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Market Update

NSW construction market update: September 2020

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How has the market been affected by COVID-19 so far?

In June 2020, the Slattery leadership team provided an update on the national construction market, forecasting short to medium term competition to drive prices down by up to 10% in non-domestic construction.

Three months later, we turn to the NSW construction market, where the effects of the COVID-19 induced slowdown are becoming evident.

Competitive subcontractor prices

Analysing the trend on subcontractor pricing can be complex due to the many factors affecting price; volume of work, site access and continuity of work, risk transfer from main contractors and EBA's.

The earlier trends indicate that trades at the beginning of the construction process are becoming very competitive as they try to secure work in the next 6-12 months. Meanwhile, finishes trades have seen minimal movement to date.

The table below provides an indication of key trade movement since February 2020 and the COVID-19 lockdown.

Trade Description	Total Price Adjustment Range % of Trade Value
Excavation	-15% to -20%
Formwork	-15% to -20%
Reinforcement	-5% to -10%
Concrete	-5% to -10%
Masonry	No change
Facade	-1% to -5%
Roofing & waterproofing	No change
Partitions & ceilings	0% to -5%
Floor & wall finishes	No change
Joinery	No change
Mechanical	-5% to -10%
Electrical	-15% to -20%
Hydraulics	0% to -5%
Fire services	-5% to -15%
Lift services	-10% to -20%

Contractors are confirming much greater coverage across all trades when compiling tenders. This indicates capacity and creates competitive tension, working to drive down prices, including margins. We anticipate this will flow on to the finishes trades over time, albeit not as significant as the structure trades; the former coming from a more competitive base.



Main Contractor preliminaries

In the past 3 to 6 months, contractors have sought to reduce their cost base with wage decreases, working hour reductions and overhead efficiencies. However, the continued effect of social distancing and additional requirements to ensure a safe work place has largely negated any real savings in preliminaries costs.

In addition, the risk profile of contracts is front of mind, with liquidated damages and delay costs caused by potential future lock downs similar to Melbourne (Refer **Slattery Market Update: Melbourne's Stage 4 Lockdown** for implications) remaining a key area of concern for clients and contractors.

The EBA effect

Enterprise Bargaining Agreements have been subject to renewal - some major subcontractors signing up to new terms likely to cause an increase in labour costs on construction sites. Main contractors have not been as quick to sign up to new terms; continuing negotiations as the ramifications of cost increases bites and projects are prevented from going ahead. Under the current circumstances, we expect to see more projects being delivered either without an EBA or with a freeze in wages and labour costs.

Supply chain

New tendering opportunities for contractors has slowed with many private sector developments either on hold or taking longer to come to market. Public sector projects such as schools, hospitals and infrastructure have a healthy pipeline, however shovel-ready projects have not yet filled the void.

The inevitable demand forces are beginning to drive down prices with supply chain capacity, both locally and internationally. Initially weak in March, the Australian dollar has rebounded, with financial institutions forecasting a steady further rise. This appears to be reflected in recent façade and lift services trade pricing.

Construction pricing in Sydney – what is the outlook?

Since the emergence of COVID-19 over 6 months ago, a larger sample size of projects has recently returned which indicates that our earlier forecast regarding the 10% change in construction prices is coming to fruition.

We anticipate that this will continue with further price reductions towards end of 2020 and start of 2021, as subcontractors and contractors attempt to lock in cash flow and keep their businesses afloat.

Projects that are seen as must wins due to their low risk profile, surety of payment and uncomplicated delivery could see significant savings as contractors and subcontractors use all levers to reduce costs, including wage reductions, material negotiations and reduced overheads and margins.

Price reductions will be on a project by project and sector basis. We anticipate larger reductions in sectors that have seen significant, abnormal increases in the 2 - 3 years prior to 2020. For example, commercial office developments will see greater savings than industrial sheds. Many large projects are close to completion with a smaller pipeline of work on the horizon.

Opportunity

Competitive pricing and a reduction in construction costs may provide an opportunity for clients to revisit previous feasibilities, lock in current profits or receive additional value for money. Between now and March 2021 is the time to be tendering your project.

However, our previous advice holds true: clients should be wary when tendering and do extensive due-diligence on head contractors and their sub-contractors. We urge caution in contracting at prices significantly below reasonable market rates.





About Slattery

Slattery is a property and construction advisory firm specialising in quantity surveying, cost management and early phase project advisory, with an outstanding history spanning more than 40 years.

We work hand-in-hand with governments, institutions and organisations as well as planners, developers, architects and design teams on a broad range of property and construction projects.

A commitment to excellence and innovation, and an ability to become an integral part of the project team has earned Slattery the trust and respect of clients and project teams alike. Slattery adds value by taking control and ownership of the cost management process from the outset. We understand the importance to drive innovation and productivity.

We invite you to explore our knowledge sharing further at www.slattery.com.au/thought-leadership