

2013 Construction Industry Outlook

According to the latest FNB/Bureau for Economic Research (BER) Building Confidence Index Survey, confidence in the building sector has risen from 26 index points during the third quarter of 2012 to 32 in the fourth.



Richard Williams

Richard Williams, CEO of the Gordon Verhoef and Krause (GVK) Group of Companies, says, "The rise in the confidence index seems to be driven by suppliers rather than other sectors of the construction industry. I can't speak for suppliers but it is clear that, as we anticipated, 2012 was the low point of the industry recession. Our view is that 2013 will be as tough as 2012 and that we will have a gradual upturn from there. However, attaining 'normal', not boom, levels of activity will probably take at least two to three years."

Williams explains, "Currently, the main challenge facing the industry is the lack of private sector work and to an extent, the scarcity of government work. Overall, there is a lack of tenders and often long delays in tender adjudication. This is probably largely attributed to the legacy that the new minister of public works has inherited."

"Recently though," continues the CEO, "there has been an increase in tenders in the two critical areas of hospitals and schools. The schools programme is particularly evident in the Eastern Cape, along with some substantial projects imminent in Gauteng and a well-publicised school build programme in the Western Cape."

Government work, however, is still insufficient, particularly in the context of reduced private sector projects. Government is obviously in the best position to boost the industry and employment levels through a significant increase in project delivery, both in the much-discussed Infrastructure Programme and through conventional building projects.

The former seems to be some way off, with colleagues in the industry stating that many of these projects are still in pre-feasibility phase. Our hope lies in the minister's rejuvenation of Public Works and the resultant improvement in the number and timeous delivery of projects."

He adds, "In addition to work shortages is the persistence of suicide pricing from many contractors desperate to obtain work. This restricts the ability of more prudent contractors to secure work, even at very low margins. The unfortunate fall-out has been the liquidation of many longstanding, reputable contracting businesses which has resulted in job losses, cost increases and time delays on partially built projects which have to be completed by other contractors."

Discipline is required

"To survive the current situation, many larger companies are securing work outside of our borders as well as in industries such as oil and mining. This is profitable, but discipline is required in selecting contracts and clients carefully as the risk of non-payment is often far higher than in South Africa. It goes without saying that you have to do your homework carefully in these situations," shares Williams.

He reveals that despite the industry circumstances, 2012 was a successful year for the GVK group in many regards.

"We have been pursuing work in the field of Green Building retrofits and have continued to promote our specialist rope access, asbestos removal and structural repair services. We have also successfully gained more experience in the mining and petrochemical industries, expanded our presence in Namibia to a permanent office in Windhoek and added two more substantial projects to our existing workload there.

In addition, we have been fortunate enough to secure some large contracts around the country with a number of projects exceeding R100 million. While this is encouraging, we are still looking for work in all of our regions to sustain a continuous order book. We are also maintaining our training and bursary programmes in spite of the downturn and have supplemented this with internal programmes presented by our own staff who have specific experience and knowledge which can be shared with colleagues."

The CEO concludes, "In 2013 I hope to see a significant reduction in the rate of business closures and resultant job losses, as well as growth in project volumes from the government sector in particular. I would also like to see higher levels of compliance within the industry and an increase in the entry of students into building programmes at universities and technikons, as well as proper artisan training programmes. To be realistic however, these are not likely in the short term but with commitment from contractors, industry organisations and incentives from government this can change."

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