

MEMBER SURVEY: FEBRUARY 2011

Master Builders South Africa (MBSA) stated in early December 2010 that the South Africa's building industry is in crisis. MBSA believes the situation is so serious it decided to convene an urgent building industry crisis summit for the 9th February 2011 to address the crisis. It has been caused by a variety of inter-linked factors, resulting in a severe reduction in the volume of both residential and non-residential work flowing through to builders.

Jean-Marie Talbot, the President of Master Builders South Africa (MBSA), which represents the MBSA membership of more than 4 000 contractors and affiliates, predicts further job losses in the industry this and next year because of the unusually difficult trading conditions.

Talbot said the building industry was facing a multi-faceted problem caused by several factors, with the credit crunch, municipal infrastructural blockages that reduced the number of developments taking place and a lack of skills in various municipalities all playing a crucial role.

To inform understanding of the context and as input to the Summit MBSA surveyed the opinions of members. The survey elicited an excellent response (some 200). The information could be very valuable for future benchmarking and regular repeat surveys. The objective (inter alia) was to verify the importance of the Building Industry in the Economy and more specifically the important role of the MBSA membership.

The survey therefore attempted to quantify with reasonable accuracy the approximate turnover of MBSA Members and the numbers of Employment opportunities provided. Input was also obtained regarding the Current and expected short-term future State of the Building Industry as well as the Strategic Issues impacting the Industry and the likely Strategic Actions that could improve conditions within the Industry.

The Building Industry is a large system comprising some R159 Billion in 2010 split between Residential, Non Residential and Additions and Alterations as well as a large component of Unrecorded Additions and Alterations. The Private Sector accounted for 58% and the Public Sector for 42% of activity thus confirming the importance of synergy between the two sectors for the health of the industry. Investment in Construction (Civil Works et al) amounted to some R173 Billion in 2010, thus Building and Construction together amounted to some R332 Billion of Investment. This is a large system, it has critical mass, and it has momentum and a good future. It plays an important role in the economy of South Africa and is an engine for growth and wealth creation.

It is estimated that the 3500 strong national MBSA Membership (excluding affiliate Members) accounted for some R108 Billion of this activity in the form of Contracting and Subcontracting building and provided for some 200 000 Employment opportunities from unskilled labour through to Artisans, Foremen and Project Managers as well as Owner/Entrepreneurs and Professionals.

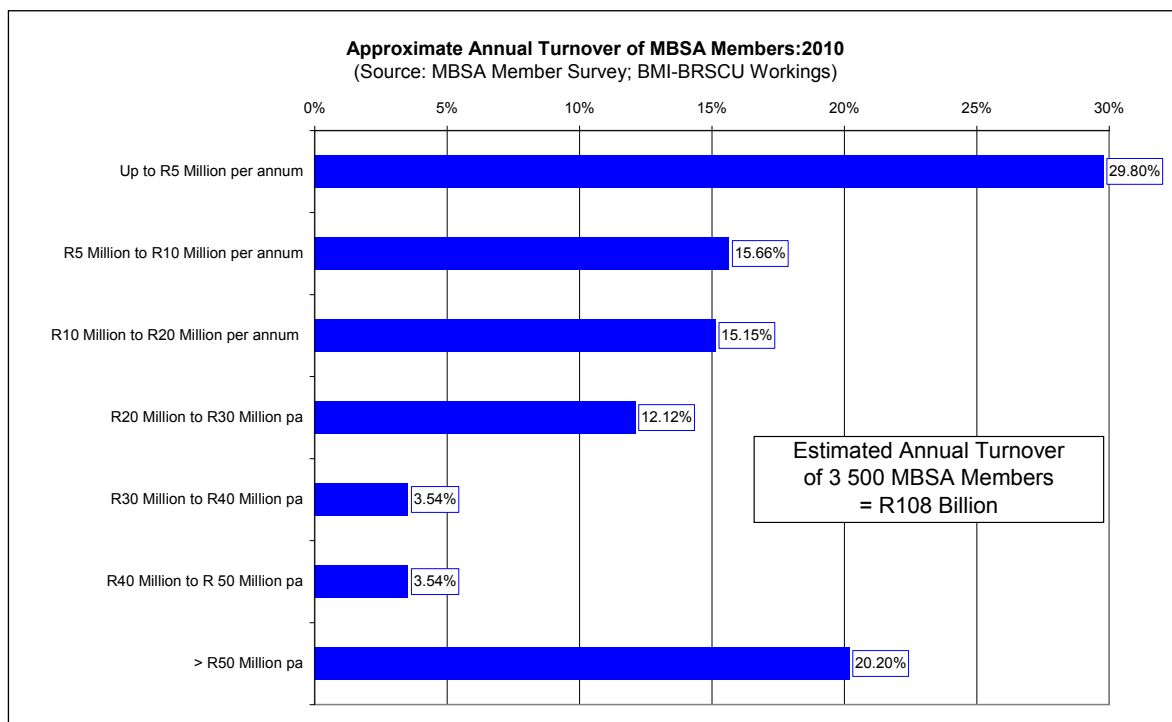
The MBSA respondents estimate that building activity in 2010 was much lower (5-10% lower) compared to the same period in 2009.

MBSA respondents estimate that building activity in calendar 2011 will be lower by up to 5% than calendar 2010. Thus it can be concluded that the Industry is no longer in crisis but the recovery could be slow and long.

Respondents identify a number of Strategic Issues negatively impacting the State of the Building Industry, with the three most negative the poor Service Delivery by Local Authorities and Provinces, the (in)ability of Clients to obtain Mortgage Financing and Delayed Payments bedeviling Cash flow.

Members also identified the most important Strategic Actions that could stimulate growth in the Building Industry as the Promotion of Home Ownership and Property as a Preferred Investment, the relaxation of strict lending practices by the Financial Institutions and the adoption of a proactive Industry Leadership role by means of a compelling Vision by the MBSA. In the following paragraphs the survey questions are analysed to provide some insight into the context of the Building Industry environment.

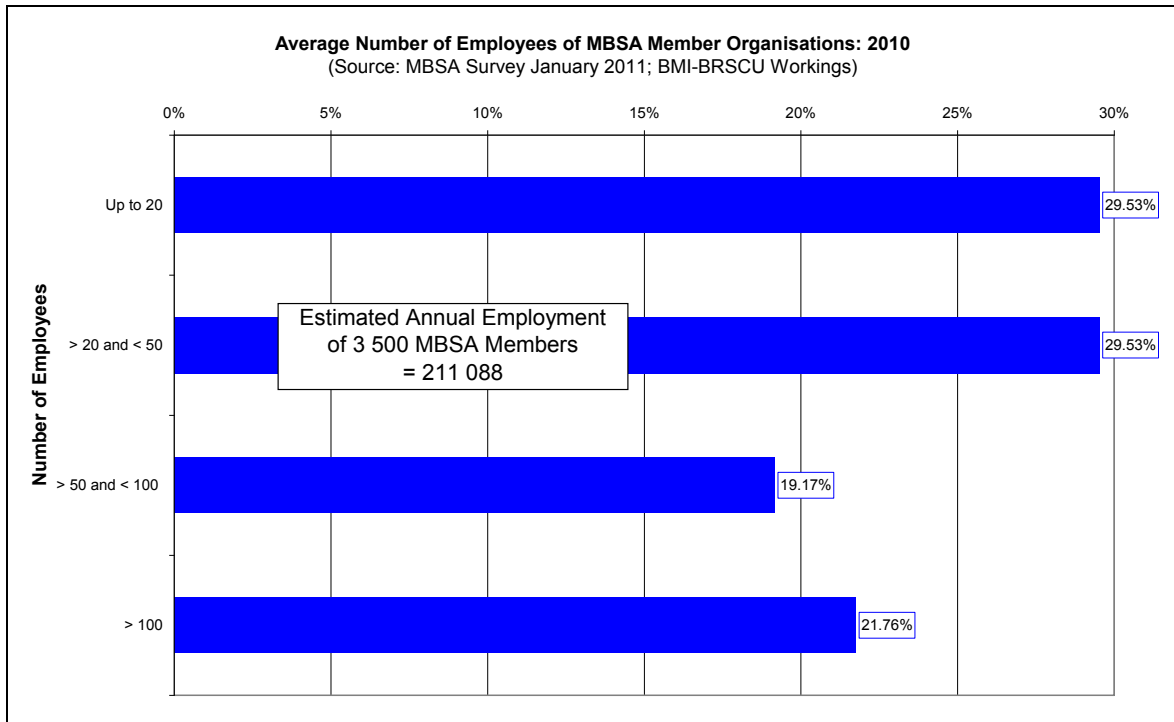
1. Please indicate (X) the approximate annual turnover of your business



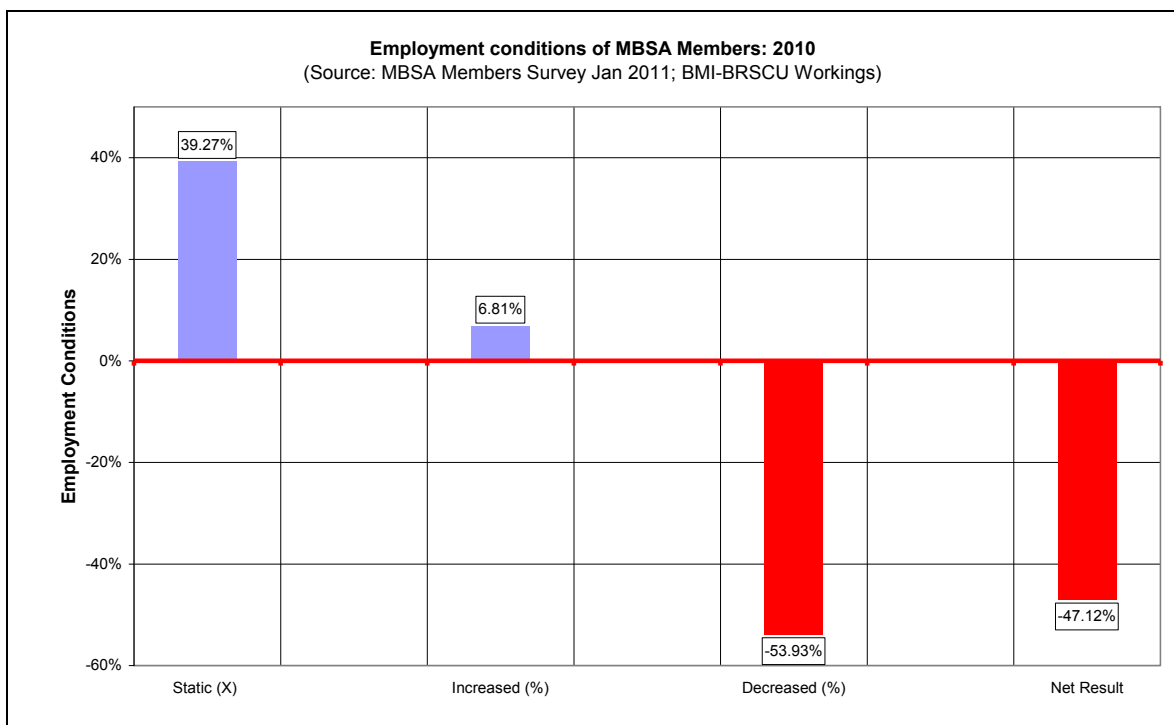
The majority of MBSA Member Companies (29,8%) are small, with turnover less than R5 Million per annum. In fact some 80% of the Companies could be regarded as small to medium enterprises with annual turnover less than R50 Million. However, some 20% of the MBSA Members have turnover in excess of R50 Million.

When the information is extrapolated it is estimated that the 3500 members of MBSA could have a combined turnover in excess of R100 Billion annually. The MBSA Membership are therefore very important Stakeholders in the Building Industry.

2. Please indicate (X) the average number of Employees and whether Employment remained static, increased or decreased over the past year (2010) (Specify %)



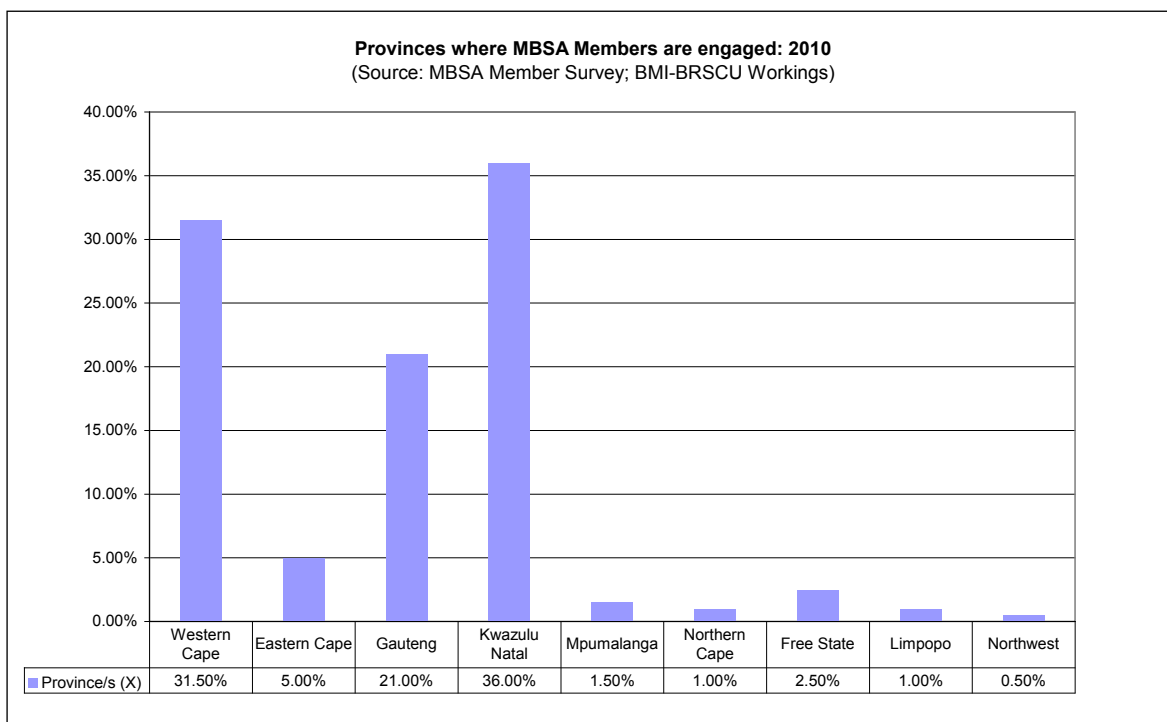
Some 78% of the respondents employ less than 100 people. Nearly 22% employ more than 100. On this basis it is estimated that the MBSA Membership provides employment for over 200 000 people (not including employment by informal subcontractors for outsourced work). It is again verified that small to medium enterprises in the Building Industry are important providers of employment.



In this question the respondents were also asked whether Employment remained static, increased or decreased over the past year (2010). A net 47% indicated that employment decreased and this is indicative of the response to the decline in Building Activity with organizations cutting costs by retaining only the most essential and skilled workforce.

The decreases in employment were prevalent in all the size categories with the most attrition in the companies employing more than 100 people.

3. Please indicate (X) the Province/s and main City/Town where your Company is engaged.



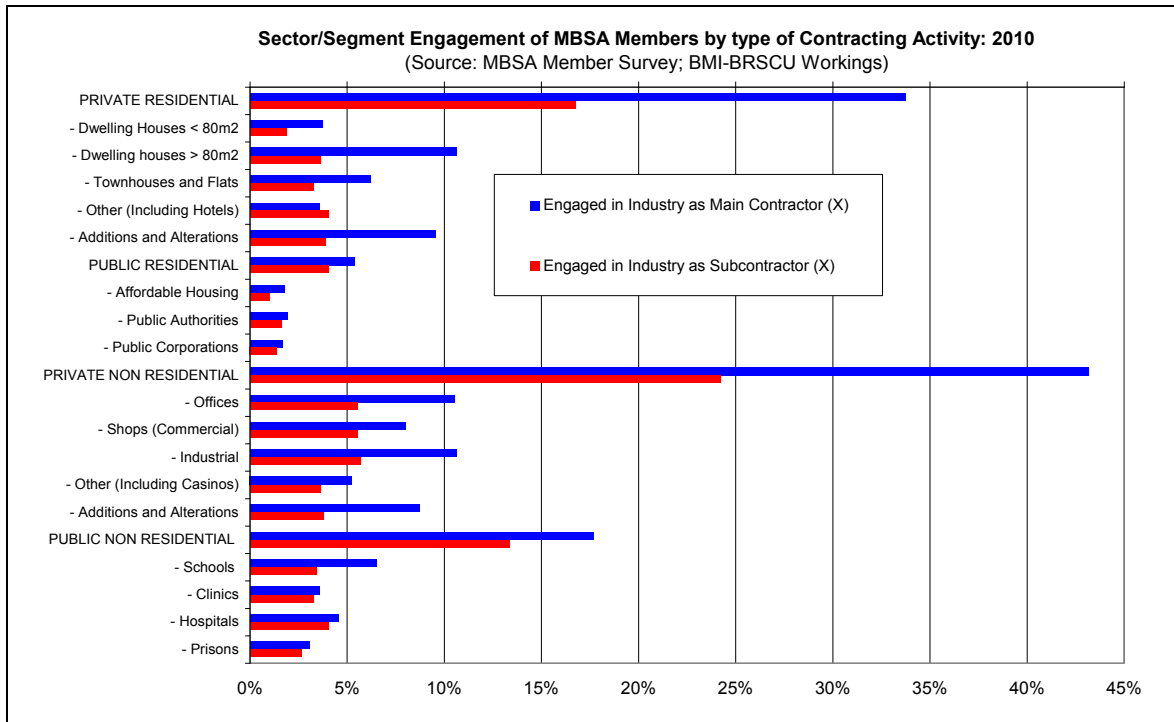
The MBSA Membership work nationally across all the Provinces but according to the respondents the main areas of operation are in Kwazulu Natal, followed by Western Cape and Gauteng.

This is a counterintuitive result because the average Provincial split in Total Buildings Completed (BC) for the period 1993-2009 is Gauteng (35,67%) followed by Western Cape (26,67%) and Kwazulu Natal (19,75%). It would of course be dependent on the sector and segment mix within which the Contractors operate and the opportunities presented in each by Province. This indicates a degree of opportunistic surveillance of the Industry and strategic adaptability of focus.

4. Please indicate (X) the Sectors/Segments of Building Activity where your Company is engaged in and whether as Main Contractor or Subcontractor.

The majority of Companies surveyed operate across many of the Public and Private Sector Segments of the Building Industry, either as Main Contractors or Subcontractors.

This supports the view that the Industry is adaptable and flexible, spreading their risk in many cases by operating nationally and across many segments and sectors, depending on where the opportunities are best.



	Engaged in Industry as Main Contractor (X)	Engaged in Industry as Subcontractor (X)	MC	SC	T
PRIVATE RESIDENTIAL	33.75%	16.77%	64.72%	35.28%	100.00%
- Dwelling Houses < 80m2	3.73%	1.89%	64.29%	35.71%	100.00%
- Dwelling houses > 80m2	10.65%	3.66%	72.64%	27.36%	100.00%
- Townhouses and Flats	6.22%	3.28%	63.38%	36.62%	100.00%
- Other (Including Hotels)	3.60%	4.04%	44.83%	55.17%	100.00%
- Additions and Alterations	9.54%	3.91%	69.00%	31.00%	100.00%
PUBLIC RESIDENTIAL	5.39%	4.04%	54.93%	45.07%	100.00%
- Affordable Housing	1.80%	1.01%	61.90%	38.10%	100.00%
- Public Authorities	1.94%	1.64%	51.85%	48.15%	100.00%
- Public Corporations	1.66%	1.39%	52.17%	47.83%	100.00%
PRIVATE NON RESIDENTIAL	43.15%	24.21%	61.90%	38.10%	100.00%
- Offices	10.51%	5.55%	63.33%	36.67%	100.00%
- Shops (Commercial)	8.02%	5.55%	56.86%	43.14%	100.00%
- Industrial	10.65%	5.67%	63.11%	36.89%	100.00%
- Other (Including Casinos)	5.26%	3.66%	56.72%	43.28%	100.00%
- Additions and Alterations	8.71%	3.78%	67.74%	32.26%	100.00%
PUBLIC NON RESIDENTIAL	17.70%	13.37%	54.70%	45.30%	100.00%
- Schools	6.50%	3.40%	63.51%	36.49%	100.00%
- Clinics	3.60%	3.28%	50.00%	50.00%	100.00%
- Hospitals	4.56%	4.04%	50.77%	49.23%	100.00%
- Prisons	3.04%	2.65%	51.16%	48.84%	100.00%
Total	100.00%	100.00%	47.69%	52.31%	100.00%
Total	198	198			

The two most important sectors of involvement of the MBSA Members surveyed is in Private Non Residential (65% as Main Contractors and 35% as Subcontractors), followed by Private Residential (62% as Main Contractors and 38% as Subcontractors).

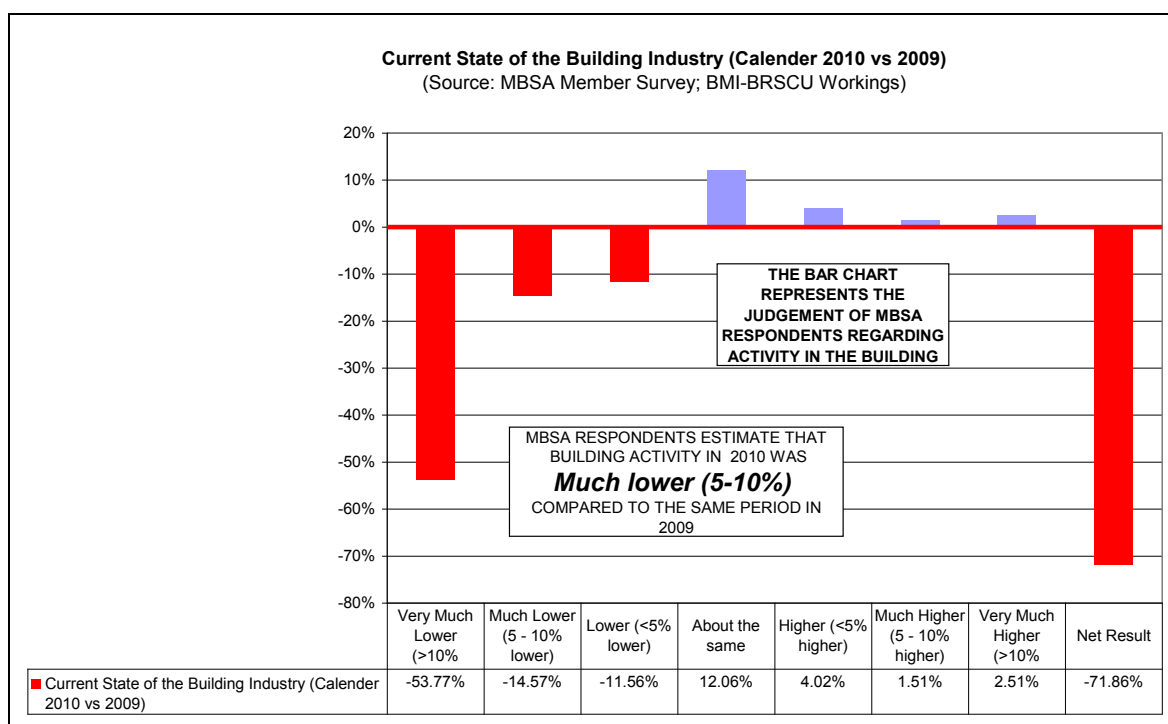
The most important segments of involvement in the Private Residential Sector are Dwelling Houses > 80m2, followed by Additions and Alterations and Flats and Townhouses. Both Dwelling Houses > 80m2 and Flats and Townhouses have taken heavy strain particularly because of the strict lending practices of the Financial Institutions following the introduction of the National Credit Act and this has undoubtedly had a negative impact on Contractors and Subcontractors.

In the Private Non Residential Sector the most important Segment focus has been on Industrial and warehousing followed by Offices, and Additions and Alterations. This sector is not affected by the lack of Mortgage Advances because they are invariably financed by Institutions. This again illustrates the strategically opportunistic nature of the MBSA Membership in focusing their strategies on the segments of most promise.

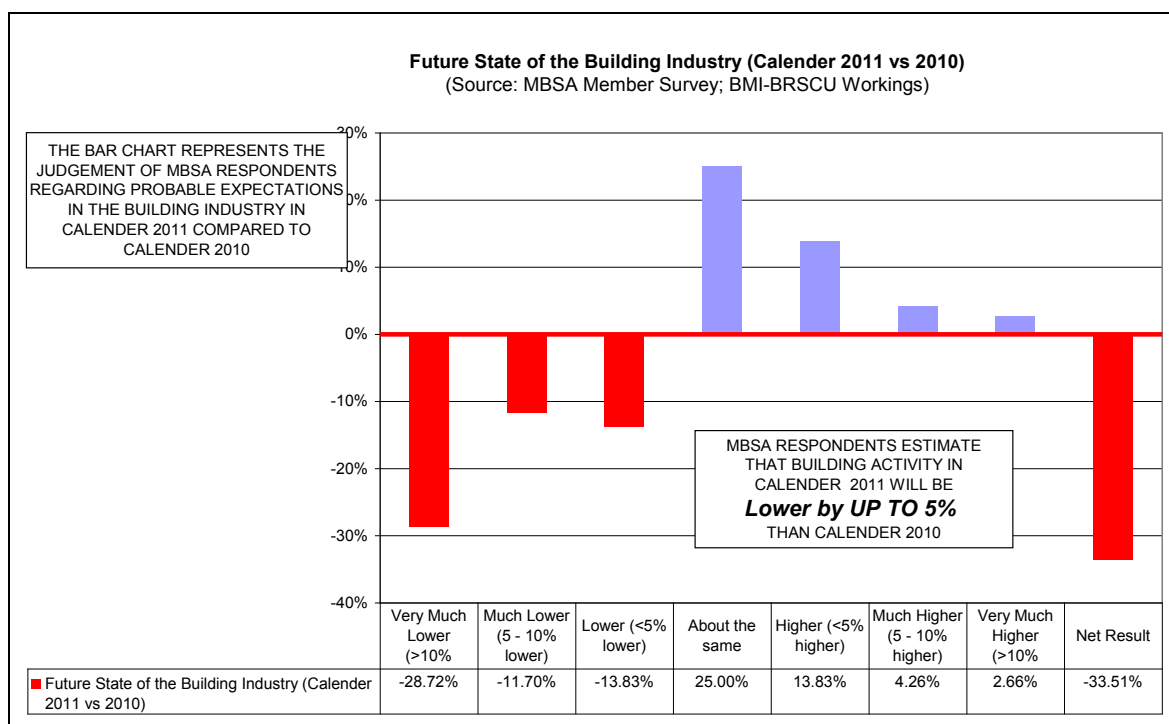
The involvement of the MBSA Members surveyed in the Public Non Residential Sector is 55% as Main Contractors and 45% as Subcontractors, and in the Public Residential Sector it is 62% as Main Contractors and 38% as Subcontractors. The most important segments of involvement in Public Non Residential are Schools followed by Hospitals, Clinics and Prisons. Of course this sector has been affected by the flow of funds from Government and Provinces and is also bedeviled by cumbersome processes and slow payment. In the Public Residential Sector the most important Segment focus has been on Public Authorities followed by Affordable Housing and Public Corporations. It is evident that the MBSA Membership surveyed has a low level of exposure in this sector which confirms that it is a difficult sector to service efficiently and profitably and the problems of bureaucracy and slow payment makes it an unattractive segment to all but the most determined.

5. Please indicate (X) your view on the CURRENT and FUTURE State of the Building Industry.

STATE OF THE BUILDING INDUSTRY	Current State of the Building Industry (Calender 2010 vs 2009)	Future State of the Building Industry (Calender 2011 vs 2010)
Very Much Lower (>10% lower)	-53.77%	-28.72%
Much Lower (5 - 10% lower)	-14.57%	-11.70%
Lower (<5% lower)	-11.56%	-13.83%
About the same	12.06%	25.00%
Higher (<5% higher)	4.02%	13.83%
Much Higher (5 - 10% higher)	1.51%	4.26%
Very Much Higher (>10% higher)	2.51%	2.66%
Net Result	-71.86%	-33.51%
Mean	2.13	3.07
Interpretation	Much Lower (5-10%)	Lower (<5%)
Total	100.00%	100.00%



MBSA respondents estimate that building activity in 2010 was much lower (5-10%) compared to the same period in 2009. This compares with a decline of some 20% in Private Sector Buildings Completed in 2010, mitigated to some extent by growth in Public Sector Investment. This of course comes on top of two very bad industry declines in 2008 and 2009. The global financial crisis was ushered in by the sub-prime Mortgage crisis originating in the USA and in South Africa this evidenced in the steep decline in Mortgage Advances from 2007 coinciding with the introduction of the National Credit Act in 2007. This resulted in a rapid decline in Mortgage Advances in 2008 and 2009 (some R233 Billion was withdrawn from circulation) and the impact on the Building Industry was equally devastating.



As far as the Short-term future (2011) State of the Building Industry is concerned, MBSA respondents estimate that building activity in calendar 2011 will be lower by up to 5% compared to calendar 2010.

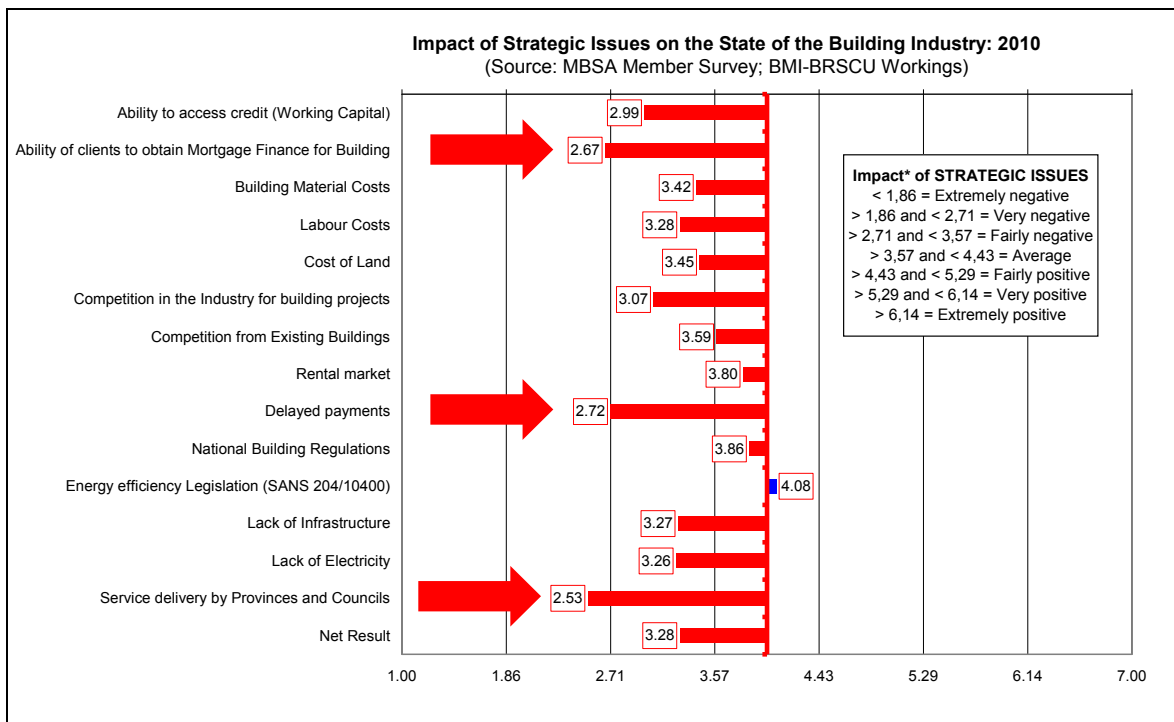
At this stage it is evident that Building Plans Passed (BPP) has turned the corner and is growing steadily. However Buildings Completed (BC) lags BPP and is expected to follow the recovery and to start growing towards the third and fourth quarter of 2011. There is a large negative gap in the Net Building in the Pipeline (NBIP = BPP-BC) which increased progressively from the trend-break which occurred from 2007. Historically these two series have been closely correlated from 1993 to 2007 and for sustainable growth to occur the gap will have to close first and the two series run concurrently again. At the same time there is a 12-18 month lag between Residential and Non Residential BC and Non Residential BC is still on the way down and will recover later than Residential.

It is also common knowledge that Public Sector Building comprises some 42% of total Investment in Building and the health of the Industry depends on the synergy in spend between the two sectors.

It is hoped that Public Sector Investment will flow more readily and in particular that the building of Affordable housing (via the subsidy mechanism) will be accelerated. In this regard it has been variously reported that some 5 million houses have to be built by 2020

to eliminate the housing backlog and to cater for population growth. If this can be achieved it would result in an Investment in Sustainable Housing Settlements of some R1,4 Trillion over this period (including the accompanying Non Residential component). Needless to say if this can be achieved together with Public Non Residential it will result in a positive trend-break that could usher in a high road scenario. The fact is that a relaxation of stringent credit criteria combined with sustainable Public Sector Investment will lead to a virtuous cycle that will benefit the Industry and the economy generally and contribute to job creation.

6. Please indicate on a scale of 1-7 your view of the major Strategic Issues impacting the State of the Building Industry. (1 = Extremely negative; 2 = Very negative; 3 = Fairly negative; 4 = Average; 5 = Fairly positive; 6 = Very positive; 7 = Extremely positive)



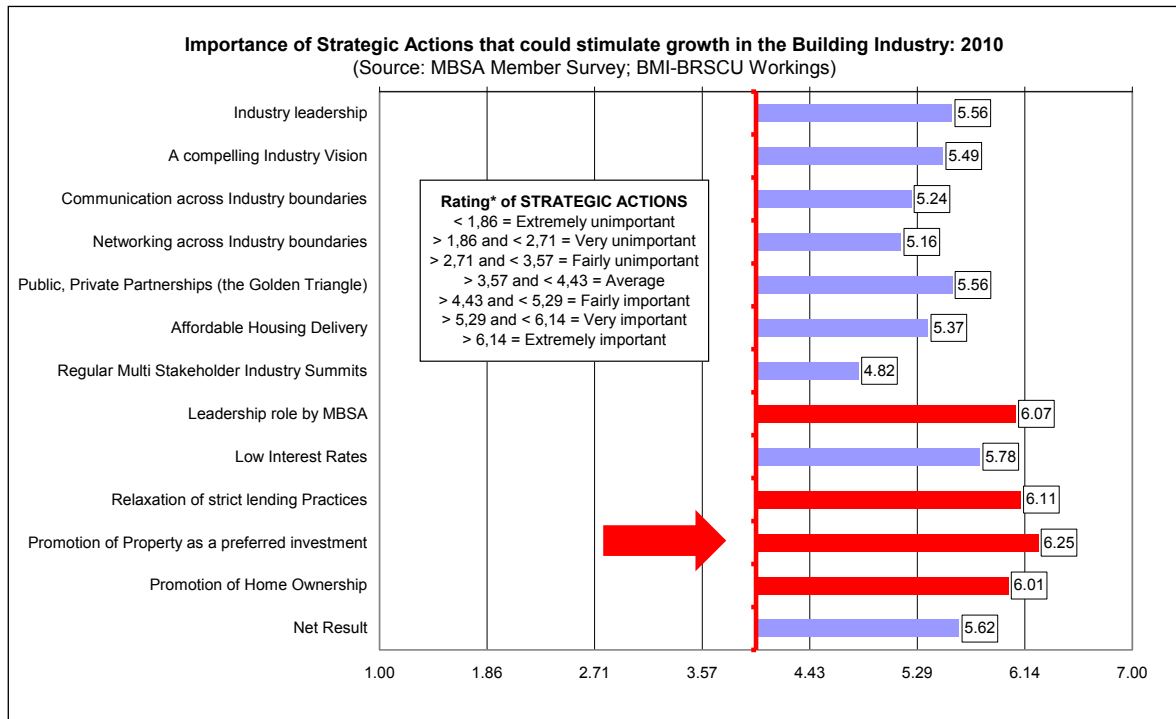
There are a large number of Strategic Issues that impact the Building Industry negatively. The respondents rated the three with the most negative impact as Service Delivery by Provinces and Councils, Delayed Payments and the (in)ability of Clients to obtain Mortgage Finance for Building.

The ability to access Credit for Working Capital is also a serious impediment. Various studies worldwide (including this one) have confirmed that the most Employment is created by small to medium enterprises. Yet these enterprises struggle the most to obtain credit and very little to nothing is done to encourage the development and growth of this sector of the economy.

As illustrated earlier it wouldn't require a major miracle for the Building Industry to recover and to develop along a high road scenario, in the process contributing to growth and wealth creation.

7. Please indicate on a scale of 1-7 your view of the IMPORTANCE of major STRATEGIC ACTIONS that could be taken to stimulate growth in the Building

Industry. (1 = Not at all important; 2 = Very unimportant; 3 = Fairly unimportant; 4 = Average; 5 = Fairly important; 6 = Very important; 7 = Extremely important)



There are a large number of Strategic Actions which the Industry could initiate and coordinate to stimulate growth. The above graphic confirms the positive view of the respondents that much can be done to stimulate growth and many of them are so-called “soft” issues related to leadership. However it is common knowledge that these “soft” issues become the hard critical success factors in the implementation phase.

The most important factor as rated by respondents is the promotion of Property as a Preferred Investment. This fundamentally affects the Investment Climate which is a core driving force of change. However for this climate to result in Property Delivery, it has to be supported by the second driving force, Investor Confidence.

This driving force is related to the second, third and fourth most important Strategic Actions as rated by respondents, namely the relaxation of strict lending practices, leadership by the MBSA and the promotion of home ownership. However it does appear as if the Banks have lost their appetite for the long-term nature of mortgage lending and they have turned their backs on Home Ownership and specifically “Buy-to-Let” mortgages. Simultaneously there appears to be a developing mind-set in favour of promoting rental rather than ownership. This does not bode well for the Building Industry which thrives in an ownership culture.

Of course this could have unintended consequences since Residential Properties are not supported by Institutional Investors. It is primarily Private Sector driven and if financing dries up Investment will inevitably follow. This could result in a dearth of Rental Properties which will inevitably result in increases.

Currently there are some 12,8 million homes in South Africa with Home Ownership at about 80% and an estimated value of R3,8 Trillion (land excluded). This is some 2,9 times the value of Non Residential Property which is estimated at R1,3 Trillion. The stock of buildings are regularly upgraded and refurbished in a 5-7 year cycle and every time a

property changes hands it is a trigger for renovations. This confirms the assertion that Property represents the wealth of the Nation and it is imperative that this heritage be preserved and promoted.

Outstanding Mortgage Advances amounts to some R1000 Billion. The market for existing houses is reflected in a dynamic real estate industry, with mortgage advances and re-advances on existing buildings totaling an estimated R250 Billion in 2010 (down from R384 Billion in 2007). Mortgage advances for the construction of new buildings is estimated at about R10 Billion in 2010 (down from R29 Billion in 2007).

The fact is that the future of the Housing Industry is fundamentally dependent on the strategy of the Financial Institutions. They play in all the quadrants of the Stakeholder matrix and they make the rules of the game. For this reason it is extremely important for the Building Industry to adopt a similar strategy focused on promoting multi-stakeholder relationships, networking, communication and collaboration in a win-win scenario.

It is evident that the Building Industry is not a captive victim of circumstance. It is a “hot-spot” industry and potentially an engine for growth and wealth creation. Its destiny is in its own hands, but it requires a pro-active approach based on transformational leadership, a compelling vision, a collaborative mind-set, cross boundary networking (the Golden Triangle comprising Private and Public Sectors and Labour) and the productive capability to deliver on the needs of the Country. The Building Industry must develop and promote a compelling vision based on Building as an Engine for Growth and Wealth creation, Home Ownership and Property as a Preferred Investment. This is the leadership role which can and must be appropriated by the MBSA.

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