OXBURY Chartered Surveyors

East Anglia

Regional Contractor Survey 2018-2019

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Contractor Survey 2018-2019

CARTER BUILDER

ASPEN BUILD

Barnes CONSTRUCTION

LOVELL

GILL Building

WILLMOTT DIXON

MJS CONSTRUCTION

PENTACO CONSTRUCTION LTD

ROSE

MORGAN SINDALL

KIER

VINCI

SEAMANS building

HUTTON

French SEH Construction

smith OF HONINGHAM

NEEDHAMS BUILDING CONTRACTORS

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Introduction

Oxbury Chartered Surveyors have recently completed a survey of 17 main contractors operating throughout East Anglia. The Contractors range from small local firms to multi-national companies, all of whom were asked to respond based on their business within the East of England.

So why did we carry out survey?

The sector is perceived to be busy, yet contractors are still expected to respond quickly to the development needs of the industry and our clients. Whilst we can speculate on the market conditions and how contractors will respond to these demands, we felt it made more sense to actually ask them directly. We have seen changes in procurement, rising tender prices and tenders enquiries declined. We also have the uncertainty of BREXIT which will have an impact on the industry one way or another.

The survey takes into account 2018 and 2019 calendar years and looking forward to 2020 and back to 2016 when we undertook our first survey.

We focused on three key areas;

- Economics – How busy are the Contractors, how much work has been secured, what are the forecast turnover into 2020 looking like? Which sectors are predicted to be busy and which are not?
- Procurement – What are the preferred methods of procurement from a Contractors perspective? How does the Contracting world believe a client can obtain best value? What contributes to higher prices and risks within a tender?
- Challenges - What do the contractors see as the biggest challenges faced by the industry? How will BREXIT impact on the sector?

Economics

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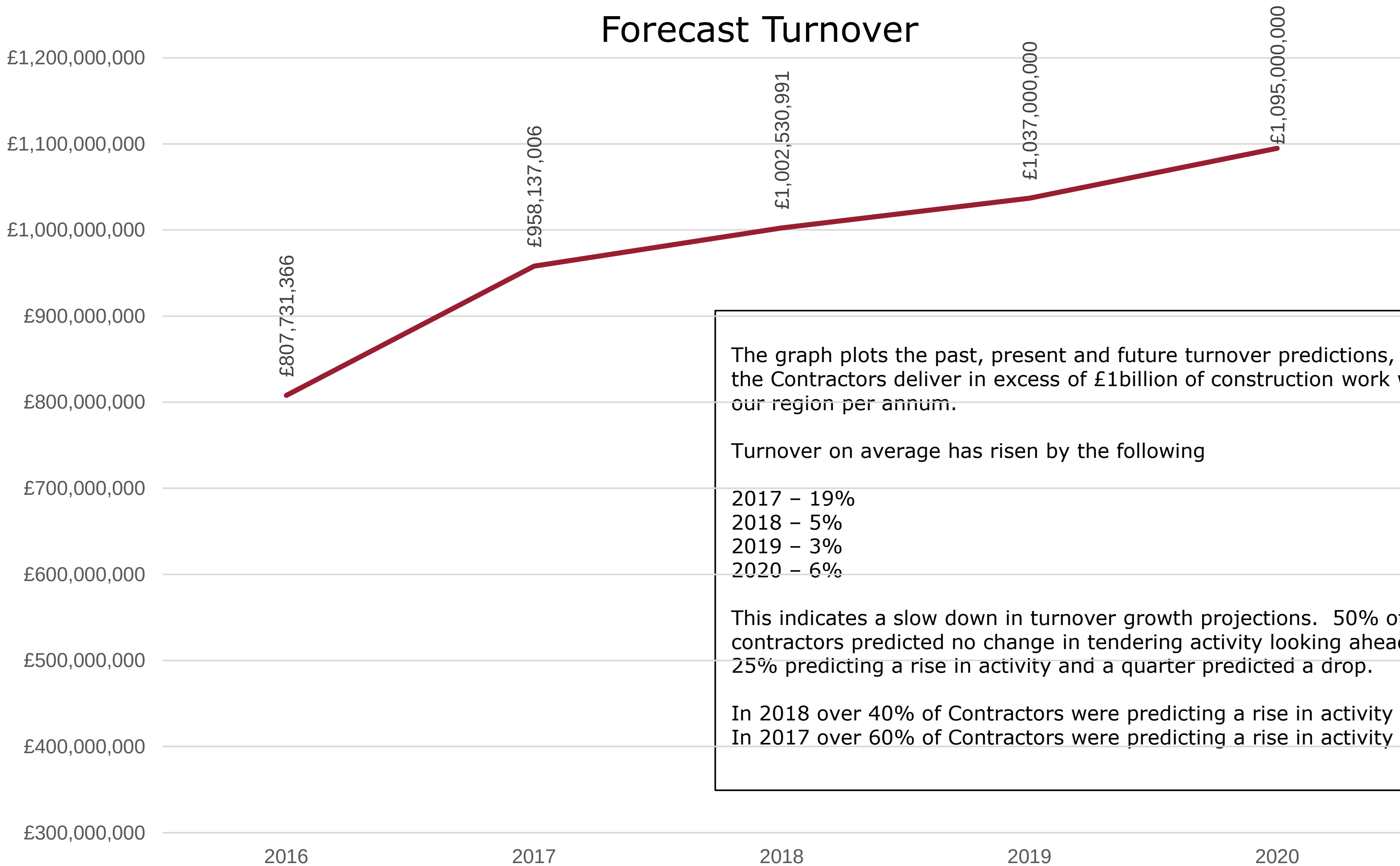

The graph plots the past, present and future turnover predictions, in total the Contractors deliver in excess of £1billion of construction work within our region per annum.

Turnover on average has risen by the following

2017 – 19%
2018 – 5%
2019 – 3%
2020 – 6%

This indicates a slow down in turnover growth projections. 50% of the contractors predicted no change in tendering activity looking ahead, with 25% predicting a rise in activity and a quarter predicted a drop.

In 2018 over 40% of Contractors were predicting a rise in activity
In 2017 over 60% of Contractors were predicting a rise in activity

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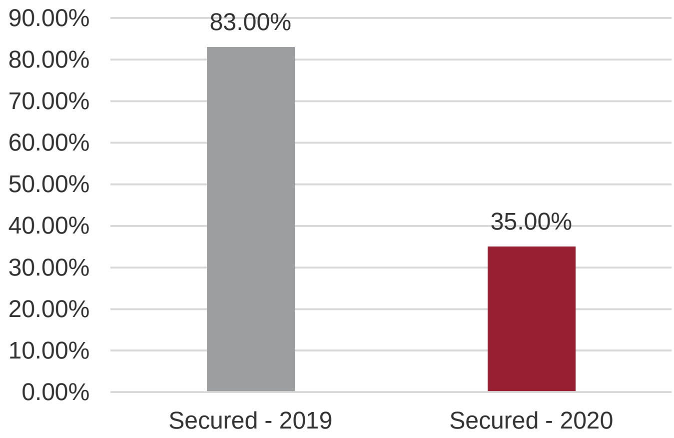
Turnover Secured for 2019 and 2020



As of the end May 2019 on average 83% of the Contractors have achieved their forecast annual turnover.

With 35% of projected turnover secured for 2020.

There has been a steady increase in the % of work secured vs. forecast since the first results in 2015/2016. This could be linked to a slow down in the rate of growth in annual forecast turnover i.e. making targets easier to secure.

Are Contractors focussing on winning projects and turnover they can deliver at a profit without a need to expand the business greatly or take on unnecessary risks?

Tender enquires are down year on year, with 2018 indicating a 10% drop in the total number of tender enquiries from 1120 to 1022 (across all 17 Contractors)

The value of tenders has remained consistent, with a small increase in the number that are below £5m.

Proportion of tenders below £5m:-

- 2015 - 85%
- 2016 - 86%
- 2017 - 82%
- 2018 - 88%

Are we seeing an increase in projects of a lesser value? Some of the larger projects are potentially taking longer to come to market or waiting for economic stability before proceeding?

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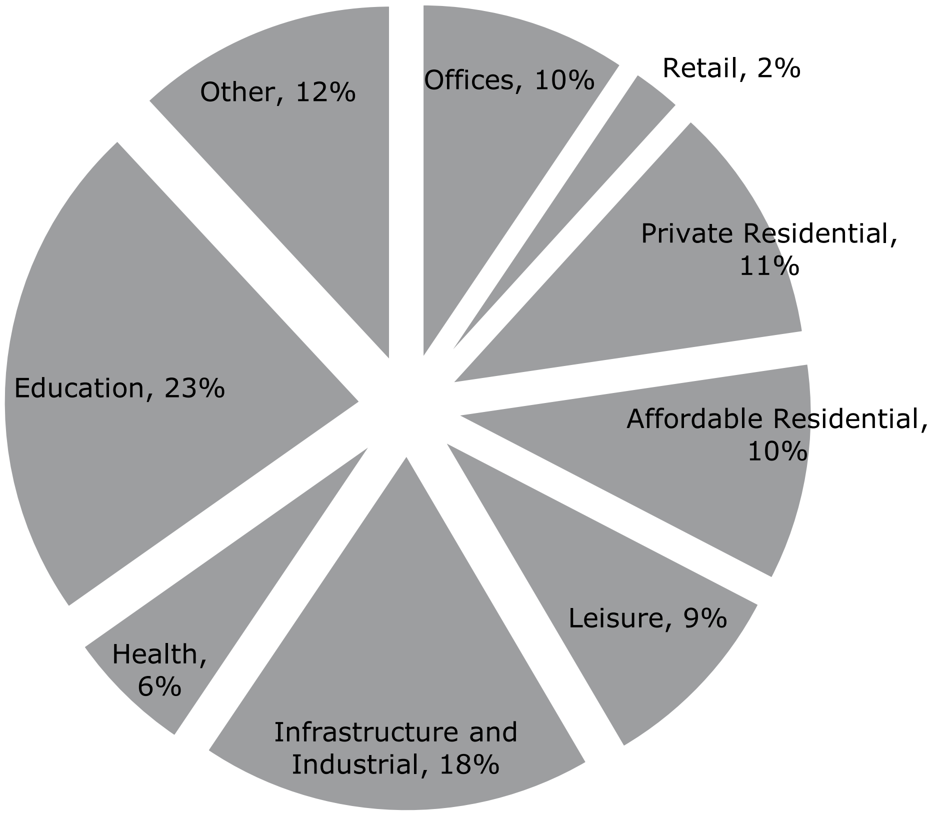
Live Projects – Split by Sector



This Chart represents the split in the current workload by sector.

The top 3 sectors:-

1. Education – 23%
2. Residential – 21%
3. Infrastructure/Industrial – 18%

This indicates a significant drop in the proportion of work in the Residential sector, with the 2018 results indicating 39% of projects were in this sector, dropping to 21% in 2019.

Education remains consistantly buoyant consistantly representing around 25% of the turnover over the last 5 years.

Industrial and Infrastructure workload has increased year on year. Last year equating to only 4% of turnover, jumping to 18% in 2019. This has been mirrored by the enquires we have received at Oxbury for new work.

Overall this would indicate a more even spread of work type by sector, than in previous years where Residential was the dominant sector.

Looking ahead into 2020 - 60% of Contractors predicted largest growth in residential and 40% forecast Education. Least busy predicted as Retail and Offices.

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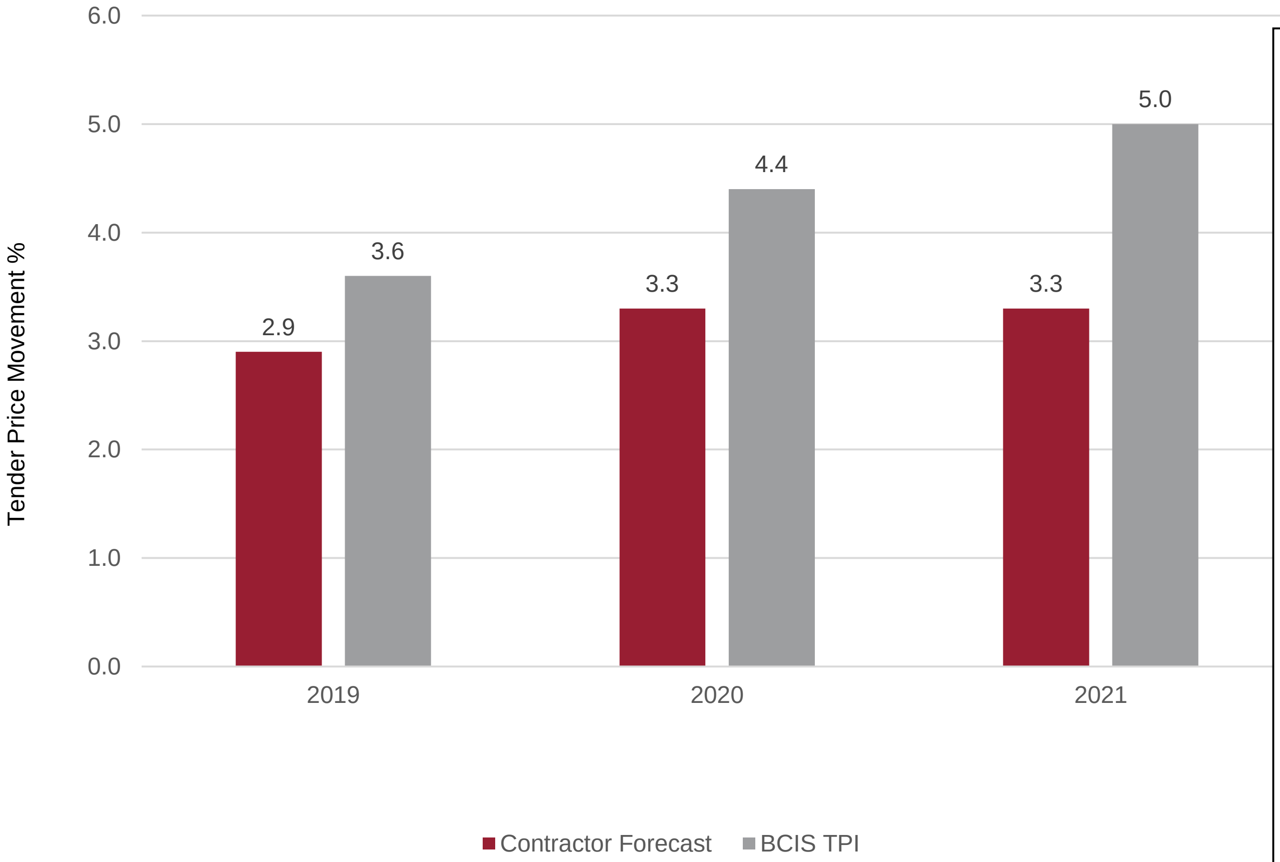
Tender Price Indices – Year on Year



Tender Price Indices have fluctuated dramatically over the last 12-24 months with fears on the impact of BREXIT. We are now seeing a more stable forecast rise in prices from both the BCIS and The Contractors.

Interestingly, the Contractors are more cautious about the forecast rises than the BCIS.

In previous years the Contractor confidence on tender prices rises has exceeded that of the BCIS.

The longer term forecast on tender prices beyond 2021 are (according to BCIS):-

2022 – 6.40%
2023 – 5.75%

These figures indicate both parties believe prices will continue to rise above RPI which fluctuates between 3-4% year on year over the same period.

We should be cautious that if these figures are correct between 2019 and 2023 tender prices are set to rise by 25%.

Procurement

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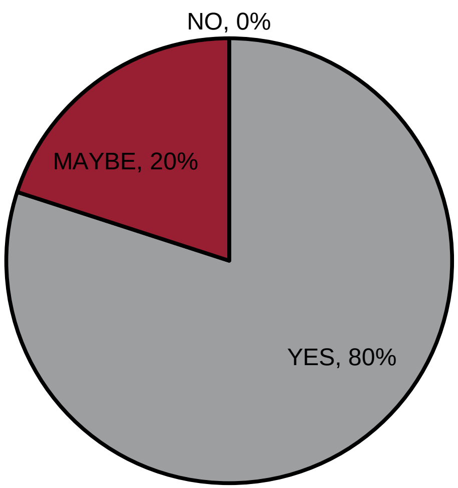
Preferred method of procurement?

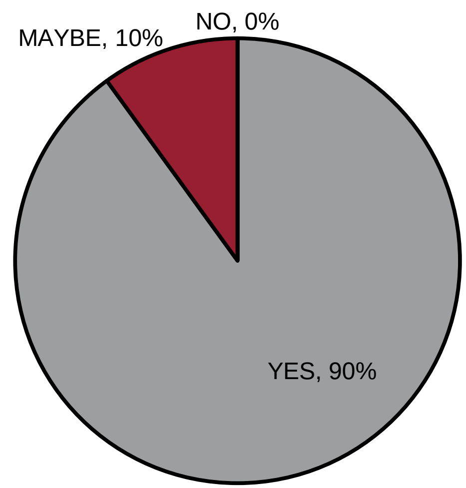
- 60% - Two-Stage
- 25% - Negotiated
- 15% - No Preference

Year on Year since 2015 the continued favoured method of procurement by the Contractors has been Two-Stage or Negotiated and using a JCT form of Contract.

Will Two-Stage continue as most popular procurement method in 2019/2020?



Most popular?



Best Value?

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Two Stage – Advantages and Disadvantages:-

Advantages

- Early Contractor involvement (Buildability etc.)
- Risk Reduction
- Design Efficiencies
- Specialist sub-contractor engagement in design
- Construction professionals inputting into building assembly
- Contractor understands clients objectives
- Lower tender costs for Contractors (and industry)

Disadvantages

- "Client is open to abuse by some contractors"
- "Can be a lengthy process to agree a contract sum"

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Most common reasons that Main Contractors decline a tender:-

- Limited project information (design)
- Lack of available resource to produce tender (capacity)
- Onerous contract conditions, too much risk transferred to Contractor
- Unrealistic budget
- Payment security from client
- Calibre of Professional team
- Number of Contractors tendering and size of competition
- Liquidated and Ascertained Damages (LADs) excessive
- Reputation of the client
- Location of project in relation to local/head office
- Lack of suitable tender period

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Biggest pressures on Contractors at present?

There are 2 consistent pressures faced in the current market:-

- Material cost increases (emphasised by BREXIT/Weak currency)
- Skills shortage, in both skilled and unskilled labour and white collar staff

Trades with above average inflation over next 12 months:-

- Brickwork
- Carpentry
- Plastering/Drylining
- Steelwork
- Cladding
- Mechanical and Electrical
- Groundworks

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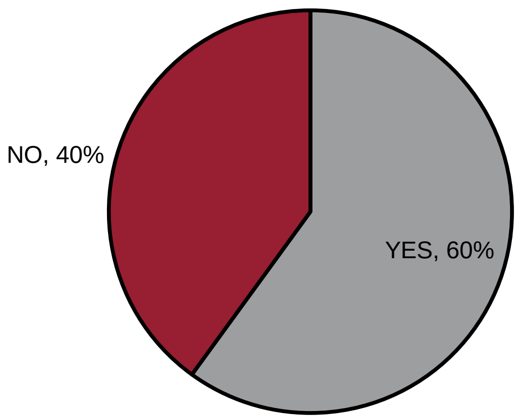
Building Information Modelling (BIM)

Are the Contractors operating BIM on their projects?



This compares with 40% using BIM in 2015.

60% of Contractors utilising BIM and do so on 30% of their projects. This equates to £328m in project value against a total of £1.1 billion turnover in 2019.

The majority of those Contractors using BIM have a national presence.

Challenges….

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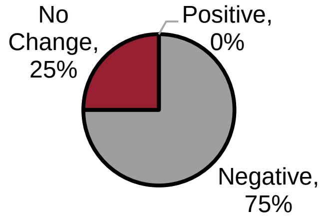
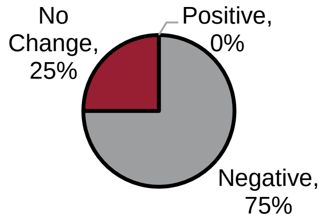
Impact of BREXIT?

Do Contractors anticipate an immediate/short-term impact on their business?



- 75% - Negative impact
- 25% - No Change
- 0% - Positive impact

Has the protracted agreement on the UK's deal to exit Europe had an impact on your Business?



- 75% - Negative impact
- 25% - No Change
- 0% - Positive impact

Impact on your business of UK leaving the EU?

- Loss of Labour
- Economic uncertainty
- Fluctuating material prices
- Client confidence
- Free flowing supply of goods/material from Europe

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Its not all negative……   Positive outlook!?

- 60% of Contractors believe the our region is as busy as the rest of the UK
- 80% of Contractors are optimistic about the future
- Forecast growth in the industry, despite economic pressures
- More UK produced materials used in construction
- International Investment from outside Europe
- More UK skilled labour utilised
- Increase in public sector funding
- Perhaps a period of more sustainable growth?
- Caution on Tender Price Rises……

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Summary

Contractors are continuing to grow and predict further growth in the forthcoming year, despite the political uncertainty and BREXIT fears which will impact on their businesses. BREXIT has clearly been an impact on the sector, with growth forecasts reduced from their outlook in 2018 and the previous years. The results predict that 2019 will see the lowest growth between 2016 – 2020, with just 3% forecast over the 2018 figures and 40% of the contractors predicting a drop in turnover in 2019, or no growth.

Tender prices are forecast to continue to rise, which is likely to be driven by the concerns on availability of resources and material costs, with a limited capacity in the industry. A note of caution based on the BCIS forecast rise in tender prices of 25% over the next 4 years could make some projects unviable and to allow suitable adjustments in any estimates.

We hope Clients will consider some of the points raised on achieving best value from their tenders. Contractors are keen to have a more collaborative approach to working with clients. Sharing risk, allowing adequate time during the tender process and removing onerous contract amendments with early contractor engagement will provide benefits to the project.

Overall there appears to be optimism for the future and a more sustainable period of growth.

If you would like any further information on this survey, please contact myself at Oxbury Chartered Surveyors.

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