

9th April 2020

Hon Mick de Brenni
Minister for Housing and Public Works
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Dear Minister,

COVID-19: Queensland Construction Outlook

We are writing in response to your request for advice as to how the building and construction industry is being affected by COVID-19. We anticipate that our industry will pass through three stages as the impacts of COVID-19 work through the economy.

Now

While the industry is fortunate in being able to continue working it has not been immune to the challenges buffeting the wider economy.

Many contractors in the housing and commercial sectors are already reporting build contracts being cancelled and tenders being withdrawn. Work programs are falling apart with little or no notice. Not surprisingly builders undertaking renovation work in the residential sector (on average this work accounts for over 40% of total spend on residential building) have seen a high number of projects cancelled or suspended due to the health concerns of home owners. It should be remembered many businesses were already struggling on the back of a slow 2019.

There are also productivity challenges from needing to maintain social distancing on sites. This is having a significant impact in both the residential and commercial sectors. Reports from commercial builders are that this can mean a 20% drop in productivity for many of the trades involved on site. This leaves the subcontractors paying their staff the same but not achieving as much.

These changes to working conditions and supply chain delays are resulting in contracts taking longer to complete leading to extension of time claims with the costly implication of liquated damages. While this will vary from project to project, if the delays extend into the months, the liquated damages bill can be in the millions. A cost no business can carry across a number of projects.

The partial withdrawal of QBE from the credit insurance market is also creating significant cash flow challenges for many builders with many suppliers now requiring cash up front before materials will

be delivered. This combined with ongoing uncertainty about further lock downs is causing some residential builders to stop work over concerns they will have no ability to recoup costs if they are forced to stop work. There is also concern about the ramifications of a sudden shutdown on the structural elements of a half completed project for example timber frames exposed to the weather for a period of time may need to be replaced. Most contract works insurance policies become null and void if work stops on site for a period of time.

Medium-Term

With the outlook being so uncertain across all segments of the economy, businesses, investors and homeowners are not entering into new contracts. Reports across both the housing and commercial sectors are that there are very few inquiries for future work coming through.

For residential builders the announcement regarding the limitations on display homes provided the defining moment for consumers to park any plans to build. For many builders these restrictions while acknowledged has also meant their main (and most expensive) marketing tool has been sidelined. This has left many staring at a cliff once work in their current pipeline is finished. Advice indicates this is likely to occur in approximately four to six months depending on the size of the business. Unfortunately, this is likely to coincide with the end of many of the governments' immediate relief measures.

With no new work being commissioned medium to large residential builders are reporting the need to stand down frontline staff involved in sales, estimating, contract administration etc. These staff account for between 30-40% of larger building businesses.

In the residential sector this will be compounded if house prices also fall over in this period. The valuation gap between the cost of construction and what the mortgage lender is willing to provide is already a long-standing problem across Queensland's regions and will only be exacerbated.

The experience of downturns in Queensland's building industry over the past 40 years can inform the outlook for the remainder of the year. Assuming the worst of these downturns is replicated under the current crisis, both new home starts, and commercial building work would drop in the order of 45 per cent over the course of 2020.

New dwelling starts were 32,663 over the year to September 2019. Applying a 45 percent decline leaves us with only 18,000 dwelling starts in 2020. A level not seen in the thirty-six years that dwelling starts have been counted. For commercial work, which totalled \$7.5 billion in 2019, a downturn of 45 percent would only leave \$4.1 billion in 2020.

Long-Term

Even once the economy has been righted, the demand drivers for new construction will remain muted for some time to come, holding back long-term growth in the industry.

With the economy on hold and the borders closed we need to expect that both employment and population will not return to growth for the foreseeable future. High unemployment and low economic growth will further dent confidence necessary to proceed with new construction investment.

Thank you for the opportunity to provide this insight into our industry.

Yours sincerely



Grant Galvin
CEO – Master Builders



Michael Roberts
Executive Director – HIA

