

**East Anglia
March 2021**

Regional Contractor Survey 2021

Contractor Survey 2021

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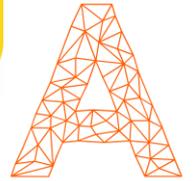
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Introduction

Oxbury Chartered Surveyors have recently undertaken our 6th Annual Survey of 20 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 construction industry has been through a prolonged period of uncertainty in recent years. The cause of this uncertainty has largely been caused by BREXIT negotiations and recent political challenges, however the biggest challenge over the last 12 months has been Covid-19. Our survey compares how the outlook appeared from our last survey in February 2020 before the implications of Covid really took hold and affected the industry through 2020 and into 2021. The feedback from the main contractors gives us an insight into the industry from their perspective and provides information we can pass on to clients to seek better value from their projects.

We focused on four key areas;

- Economic (Tender/Turnover) - How did 2020 actually pan out compared to forecasts in February 2020? What does 2021 hold? Which sectors are expected to be busiest, and which aren't? Work secured for 2021 and 2022? Analysis of turnover and forecast changes?
- Challenges – What are the key issues faced by Contractors now? What are the tender price forecasts looking ahead vs. what was predicted in 2020?
- Covid-19 – What was the impact on the construction industry and what should we expect in the future?
- The Future – Are Contractors optimistic about the future and what are the challenges the industry faces?

Content

- **Economics – Turnover & Tenders**
- **Challenges**
- **Covid-19 – Impact**
- **The Future?**

Turnover & Tenders

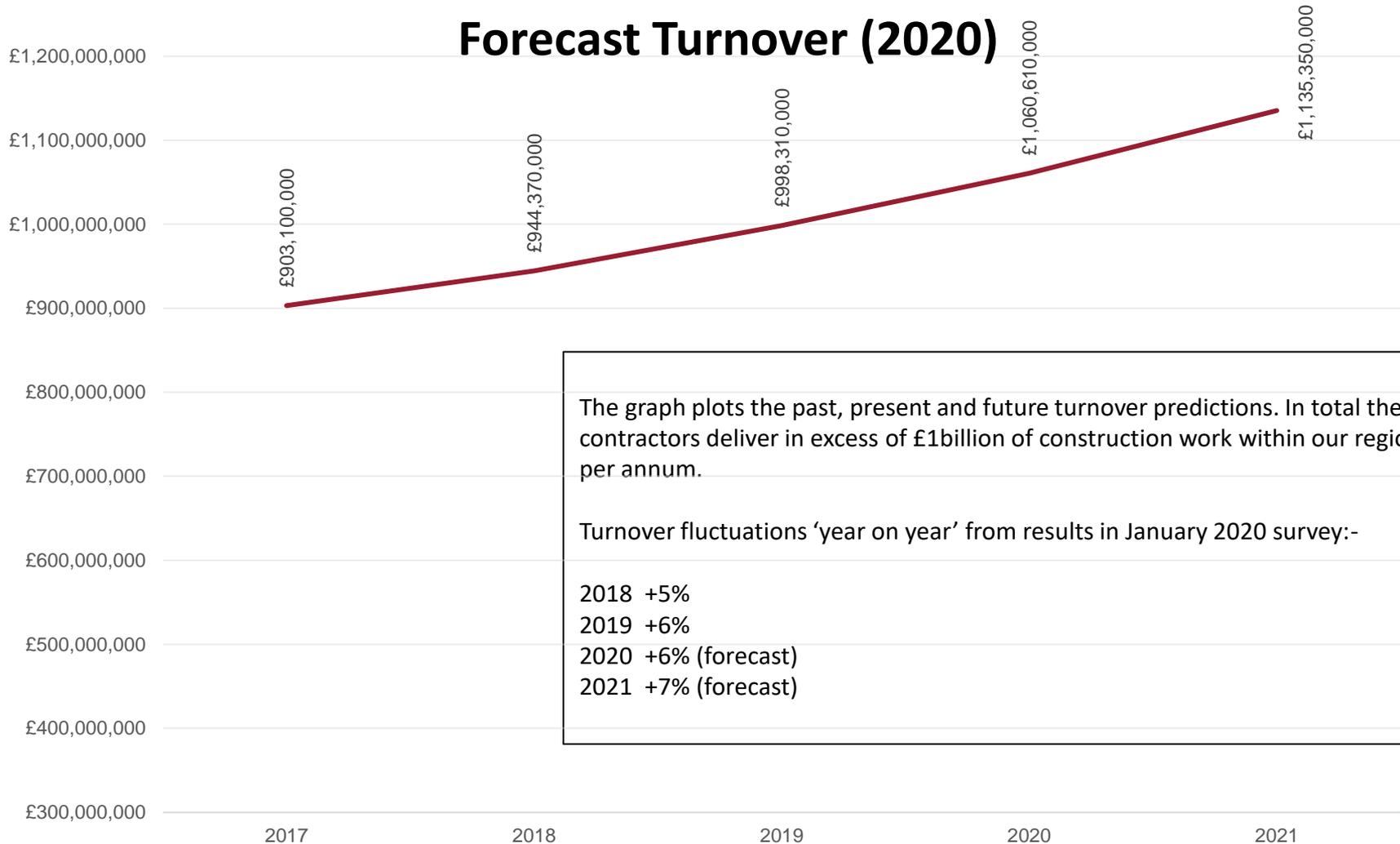
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Turnover & Tenders - Notes

The next two slides compare the turnover predictions from our 2020 survey (1st slide) and the latest results from the 2021 survey.

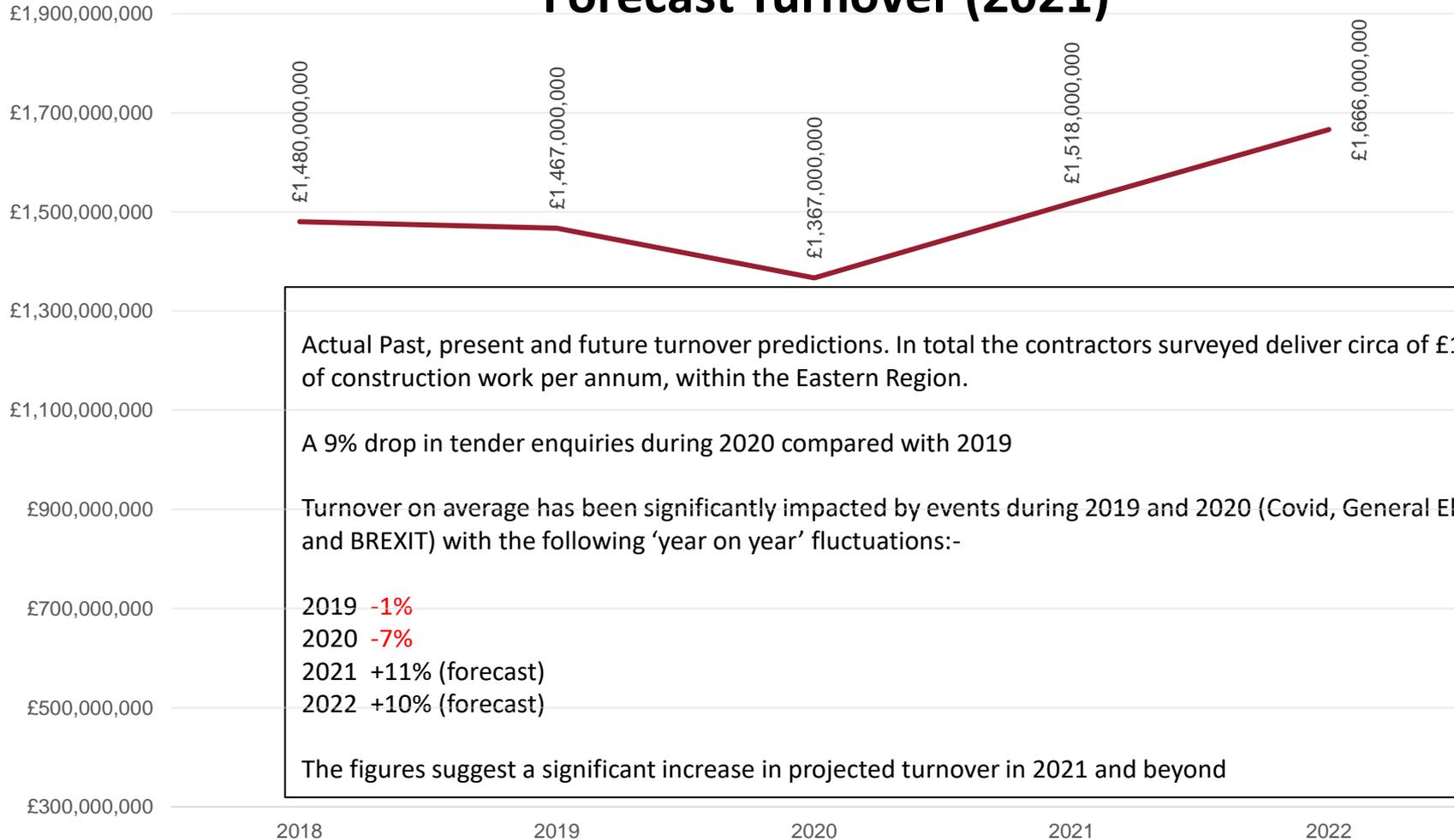
The 2020 results were based on a smaller number of Contractors (i.e. 16 in total), therefore the combined figures are less in 2020 compared with 2021. However, we can compare the fluctuations in turnover based on the results from both surveys. The forecast growth in 2020 was +5% with a continuing rise in turnover predicted for the following years. The 2021 survey indicated that turnover dropped in 2020 by 7% compared with 2019, therefore a swing of 13% in forecast vs. actual.

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Forecast Turnover (2021)



Actual Past, present and future turnover predictions. In total the contractors surveyed deliver circa of £1.5 billion of construction work per annum, within the Eastern Region.

A 9% drop in tender enquiries during 2020 compared with 2019

Turnover on average has been significantly impacted by events during 2019 and 2020 (Covid, General Election and BREXIT) with the following 'year on year' fluctuations:-

2019 -1%
2020 -7%
2021 +11% (forecast)
2022 +10% (forecast)

The figures suggest a significant increase in projected turnover in 2021 and beyond

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Turnover & Tenders - Notes

The next two slides indicate the percentage of work secured for the year ahead comparing the same data from 2020 vs. 2021.

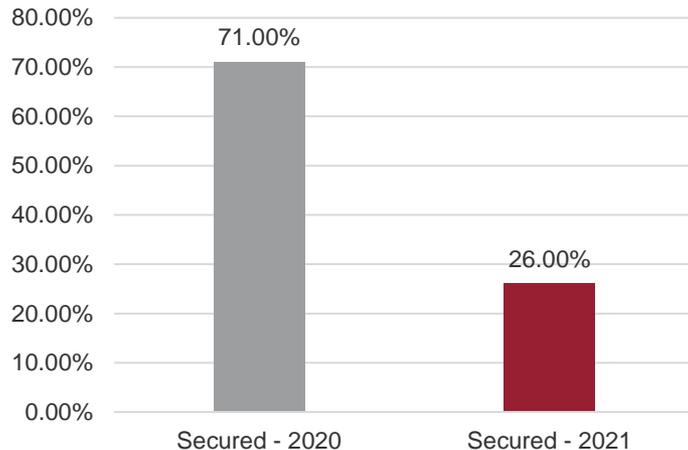
In the 2020 survey – Contractors had secured 71% of the forecast turnover for the year. Compare this with 2021 and the secured work increases to 78% of turnover secured, which indicates contractors have secured a higher proportion of their forecast turnover for the year ahead, than the year before.

There has been speculation that Contractors will be keen for work during 2021, however the statistics suggest that Contractors are already busy and therefore expectations of lower tender prices due to lack of work might be misconceived.

Note – 80% of new project are under £5m in value, that represents £1.2 billion pounds of work in this cost range, based on the 20 Contractors surveyed.

The final slide in this section shows the sectors which are predicted to be the busiest, with a common prediction that Residential, Health and Education being forecast to be the busiest sectors in 2021 and beyond.

Turnover Secured for 2020 and 2021 (2020 survey)



By the end of January 2020 on average Contractors have secured 71% of their forecast turnover for this year.

Looking further ahead to 2021 - 26% secured.

We have noticed a steady increase in the ratio of secured vs. forecast turnover. In February 2015 only 48% of turnover was secured for the year ahead. However forecast turnover estimates were predicting significant rises of 10-15% in the same period.

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

Tender enquiries were up year on year, compared with 2018 a 4% rise to a total of 1,300 across all 16 Contractors (over 80 tenders per contractor on average in a year). This compares to a drop in new tenders by 10% in 2018.

In 2019 we saw an increase in the value of the projects, with a rise in frequency of projects valued between £5m - £20m. This is a change in trend with 2018, when project values were reducing.

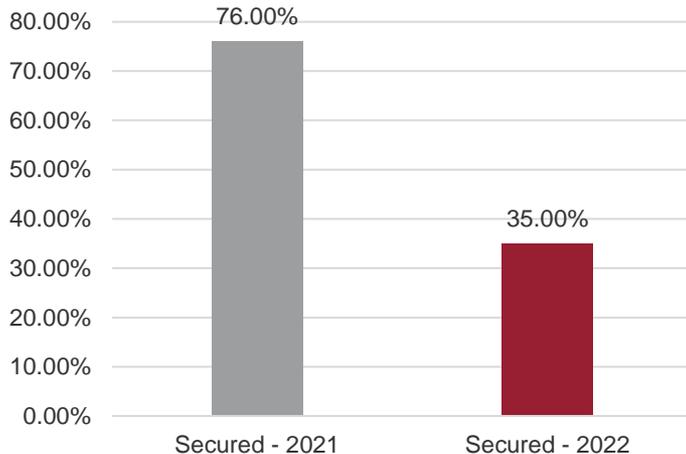
In the 5 years since the survey has been undertaken the percentage of projects at less than £5m has been circa 85%

In 2017 this dropped to 82% on average, then 2018 rose to 87% and 2019 reduced to 85%.

2018
-10%

2019
+4%

Turnover Secured for 2021 and 2022 (2021 survey)



By the end of January 2021 on average Contractors have secured 76% of their forecast turnover for this year.

Looking further ahead to 2022 - 35% secured.

Note, this is against a forecast increased turnover for 2021 and 2022, representing a more stable forward forecast for the contractors.

Average project sizes have remained stable with small increase in the average value of works in 2021 vs. 2020.

- Projects under £5m represent 80% of new works
- Projects between £5-10m represent 15% of new works
- Projects in excess of £10m represent 5% of new works

2021 vs. 2020

+5%

75%

Forecast more tender opportunities in 2021

Which Sectors?

We have seen a change in the way we live and work over the last 12 months, so which sectors are forecast for the biggest growth and which are likely to see a drop in work in 2021 and beyond?

Busiest Sectors

Residential

Health

Education

(not HE)

Least Busy Sectors

Commercial

Retail

Leisure & Hospitality

Tenders Prices

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Tender Prices/Challenges

The next two slides show the forecast rises predicted in tender prices. The first slide is from our 2020 survey and compares the Contractors own predictions vs. BCIS at the time.

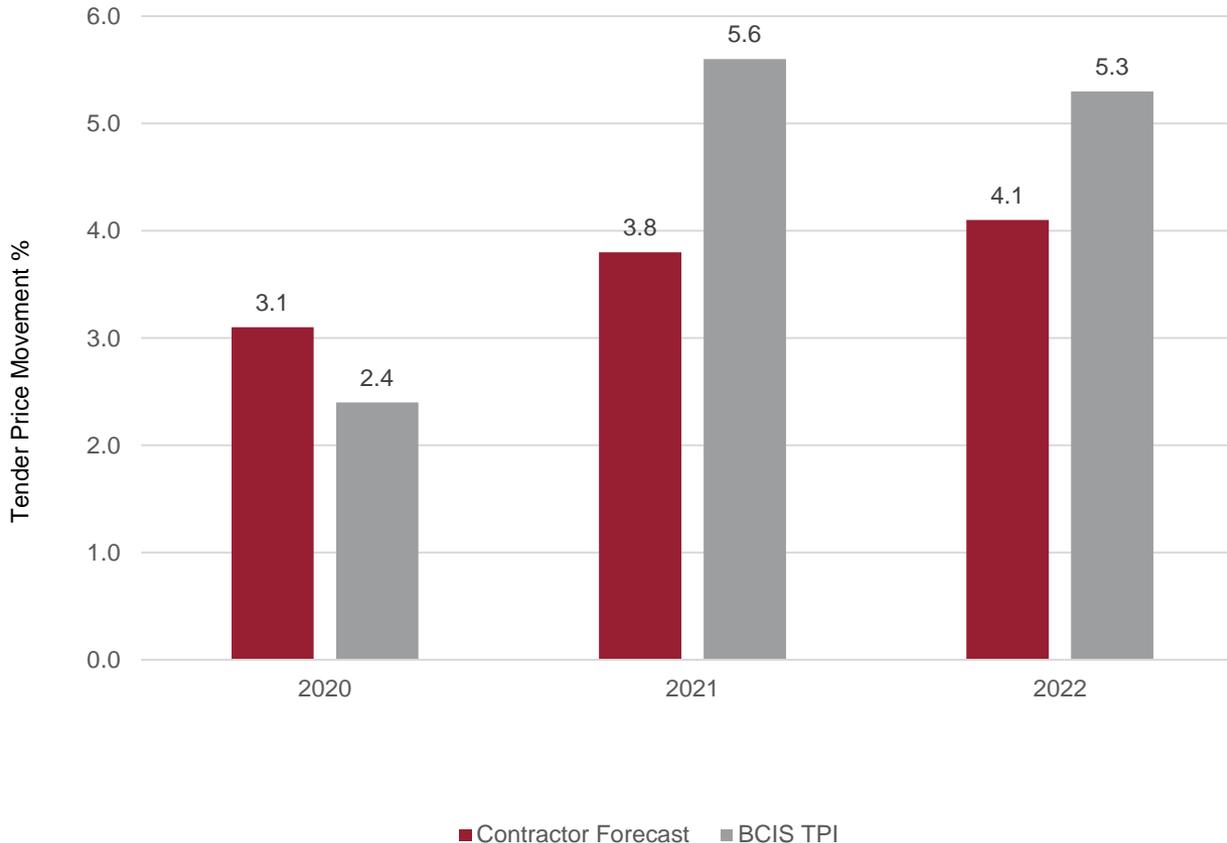
The results from the 2020 survey vary between BCIS and Contractors predictions, with both forecasting growth, but the contractors predicting a more consistent growth of between 3.0 - 4.0% per annum, the results from BCIS are more ranging. The results from the 2021 survey indicate both sources are predicting a more consistent pattern with both Contractors and BCIS predicting between 3.0 - 4.0% growth per annum.

There was speculation that tender prices dropped during part of 2020, we believe this was the case from our own tender returns during the latter part of 2020 and the BCIS indices backs this theory up. However, with turnover forecasts indicating significant growth in 2021 and beyond, plus a high a percentage of turnover already secured, plus other factors driving up costs we will see tender prices rise in 2021 and beyond.

What is driving this rise? A mixture of factors including work secured and therefore contractors not needing to cut tender prices, but it is also being driven by rises in material and labour prices.

The final slide in this section indicates the pressures on Contractors and trades which they are expecting to have above inflationary rises, due to lack of viability of certain materials.

Tender Price Indices – Year on Year (2020 Results)



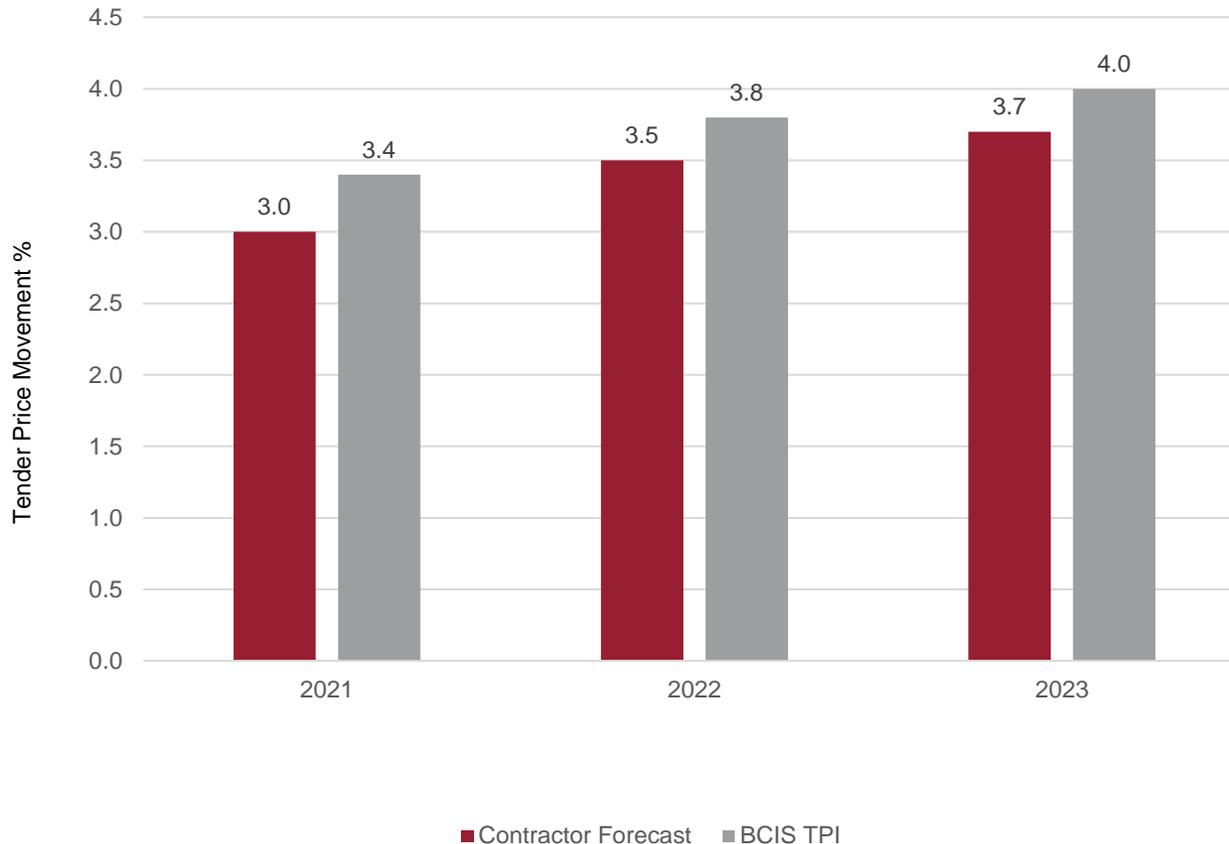
Tender Price Indices have improved over last 12-24 months. The Contractors are predicting lesser increase in tender prices than BCIS. Both sets of figures predict a rise in 2020, this is less than last year with contractors forecasting 3.3% growth and BCIS predicted 4.4% growth during 2020.

In previous years the Contractor confidence on tender prices rises has been over and above that of the BCIS. Added to a reduced forecast turnover year on year, equates to a more cautious outlook ahead.

BCIS previously forecast increased tender prices for 2022 @ 6.40%, reduced to 5.30%.

Contractor forecast rises are more in line RPI growth between 3-4% year on year over the same period.

Tender Price Indices – Year on Year (2021 Results)



In the 6 years of completing this survey we have not seen such a close correlation between the BCIS and the Contractors forecasts.

It appears inevitable that tender prices will rise during 2021 and beyond. This rise is being driven by a number of factors, including the increased tendering activity i.e. no shortage of opportunities, labour and material supply issues driving up prices.

An average 3.0 – 4.0% increase year on year.

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Top 5 Pressures on Main Contractors:-

- Skilled Labour Shortages
- Ongoing Covid-19 restrictions on methods of working
- Lead-in times for materials, programme pressure
- Poor Design – The 'design and dump' methodology
- Supply Chain insolvencies



Top 5 Materials/Trades we can expect above average price rises or lack of availability:-

- Steelwork (sources indicated prices may have doubled)
- Timber and Joinery
- Mechanical and Electrical
- Bricks
- Insulation and Cladding

Others to note – Glass, Concrete, Plasterboard and Roof tiles

Covid-19 Impact

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Covid Impact

The next slide shows the answers a series of questions related to Covid-19.

Perhaps there are no surprises on most of the responses, albeit interesting that 60% of Contractors said that Covid provide either a positive change or had no long-term impact on their business. The industry has adopted new ways of working with less travel and the industry embracing technological advances much quicker e.g. video based meetings, have added some positive aspects to the way we work.

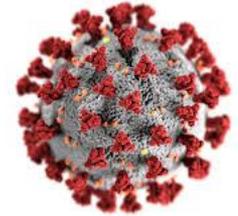
The most significant point to take away from this feedback is the prediction of more contractor insolvencies, both Main Contractors and the supply chain.

Contractors will also be seeking to add in covid qualifications in future tenders. With potential future lockdowns or restrictions or other legacy issues related to sourcing materials and labour, Contractors will be seeking to better protect themselves against these risks.

Finally, nearly all of the Contractors we surveyed said the Construction Industry had adapted well to the challenges of Covid. As an industry, we have all adapted to the new challenges, construction work continued to be delivered safely during the pandemic.

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1. Short-term impact of Covid-19 on your business?
 - 90% reported 'Negative' impact
2. Long-term impact of Covid-19 on your business?
 - 30% reported 'Positive' impact and further 30% said 'No-change' in long term
3. Will economic impact of Covid-19 lead to a rise in contractor insolvencies?
 - 90% reported they anticipated an 'increase' in main/sub-contractor insolvencies
4. Will tenders be qualified to protect contractors from future Covid-19 issues?
 - 90% reported that they would qualify future tenders
5. Has the Government done enough to support the Construction Industry?
 - 80% reported that they believed the Government had provided enough
6. Has the industry adapted well to the impacts of Covid-19?
 - 95% reported that they believed our industry has adapted well to the challenges posed by Covid-19



The Future?

The Future?

What are the future challenges for the industry? The next slide explains those challenges that Main Contractors see as being the most significant.

A skills shortage across the industry that has been looming for years and the events of the last year have only made this situation worse with foreign labour becoming less available as well as career changes for those during the last year and a general lack of numbers in the new generation of skilled labourers entering the sector. With tender prices constantly being driven down, this reduces the funds to spend on training new skilled labour.

We all have a responsibility to ensure there is a next generation of professionals in the industry to continue its growth and development.

Is the future positive? The final slide suggests that Contractors believe there is a positive future. This is the highest score we have received in a survey with 19/20 contractors predicting an 'optimistic future'.

Greatest Challenges faced by Contractors over the coming years?

- **Skilled Labour** – Shortages for key trades, impacting on subcontract prices and availability.
Pressures on lowest price is preventing contractors from investing in future skilled labour
- **Material Costs** – Price rises and availability of materials sourced from Europe post-EU, potential fluctuations in exchange rates between Sterling (£) against EURO (€)
- **Sub-Contractor Insolvencies** – All contractors expecting a rise in insolvencies, which will pose financial, and programme risks to delivery of projects
- **Environmental Agenda** – More pressure for greener buildings, driving up costs and putting tighter restrictions on building performances e.g. Building Regs Part L updates
- **Next Generation** – Encouraging the next generation to join the industry and how to train them with potential changes in how we work i.e. remote working etc.
- **‘Race to the Bottom’** – Clients seeking lowest price, ignoring other benefits a Contractor can bring to a project. Cultivates a negative approach to delivery.

Positive Outlook?

- 95% of Contractors said they were 'Optimistic' about the future, this compares with 80% in 2020 (prior to Covid-19)
- Contractors forecasting significant growth in turnover in 2021 and beyond, but not without risks of further insolvencies
- The pandemic has created new ways of working, less travelling, more technology embraced by the industry
- The Construction Industry has proven it can adapt quickly to new challenges
- We all need to focus on encouraging a new generation into the Construction Industry
- 'Build Back Better' an opportunity to construct in a more sustainable way?
- The long-term economic impact of Covid-19 is still unknown, there will be further challenges ahead

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Conclusion

Everyone has faced a significant challenge over the last year in all aspects of our lives. However, the construction industry appears to have adapted well and the future looks positive.

There will be challenges ahead with sourcing materials and labour, potential insolvencies and any future covid restrictions. There is also an element of uncertainty in the long term economic outlook with the level of public debt. However for now and the next few years Main Contractors are predicting a period of growth and prosperity for the Construction Industry after what have been a period of uncertainty with BREXIT and Covid combined.

If you would like any more information on the results, please do not hesitate to get in contact.

Many thanks

Tim Boucher

Director



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