Feb 15 2017 at 2:50 PM | Updated Feb 15 2017 at 4:20 PM

Construction costs to rise further but fall short of last boom, RLB says

Going up: RLB says wages are pushing construction costs higher. **Glen Hunt GTH**

by **Michael Bleby**

Construction costs will continue to rise faster than inflation over the next four years as residential work continues to drive activity, Rider Levett Bucknall's Oceania Report shows.

Despite slowing building approvals and new housing starts, the still-elevated levels of housing construction, plus other building, will ensure price growth, even in weaker markets such as Perth and Darwin, the quantity surveying firm's latest regional report says.

It cites official figures predicting the construction pipeline of confirmed work rising from $67 billion in 2014 to $75.8 billion in 2016 as evidence that work is likely to continue in coming years.

But despite the construction industry being poised for growth, price rises will be modest – a welcome sign compared with previous equivalent boom times – it says.

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While Brisbane was tipped to see the single highest price growth, with 7.2 per cent expected in 2016, it would then moderate to an annual 4 per cent. Sydney, despite being in a growth phase across all sectors, would likely ease from 4.8 per cent in 2016 to 3.5 per cent by 2019.

It was a better outlook than the last peak period of building work in 2002 to 2004, when construction cost growth in Australia's major cities ranged from 3.5 per cent to 11.7 per cent, the report said.

"The construction outlook within [Australia and New Zealand] remains positive, with the residential market fuelling growth," it said. "What RLB is not experiencing over the last three years, however, is a significant rise in construction costs fuelled by the significant surge in building works."

The figures paint a reassuring medium-term picture for the construction industry, despite indications price pressures are increasing. A recent industry report said costs for builders were rising even as new projects slowed. Materials supplier Boral this week announced concrete price increases of between 2 per cent and 7 per cent nationally, following earlier increases announced by rivals Hanson, Holcim and Adelaide Brighton. But the RLB report also shows wages, which account for half of all construction costs, are pushing costs up, especially in the NSW capital.

Wage demands

"All sectors of the industry are reporting increased demands for wage increases up to 5 per cent per annum," the report said. "These wage increases are being passed on to the cost of construction.

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"Further, the Sydney market is now experiencing labour shortage in reinforcement fixers, form workers, bricklayers, carpenter/joiner and fire protection trades, with these trades reporting full order books and unable to accept new opportunities."

In Melbourne, where the residential boom was easing, contractors were finding wages less of a burden, the report said.

"On detached housing sites, labour is inching up slightly in the 'hard' trades – bricklayers and carpenters," it said. "Within the large commercial and residential projects, even though labour rates are coming under ever more pressure due to constant EBA rate increases, the volume of overtime being worked is diminishing, causing a net constant pricing of labour within the project.

"Head contractors are asking subcontractors to increase labour rather than approve overtime."

Brisbane has likely peaked and construction will slow, especially given the slew of commercial projects completing in 2016 that have boosted CBD and fringe office vacancy rates, it says.

"Construction cost increases appear to have peaked and we expect some softening of construction costs during 2017," the report said. "However, there is still a large pipeline of work under construction and we expect the softening to be a gradual process with structural trades affected first."

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