Construction costs forecast to jump 18 per cent by 2029

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Australia faces an 18.1 per cent rise in major building costs by 2029, raising fears more desperately needed apartment developments could become unviable.

Apartment towers Australia desperately needs could be priced out of the market as building costs climb more than 18 per cent by 2029.

A new construction industry forecast warns soaring costs could make some developments financially unviable.

Projects could be redesigned, delayed or abandoned despite Australia’s growing need for housing.

Construction consultancy WT predicts national building costs will rise 5.5 per cent in 2027, 6 per cent in 2028 and 5.6 per cent in 2029.

Compounded, that amounts to an 18.1 per cent increase.

For illustration, the increase would add about $18.1m to a hypothetical $100m building budget over three years.

The calculation assumes the project's scope and delivery approach remain unchanged.

The forecasts cover commercial buildings and apartment developments, particularly high-rise projects. They do not directly apply to detached homes or renovations.



WT construction economist Damon Roast warns Australia's next building boom could trigger another cost squeeze as developers compete for skilled trades.

WT construction economist Damon Roast said some industry players were already concerned about finishing projects before another construction boom intensified competition for workers.

Those concerns were particularly apparent in southeast Queensland.

He said skilled labour was the main driver of escalating construction costs.

Major infrastructure projects, hospitals, data centres and apartment developments were competing for specialist trades.

The next construction boom could prove particularly costly if today's weaker conditions drove workers and businesses out of the industry.

That could leave the sector less equipped to handle a recovery.

"A slowdown can temporarily release labour and contractor capacity, which may ease pricing pressure," Mr Roast said.



Construction begins on social housing in Glenvale, Toowoomba, as industry forecasts point to 8480 fewer new homes starting nationally in 2027.

"The risk is that weaker conditions also discourage investment in workforce development, technology, systems and productive capacity."

Mr Roast said higher construction costs could also make developments harder to finance and reduce the number of commercially viable projects.

Limited access to contractors and skilled workers could further slow delivery, even where demand and approvals were in place.

"Unless the downturn is deep enough to materially reset the market, the result may be temporary relief followed by renewed escalation once the pipeline strengthens," he said.

Developers waiting for construction prices to fall were also taking a gamble.

Mr Roast said widespread cost reductions were unlikely without a severe and sustained downturn or major productivity improvements.

“The more realistic outcome is slower escalation rather than outright deflation,” he said.

The pressure comes as Australia’s residential building industry braces for another decline in construction activity.



HIA chief economist Tim Reardon says soaring land prices remain the ‘elephant in the room’, with residential building costs facing renewed pressure. Picture: Leighton Smith.

Housing Industry Association chief economist Tim Reardon said builders were experiencing a second wave of cost increases following the pandemic.

Higher material prices, skilled labour shortages and rising business expenses were contributing to the pressure.

He said manufacturers were facing higher wages, energy bills and distribution costs. Those expenses were flowing through to construction materials.

The association’s latest trades survey found skilled trades prices had risen 6.6 per cent in the year to September.

It was the fastest annual increase in four years.



The cost of building detached houses has risen 5.7 per cent nationally over the past year, according to Australian Bureau of Statistics figures.

Separate Australian Bureau of Statistics figures showed the price of building a detached home had climbed 5.7 per cent nationally over the same period.

HIA forecasts the number of new homes starting construction will fall from 199,520 in 2026 to 191,040 in 2027.

That represents 8480 fewer housing commencements, with activity not expected to recover until 2028.



Melbourne's Pentridge precinct combines historic buildings with modern development, while national forecasts warn rising costs could threaten the viability of future major projects.

Mr Reardon said rising construction costs were only part of the affordability problem.

He described the price of residential land as “the elephant in the room”.

Land prices had historically increased two to three times faster than labour and building materials, he said.

Government charges, taxes and the time taken to make land ready for housing were also adding to the cost of delivering new homes.

The cost squeeze is already changing conversations between builders and Australian households.

JV Built director Jake Vella said framing timber, hardwood and decking prices were continuing to climb.

Rising insurance, licensing and other operating expenses were also driving up labour costs.

“Every few months, as I quote, I see the price is slowly climbing,” Mr Vella said.

He now asks prospective customers about their budgets before visiting their properties.

Many were unaware of how expensive construction had become, he said.

Some clients were shocked by the quotes and were forced to reconsider what they could afford to build or renovate.

Mr Vella said he did not expect construction costs to become substantially cheaper in the foreseeable future.

He warned against assuming waiting would deliver a bargain.

Even after more than three years running his own building business, he said material prices could still come as a shock.

“Even me as someone that’s in the industry, I look at building costs and materials, and I honestly freak out a bit myself,” he said.

Source: Construction costs forecast to jump 18 per cent by 2029 - realestate.com.au