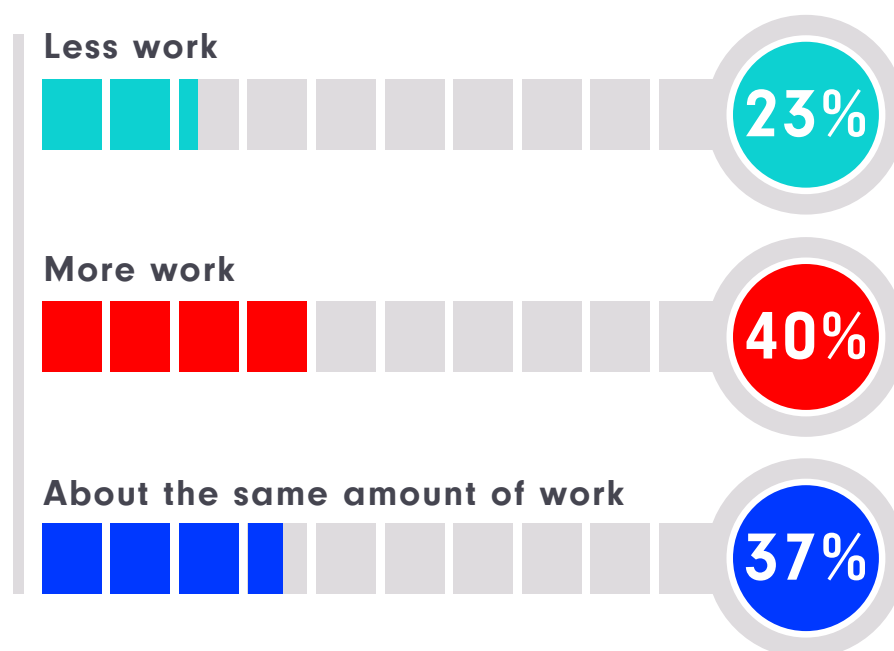
? Which of the following financial factors have impacted your company?



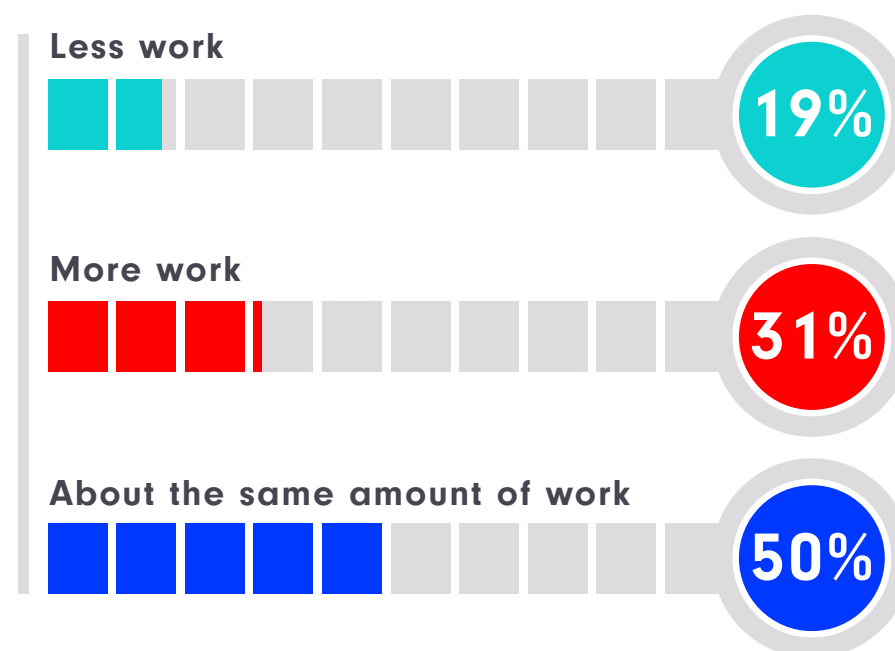
LOOKING BACK

We asked respondents to look back at the volume of work they had last year in comparison to this year. Close to 50% of builders stated that they have more work now than they did in 2022, while developers and architects were quite evenly distributed between having more work than last year, and about the same amount of work as 2022.

? Compared to 2022, do you have less/more/about the same amount of work?



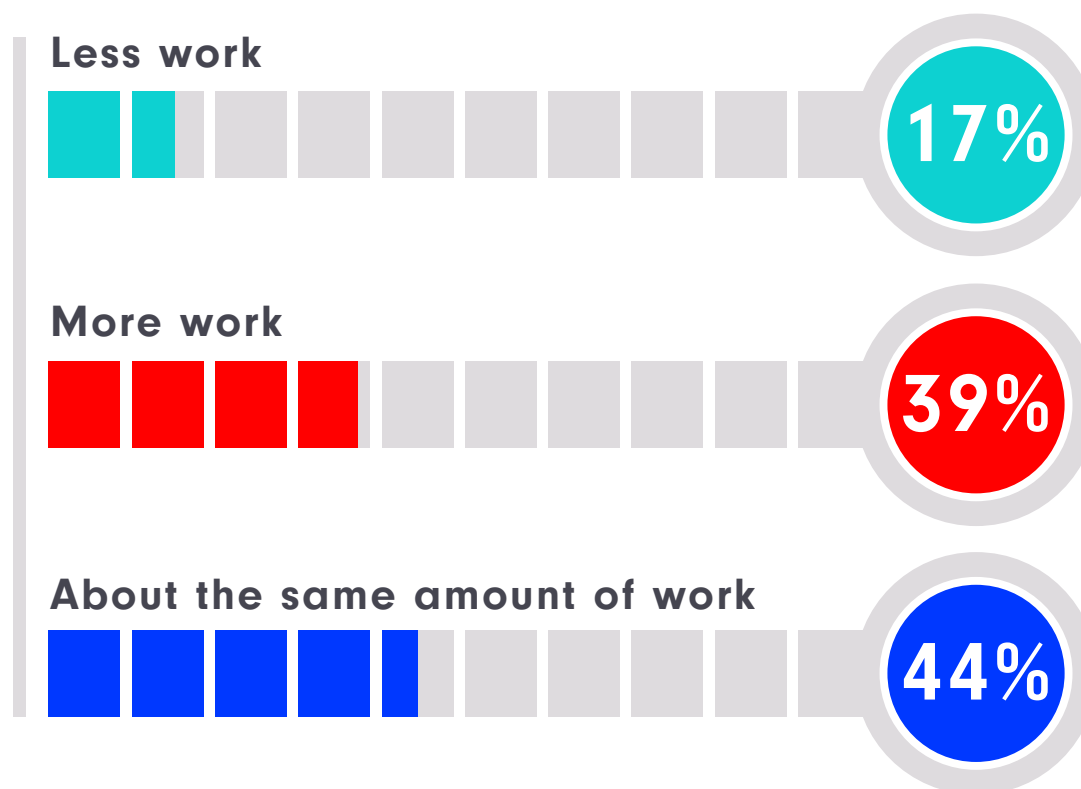
? In 2023, have you had less/more/about the same amount of work?



LOOKING AHEAD

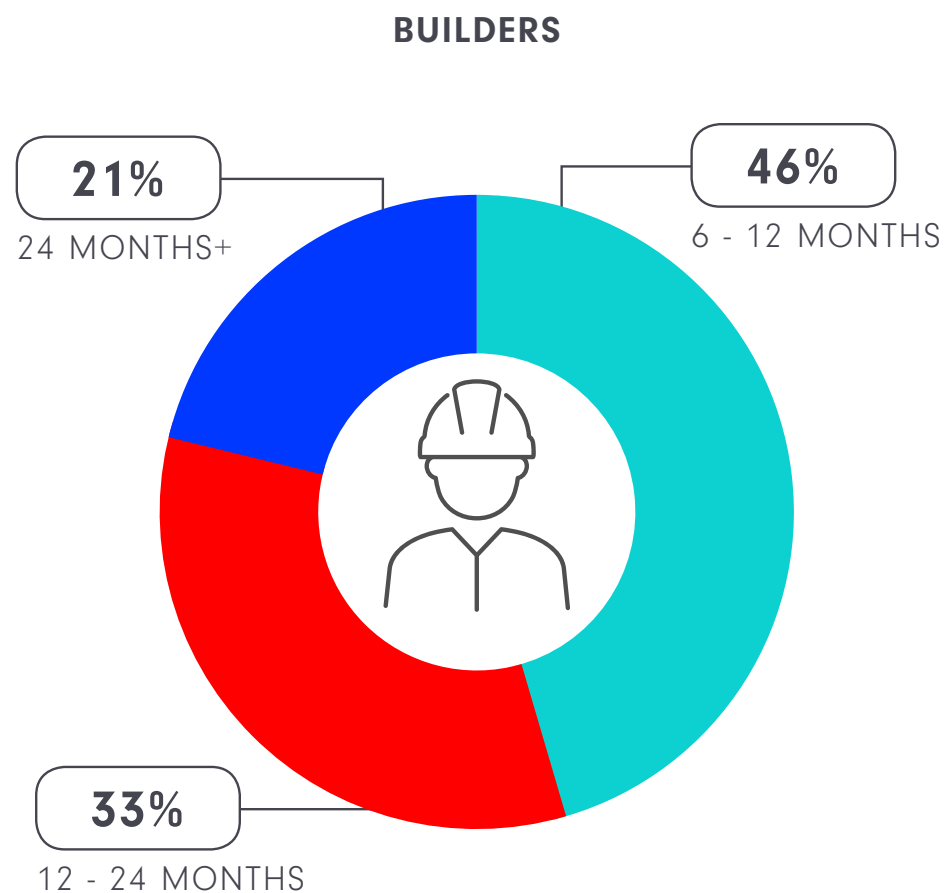
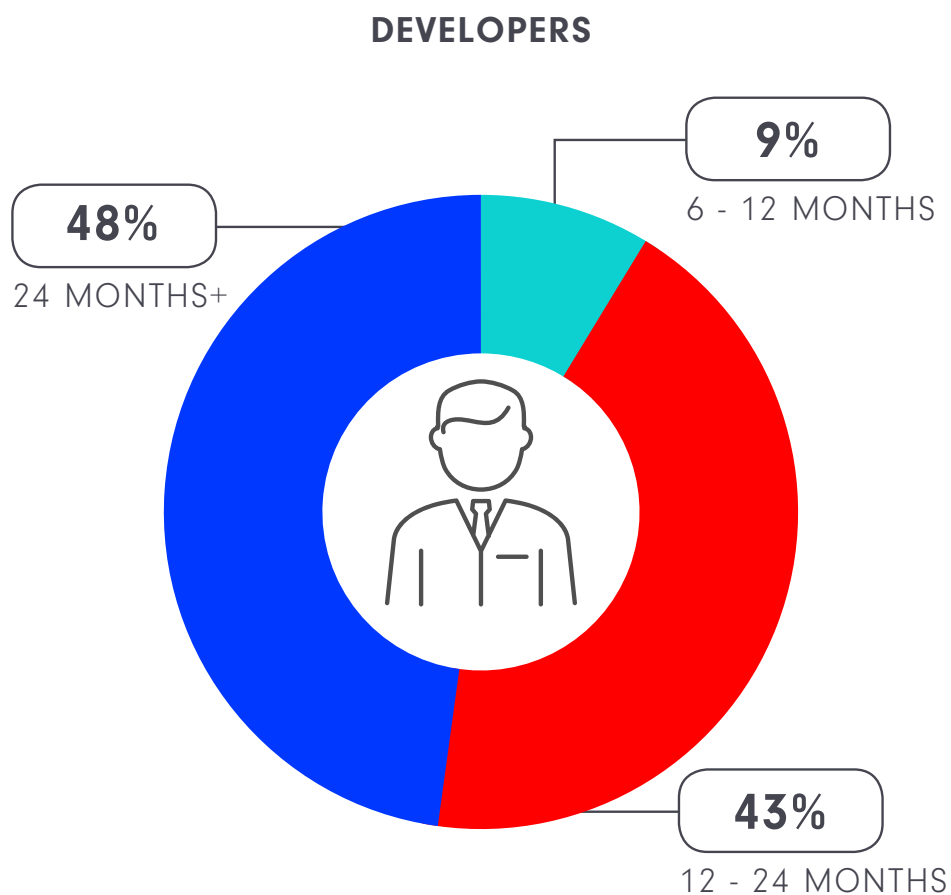
In 2024, the majority of developers and architects expect to have about the same amount of work as 2023 (48% and 46% respectively). More builders anticipate their schedule to be busier (36%) than quieter (28%) in 2024, when compared with the past 12 months.

? Looking ahead to next year (2024), do you expect to have less/more/about the same amount of work?



PLANNING PROJECT PIPELINES

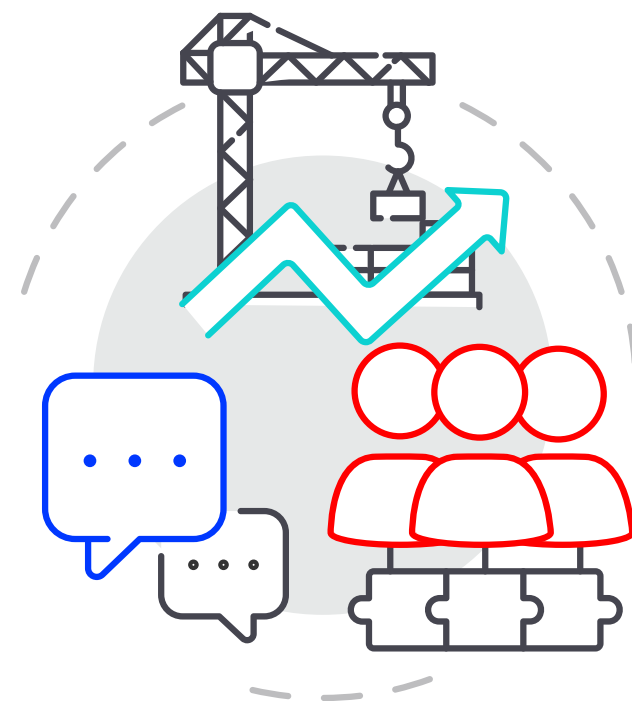
We asked developers and builders how far in advance they plan their project pipelines. Only 9% of developers plan 6 - 12 months in advance, while 46% of the respondents who identified as builders take a more short-term view when it comes to planning their work. Almost half of the developer respondents stated that their plans extend to 24+ months in advance.



STAKEHOLDER INSIGHTS

Interviews with key industry decision makers helped shed valuable light on the topics and challenges shaping today's built environment.

Addressing three different stakeholder groups has provided a deeper perspective into how builders, developers and architects/designers are navigating these topics and tackling these challenges.



SPECIAL THANKS TO OUR CONTRIBUTORS



Robert Furolo
Executive Manager -
Corporate Communications
Deicorp



Jack Hutchinson
Director
Hutchinson Builders



Benjamin Donohoo
Principal
GRIMSHAW



Andrew Deveson
Director
Kapitol Group



Adam Ashcroft
General Manager
Growthbuilt



David Caputo
Director
Kapitol Group



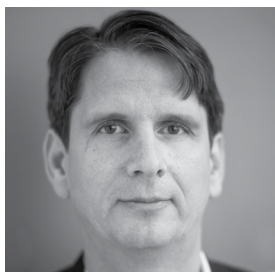
SPECIAL THANKS TO OUR CONTRIBUTORS



Avtar Lotay
Managing Director
RSHP



Jon Atkinson
Head of Specification
SCLspec



Torsten Burkhardt
Associate Partner
RSHP



Sally Stansborough
Senior Architect
Stallard Meek Flightpath
Architects (SMFA)



Allen Sammut
CEO/Managing Director
Sammut Group



Sarah Swincer
Senior Architect
Stallard Meek Flightpath
Architects (SMFA)



BUILDER INSIGHTS

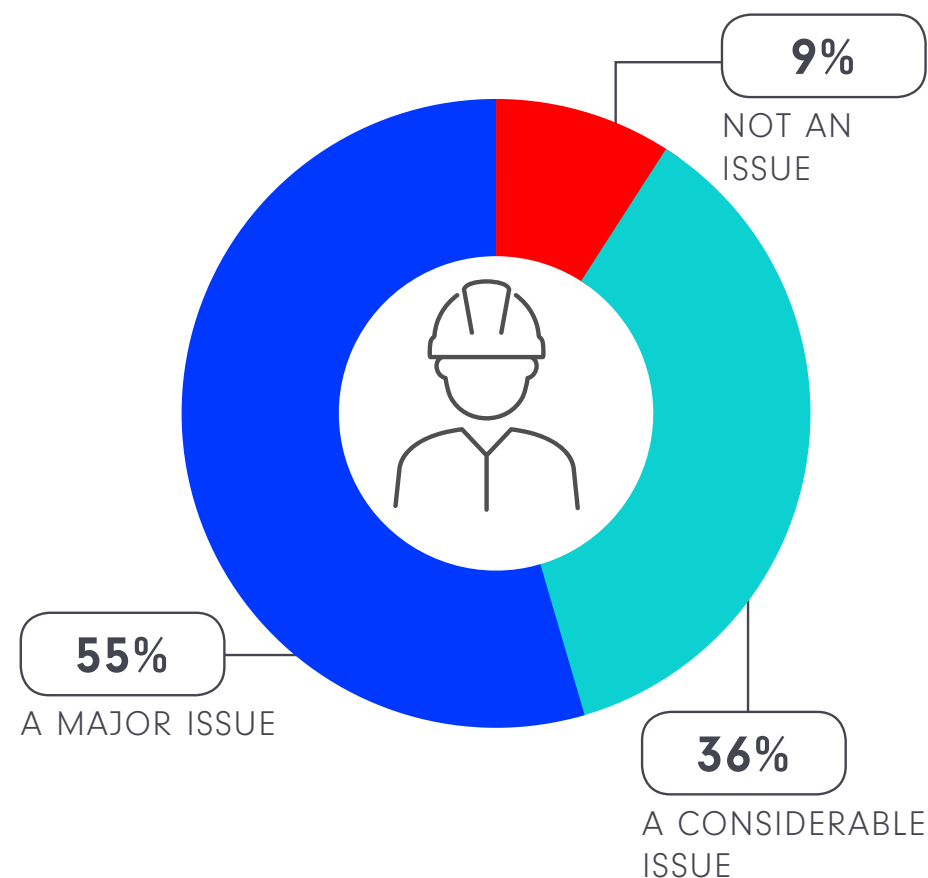
Despite more projects filling pipelines, the aftershocks of COVID continue to shape the state of the industry. Many builders face a shortage of skilled workers and volatility around material cost escalation, hindering productivity and pushing out project delivery timelines.

Although construction material prices have somewhat stabilised after a surge in 2022, persistent high demand makes it improbable for any pricing relief to reach domestic supply chains in the near term. Weather-related delays on the eastern seaboard earlier this year have also served to further squeeze profit margins for builders with existing fixed-price contracts.

We asked our survey respondents to gauge the severity of securing construction materials, the escalating cost of materials and skilled labour shortages on a scale of 1 to 10, from not an issue to a major issue.

Currently, the concern of labour shortages looms prominently in the thoughts of most Australian builders. A staggering 90% of builders surveyed have identified this issue as a key challenge to their business.

? For your business, skilled labour shortages are:



BUILDER INSIGHTS



Difficulty in finding skilled individuals has led to increased pressure on salaries to retain talent within our business. There is an overall reduction in infrastructure spending, resulting in a decrease in industry workload. There is a shortage of subcontractors across various trades, hindering productivity and contributing to escalation. It is important to ensure a fair allocation of risk in head contracts, ensuring it falls on the party best suited to manage it. Projects are not commencing as scheduled in the tender process, causing difficulties in resource allocation at the appropriate times. Delays in authority approvals and processes, both before and during the project, are also significant challenges.

Adam Ashcroft

General Manager, Growthbuilt

BUILDER INSIGHTS

When it comes to high construction costs, Kapitol Group's David Caputo and Andrew Deveson traced the issue back to the influence of government fees. Not only does this pose a risk to the completion of projects, but ultimately sees the expenses being passed along the chain to the end user.



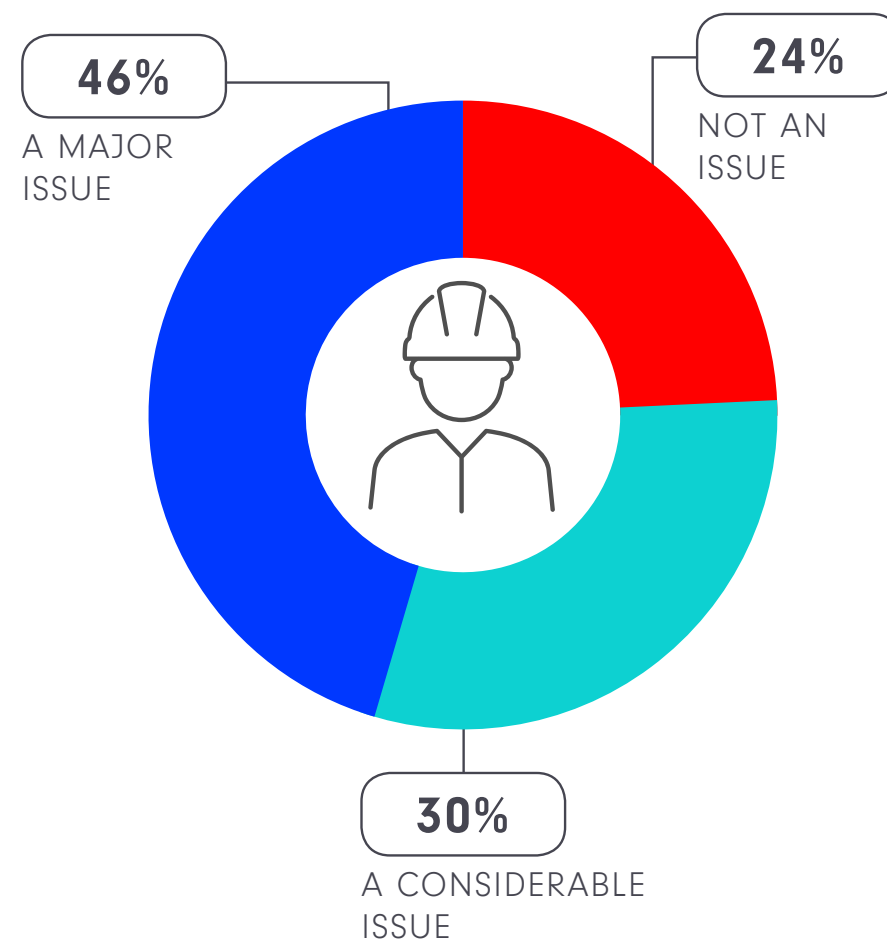
If you were trying to build a smallish apartment development in the CBD in Melbourne, the fees from Councils to the contractor alone could add 1-2% to the cost of the project. That's a massive number. You don't need too many 1-2% to mean the jobs can't be built. And those costs have to be passed through. If they put a lot of costs into construction and development, those costs ultimately have to go to the end user.

David Caputo and Andrew Deveson
Directors, Kapitol Group

BUILDER INSIGHTS

Looking specifically at the cost of construction materials, this area is much less of a challenge compared to last year. 24% of respondents stated this is not an issue for their business—up from just 7% in 2022. However, three out of four builders surveyed still struggle with the escalating cost of construction materials. One builder stated that this issue has reduced margins, resulting in insolvency of builders and subcontractors.

? For your business, the escalating cost of construction materials is:

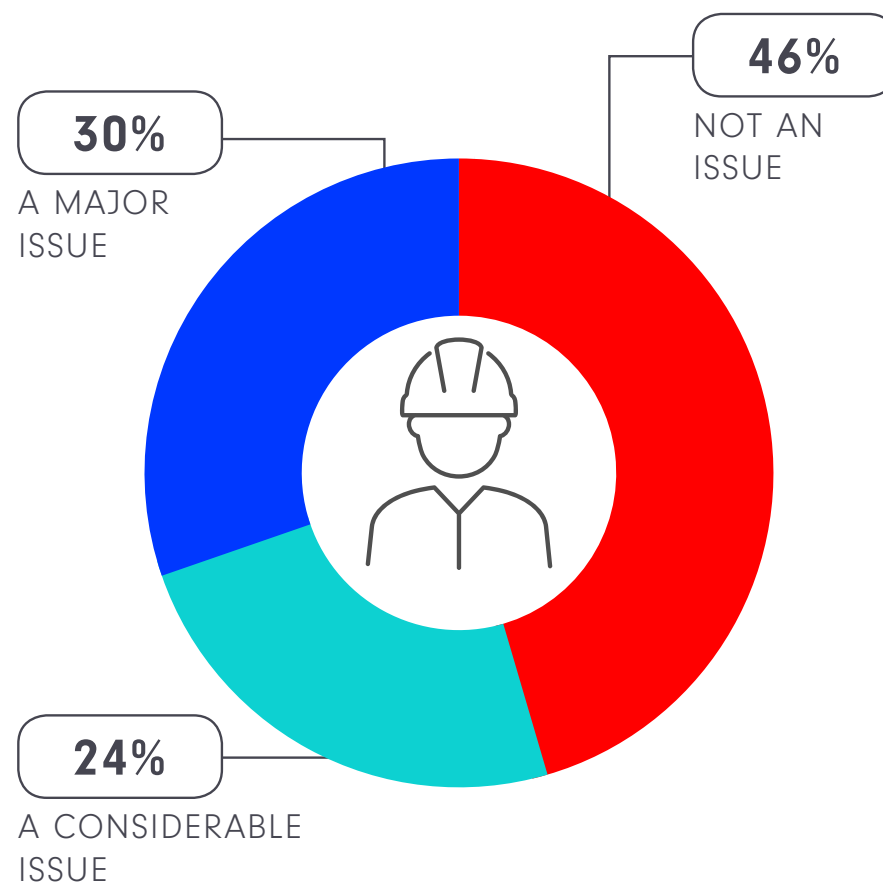


BUILDER INSIGHTS

Out of the three issues presented, securing construction materials was the least challenging with almost half stating that this is not an issue for their business.

Several respondents noted that strong relationships with suppliers have helped them navigate this issue. At the same time, another pointed out that it is difficult to tender projects with accuracy if they are not due to commence in the next three months. One builder stated that they are not able to rely on “just in time” construction, which has increased holding costs and reduced cash flow.

? For your business, securing construction materials is:



BUILDER INSIGHTS

Several respondents caution that solvency in the sector is anticipated to persist as a concern over the next year, with the potential to exacerbate should interest rates rise further and the economy experiences a slowdown.

According to the Reserve Bank of Australia, insolvencies within the construction sector have been on a steady rise since 2021, attributed to increasing financial pressures. The industry has now represented one in three corporate bankruptcies over the past year.

With a focus on productivity and delivering jobs to the best of their ability, Jack Hutchinson, Director at Hutchinson Builders, spoke about how Hutchies has been trying to navigate these issues, particularly in the face of subcontractor insolvencies.



I think the biggest risk now is just the flow-on effects from that [the pandemic]. And in our world, that plays out in subcontractor insolvency... It's really a big issue for the builder, you need to either find someone else to finish the work, which inevitably is at a premium; they need to come in and rescue the job basically, and finish work that someone else started and then they also need to guarantee that work too. So, it comes at a big cost. But at the moment, because there's been such a shortage of labour, and there's been a lot of subcontractor insolvency going on anyway, we've had to self-perform more work. ● ● ●

BUILDER INSIGHTS



We've got our hands full; we need to focus on delivering these jobs. So, the biggest focus this year will be on productivity and delivering these jobs to the best of our ability... that relies on us building back to productivity levels similar to pre-COVID, and it relies on our subcontractors getting through this period and starting to build up their own balance sheets again.

Jack Hutchinson

Director, Hutchinson Builders

ARCHITECT INSIGHTS

We surveyed architects and designers to identify the key factors they consider most critical when assessing significant risks in the upcoming 12 months. On average, they identified cost escalation, builder insolvencies, and regulatory compliance as the most substantial influences on risk.

Avtar Lotay, Managing Director at RSHP, emphasised embracing optimism and employing proactive mitigation strategies as the construction sector contends with challenges such as escalating wages and material costs.



Each project carries an element of risk. As part of a global studio with a diverse portfolio, we believe we are well versed in the variety of challenges and opportunities projects can bring, our ability to understand, calibrate and mitigate risks is essential in moving forward in these times.”

Currently, we are navigating the market conditions, particularly in sectors which seem to be static and perhaps suggesting a potential upswing around 2024 or thereabouts. ● ● ●

ARCHITECT INSIGHTS



Our office's diverse global portfolio and non-specialization as architects within it, enables us to individually look at all typologies, this not only makes us quite robust, but also means that we can bring something new to each. It's because of this, that we remain optimistic about new opportunities and proactively working towards mitigating potential risks moving forward.

Avtar Lotay

Managing Director, RSHP

ARCHITECT INSIGHTS

When we asked about the risks facing Grimshaw's studio, Benjamin Donohoo highlighted the industry's mounting challenges as a genuine opportunity for innovation in their upcoming projects. He emphasised the potential to work with and embrace some of the most cutting-edge technologies available.



The most significant risk in the industry currently is inflation, driving up construction costs. Developers are grappling with questions on how to lock in suppliers early or design for on-site improvements. Our approach within projects, focusing on Design for Manufacturing and Assembly (DFMA), has been integral in sectors like aviation and education. In Australia, this concept is gaining momentum, following the UK's lead. The ongoing inflationary pressure is pushing developers towards adopting these strategies. Recently, we engaged with a major build-to-rent supplier exploring avenues to integrate this approach into their large-scale projects. I see this challenge as a real opportunity for innovation in our future endeavours.

Benjamin Donohoo
Principal, Grimshaw

ARCHITECT INSIGHTS

Architects addressing climate change, population growth, and urbanisation are now standing out in a volatile market.

While embracing sustainable building practices and locally sourced materials helps reduce CO₂ emissions, it also boosts architects' resilience, creating new opportunities amid industry challenges. In Australia, the path to sustainability presents challenges but also offers diverse opportunities for economic and technological advancement.



Sustainability is embedded in the DNA of our organisation and forms the fundamental basis of our design philosophy in all things we do, whether it pertains to urban planning, building design, or the social impact of our projects.

Torsten Burkhardt

Associate Partner, RSHP

ARCHITECT INSIGHTS



The involvement of an architect in more building projects would not only improve design outcomes for clients, it would also place greater emphasis within society on the importance of a well-considered built form, sustainability principles and building design within our environment generally.

Sally Stansborough and Sarah Swincer

Senior Architects, SMFA

ARCHITECT INSIGHTS

We asked architect respondents how their practice designs and writes specifications for projects, and to rank the most important factors when it comes to specifying products and services. In addition, we asked about the number of specified products being swapped for alternatives and some of the reasons why this may occur. Nearly 60% of respondents have in-house specification writers, while just under half use specification templates in Excel or Word.

? How does your practice design and write specifications for projects?



ARCHITECT INSIGHTS

On average, the top two influences when it comes to specification were the same as in 2022—cost, followed by whether the product/service is Australian-made. Aesthetics moved from fourth to third position this year, with lead times sliding down from third (2022) to tenth (2023) place. This corresponds with less of our builder respondents struggling with securing construction materials this year. However, considering whether the product/service is Australian-made likely relates to concerns regarding the availability of materials.

Notably, the factors of Previously Specified and Sustainability each jumped up two places this year. For the former, this shows that building strong relationships with architects to gain and maintain specifications for current and future projects is increasingly crucial for product suppliers and manufacturers.

? When specifying products and services, how important are the following?

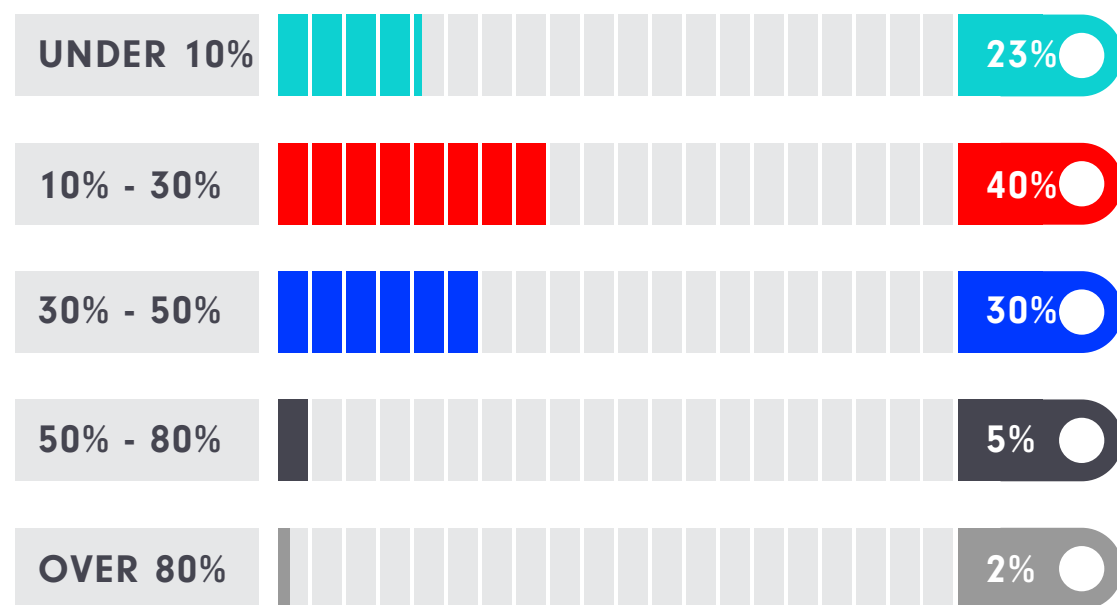


ARCHITECT INSIGHTS

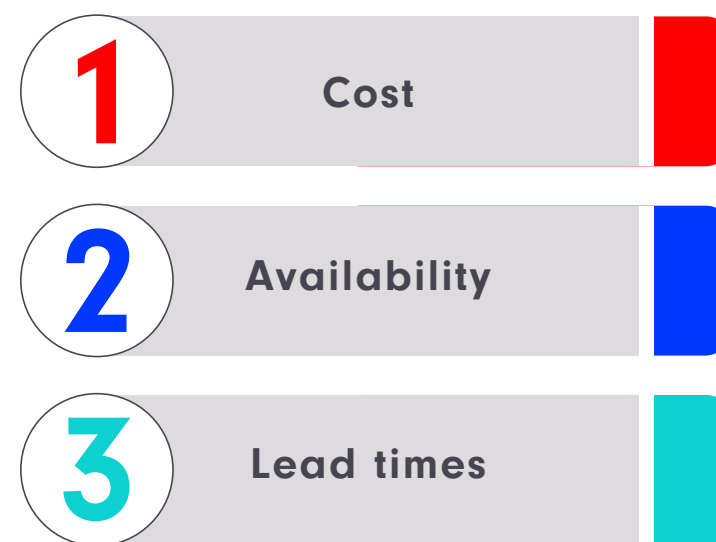
The percentage of specified products that are swapped for alternatives mirrored the 2022 results, with 10% - 30% in the lead, followed by 30% - 50%, then under 10%.

The most prevalent reasons for product swaps were cost, availability and lead times; the same results were reflected in last year's survey. Cost was selected by almost 80% of architects. While lead times ranked the lowest out of the top ten important specification factors for architects, it remains one of the most common reasons products are swapped later in the project timeline by other construction stakeholders.

? On average, what percentage of specified products are swapped for alternatives?



? What are the most common reasons specified products are swapped for alternatives?



DEVELOPER INSIGHTS

It is no secret that a trend of rising insolvencies across the Australian economy has hit the building sector the hardest. With building companies collapsing, and the subcontractors that supply them folding too, we spoke to Allen Sammut, CEO/Managing Director at Sammut Group, for his perspective as a developer working with these stakeholders.



There's got to be more partnering up and alignment now between developers and builders, whether that's joint equity, so you can support one another to see it through. Because at the end of the day, if a builder goes under, it's no good for the developer. So, it's a partnership and trying to find that common ground.

Allen Sammut

CEO/Managing Director, Sammut Group

DEVELOPER INSIGHTS

Amidst labour shortages and escalating borrowing costs that render new projects less viable, a significant number of developers continue to prioritise early adoption as a crucial strategy to enhance efficiencies.



At present, AI is increasingly becoming integral to our operations, and I've consistently supported its implementation in our projects. While acknowledging the downsides and the need for regulatory control, AI is transforming data accessibility and efficiency in a somewhat daunting yet remarkable manner.

Allen Sammut

CEO/Managing Director, Sammut Group

In addition, incorporation of solar and ventilation faces challenges stemming from regulatory controls and cost factors. Simultaneously, including considerations for future needs, such as electric vehicles, adds complexity to projects, necessitating a delicate balance between sustainability goals, design constraints, and cost implications.

DEVELOPER INSIGHTS

Developers increasingly favour induction stoves due to their precision, easy maintenance, and compatibility with renewable electricity. This shift aims to cut building operational emissions and mitigate the health impacts of harmful pollutants.



Construction will continue to evolve to find efficiencies in time and materials. We will see more energy-efficient appliances and a move away from gas hot water and gas appliances. We'll also see innovations in prefabrication.

Robert Furolo

Executive Manager - Corporate Communications, Deicorp



Discussions about phasing out gas appliances pose significant challenges. The growing demand for electric power in buildings, especially with the shift to induction cooktops, raises concerns about infrastructure capacity.

Allen Sammut

CEO/Managing Director, Sammut Group



GOVERNMENT SUPPORT INSIGHTS

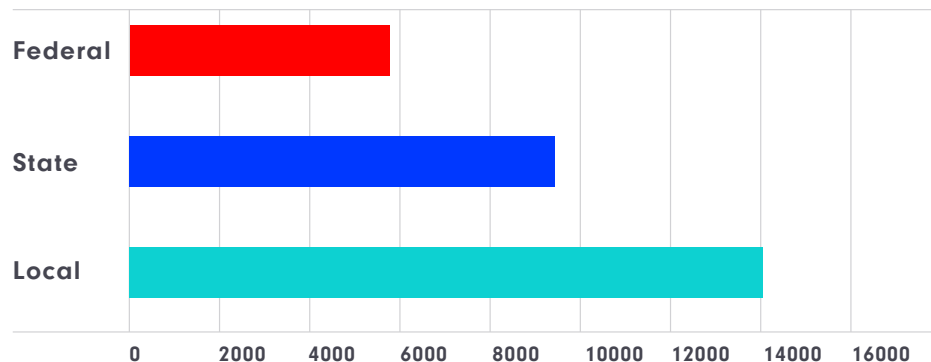
In a year marked by dynamic shifts and unforeseen hurdles, the construction industry has closely observed the impact that government support and interventions—both at the federal and state levels—have had on the sector’s trajectory.

Construction is a crucial pillar of the Australian economy, consistently contributing 8-9% to the GDP. It serves as a significant economic driver and employer; however, the sector is currently grappling with various challenges, including escalating material costs, shortages in skilled labour, and interest rates.



GOVERNMENT SUPPORT INSIGHTS

Number of Projects



BCI Central found that local Councils continue to be most involved in government-funded projects with over 14,000 projects supported between November 2022 to November 2023. Local projects are relatively small in size per project, but have kept the momentum going even after the tail end of the pandemic, supporting communities and businesses.

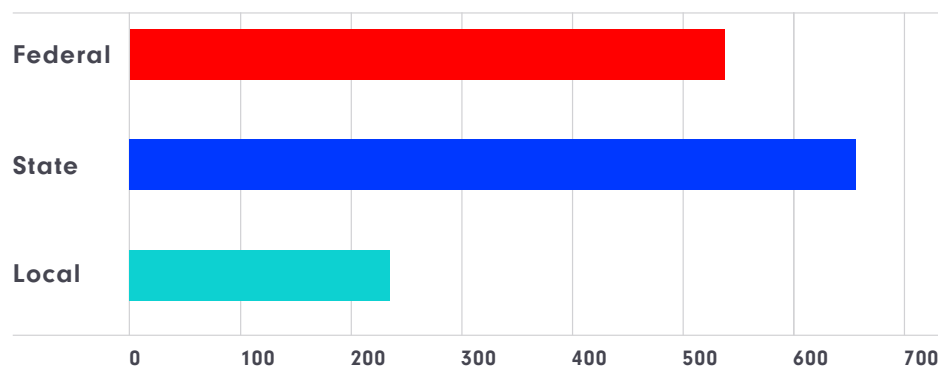
As in previous years, state governments remain heavy contributors in funding, with close to 700 billion value of construction projects in the past year. State-led funding initiatives drive many community, health, education, and infrastructure projects.

While federal-funded projects are fewer, the project values are higher than council level, and larger in scale. Because of the wider scope of these projects, mainly being infrastructure, utilities, and transport, they serve as catalysts for enabling more development within the state and local regions.

The industry now finds itself at the forefront of addressing critical challenges, serving as the linchpin for resolving the housing crisis, advancing towards net-zero emissions, and accommodating the infrastructure demands accompanying population growth.

BCI Central engaged industry stakeholders facing mounting workload costs in a challenging, low-profit-margin landscape. Our inquiry sought insights on the most impactful government support, whether through funding or regulatory/legislative reforms, essential for navigating these industry challenges.

Value of Projects (\$ billion)



GOVERNMENT SUPPORT INSIGHTS

Overall, support for federal and state initiatives among respondents has weakened over the past 12 months, with the majority expressing diminished approval for the initiatives undertaken. Approximately half of our respondents had a neutral response towards federal and state initiatives (54% and 51%, respectively).

Upon closer examination, more industry stakeholders expressed a less favourable view regarding the Federal Government's support. Specifically, 29% perceived the response as "weak" compared to only 19% the previous year. This trend of declining sentiment has also extended to the state level, where one in three respondents now categorise their State Government's response as "weak" compared to one in four last year.

? How do you rate the initiatives taken by the Federal Government to stimulate/support construction activity?



? How do you rate the initiatives taken by the State Government to stimulate/support construction activity?



GOVERNMENT SUPPORT INSIGHTS

The industry's viability was highlighted as a pivotal concern by respondents, with a warning that failure to address fundamental issues may lead to significant problems.



Some people seem to think the answer is more stimulus, as in more incentive for more work when the whole issue has been there's been too much work in a short period and productivity has been down. The issue hasn't been a lack of work for the industry, although it's certainly slowing down in some sectors. The issue from 2020 to now was too much work all at once.

Jack Hutchinson

Director, Hutchinson Builders

GOVERNMENT SUPPORT INSIGHTS



It's essential for governments both Federal and State, and local councils to plan carefully; with predicted population growth, determining where increased density needs to occur, acknowledging affordability and promoting mobility particularly for key sector workers who make our cities function. Sustainability, in its broadest sense also needs to encompass the adjunct absolute of additional needs for sectors such as health, education, amenity, and transport, which are crucial in the accommodation for an expanding population and towards their wellbeing.

Avtar Lotay

Managing Director, RSHP

GOVERNMENT SUPPORT INSIGHTS



For Grimshaw, our primary sector is transport. The potential to unlock space around stations and within the Metro framework, particularly through transit-oriented development, presents a substantial opportunity for the housing sector, which is experiencing a significant challenge currently faced in New South Wales and various other parts of the country. If the Government could provide definitive direction on recent reviews and define housing targets, it would significantly contribute to supporting the industry during this critical juncture.

Benjamin Donohoo
Principal, Grimshaw

GOVERNMENT SUPPORT INSIGHTS

Moreover, the Federal and State Government's housing goal, of 1.2 million homes over the next five years, has been further jeopardised by plans to allocate one-third of an \$80 billion infrastructure investment over the next 18 months. This underscores the urgent need for government intervention and strategic policies to fortify the construction sector's capacity and resilience.



The highest priority for Government and the industry needs to be increasing housing supply. The best thing governments including councils can do to help achieve this is to fix the planning system. We need quick approvals and greater certainty. Decisions are slow and expensive and these costs either make projects unfeasible, so they don't get built, or the costs get passed on to purchasers, making them more expensive.

Robert Furolo

Executive Manager - Corporate Communications, Deicorp

To alleviate the pressure, targeted subsidies, training programs, and advice can be implemented to tackle skilled labour shortages. Additionally, investing in research and development of technical standards can help mitigate risks, reducing the overall demand for risk mitigation measures.

GOVERNMENT SUPPORT INSIGHTS



The Design and Building Practitioners Act is aimed at reducing poor quality construction in developer-driven multi-res construction (in NSW) by creating an extra level of reporting via a 'declaration' process by both designer and builder to demonstrate compliance with existing standards. The result is an extra level of document production and reporting, adding workload costs in the preparation and scrutiny in the documentation stage, which is passed onto the client, but failing to add extra quality standards.

In general terms, the most effective government intervention is in the form of targeted subsidies, training and advice, and research and development of technical standards, not in the form of additional bureaucracy and reporting, which leads to additional administrative costs and a run for extra risk protection.

Jon Atkinson

Head of Specification, SCLspec

GOVERNMENT SUPPORT INSIGHTS

There is a strong call for increased skilled professionals and migration to meet industry demands. However, respondents describe the Federal Government's response as slow in improving the visa process for foreign skilled workers. Any changes to expedite skilled migration would be a key part of a comprehensive reevaluation of Australia's migration system, addressing the urgent need for reform.



If the industry is going to continue to be as busy there needs to be an increase in skilled personnel and skilled migration coming into the country.

David Caputo and Andrew Deveson

Directors, Capitol Group

GOVERNMENT SUPPORT INSIGHTS

Allen Sammut, Managing Director of Sammut Group, believes state governments should zero in on reforming stamp duty, which he considers an inefficient tax that penalises mobility, hinders resizing, restricts labour movement, and disproportionately affects wealth and land opportunity costs. Respondents concur that a land tax may offer a more effective solution.



In the realm of action, amidst endless discussions on what could and should be done, what prevails is mere rhetoric. Decisive policies are clearly absent. Consider the example of abolishing stamp duty for off-the-plan sales; a gesture potentially impactful, as the current inactivity suggests. It's time to move beyond words do something to see if you can spark that [activity] because it's a significant burden for people, especially first-home buyers.

Allen Sammut

CEO/Managing Director, Sammut Group

ADDRESSING THE HOUSING SHORTAGE

The construction sector is playing a crucial role in addressing the housing shortage, but opinions on how to address it vary.

Insufficient housing supply to meet growing demand has forced many first-home buyers and younger households out of the market. The scarcity of well-located residential land can be attributed to migration and population growth, labour and material constraints, and increasing urban concentration.



ADDRESSING THE HOUSING SHORTAGE

The Australian Bureau of Statistics reported a 1.9% population increase in 2022, worsening housing shortages, escalating rents, and inflating real estate prices.

Earlier this year, the Federal Government allocated \$3.5 billion to address a current deficit of 1.2 million homes needed for a population of 28 million. Respondents noted that despite government intervention, policy reviews, and strategies over recent years, a slump in new housing construction and growth in migration would continue to widen the shortfall of homes due to dysfunctional planning systems and substantial labour shortages.

As asserted by Robert Furolo, Deicorp's Executive Manager of Corporate Communications, the once-clear path toward alleviating the housing shortage has now become obscured by the thicket of bureaucratic layers and prolonged localised decision-making timelines.



We need to dramatically increase the supply of a range of housing types that are well-located and affordably delivered. This means we need a better planning system to deliver housing more quickly. We also need to minimise costs that get passed on to purchasers like levies and contributions.

Robert Furolo

Executive Manager - Corporate Communications, Deicorp

ADDRESSING THE HOUSING SHORTAGE



They [the Government] should look at more design-orientated approvals and outcomes as opposed to numerical. Because you can be ticking all the boxes, but that doesn't guarantee that you're going to deliver the achievable result. And I'm talking about not just financially, but what's best for the block, what's best for the community, what's best for the air and what's best for the housing crisis.

Allen Sammut

CEO/Managing Director, Sammut Group

ADDRESSING THE HOUSING SHORTAGE

We also heard that surging rents, increasing home values and higher interest rates all combined to inflict unprecedented housing affordability challenges for aspiring homeowners.

While some look to buy further from city centres, others are struggling to get their foot on the property ladder in the first instance. Jon Atkinson, Head of Specification at SCLspec, discussed what needed to be done to support buyer's first steps. .



Strategies for bringing income earners, especially young adults, onto the ladder and lowering that first step would focus on low initial cost, capitalising on future owner investment and improvements... Above all a housing typology that allows for low-cost, low-service, low-fitout, shared facilities that can grow later into a fully titled and fully serviced property asset.

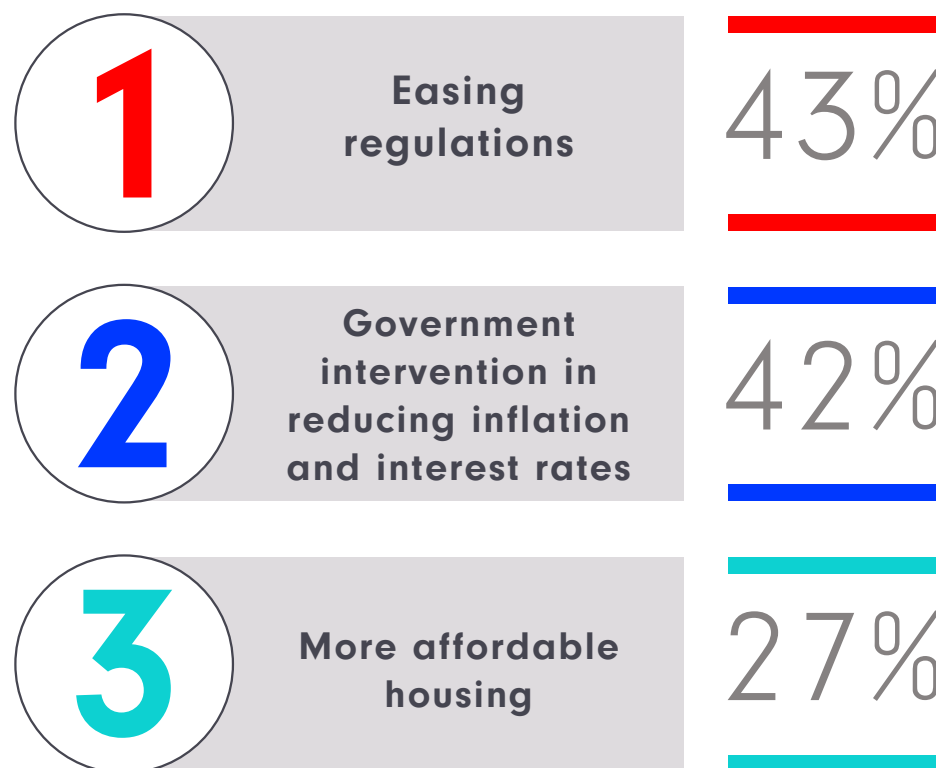
Jon Atkinson

Head of Specification, SCLspec

ADDRESSING THE HOUSING SHORTAGE

We asked our survey respondents what strategic initiatives they think would be impactful in addressing the housing shortage. Increasing land releases took the top spot for developers, while architects primarily voted for government intervention in reducing interest rates and inflation. For builders, easing regulations came in at number one.

? What strategic initiatives do you think would be impactful in addressing the housing shortage?



ADDRESSING THE HOUSING SHORTAGE

A potential solution to increasing the supply of homes necessitates focusing on medium-density developments that are strategically implemented in established areas equipped with existing infrastructure to facilitate growth, ideally situated near employment hubs or well-connected to them.



Grimshaw has been working within the City of Sydney's Central Sydney Planning Strategy, a 20-year growth strategy that maximises the density of the CBD by revising previous planning controls that meets the Sustainable Sydney 2030 goals for a green, global and connected city. Perhaps a similar strategy is developed along transport corridors to address the housing shortage. This would provide incentives for developers, ensure height and density is in the most suitable locations whilst achieving design excellence.

Benjamin Donohoo
Principal, Grimshaw

ADDRESSING THE HOUSING SHORTAGE

A viable option is the build-to-rent route, where multi-unit buildings are developed and retained as rental properties at a more affordable rate. While BTR did not rank highly among our survey respondents, Jack Hutchinson offered some insights into how these developments could provide some relief but still pose risks.



I think build-to-rent will have an impact, and we are seeing some big asset managers and super funds come into that space now because they need to deploy their capital somewhere. But build-to-rent still has the issue of building costs being really high. And so, to make their developments feasible, they need to up rents to pay for those increased building costs... But at the end of the day, I think any new housing supply is a good thing.

Jack Hutchinson

Director, Hutchinson Builders

ADDRESSING THE HOUSING SHORTAGE

Respondents highlighted the primary challenges facing the nascent build-to-rent sector: the long-term viability and profitability expectations, despite the promises of an even tax regime and rising rents boosting the national build-to-rent pipeline.

Most respondents attributed surging borrowing, material, and construction costs as additional inhibitors to the build-to-rent sector. Several developers need help to make planned build-to-rent projects financially viable under these escalating cost pressures.

? Build-to-rent is touted as a potential solution, but what do you see as potential challenges?

DEVELOPERS

1 Profitability | **61%**

2 Cultural mindset of home ownership aspirations | **43%**

2 Higher construction and material costs | **43%**

ARCHITECTS

1 Higher construction and material costs | **49%**

2 Cultural mindset of home ownership aspirations | **48%**

3 Designing cost-effective homes | **37%**

BUILDERS

1 Higher construction and material costs | **64%**

2 Cultural mindset of home ownership aspirations | **39%**

3 Profitability | **30%**

BUILD-TO-RENT PROJECT PIPELINE

Regardless of potential challenges, the next few years will see a shift of more high-density build-to-rent developments sitting in the Concept and Development Application stage pipelines across Australia.

- A feasibility study for 1,000 apartments units planned at Flinders St in Townsville (PID 311785017) has been completed, with funding currently being sought.
- District Living (PID 320354017) in Docklands VIC, which is set to deliver approximately 900 apartments, is in planning application under the State Planning Minister.
- The Macquarie Corporate Centre Project (PID 45507021) in NSW is under development application phase with a proposed 725 apartments.
- 628 apartments (PID 268086017) are proposed in Wickham St in Fortitude Valley QLD with a development application lodged within the year.
- Regents Park (PID 226050017) is set to deliver 543 apartment units across 5 multi-storey buildings, with preliminary development application submitted to the Department of Planning.
- 446 units are set to be delivered in the Capital Court Masterplan (PID 44037021) in QLD. Two of the four buildings have commenced construction.
- A \$332 million development at Fitzwilliam and Argyle Streets (PID 304617017) in Paramatta will feature a 48-storey residential building with 316 apartments.
- Concept plans have just been completed for the Kinleaf Bowden (PID 311317017) in SA, delivering approximately 250 apartment units in a 12-storey building.
- An Environmental Impact Statement is in progress for 485 units in Macquarie Park (PID 44976021), with SEARS issued by the Department of Planning.

BUILD-TO-RENT PROJECT PIPELINE

If not build-to-rent, Sally Stansborough and Sarah Swincer at SMFA proposed the construction of Granny Flats, or second residences on individual allotments, to help reduce pressures on the current rental market.



More strategic initiatives such as this one will hopefully start to remove some of the 'red tape' that has previously prevented these types of multi-dwelling arrangements on individual allotments. Incentives for the private sector, in the form of grants or loan relief, that would encourage this type of development might also assist—or incentives that would encourage the private sector to make short-term housing rentals (such as Airbnb rentals) available for longer-term tenants as well.

Sally Stansborough and Sarah Swincer
Senior Architects, SMFA

BUILD-TO-RENT PROJECT PIPELINE

Australia's 1.2 million home target necessitates a solution beyond creating new structures. RSHP Managing Director Avtar Lotay stresses the importance of innovative construction and flexible frameworks, particularly repurposing existing structures, to address the housing challenge sustainably.



We think of permanence, but to solve some of the challenges, one can have solutions with a more transitory nature to help solve problems. Do we need to be focused on typologies alone? Do we need to design a flexible framework, which could be an office, residential, commercial, or something else during its lifetime—so you don't need to rip the whole building down when it needs to transition from one typology to the other. Do we rearrange within the flexible building framework—which is really re-purposing in a sense—but re-purposing where you've thought about it before you build, as opposed to after.

Avtar Lotay

Managing Director, RSHP

Respondents were quick to highlight that relying on the expansion of housing stock as a short-term solution could potentially pose significant risks and lead to more detrimental outcomes for communities. The core of addressing the housing crisis rests in the notion of housing “done well”—a convergence of quality, affordability, and accessibility.

SUSTAINABILITY INSIGHTS

The Australian construction industry is progressively embracing sustainable construction methods and greener building practices to mitigate its carbon footprint. Acknowledged for its environmental and economic impact, sustainable design has transcended its initial narrow focus within the construction lifecycle to incorporate a broad spectrum of proactive measures and sustainable practices.

Despite this positive trend, escalating material costs amid inflationary pressures pose a challenge, creating a complex interplay between environmental goals and practical business considerations.



SUSTAINABILITY INSIGHTS

To ascertain the current status of sustainability measures, we asked stakeholders if these practices were gaining popularity or encountering obstacles. Feedback revealed that inflation had compelled some clients to prioritise value management and engineering decisions, leading to the removal of sustainable elements, thereby conflicting with overarching sustainability objectives.

One architect noted that the prevailing perception of sustainability as an optional luxury rather than an essential requirement has prompted cost-cutting measures during construction, diminishing its status from a “must-have” to a “nice-to-have.”

To reframe this perception, industry stakeholders have reinforced a need for more encouragement to embed sustainability priorities in project feasibility. This would need to be supported by better regulations and prioritisation of green finance as per the Paris Climate Agreement, which aims to limit the global temperature increase to below two degrees Celsius above pre-industrial levels.



In recent years we have seen an increasing number of clients who are keen to consider sustainability within their building projects and even to engage sustainability consultants as key members of their project teams from the early stages of design. One of the challenges in the current market is balancing higher construction costs against the perception of sustainability considerations as the more expensive or a ‘nice-to-have’ elements, rather than as ‘must-have’ considerations—this is often resulting in less sustainable outcomes overall.

Sally Stansborough and Sarah Swincer
Senior Architects, SMFA

SUSTAINABILITY INSIGHTS



As defined in the 1987 Brundtland Report, sustainability is about meeting our current needs without compromising the ability of future generations to meet their own needs. It's a holistic approach that involves thoughtful consideration of the entire lifecycle of the built form—from the materials used in construction and energy consumption during its existence to planning for recycling or adaptation once its life cycle is complete. In essence, it's about examining the overall cradle-to-grave carbon footprint of a building or development.

Torsten Burkhardt
Associate Partner, RSHP

SUSTAINABILITY INSIGHTS

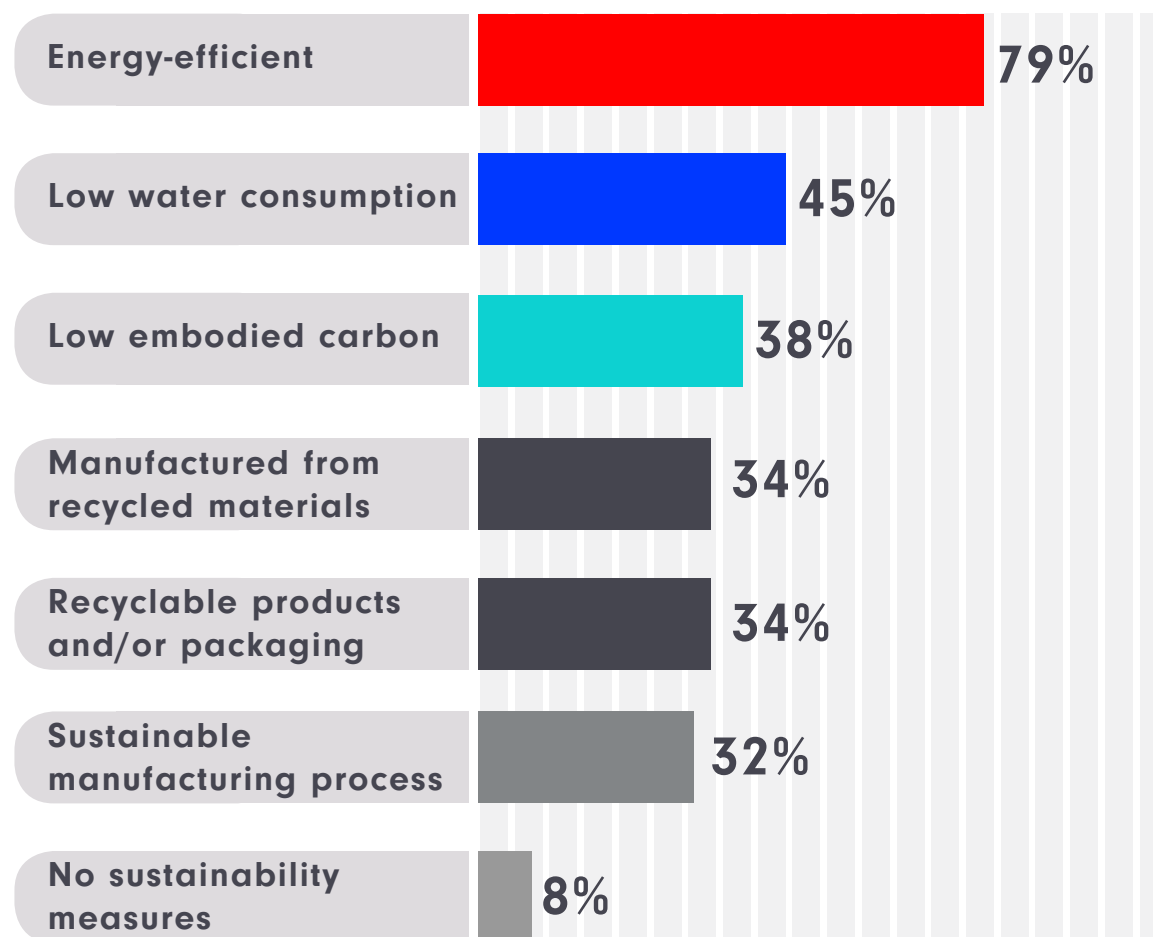
The question we posed amidst this challenging economic landscape is: Are there noteworthy sustainability measures gaining momentum in specific industries?

Of the most commonly employed sustainability measures in design and construction, the highest by far remains the usage of energy-efficient products, selected by 79% of respondents, albeit experiencing a slight dip from the previous year. The next most common was products and processes with low water consumption which garnered a 45% endorsement.

Noteworthy is the substantial increase in the emphasis on low embodied carbon, surging from 24% to 38% year-on-year. Embodied carbon emissions, arising from resource extraction, manufacturing, and transportation of construction materials, contribute significantly to a project's overall environmental impact.

Products crafted from recycled materials and recyclable products/packaging have both witnessed an upswing, each reaching a notable 34% of respondents. This upswing mirrors a growing national initiative to divert millions of tonnes of waste from Australian landfills each year.

? Which sustainability measures are most commonly employed in the projects you work on?



SUSTAINABILITY INSIGHTS

Delving into the specifics, architects and designers emerge as staunch advocates for low embodied carbon practices, with almost half of these survey respondents actively incorporating such measures in their ongoing projects.



For the building we're sitting here in our new Sydney studio at Barangaroo International Towers, because of the scale of the development, Lendlease located a concrete batching plant on site to produce the required concrete. This reduced the transportation of concrete, which in turn saved over 300,000 movements with lorries and 5,000 tonnes of carbon emissions.

Torsten Burkhardt

Associate Partner, RSHP

SUSTAINABILITY INSIGHTS



Like all large-scale projects, there needs to be an aspiration in the first instance; in this case the State set out a sustainable agenda, Lendlease took the challenge in delivering a precinct as one of the world's most sustainable developments; zero waste, harbour cooling, photovoltaics—repeated Green Star ratings.

Avtar Lotay

Managing Director, RSHP

SUSTAINABILITY INSIGHTS

In the current commercial landscape, sustainability is a non-negotiable demand. According to Benjamin Donohoo, Principal at Grimshaw, many modern tenants seek an unwavering commitment to sustainability in every aspect of their organisations, especially in the eco-friendly design and construction of their offices.



We're still finding that there's a desire, particularly in the commercial sector, that every building that tenants are moving into must have the highest credentials in sustainability. So, we're not seeing in the work that we're doing a reduction in sustainability, desire or achievement.

Benjamin Donohoo
Principal, Grimshaw

DRIVING SUSTAINABILITY

For Hutchinson Builders, the global push to lower carbon emissions has placed a renewed interest to build with CLT (cross-laminated timber) instead of carbon-heavy steel and concrete.



I think it would be nice to see more timber-framed mid-rise buildings using cross-laminated timber. But at the moment, it hasn't really caught on. It's used in sort of one or two projects in any given city at any time. It hasn't replaced concrete in between four and ten-storey [builds]... I think what's driving the slow uptake of that is insurance struggling to get their head around the lifecycle of these buildings. But in my opinion, it's a fantastic product. And hopefully, it starts to become more of a key material in the industry.

Jack Hutchinson

Director, Hutchinson Builders

DRIVING SUSTAINABILITY

We also heard of examples where individual practices are stepping up and taking the lead in driving sustainability, not just through their own operational targets and commitments, but in the projects they will work on in future.



Grimshaw has really ambitious targets for this. We've been carbon neutral since 2020. We are committing that we will assist our clients in producing only carbon neutral designs by 2025. And we've also committed that we are producing regenerative design by 2030. Now, across our peers at this scale of practice, those are unique commitments, and we're very much committed to them.

Benjamin Donohoo
Principal, Grimshaw

DRIVING SUSTAINABILITY

Several of our interviewees stated that there is a pressing need for a radical reimagining of construction planning, delivery, and management, aiming to make it compatible with a low-emission and resilient future.



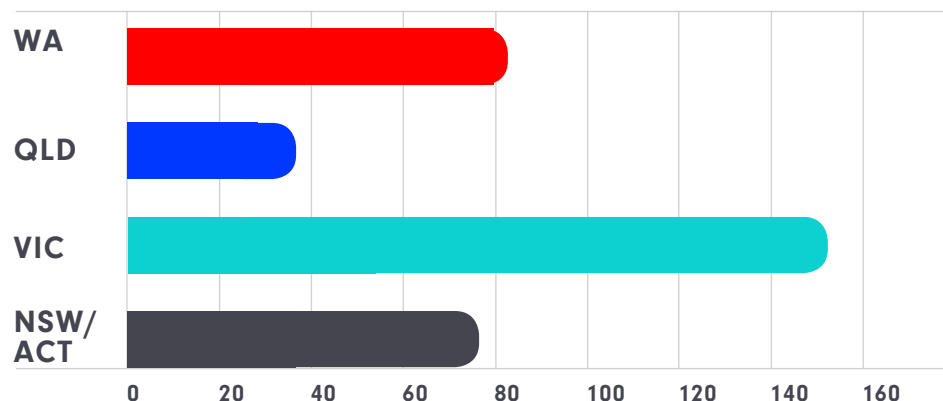
As a movement it is positive and welcome and necessary, but the implementation of the ideals suffer from lack of focus, misdirection, lack of a common understanding of the term, and deliberate or ignorant misrepresentation, all resulting in a watering-down of the main urgent and critical issue, which is of course the reduction of carbon dioxide emissions.

Jon Atkinson

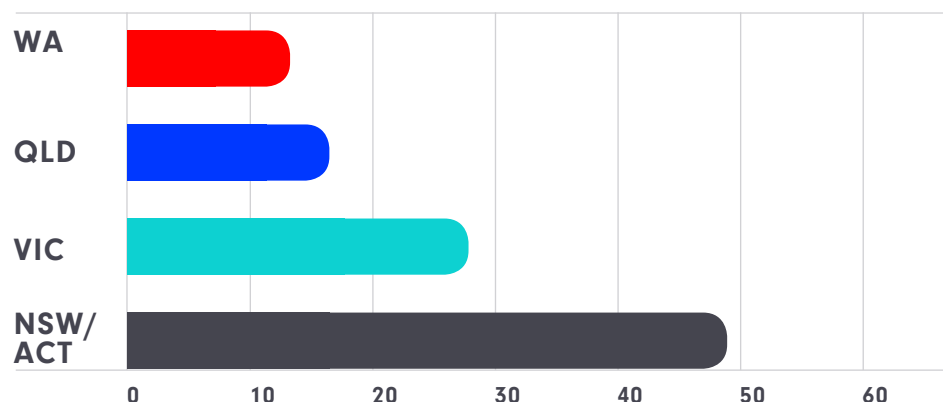
Head of Specification, SCLspec

GREEN STAR PROJECT DATA

Number of Projects



Value of Projects (\$ billion)



There are numerous ways environmentally sustainable design and construction principles and practices are incorporated, and many developers seek recognition for their project in the form of a Green Star Rating from the Green Building Council of Australia (GBCA).

The GBCA utilises the tool to assess large-scale developments, including commercial office spaces, apartment complexes, and shopping centres. A Green Star rating will often be stipulated in the project brief from the outset, which is then followed up by registration and the final certification process.

Victoria and WA share the largest portions in terms of the number of projects aiming for or having certified Green Stars, with Victoria taking the largest portion of the pie. NSW and ACT Green Star projects continue to rank highest regarding overall value, at \$48 billion, almost twice as high as VIC.

A notable ESD project marking a milestone in the past year is the Harbour Shores (PID 262170017) in Biggera Waters QLD. The \$1.5 billion project was recently awarded a 6-Star Green Star - Communities rating, making it the highest rated under the criteria in the Gold Coast. Adelaide's Lot Fourteen (PID 228786017) also achieved a 6-Star Green Star Communities rating.

The southern site of the planned redevelopment of Queen Victoria Market, Gurrova Place (PID 246041017), is set to target 5 and 6-Star Green Star ratings. In WA, 9 The Esplanade (PID 51743017) is targeting a 6-Star Green Star rating.

GREEN STAR PROJECT DATA

With increased ESD consciousness in the industry, there continues to be more projects aiming to be more sustainable in many forms outside the Green Star rating.

Throughout our conversations, BCI heard examples of owners and developers continuing to place sustainable design and construction high on the agenda from the outset of projects.

In the dynamic landscape of real estate, it becomes evident that a building's value is intricately tied to its environmental sustainability. The adage holds true: the greener the building, the greater its worth. This revelation serves as a compelling testament to the tangible impact of Environment, Social, and Governance (ESG) considerations in the realm of modern-day investments.



Sustainability is becoming a more significant feature of our projects. About 30% of our current projects are Green Star projects, and we are incorporating features of these projects more broadly across our portfolio. We know there is acceptance from buyers, but we need to find the balance between good environmental outcomes and the increase in costs so that the projects are affordable to deliver.

Robert Furolo

Executive Manager - Corporate Communications, Deicorp

PROJECT RISK INSIGHTS

Australia's construction industry is facing a daunting future marked by heightened challenges. Escalating inflation, material costs and labour shortages have created a tense scenario.

The influx of new work is dwindling, and competition is intensifying just as home builders grapple with unforeseen inflation triggered by the Federal Government's HomeBuilder payments and the global surge in post-pandemic demand.



PROJECT RISK INSIGHTS

While the height of the pandemic is indeed behind us, the flow-on effects are still being felt across the industry. We asked our interviewees where they foresee risk over the next 12 months and how they plan on mitigating risk in their projects.

In a resounding consensus, four out of five developers have spotlighted cost escalation as the paramount risk looming over the next year, closely followed by contractor insolvency.

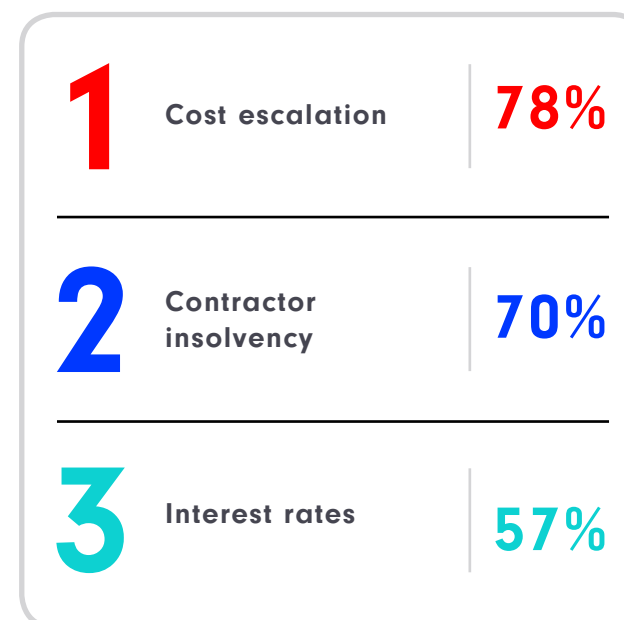
Sammut Group's Allen Sammut reflected on the collapse of numerous building companies and how, even after a project has been secured, securing a builder is still the issue.



Getting a job, getting the funding, getting the development approval, getting all of that is a risk, and it will always be a risk—especially planning risk and funding risk. But then you get to that point, and you're ready to start... now you've got to find a builder. And what's the builder going to price it at?

Allen Sammut
CEO/Managing Director, Sammut Group

? **DEVELOPERS: Where do you see significant risk over the next 12 months?**



PROJECT RISK INSIGHTS

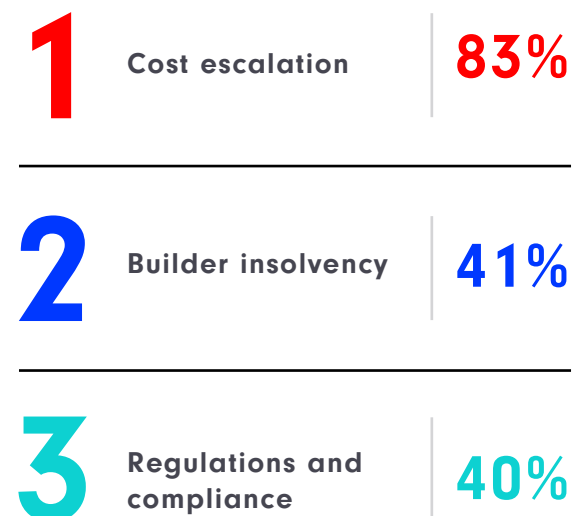
When we spoke to Sarah Swincer and Sally Stansborough at SMFA, they commented on the risk posed by high construction costs. While they have found mitigation in the form of early contractor engagement, rising costs persist.



We have found that early contractor engagement or the involvement of quantity surveyors has assisted with managing this risk, but even with continual cost checks throughout the design and approvals process, there has still been a general trend in increasing construction costs for clients overall.

Sally Stansborough and Sarah Swincer
Senior Architects, SMFA

? ARCHITECTS: Where do you see significant risk over the next 12 months?



PROJECT RISK INSIGHTS

The landscape is similarly complex for builders, with an overwhelming four out of five identifying labour shortages as their primary risk, accompanied by half expressing concern over delays and supply chain disruptions. This collective apprehension underscores the intricate challenges and uncertainties that cast a shadow over the industry's immediate future.

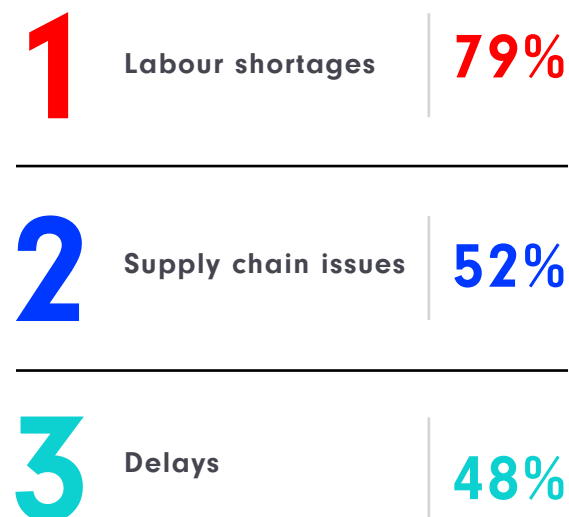


Over the next 12 months, the scarcity of subcontractor labour will remain to be a challenge, impacting our ability to deliver projects within stipulated timelines. [To mitigate subcontractor risk] we conduct multiple interviews, emphasising the contractor's commitment to understanding the project's schedule and resource requirements. Our selection process prioritises the most suitable contractor for the project, which may not always equate to the most cost-effective option.

Adam Ashcroft

General Manager, Growthbuilt

? BUILDERS: Where do you see significant risk over the next 12 months?



PROJECT RISK INSIGHTS



Across the construction and development sectors, costs of materials, labour and shortage of skilled workers represent the biggest risk to projects. Risks like these need to be priced into feasibility of projects. We also work closely with our key subcontractors and suppliers to minimise price shocks and shortages wherever we can.

Robert Furolo

Executive Manager - Corporate Communications, Deicorp

PROJECT RISK INSIGHTS

Several contributors spoke of how stakeholder relationships and common goals are at the core of mitigating risk in their projects. Unfortunately, partnerships can only carry a project so far, especially when the financial strain obscures the path forward for the industry.



I don't think anything has really evolved in the last three or four years because no one's had money to allow it to evolve. The industry hasn't evolved in Research and Development over the last three or four years because there wasn't the surplus money in the industry to do it. Everyone's just battened the hatches down. The design trends will be designing to get your feasibility work. That's the trend. It's going to be people going, 'How do we make this work?' Finding out that products have become too expensive and can't be used, but what can we use instead?

David Caputo and Andrew Deveson

Directors, Kapitol Group

Despite the rollercoaster of risks, the interplay of a substantial drop in new construction and a sudden surge in immigration presents an enticing dynamic for developers, architects and builders, suggesting a potential boom period driven by more financially transparent and collaborative approaches.

Methodology

The BCI Construction Outlook presents information and insights on the Australian construction market.

Part 1 data is based on BCI's research which sources information from a wide range of publicly available data sources, as well as direct enquiries to specific project stakeholders. National data includes all states and territories in Australia. In this report, projects are not reported in data across multiple sectors. If a project is comprised of more than one sector, it is allocated to the primary sector. All values are in Australian dollars. Forecasts are based on expected construction start dates of projects in the pipeline, as reported to or estimated by BCI.

Part 2 insights are principally informed by our 2023 stakeholder survey and in-depth interviews with Australian developers, builders, architects and designers.

Sectors represented are compilations of BCI project categories:



Commercial & Hospitality

Offices, Retail, Hospitality



Residential

Residential, including both multi-residential buildings and housing estates



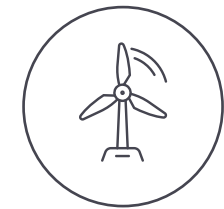
Community & Public Buildings

Community & Cultural, Education, Health, Legal & Military, Sports & Recreation



Industrial, Infrastructure & Transport

Industrial, Infrastructure & Transport



Energy & Resources

Utilities, Resources

Disclaimer

This report is for general information purposes only. This information has been researched from a variety of sources, including input and estimations from project stakeholders. BCI Central does not lay any claim to this data. This information has been prepared without taking your specific needs or objectives into account. Because of this, you should consider its appropriateness with regard to your objectives or needs before acting on this information. It should not be relied upon as a basis for entering into transactions without seeking specific, qualified, professional advice. While facts have been reviewed, BCI Central does not warrant the accuracy or completeness of the information in this publication, and accepts no, and disclaims all, liability for any loss or damage whether occasioned by reliance on such information or otherwise. The information is subject to change without notice and BCI Central is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date.

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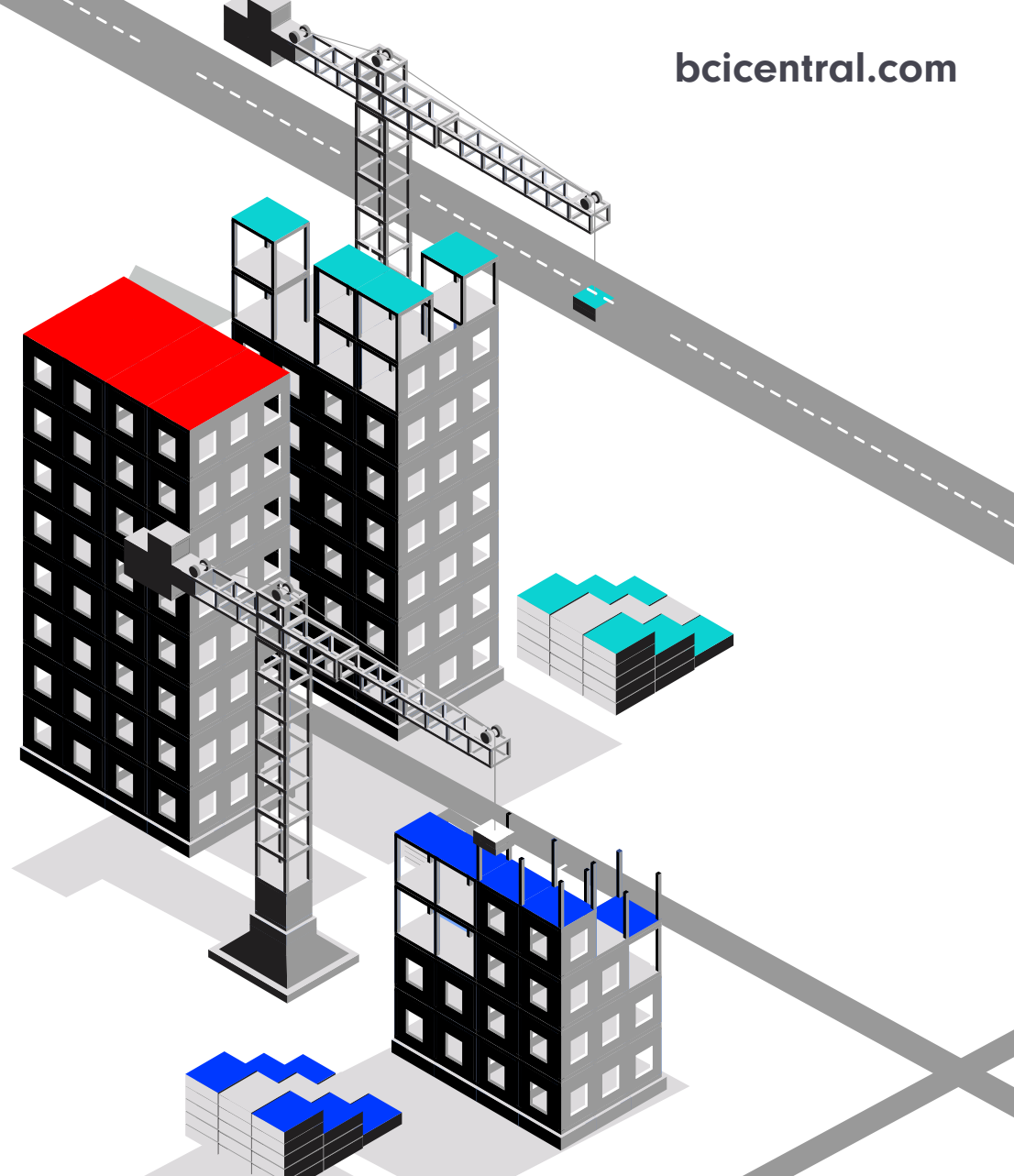
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