Western Cape construction industry outlook for 2019

By Allen Bodill

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As we head into a new year, there are a number of factors which are likely to impact the amount of work on offer in our region and the resultant profitability of the general building contracting fraternity.

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Election apprehension

Chief amongst the factors impacting the industry is likely to be the level of confidence in the months leading up to the next general election to be held this year. As we have seen in previous cycles in the run up to elections, many businesses and private individuals adopt a 'wait and see' attitude, leading to a general slump in demand for construction services.

Tightened belts

The increase in the interest and VAT rates during the latter part of 2018 has also affected the consumer's ability to afford to purchase or build new properties or to renovate and improve their existing homes. Added to this is the looming threat of possible further downgrades by the international credit rating agencies. Should this occur, it will bring with it increased risk of further interest-rate rises, which will inevitably reduce the affordability for an already financially stretched and indebted consumer base.

Property market correction

A correction in the local residential rental market has also seen significant pressure being brought to bear on the achievable rentals of both freestanding homes and apartments, which has led to a rethink amongst developers, as well as 'buy-to-let' investors in this market segment, given the reduced return on investment due to lower achievable rental revenue streams. The supply of well-positioned residential apartments, in particular, looks set to exceed the demand in the upcoming months, putting further downward pressure on developers' and investors' returns. This has been exacerbated by the increasing cost of utilities, with water and electricity at the forefront of the property owner's and tenant's challenges.

In the commercial sector, the rising popularity of online shopping is likely to affect the demand for further new retail space going forward, which will likely impact the amount of work available in the area of new commercial building and its associated new tenant installation work.

In a similar vein, the rapid advance in computerised technology has also served to disrupt the demand for commercial office space by enabling employees to work remotely, thus reducing the demand for traditional office environments and this trend is likely to escalate going forward.

Many of the abovementioned factors are also an issue for the industrial market, with demand for new factory and warehousing space primarily being driven by the state of the economy.

No-go from government

It also appears likely that the national and local government departments will be cautious about putting out new construction works in the current economic climate. Reduced activity from this sector is likely to lead to the contracting firms that are traditionally engaged in this market space turning their attention to other sectors. This will inevitably lead to increased competition on tenders for the work on offer in the private-sector market.

Taking these factors into account, the local construction contracting market will likely need to hunker down for at least the first half of this year. The prevailing market conditions will also need to be considered during the negotiations around the new collective wage agreement for the formal building industry in our region which are currently underway, with the new agreement due to come into force on 1 November 2019. However, a 'silver lining' exists for those developers and investors who have the courage to commit to projects in this depressed climate, as they are likely to get exceptionally competitive prices from the entire construction supply chain. The MBAWC will also continue to strive to assist its members wherever possible in these uncertain times.

ABOUT THE AUTHOR

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