Turner & Townsend

Australia and New Zealand market intelligence report

Q4 2023

making the **difference**

Contents

Introduction

Our latest report finds that across Australia and New Zealand, high interest rates and high construction costs are impacting private sector investments. However, amidst these economic challenges, public infrastructure investment is providing some relief to the region's construction market.

Australia's construction activity sustained by public sector investment

Economic headwinds are set to challenge Australia's construction industry in 2024 as stubborn inflation and restrictive monetary policies impact consumer spending and private investment, slowing economic growth. Annual inflation eased to 4.1 percent in December, a surprising result that has allowed the Reserve Bank of Australia (RBA) to keep the cash rate at 4.35 percent in its February meeting and ruling out the likelihood of further rate hikes.

Strong migration is loosening the tight labour market but is adding further pressure to acute dwelling shortages being experienced across the country. While the government has made it a priority to address the housing supply shortage, higher interest rates, high construction costs and cost of living pressures are impacting buyer demand and project feasibilities, resulting in fewer residential projects in the pipeline. While these challenging market conditions persist, it is unlikely that we will see improvements to the property market in the near-term.

Despite the ongoing review and federal budget cuts, the national infrastructure pipeline has remained robust with a considerable number of infrastructure projects to be delivered. Even so, considerable risks will need to be addressed before these projects can proceed. State governments have also sustained or increased project funding, particularly in the health, education and defence sectors. This commitment by the government will help to counter some of the effects from softer private sector construction activity.

New Zealand construction activity expected to slow

New Zealand's economic outlook faces challenges as it contracted by 0.3 percent in the September 2023 quarter, marking the third contraction in the past 12 months. High inflation and increased interest rates continue to impact economic activity, with key drivers being a decline in private consumption, government spending and exports. Annual inflation, while improving from 5.6 percent to 4.7 percent in December, remains above the Reserve Bank of New Zealand's (RBNZ) target range.

New Zealand's challenging economic landscape continued to slow new investments in Q4. Higher interest rates, inflation and construction costs weigh on the construction industry, leading to a softer outlook for 2024. However, sectors like data centres and warehouses exhibit resilience, with sustained levels of demand despite the economic downturn. A steady pipeline of large public infrastructure projects should help to sustain some activity in the market over the year ahead.

The labour market is showing signs of strain, with unemployment reaching four percent in December 2023. The loosening of the labour market reflects softer economic activity and reduced hiring by businesses. Meanwhile, strong immigration is expected to support growth in the economy over the medium term.

Australia market outlook

Construction markets continue to cool in Q4, but the outlook for construction activity strengthens as the national infrastructure pipeline is firmed up. Despite near-term softening, the construction sector is set for a sizeable increase in activity over the second half of the decade.

Despite federal funding cuts for more than 82 projects in the national pipeline, there remains a considerable number of infrastructure projects to be delivered across the country, with many state governments sustaining or increasing funding into their pipelines. In 2023, the Albanese government implemented a review of the federal infrastructure project pipeline, which had ballooned from 150 projects to more than 800 in recent years. While many projects will remain in the pipeline, considerable risks need to be addressed before they can proceed. Regardless of this, the vast project pipeline will help to sustain activity across Australia's construction markets over the next decade.

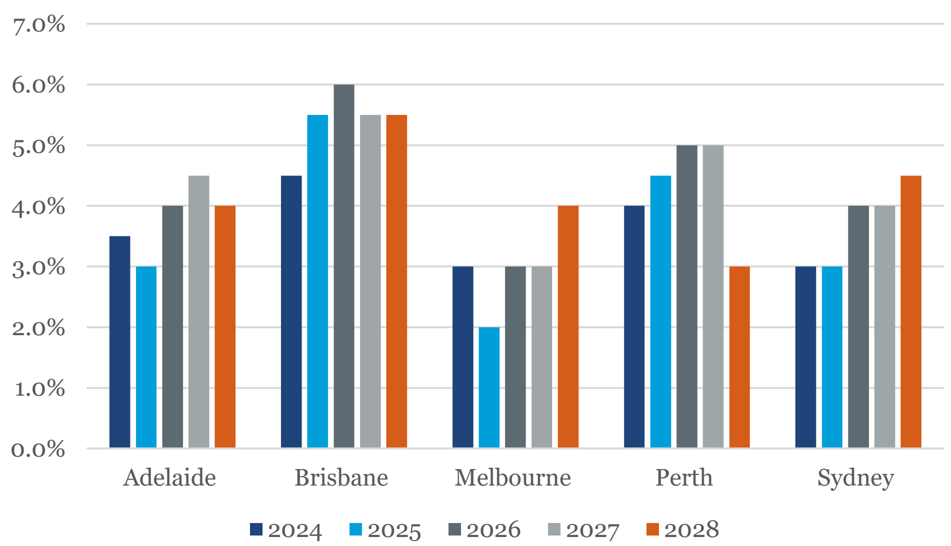
Conversely, there has been a notable softening in private sector investment, which will translate into generally softer non-residential construction activity in 2024 and may carry into the following year for some markets. Higher borrowing costs and high construction costs against a weaker economic outlook have slowed investment activity, with this trend likely to persist through 2024. Sectors such as offices and retail have experienced softer demand, which is cooling investment activity across markets. On the other hand, state governments have invested heavily into their infrastructure pipelines with sectors such as health, education, defence and entertainment all expected to increase over the next two years. Additionally, federal and state governments have turned their focus to increasing housing supply, through incentivising the private sector and social housing initiatives. This large pipeline of public projects will help to prevent a greater slide in total non-residential building.

Residential construction has become a key focus for governments, as the supply of dwellings is severely short of demand. Already, property markets are extremely tight and increasing supply will take time. There has already been a raft of policies from both state and federal governments to increase housing supply, but activity from the private sector remains heavily subdued.

Higher interest rates, high construction costs and cost of living pressures are impacting buyer demand, which is seeing fewer new housing projects get underway and is limiting the number of new apartment projects being developed. This is becoming a critical issue for Australian markets as property and rental prices continue to climb and the gap between supply and demand continues to widen.

Upon the lowering of interest rates and improving economic conditions, we expect to see a strong rebound in the residential construction activity. We anticipate that market conditions over the second half of the decade will reflect those seen during boom times for the residential market, with the effects of this likely to spill over into other sectors.

Figure 1:
Australia construction cost escalation
Source: Turner & Townsend ANZ market intelligence report Q4 2023



New Zealand market overview

A challenging economic landscape continued to drag on new investment over Q4 2023, despite pockets of growth across various public sectors, and has set the scene for a softer outlook for construction activity in 2024.

The impact of higher interest rates, high inflation and elevated construction costs continued to strain New Zealand's construction sector, with private sector investment activity sliding further over the last quarter of 2024. Uncertainty continues to weigh on new investment from businesses, with many re-assessing the timing and feasibility of their projects in the current economic climate.

Sectors such as offices and retail have seen demand weaken, which is resulting in fewer projects getting underway. Data centres and warehouses, however, are continuing to see sustained levels of demand, despite the economic downturn. Additionally, there are several large public projects in the pipeline, many of which are in the infrastructure sector.

Despite some softening, construction costs remain at elevated levels. Material costs continue to be impacted by global and domestic inflationary pressures, while skills shortages are adding to construction labour costs. With construction activity forecast to soften over 2024, we are likely to see more competitive pricing on offer to secure work. This should help to improve some cost pressures across New Zealand's construction markets.

While the near-term outlook for construction in New Zealand is forecast to be weak, we expect to see a relatively swift recovery across the market during 2025. High levels of net migration should help to drive demand across the country, which should see a relatively strong recovery in investment activity from the private sector. Improving economic conditions are likely to be the trigger for the recovery getting underway.

Figure 2:

New Zealand construction cost escalation

Source: Turner & Townsend ANZ market intelligence report Q4 2023

New South Wales

Top three market challenges in Q4 2023

- Skilled labour shortages
- Market uncertainty
- Rising construction costs

In Q4, the New South Wales construction market remained stable, with a noticeable uptick in tendering activity as companies aimed to conclude projects before the year-end break. However, caution prevailed among developers and end users, leading to tightened budgets and project's being postponed as builders assessed their strategies. Encouragingly, Q4 saw no significant reports of contractor insolvencies, indicating that there is more stability in the market.

The competitive landscape in New South Wales presented a mixed scenario, with varying tender returns in terms of margins. Some builders, concluding significant projects, actively secured their pipelines, while others maintained a more fixed outlook for the upcoming year. The increased year-end tendering activity reflected companies making decisions and gaining comfort with market conditions and escalation rates.

Skilled labour shortages persisted in New South Wales across various roles, including consultants, designers, and trades. The ongoing shortage is expected to continue, with skilled labour likely relocating to South-East Queensland for higher salaries and more work opportunities related to the Brisbane 2032 Olympic and Paralympic Games. This migration will likely offset the arrival of new skilled workers, maintaining the existing shortage.

The commercial sector in New South Wales experienced a slowdown due to uncertainties about future office space requirements, with businesses hesitant to commit to new buildings and office fit-outs. Conversely, sectors experiencing growth include industrial, data centres, and defence.

The increased powers granted to New South Wales Building Commissioner David Chandler to order fixes during construction, focusing on residential building design, were welcomed by the industry. However, the reform is expected to contribute to project delays, labour shortages, and cost increases.

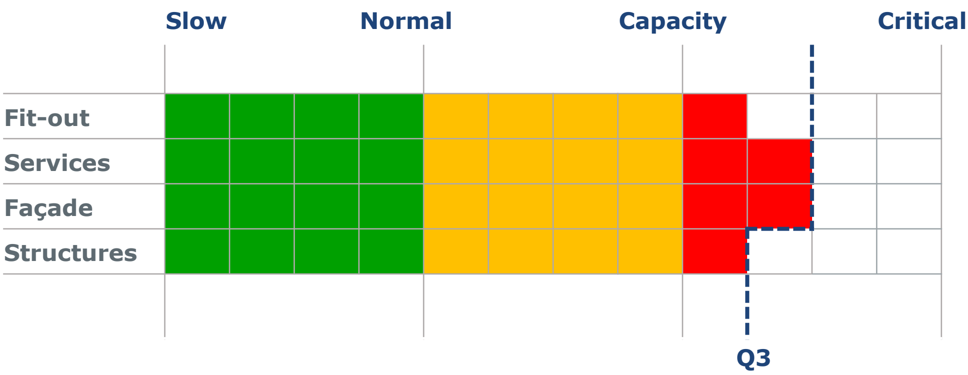
Looking ahead to Q1 2024, labour shortages are expected to persist, while material costs have started to stabilise after an increase in demand. The commercial sector is projected to remain softer, while activity in the health and education sectors is anticipated to kick-start as the new government settles in.

Figure 3:

Supply chain capacity in New South Wales

Q4 2023

Source: Turner & Townsend ANZ market intelligence report Q4 2023



New South Wales key price indicators
Q4 2022–Q4 2023

	% change
Concrete 30 mpa / m^3	+7.0%
Plasterboard 13mm thick to stud wall /m^2	+5.2%
Structural steel / tonne	+6.5%
Site foreman / hr	+7.1%
Group 1 tradesman	-3.3%
Main contractors margin movement	+8.6%

Queensland

Top three market challenges in Q4 2023

Skilled labour shortages	Difficult contractual and legal conditions	Rising construction costs

In Q4 2023, Queensland's construction sector continued to warm as it prepares for the robust outlook ahead. The residential sector saw a slight uptick, driven by annual population growth of 228,000.

Challenges persist from labour shortages, particularly affecting concrete tradesmen, while steel contractors also experience shortages. The anticipated migration influx will do little to alleviate labour shortages, as it is expected to trigger a surge in housing demand, which will offset potential benefits.

Preparations in 2024-2025 for the 2032 Brisbane Olympic and Paralympic Games are set to accelerate infrastructure initiatives, such as the Queensland Government’s investment in the Queensland Train Manufacturing Program which will be a key driver of population and economic growth across South-East Queensland. Additionally, the Queensland record-breaking Capacity Expansion Programme investment of AU$9.785bn will see the expansion of 11 hospitals, on top of delivering three new hospitals and a cancer center. A substantial AU$5bn expansion at Brisbane Airport will further absorb resources and labour.

Turning to the industrial sector, substantial government funding has stimulated market activity. The automotive industry, responding to the increased demand for electric vehicle development, is actively seeking additional industrial space.

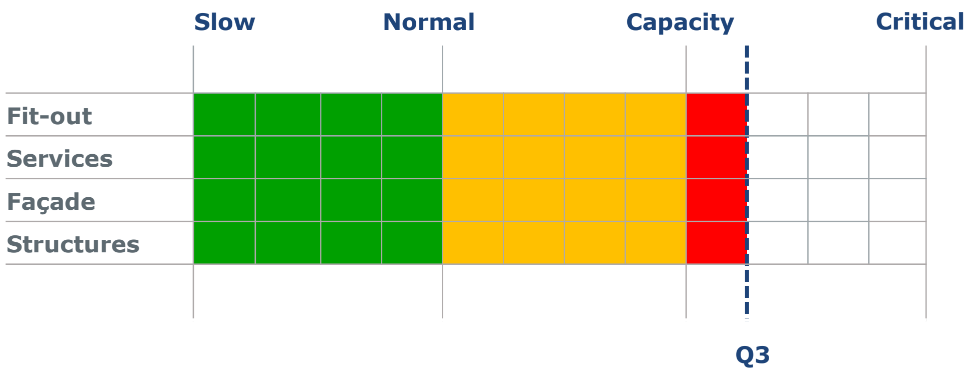
Retail is witnessing a similar surge in supermarket demand in the suburbs, suggesting the state is bracing itself for an imminent population boom. Additionally, Q4 saw heightened project activity in sectors such as health, infrastructure, and natural resources.

Sustainability continues to take centre stage in Queensland, with a focus on upfront carbon emissions determination and a preference for tenants to occupy commercial buildings that are certified as 5-Star Green Star or higher. Challenges in sourcing low-carbon structural steel increase costs and carbon output.

Tier 1 contractors operate at full capacity, creating opportunities for Tier 2 and 3 in smaller developments and through alternative procurement strategies. Tier 3's flexibility and distinct subcontractor pools not only reduce competition but also offer advantages like minimised pricing inflation
for developers. Unexpected tender cost hikes have seen a renewed focus on the negotiation phase, where direct negotiations prove critical, surpassing traditional tendering processes for a better understanding and more reasonable pricing.

Queensland's construction landscape in Q1 2024 anticipates strong growth, driven by government allocations, population dynamics, and a diverse pipeline of projects. Challenges relating to labour shortages and rising tender costs are expected to persist, calling for strategic solutions to keep pace with a rapidly growing market.

Figure 4:
Supply chain capacity in Queensland
Q4 2023
Source: Turner & Townsend ANZ market intelligence report Q4 2023



Queensland key price indicators
Q4 2022–Q4 2023

	% change
Concrete 30 mpa / m^3	+11.1%
Plasterboard 13mm thick to stud wall / m^2	+25%
Structural steel / tonne	0%
Site foreman / hr	0%
Group 1 tradesman	0%
Main contractors margin movement	+20%

South Australia

Top three market challenges in Q4 2023

Skilled labour shortages	Market uncertainty	Rising construction costs

South Australia's construction industry faces unique challenges and opportunities. A slowdown in tendering opportunities has resulted in a decrease in projects, shaping a softer near-term outlook. However, despite these challenges, Adelaide's growing population, driven by relocation from other states, signals the need for increased investment in infrastructure and housing, which will help to support activity over the medium-term.

South Australia faces a distinct challenge when it comes to skilled labour shortages. While trades are available, there is a scarcity of skilled workers capable of handling large projects, resulting in heightened costs and tight project timelines. The state's limited pool of subcontractors intensifies the pressure during peak periods, particularly affecting trades such as roofing, cladding, joinery and metalwork. There may be relief on the horizon, as the South Australian Government's Skilled Migration programme is expected to partially alleviate skill shortages by introducing more diversely skilled workers to the labour force.

In the residential sector, the South Australian Government has taken a progressive step by releasing an unprecedented amount of land for development and establishing partnerships with private developers. Residential projects have become appealing to subcontractors due to less stringent regulations and their proximity to home. However, a severe shortage of housing supply is leading to substantial rent increases, presenting a short to medium-term challenge.

Labour shortages continue to be a challenge in Q4 as skilled labour is being drawn into the defence sector to support the Australia, United Kingdom, and United States (AUKUS) programme which drives substantial projects absorbing Tier 1 and Tier 2 trades. Contractors, prioritising stability, often opt for projects with prolonged durations, the highest profit marginsand financial security. This sustained demand significantly influences the overall construction landscape.

South Australia’s commercial sector is currently prioritising upgrades and cladding rectifications, trailing behind other states primarily due to the diminished demand for commercial space, which is also accountable for the lack of new builds. Despite this, there is a noteworthy emphasis on ongoing upgrades, alongside the government’s active collaboration with body corporates to promote a re-cladding initiative, aiming to enhance the safety and sustainability of buildings.

In the realm of public projects, an AU$500m government rail decarbonisation initiative is currently underway. Simultaneously, The North South Corridor, a major programme that dominates the market, is absorbing resources and has the potential to drive up costs due to its scale.

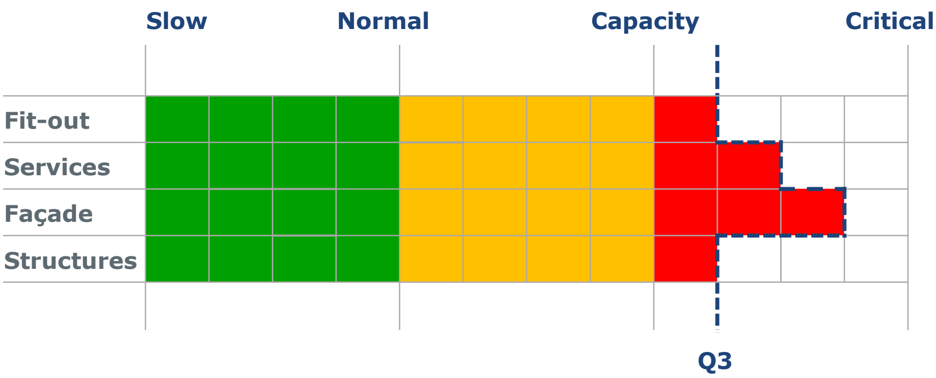
While remaining active, South Australia’s construction landscape is projected to soften over 2024, as economic and market challenges weigh on new investment. Government initiatives, strong population growth and several major infrastructure projects in the pipeline, should help to drive stronger growth over the coming years.

Figure 5:

Supply chain capacity in South Australia

Q4 2023

Source: Turner & Townsend ANZ market intelligence report Q4 2023



South Australia key price indicators

Q4 2022–Q4 2023

	% change
Concrete 30 mpa / m^3	+5.56%
Plasterboard 13mm thick to stud wall /m^2	0%
Structural steel / tonne	-5.6%
Site foreman / hr	+14.3%
Group 1 tradesman	+5.2%
Main contractors margin movement	-14.3%

Victoria

Top three market challenges in Q4 2023

Rising construction costs	Skilled labour shortages	Increasing contractor insolvency

Confidence in Victoria's market remains low due to persistent skills shortages and higher construction costs, particularly impacting the private sector. The insufficient investment across various construction sectors and a thinning future pipeline further compounds these challenges.

Contractor insolvencies persist, exemplified by instances like Alpha Building Group collapsing. Although international construction costs show signs of stabilising, local markets have not yet mirrored this improvement, keeping builders under pressure amid labour shortages and elevated construction costs.

Infrastructure projects and data centre construction in Victoria continue to progress in Q4 and are keeping the market active, though a shift is expected in the next six to 12 months as these projects conclude. Government pauses in infrastructure projects have not significantly influenced residential construction, and the commercial sector operates under capacity due to high interest rates discouraging private developers.

While no additional projects have been paused since last quarter, previous public infrastructure project delays have increased contractor availability, leading to varying competitiveness across sectors based on current workloads. The suspension of infrastructure projects has yet to impact the private sector, as it awaits a decline in interest rates to re-stimulate activity.

A high level of activity at Melbourne Airport has had a modest overall market impact, while the shelving of the Melbourne Airport Rail link project last quarter had minimal effect on the overall market.

Tender results vary widely, with some contractors having more work and reduced interest, while others adjust preliminaries and margins, not necessarily reflecting trade costs.

Skilled labour shortages, especially in logistics, continue to be the primary constraint for Victoria's construction industry. Migration and education are expected to alleviate the skills shortage challenges, with the impact of increased population and government investments in education expected to be seen in the next one to two years. Migration remains a significant factor, with the allure of jobs in booming states like Queensland affecting Victoria’s labour supply.

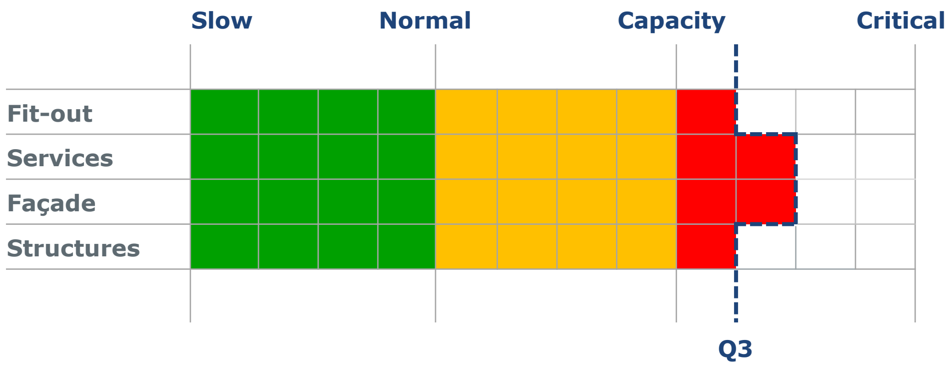
Looking ahead to 2024, major infrastructure projects reaching completion will contribute to a decline in available work, potentially exacerbating challenges over the next quarter and beyond. If interest rates remain where they are, the private sector may face more difficulties, and contractors, despite a similar appetite for work, may encounter scarcity in the market.

Figure 6:

Supply chain capacity in Victoria

Q4 2023

Source: Turner & Townsend ANZ market intelligence report Q4 2023



Victoria key price indicators
Q4 2022–Q4 2023

	% change
Concrete 30 mpa / m^3	+11.63%
Plasterboard 13mm thick to stud wall / m^2	0%
Structural steel / tonne	0%
Site foreman / hr	+10%
Group 1 tradesman	0%
Main contractors margin movement	0%

Western Australia

Top three market challenges in Q4 2023

Skilled labour shortages	Market uncertainty	Low workplace productivity

In Q4 2024, Western Australia's construction landscape experienced positive developments, marked by increased accessibility of materials and a decrease in costs for steel and iron-related products. Local manufacturing, although more expensive than importing, upheld a commitment to higher-quality Australian products.

The construction landscape has become increasingly more competitive for tendering over Q4, as government stimulus projects waned. Competition among contractors intensified, particularly in sectors like education and infrastructure, which helped to moderate cost growth over the quarter.

Despite the pause in social infrastructure projects, transport infrastructure is in a strong upswing, with METRONET receiving an additional AU$1bn in federal funding. Projects such as this and Westport signal a significant investment into the state's infrastructure and will help to support the growing population in years to come. Residential construction remains subdued in response to higher interest rates but is expected to see significant growth over the second half of the decade.

Western Australia's robust resources industry, prominent in mining and oil and gas, continues to draw local resources and talent, posing a challenge for the broader construction industry. Skills shortages are projected to worsen as works on METRONET ramp up and stronger residential construction kicks in. Challenges will include sourcing suitable labour, particularly as fly-in-fly-out workers arrive from other states, making recruitment in Perth competitive, especially against the thriving resources market.

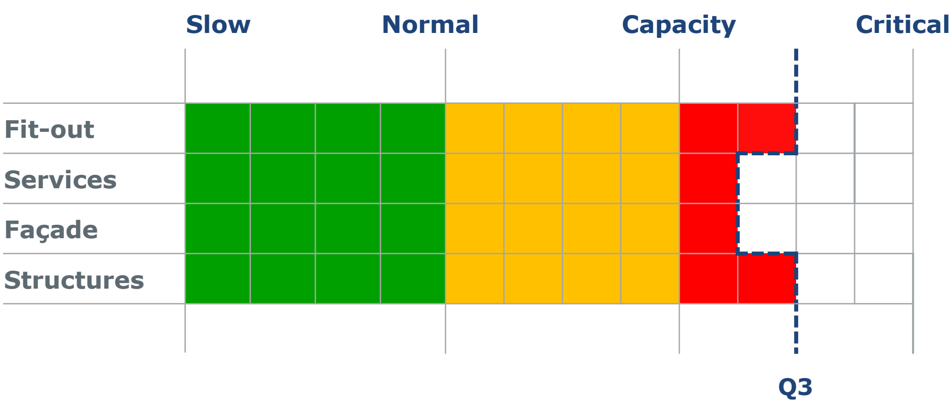
Western Australia is also making strides in sustainability, with notable projects in the education sector targeting 6-star Green Star certification. The industry's shift towards sustainability is clear, with clients, particularly government organisations, showing interest in the use of recycled materials. The 'green steel' being manufactured locally is contributing to this, removing the need for interstate transportation and lowering overall emissions in the construction process.

Figure 7:

Supply chain capacity in Western Australia

Q4 2023

Source: Turner & Townsend ANZ market intelligence report Q4 2023



Western Australia key price indicators
Q4 2022–Q4 2023

	% change
Concrete 30 mpa / m^3	-7.7%
Plasterboard 13mm thick to stud wall /m^2	-14.9%
Structural steel / tonne	-18.2%
Site foreman / hr	+3%
Group 1 tradesman	+1.6%
Main contractors margin movement	-12.5%

Auckland

Top three market challenges in Q4 2023

Skilled labour shortages	Rising construction costs	Market uncertainty

Auckland's construction sector in Q4 2023 witnessed a significant scarcity of skilled labour, particularly in specialised trades such as mechanical, electrical and fire services. Further to this skills shortage, there has been a decrease in the issuance of building consents while newly implemented government policies are also having an impact on the market's construction sector. we have noticed further impact on the construction sector which can be attributed to a decrease in the issuance of building consent and the impact of newly implemented government policies.

Non-residential construction has experienced an uptick in demand across Auckland, with a strong focus on healthcare projects. Data centres continue to be a rapidly growing sector, boasting a promising pipeline of ongoing projects. Conversely, there is a slowdown in commercial office construction due to decreased demand, a residual effect from slow return-to-office trends.

Tendering became more competitive during the quarter, marked by the release of a large healthcare project for consultation and tendering. Panel requests for proposals for tertiary education have also been emerging in the pipeline, spanning from the end of 2023 into Q1 2024. While there is no significant competition in tender prices, specialist mechanical and electrical services face inflation due to limited competition. The skills shortage, exacerbated by a lack of skilled migrants entering the country, are contributing to higher construction costs. The sector anticipates more competitive tendering in the next quarter, with budget constraints causing some current projects to be put on hold.

Global inflation continues to play a pivotal role in driving an increase in imported material prices, significantly impacting the Auckland market. New government policies have also influenced the prioritisation of projects.

Projects from the Ministry of Education have declined, potentially linked to new government policies and stricter budgets associated with the National Party, which could have implications for the overall construction sector.

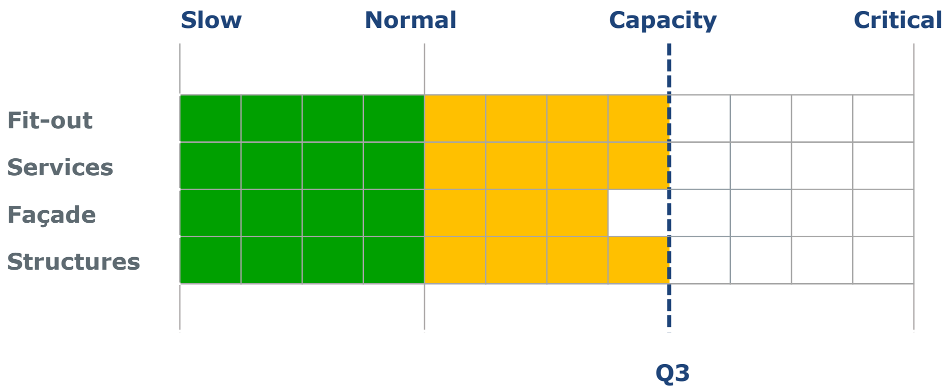
Looking to Q1 2024, intensified competition in tendering is anticipated, with some projects either put on hold or reduced in scope due to budget constraints. The residential market mirrors trends in Australia, driven by higher interest rates aimed at curbing inflation. Government sector spending is anticipated to remain conservative. The New Zealand economy is expected to recover slowly, and the rental market is poised to experience higher demand, which will support new residential construction in the medium-term. Government agencies may be slow to adapt to new policies, contributing to ongoing challenges in the construction sector.

Figure 8:

Supply chain capacity in Auckland

Q4 2023

Source: Turner & Townsend ANZ market intelligence report Q4 2023



Auckland key price indicators
Q4 2022–Q4 2023

	% change
Concrete 30 mpa / m^3	-7.4%
Plasterboard 13mm thick to stud wall / m^2	-33.3%
Structural steel / tonne	+0.9%
Site foreman / hr	0%
Group 1 tradesman	0%
Main contractors margin movement	-5.9%

Christchurch

Top three market challenges in Q4 2023

Rising construction costs	Skilled labour shortages	Market uncertainty

In Q4 2023, recent government announcements prompted the deceleration of market activity in Christchurch. The Ministry of Education and the government social housing agency, Kāinga Ora, reported significant cutbacks in spending commitments, leading to the postponement of several projects. Council personnel express similar sentiments, and apprehensions that potential changes in government spending have contributed to an erosion of confidence in the market.

Despite the overall market slowdown in Q4, there has been a notable uptick in demand for healthcare facilities, warehouses and data centres. This surge is propelled by shifts in economic conditions and investor portfolios, with an added boost from the rise in online consumer activity. The need for additional storage space, driven by increased online consumerism and recent supply chain disruptions, further fuels the demand for warehouse construction.

Christchurch's commercial office sector faces a paradox with high rates of office occupancy, while large offices remain vacant due to a shortage of large businesses. Demand is concentrated in smaller office spaces, which are in short supply. Cost escalation, driven by rising land costs, council rates, borrowing expenses, and construction costs, further complicates the challenges for commercial property developers.

While there is potential for growth in distribution centres in Christchurch, limited available land for industrial site development poses a significant constraint. Complicating matters, weather events on the North Island in 2023 strained resources significantly. Despite this decline in other public sector works, government announcements suggest an imminent investment in infrastructure.

Anticipated to persist throughout 2024, the challenge with skilled labour shortages will be felt most noticeable in trades such as plumbers, electricians, steel specialists and bricklayers. Although record immigration figures offer some relief, they also contribute to an exacerbation of Christchurch's housing crisis. Net migration reaching 200,000 in a population of five million significantly impacts the residential sector, resulting in increased rents and heightened demand for construction. While immigration efforts may alleviate the shortage of skilled workers, achieving stability in construction costs remains crucial for property prices to align with feasibility calculations for developers.

Heading into 2024, monitoring these trends and anticipating shifts in the market will be crucial for stakeholders navigating the challenges and opportunities in Christchurch's construction sector.

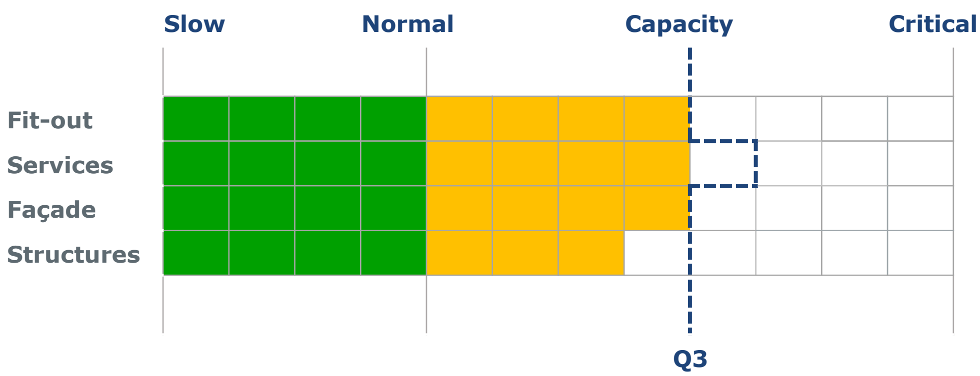


Figure 9:

Supply chain capacity in Christchurch

Q4 2023

Source: Turner & Townsend ANZ market intelligence report Q4 2023

Christchurch key price indicators
Q4 2022–Q4 2023

Indicator	% change
Concrete 30 mpa / m^3	-4.4%
Plasterboard 13mm thick to stud wall /m^2	-1.9%
Structural steel / tonne	0%
Site foreman / hr	-3.4%
Group 1 tradesman	0%
Main contractors margin movement	+7.7%

Australia economic overview

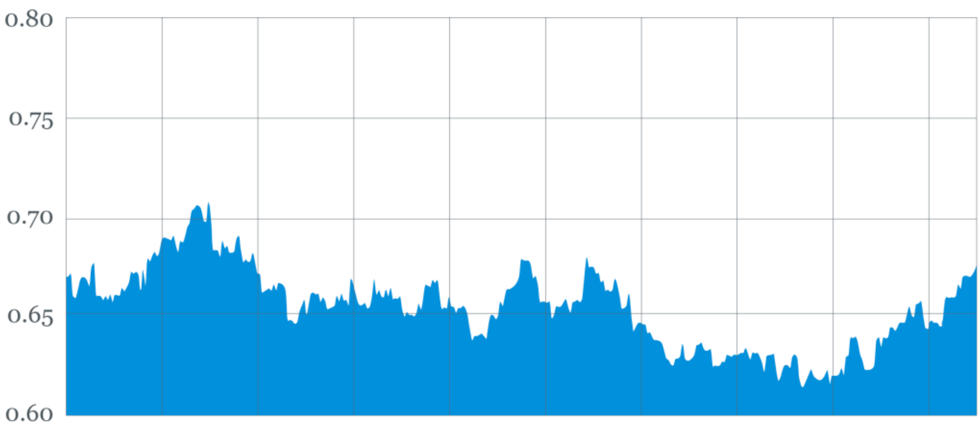
Australia's economic growth is expected to remain weak in 2024 as high inflation and stringent monetary policies continue to affect consumer spending and private investments.

The delayed impacts of monetary policy tightening are likely to materialise throughout 2024. The economy grew by a modest 0.2 percent in Q3 2023. Household consumption continues to remain subdued; however, solid public sector investment was a key driver of growth in Q3, with continued strong investments in health and transport infrastructure across the country.

Annual inflation surprised to the downside in December, easing from 5.4 percent to 4.1 percent. This better-than-expected result has provided the RBA with breathing room to keep the cash rate at 4.35 percent in their February meeting. While inflation remains elevated and with the continued strength in the labour market, we expect to see rates remain at this level over the course of the year. It's possible that there could be easing in the cash rate towards the end of 2024, however, our expectation is that this will likely occur at the start of 2025.

Tightness persists across the labour market, however, there are now clear signs that a cooling is underway. Employment declined by 65,100 people in December, the largest monthly fall since the COVID-19 pandemic lockdowns were imposed. Job vacancies have also declined, with the number of online job vacancies down 5.8 percent between December 2022-2023. Businesses hiring intentions have slowed amid challenging economic conditions, which has seen them pull back on investment. The unemployment rate remained at 3.9 percent in December but is expected to steadily increase over 2024.

Growing migration to address labour market challenges has led to new challenges including inadequate housing stock. Therefore, addressing housing supply has become a top priority for governments, with various initiatives being implemented around the country.
Despite these initiatives, we do not expect to see a meaningful increase in new housing supply for at least two to three years, meaning property markets will likely remain tight for some time.



Forex movement of 0% in 12 months

Figure 10:
AUD / USD performance
Q4 2022 – Q4 2023
Source: Turner & Townsend ANZ market intelligence report Q4 2023

	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
USD	0.69	0.71	0.72	0.73	0.75
GBP	0.52	0.53	0.53	0.54	0.55
EUR	0.61	0.61	0.62	0.62	0.63
YUAN	4.95	5.08	5.04	4.96	5.03

Figure 11:
AUD forex forecasts
Source: Turner & Townsend ANZ market intelligence report Q4 2023

	Latest	Previous
GDP quarterly growth rate	0.2% June 2023–September 2023	0.4% March 2023–June 2023
GDP annual growth rate	2.1% September 2022–September 2023	2.0% June 2022–June 2023
Inflation (annual)	4.1% December 2022–December 2023	5.4% September 2022–September 2023
Unemployment rate	3.9% December 2023	3.9% November 2023
Business confidence index	0 December 2023	-8 November 2023
Retail sales	0.8% December 2022–December 2023	2.2% November 2022–November 2023
Interest rate	4.35% December 2023	4.35% November 2023

New Zealand economic overview

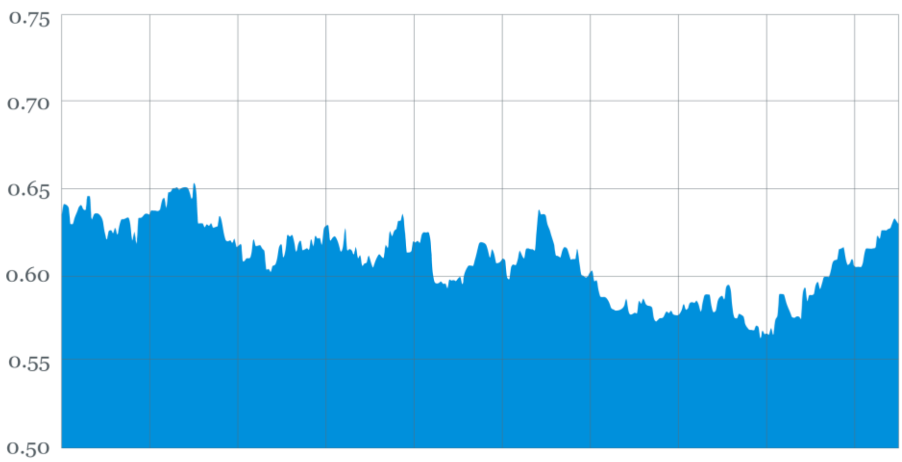
New Zealand's economy contracted by 0.3 percent over the September quarter of 2023 as high inflation and higher interest rates continue to weigh on economy activity.

This is the third time the economy has contracted in the 12 months between September 2022 and September 2023 and signals the considerable impact that these economic challenges are having on households. A decline in private consumption, government spending and exports were the key drivers of this weak result.

Annual inflation has shown some improvement, slowing from 5.6 percent in September to 4.7 percent in December, but remains well above the RBNZ's target rate of two to three percent. Given the improvement, we do not expect to see any further rate hikes by the central bank but are also not expecting any rate cuts until there is further improvement in the inflation rate.

The labour market is loosening, with unemployment reaching four percent in December 2023, the highest it's been since June 2021. Weakness in the economy has seen businesses pull back on new hiring, which has softened labour demand, while strong immigration continues to increase the supply of labour in the market.

International migration continues to grow at a strong pace with migrant arrivals up by 135 percent in the year to November 2023. Net migration was 127,400 with both migrant arrivals and departures reaching record highs during this period. While weaker economic activity is likely to continue over 2024, these strong levels of immigration should help to support economic growth over the medium term.



Forex movement of +2% in 12 months

Figure 12:
NZD / USD performance
Q4 2022 – Q4 2023
Source: Turner & Townsend ANZ market intelligence report Q4 2023

	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
USD	0.62	0.64	0.64	0.65	0.67
GBP	0.47	0.46	0.46	0.47	0.47
EUR	0.55	0.55	0.55	0.56	0.57
YUAN	4.43	4.44	4.30	4.30	4.29

Figure 13:
NZD forex forecasts
Source: Turner & Townsend ANZ market intelligence report Q4 2023

	Latest	Previous
GDP quarterly growth rate	-0.3% June 2023–September 2023	0.5% March 2023–June 2023
GDP annual growth rate	-0.6% September 2022–September 2023	1.5% June 2022–June 2023
Inflation (annual)	4.7% December 2022–December 2023	5.6% September 2022–September 2023
Unemployment rate	4.0% December 2023	3.9% September 2023
Business confidence index	33.2 December 2023	30.8 November 2023
Retail sales	-3.4% September 2022–September 2023	-3.5% June 2022–June 2023
Interest rate	5.5% December 2023	5.5% November 2023

Optimising strategy and set-up for major project delivery success

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Major project delivery can present a range of complexities and challenges. However, by setting projects up for success through a strategic, data-driven process, organisations can ensure smooth delivery and successful outcomes.

With the complexity of major projects and demands for quicker, cheaper and more sustainable delivery rising, major projects require a different approach to be successful. Despite its critical importance, the strategy, planning and set-up phase often receives insufficient time and resources, leading to the project not realising its potential benefits.

The Federal Government's recent announcement to defund AU$7bn worth of infrastructure projects across Australia is a lesson to be learnt from. This is primarily due to unrealistic timelines, budgets or misalignment with government priorities, which underscores the opportunity for organisations to rethink their approach to major project set-up and reevaluate their strategies.

Ensuring stakeholders are engaged early and often can prevent fallout, such as misalignment with Federal Government priorities. Similarly, ensuring early on that project briefs align with available budgets and realistic timelines can be instrumental in avoiding major setbacks such as the high-profile cancellation of the 2026 Commonwealth Games by the Victorian Government due to budget overspend.

It's clear that Australia's construction industry requires a delivery model for major projects that combines leadership with data-driven tools to assist in aligning scope with project success criteria - spanning time, cost, and quality.

A strong delivery model comprises a strategic three-step process: setting up a strategy for success, implementing controls, and providing assurance. In this article, we explore the first step – how optimising strategy and set-up of major project delivery enables major projects to be delivered on time, within budget and to meet stakeholder priorities.

Optimising strategy and set-up for major project success

1. Ensure project metric alignment to lay the foundation for success
2. Diagnose structural requirements and mobilise teams
3. Conduct in-depth supply chain analysis

Ensure project metric alignment to lay the foundation for success

During the first month of major project preparation, it is critical to thoroughly diagnose and understand the project's scale, complexities and limitations. Defining the project brief and scope, assembling a team and determining resource requirements, all while establishing clear boundaries, objectives, constraints and understanding stakeholder expectations are key to delivering a successful outcome.

Analysing project metrics, such as schedule, cost, risk and quality enables proactive identification and rectification of potential issues. Aligning these metrics fosters effective communication and collaboration among project stakeholders, ensuring a shared understanding of project goals and expectations.

Developing a robust work breakdown structure (WBS), to define project deliverables, tasks and dependencies, serves as a blueprint for project execution, guiding resource allocation, scheduling and risk management efforts. The WBS also determines necessary specialist skills needed within the team and enables leadership to evaluate trade-offs while ensuring alignment with strategic objectives.

Diagnose structural requirements and mobilise teams

As projects grow in complexity and scale, they demand a high level of specialisation and a tailored delivery approach. Specialist major project experts should be deployed to accommodate the unique size, risks and requirements of each project. Additionally, complex projects often require a project controls led approach to managing traditional workstreams.

The Castle Towers Sydney redevelopment of a live operating shopping centre, delivering three mixed use towers on top of the existing trading centre, exemplifies how a 90-day start up plan can ensure major project success.

Adequate time was taken at the outset to assign clear business goals and objectives, understand the client and enable alignment of desired outcomes. A 90-day start up plan was mobilised, deploying experts who possess a broad sector background and diverse skillset, to prepare the delivery strategy, informed by deep design, construction planning, logistics, and construction knowledge, paired with current market information and data.

By strategically reviewing and allocating specialised expertise and structured workstreams, project execution can be streamlined, and the risk of bottlenecks or inefficiencies can be mitigated. The creation of stronger data and fostering a culture of positive collaboration to achieve success is a key advantage of this approach. This, combined with project expertise and leadership, can drive optimal outcomes.

Conduct in-depth supply chain analysis

Conducting early and comprehensive supply chain analysis is essential to inform the procurement strategy and mitigate project lead time risks and enhance project outcomes.

Major projects present an opportunity to leverage supply chain purchasing power to enhance operational efficiencies and mitigate later risks, such as material shortages and lead time or budget constraints. Strategic procurement planning, vendor evaluation and contract negotiations can ensure optimal resource allocation and risk mitigation.

Adopting a portfolio approach to supply chain analysis anticipates the project's key demands and provides a holistic evaluation of project requirements. Major projects entail significant investments, where they can often influence the local economy and demand for resources. For instance, disaster recovery efforts often involve substantial rebuild spending within urgent time frames, which can stimulate a regional economy to the point of driving up costs for individual businesses.

In contrast, taking a portfolio approach to supply chain management could result in greater certainty in pricing. As an example, consolidating concrete demand requirements to fund a portfolio level concrete batching or precast manufacturing plant will enable cost certainty for the supply of the entire project's requirement. However, accountability is often confined to individual package levels and lacks integration across the entire project, hindering the optimisation of purchasing power at the business case stage to secure these outcomes.

Conducting supply chain analysis as part of the set-up phase enables the identification of opportunities for innovation and optimisation, such as modular construction techniques, prefabrication or outsourcing non-core activities. Strategically and proactively procuring high-quality resources early in the project lifecycle, even before design confirmation, can streamline project delivery, minimise disruptions and significantly enhance project success.

Optimised delivery

Major projects demand a unique, tailored approach and a blend of specialist expertise to ensure success. By adopting a comprehensive strategy to align project scope, metrics and requirements, before implementation, organisations can mitigate risks, enhance efficiency and achieve sustainable success in today's dynamic construction environment.

About Turner & Townsend

Through the commitment, capability and care our team brings we build trust between clients, suppliers, governments and society. Delivering better outcomes that have a positive impact on the world around us.

We work smarter to face the challenges of the future; bringing the clarity that helps teams realise their full potential across the real estate, infrastructure and natural resources sectors.

It’s how we’ve made the difference for 75 years.

Transforming performance for a green, inclusive and productive world.

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