

BUILDING IN THE 'PROFITLESS BOOM'

Builders, developers and subcontractors in the construction industry have never been busier yet never more at risk of going broke due to rapidly declining profit margins.

The boom has been caused by the pouring of hundreds of millions of dollars from Federal and state governments into the property and construction industries to counter the negative impact of COVID 19. They have done this in the form of incentives and grants to buy, build, renovate homes for first home buyers and investors as well as businesses.

The banks have also taken advantage of the historical low cash rates and the availability of near free money and have been 'shovelling' money out the door with more relaxed lending policies and loan incentives like cash-back offers. The lenders have also brought in loans which vanished during the Global Financial Crisis; loans like competitive low doc, no doc and high LVR loans.

These factors are the main instigators of the rocketing property prices and massive demand on builders to develop, renovate and build.

The Profitless component of construction has swept over the industry like a tsunami; fixed priced building contracts have locked in profit margins for builders which have become eroded during the construction by skyrocketing overseas material prices and massive shipping and transportation costs. As the industry turned to local suppliers and manufacturers their prices have also gone through the roof as well as very long delays in production and delivery mirroring the overseas prices and delays.

This price rises and delays have worked to significantly erode the profit margins of the building projects, COVID restrictions and the lack of trades have led to even slower completion timeframes delaying claim stage payments for builders. The delay of stage payments has put massive stress on companies' cash flows.

These factors have already caused builders of every size to falter and in some cases fold and this trend is looking like continuing. The impact to volume building companies which operate under a wafer-thin profitability model but with massive turn over would face even more pressures than the smaller builders that can pivot and change more easily.

Therefore, the relentless demand from public and private clients for construction services works to tempt builders into taking jobs which carry high risks in the current environment. Companies need to recognise that this year does not need to be a continuation of the previous and there are ways to capitalise on the easy and cheap availability of money whilst mitigating the risks.

Setting up financial safety nets is an easy way to ride through the cash flow challenges whilst targeting profitable markets and industries which will continue through lockdowns and the ongoing COVID challenges.

Contact Chocolate Money for Lending Advice as well as to discuss challenges and solutions to your personal and business financial pressures.

Contact Chocolate Money on 1300 137 539 or [www. Chocolatemoney.com.au](http://www.Chocolatemoney.com.au)

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