

Contractors in construction enjoy sellers' market

Contractors in construction are having a banner year with demand high and the pick of a slew of new projects, according to a report by the London-based consulting firm [Davis Langdon](#).

Industry Is Growing

One reason for this prosperity is growth. According to the report entitled "Market Forecast" and authored by Andrew Fordham, the construction industry has been growing for the past two years. In 2006 the construction industry had grown in real terms by 29% since 1994 and by 20% since 1997. In 2007 the industry is expected to have grown by a further 3%.

Equally important, the new-build market is growing. In the past five years the new-build market has grown by 18% in real terms, providing work on site worth an additional £10bn.

Sellers' Market

"As a result, the industry has become much more of a sellers market, with contractors having more choice over the work they take on and more power to dictate contractual arrangements," Fordham says.

Fordham points out that builders are having trouble finding contractors to work on projects that involve greater risk, or which are too complex. Contractors just don't want to bother, or they demand a healthy boost in fees.

Contractors Have The Bargaining Position

In effect, Fordham says, contractors have the bargaining position and can decline work on the basis of previous contractual arrangements or on rates of return that would not long ago have been considered the norm. Driving this is the fact that the number of principal and trade contractors with the experience, resources and expertise to take on large projects is limited.

This has created an environment in which the competition for personnel from a limited pool has become intense. And so, all of these factors are giving contractors an excellent position in which to demand the kind of high fees and rewards that were not possible a few years ago.

Obviously the Olympics is one of the major projects that is driving up demand for contractors. But private construction is also booming. According to the report, since the beginning of 2007, the value of new orders for construction work in London has been running at a level one-third higher than 2006. Every sector has grown sharply since then, but none more so than the private commercial side, where development has been racing to take advantage of the mismatch between available space and tenant demand. At the same time, more than B#1bn of new orders were received by contractors last year for private housing, the report says.

At the resource level, although the influx of overseas labour has eased some of the severe shortages pre-2004, surveys still reveal skills shortages in some areas. The report shows that the demand for manpower often means contract labour moves on in the middle of a job for better rates elsewhere. Greater problems now exist at management level, in both contracting and consultancy.

Skills Shortage To Grow

All of the resource problems look set to stay for some time to come. Most industry commentators think demand will continue to grow for at least the next three years and probably through to 2012, according to the report.

Some final good news, according to the report: The latest forecast from the Construction Products Association predicts a further 12% rise in new-build output in real terms by 2009 by another £8bn at today's prices.

So if you are considering going into contracting in construction, one could hardly choose a better time.

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