

**CONSTRUCTION  
SENTIMENT MONITOR**



Findings Report Eleven  
March 2010

**Executive Summary**

In this Findings Report, we explore the results of our eleventh Davis Langdon Sentiment Survey.

During the past three months, Davis Langdon’s Construction Sentiment Index fell by a surprising 5 points to reach 61, harrowed by a flotilla of industry concerns. The combination of planning related issues along with concerns over industrial relations made the greatest impact on dragging the index back into negative territory.

The fall in the Construction Sentiment Index is surprising. It suggests a high degree of concern by respondents about the real rate of recovery in the construction industry. Whilst the survey points to a number of concern areas, it also points to a drop in confidence within the industry, questioning whether the private sector will be able to step up to the mark and takeover when the supply of Government funded stimulus projects dry up.

We hope the findings of this survey are insightful for you and we look forward to keeping you up to date with new results again in the second quarter 2010.

**Key Findings**

- Skills Shortages leap 9%
- Civil and Resource sector – most likely for growth
- Concern over Industrial Relations rife
- Planning – knocks the wind from sentiment recovery

**Problems in the Industry**

85% of participants now feel that there are problems in the industry – a slight increase of 4% on our last survey.

The Credit Squeeze, Economic Slowdown & Shortage of Projects remain the most prominent industry woes. However, the level of concern about this slowdown does show signs of easing – dropping a further 5% on the previous period to 34%.

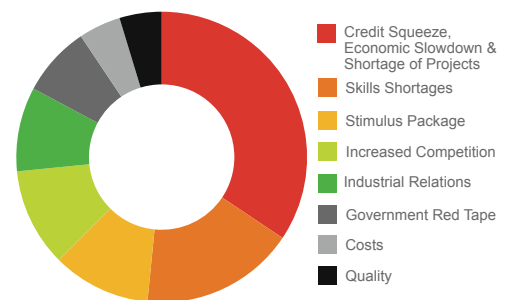
In spite of this, funding obstacles faced by developers and the subsequent ongoing shortage of projects were still the standout issues raised by participants. The industry continued to question whether the private sector will be able to step up to the mark and take over when the supply of Government projects dries up.

Skills Shortages and impending Industrial Relations issues both rose 4% to reach 17% and 9% respectively. These problems were somewhat intertwined as some participants expressed concern that further shortages would create an Industrial Relations climate where the fewer skilled workers pushed wage demands higher.

Cut throat competition among contractors also emerged as a problem – identified by 11% of respondents. There was a perception that too many contractors were locking in low prices on long term contracts and that this may prove unsustainable.

Meanwhile, 11% of respondents still perceive the Government’s stimulus package as a problem (down 4% during the quarter). They pointed to an overheated market and uncertainty about whether this spending – ‘propping up the construction industry’ – could be maintained. One respondent pointed to the recent NSW Metro pull out by the State Government as an example of the impact of funding uncertainty for the industry.

Unlike last quarter, planning obstacles were not referred to specifically, however, more general complaints about Government Red Tape did increase. Several participants also referred to the regulatory problems associated with the Federal Government’s recent home insulation program.

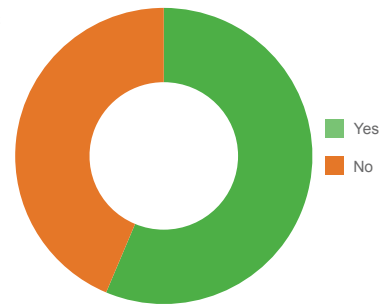


## Stimulus Impact Continues

### Has your business experienced any changes since the economic stimulus package was released?

56% of respondents reported experiencing changes in their business since the economic stimulus package was released, down just 1% in the past three months.

The majority of respondents focused on an increased workload – ranging from a slight increase to extremely busy. Although several also mentioned that this work has started to dry up now. Others talked about a lack of resources and there is ongoing concern about decreased levels of profitability.



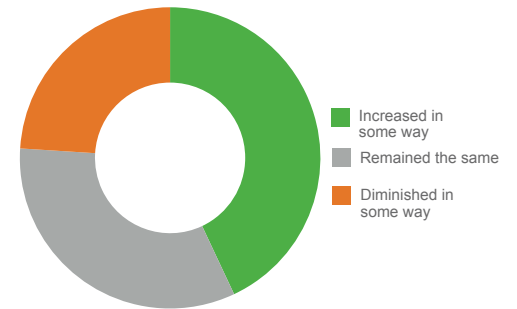
## New Business – On the Mend

### Has the level of new business in your company changed in the last six months?

We are reassured to discover that the level of new business which participants are experiencing is on the increase. Those reporting that their level of new business had increased in some way leapt 12% to reach 43%, indicating a very positive move for the industry.

Similarly, those reporting that their levels of new business remained stable during the past six months remained virtually unchanged at 33% of all responses, down 1% on the last survey.

In a very positive sign for the industry, those reporting their new business levels had diminished in some way decreased by a solid 11%, now accounting for just 24% of responses.

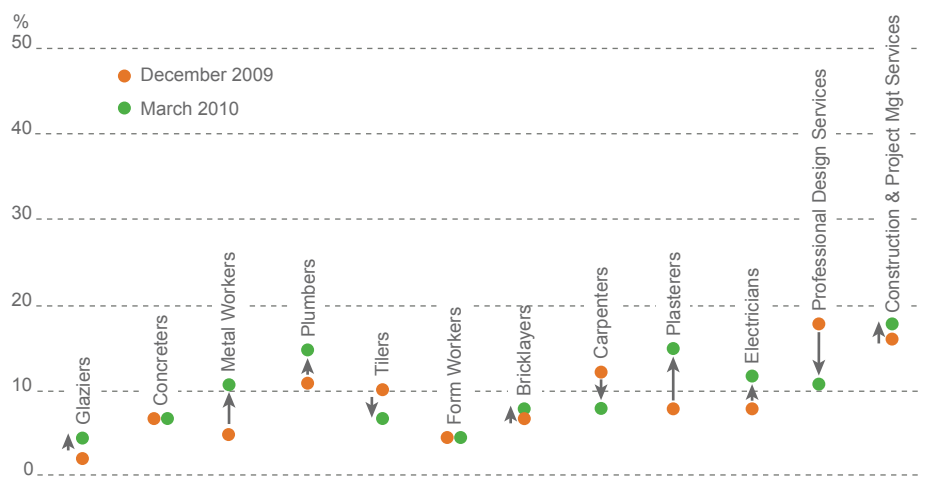


## Skills Shortages – Back On

### Do you feel the industry is experiencing a skills shortage at the moment?

63% of respondents now feel that the industry is experiencing a skills shortage – a 9% leap on last survey. These findings echo other reports such as a recent Department of Education, Employment and Workplace Relations survey which indicated an increase in demand for skilled workers. In response to this industry demand, the Federal Government has appointed a taskforce to consider increased training incentives for employers and employees, as well as more specific measures such as flying in skilled workers to remote construction and mining sites.

In the three months to March, participants reported that shortages have worsened or remained steady across most trades. The three worst affected trades were Plasterers (up 7% to reach 15%), along with Metal Workers (up 6% to reach 11%) and Electricians (up 4% to reach 12%). Plumbers worsened by 3% (up to 14%), while Bricklayers went up slightly to 8%.



Construction & Project Management Services replaced Professional Design Services as the profession experiencing the worst shortfall, according to 18% of respondents. This quarter, shortages in Professional Design Services eased, with only 11% of those surveyed reporting shortages, down from 18% last time.

Tilers and Carpenters were the only other two trades where shortages eased, dropping to 7% and 8% respectively.

Respondents continued to point to short term factors such as an overload of BER work as some of the reasons behind the increased skills shortage. Job uncertainty and a lack of stable work were also blamed as one participant suggested that those in senior roles were often too concerned about their own positions to spend time on training. Another suggested that the industry needed a better long term approach to deal with the considerable number of retiring baby boomers. Respondents also continued to point out that demand and budget cuts had led to a lowering of industry standards.



## Greatest Obstacles in Building Development

### What are the greatest obstacles in the building development process?

One of the most telling questions we ask survey participants is about the obstacles they are experiencing in the development process. We ask them, in their opinion, what the greatest obstacles in the development process are – both now and in the upcoming 12 months.

Overall sentiment toward obstacles in the building development process improved by a hairline during the past three months.

For the fifth consecutive survey **Obtaining Finance** continues to be the number one obstacle in the building development process.

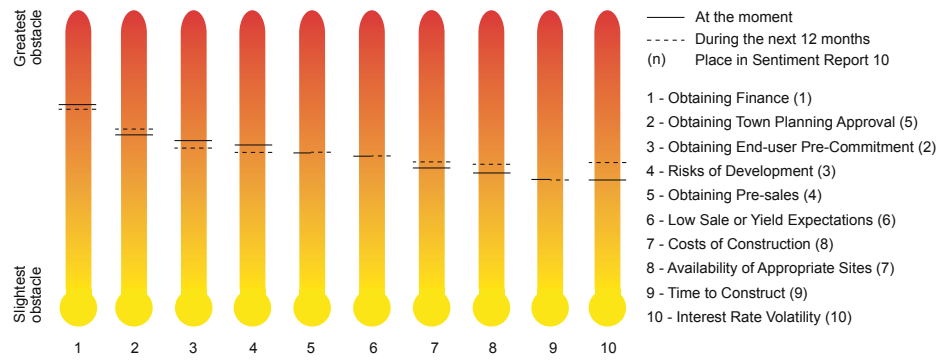
The severity of this sentiment eased subtly since last quarter – in line with participants' previous expectations that the situation would begin to ease.

Participants have again indicated that they expect access to finance will continue to become less of an obstacle during the next 12 months.

**Obtaining Town Planning Approvals** shot up dramatically, to become the second greatest obstacle to development, up three places since last survey (from fifth place). And the worst is yet to come, with the majority of participants expecting this situation to worsen further as the year progresses.

**Obtaining End-user Pre-Commitment** slipped one place, but remains firmly in the top three greatest obstacles – a situation which participants expect to continue to ease slightly as we move into the next 12 months.

**Interest Rate Volatility** remains the slightest concern, however sentiment did worsen in the three months to January. There remains a general consensus among participants that interest rates will become a greater obstacle for the building development process during the upcoming 12 months, with expectations they will worsen significantly.

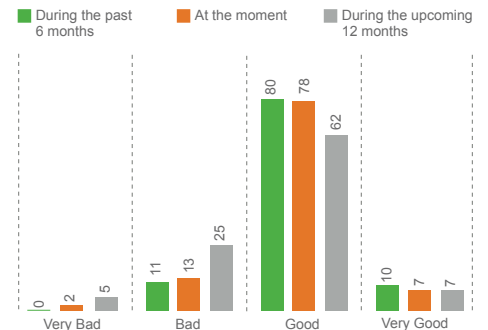


## The State of Industrial Relations

### How do you perceive Industrial Relations in your sector?

Sentiment toward Industrial Relations worsened somewhat during the past quarter. While 85% of respondents agree that industrial relations are Good to Very Good at the moment, this still reflects a 5% decline on last survey. Just 7% believe Industrial Relations are Very Good at the moment (down 3% on last survey).

Expectations for the next 12 months are for worsening conditions, with 25% of respondents anticipating Bad Industrial Relations ahead – worsening by 12% since December.



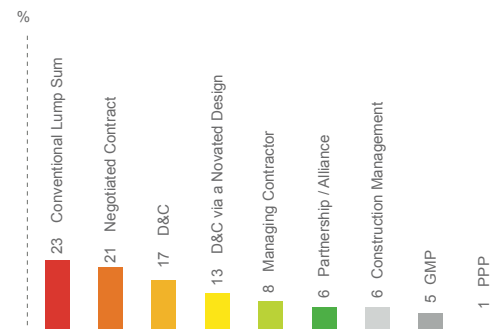
## Procurement Preferences – Safety in Numbers

### What is your preferred method of procurement?

Conventional Lump Sum contracts remain the preferred method of procurement by the majority of respondents, followed very closely by Negotiated Contract, together accounting for 44% of all responses.

D&C via a Novated Design continues to increase in popularity as a preferred method of procurement. It is now the third most preferred method, accounting for 17% of all responses, up 5% during the past three months.

Preference for PPPs as a method of procurement declined a further 3% – now preferred by just 1% of participants and reaching the lowest point since the survey began five years ago.



## Planning – Days Worsen

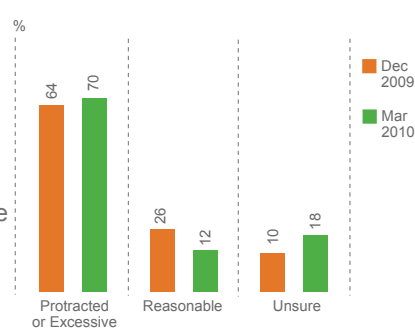
### Is the timeframe for obtaining town planning approvals excessive or reasonable?

The time taken to obtain planning approvals remains an issue for most survey participants, with 70% continuing to experience Protracted or Excessive timeframes. The situation has slightly worsened (by 6%) since our last report in December, when 64% claimed they were experiencing delays.

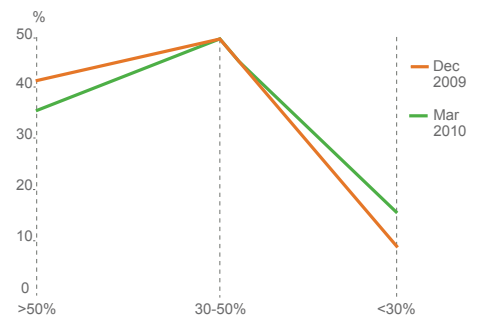
Of those affected, 85% feel that timeframes were Protracted by 30% or more (combining 50% at 30-35% Protracted and 35% at more than 50% Protracted).

There was a worsening of conditions in most states during the three months to March. 72% of participants in NSW and 67% in Victoria felt that planning timeframes were excessive or protracted. This represents a reversal of the trend from last survey, where conditions seemed to be improving in these states.

Timeframe for obtaining approvals



Protracted by how much?



## Competition

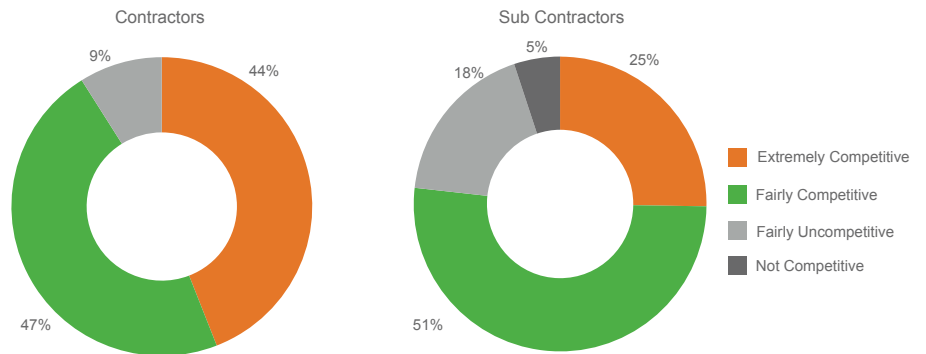
### How do you rate the level of competitiveness at the moment?

As reported in our last survey, the Government's Stimulus Package continues to make a pronounced impact on the levels of competition being experienced by contractors.

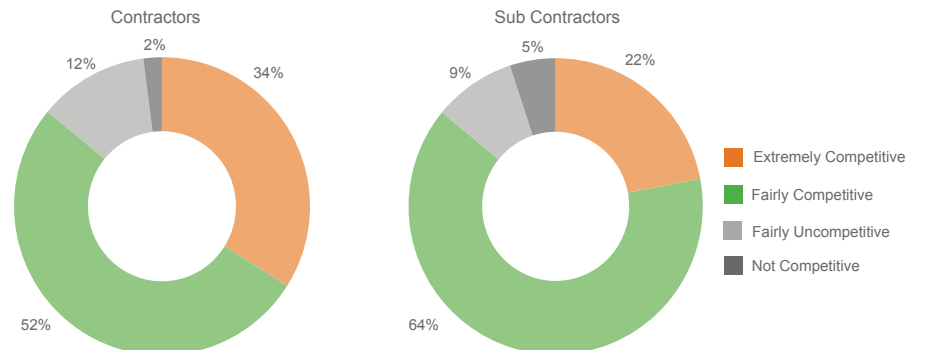
Competition remains heated for both Contractors and Sub Contractors.

Contractors saw seriously worsening conditions this time around, with 44% now reporting Extremely Competitive conditions (up 10% during the three months to March). By way of comparison, Sub Contractors have become slightly less competitive, with 23% of participants claiming they are Fairly Uncompetitive or Not Competitive at all.

March 2010



Last Survey – December 2009



## The Next 12 Months

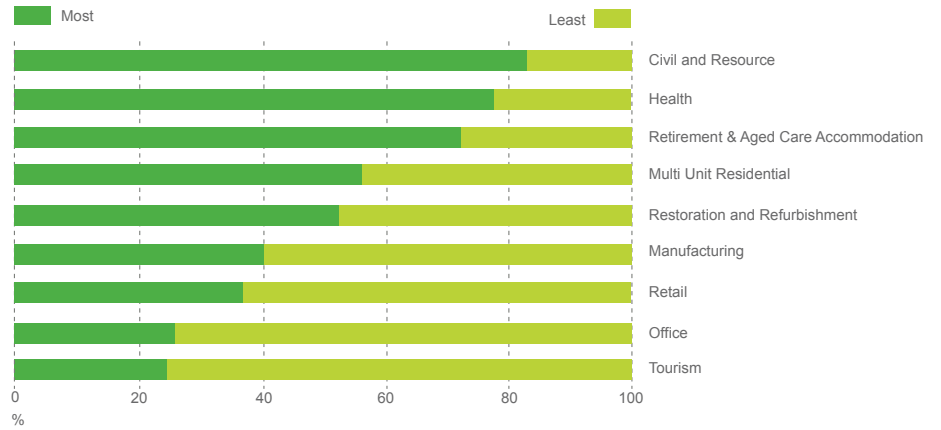
Each survey we ask participants their views about the segments that will contribute to growth during the upcoming 12 months. The Civil and Resource sector remains in top place as the sector most likely to contribute to growth in the upcoming 12 months, now accounting for 83% of respondents.

The Health sector maintained a close second place, with 78% of participants agreeing that it will make a major contribution to growth in the next 12 months (down 1% on last quarter).

Retirement and Aged Care Accommodation clawed back into third place, with 73% of participants highlighting it as the sector most likely to contribute to growth.

Tourism, Office and Retail remain the weakest sectors in terms of opportunities for the year ahead, with 75%, 74% and 63% of participants respectively agreeing that they are the sectors least likely to contribute to growth during the year ahead.

### Which segments do you think will most contribute to growth during the upcoming 12 months?



If you would like to discuss the details of this report further, please contact Davis Langdon's Research Department, by email: [research@davislangdon.com.au](mailto:research@davislangdon.com.au) or by phone: 03 9933 8800

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