

COVID-19 CONSTRUCTION SURVEY
SECOND IMPACT STUDY
OCTOBER 2020



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1 EXECUTIVE SUMMARY

This report is the second report in a series intended to track market sentiments and forecasts, based on feedback from construction companies, relating to cost and time impacts as the tender market responds to an increased tender environment.

With technical requirements of a COVID-19 restart established by the Building Construction Authority (BCA), tendering has continued with opportunities slowly increasing and WT is actively evaluating the actual impacts on time and cost specific to COVID-19.

While the industry works through the myriad of challenges required for a safe restart, respondents (i.e. Main Contractors, Sub-Contractors, Specialist Contractors & Suppliers) have generally expressed the following developing views:

- Programmes may be prolonged by between an average of 10% and 20%, depending on the type of project; and
- Tender prices may increase by an average of 5% to 10%.

Both data-points being dependent on project sector, size, complexity and risk profile.

Given the unprecedented situation, WT recommends the following key issues are considered as part of any project feasibility modelling:

- The data in this survey is from construction companies only and represents a moment in time views. These are not necessarily consistent with WT's internal analysis of projected market trends and the percentages indicated by respondents are averages only that range across various construction sectors.
- Key cost and time risks relate to availability & restrictions of labour, suggesting medium to long-term solutions are needed to reduce dependence on labour-intensive works and imported manpower. While such strategies existed before Covid-19, they now carry heightened priority to help mitigate against time and cost risks. Such initiatives as increased prefabrication, modular construction technologies, innovation and improvement to dormitory conditions will likely require further support and investment from both the private and public sectors.

Clients establishing business cases during this time should consider additional Industry-specific construction cost consultancy advice to properly consider all such potential impacts and apply appropriate risk management to suit their particular project profile.

The survey update reflects 3 months of post-CB period and captures an increased pool real commercial impacts reducing the speculation expected with such an unprecedented event. WT will complete a further survey towards the end of the year.

WT working towards delivering positive outcomes in property and construction.

2 INTRODUCTION

There has been significant discussion and uncertainty surrounding the impacts caused by Covid-19.

With the construction industry and supply chains re-opening, WT took the initiative to conduct an independent industry-wide survey seeking input from Contractors, Subcontractors, Specialist Contractors and Suppliers to understand developing sentiment, forecasts and potential impacts on the Singapore construction industry.

Consistent with WT's position as a fully independent and specialised Construction Cost Consultant, our survey has focussed on cost and associated time metrics to gain a better understanding/forecast of construction companies' perception of the impacts from the current Standard Operating Procedures under current Phase 2 requirements.

This report represents the second survey tracking the changing sentiment and to cross-reference actual returns from the tender market as well as forecasting potential resource/productivity outlooks.

The outcomes of this research will help inform WT's market advice and understanding of market trends to better plan and contribute to appropriate mitigation strategies.

3 APPROACH

We invited a wide range of Main Contractor, Subcontractors, Specialist Contractors and Suppliers of various sizes and capabilities, totalling over 300 businesses involved in construction. The survey establishes key respondent profile metrics as follows:

- Tendering limits and company capacity;
- Supply chain (main or subcontractor, specialist contractor or supplier);
- Sectors active; and
- Company type (private, public)

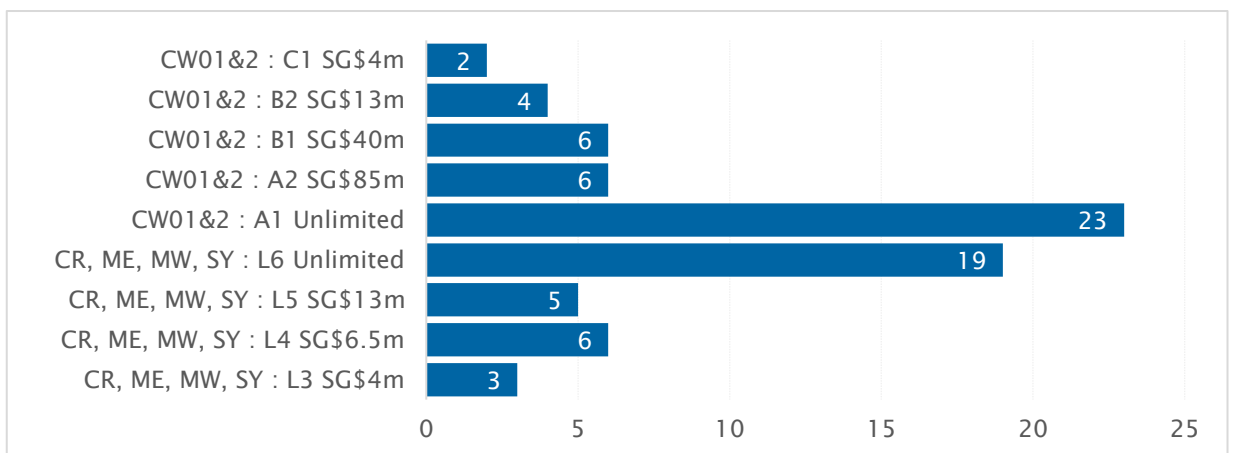
The survey facilitates the assessment of the anticipated impacts at high-level across all respondents and for project sector-specific influences related to cost and time effects on key cost centres. We have also considered the sector-specific feedback correlating with those parts of the market with which we specialise, namely:

- Aviation
- Civic, Law & Order
- Cultural and Religious
- Data Centre
- Education
- Energy & Renewables
- Interior Fit-out (retail & corporate)
- Healthcare and Sciences
- Hotels and Leisure
- Industrial
- Mixed-Use Developments
- Offices
- Ports
- Residential
- Retail
- Roads, Rail and Transport
- Sports

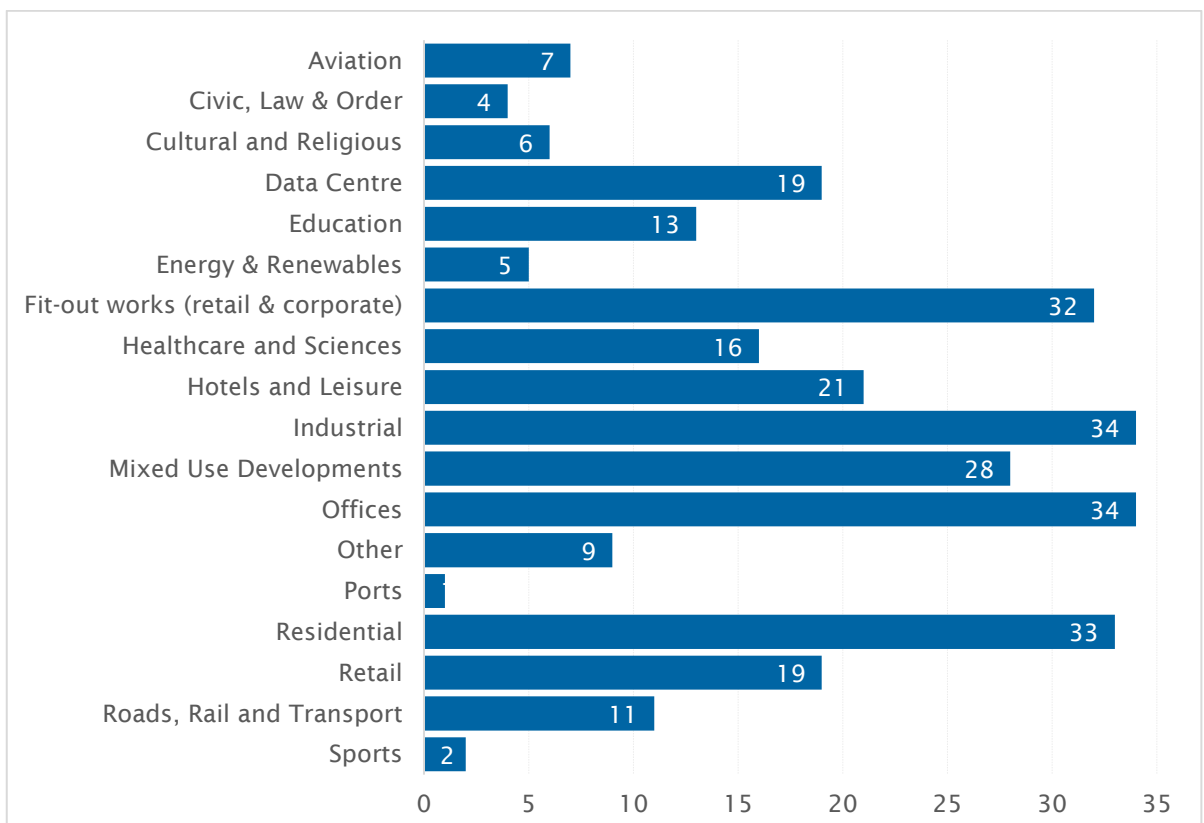
4 RESPONDENT PROFILE

WT issued survey invitations to 380 businesses, of which 74no (or ~20%) responded as compared 91no (29%) in the initial survey. These responses covered each sector identified across WT’s portfolio, spreading across various sectors providing a meaningful “temperature check” of Singapore’s construction industry. Key profile metrics be summarised below:

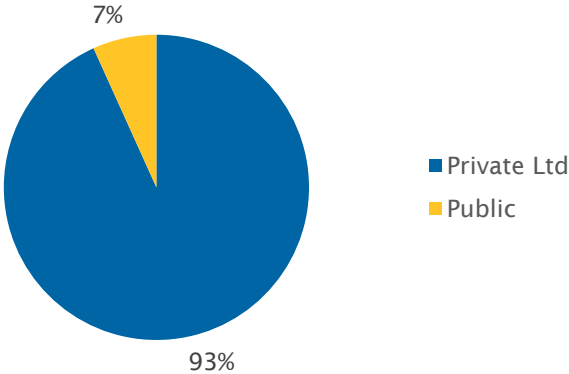
TENDERING LIMIT



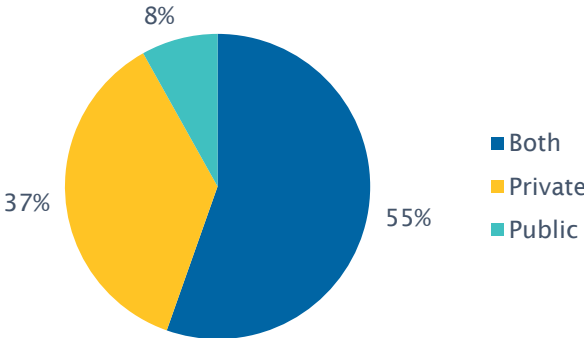
CONSTRUCTION SECTOR



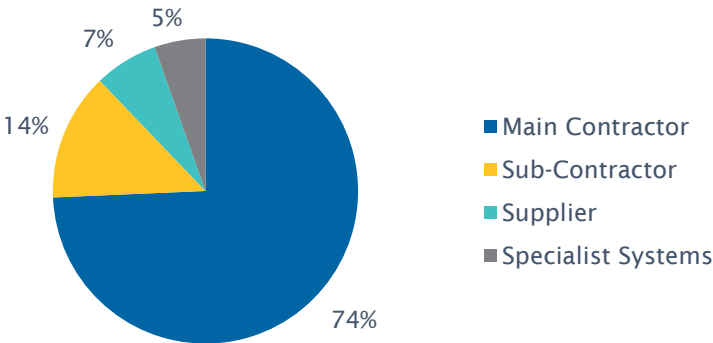
COMPANY TYPE



MARKET SECTOR



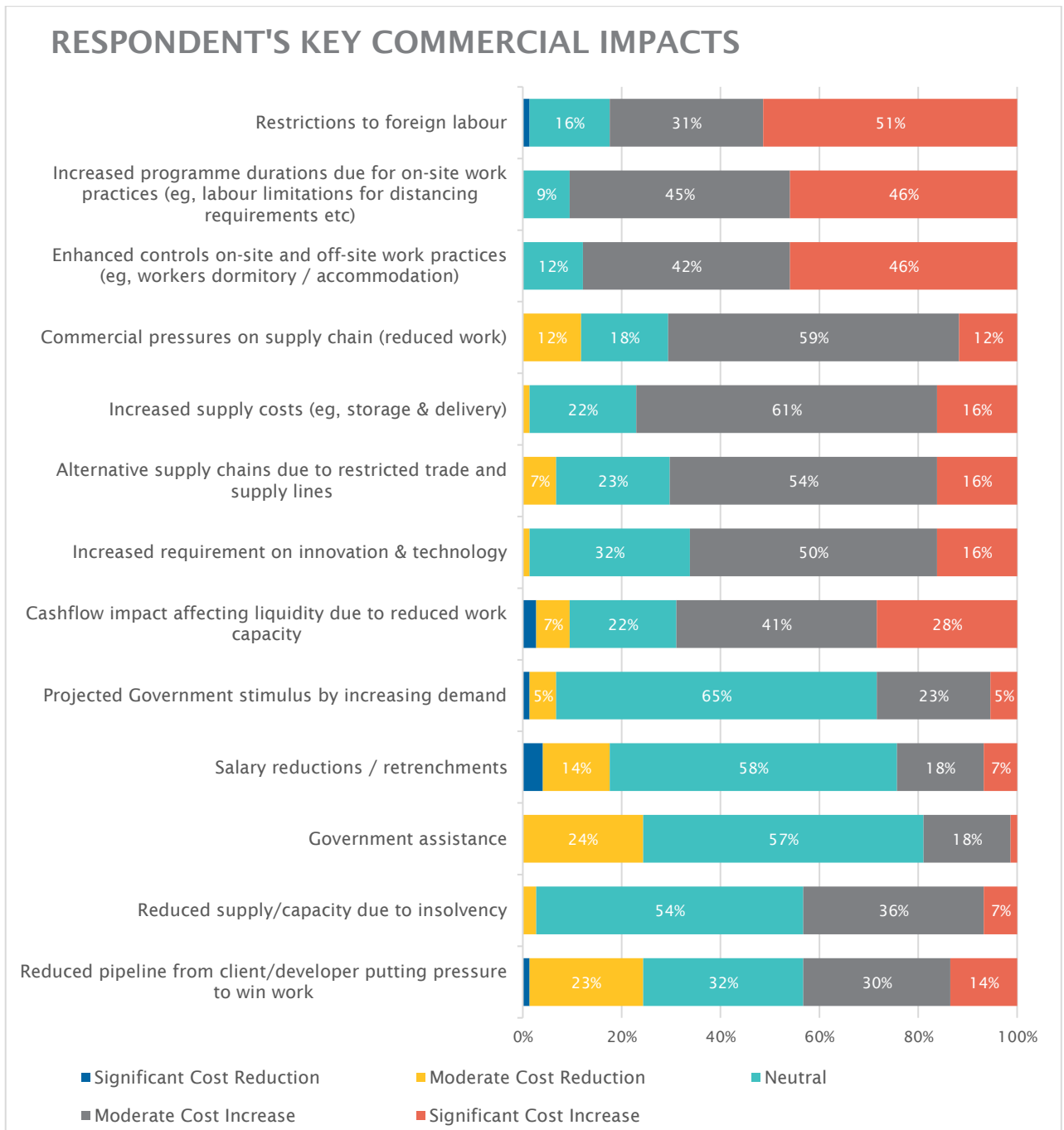
SUPPLY CHAIN



5 INDUSTRY FORECASTS

5.1 KEY SENSITIVITIES

This data provides some potential insight into the key areas that respondents believe pose the highest concerns, which is summarised as follows:



MOST SIGNIFICANT INCREMENTAL COST PRESSURES: The top concerns remain heavily centred around labour. This is not surprising given Singapore’s dependence on foreign labour and manual on-site work practices (i.e. limited prefabrication or modularisation design compared with other developed countries), specifically:

- Ongoing restrictions to foreign labour
- Enhanced controls to offsite work practices and associated programme impacts (e.g. labour limitations for safe distancing, swab testing, worker’s accommodation regulations and the like)

MODERATE COST INCREASE IMPACTS: Respondents by-enlarge highlighted the below similar key issues causing moderate commercial impacts.

The initial report noted, however, “commercial pressures on supply chain due to reduced work” as being a potential cost mitigating factor. This suggests “cost reductions” may not be as achievable via downward commercial pressure as initially anticipated:

- Supply costs regarding storage and delivery
- Costs relating to establishing alternative supply chains to mitigate restricted trade
- Investment in innovation & IT requirements
- Cashflow impacting liquidity, solvency and onward pressures onto supply chains due to reduced work
- Lower volumes of work pressurising supply chains to reduce prices

POTENTIAL RESISTANCE TO FULL COST INCREASES: As a product of the inevitable business restructuring required to survive the circuit break and restart period, together with Government support and market forces, respondents noted the potential cushioning effect that may assist with neutralising some of the more significant commercial pressures overall, principally:

- Salary reductions & retrenchment
- Company overhead efficiencies
- Government construction stimulus packages
- Prioritising cashflow, rather than margins, to provide liquidity for increased investment in innovation and technology upgrades

From this, it may be concluded that such restructuring and government support, provides short term solutions and not the “cure-all” for the medium to long term situation.

Much of the above remains contingent on the future pipeline of opportunities for each of the market sectors and the extent of continued government support/stimulus.

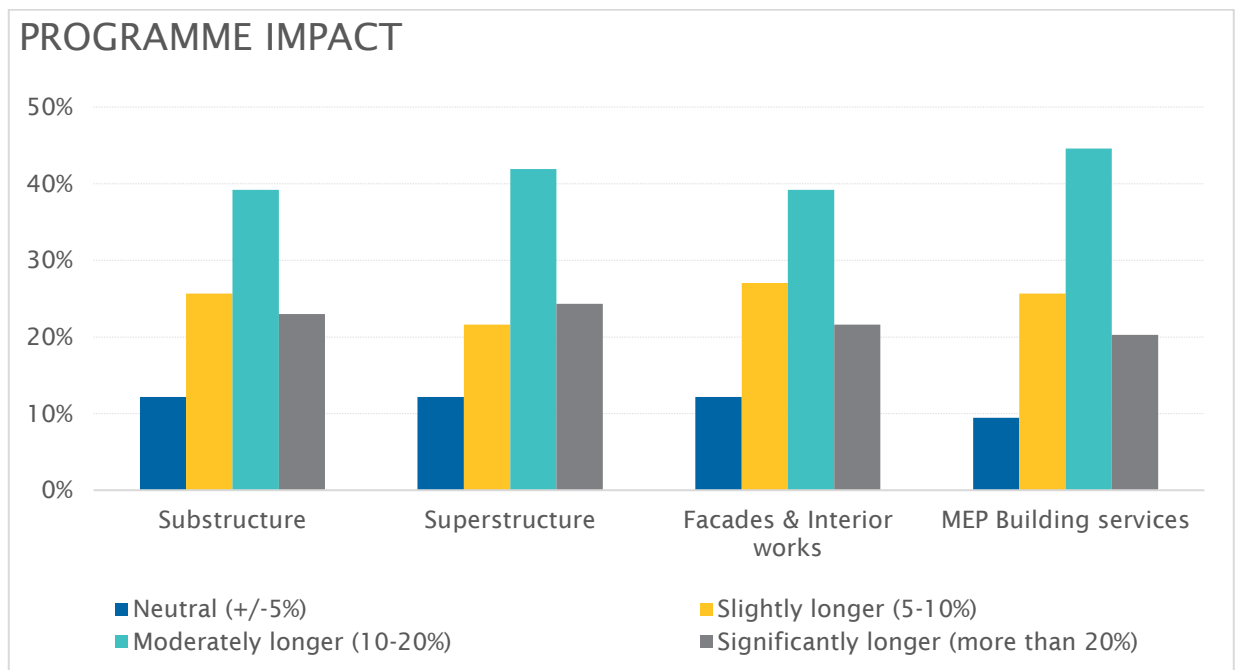
5.2 FORECAST PROGRAMME IMPACT

By considering a hierarchy of key time sensitivities, WT sought to gauge the potential impacts across the major components of typical construction that may translate into differential costs between now and pre-Covid-19.

Respondents provided their view of the time impacts on the following principal elements:

- Substructure
- Superstructure
- Façade & Interior Works
- MEP Building Services

This current survey has resulted in more than 60% of respondents anticipated programme increases by over 10%; this compares to 50% of respondents initially.



The anticipated programme increases remain present across all elements with labour availability and productivity impacts being the key drivers.

This growing opinion towards programme is an important response from the construction market as construction restarts and actual impacts are being realised.

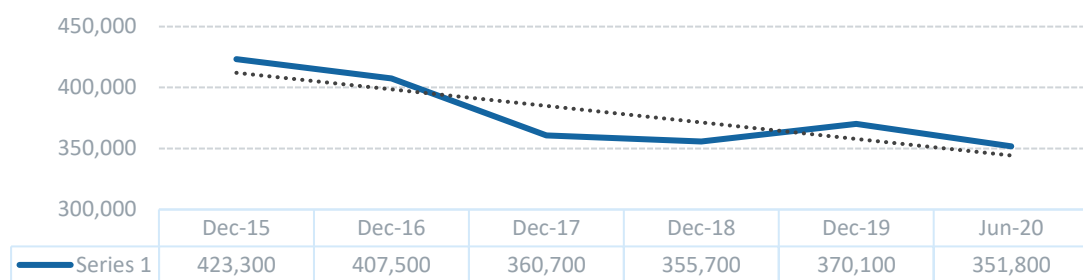
5.3 FORECAST LABOUR & PROGRAMME RECOVERY

When reviewing the response regarding programme as compared to the initial report, WT sought to dive deeper into the productivity issues by reviewing when labour availability may likely improve and recovery to pre-circuit breaker levels can eventually be reached.

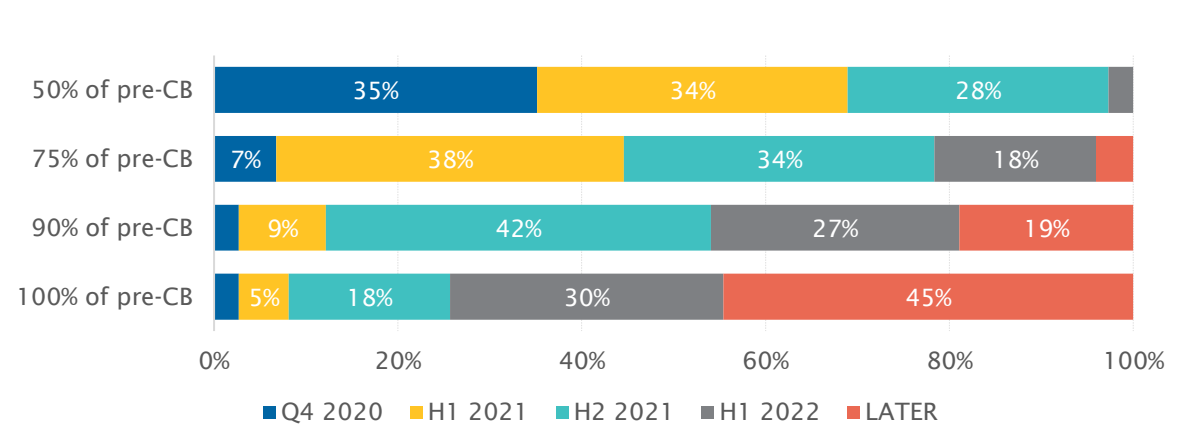
Lending context to such questions we summarise the Ministry of Manpower’s published foreign labour numbers.

source: <https://www.mom.gov.sg/documents-and-publications/foreign-workforce-numbers>

MOM FOREIGN WORKFORCE (CMP)



FORECAST PRODUCTIVITY RECOVERY



Respondents provided an insight into when recovery to pre-circuit breaker (CB) levels may be, assuming a future Covid-19 outbreak is avoided, for various levels of productivity as summarised below:

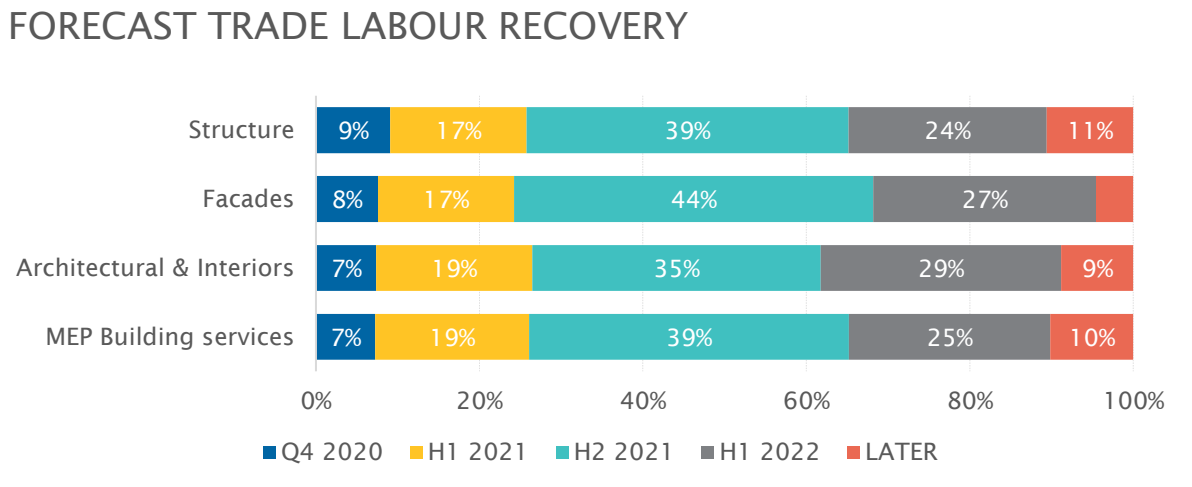
50% of pre-CB: Majority believe recovery to 50% level may occur in Q4 2020/H1 2021.

75% of pre-CB: Opinions show a 75% recovery may occur sometime in 2021.

90% of pre-CB: The majority believe recovery to 90% levels may occur in H2 2021.

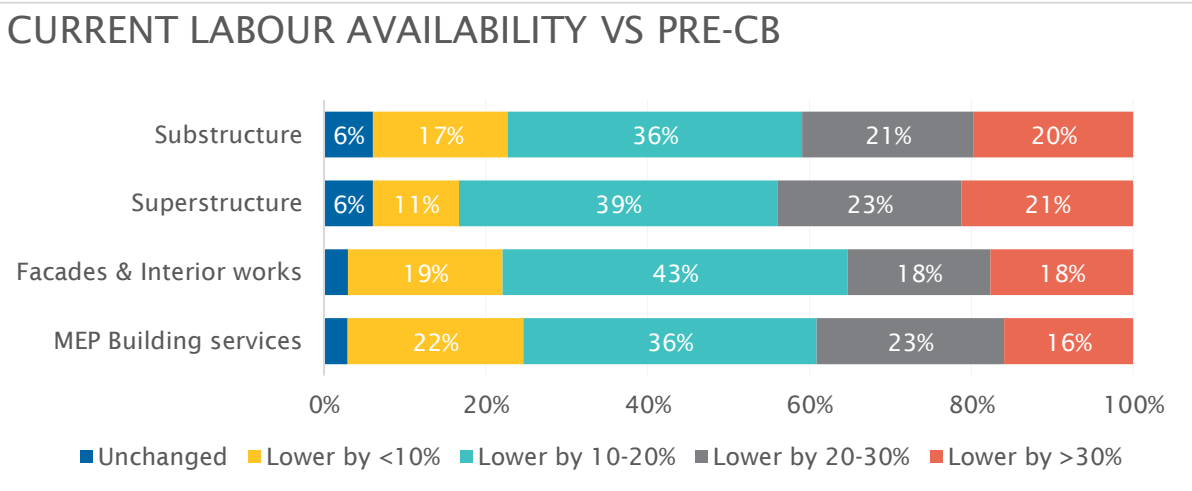
Full Recovery: Majority believe a recovery is some time away, ie, sometime after Yr2022.

The above results anticipate a gradual improvement of productivity which we assume will be closely tied to the respondent’s ability to secure the required labour and future easing of safe distancing measures.



In terms of labour recovery for the major trades, it is noted that responses are very consistent across the board.

Majority of replies show a recovery to pre-CB productivity levels sometime in H2 2021 which may assume incremental contribution from prefabrication and other technological advancements, given that the overall labour force is expected to tighten further from June 2020 levels.



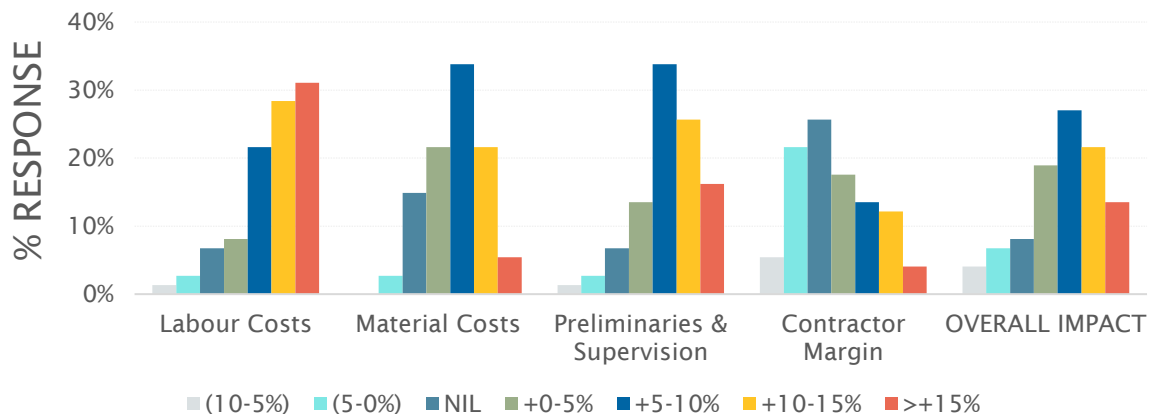
We sought to understand the reductions to labour as compared with pre-CB levels across each of the major trades. The results suggest impacts have been generally consistent with most respondents generally experiencing 10-20% shortfall.

It is important to highlight the COVID-19 remains a fluid situation and constant engagement is required to set realistic programme deadlines.

5.4 FORECAST CONSTRUCTION COST IMPACT

Respondents' feedback on the potential impacts to overall tender prices and more specifically to each of the major cost centres across all sectors of construction is recorded as follows:

TENDER PRICING IMPACTS



MAJOR COST CENTRES IMPACT:

- Labour: ~60% of responses indicate >10% cost increase.

This represents an increase from our initial survey which resulted in ~75% of responses indicating >5% cost increase showing growing sentiment that labour costs are becoming greater than initially anticipated.

- Materials: ~75% of responses indicate 5-15% cost increase

The initial responses indicated ~50% of responses indicate >5% cost increase representing an increase to the initial position taken by respondents.

- Preliminaries & Supervision: ~75% of responses indicate 5-15% cost increase

This has remained consistent since the July 2020 survey and with programme impacts identified above.

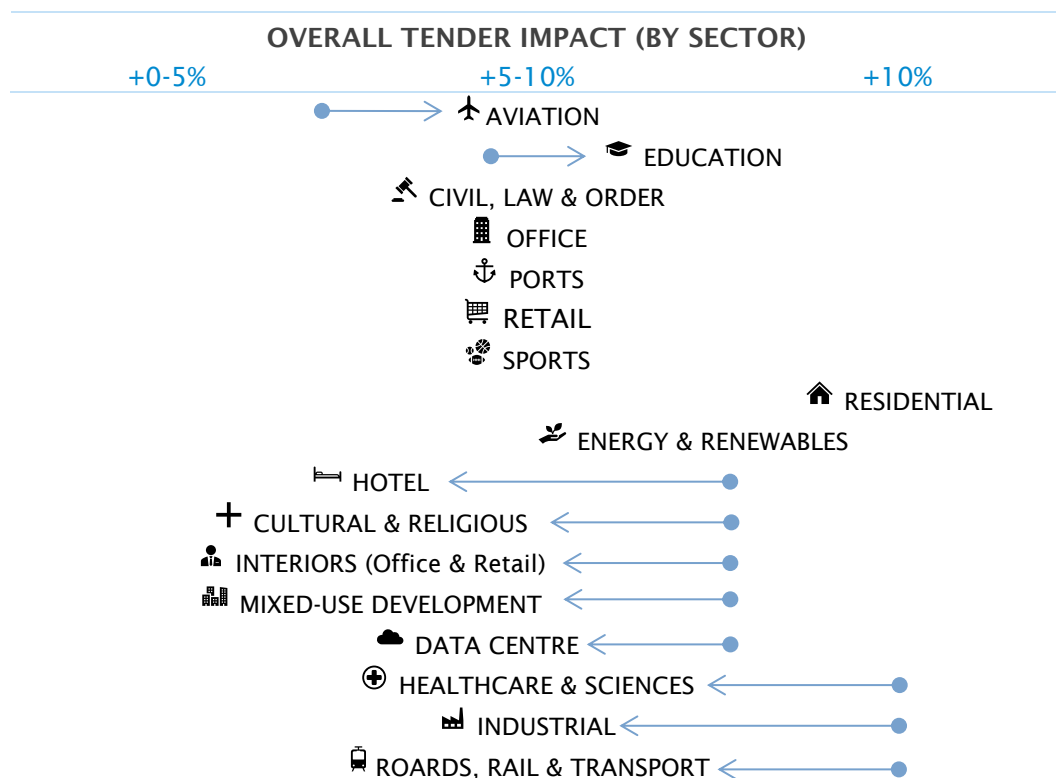
- Margins: quite balanced around being unchanged with a slight shift in respondents seeing reduced margins.

OVERALL TENDER IMPACT DUE TO COVID-19:

- ~35% of responses currently indicate the increase from Covid-19 impacts on total prices will exceed 10% with ~30% forecasting 5-10%.

This has remained consistent with responses in the initial survey.

However, a deeper analysis of the sector-specific responses received indicates the current forecast cost impacts, with the arrows indicating movement from the initial survey, shown as follows:



This is generally becoming more consistent with actual tender pricing being received, as the volume of tendering increases.

WT will continue to engage with the contractors and suppliers to monitor developing sentiments compared with actual tender pricing, to deliver cost-effective solutions in response to market-driven opportunities.

6 TENDER PRICE FORECASTS

Individual project specifics should be considered when reviewing tender price forecasts including, but not limited to, sector, procurement, size, complexity, location and risk. Equally, the volume of work and the amount of work in hand are important considerations for competitive tender price levels that will reflect market dynamics, workload, hotspots and realisable margins. With current uncertainties in the local and international arenas, a more holistic view by experts that can understand the complex mix of macro and microeconomic factors affecting pricing structures is relevant. It is currently a more complex landscape than usual to model future cost movements over the next few years and it should be noted that the feedback arising from this survey is offered for guidance purposes only.

7 DISCLAIMER

WT will not in any way be liable to any person or body for any cost, expense, loss, claim or damage of any nature arising in any way out of or in connection with the information, opinions or other representations, actual or implied, contained in or omitted from this survey or by reason of any reliance thereon by any person or body. This survey provides indicative market information as guidance only and is not business or investment advice with independent professional opinion recommended to be sought in relation to the appropriate construction costs and risk management allowances for individual projects. No representation or assurance is given that any indices, trends or market sentiments produced, used or referred to herein are accurate, without error or appropriate for use by persons.

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