The future of Australia's construction industry: An outlook on confidence, constraints and capability

2026 BDO Construction Report

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Contents

Executive summary

Now in its sixth year, our 2026 BDO Construction Report focuses on the decisions that construction leaders make today that will shape the industry's capacity, resilience and competitiveness for the future.

Drawing on insights from a group of large Australian construction companies, we examine expected growth and financial performance, and the key trends and challenges shaping the future of the industry. We explore how organisations are strengthening the foundations for sustainable delivery through the evolving role of artificial intelligence, efforts to address persistent productivity challenges, and expanding environmental, social and governance reporting obligations.

Growth and financial performance

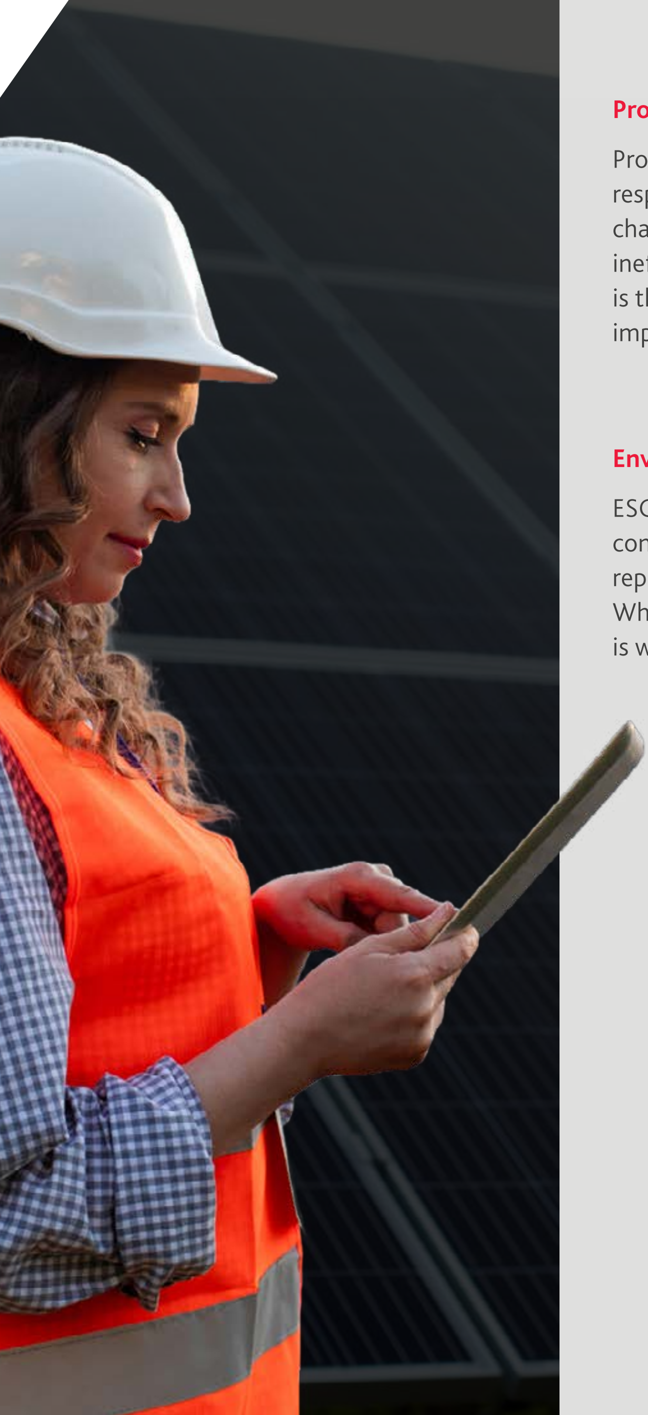
Financial performance indicators point to a cautiously optimistic outlook, underpinned by sustained government and infrastructure demand and pipeline opportunities associated with major events such as the Brisbane 2032 Olympic Games, alongside continued infrastructure investment across Australia. With much of the COVID-era legacy of lossmaking projects now resolved, and supported by improved market conditions and buoyant demand, the industry appears to have entered a period of relative stabilisation, however, this may be offset by geopolitical uncertainties, rising inflation and material costs, presenting further challenges for the future of the industry.

Revenue growth is expected to remain largely driven by quality of work as we've seen the rate of subcontractor failures reduce, which has improved project programming and instilled more stable margins. Although the market has somewhat stabilised, it is uncertain how sustainable this will be as intense competition, geopolitical risks, tighter contractor risk appetites, inflationary pressures and rising costs are all continuing to squeeze margins.

Artificial intelligence (AI)

AI adoption across the construction sector is now widespread, but maturity remains in early-stages for most organisations, with usage largely focused in low-risk activities such as administration, accounting and tender preparation. Confidence in AI's ability to increase productivity is reportedly high, which is an encouraging sign for the industry.

Many organisations are focused on building AI education and governance across their workforces, so that AI is well positioned to play a more meaningful role over the coming years. It is anticipated that organisations leading the development and application of AI to solve construction-specific problems will have opportunities to commercialise these capabilities, driving broader adoption and productivity uplift across the sector.



Productivity

Productivity outcomes across the construction sector remain subdued with most respondents reporting little to no material improvement in recent years. The primary challenges reported by respondents are regulatory and compliance delays, labour inefficiencies, and ineffective workflows and processes. A key productivity challenge is that gains made by high performing head contractors are often defused by the impacts of limited capacity and resourcing further down the subcontractor chain.

Environmental, social and governance (ESG)

ESG management processes are now firmly embedded across the construction sector, driven largely by mandatory sustainability reporting requirements and increasing client expectations. While adoption of baseline initiatives such as waste reduction is widespread, ESG is currently viewed by many respondents as compliance-led rather than a source of competitive advantage, with organisations finding the associated cost and data complexity to enhance their ESG reporting challenging.

The outlook of the Australian construction sector appears cautiously optimistic compared to previous years, experiencing healthy activity and growth opportunities in 2026 and beyond. Our findings suggest that with a continued focus on building sustained organisational resilience, improving efficiency and adapting business models, the sector can meet future workforce, technology and compliance pressures, enabling organisations to remain competitive in the market.

"We sincerely thank all survey participants for their time and contributions, which have been instrumental in shaping this year's insights."

Elysia Rothwell
Partner,
Audit & Assurance
elysia.rothwell@bdo.com.au

Participant overview

A total of 17 construction organisations completed BDO's 2026 Construction Survey. Most respondents primarily operate in the commercial, government and industrial subsectors, with a smaller number of companies operating in residential. The majority of these organisations focus on more than one subsector, diversified across several areas such as retail, aged care/senior living, data centres, modular construction, construction services and civil construction.

The organisations surveyed are based across New South Wales (NSW), Queensland (QLD), Victoria (VIC), Western Australia (WA) and South Australia (SA), with a mix of single-state as well as multi-state operators.

Respondents consisted of Chief Financial Officers, Finance Directors, Financial Controllers, Heads of Finance, and Managing Directors. The respondents were asked a series of both multiple choice and free text questions in an online survey, along with additional interviews conducted. Please note that not all participant responses have been used in every question, due to incomplete data for analysis.

Participant states

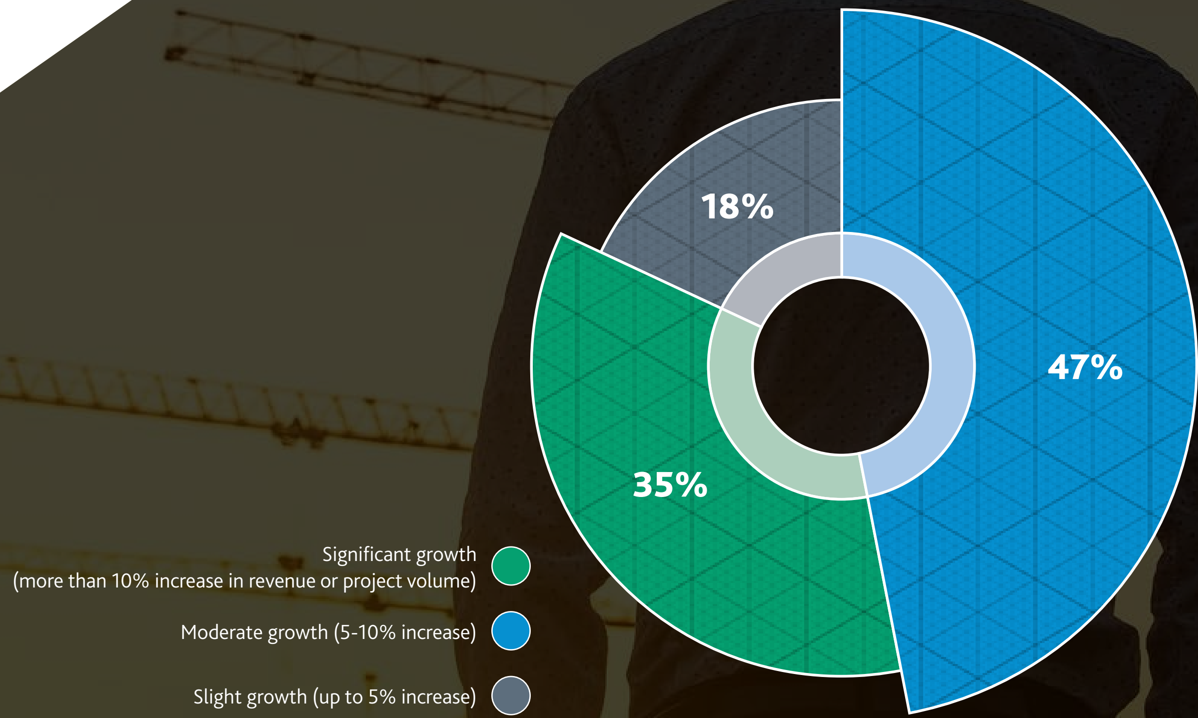
Subsectors represented by survey participants

Growth and financial performance

Survey respondents indicate a broadly positive outlook for growth over the next 12 months, continuing the momentum observed in the years following COVID-19. Over 80 per cent of respondents expect moderate to significant growth of more than five per cent (Figure 1), supported by sustained demand across government, infrastructure and select private-sector segments, such as housing and education.

Major investment programs and events such as the 2032 Brisbane Olympic Games are viewed as important demand drivers but also introduce risks around workforce availability and delivery capacity, reinforcing a shift from rapid growth towards building more sustainable scaling and stable margins.

Figure 1: Participant expected growth over the next 12 months



Expert insights from our national team

New South Wales

Looking ahead for 2026 and beyond, the NSW market is expected to remain resilient, underpinned by a strong pipeline of major public infrastructure, transport and urban renewal projects, alongside local and federal policy initiatives aimed at accelerating housing supply. Continued investment along key transport corridors and across Western Sydney is expected to drive activity, supporting both residential and commercial long-term opportunities and playing a key role in growth for the state.

At the same time, supply constraints continue to influence construction conditions. While dwelling completions have increased, they remain below long-term averages, reinforcing persistent capacity and delivery pressures, particularly in Greater Sydney.

Activity remains skewed toward higher density, well-located developments, reflecting affordability constraints and preferences for transport-connected projects. The ongoing gap between demand and delivery underscores that underlying construction demand remains strong, though outcomes are increasingly shaped by cost pressures, planning complexity and the need for coordinated government and industry responses, which are impacting program delivery, project feasibility and margins.

Overall, while demand remains high, project outcomes in 2026 will increasingly depend on disciplined risk management, improvements to productivity and the ability to navigate complex delivery environments.

Elysia Rothwell
Partner,
Audit & Assurance

Queensland

Queensland's construction sector is positioned positively, underpinned by population growth, housing demand, a sizeable public infrastructure and engineering pipeline. While these factors support growth, the same capacity constraints in Queensland are echoed across the country: persistent skilled labour shortages, productivity headwinds, cost escalations, and industrial relations settings, with the added local pressure of a restrictive working capital quarantining environment due to current licencing and project trust requirements.

Weather related disruption from widespread flooding and ex-tropical cyclone Alfred temporarily halted works, constraining productivity and extending project timelines, while also driving a later uplift in recovery and rebuild activity.

The Brisbane 2032 Olympic and Paralympic Games will be a material driver for growth and risk, as it brings non-movable deadlines that push labour and contractor capacity pressure into the broader market. The Queensland Government's response to the Queensland Productivity Commission report into construction productivity may see easing of constraints to growth and project delivery in the longer-term. We don't expect a silver bullet from government, and businesses must take it upon themselves to optimise on the current environment to find sustainable growth and profitability.

Companies who invest in workforce planning and retention strategies, collaborate with clients on risk-sharing and program realism, and strengthen cash-flow discipline and subcontractor governance, will be poised strongly to perform in the current Queensland market.

Craig Mitchell
Partner,
Business Services

Expert insights from our national team

Victoria

While many of the national pressures affecting the construction sector remain consistent throughout Australia, their impact in Victoria is being amplified by state-specific policy settings, project concentration and delivery performance. Although the scale of Victoria's Big Build continues to underpin activity, capacity constraints are becoming more evident, with labour and contractor availability heavily absorbed across major infrastructure corridors and key growth areas.

Housing delivery also continues to fall short of state targets, reflecting ongoing feasibility challenges driven by cost escalation, planning complexity and constrained funding pathways. This has resulted in uneven performance across subsectors, with infrastructure maintaining stronger continuity while residential and parts of the commercial market experience greater volatility.

In this environment, construction organisations are placing increased emphasis on practical cost management strategies. Earlier contractor involvement, tighter scope definition and a shift toward more collaborative contracting models are emerging as critical tools for managing pricing uncertainty. Many organisations are also prioritising long-term partnerships to maintain pipeline stability and manage shared risk effectively, while financing conditions are prompting a focus on contractual frameworks that provide adequate protection and clarity.

Collectively, these dynamics are driving a more disciplined, partnership-oriented and commercially-focused approach to project delivery across Victoria.

Christian Patone
Partner,
Audit & Assurance

Western Australia

WA's positive growth outlook is supported by strong investment in public infrastructure, defence, energy and housing. However, growth is increasingly capacity constrained rather than demand-led, driving a shift away from rapid expansion towards more selective and disciplined delivery, focused on risk management rather than volume.

Workforce availability remains as a major constraint on performance in WA. Intense competition for skilled labour from mining, defence and major infrastructure projects continues to place pressure on productivity, program certainty and labour costs, limiting contractors' ability to translate strong order books into profitable growth.

Over the medium-term, WA is likely to be impacted by cost escalation, exacerbated by the limited depth of tier-one builders in the local market, as well as geopolitical disruption given long and complex supply routes, higher freight exposure and energy intensive inputs. Competitive bidding is also limiting pricing leverage, which means topline growth may still rely on throughput rather than improved margins.

In response, the WA construction market is showing early signs of structural adjustment. Contractors and developers are increasingly prioritising project selection, contract terms and delivery partners, with a heightened focus on balance sheet protection, delivery certainty and risk allocation.

Simultaneously, regulatory complexity, sustainability expectations and heightened scrutiny from funders and insurers are extending pre-construction timelines, placing greater emphasis on front-end planning and governance. These dynamics suggest the next phase of growth in WA will favour companies with deep local capability, strong capital discipline and the ability to navigate feasibility constraints and volatility across labour and supply chains.

John Burger
Partner,
Project & Infrastructure Advisory

Expert insights from our national team

South Australia

South Australia's construction market is increasingly shaped by the scale and technical demands of defence and defence adjacent projects, set within a relatively small and competitive industry base. While this pipeline is providing a degree of continuity, it is also intensifying pressure on workforce availability, organisational capacity and delivery capability, particularly for contractors operating across multiple sectors. In this environment, growth is becoming more selective, with organisations prioritising projects that align with their technical strengths, security requirements and delivery capacity rather than pursuing volume alone.

Similar to other states, these conditions are reinforcing the importance of disciplined cost to complete management, more deliberate procurement strategies and earlier engagement on contract terms. Fixed price delivery, exposure to weather related delays and limited pricing leverage mean that risk allocation and contractual protections around escalation, delays and preliminaries are increasingly critical to financial outcomes.

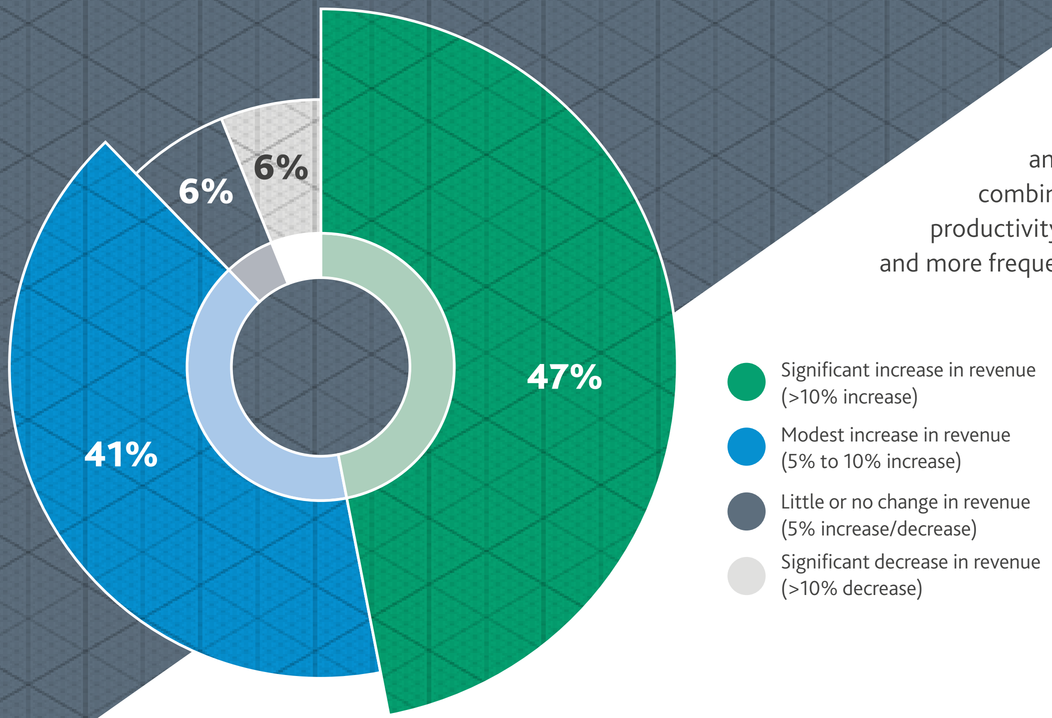
As a result, capability and capacity planning are emerging as defining factors of performance in South Australia, with contractors investing in workforce certainty, project controls and commercial discipline to protect margins and balance sheets in a tightly constrained market.

Eythan Barraclough
Partner,
Business Services

Growth and financial performance

The revenue outlook aligns closely with reported growth expectations, with 88 per cent of respondents anticipating a significant to moderate increase in revenue in FY26 compared to FY25 (Figure 2). Importantly, respondents indicate that this growth is predominantly driven by quality of work rather than being price-led, with continued competitive tendering conditions and limited pricing power across the market.

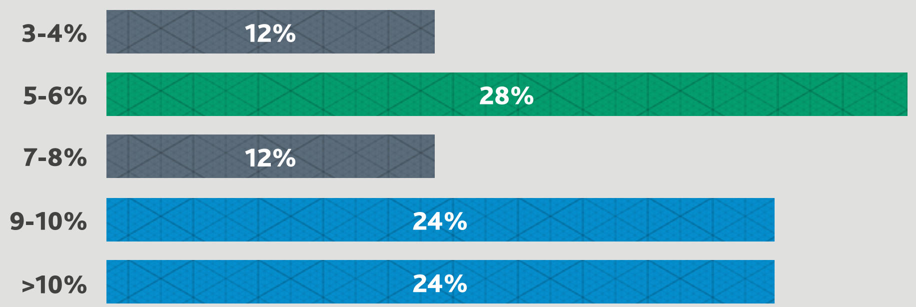
Figure 2: Participant expected revenue for FY26



Whilst project margins across the construction sector continue to be compressed overall, the survey has indicated comparatively stronger margin outcomes expected for FY26 than in FY25, with most respondents reporting project margins clustering around five to six per cent (Figure 3). This is likely a result of margins stabilising from the legacy COVID-19 period and potentially compounded by the reduction in subcontractor insolvencies, which had represented a significant risk for head contractors over the preceding two to three years.

Respondents also highlighted that whilst there had been some improvements, industrial relations and union influence continue to be an ongoing challenge to financial performance and program delivery. Limitations on site hours, reduced flexibility in working arrangements combined with increased compliance requirements were cited by respondents as challenges to reduced productivity and program inefficiency. Additionally, incremental weather impacts such as higher rainfall and more frequent wet weather events, continue to be a high-level risk, particularly for Queensland.

Figure 3: Organisation average margin per project for FY25



While margins across the construction sector remain under pressure, respondents specialising in fit outs reported the strongest improvement in average margin per project. This is potentially due to shorter project cycles, stronger cost recovery mechanisms and more disciplined risk management and tendering, enabling fit out contractors to stabilise profitability faster than other subsectors.

Following a period of elevated subcontractor failures, the exit of weaker subcontractors and a more selective risk appetite among head contractors have together improved cost certainty and reduced incidences of re-procurement risk, program disruption and unplanned project overheads. While encouraging, these margin improvements remain fragile and contingent on continued supply-chain stability and disciplined risk management.

The stabilisation of project margins is contingent on future workforce security, geopolitical disruption, contractor risk appetites and cost escalation, which are all factors squeezing margins. Heightened geopolitical volatility is already translating into higher fuel and energy prices, increased transport and logistics costs, and broader inflationary pressures across supply and distribution chains. These cost increases are expected to be passed through to construction projects both on site and upstream, limiting the ability of contractors to protect margins in an environment where pricing power remains constrained.

Sector spotlight

Read our latest BtR 2026 report now

Build to Rent and the evolution of construction delivery

Australia's Build to Rent (BtR) sector has moved decisively into a scale-delivery phase, with direct implications for the construction industry over the balance of the decade. BDO's BtR 2026 report reveals that the national BtR pipeline now exceeds 50,000 apartments, with annual completions expected to more than double by the late 2020s as projects transition from planning into delivery. This shift positions BtR as one of the most consistent sources of residential construction demand at a time when traditional build-to-sell pipelines remain volatile.

For construction organisations, the maturity of BtR is changing both the volume and nature of work. Institutional developers are increasingly prioritising scale, repeatability and delivery certainty, favouring partners that can support large, multi-stage programs rather than one-off projects. As platforms target portfolios of 5,000 to 10,000 apartments, construction demand is becoming more concentrated around fewer, larger pipelines, particularly in New South Wales, which now leads national BtR growth momentum.

The geographic rebalancing of BtR activity is also reshaping construction opportunities. New South Wales' back-ended delivery profile points to a sustained uplift in apartment construction from 2027 onwards, while Victoria's pipeline is expected to taper following earlier completions. For contractors, this divergence will influence workforce planning, supply chain allocation and forward order books,with east-coast capacity increasingly pulled toward New South Wales.

At the same time, BtR's long-term ownership model is reinforcing a different set of construction priorities. Developers are placing greater emphasis on build quality, durability, ESG outcomes and whole-of-life performance, given assets are retained and operated rather than sold on completion. This is driving closer alignment between designers, builders and operators, and creating opportunities for construction companies with strong capabilities in standardisation, cost control and lifecycle efficiency.

However, elevated construction costs, labour constraints and tax settings remain key risks to pipeline conversion, particularly in markets such as Queensland and Western Australia. Jurisdictions that provide clearer planning pathways and tax certainty are more likely to see BtR projects move into active construction, reinforcing the link between policy settings and construction activity.

Overall, BtR is emerging as a stabilising force for the residential construction sector. While not immune to cost pressures, its institutional capital backing, scale ambition and long-term investment horizon are helping to underpin a more durable pipeline of work as the sector moves from concept, to sustained delivery.

Luke Mackintosh
Partner,
Project & Infrastructure Advisory

Artificial intelligence usage and opportunities

The role of AI within the construction industry has evolved over the last four to six years from its introduction to the sector to broader operational adoption. As organisations respond to increasing pressures of productivity, cost and risk management, AI is increasingly being utilised to improve efficiency, support decision making and enhance business performance.

AI adoption is now widespread, with all survey respondents indicating some level of AI use within their organisations. However, maturity remains limited, with 88 per cent of respondents (Figure 4) reporting either occasional ad-hoc or regular unstructured use, with only 12 per cent using AI regularly within a formalised governance or operating framework. This indicates that while AI is adopted across the sector, its integration into standard business processes is still at an early stage.

Current AI usage is heavily concentrated in administrative and pre-construction activities, with 73 per cent of AI use driven by general, off the shelf program use, 53 per cent utilising it for accounting tasks, and 47 per cent for tender proposal generation (Figure 5). These tasks are usually highly repetitive and low-risk, making them an attractive entry point for AI adoption. Microsoft Copilot is also utilised by 70 per cent of respondents, appearing to be the most popular choice of AI software in this group.

Figure 4: Participant extent of AI use across the organisation

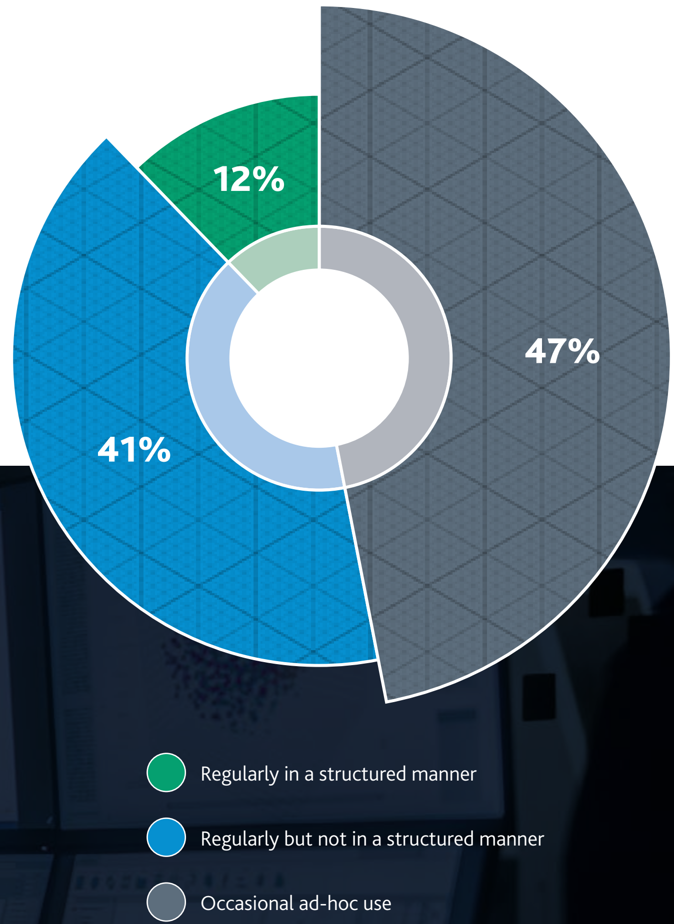
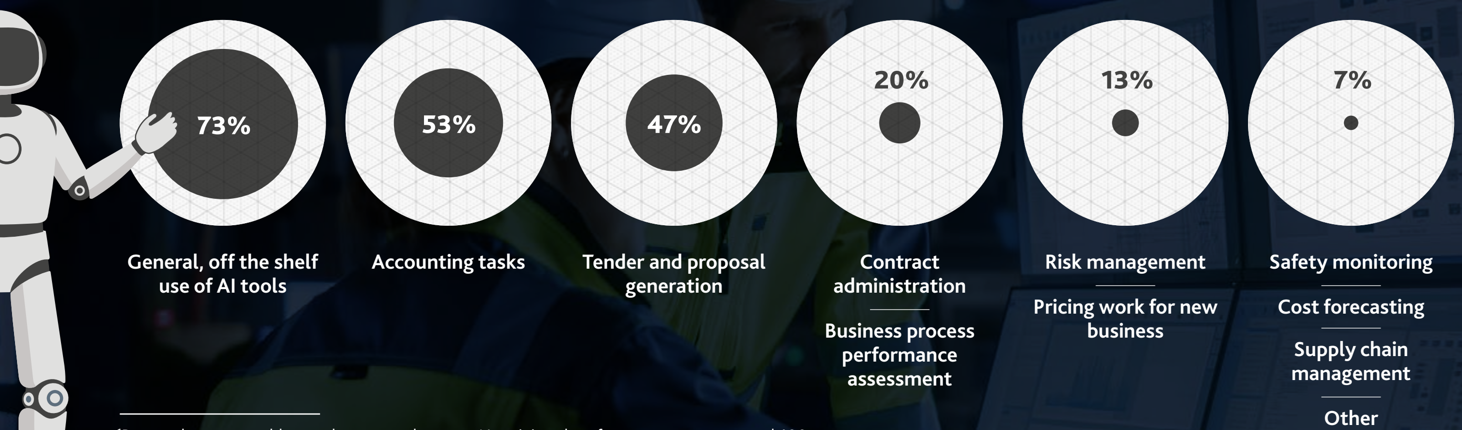


Figure 5: AI activities currently used by participants[1]



[1]Respondents were able to select more than one AI activity, therefore percentages exceed 100 per cent.

In contrast, advanced application of AI for use in safety monitoring, forecasting and supply-chain management have not yet been widely adopted, due to the higher-risk nature of these activities.

Interviews held with respondents suggest that this early-stage maturity is characterised by a degree of experimentation, with many organisations adopting a ‘test and learn’ mindset. AI initiatives are often described as exploratory, with teams using think-tank opportunities to create change, rather than progressing from a clearly defined enterprise-wide strategy. While this approach has enabled rapid exposure to AI capabilities, it has also contributed to fragmented adoption, with benefits realised in pockets rather than embedded across end-to-end project delivery.

At the same time, respondents consistently highlighted a level of caution around the risks associated with AI implementation, particularly where outputs could directly influence safety, commercial outcomes or contractual decision making. Concerns around data quality, accountability and unintended consequences remain prevalent, reinforcing why many organisations have prioritised low-risk use cases to date. However, there is growing recognition that excessive caution also presents a risk, with several respondents noting that it is better to be ahead of the curve on AI adoption, or risk being disrupted. This balance between prompt action and effective implementation has emerged as a defining challenge for the sector.

Respondents indicate a generally positive but measured level of confidence that AI will improve productivity in construction, with 71 per cent of respondents reporting moderate confidence to extreme confidence (Figure 6). However, a proportion of respondents remain only slightly confident, highlighting that optimism around AI is not yet universal.

This could be due to the perceived risks surrounding AI being less about the technology itself and more about the implementation. Common concerns cited by respondents include poor data quality, lack of sufficient human review and oversight, duplicated or fragmented efforts across teams and risk of investing in AI-related tools that fail to deliver meaningful improvements to productivity. It also may indicate that [AI investment alone does not deliver productivity gains] without a coordinated approach that aligns with business priorities, with clear ownership and governance.

Figure 6: Participant confidence on AI improving productivity

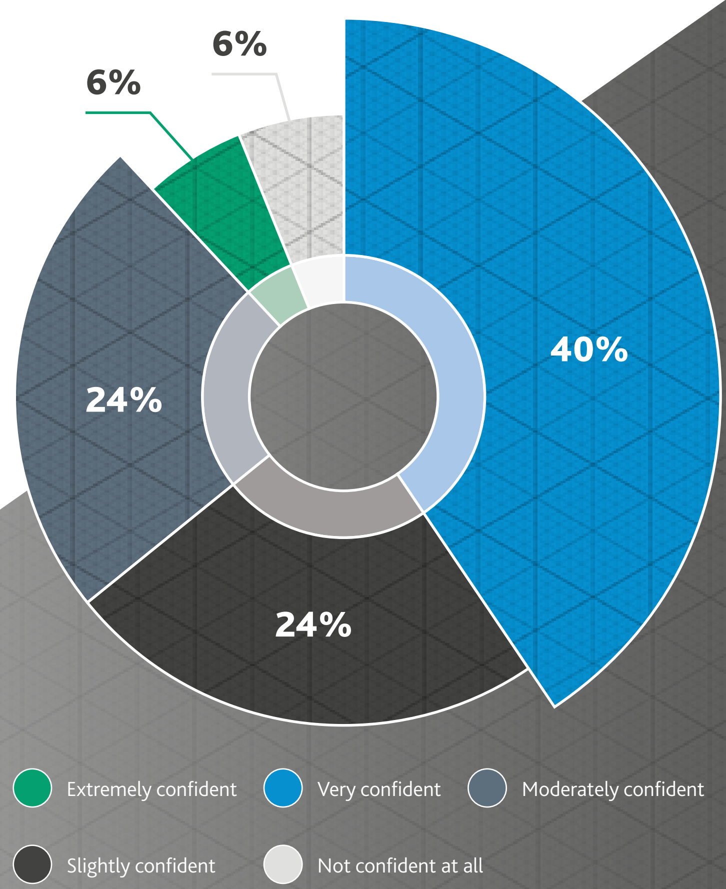
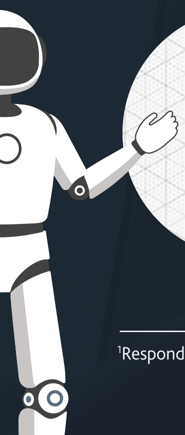


Figure 7: Participant intended activity for future AI usage[1]



Respondents see significant opportunity for AI to carry out tasks predominantly in the administration space, including tender generation, accounting tasks, and business process performance assessment (Figure 7). These are aimed at addressing persistent industry challenges, particularly in improving program delivery, reducing the cost of rework and enhancing defect identification and management. The market is increasingly saturated with AI-enabled products promising efficiency gains, which has prompted a stronger focus on identifying where investment might deliver the greatest return.

Rather than broad deployment, organisations are beginning to establish internal working groups to prioritise use cases, assess value for money and align adoption with business outcomes. This more targeted approach reflects an emerging shift from experimentation toward disciplined implementation, aimed at ensuring AI investment translates into measurable performance improvement.

It is anticipated that organisations leading the development and application of AI to solve construction-specific problems will have opportunities to commercialise these capabilities, driving broader adoption and productivity uplift across the sector.

The findings highlight a clear gap between confidence in AI's potential and tangible productivity gains. Closing this gap in the future will require a disciplined approach, strong data foundations and complementary changes to workflows and reviews.

[1]Respondents were able to select more than one AI activity, therefore percentages exceed 100 per cent.

We can support your organisation's implementation of AI to maximise value.

Learn more about BDO's AI services here.

Expert insights on artificial intelligence

Most construction organisations now have access to AI tools, but the survey results suggest capability across respondents is limited, with most use ad-hoc or unstructured. In practice, this means AI is improving pockets of organisational productivity, but it is not yet consistently reducing the cost of tendering, improving bid quality, or strengthening delivery performance at scale for many organisations.

For contractors, the risk of staying in this ‘unstructured majority’ is that AI becomes a hygiene factor rather than a differentiator, especially as tools like Microsoft Copilot, the predominant tool used by majority participants, standardise baseline efficiency. The organisations most likely to see productivity gains from AI use will be those that use it to tighten the parts of the construction value chain.

Specific use cases might include estimating accuracy, contract and scope risk review, programming discipline, procurement sequencing and subcontractor management.

With the sector’s confidence in AI’s ability to improve productivity, the opportunity now is to convert confidence into repeatable, governed workflows that stand up to audit and the realities of project delivery.

Practical actions for construction leaders

Focus on training your organisation's AI model

Once you have identified where and how to use AI in your business – ‘train’ the AI model on things that the ‘out-of-the box’ model does not know. This can include past projects, methodologies, operations manuals, commercial models, risk frameworks and brand guidelines. This will help integrate the AI model into your organisation with less friction and it will produce more valuable outputs consistently.

Prioritise high-impact use cases, not more tools

Start standardising, automating, or tightening processes in the high-cost, high-risk areas first as this is where better consistency will deliver greater returns, such as the tender process, commercial reviews and project controls. It is also critical to define success metrics before scaling.

Put governance where the risk sits

Establish clear rules for AI use in tendering, contract interpretation and any safety-adjacent decisions, including human review, version control, data permissions and client requirements, particularly for government projects. This is what enables confidence to translate into deployment without creating new commercial, reputational or compliance exposure.

Fahim Khondaker

Partner,
Digital

Productivity

Despite strong demand and new technological tools, productivity remains a significant issue across the construction industry with little improvement seen in recent years. Most respondents reported that productivity has been flat or only slightly improved (Figure 8), reinforcing the view that the industry is experiencing a period of structural stagnation. This suggests that incremental change alone may be insufficient, and that a more fundamental rethink of how projects are planned, resourced and delivered is required to drive more meaningful productivity gains.

The leading factors contributing to reduced productivity (Figure 9) highlight that the challenges are largely structural and workforce related, characterised by:

- Regulatory and compliance related delays
- Labour inefficiencies
- Inefficient processes and workflows.

Figure 8: Reported change in productivity levels over the last five years

6%	Significant increase
41%	Slight increase
41%	Little to no change
6%	Slight decrease
6%	Significant decrease

Figure 9: Top factors impacting productivity[1]

53%	Regulatory / compliance-related delays
47%	Labour inefficiencies
35%	Inefficient processes and workflows | Project delays
24%	Lack of workforce | Increasing cost of labour
18%	Lack of motivation from workforce | Supply chain disruptions
12%	Lack of innovation – methods of construction / supply chain
6%	Lack of innovation – admin tasks

[1]Respondents were able to select more than one factor, therefore percentages exceed 100 per cent.

These productivity constraints reflect a combination of internal and external factors. Internally, respondents face outdated processes, underinvestment in workforce training and declining workforce motivation. Externally, regulatory delays, labour availability constraints linked to skilled migration, and supply chain volatility from geopolitical instability have compounded these challenges.

Collectively, these factors suggest that productivity improvement cannot be addressed by a single initiative. Meaningful and sustainable gains will require a multi-faceted approach that combines investment in people, improved processes, and the effective adoption of technology, while also adapting to the external conditions largely outside organisational control.

Additionally, through interviews conducted, a key structural constraint on productivity identified by respondents is the uneven distribution of capability and investment across the delivery chain.

While head contractors have made progress in improving systems, processes and oversight, these efficiency gains are frequently diluted by underinvestment deeper within the subcontractor base. Capacity constraints, limited access to skilled labour and lower levels of digital and process maturity among subcontractors continue to constrain productivity outcomes at the project level.

Respondents noted that without greater alignment and capability uplift across the full supply chain, productivity improvements achieved at the head contractor level are often lost during execution, reinforcing the need for more coordinated, holistic industry approaches to productivity improvement.

This is reflected in the areas prioritised for productivity improvement (Figure 10), which align closely with the identified constraints. Respondents placed greater emphasis on:

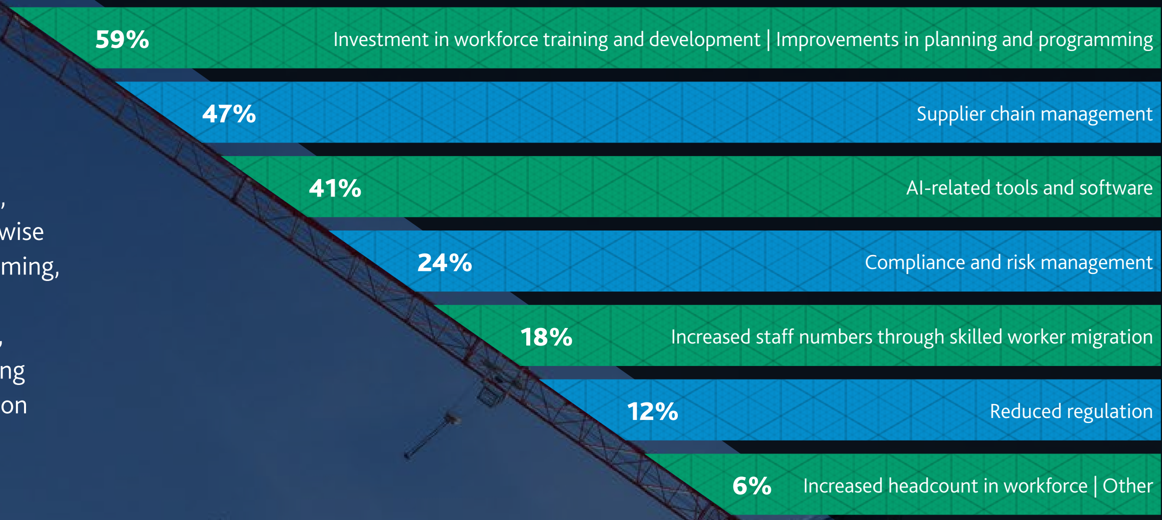
- Increasing investment in workforce training and development
- Improving planning and programming, including contingencies for wet weather
- Strengthening supply chain management.

While AI-related tools and software are seen as important enablers, the emphasis remains firmly on strengthening core planning disciplines, building workforce capability and improving coordination across increasingly complex project environments to effectively increase productivity levels across the industry for the future.

As reported by survey respondents, improved planning and programming was regularly highlighted as critical to addressing persistent utilisation inefficiencies, particularly those arising from downtime between projects. Respondents noted that delays to preceding works, coupled with the stop-start nature of certain asset classes, such as education projects constrained by school terms and holiday shutdowns, can result in periods of underutilised labour, plant and subcontractor capacity.

These gaps erode productivity outcomes and increase cost pressures, even where on-site execution is otherwise efficient. More sophisticated programming, including better sequencing, scenario planning and contingency allowances, was identified as essential to smoothing workflow, improving resource utilisation and reducing the productivity losses associated with delayed handovers and seasonal delivery constraints.

Figure 10: Top areas to improve productivity[1]



[1] Respondents were able to select more than one area, therefore percentages exceed 100 per cent.

If you would like to understand the impacts of productivity on your organisation, learn more about BDO's Consulting services here.

Expert insights on productivity

Productivity in Australia's construction sector has stalled, and workforce shortages continue to be a major constraint. Both the BDO 2026 Construction Survey and the Productivity Commission's recent housing construction productivity report point to regulatory inefficiency as a core issue. Excessive red tape is slowing project approvals, while delays in visa processing are limiting access to migrant workers.

These same challenges were echoed in our 2024 Construction Survey, demonstrating the consistently low productivity levels that remain prevalent in the sector. Workforce shortages are partly due to Australia's growing cultural preference for occupations requiring university education over trade, which continue to limit the domestic workforce. Competing sectors like mining, lure talent away with more attractive rewards and remuneration packages, shrinking the talent pool for the sector.

Supply chain bottlenecks, intensified by the lingering impacts of COVID-19 and now the energy crisis, are driving up construction costs. There's a risk that material and freight costs will escalate further should global tensions intensify, ultimately causing further delays and impacts on productivity. These persistent and longstanding productivity constraints are continuing to weigh on the sector's performance and growth potential.

Solutions to increasing productivity in the construction sector are to shift the societal perception of careers in trade by finding opportunities to make them more attractive and respected, and to ease access to a migrant workforce. Lessons from countries that have cracked the productivity puzzle demonstrate that change in these areas are possible, and with the right mix of policy changes and investment, there is potential for productivity across Australia's construction sector to recover.

Anders Magnusson
Chief Economist,
Project & Infrastructure Advisory

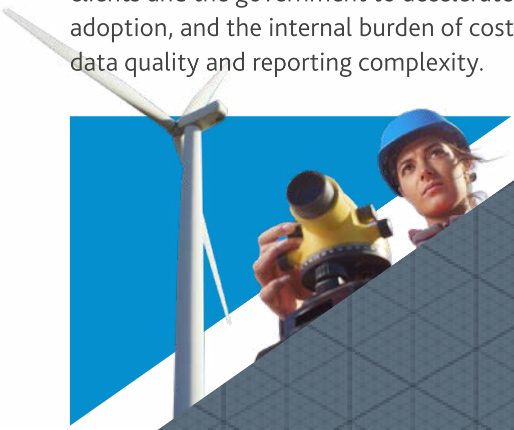
Environmental, social and governance (ESG)

With mandatory sustainability reporting now impacting tier 1 groups for financial years ending 31 December 2025, it is not surprising that 94 per cent of respondents reported the implementation of at least one sustainability initiative (Figure 11). The most adopted initiatives centre around practical, measurable actions that align with the current reporting and compliance requirements, such as:

- Waste reduction
- Carbon tracking
- Energy-efficient materials.

As mandatory reporting requirements are expected to impact larger reporting entities in the coming years, ESG has increasingly become a baseline requirement across the construction sector rather than a source of competitive advantage. While basic ESG practices are now embedded within standard operating procedures, respondents consistently noted that these have not translated to improved profit margins or materially enhanced tender success rates. ESG efforts beyond minimum requirements were not generally viewed as delivering a clear commercial advantage.

Qualitative insights from respondents acknowledge a growing disconnect between external pressures from clients and the government to accelerate ESG adoption, and the internal burden of cost, data quality and reporting complexity.



Many respondents remain challenged by inconsistent data, limited visibility amongst competitors and the supply chain, and the additional administrative overheads associated with compliance, reinforcing the view that while sustainability is essential, it is not yet a profit driver in the sector.

Figure 11: Top sustainability initiatives implemented by participants[1]

[1]Respondents were able to select more than one initiative, therefore percentages exceed 100 per cent.

Need help navigating ESG compliance?

Learn more about BDO's Sustainability services here.

Expert insights on environmental, social and governance (ESG)

ESG expectations in the construction sector have shifted rapidly, from something ‘nice to have’ to a non-negotiable. With mandatory sustainability reporting in line with AASB S2 *Climate-related Disclosures* commencing for Group 1 entities from financial years ending 31 December 2025, many organisations have already taken action to align with these expectations. This has largely focused on measurable actions, like waste reduction, carbon tracking, and the use of energy efficient materials.

While many ESG topics are now strongly embedded in everyday operations across much of the sector, they have not yet consistently translated into clear commercial returns. For many construction businesses, sustainability initiatives are still viewed primarily as a cost of doing business, rather than a source of competitive advantage or improved tender outcomes.

Organisations that improve visibility, consistency and accountability across suppliers and subcontractors, and use ESG data to better manage delivery risk and build operational resilience, will be better positioned for long-term value creation and sustainable growth.

This requires moving beyond a compliance-focused approach and embedding sustainability more meaningfully into strategy and decision-making, which includes strengthening positioning in competitive bids, reducing costs through greater efficiency, anticipating future regulation, and building resilience across projects and supply chains.

Aletta Boshoff
Leader, Sustainability
Leader, IFRS & Corporate Reporting
Partner, Advisory

Tips for leadership

For Australian construction companies, the critical decisions made now around AI, productivity, and ESG reporting expectations, will shape success long-term.

Key focus areas for construction leaders

Protect margin discipline while the market is stable

While margins have stabilised, this position may be short-lived so leaders should maintain disciplined bid selection, conservative risk allocation and tighter contract governance, particularly as competitive pressure increases. Avoid chasing volume at the expense of balance sheet resilience.

Move AI from experimentation to enterprise value

AI adoption is widespread but fragmented, and organisations should shift from ad-hoc use to a deliberate 'fast-follower' strategy, which rapidly scales AI applications rather than leading early experimentation in the industry by leveraging proven use cases quickly with appropriate governance. Organisations that move too slowly risk being left behind as AI-enabled productivity increasingly becomes a baseline expectation across the sector.

Tackle productivity as a system, not a tool

Productivity will not improve through technology alone, so leaders must focus simultaneously on workforce capability, planning and programming discipline, and process simplification. Those who treat productivity as an operating model issue, not a single initiative, are likely to see the largest gains in years to come.

Lift capability across the subcontractor base

We're seeing that efficiency gains at head contractor level are being diluted further down the supply chain. In light of this, leaders should invest in longer-term relationships with key subcontractors, focusing on uplifting capabilities across their supply chain, digital enablement and ensuring commercial arrangements support collaboration and productivity across the whole supply chain, not solely at the head contractor level.

Treat ESG as a core operating requirement and foundation for long-term value

ESG is no longer discretionary and has become a core requirement for operating effectively in the market. Increasing regulatory expectations, investor scrutiny and client requirements mean that strong sustainability governance, data integrity and reporting capability are essential. While near-term financial returns may be limited, sustained investment in ESG supports risk management, protects access to work and capital, and positions organisations for long-term resilience and competitiveness.

Together, these focus areas will help construction leaders protect performance while building the capability required for the future, strengthening the foundations for sustainable delivery and positioning the sector's capacity, resilience and competitiveness for 2026 and beyond.

How BDO can help

BDO's global presence:

870 offices across the globe in **169** countries and territories

+94,900 highly skilled Partners and staff worldwide

US$16 billion global revenues

BDO in Australia:

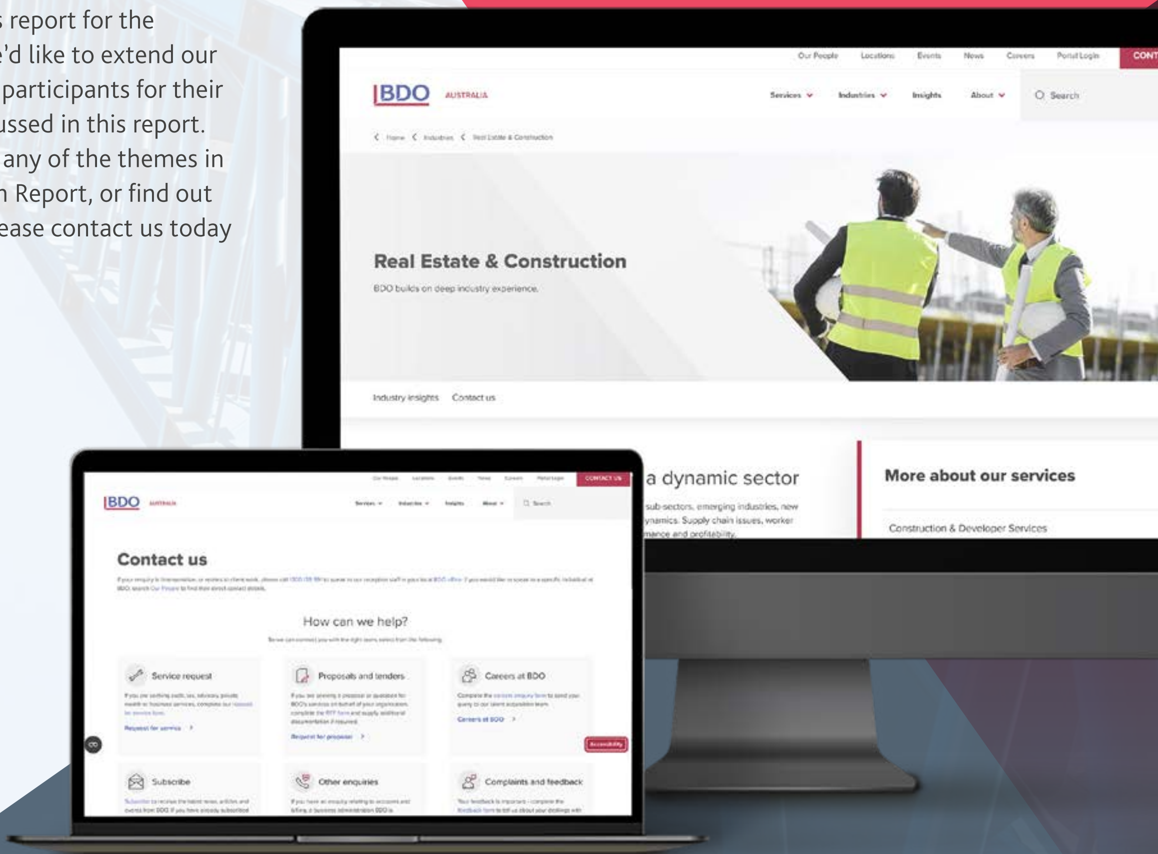
14 offices **341** Partners **3,039** people

BDO is one of the world's leading accountancy and advisory organisations, with clients of all types and sizes, in every sector. With more than 870 offices worldwide, our global reach and strong collaboration across countries allows our real estate and construction experts to keep abreast of industry developments.

In addition to audit, tax, and advisory services, we can assist with areas ranging from construction and developer needs to infrastructure, international property investment, investment and funds management and real estate services.

Our advisers are attuned to the specific challenges that the industry faces through our client work, as well as through active involvement in key industry groups, and we deliver tailored, commercially focused and technically proficient solutions to one of Australia's largest and most important industries.

We are proud to deliver this report for the construction sector, and we'd like to extend our sincere thanks to all survey participants for their valuable contributions discussed in this report. If you would like to explore any of the themes in the 2026 BDO Construction Report, or find out more about our services, please contact us today at bdo.com.au/contact.



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