



FOURTH QUARTER 2025

CONSTRUCTION MARKET UPDATE

COST ESCALATION PERSISTS AMID RECORD
CONSTRUCTION ACTIVITY

AUSTRALIA

Construction cost escalation is expected to remain elevated in 2026





AUSTRALIA SUMMARY

Australia's construction industry enters 2026 at historically high activity levels, underpinned by record work done and a robust pipeline of activity driven by public infrastructure, defence, and energy projects. Despite strong near-term conditions, a medium-term slowdown looms once the current high-value pipeline is exhausted.

Construction cost escalation slowed across most of Australia in 2025 but is forecast to rise in Queensland, Sydney and Adelaide in the coming years. An elevated near-term construction pipeline, skilled labour shortages, low productivity, and insolvency risks will continue to push prices higher. Limited competition among Tier 1 contractors and subcontractors is also contributing to cost escalation and procurement challenges.

In some regions there is a window of opportunity for well-prepared projects to move quickly to tender and secure resources before capacity tightens again.

Construction activity at record highs

Non-mining construction activity hit a record high in 2024-25, driven by engineering construction (mainly energy infrastructure such as transmission lines, solar, wind and pumped hydro), with apartment construction also growing strongly (see Chart 1). Preliminary data for the September quarter 2025 suggests ongoing strong building activity has continued, driven by a pick-up in apartment construction.

There is a strong near-term pipeline of work. In the building sector, approvals, work-yet-to-be done commencements, and work under construction are all at decade highs (see Chart 2). Building approvals for new apartments have increased significantly over the past year. The pipeline of construction activity is particularly strong in Western Australia, South Australia and Queensland. Infrastructure Australia forecast growth in the construction pipeline to be driven by housing, energy infrastructure and major public infrastructure projects (in part due to delays pushing back the peak of construction activity).

Other leading indicators also point to construction activity remaining elevated. Industry confidence rose during 2025 and the Reserve Bank reported that construction industry contacts have become more confident about the outlook for apartment construction. Sentiment remains weakest in Victoria.

But while there is a strong pipeline of work, the risk of a temporary slowdown looms once today's mega-projects peak.

Cover: One The Esplanade, Perth

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2025	2026 (F)	2027 (F)	2028 (F)	2029 (F)
ADELAIDE	3.5	5.1	5.0	4.5	4.5
BRISBANE	5.0	5.0	7.0	7.0	7.0
CANBERRA	3.75	4.25	4.5	4.0	3.75
DARWIN	5.0	5.0	4.0	4.0	4.0
GOLD COAST	4.5	5.5	7.0	7.0	7.0
MELBOURNE	4.0	4.0	4.0	4.0	4.0
PERTH	5.4	5.3	5.2	4.8	4.5
SYDNEY	4.5	4.0	4.5	5.0	4.5
TOWNSVILLE	6.0	6.0	7.0	7.0	7.0

AUSTRALIA SUMMARY

Construction cost escalation easing but expected to remain elevated

Construction cost escalation slowed across most of Australia in 2025, but the Tender Price Index is still growing at a faster pace than pre-pandemic.

The high volume of work underway will keep the industry overheated, maintaining pressure on construction costs and delivery timelines. RLB expects construction cost growth to pick up in Brisbane, the Gold Coast and Townsville as Olympic construction activity ramps up. Construction cost escalation is also forecast to rise in Adelaide, increase modestly in Sydney from 2027 and remain high in Perth.

Other factors contributing to rising construction costs include a lack of competition among Tier 1 contractors and subcontractors on large-scale projects, the risk of insolvencies pushing up risk pricing, a high-level of public sector activity, and low productivity (although there are some signs of an improvement).

Key drivers of escalation across cities include:

- **Adelaide:** Tier 1 capacity stretched by defence and infrastructure are keeping baseline pricing high.
- **Brisbane & Gold Coast:** Productivity remains low and insolvency risks and industrial relations constraints continue to push up costs.
- **Canberra:** Construction activity remains strong with a solid pipeline of work across various sectors
- **Melbourne:** Insolvencies are rising, labour shortages continue, and mega-project cost overruns have inflated baseline costs.
- **Perth:** Operating near capacity and regional projects face significant cost volatility.
- **Sydney:** Temporary tender competitiveness as subcontractor availability has improved, but costs risks are likely to return by late 2026.
- **Darwin & Townsville:** Defence-driven demand and limited Tier 1 competition is continuing to push up costs.

CHART 1: CONSTRUCTION ACTIVITY IS NEAR ITS RECORD HIGH
CONSTRUCTION WORK DONE, AUSTRALIA, FINANCIAL YEARS, CHAIN VOLUME MEASURES (\$2022/23)

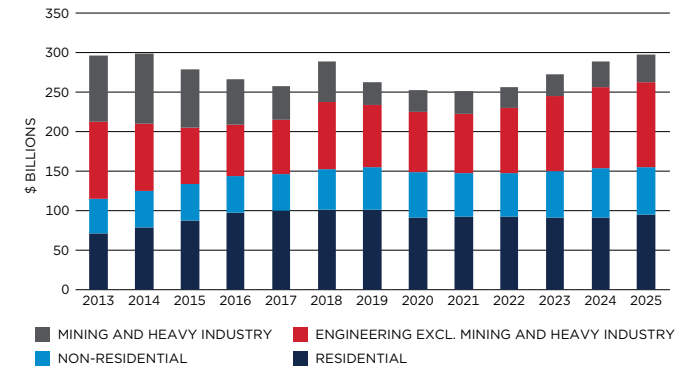
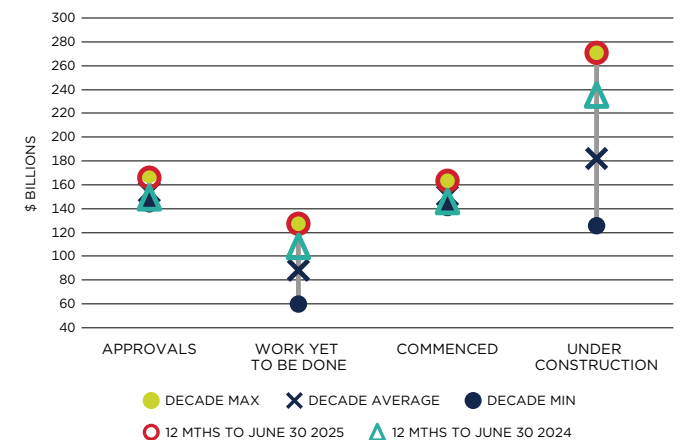


CHART 2: THE BUILDING ACTIVITY PIPELINE IS AT A DECADE HIGH
BUILDING ACTIVITY, AUSTRALIA, 2015-16 TO 2024-25



Notes: approvals and commenced are measured in chain volume terms; work yet to be done and under construction are values.

AUSTRALIA SUMMARY

Skilled labour shortages continue to hamper the industry

Ongoing skilled labour shortages, particularly for trades workers and professional workers such as construction managers and engineers, is pushing up labour costs and slowing projects across Australia. ABS data shows that house and apartment completion times have increased by around 40 per cent since pre-pandemic, although completion times for houses and townhouses have come down slightly over the past year.

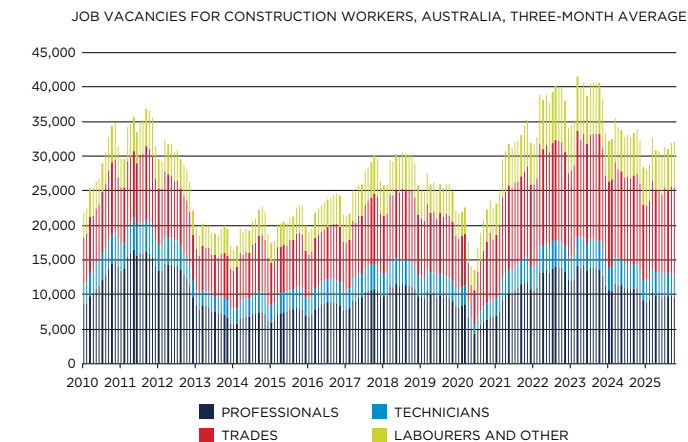
Demand for construction workers is likely to remain elevated. Job vacancies for construction workers are above their long-run average, although are down from the recent peak in 2023 (see Chart 3). According to Jobs and Skills Australia, one in five construction firms intend to increase headcount in the near-term. Hiring intentions are strongest in Queensland.

A tight market for skilled labour is flowing into higher wages. Department of Employment and Workplace Relations data shows that scheduled average annual wage rises in construction industry Enterprise Agreements are now 4.9 per cent, up from 4 per cent a year ago. For newly signed agreements, average wage rises are even higher.

Key risks facing the construction sector:

- Interest rates are now expected to increase in 2026 due to higher-than-expected inflation, reversing earlier expectations of further interest rate cuts. This could dampen construction activity in the short to medium-term, particularly for residential construction.
- Ongoing labour shortages, combined with sluggish productivity (from supply chain inefficiencies and site restrictions) result in further wage cost escalation.
- The public infrastructure pipeline transition from transport to utilities, energy and other does not occur smoothly, resulting in a dip in activity.
- State government policy changes to boost apartment and townhouse construction could result in a boost to residential construction activity but increase cost escalation.
- The impact of tariffs remains uncertain but could potentially contribute to higher costs.

CHART 3: CONSTRUCTION JOB VACANCIES HAVE FALLEN SINCE 2023 BUT REMAIN ELEVATED



ADELAIDE

CURRENT MARKET INSIGHTS

Construction activity remains strong, supported by a significant pipeline of major projects, many now in late planning stages or moving into early construction. Approvals point to ongoing strong levels of building activity. The state government remains committed to major defence, infrastructure, residential, and healthcare projects, with funding announced and works underway.

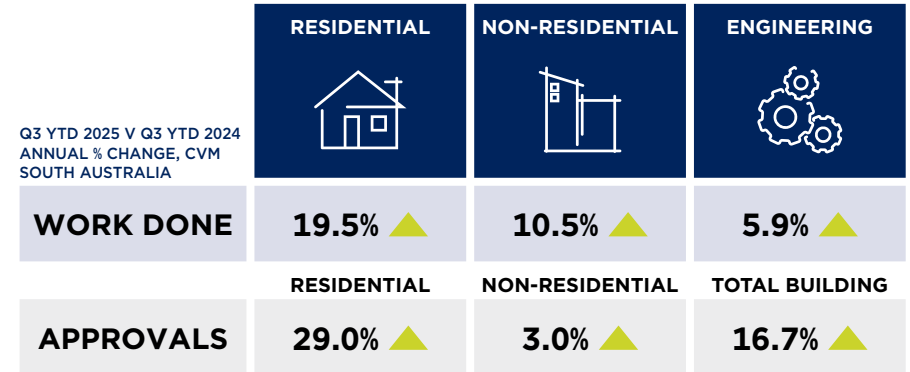
Growth is forecast to continue into 2026 across defence, healthcare, renewable energy, residential, and infrastructure sectors. While the economy is operating near capacity, greater competition and capacity are evident in the Tier 2 and 3 market, delivering more competitive tender outcomes for projects deemed attractive or lower risk.

Strong demand is encouraging but presents challenges: skilled labour shortages are driving wage escalation, and contractors are seeking higher margins amid robust demand. Contractors are also becoming more selective, further limiting competition.

KEY FACTORS IMPACTING ESCALATION

- Persistent skilled labour shortages for key trades, particularly at Tier 1 level. This has created opportunities for interstate contractors to supplement local capacity.
- Labour costs continue to rise, with Enterprise Agreement negotiations continuing
- Limited competition in the Tier 1 subcontractor market is increasing project costs and driving selective bidding, with contractors focusing on lower-risk projects
- Project durations remain under pressure, with longer tender programs and actual timelines extending beyond forecasts

CURRENT MARKET INDICATORS



RLB ANNUAL TENDER PRICE INDEX UPLIFT %

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ADELAIDE	3.5	5.1	5.0	4.5	4.5
BRISBANE	5.0	5.0	7.0	7.0	7.0
CANBERRA	3.75	4.25	4.5	4.0	3.75
DARWIN	5.0	5.0	4.0	4.0	4.0
GOLD COAST	4.5	5.5	7.0	7.0	7.0
MELBOURNE	4.0	4.0	4.0	4.0	4.0
PERTH	5.4	5.3	5.2	4.8	4.5
SYDNEY	4.5	4.0	4.5	5.0	4.5
TOWNSVILLE	6.0	6.0	7.0	7.0	7.0



BRISBANE

CURRENT MARKET INSIGHTS

Construction costs continue to rise for major projects, but the market is now more competitive for projects under approximately \$80 million.

Government spending on health, corrections, education, and infrastructure projects is sustaining Tier 1 contractor pipelines, but the private sector continues to struggle to make projects feasible due to cost pressures.

Strong demand from public projects has forced Tier 2 and 3 subcontractors to match Enterprise Agreement wage rates, further limiting affordability for private developments. Low productivity remains, but there are signs of improvement. However, conditions in existing Enterprise Agreements may limit further progress. Contractors' pricing of risk in the short-term has not reduced, and it will take a sustained period of higher productivity for this to be reflected in pricing. The subcontract market still faces a lack of skilled resources, particularly in the Tier 1 market—a situation likely to worsen in the medium to long term. Commencements in private sector projects remain subdued as revenues fail to keep pace with construction costs.

As a result of delays to major public sector projects (Olympics and the Hospital Rescue Plan) and the private sector struggling to prove feasibilities due to high construction costs, there is a 6-to-12 month window of opportunity to tender projects that are ready (i.e., finalised design documentation, approvals, committed funding) for an immediate start.

KEY FACTORS IMPACTING ESCALATION

- Low productivity impacting project durations and risk pricing
- Skilled labour shortages in key trades
- Risk of insolvencies impacting contractor pricing
- Lack of competition in Tier 1 subcontractor market impacting major projects
- Lack of competition in Tier 1 contractor market, with some declining to tender and pushing ECI procurement
- Risk of industrial action, though this risk is declining

443 Queen Street, Brisbane

CURRENT MARKET INDICATORS

Q3 YTD 2025 V Q3 YTD 2024
ANNUAL % CHANGE, CVM
QUEENSLAND

	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	10.4% ▲	4.4% ▲	-1.9% ▼
	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	9.4% ▲	-3.8% ▼	4.6% ▲

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2025	2026 (F)	2027 (F)	2028 (F)	2029 (F)
ADELAIDE	3.5	5.1	5.0	4.5	4.5
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PERTH	5.4	5.3	5.2	4.8	4.5
SYDNEY	4.5	4.0	4.5	5.0	4.5
TOWNSVILLE	6.0	6.0	7.0	7.0	7.0

CANBERRA

CURRENT MARKET INSIGHTS

Construction activity remains strong with a solid pipeline of work across various sectors. Major projects such as the Northside Hospital Early Works and Canberra Theatre Redevelopment are due to start in Q1 2026, with the AIS Podium and UNSW City Campus Stage 1 to follow in Q2 2026.

The National Security Precinct has been under construction for over a year now with completion due in 2028.

Some major infrastructure projects are currently underway with the Commonwealth Avenue Bridge upgrade, Light Rail Stage 2A, and Scrivener Dam Strengthening having all commenced in 2025.

High-rise residential activity has tapered off recently, but housing demand remains strong.

Contractors continue to compete for resources which in turn continues to fuel inflationary pressures.

KEY FACTORS IMPACTING ESCALATION

- Skilled labour shortages
- Strong pipeline of public sector work
- Concerns over industry capacity to meet the pipeline of work

CURRENT MARKET INDICATORS

Q3 YTD 2025 V Q3 YTD 2024
ANNUAL % CHANGE, CVM
ACT

	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	-3.5% ▼	-20.8% ▼	101.6% ▲
APPROVALS	58.6% ▲	-1.2% ▼	26.3% ▲

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2025	2026 (F)	2027 (F)	2028 (F)	2029 (F)
ADELAIDE	3.5	5.1	5.0	4.5	4.5
BRISBANE	5.0	5.0	7.0	7.0	7.0
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MELBOURNE	4.0	4.0	4.0	4.0	4.0
PERTH	5.4	5.3	5.2	4.8	4.5
SYDNEY	4.5	4.0	4.5	5.0	4.5
TOWNSVILLE	6.0	6.0	7.0	7.0	7.0

DARWIN

CURRENT MARKET INSIGHTS

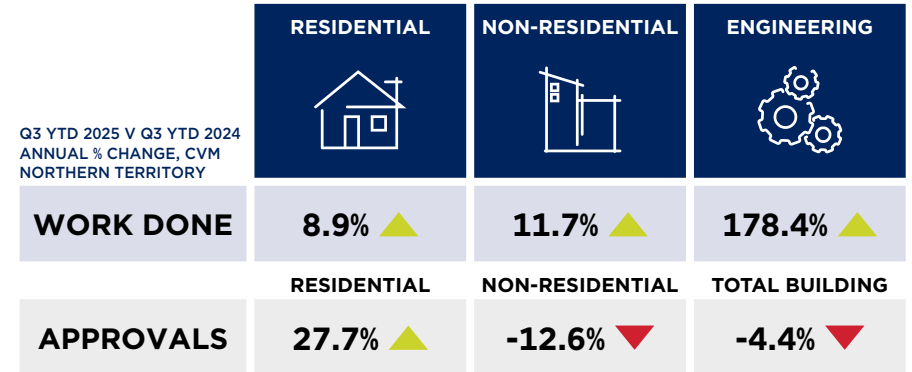
Darwin’s construction sector remained active through Q4 2025, driven primarily by major public sector investments including the Darwin Ship Lift, the Middle Arm precinct, and significant defence infrastructure programs. Residential activity also strengthened, supported by low vacancy rates and sustained rental price growth across key suburbs. These conditions are underpinning the government’s ongoing focus on affordable housing and supporting new supply initiatives.

However, market conditions remain challenging. Specialist labour shortages continue to place upward pressure on both program delivery and construction costs. This is particularly significant for large-scale projects, where the pool of capable Tier 1 contractors is limited. With a strong pipeline of defence-related work expected to continue, these capacity and cost pressures are likely to persist in the near to medium term.

KEY FACTORS IMPACTING ESCALATION

- Lack of competition in Tier 1 contractor and subcontractor markets increasing project costs
- Inflated prices across most trades, particularly Tier 1 engineering services and structural trades
- Skilled labour shortages in key trades
- Continued government spending on defence and infrastructure
- Project durations are typically extending beyond original contractor forecasts

CURRENT MARKET INDICATORS



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GOLD COAST	4.5	5.5	7.0	7.0	7.0
MELBOURNE	4.0	4.0	4.0	4.0	4.0
PERTH	5.4	5.3	5.2	4.8	4.5
SYDNEY	4.5	4.0	4.5	5.0	4.5
TOWNSVILLE	6.0	6.0	7.0	7.0	7.0

GOLD COAST

CURRENT MARKET INSIGHTS

Upward pressure on construction costs continued through 2025, although some improvement in pricing is occurring due to increased availability of subcontractors in certain sections of the market (especially for projects under approximately \$80 million, where there are higher levels of competition). Overall construction costs in the Tier 1 space continue to rise, albeit at a slower pace.

Private sector activity remains subdued due to feasibility pressures, limited contractor interest (driven by high demand from public sector projects), ongoing productivity challenges, and risk pricing for market conditions such as timeframe and solvency issues.

Low productivity persists, but there are signs of improvement. However, conditions in existing Enterprise Agreements are holding back a full correction.

As a result of delays to major public sector projects (Olympics and the Hospital Rescue Plan) and the private sector struggling to prove feasibilities due to high construction costs, there is a 6-to-12 month window of opportunity to tender projects that are ready (i.e., finalised design documentation, approvals, committed funding) for an immediate start. Industry constraints are more likely from late 2026.

KEY FACTORS IMPACTING ESCALATION

- Low productivity extending project durations and increasing risk pricing
- Skilled labour shortages in key trades
- Risk of insolvencies impacting contractor pricing
- Lack of competition in Tier 1 subcontractor market impacting major projects, with some contractors declining to tender and pushing early contractor involvement procurement
- Risk profiles remain high to cover uncertainty (e.g., subcontractor insolvency, program/productivity, delivery risk)

CURRENT MARKET INDICATORS

Q3 YTD 2025 V Q3 YTD 2024
ANNUAL % CHANGE, CVM
QUEENSLAND

	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	10.4% ▲	4.4% ▲	-1.9% ▼
	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	9.4% ▲	-3.8% ▼	4.6% ▲

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

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CANBERRA	3.75	4.25	4.5	4.0	3.75
DARWIN	5.0	5.0	4.0	4.0	4.0
GOLD COAST	4.5	5.5	7.0	7.0	7.0
MELBOURNE	4.0	4.0	4.0	4.0	4.0
PERTH	5.4	5.3	5.2	4.8	4.5
SYDNEY	4.5	4.0	4.5	5.0	4.5
TOWNSVILLE	6.0	6.0	7.0	7.0	7.0



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CHADSTONE PLACE
OFFICE TOWER 2

CHADSTONE PLACE
OFFICE TOWER 2

POST

MELBOURNE

CURRENT MARKET INSIGHTS

Construction activity is elevated but non-residential and engineering work done has dropped off. However, approvals for non-residential have grown strongly, indicating activity will pick-up in the coming years.

The industry continues to face considerable challenges that are pushing up costs. A lack of both skilled and unskilled workers has resulted in increased labour costs and extended project timelines, impacting program delivery and project feasibility. Building company insolvencies are reducing market competition, with the risk of insolvencies pushing up risk pricing.

The Victorian Government has introduced a range of policies to boost the supply of medium-density housing and apartments, including 50 higher-density housing centres, and a new deemed to comply assessment pathway for Townhouse and Low-Rise development. But it will take considerable time to see these policy changes flow through to a major boost to construction activity.

KEY FACTORS IMPACTING ESCALATION

- Skilled and unskilled labour shortages
- Large-scale mega-project overruns have raised industry-wide baseline pricing
- High interest rates, insurance & borrowing costs

CURRENT MARKET INDICATORS

	RESIDENTIAL 	NON-RESIDENTIAL 	ENGINEERING
<small>Q3 YTD 2025 V Q3 YTD 2024 ANNUAL % CHANGE, CVM VICTORIA</small>			
WORK DONE	4.6% ▲	-10.3% ▼	-5.0% ▼
	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	6.3% ▲	44.6% ▲	20.7% ▲

RLB ANNUAL TENDER PRICE INDEX UPLIFT %

	2025	2026 (F)	2027 (F)	2028 (F)	2029 (F)
ADELAIDE	3.5	5.1	5.0	4.5	4.5
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DARWIN	5.0	5.0	4.0	4.0	4.0
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MELBOURNE	4.0	4.0	4.0	4.0	4.0
PERTH	5.4	5.3	5.2	4.8	4.5
SYDNEY	4.5	4.0	4.5	5.0	4.5
TOWNSVILLE	6.0	6.0	7.0	7.0	7.0

PERTH

CURRENT MARKET INSIGHTS

The Western Australian construction market continues to operate near capacity. Prolonged skilled labour shortages and rising labour costs have driven pricing escalation across the state, particularly in regional locations and for complex, high-value metropolitan projects. Approvals point to ongoing strong activity.

Some pricing stabilisation occurred in 2025 on short-duration, low-risk projects up to \$50 million, assisted by material prices holding steady or increasing only modestly. There is still a wide pricing spread across most trades, head contractor preliminaries, and margin costs—even on these lower-risk projects.

Several major transport infrastructure projects have been completed, providing short-term cost relief. However, any capacity gains will likely be offset in 2026 by other major projects currently in planning.

KEY FACTORS IMPACTING ESCALATION

- Market volatility has continued, with supply chain and labour shortages impacting pricing and partially offsetting material price stabilisation
- Risk of insolvency of major subcontractors and economic concerns
- Lack of competition in Tier 1 contractor and subcontractor markets, with hesitancy to bid resulting in higher costs and limited options for developers
- These issues are magnified in regional locations

CURRENT MARKET INDICATORS

Q3 YTD 2025 V Q3 YTD 2024
ANNUAL % CHANGE, CVM
WESTERN AUSTRALIA

	RESIDENTIAL	NON-RESIDENTIAL	ENGINEERING
WORK DONE	8.4% ▲	8.7% ▲	-0.1% ▼
	RESIDENTIAL	NON-RESIDENTIAL	TOTAL BUILDING
APPROVALS	14.3% ▲	39.6% ▲	25.3% ▲

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PERTH	5.4	5.3	5.2	4.8	4.5
SYDNEY	4.5	4.0	4.5	5.0	4.5
TOWNSVILLE	6.0	6.0	7.0	7.0	7.0



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SYDNEY

CURRENT MARKET INSIGHTS

Sydney’s construction market is currently experiencing a softening in tender returns, as more subcontractors compete across key trades, resulting in significantly more competitive pricing than a year ago.

This trend is expected to continue until the second half of 2026, when the anticipated influx of Housing Delivery Authority-approved projects should begin to absorb available capacity. Labour shortages persist, especially in specialist trades, and are intensified by ongoing competition from major public infrastructure projects.

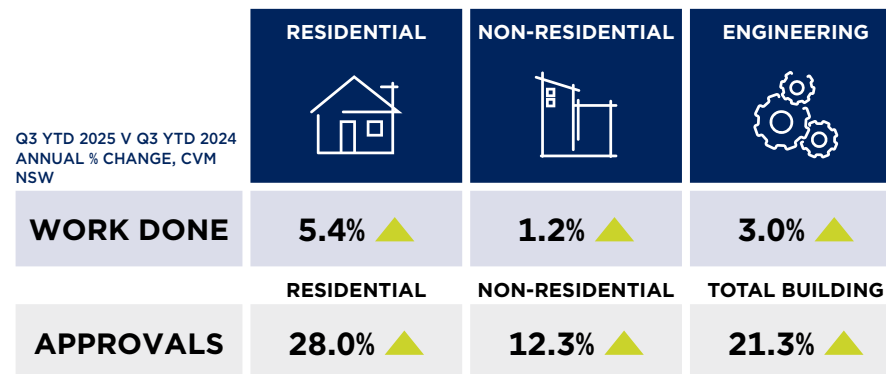
Economic sentiment is gradually improving, with recent interest rate cuts helping restore confidence, particularly in the residential sector. However, high land values, taxes, and sustained cost pressures continue to weigh on new private sector project commencements.

Looking ahead, the expected shift of labour from New South Wales to Queensland as Olympics-related work accelerates from 2027, combined with the mid-2027 expiry of the 2024–2027 CFMEU Enterprise Agreements, poses a risk of renewed cost escalation.

KEY FACTORS IMPACTING ESCALATION

- Short-term availability of subcontractors driving more competitive tender pricing across key trades; however, this is likely temporary.
- Ongoing skilled labour shortages, particularly in specialist trades
- Public sector activity continues to underpin overall market demand and cost pressures, limiting availability for private sector works

CURRENT MARKET INDICATORS



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SYDNEY	4.5	4.0	4.5	5.0	4.5
TOWNSVILLE	6.0	6.0	7.0	7.0	7.0

TOWNSVILLE

CURRENT MARKET INSIGHTS

Construction activity in North Queensland remains strong, particularly in infrastructure, health, and defence. Tier 1 contractor projects have seen a modest increase in productivity and competitiveness, but strong demand among most subcontractor sectors continues to drive price escalation.

Tier 2 and 3 market conditions are normalising—competitive trade coverage is generally being achieved by head contractors across most subcontract trades. Supply and demand for construction projects appear more balanced, and pricing is more competitive compared to a year ago.

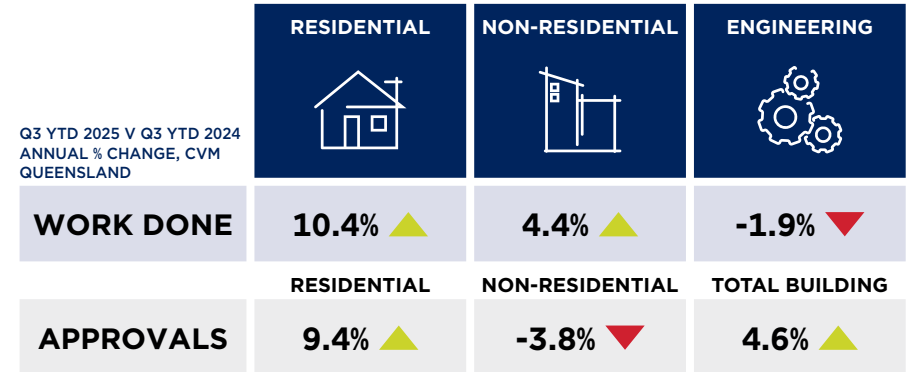
Low unemployment in the construction market contributes to ongoing skilled labour shortages, with contractors competing for talent by offering higher wages.

Pricing is now more competitive but remains at a level that challenges private development feasibility. Upcoming Brisbane Olympic capital investments will start soon and forecast escalation in North Queensland will align with SE Queensland during this period as increased demand for trades is felt statewide.

KEY FACTORS IMPACTING ESCALATION

- Ongoing skilled labour shortages
- Tier 1 contractor market becoming more congested
- Productivity has improved but remains low

CURRENT MARKET INDICATORS



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SYDNEY	4.5	4.0	4.5	5.0	4.5
TOWNSVILLE	6.0	6.0	7.0	7.0	7.0

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