



AUSTRALIAN CONSTRUCTION INDUSTRY

UPDATE REPORT APRIL 2020

COVID-19: ISSUES & UNCERTAINTIES

Thoughts and perspectives from key industry stakeholders on the uncertain situation facing and prospects for the Australian economy and construction industry in the wake of the COVID-19 pandemic.



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Keeping the Industry Informed

Foreword by James Cameron

Australian Construction Industry Forum (ACIF), Executive Director

This publication is to provide information about what has been happening in different sectors of the construction industry over the past few weeks, and what may be expected over the next few weeks, as Australia and the world deal with COVID-19 pandemic.

The situation has been and will likely continue to change quite rapidly. So it was considered beneficial to seek feedback from some key people in the industry to inform the industry, as well as journalists, government and other stakeholders.

Over the past six weeks, the Australian Construction Industry Forum has been participating in weekly industry roundtables with the Minister for Industry, Science and Technology, Karen Andrews MP, along with representatives from every major industry in Australia. We have also provided comprehensive information from ACIF member associations and the ACIF Construction Forecasting Council to ministerial and departmental staff in between these meetings.

Essentially the issues that the industry is and will be facing can be divided into a number of broad categories:

- **Workforce.** Ensuring the safety and productivity of personnel with social distancing and working from home, and handling the challenges these bring.
- **Supply chain.** Obtaining enough building products and PPE supplies for the industry, and also ensuring the continued manufacture and export of Australian-made products.
- **Cash flow and future work.** Payment times and of course the pipeline of future work is critical for the industry.
- **Government measures.** So far, the Australian construction industry has not experienced a shut down, and various stimulus measures and the JobKeeper program have been welcomed.
- **Education, training, licensing and certification.** These have all been disrupted in various ways.
- **Legal and administrative disruptions.** Dealing with local councils and courts has become more challenging with the current circumstances.

ACIF is working with industry and government to progress these issues. We will keep you informed, and strongly advocate for the interests of the construction industry.



About James

James Cameron is the Executive Director of the Australian Construction Industry Forum, joining the organisation in January 2016. James brought to ACIF strong skills in research, policy and advocacy from roles with Australian Institute of Building and Australian Automobile Association.

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The Construction Industry and COVID-19

By Bob Richardson

Xmirus, Managing Director

The construction industry has been very fortunate to be considered an essential service and a major part of the sustainability of Australia's economy.

I have been asked by the Australian Construction industry Forum (ACIF) to comment on what I have been experiencing within the construction sector recently, and what I expect to see in the near future. As I started to write these comments, being a 'baby boomer' I reflected on whether I had ever experienced anything like this before. The answer is obviously, no.

Nearly 50 years ago, I was a very young worker in the UK in the construction industry. As a result of rising oil prices, wage claims and a miners strike most of industry in the first quarter of 1974 was restricted to three working days a week to conserve coal reserves. Streetlights were extinguished, all advertising lights and signs were banned, television broadcasting was halted each night at ten o'clock and the heat in all public and commercial buildings was turned down. An air of impending doom hung over the nation.

However, the important outcome once normality returned was that the massive production losses and long term unemployment predicted by virtually all economists simply did not materialize. Workers responded to the crisis, worked harder, increased labour productivity and in three days of work were able to produce more than in three days of normal output. The most popular theory to explain why they worked harder was the fear of permanent loss of jobs if companies failed. I suggest that the attitude of Australian workers is now the same.

The Depression in Australia hit the New South Wales economy with great severity. Unemployment hitting almost 32% in mid-1932 and factory output fell 30% in 1930-31. The Government borrowed heavily for public works and had the highest level of public expenditure in Australia, especially because of social services payments. In 1930 the budget rapidly went from a surplus to a deficit. Accompanying this economic collapse, of course, was great social disruption and distress. Many struggled on part-time work or depended on charity or the dole.

For thousands, unemployment also meant eviction. The Government's radical initial plan for dealing with the Great Depression was to maintain wages, use loans to fund public works, create jobs and generate prosperity. The Government sought to create inflation, reduce interest rates, and re-negotiate loans - sound familiar?

Fast forward to Australia in 2020 and the COVID-19 pandemic.

Have we learnt anything from history? I believe we have. Firstly, all governments both Federal and State are to be commended for the measures they have put into place to support the health of the public, but also the general economy including the construction industry with stimulus, social-distancing, shut downs, tenant landlord codes and eviction legalisation. These are radical measures to keep the country going. The similarities between the NSW Governmental 1930's measures and those of today in the current approach is to be applauded. The Job Keeper provision is one of the most important initiatives, as it gives workers the comfort that whatever happens they will still have an income.

One of the most significant measures specific to the industry here in NSW has been the decision to allow 24/7 site working subject to some restrictions on noisy works and the decision to quick start the approvals processes. Sites, workers and their families have been affected directly by the coronavirus, and this has had an impact on productivity. Some sites have closed where individuals have been affected by the virus and cannot open until clearance from NSW Health has been given. However, on many other sites work continues.

Our industry is fortunate in that we are used to having safety policies on our sites. Additional COVID-19 measures taken include:

- Extending working hours to a 12 or 13 hour day from Monday to Saturday. Others have introduced shifts.
- Staggered starts and meal breaks to assist with social distancing
- Limiting on high rise projects vertical movement of workers using hoists
- Introduction of policies for different scenarios to deal with 'sick people and contact with affected people'
- Additional hygiene, amenities, ablutions and lunch sheds
- Advice on social distancing and OHS
- Regular deep cleaning and provision of additional sanitisers
- Liaison with unions and workers on a daily basis
- Working collaboratively with unions to recognise that the health of workers and job security is the focus
- Union restraint in not seeking amended EPA's or premium rates

On the building product supply chain issues, the outlook is becoming more positive:

- China is opening up with ports being cleared
- Contractors are looking to source additional supply of materials, particularly finishes originally intended from Italy
- Material components particularly from Germany may prove a problem for lift and other services needs

There has been a loss of efficiency depending on the stage projects are at, but measures outlined earlier can help mitigate lost productivity. On the sites I am involved in, there has been an impact but overall attitudes and productivity still remain positive. There was a reduction in site workforces for a two to three week period due to confusion over the legislation concerning going to work and some understandable fear of becoming infected or passing an infection to one's family. An increasing number of the workforce are returning to sites and workforce numbers are now increasing to meet the expectation.

The workforce has also embraced the use of technology for mass communications meetings and critical messages via digital platforms. Over the next month I anticipate a gradual positive improvement with:

- Supply chain issues continuing to ease
- Resolution of contractual positions and ambit claims as more knowledge is gained
- Increased support to the industry via government projects
- A return to work in increasing numbers
- An increase in productivity as workers improve efficiency
- A continuing recognition to retain jobs - collaboration between all sectors of the industry is vital
- Innovative uses of technology

About Bob

Bob is Co-Founder and Managing Director of Xmirus, bringing nearly 50 years of leadership and consulting experience, developing strategies for success in the Construction, Property, Infrastructure and Major Global Events Industries. Bob also Chairs ACIF's Construction Forecasting Council.



The Potential Impact of COVID-19 on Construction Levels

By Nerida Conisbee

REA Group, Chief Economist

I will preface this article by saying that there are too many uncertain variables to predict how COVID-19 will impact Australian construction activity. Instead, I will discuss different indicators and factors that have the potential to shape the industry and levels of activity.

Looking at real time search and listings activity on REA Group sites including realestate.com.au, realcommerical.com.au and flatmates.com.au, we can see that there appears to already be some parts of Australia and some sectors that are more immune to the economic fall out than others.

At a geographic level, Canberra is showing positive signs across a number of indicators compared to other cities. Views on realestate.com.au are up, which is in direct contrast to most of Australia. This includes views of existing properties, views of new developments and enquiry levels from first home buyers. While rental listings are rising pretty much everywhere, in Canberra, they are declining. Intuitively this makes sense; total economic stimulus announced is equivalent to 16.4% of GDP and this level of spending requires more people across a range of government departments. With 42% of Canberra's workforce in the government sector, and most other jobs somehow connected, the city is well placed to see strong employment growth from the stimulus measures.

In other places around Australia, we are yet to see any solid data on where or what will be most negatively impacted. However, it is likely that anywhere highly exposed to education, tourism and hospitality will be impacted in the short-term more so than resource-driven economies. Victoria's number one export is education and it is likely foreign student numbers will be curtailed for a while. Pre-COVID-19, Hobart's economic growth story was off the back of tourism, education and hospitality. With Tasmania now shut down to anyone visiting from interstate or overseas, it is likely it will be significantly impacted. On a more positive note, Western Australia could possibly come out of this relatively unscathed due to record levels of iron ore exports and a particularly high gold price.

By sector, tourism, education and retail property construction are likely to be hit the hardest. Right now, the main business for hotels is accommodating returning travelers from overseas for their 14-day quarantine. If COVID-19 can be controlled in the short term, then domestic tourism will resume, however, it is unlikely we will be accepting overseas visitors until a vaccine has been found. Education will be similarly negatively impacted by this with many universities relying heavily on overseas students for revenue. Shopping centres went into this crisis being challenged by low retail spending and a shift to online. This shift to online has been accelerated and most bricks and mortar stores have temporarily closed.





Like retail, office property will be immediately impacted by companies wanting rent abatement and longer term, it is likely to lead to less office space being demanded. Most office-based businesses have been forced to implement work from home policies and we can expect that this flexibility will be seen as more acceptable in the future. Unlike retail, the office sector went into this crisis relatively strong with low vacancy rates.

For residential property, the impacts are likely to be more moderate than for office, retail or hotels. Right now, there is a rental crisis. People highly exposed to tourism, education and hospitality tend to be younger and are more likely to rent. Many have gone from having a regular income to relying on JobSeeker. This situation is flowing through to the investor market with a six-month ban on evictions causing problems for many landlords that are reliant on rental payments to pay off loans, and who find themselves in a difficult employment position. We are seeing strong demand for houses in premium suburbs on realestate.com.au but a corresponding low demand situation in areas with large numbers of rental properties.

This situation in the residential sector has flow on to construction levels. Given that most apartments in the past have been purchased by investors, for now, a continued switch to owner-occupiers will have to occur to make projects viable. House and land, particularly in Sydney, appears to be faring better, but this is because first home buyer enquiry is still well up on last year. Overseas buyers are likely to return but given it may take some time for our borders to re-open, this could be problematic in the short-term.

While there is a lot of uncertainty in the market at the moment, there are some property sectors that are holding up well. Industrial leasing demand remains strong with views per industrial rental listings at a similar level to the same time period last year. Medical related property remains in strong demand and will be an area where we are likely to see strong investment post COVID-19. Another bright spot in the market is rural and agribusiness, which is having a bumper year. Although, it may be in part due to COVID-19, it is more likely to be the breaking of the drought.



About Nerida

Nerida is REA Group's chief economist and one of Australia's leading property experts. She provides market commentary to a wide range of Australian media outlets across digital, print, television and radio. Nerida has more than 20 years of property research experience throughout the Asia Pacific and has held senior positions within commercial agencies and major consulting firms during this time.

Decision Making in Uncertainty

By Alex Sinickas

Alex Sinickas, Engineer

I am reading a book called *Radical Uncertainty*. The *Financial Times* describes it as “an eloquent rant against the faux precision of mathematical models”. It’s authors, ex-governor of the Bank of England Mervyn King, and economist John Kay start with a series of historical anecdotes where the stakes in each decision were high, but models were no help. Most of the anecdotes they choose are pretty grand - emperors, explorers and presidents - but they also present more pedestrian examples for the rest of us. When to retire. Which house to buy (if you’re lucky).

They argue that probabilistic forecasting methods give a false sense of precision, precisely when making a good decision is most important.

This book couldn’t be better timed. We are each now faced with our own high stakes decision, to choose between our health and economy on personal, national and global scales.

Data or Judgement, or Both

King and Kay are right. False precision in modelling is dangerous. However, the alternative to use judgment based on narratives is fraught too. At a time like this, our own biases (good list [here](#)) will be affecting our judgment until we can calm ourselves in this new mode (good paper [here](#)). If we were to use judgement alone, whose should we follow anyway?

Rather than abandon models altogether, it seems a better option to return to first principles, and simply observe the behaviour around us. We see outcomes unfold daily as each country places itself on this spectrum between health and economy, whether on purpose or not. We also see a new wave of epidemiology and economic data. Over time we will build our understanding of these sources, their strengths, weaknesses and drivers. We can certainly model them to inform, but not dictate, our decisions.

Observations From Australian Construction so Far

We can now see that the most fraught decision is not the choice to lock down, but rather the choice to open up. How and when to open up, ramp up, or snap back is the dominant theme discussed by my colleagues, who work mostly in engineering and non-residential design, construction and financing.

My reflection is that this industry is luckier than some in Australia. Construction here seems to be exempt from the most severe lock-down restrictions, and most governments are still holding (or clinging) to their civil infrastructure plans, recognising and spruiking them as critical in recovery.

Engineering and non-residential construction is also lucky in its breadth. It is one sector that services almost all others. When university, cultural and aviation sectors suffer instant and crippling contraction in customers, investment and asset development, the construction industry can pivot to other sectors that are seeing funds and appetite swing their way. Many organisations – private and public – are dusting off shovel-ready projects prepared for the GFC twelve years earlier. The pivot is still uncertain and bumpy, but it is more likely to succeed than some.

A Framework for Continued Observation

This breadth of the engineering and non-residential construction industry has a flipside. It makes the job of understanding, let alone forecasting, construction activity even harder. In order to understand construction, we must understand every sector that it serves. This is an impossible task, even in the good times. Dan Hill writes in his *Slowdown Papers*, that offering up strategies, ideas or conclusions would be like “hurling a PDF at a hurricane”.

Rather than attempt to forecast activity, I present a framework that I have been using to record my own observations. I pegged it out when this crisis started, and I add to it after reading new information or speaking with colleagues. It places four categories against timeframes to recovery:

- People: notes how employment, shortages, training, and ways of working are changing.
- Operations: notes how global and local shutdowns are disrupting or reducing the operational efficiency of engineering and non-residential construction projects.
- Pipeline: notes expected projects and how they might change between different sectors.
- Drivers: notes the key factors that will influence future People, Operations and Pipeline outcomes. I’ll use these as the basis for defining scenarios for future planning.

The notes in it will need validation as we go. I hope it will help you anchor your thoughts as it does me and I welcome your comments.

King and Kay will be pleased to see that there are no numbers, yet.

Please see overleaf for Table 1 - Observational Framework

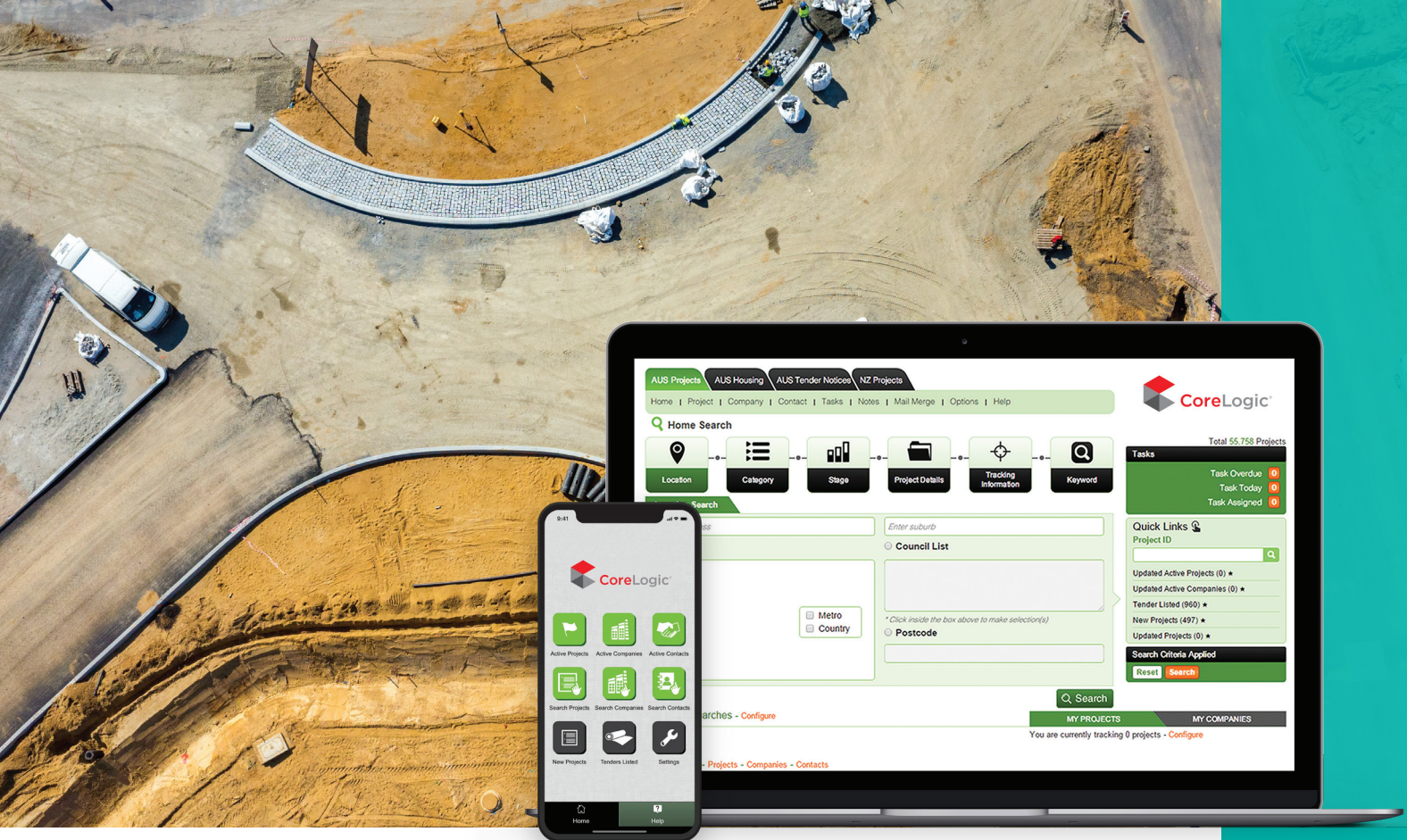
About Alex

Alex is a professional engineer working in business strategy, research and facilitation in the architecture, engineering and construction industry. Her background is in engineering, applied research and finance. Her goal is to help decision makers prepare for change, drawing on the best evidence and methods.



	PHASE 1: CRISIS	PHASE 2: RAMP UP	PHASE 3: STEADY STATE
PEOPLE	<ul style="list-style-type: none"> Forced digital transformation for all sectors. Reduction in workforce utilisation across the industry from social distancing measures on site, remote working for design work, quarantine. Exacerbated disparity for some: those with caring responsibilities, temporary and foreign construction workers. This may further limit women's roles in construction, who are already poorly represented. Company and government behaviour under spotlight. Social acceptance and licence at risk for organisations not protecting their employees and customers. 	<ul style="list-style-type: none"> Increased training requirements to up-skill non construction sector employees to fill gap typically met by temporary visa holders if stimulus projects eventuate. Some organisations (mostly design/advisory) adopting reduced hours approach to allow the to scale back up when needed. 	<ul style="list-style-type: none"> Possible workforce shortages. Possible working pattern and demographic changes by remote working.
OPERATIONS	<ul style="list-style-type: none"> Forced travel restrictions. Contract reviews of major projects. Some elements of construction supply chain affected (e.g. building facades), but not expected to hit for several months. 	<ul style="list-style-type: none"> Possible increased supply costs due to reduced supply levels. Possible quality issues on materials as suppliers rush to meet demand with smaller workforce. High domestic travel, but still low international travel. 	<ul style="list-style-type: none"> Possible increased supply costs due to reduced supply levels. Possible increased requirements for assets and operations to build resilience (e.g. systems and facilities designed for infection control, and for compound shocks).
PIPELINE	<ul style="list-style-type: none"> Hardest hit sectors are consumer facing (international and domestic), privately funded. Other sectors (e.g. roads) releasing of shovel ready, smaller civil projects. Release of strategic and planning phase projects for civil infrastructure including energy, roads, asset management. 	<ul style="list-style-type: none"> Stimulus projects focusing on hardest hit sectors and locations. Possible change in procurement methods and appetites. 	<ul style="list-style-type: none"> Possible change in infrastructure priorities, with projects addressing resilience, supply chain, social, digital and regional infrastructure receiving more investment. Possible reduced international demand, especially in education and aviation.
DRIVERS	<ul style="list-style-type: none"> Duration, intensity and success of public health response and compliance. Depth and length of initial shock. ABS reports firms already seeing effects before social distancing rules in place. Distancing directives for construction workers. 'Survival' package design and roll out including cash flow support for construction. 	<ul style="list-style-type: none"> Timing and shape of 'ramp up' - possible pulsed rather than smooth. Selection of stimulus projects, funding and sectors. Relaxation on international travel. Timing of vaccine or treatment. 	<ul style="list-style-type: none"> Duration and depth of disruption. Social appetite for changed environment, political, social, technological and economic models. Will we value different things by phase 3? Extent of sector transformations and their resulting infrastructure needs (e.g. telehealth requiring better infrastructure).

Table 1: A framework (and some notes) for continued observation.



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Free Construction Lessons That We Learnt While Running Fast

By David Burnell

Australian Institute of Building, National President



In the period since the cancellation of the Australian Grand Prix in Melbourne, the last 5-week period has seen commercial construction transformed by circumstances that we could not have imagined; as we spent much of the summer months coping with the combination of fire, floods and poor air quality that impacted communities around Australia.

As I reflect on the last month, the construction industry has made a significant pivot from 'business as usual,' and we have all been learning to adapt to a completely different set of norms to continue our work. Thankfully the Government has prioritised that construction should continue as an essential service while implementing the COVID-19 guidelines with express obligations like Stage 3 restrictions. Some States and Territories are also implementing additional restrictions that do seriously affect companies located with several cross-border work sites like Albury-Wodonga.

This environment is providing opportunities for leadership and radical business change which has immediately been embraced to keep the economy moving. The reality is that the public needs construction to continue as it employs over 10% of Australia's workforce. Observers outside any commercial construction site don't see or understand that these work places are already highly regulated and well managed. Construction businesses understand a duty of care in the workplace and have developed a full suite of procedures used daily as part of any construction business. Construction workers have regular training and already use site inductions, toolbox meetings and Safe Work Method Statements (SWMS) as part of every working day, so adding:

- A new procedure at the start of the day to check if individual workers are healthy before entry;
- Planning work to be spread over larger areas to maintain social distancing;
- Splitting shifts or staggered start times allowing lunchrooms to have 3, 4 or 5 rotations of use, with cleaning and disinfecting between each use;
- Having work plans that record which teams, are in which zones, to track the immediate contact risks if someone does develop symptoms, so vital information of possible exposure can be shared with the work group quickly;
- A new procedure at the end of the day to check if individual workers are still healthy before exiting;
- This extra level of management and monitoring is possible, and the Government understands it can be implemented quickly because it is so similar to what we must already manage as building professionals.

So, the construction industry remaining at work is not 'a fluke' or 'picking favourites' to retain jobs, but it is just one example of a well-managed workplace that can control all industry trained specialists because it has systems already. You will have seen large changes to site entry signage, along with the typical increase in site management and monitoring for any personnel on site. Consultant teams now have virtual meetings, unscheduled site access has ceased for non-essential visits and sourcing Personal Protective Equipment (PPE) and hand sanitiser in sufficient quantities for all workers to be protected has become an expensive impost.

I am also aware of the restrictions on site materials starting to limit workers in having something to construct if they are able to present for work. So enforced leave, leave without pay, job shedding and team downsizing has occurred in the last two weeks. While Government stimulus and support packages to keep workers on the books has been announced; the detail and timing of this support will already be too late for some industry workers. Larger businesses have already flattened the management layers above direct site management / project management levels and large groups of workers are already on leave with no possibility of work being available when the leave period finishes.

So, the only certainty looking ahead is that things will remain uncertain.

- We must plan for what we know now;
- We must keep our own staff and workforce safe following the Stage 3 restrictions and Government guidelines;
- We must anticipate revenue drops or delays in the future pipeline of work;
- We must monitor the available resources and materials and avoid compounding the problems across the industry by panic buying all available goods for a single project or industry player;
- We should not compromise quality or specified performance in any of the work we are currently completing.

History suggests there will be an end to the restrictions, so use the time now to plan being permanently changed when we get to the other side of COVID-19. You will also have a magnificent 'back in my day' survival story to share with those you lead in the future.

Stay safe and wash your hands regularly.



About David

David is the current National President of the Australian Institute of Building. David has proven experience as a senior construction leader, and has developed and consistently led successful teams. He has a background in commercial and industrial projects gained whilst employed in the commercial construction sector.



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Flattening the Curve: Continuation of Private Property Development for the Sustained Health of the Construction Industry

By Libby Pracilio

KPA Architects, Associate Director / Registered Architect

with input from Graeme Stevenson - KPA Architects, Construction Director

This paper outlines potential issues arising from the cancellation or delay of private sector development projects in Australia as a result of the COVID-19 pandemic and the impact on the Australian construction industry. To address the identified issues government incentives and various strategies for procurement and repayment are proposed.

Challenges

Pre-2020

1. For some small-to-medium sized companies providing project delivery services including architects, engineers and other design-phase professionals, in addition to commercial building contractors and subcontractors (project delivery companies), the climate since the global financial crisis has been uncertain. Following the deceleration in the Australian resources sector many more companies have been caught up in a race to the bottom, putting a huge strain on their solvency. Over the last decade the industry has seen many renowned and long-established project delivery companies from all stages of the delivery chain go into administration and liquidation.

Developments in 2020

2. During January and February 2020 the property and construction industries experienced renewed confidence, with many development projects proposed. However, this quickly changed throughout March and with the economic impacts of COVID-19 beginning to crystallise, the industry has already seen a significant amount of unease in relation to private sector developments. Prospective projects have been cancelled and projects that have progressed into design development and documentation phases have been put on hold indefinitely.¹

Impact on Professional Services Firms

3. Many small-to-medium professional services firms including architects, engineers and other design phase professionals, have not yet had the chance to restore their resilience following previous economic downturns. For those that rely substantially on private sector projects the significant change to their projected cash flow has quickly resulted in the loss of jobs, with further restructuring anticipated². The various government stimulus measures do go some way to addressing this, but whether these firms will be able to endure the coming months and then beyond the duration of the stimulus measures remains to be seen.

4. The timing of the approaching financial trough largely depends on scale, complexity and duration of the projects that are currently in progress. Usually a project delivery company will have many projects running at once, at various different stages of completion, allowing resourcing to be staggered and reallocated as necessary. Individual company structures and levels of resilience will also have an impact. These multiple factors make it difficult to predict a precise point that assistance will become most necessary for any one company or for the industry as a whole. While many professional services firms will start feeling the financial impacts of COVID-19 immediately, the situation will worsen as current projects come to completion with a very limited number of new projects commencing.

5. We would expect this situation to continue until confidence in private investment and borrowing for property development is reinstated, resulting in the recommencement of projects in early stages. Should this take a period of six months with a gradual recommencement of private sector projects, normal project staging and loading of fees/services around the documentation phase of projects would mean that cash flow and increased re-employment would be at least a further four months away; ten months in total. This is an optimistic estimate, but however long the delay, the result is a project 'blackout' period of a number of months that will creep from the beginning of the supply chain through to the end.

Impact on Building Contractors

6. With a very low number of private sector projects in early design phases at present, there will be very low quantities of projects being tendered and proceeding to construction in approximately 6 - 12 months' time. Aside from the resultant unemployment amongst trades and construction professionals, this will put enormous pressure on head contractors and subcontractors when tendering for the few projects available. In similar situations historically and due to Australia's cost-focused tendering culture we have seen head contractors and subcontractors submitting tender prices with extremely low profit margins. This may result in efforts by successful tenderers to recoup costs, having a range of undesirable project outcomes including poor quality of services or workmanship, unsuitable material substitutions, excessive variation costs, late or non-payment, insolvency and disputes. It is important to note that such efforts are not limited to building contractors and could potentially occur at any stage during the project in order to manage loss. Value-based tendering practises may assist in combatting this issue, however this would require a monumental cultural shift.

7. A very optimistic projected timeframe for the commencement of recovery for building contractors would attract a similar estimated delay as above. Assuming:

- a.) An estimate for the recommencement of design services in six months' time;
- b.) Adding the early design phases period of four months;
- c.) A documentation, tendering and approvals phase of four months;
- d.) Plus one month for start of construction work; and
- e.) One month from claim to payment;

then possible recovery would be approximately sixteen months away, or August 2021.

Possible Mitigation

Demand

8. Many small-to-medium sized development projects are deemed to be conceptually feasible prior to commencement. Projects that have been cancelled or placed on hold include those that are considered essential for the community, for example but not exhaustively, aged care, health and neighbourhood retail developments. If they were viable and necessary prior to COVID-19, surely they will still be required during the pandemic and once the threat has passed.

Industry Capacity

9. For projects in early design and documentation phases there is no technical reason why progress should stop during the pandemic. Most professional services firms have excellent remote working capacity to allow design and documentation work to continue. Despite social distancing and shutdowns, construction work is currently deemed essential and is permitted to continue and many statutory authorities are able to provide approval services during this time. Assuming building components and materials are still available, whether locally-produced or otherwise, it seems reasonable that privately funded developments should proceed as planned.

Incentivising Private Developments

10. As this issue starts at the top of the chain, it may be worthwhile for the Australian Government to provide some financial assistance or stimulus for private developers, providing them with additional comfort and incentive to move forward with the projects they had planned. Assuming the incentive is sufficient to allow the projects to recommence and avoid the potential for a significant blackout period throughout the chain, this will maintain the flow of funds, allowing many project delivery companies to continue trading and keeping many individuals employed. Rather than or further to measures targeting individuals, incentivising private developers to realise their proposed developments would have a greater economic impact and would also provide communities with the lasting benefit of the buildings that had previously been deemed necessary and feasible.

Repayment

11. The incentivisation of private development by the Australian Government does not necessarily need to be a unilateral outlay of funds and there are various possible ways to structure schemes to recoup the initial expenditure. Below are several potential structures for project procurement and repayment of funds, each assuming a development incentive in the form of government funding with no or low initial interest.

- a.) Procurement via a modified public private partnership, with repayments to be made by the developer from sales profit, or from expected profit based on independent valuation, or via rental return or operating fees.;
- b.) Procurement via an alliance methodology (gain share/pain share), with all project delivery companies to be paid for costs only (no margin) or very low profit margin for the duration of the project. Upon completion and sale of the project, profits could be either:
 - i) Split proportionately between the government, developer and project delivery companies; or
 - ii) The government funds plus agreed percentage repaid and the balance of the profits shared between the developer and project delivery team.
- c.) The government becomes a joint venture partner with the developer during the initial project stages. Once private investment confidence is restored or at a nominated project phase, the developer would repay the government in return for its interest in the project.

12. Each scenario has various levels of risk and reward associated, as well as commercial and contractual specifics to be resolved in detail. The intended outcome from each is to keep money flowing through the development chain, resulting in many companies continuing to trade, meaningful employment for many people, realisation of projects for communities and financial returns on government expenditure. Subject to various project-specific factors and based on normal project durations, a possible period for partial or full payback of government funds could be 3 - 5 years.

Summary

13. The construction industry accounts for over 9% of Australia's workforce³ and the potential impact of the economic fallout from COVID-19 for both project delivery companies and individuals working in the construction industry is dire. Given that the industry is able to provide service continuity, it is imperative that early design phase and documentation phase projects continue during this time, so that disruption throughout the supply chain is minimised. Incentivising the continuation of private sector developments is one way of mitigating the significant risks and potential devastation faced by the industry during this tumultuous period, while providing benefits to companies, individuals and communities. There also appears to be significant opportunity for reimbursement of government funds, which is of notable benefit to the nation's long-term economic recovery.

About Libby

Libby is a Registered Architect and Associate Director at KPA Architects, as well as an active member of the Society of Construction Law Australia. As an experienced project leader she works on project strategy through to detailed technical challenges and has a keen interest in dispute avoidance and resolution.



1.) See, eg, Association of Consulting Architects Australia, Pulse Check No. 2 - Preliminary Results (2 April 2020) <<https://aca.org.au/article/pulse-check-no-2-preliminary-results>>.

2.) Ibid.

3.) Australian Government, Labour Market Information Portal – Construction (3 February 2020) <<http://lmip.gov.au/default.aspx?LMIP/GainInsights/IndustryInformation/Construction>>.



