

The Report 2019



Constructing the Future

At Soben, we are frequently asked by our contractor clients for our opinion on market trends, tender prices, and general industry sentiment. We listened, and as a result, launched the first **Soben Industry Survey** to examine opinion on tender pricing, construction costs, margins, and value engineering of contracts in 2017, 2018 and 2019. We also look at the issue of Brexit and its potential impact on the industry.

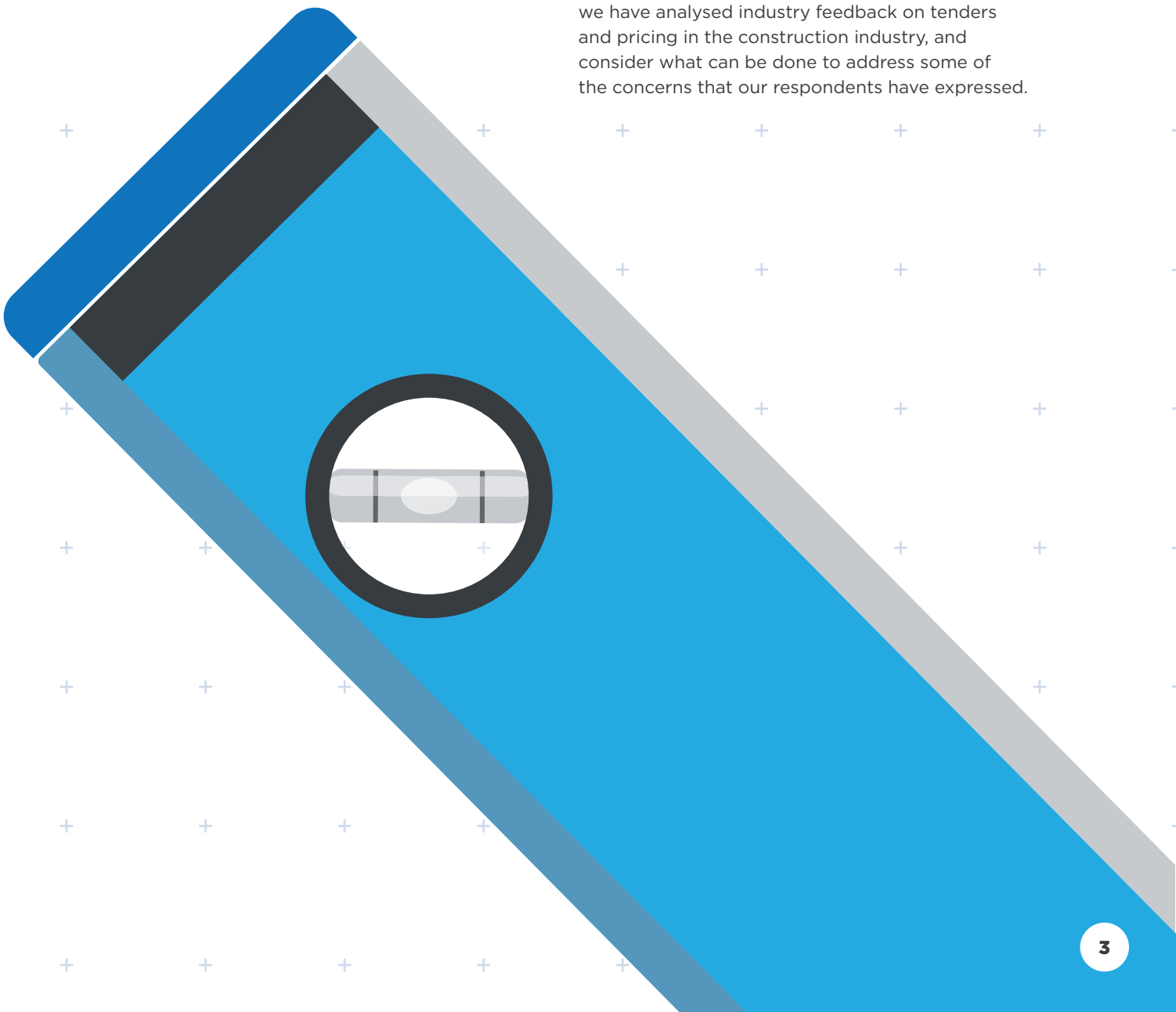
Our survey was issued to our network of UK contractors in late 2018 and we have garnered responses and opinion from a wide range of industry professionals operating from management to CEO level. The respondents work within contracting businesses operating regionally, nationally and internationally.

Construction - the situation today

Working with contractor clients from across the UK and beyond, the Soben team has a huge insight into the challenges facing the construction industry today. Events in the last year have shone a spotlight on some of the main challenges for construction in the UK, with the collapse of Carillion indicating the level of risk that some contractors have found themselves facing in order to stay competitive.

Much criticism is levied at those contractors who have damaged their businesses by taking on too much risk, and rightly so, but we also need to look at the contributing factors. Construction costs continue to rise, labour shortages are an ongoing reality, and clients are still looking for best price, increasingly relying on single-stage tenders to achieve this.

In this report, entitled **Constructing the Future**, we have analysed industry feedback on tenders and pricing in the construction industry, and consider what can be done to address some of the concerns that our respondents have expressed.



Tender prices vs construction costs

The present

The results of our survey paint a concerning picture, but not a surprising one. We asked our survey respondents to comment on volume of tenders, tender prices, and construction costs in 2018. The results reflect what we as an industry understand to be true - that contractors are being squeezed from all sides (Figure 1).

Over 70% of respondents stated that the volume of tenders for this period was either the same or lower for 2018 compared to 2017. In addition, 85% stated that the volume of single-stage tenders was the same or higher. A single-stage tender

represents a single competitive tender for an entire project, placing more risk onto the contractor, and often resulting in the client paying less due to the competitive tender process with contractors cutting margins to levels that some in the industry think are unsustainable. When contractors are busy, they are less likely to take part in a single stage tender as there are often more lucrative and less risky two-stage tenders available.

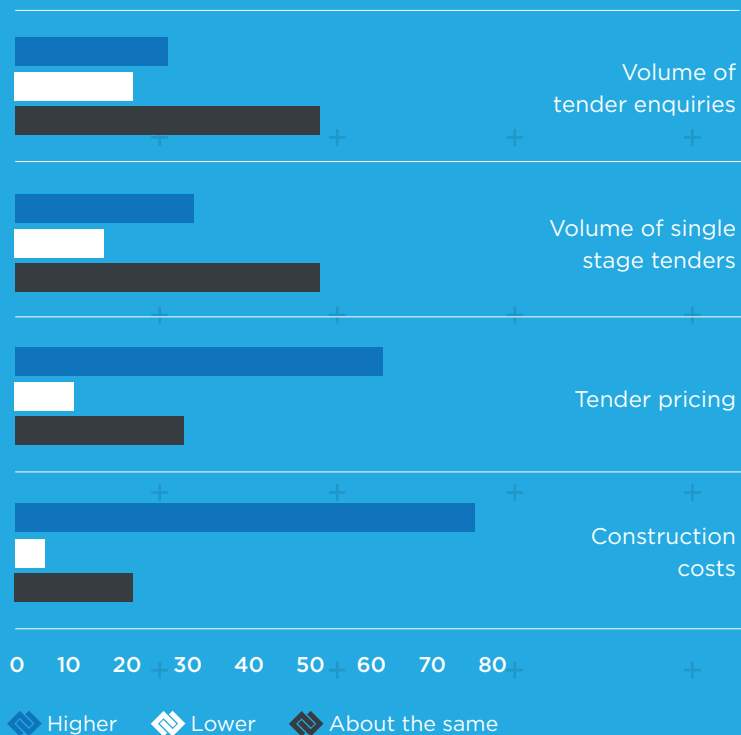
Given that we have seen a slowdown in the market during 2018, this is unsurprising. It follows that when clients see a market slowdown, they are more likely to issue single stage tenders, taking advantage of the contractors' need for work.

This is reflected in the fact that contractors are not fully passing onto clients increases in construction costs. 77% of respondents noted that construction costs were higher than 2017 yet only 63% stated that tender prices were higher than 2017.

Considering all the results above, we can see that 2018 has been a challenging time for many of our respondents, with contractors facing increased volumes of single-stage tenders and increased costs that cannot be fully passed onto their clients.

2018 vs 2017

Figure 1



Tender prices vs construction costs (cont)

The future

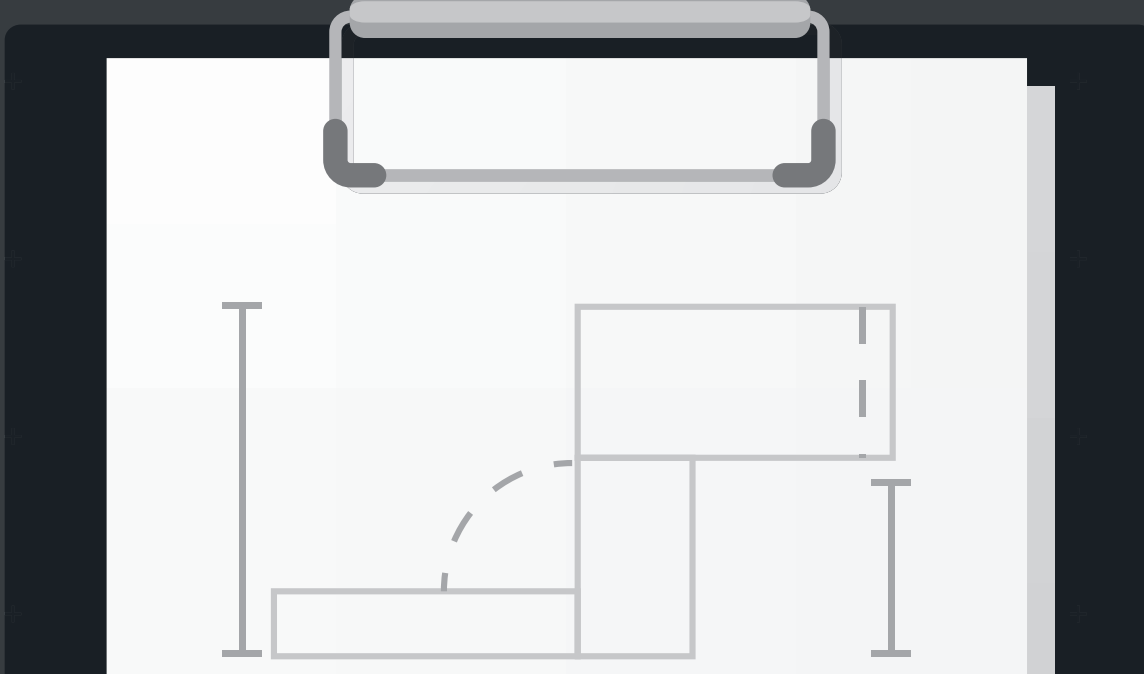
When asked to predict what the trends will be for 2019 compared to 2018, our respondents show a lack of optimism that this situation will improve, in fact, many anticipate that the situation will worsen.

When asked to predict the volume of tenders for 2019, over 79% predicted that the volume would be lower or about the same as 2018, with over 76% predicting that the volume of single-stage tenders would be higher or the same as 2018

Looking to tender price and construction costs, over 74% predict that construction costs will rise, yet only 53% of our respondents think that tender prices will increase (Figure 2). Essentially our respondents think that supply chain construction costs will rise more than main contractor tender prices.

2019 (forecast) vs 2018

Figure 2



Tender prices vs construction costs (cont)

Margins

With our results so far indicating that construction costs are continuing to rise faster than tender prices and a move towards the greater use of single-stage tenders, it is hardly surprising that contractors are struggling to improve or indeed maintain margins.

Overall, over 80% of our respondents stated that margins had lowered or stayed the same for the period 2018 compared to 2017, with 80% anticipating that margins will continue to lower or stay the same for 2019.

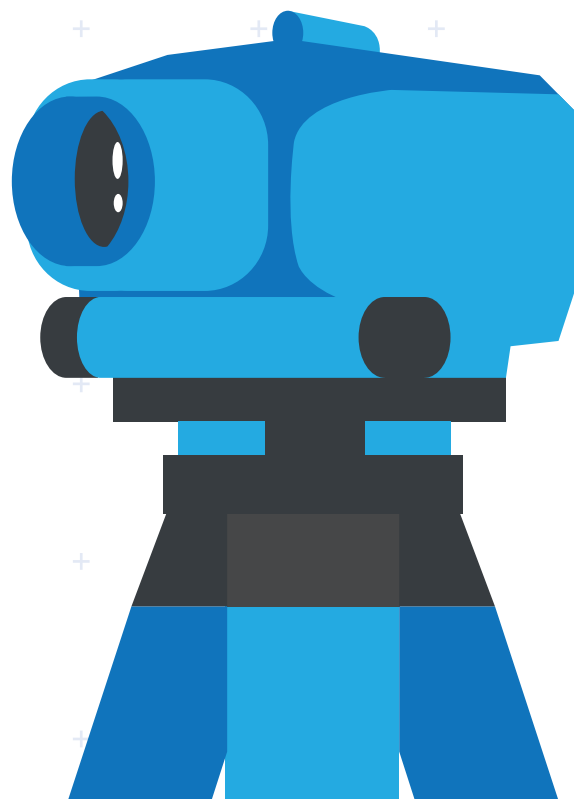
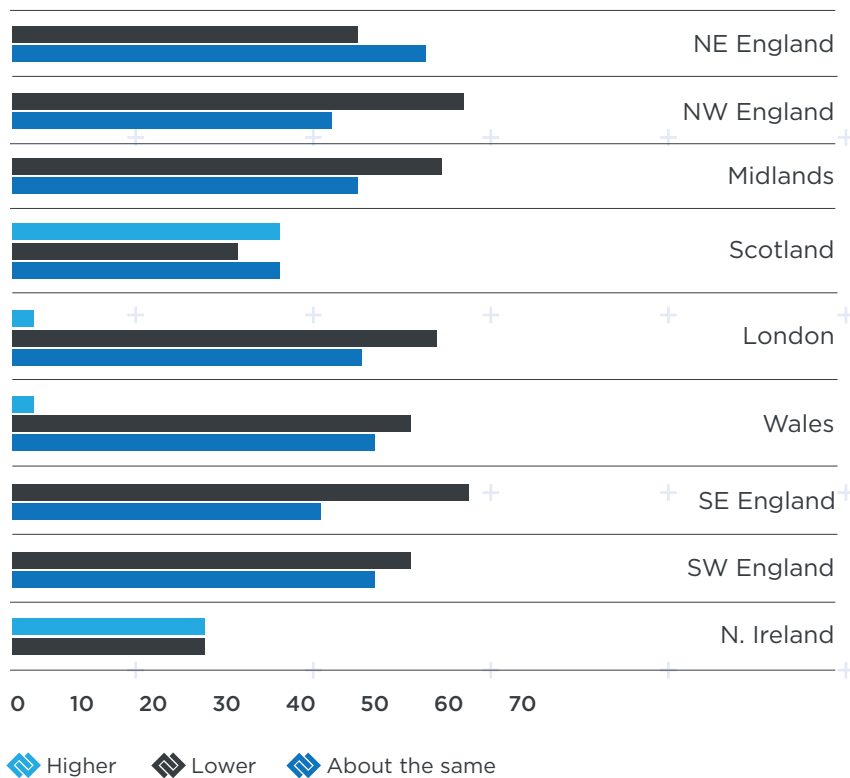
The picture appears to be most gloomy in London and Wales with the percentage of respondents reflecting these views rising to 97% for 2019.

Those respondents in Scotland are the most optimistic, with over a third anticipating that in fact, margins will increase in 2019 compared to 2018. A breakdown of margin predictions from businesses across the country can be seen in Figure 3.

As a truly international city, London is often the first to experience the impact of reduced investment, which perhaps explains these predictions. In Turner and Townsend's [International Construction Market Survey 2018](#), it highlights that whilst globally the construction industry is experiencing growth, that London faces considerable challenges due to Brexit uncertainty, skills shortages, and rising construction costs, rating London's tendering market as "lukewarm", indicating increased competition amongst contractors for work available.

Margin predictions 2019 vs 2018

Figure 3



Cost saving and value engineering

Cost saving and value engineering exercises represent a real challenge for many contractors, and potentially illustrate a lack of awareness from clients and their advisors as to the real costs of construction.

Our respondents estimate that 72% percent of projects they have been involved with in the last 12 months have required a cost saving and/or value engineering exercise before Contract Award.

These results reflect the growing complexity of the construction industry and the need for Tier 1 contractors to be involved as early as possible during the design stage of a project. Tier 1 contractors and their supply chain are able to provide expert advice on programme, logistics, buildability, and construction costs before designs have been fully developed enabling their comments and input to be incorporated into the design of the scheme before it is too late. This view of a changing Tier 1 model was reflected in [recent comments in Construction News](#) from the chief executive of BAM Construct as he discussed the move to an 'integrator' role for Tier 1 contractors.

Where engagement with Tier 1 contractors is deferred until time of tender, it is more likely that that a cost saving exercise will be required before contract award, resulting in late design changes being required, delays to project commencement and contractors margins being squeezed further. It is our opinion that if developers and their advisers take a more collaborative approach earlier in the process, project delivery will be more streamlined with a more realistic cost profiling from the outset.

Brexit – construction industry opinion inconclusive

We asked our survey panel to give us their thoughts on what the UK construction industry will look like post 29th March 2019, and the results were overwhelmingly mixed. Overall, our respondents were split almost equally between positive, negative and neutral. At the time of writing there is no current deal in place, which most likely accounts for this uncertainty on the impact. This reflects the beliefs of many other industries across the UK, indeed in its [quarterly business report](#) issued in September 2018, business consultancy KPMG stated that the UK economy has experienced a period of unprecedented uncertainty. This no doubt links to the lack of confidence around industry buoyancy that our figures in the previous section illustrate.

However, when we look at the comments from our respondents, we begin to get an insight into the impact of Brexit to date, and the differing perceptions of the impact it will have on the future of the construction industry.

The majority of those who provided comment in response to this question reference the issue of uncertainty around the Brexit outcome, with one senior manager at a main contractor business with a turnover of over £1bn stating that:

“Clients (are) holding back on some developments pending the outcome. Clarity in either direction will in my opinion release the brakes.”

However, one director of a main contractor business with a turnover of £100-£250m predicted a slowdown in private sector, but little or no impact on the public sector work, commenting:

“While I predict there will be a decline in private sector work, I expect the public sector (which equates for about 75% of our regional turnover) to continue, as I imagine the Government will still push ahead with spending in the education and health sectors.”

Another respondent, a CEO of a Project, Construction & Cost Management business, predicted that Brexit would have a positive outcome for their business, stating that:

“Our business is most successful when we have challenging times and clients need professional assistance to ensure the project is viable and deliverable.”

Brexit sentiment across the Country

When we look at the results based on main location of business, we see that there are some differences that correlate with the Brexit referendum results across the UK. When looking at respondents with businesses operating in Scotland and in London - both areas that voted to remain, only 37.5% and 27.27% respectively state that they feel positive about the industry's prospects post-Brexit. When we look at the rest of the UK, excluding Scotland, London, and Northern Ireland, this rises to 50%, correlating to those areas that voted leave in the referendum.

What's next for the construction industry - the Soben perspective

As we enter 2019, the issue of Brexit is still one that hangs over our heads, affecting not only the fate of the construction industry, but the UK economy and social fabric as a whole. What we can take from the comments from some of our respondents, is whatever the outcome, there is a general consensus that clarity on Brexit will allow business to start moving forward again.

Looking specifically at the construction industry, it is clear that we are at a pivotal point. Those involved in construction need to work together in order to meet the UK's ever-growing building needs whilst creating an efficient, sustainable, and profitable future for contractors. It is evident that the industry has been given a wake-up call, and it is up to all industry players, as well as the UK Government, to take a considered look at tendering processes, moving away from a 'low price at any cost' mind set, to one where quality and efficiency are given top priority.

By collaborating at the very earliest stage in building design, contractors, clients, quantity surveyors, and architects can work together to ensure maximum efficiency by using the latest technology and construction methods available. The early appointment of Tier 1 contractors to act in a consultative role at this time is to be advised.

The UK is working towards becoming a global leader in BIM, with the introduction of the UK Government's BIM Level 2 Mandate in 2016. However more needs to be done to ensure that this technology is viewed as a tool to aid cost saving and efficiency, rather than just another box to be ticked. At present, it is not uncommon to see BIM being implemented at a late stage in design due to perceived cost implications. Often, clients select by price, rather than value, allowing time and cost restraints to hamper the effective use of BIM. (cont.)



What's next for the construction industry - the Soben perspective (cont.)

By using BIM throughout a project's lifecycle, alongside other available technology such as software that enables quantity surveyors to prepare accurate BQs linked to marked-up drawings, cost plans, and estimates all within a single integrated platform, we reduce the need for cost saving and value engineering at a later stage in the tender process.

Clients and contractors must also consider innovations in construction technology and the efficiencies it can bring. For example, there has been a resurgence in the use of prefabrication in construction projects, with contractors considering the use of full modular construction, with pods or

units being built on a factory production line before being transported on-site. This can present a cost-effective and efficient way of meeting our building needs, as well as addressing the labour shortages being faced on site.

Whilst there can be no doubt that the construction industry is facing real challenges, it is evident that we have the tools to address and overcome these. By working together to make best use of the technology available, there is a real chance that the construction industry can vastly improve its outlook and create a sustainable future for all involved.



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