The Urban Developer

The Construction Cost Crunch | Whitepaper

How the property industry will work through the cycle

Delivered in partnership with WT

The Urban Developer

5
QUESTIONS

189
RESPONDENTS

92%
EXPECT PRICES TO RISE

Editor’s note

Construction costs have topped developer concerns for years, so when 92 per cent of the 189 respondents to this year’s Industry Sentiment Survey say they expect costs to keep rising, the finding barely registers as news.

What does register, once you sit with the data, is how much has shifted underneath that headline number.

Labour has overtaken materials as the leading cost driver for the first time. Three-quarters of the industry expect builder insolvencies and subcontractor capacity to worsen. This isn’t a cost story anymore. It’s a delivery story.

To make sense of what that means in practice, we asked WT, one of the country’s leading project advisory firms, to read the results against what they’re seeing on the ground, project by project, market by market.

WT’s perspective sits alongside our analysis throughout this report and closes with their view on where the industry goes from here.

The questions behind these findings, covering cost forecasts, cost drivers, the delivery environment and project feasibility, were answered by 189 respondents across development, construction, finance and advisory.

What follows is our reading of what they told us and WT’s read on what it means for the year ahead.

Taryn Paris
Managing Editor, *The Urban Developer*

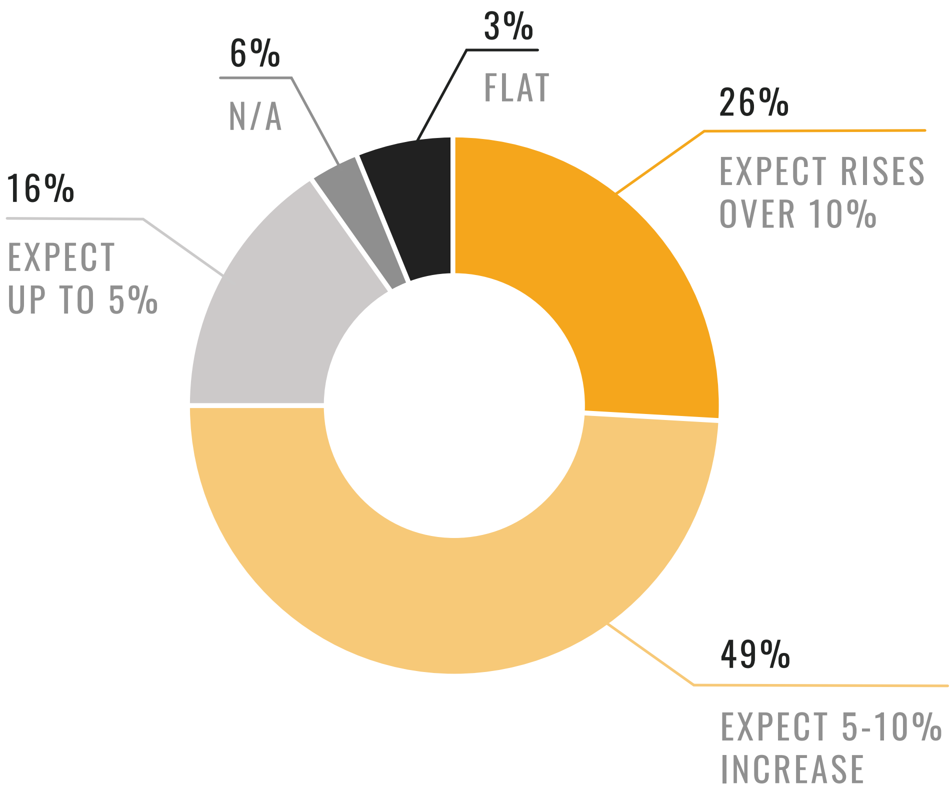
Cost forecast: escalation is now the default assumption

Ninety-two per cent of the 189 respondents expect construction costs to rise over the next 12 months.

Forty-nine per cent expect increases of 5 to 10 per cent and 26 per cent expect rises above 10 per cent.

Construction costs already rank as the single biggest factor influencing project feasibility, scoring 5.06 out of 6, and 59 per cent of respondents describe their feasibilities as underperforming or unfeasible.

The construction cost crunch: How are developers forecasting costs in the next 12 months?



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Does the 92% figure surprise you?

If anything it's surprising the figure isn't higher.

Broad-based cost declines are rare; costs have risen more than 30 per cent over four years, and while escalation has moderated since 2022, the market has stabilised rather than normalised.

Is there a gap between what the industry expects and what WT's own data shows?

Broadly, sentiment aligns with reality, though conditions vary by sector. Queensland is experiencing renewed intensity as Brisbane 2032 projects move to the fore in a market with thin labour depth, while global uncertainty adds volatility elsewhere.

The bigger opportunity for developers is treating feasibility holistically: program risk, contractor capacity and financing exposure now carry as much weight as cost itself.

Feasibility models that focus on cost in isolation miss the bigger picture. Program risk, contractor capacity and financing exposure now carry as much weight as cost itself

What is driving the costs?

Labour takes the top spot over materials as the leading cost driver, scoring 5.53 out of 7* against 5.23 for materials.

Unlike materials, it will not respond to a global supply correction. Global conflict ranks third at 4.74. Builder solvency, despite 73 per cent expecting insolvencies to worsen, ranks fifth as a cost driver, suggesting the industry sees it as a delivery risk rather than a pricing one.

- LABOUR 5.53
- MATERIALS 5.23
- GLOBAL CONFLICT 4.74
- TRADE UNIONS 3.54
- BUILDER SOLVENCY 3.20
- COMPETITION 2.56

Where 1 is least important and 7 is most important

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Do you agree labour has become the primary driver?

Yes. Materials pressure dominated during the pandemic and the early stages of the war in Ukraine, but has since eased. Labour escalation has remained elevated, underpinned by a training pipeline that did not keep pace with construction activity.

Which trades are under the most pressure right now?

Specialist building services trades, mechanical, electrical, hydraulic and fit-out remain the tightest, showing up as longer lead times and thinner tender fields rather than just higher prices.

Does industrial's strong feasibility ranking match what WT sees on the cost side?

Industrial and logistics retain the most cost certainty, thanks to mature delivery models. The differentiator there is certainty, not cost.

In Queensland, expect pressure to spread beyond infrastructure into housing, sport and entertainment builds tied to Brisbane 2032, intensifying competition for labour and resources market-wide.

Navigating the delivery environment

Three fronts are deteriorating at once: 73 per cent expect builder insolvencies to worsen, 73 per cent expect subcontractor capacity to shrink and 59 per cent expect the tendering environment to get worse. Fewer than 1 in 10 expect any of the three to improve.

Together, those numbers describe a delivery problem, not just a cost one: rising inputs, thinner tender fields and increasing financial and capacity stress on the builder.

73%
EXPECT BUILDER INSOLVENCY TO WORSEN

73%
EXPECT SUBCONTRACTOR CAPACITY TO SHRINK

59%
EXPECT THE TENDERING ENVIRONMENT TO GET WORSE

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How does builder financial stress translate into project costs?

Insolvency is rarely a single event.

Long before administration, stress shows up as selective bidding, larger risk allowances, weaker subcontractor engagement, delays in payments, compromise in quality and a slipping of program performance.

What does a thin tender field mean for developers?

It's a market signal in its own right, usually pointing to concerns about risk allocation or complexity.

What attracts genuine interest from a selective contractor market is certainty: well-developed documentation, realistic programs and secured funding.

The earliest warning sign is a previously active builder becoming selective, declining work or narrowing its range, alongside shifting procurement behaviour and weakening subcontractor participation.

What the findings mean for developers

The 92% figure is the headline, but the bigger picture is a delivery problem, not just a cost problem.

These key points stand out for the year ahead.

PRICE THE TRAJECTORY, NOT THE MOMENT

A 5 per cent rise assumed at the start of a 30-month program ignores where labour sits by month 18.

VET CONTRACTORS MORE SYSTEMATICALLY

With 73 per cent of the industry expecting insolvencies to worsen, financial considerations should be the focus of hiring decisions.

THIN TRADE DEPTH MEANS THIN MARGIN FOR ERROR

Program delays are harder to claw back when contractors have few subcontractors on the bench to call on.

DESPITE THE CAUTION

SOME SECTORS WILL SHINE

Industrial ranks highest of both feasibility fundamentals (18.88%) and expected value gains (19.46%). Retirement/aged care and seniors living also score well.

OVERALL SENTIMENT IS POSITIVE

Forty-eight per cent of respondents are optimistic or very optimistic about the year ahead, compared to 46% who are pessimistic or very pessimistic.

NEARLY A QUARTER OF THE INDUSTRY IS NOT SHYING AWAY

Almost 25% of respondents say they are looking to grow rapidly despite a difficult market—evidence that experienced operators will find a way through.

The real risk isn't escalation, it's uncertainty. Certainty is what allows projects to proceed with confidence.

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Are developers allowing enough contingency in current feasibility models?

Contingencies should reflect project-specific uncertainty, not a historical rule of thumb. The goal is realistic, testable allowances rather than simply bigger budgets.

How is WT advising clients to build program risk into feasibilities?

Developers should stress-test key approvals, procurement lead times, contractor and trade availability, and realistic mobilisation and delivery periods.

Is this structural rather than cyclical?

Structural. Labour shortages, workforce demographics and rising complexity will not resolve within one cycle; meaningful relief needs a genuine productivity step-change across the industry.

What are successful developers doing differently?

They stress-test assumptions early and adapt pricing and procurement to current conditions, rather than waiting for the market to improve.

Certainty is the new competitive advantage

James Ford
National Director, WT

The headline finding from *The Urban Developer* Industry Sentiment Survey is confronting, but not surprising: 92 per cent of respondents expect construction costs to rise over the next 12 months.

If anything, the more surprising result is that the figure is not closer to 100 per cent.

Broad-based declines in construction costs are rare. Individual materials or trades may soften, but sustained falls across the market generally require a recession or comparable shock.

Although escalation has moderated since the peaks of 2022, the cost base has not reset.

The market has stabilised, but it has not normalised.

The data also highlights a wider concern. Seventy-three per cent of respondents expect builder insolvencies to worsen, the same proportion expects contractor and subcontractor capacity to deteriorate, and 59 per cent expect a tougher tender environment.

Together, these findings describe a delivery challenge, not only a pricing challenge.

The question for developers is no longer simply, *"What will this project cost?"* It is, *"How confident are we that it can be delivered?"*

Labour availability, productivity and specialist trade capacity are now central to that question.

Materials pressure has become more predictable in many areas, but labour escalation remains elevated. At the same time, contractors are more selective, programs are harder to recover when delays occur and financial stress can emerge well before a builder enters administration.

In this environment, developers continuing to progress are creating certainty early.

They are testing feasibility assumptions across multiple scenarios, engaging contractors and key trades sooner, developing realistic programs and presenting the market with well-resolved documentation, secured funding and a credible path to commencement.

They are also identifying and allowing for project-specific risks rather than relying on standard contingencies or historical norms.

This matters because time risk is increasingly cost risk. Delays affect financing, revenue timing, preliminaries and opportunity cost. A project that appears viable against a single construction estimate may look very different once program and procurement risks are properly considered.

There is no single procurement model or contingency percentage that solves these challenges.

The right response depends on the project's complexity, objectives and market. The common principle is that risk should be understood, transparently priced and allocated to the party best placed to manage it.

Many of the pressures facing the industry are structural. Skills shortages, workforce demographics, productivity constraints and growing complexity will not disappear with one market cycle.

Meaningful relief will require coordinated investment in capability, innovation and more efficient delivery models across the full construction value chain.

That is not a reason to pause every project. Viable opportunities continue to move forward across Australia.

The projects most likely to succeed will be those where uncertainty is actively managed rather than treated as an exception.

Certainty drives confidence, and confidence enables projects to proceed.

The Urban Developer Industry Sentiment Survey 2026 received 333 total responses between June and July 2026. The construction costs section was completed by 189 respondents. Respondents were drawn from across the property development, construction, finance, planning and advisory sectors. The full survey breakdown by role and region is available in the national survey report, available to TUD+ members.

About WT

WT is a leading international project advisory firm with more than 75 years of multi-sector experience. Clients can tap into the collective thinking of over 2000 of the best people in the industry, operating from 70-plus offices throughout Australia, New Zealand, Asia, India, Middle East, North America, Africa, the UK and Europe. In Australia, WT supports clients across property, construction and infrastructure with an award-winning team of 500 specialists in portfolio and program advisory, cost management and quantity surveying, commercial advisory, carbon and sustainability, asset and facilities management, and digital solutions.