

# Building and Construction Industry – Outlook 2014

## Federated Employers Mutual Assurance Company (FEM)



*"We need to ensure that education and construction health and safety play a major role in meeting the country's long-term economic objectives" – Thelma Pugh, managing director, FEM*

### Looking back

The figures released by Statistics South Africa show that the construction industry provided employment for approximately one million people in the first quarter of 2013.

The demand for new construction work remained subdued and the activity, despite being low, gave a modest expectation that it could rebound slowly later in the year. Listed construction company order books have improved in recent months and the feeling is one of renewed optimism for a continued increase in construction activity.

### Outlook for 2014

The doom and gloom of the South African economy is probably overstated and the resilience of the economy has been somewhat overlooked. To reach meaningful growth there will have to be sustained interventions that align the political, financial and infrastructure agendas.

To achieve higher growth the country needs more demand, more investments and more exports, all of which will need to be underpinned by increased productivity.

Whilst the skills shortages in the construction industry were not entirely alleviated by the slowdown in construction activity after the boom of the 2010 World Cup, any expansion of infrastructure development could once again put constraints on skills expansion in the future.

Education and construction health and safety of the existing workforce will become increasingly important. The skills shortage is exacerbated by the ageing profile of South African artisans and the consequent lack of mentorship. South Africa is not training enough engineers, artisans and technicians to deliver on government's current projects, not to mention any future infrastructure roll-out.

Education via apprenticeships and learnerships will be required, possibly through bursaries offered to students wanting to enter the construction industry.

As we seek to increase our productivity and meet the infrastructure demands, we need to ensure that education and construction health and safety play a major role in meeting the country's long-term economic objectives.

## Tiber Bonvec Construction

### Reflecting on 2013

Operating conditions for our company were greatly improved in 2013 with activity levels increasing significantly from 2012. Although general market conditions and competition remained very tough, pockets of opportunities in specialised markets increased resulting in better margins. Areas of growth included large scale specialised warehousing and logistics facilities, and construction of new premium grade offices for corporate companies. Activity around the Gautrain station nodes continues to provide opportunities in the new office and retail market and should be sustainable for the near future.



*"The single most important element in our industry to carry us through 2014 is confidence" – Fernando Cardoso, managing director, Tiber Bonvec Construction*

### Outlook for 2014

The general economic environment remains very tough with very subdued prospects of economic growth. The combination of a slow world economy and continued uncertainty in government policy will contribute to a continued reduction in foreign investment and further hamper growth. Increased costs and prolonged strike activity are further damper to recovery prospects.

Companies will continue to seek opportunities in the rest of Africa where margins are better albeit with additional operational risk. We expect government and parastatal spending to improve, which will relieve market conditions.

We are also confident that increased private spending and a reduced capacity in the building industry will continue to provide opportunities for companies with the requisite skill and expertise, so we are confident of continued improved performance going into 2014.

**Health and Safety** policy continues to be a primary focus and priority for our company with continued emphasis on total compliance and continuous training and upskilling of site personnel.

### Skills and training

We also continue to provide and improve company training programmes for specialised skills. This is fundamental to continuing success as no reliance can be placed on formal industry training which is virtually non-existent.

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Training extends beyond skills and trade training to intensive entrepreneur development programmes for our regular labour-only subcontractors providing them with business skills, thus setting them up to run thriving small business units within our business space. We also continue to support Khuthaza by providing them with office and training facilities, free of charge at our Village Deep facility, assisting them to provide on-going training for female entrepreneurs in construction.

#### **Green building and sustainability**

The demand for rated Green Star buildings is rapidly increasing, especially in the corporate office market and the general awareness for the necessity of future sustainability in the construction industry has improved tremendously in recent times. This trend creates further opportunities for companies who can provide the necessary expertise and skills to undertake these more complex contracts, so this is a sector in which we will continue to expand our footprint.

#### **Operations abroad**

We will continue to focus on opportunities within SA, focusing on being the contractors of choice in our sector. This concentrated approach leads to improved controls and higher standards, thereby increasing efficiencies and providing optimum solutions for our clients.

The single most important element in our industry is confidence. This takes many forms: country confidence, government confidence, world economy confidence, but ultimately confidence in our own companies and our sector. We must have confidence that we can continue to make a positive contribution to the citizens and future of our country.

#### **Performance and Customs Bond Services (PCBS)**

A highlight of the 2013 period was the increase in the number of contracts awarded to small and medium sized contractors. This resulted in contracts having to be repackaged to accommodate smaller projects thereby facilitating the number of emerging contractors being able to obtain performance guarantees and supplier credit. While this is positive, a lot more still needs to be done.

2013 proved to be the most challenging year for guarantee underwriters in recent history. The liquidations of First Tech Group and specifically FT Construction, previously known as Cosira International, sent shockwaves through the entire economy. The impact on subcontractors,

creditors to both Cosira and its various other stakeholders has been understated and the ripple effects will continue.

Industry sustainability remains a major concern for investors with stringent underwriting criteria and pricing imposed by reinsurers. A review of on-demand guarantees by stakeholders in light of the recent court ruling regarding demand guarantees when deemed unfair or fraudulent, will serve as a deterring factor for short term insurers issuing these types of guarantees.

#### **On 2014**

Economic conditions will remain muted. Adding to existing uncertainty is the fact that it is an election year and possible leadership change in key infrastructure departments is imminent.

Policy change in how infrastructure development is approached is necessary to improve operational conditions. Here, optimal usage of PPP and project bonds is required to alleviate the burden on government infrastructure spend.

The success of the establishment of an 'Infrastructure Codesa' will be crucial in addressing construction collusion, repeated government underspend, and procurement policy issues.

PCBS remains focused on improving access to guarantees, supplier credit and construction insurances to emerging contractors.

#### **On construction health and safety**

The safety of all workers and the public at large remains an inherent risk factor. Non-compliance with legislation causes contract delays and places performance guarantees at risk amongst other related insurance products such as liability insurance.

#### **On skills and training**

Understanding the rights and responsibilities created by building agreements, and how the conclusion of these agreements may result in guarantors declining certain risks, is required.

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However, this type of arrangement should not be encouraged as it can lead to disputes and arguments."

Mphomela has also warned property owners not to advance funds to workers or sub-contractors for any reason – a situation that could easily arise when dealing with builders who do not comply with MBA standards. "Advancing monies tends to make the property owner seen as part of the contractor's team as far as finances

are concerned. Sometimes the workers have no idea where their contractor-employer lives or where his place of business is situated. If payment disputes arise, the property owner would then become a soft target and automatically exposed to all manner of undesirable consequences, even threats and personal danger.

"When selecting a builder, don't just consult the classified press advertisements. The bottom line should always be to ask yourself the question: 'Is my builder a Master Builder?'" he states. ■



*"Optimal usage of PPP and project bonds is required to alleviate the burden on government infrastructure spend" – Brian Africa, marketing and business development executive, PCBS*