WAKEMANS

NEWS & OPINION

PROPERTY AND CONSTRUCTION SECTOR.

VISION

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How Safe is your Contractor?

Dean Watson addresses concerns over the financial stability of smaller firms.

Although the construction sector for SMEs grew yet again in Q2 (April-June 2017), concerns remain over the fate of smaller contractors, with accountancy firm Moore Stephens warning that 26 per cent of construction companies could fail.

The risk of contractors going out of business by 2020 rises to 32 per cent for those involved in commercial projects compared with 23 per cent for those building residential properties. As if any were needed, this is further evidence of how continued political uncertainty over Brexit is doing the construction industry no favours, especially the ability to find buyers or tenants for new buildings.

According to the Moore Stephens report, while multinationals are assessing the pros and cons of maintaining employee levels and retaining offices in the UK, investors are reviewing demand from potential purchasers and occupiers. The attractiveness of the London office market in particular is being called into question. Smaller contractors have seen their profits hit by tightening margins due to the fall in Sterling, which has pushed up the cost of imports, especially raw materials. These businesses are also more likely to experience difficulties in accessing bank funding for projects, putting extra strain on their cash flow.

Labour supply is another key factor. Construction's heavy reliance on migrant labour has sparked calls from industry leaders for special dispensation, since anything that restricts employers' ability to bring in skilled workers from the EU post-Brexit is likely to inflate wages. In fact, some two thirds of construction businesses expect the skills crisis to drive up wages bills over the next six months, a notable difference when compared with the wider UK economy where, in general, earnings are stagnating.

Uncertainty over future demand, rising materials costs and the skills crisis represent a combination of factors that could make smaller contractors less viable. It is therefore vital that they act now to put in place contingency plans to ensure they have the resilience to withstand what we can only expect to be a challenging market over the next few years.

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New Housing Funding

The government is to permit local authorities to use the £54 million Land and Release Fund to help tackle the housing shortage.

By making better use of public land, the aim is to speed up the pace at which additional residential development sites come on stream. In utilising the Land and Release Fund for remediation and infrastructure work, it is hoped that sufficient council owned land will be released for the development of at least 160,000 homes. The government is targeting a million new build residential properties by 2020.

New Brand Identity

Times change and Wakemans is changing with the times!

Following an in-depth review of our corporate identity, we have created an all-new brand image – to reflect future growth and the directors' vision for the business – which will feature in all our marketing and corporate communications, including our website and social media channels.

As part of this initiative, we are also developing a short multi-media presentation to showcase some of the prestigious projects the firm has been involved in since it was founded 105 years ago (1912).

House Price Growth Remains Static

According to HM Land Registry, house prices in the UK rose by 4.9% in the year to June 2017, a fall of 0.1% compared to the year to May. While the annual growth rate has slowed since mid-2016, it has remained around the 5% mark during 2017. The average property price is now £223,257.

Positive Outlook for Construction

John Woodhall considers developers' attitude to the construction industry's prospects.

The most recent Trade Survey by the Construction Products Association (CPA) revealed that, following another three months' of growth, the construction industry has witnessed 17 successive quarters of growth.

Main contractors, SME builders, civil engineering firms, product manufacturers and specialist contractors reported an increase in sales, output and workloads in the second quarter of 2017. Yet, some commentators are cautious, making the point that rising demand is being bolstered by private housing and refurbishment projects, with fewer orders relating to commercial and industrial projects.

In our experience, developers remain upbeat. While the impact of whatever trade deals the UK is able to sign upon leaving the EU remains to be seen, many firms take the view that there is more to the economy than Brexit and are simply getting on with the job. Demand may be dampened, but developers are not seeing this as a major threat to future prosperity since, whatever the climate, entrepreneurs will always have ambitions to grow their businesses and so will need industrial, commercial and retail space.

The CPA's survey shows that many main and specialist contractors are choosing to delay passing on increased materials costs or resist doing so altogether when tendering for new projects. Rising raw materials prices due to the devaluation of Sterling could become more of an issue post-Brexit, but our clients report minimal impact to date.

There is no denying that the labour shortage remains a problem and could contribute to a squeeze on margins. That said, the consensus among the residential developers and main contractors we have been speaking to is that the market is witnessing a shortage of subcontracting and more selective consultancy and this is what is pushing up construction prices.

Perhaps the best way forward for the UK's construction industry is for developers, main contractors and subcontractors to continue to focus on what they do best since, ultimately, businesses will adapt to new trading arrangements, including any constraints imposed post-Brexit.

Credit Crunch - A Positive Impact on Housing ?

James Shelley takes a look at how the financial crisis continues to impact on the UK's housing market – and not necessarily for the worst.

Ten years on and not only is the UK's property market still feeling the effects of the credit crunch, but it is also likely to be shaped by its consequences for some time yet.

According to the latest report by Savills, the average UK house price did not recover to its pre-crisis level until May 2014 while transactions, which had slumped to 730,000 by June 2009, have managed to climb above 1.3 million only once.

Reduced spending is a key factor in the way the housing market has evolved, with lower transaction levels accounting for a £30 billion drop in total house purchases over 10 years. At the same time, a tightening of mortgage regulations to prevent another debt-fuelled housing boom means that debt now accounts for only 43% of house purchase funding. Cash and accumulated equity have emerged as the primary sources of funding.

Limits on permitted borrowings meant that first-time buyers needed to put down a higher deposit and younger people, in particular, struggled to save the money to fund their first home. The government took action by launching the Help to Buy scheme and this, along with a new advent in the world of finance, the 'Bank of Mum and Dad', look set to stay.

Deterred by the higher deposits required to purchase a home, many would-be buyers have turned to private rental. This has fuelled growth in the sector such that today more people from a variety of social and economic backgrounds are not only choosing to rent, but are also renting for longer. Have we become too hung up on property ownership? Perhaps a time is coming where UK citizens will share the views of people in many European countries where renting is the norm.

Today, the aspirations of those already on the housing ladder are lower. The time when homebuyers would readily take on an interest-only mortgage to move to a bigger, better property looks to have been consigned to history. Now, as well as ensuring that they can afford the capital repayments, families cannot contemplate moving home unless they have accumulated sufficient equity in their current home and paid off a greater proportion of their existing mortgage. Is a tightening on borrowing a negative consequence of the financial crisis, if it means families avoid the stress associated with covering a huge mortgage, especially in an uncertain economic climate where jobs for life are all but extinct?

Along with increases in stamp duty charges and restricted tax relief on interest payments, stricter lending criteria have impacted the buy-to-let sector. Again, there are fewer transactions as the buying power of landlords who require a mortgage to fund their investment has been affected. Again, tighter regulation has served to remind people that property ownership requires a major financial commitment and should not be looked upon as an easy way to get rich quick.

These lasting side-effects of the financial crisis have created a climate in which everyone is encouraged to think twice. Families who can afford to buy a property will continue to do so, but if people are deterred from taking huge risks with mortgages they might never repay, is this necessarily a bad outcome?

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Recruiting Trainees

How we create a skilled construction workforce for the future remains a conundrum, but it is incumbent upon the industry as a whole to make it happen. Regrettably, if people leave, they rarely return, and because buildings are now so complex and require specialised technical skills, those who opt to get back into construction are expected to retrain.

The RICS is playing a key role in helping to change the industry's image to help attract high calibre talent and avoid losing bright young people to other industries. However, the fact remains that the A Level entry requirements for apprenticeships are much higher for a leading engineering business such as Jaguar Land Rover or Siemens, than for one of the country's top contracting firms, and construction is not as well paid as mechanical/electrical engineering, IT or finance.

Several members of our senior management team began their career with Wakemans and every year we endeavour to recruit a couple of trainees – ideally A-level students who have completed their studies.

Our approach is to employ these young people whilst funding their BSc Honours degree in Quantity Surveying, which they take on a part-time basis, one day a week, at City of Birmingham University. During this five-year course our trainees benefit by gaining valuable work experience whilst earning a salary and when they graduate there is no student loan to repay.

Generally, qualified trainees stay on in a full-time role, working towards their RICS APC, and continue to build their career with us. For anyone who excels at mathematics we advocate quantity surveying as a challenging but most fulfilling career.

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