

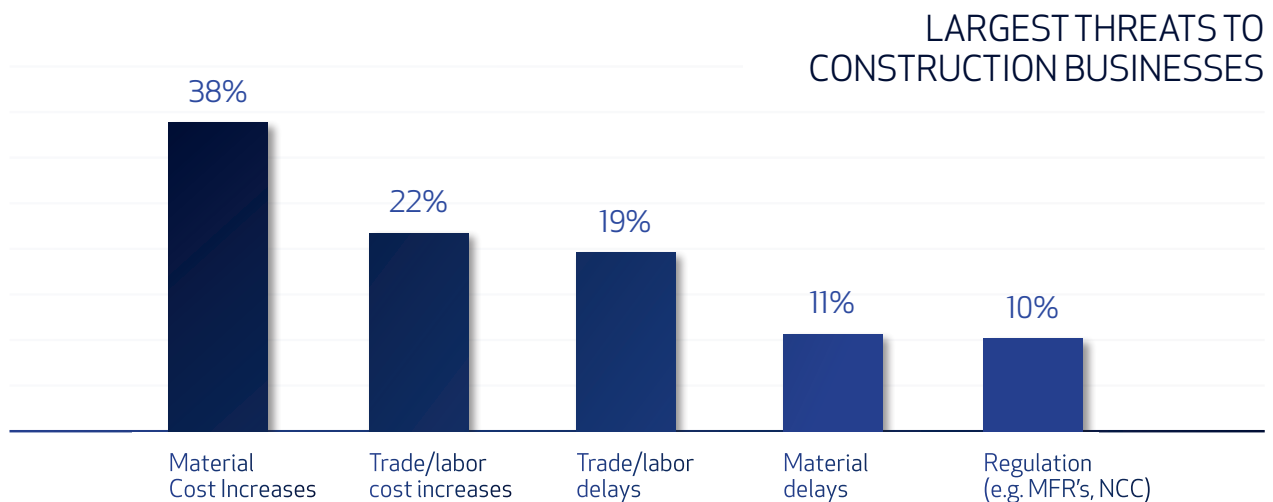


INDUSTRY CHALLENGES SEPTEMBER 2022

The building and construction industry continues to be buffeted by many challenges which show no sign of abating.

Master Builders has undertaken this survey in order to gain a better understanding of the nature of these challenges, how they expect to change going forward and how contractors are responding in their business practices.

Current threats



Cost increases in both materials and labour continue as the largest threats to construction business. Delays in being able to secure labour and regulation are also causing concern.

“Increases in pay and super add costs to jobs which clients already think we’re making millions, rather than acknowledge that we are just getting by due to slim margins.”

“Finding and retaining staff is an issue. Can’t complete project without staff.”

“Governments are creating most of cost increases.”

“We are being consumed with red tape.”

The extensive wet weather was also raised as a threat in further blowing out construction programs, further threatening cashflow.

“As jobs take longer, cashflow is thinned out and we are constantly paying our suppliers and subbies before we are paid.”

All the negative publicity around builders as well as unrealistic expectations from clients and the QBCC is also placing extreme pressure on the industry.

“Mental health of myself, my wife and my staff. We are getting abused daily by upset clients that blame us for the delays. I have someone in tears every second day.”

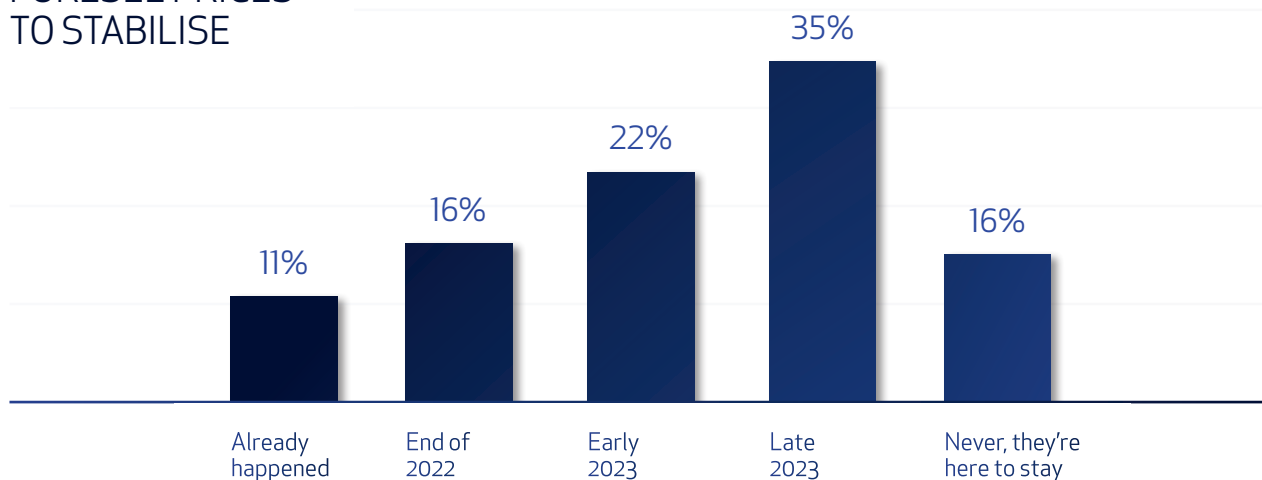
“We have to deal with irate customers who are quick to get on social media and slam builders for all the delays and price rises that are out of our control.”

“The QBCC is attributing blame to builders for ‘defects’ caused by the unprecedented weather conditions of the past six months. Very distressing for builders and subcontractors and by far the biggest threat to our business due to mental health related issues.”

Looking forward

There is no sign of material prices increases stabilising any time soon. The largest number of respondents (35%) expect there to be no relief before late 2023. It is the same for trades and labour price increases. There was a general concern that the lack of skilled apprentices coming through will drive up prices even further.

FORESEE PRICES TO STABILISE



Prices will reach the point where they are not sustainable and there is already a growing lack of confidence does not bode well for future demand.

“Clients are impacted too and are fearful of how to build (with what’s available/affordable) against the money they are spending.”

Many respondents were also concerned by impending changes to the National Construction Code (NCC) to including accessible housing and raise the bar on energy efficiency.

“With NCC changes coming in we have to start our business from scratch again, all design and pricing, that is going to cost a fortune.”

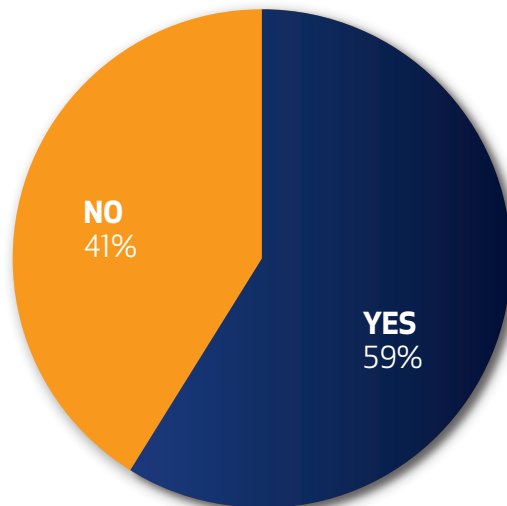
“I can’t see how this is going to work.”

Strategies for responding

The majority (65%) of respondents are negotiating with their clients on fixed price contracts for increased payments. For the most part clients are agreeing to the payments (59%).

“Our clients have been understanding BUT not happy.”

AGREEING TO
INCREASED PAYMENTS



Of course, in many cases financiers and banks will not accept any increase.

“Feasibility is the underlying issue.”

“Banks are closing in on the clauses in our contracts more now than before. They are pushing harder to exonerate themselves more and leave the builder more open to disputes with owners over variations and cost increases.”

Other strategies builders are using to tackle the price hikes include:

- Clauses in contracts such as provisional sums and special conditions
- Moving to a cost plus contract
- Prioritising high risk items which need to be procured immediately (with possibility of early delivery, storage and unfixed goods payments)
- Reviewing all pricing prior to site start and then review, increase or terminate contracts.

“We aren’t pre-signing anything we can’t start that month and moving away from large projects with long timeframes instead focusing on projects that we can complete quickly in house and don’t rely on subcontractors.”

“Always in discussion in with our clients.”

“It’s a continual juggle.”

Business going forward

One in three reported that the increased challenges are leading them to consider closing their business within the next 12 months. Many who intend to remain do so because they can see no other option.

“Yes, sadly. We have had a wonderful career in the industry and always had a highly respected name amongst our clients and peers, however the incessant pressure, lack of emotional support, and lack of respect and abuse from clients is demoralising. We remain in business only to honour our commitment to our apprentice. Apprentice finishes his time, we are done!”

“A lifetime of hard work and earnings are being taken away by factors outside our control... and there is no help. I would walk away tomorrow if I could.”

“Most builders I speak to are in the same boat - the mental health challenges are enormous at the moment and many builders are wondering why they should continue to accept so much risk for such little reward - just not worth it anymore.”

And then there are those who will be forced out by insolvency.

“Continuing deterioration in the industry may make the decision for everyone.”

Those who intend to stay see an opportunity in diversifying, reducing the work they take on or the nature of the work.

“As an industry, we need to start setting boundaries around market expectations.”

Others identified systemic change that is needed, starting with greater subcontractor accountability.

“Can government/QBCC have a look at putting in some sort of retention on sub-contractors now that they are charging the prices they are or at least make them more accountable for their work in the future.”

“Why should I the builder have to pay in some cases twice the money to get the same job done but then have to fight tooth and nail to get items rectified as the subbie won’t do another job for us unless he is paid for the job (he has just poorly done) and does not want to come back to rectify his defects.”

The rules around contracting should also be examined, especially fixed priced contracts.

“We need a mechanism to manage contracts to changing market conditions, or the risk is too great and not good for anybody.”

“There should be more freedom about amounts clients are invoiced. We should be able to invoice up to 50 per cent of a stage that is commencing.”

“Government needs to lead the change of better contracting terms to improve industry viability.”

Public confidence in building must also be addressed.

“Unfortunately, builders are being made out (in the public’s eye) as being greedy - in reality, most builders are struggling to survive as they try and manage fixed price contracts while suppliers and subcontractors continue to raise their prices.”

“As a builder (and a person), I have always strived to do the right thing by my clients. But this current climate of ‘builder bashing’ is really taking a toll on me (and other builders I know) mentally.”

In closing

“Anyone still standing who runs a building/construction company after the last 18 months has done an incredible job.”

“Please support builders. We need relief immediately.”