

Václav Matyáš, SPS: Excess demand over supply disappeared, builders will have to respond

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The latest statistics of SPS point at a decline in construction production of about 5% in the first 6 months. At the same time, however, there are rumours of a large price drop - has this decline occurred?

This is a good question. I have to say our statistics have not seen any price movements and their impact on the construction volumes. However, I wouldn't say the prices of construction work have dropped dramatically. We would rather say they are stagnating, definitely not growing. But the claim may be underpinned by the visible decline in the selling prices of new flats. This has to be distinguished; the prices of construction work are an important component of selling prices, but not the only one. And the same is true of the prices of construction work when building transport infrastructure.

But - many property developers are quite content with the current situation. They talk about trends, finally with real competition, they talk about a decline of offer prices by 10-20%?!

I can exclude that. We're monitoring the prices based on data from the Czech Statistical Office and Eurostat and this data certainly doesn't show any such price slump. In addition, the margins of construction firms in land construction are currently at about 2-3%, so there is not even the room needed for any such price declines. And if it occurs, we are talking about dumping prices. Some firms may be going in this direction, trying to overcome the current dire situation, but it is a way to hell and bankruptcy.

Well, then differently - this decade, the prices of construction work have grown by tens of percent. To some extent it was a response to the high margins of property developments and a high demand among them. And the manufacturers of construction materials responded in the same way. Are we not in the stage of dissipation of this price bubble, is not the market of construction work getting back to the normal situation?

The world after the crisis will be definitely different, many things have to change a lot. Two years ago, the demand really pushed prices upward, and the suppliers naturally and in line with the market responded to the overall market condition; it was an actual opportunity for margin growth. I don't want to talk about an overheated construction sector, but the strong demand really had an impact on the prices of construction work. All of this has changed rapidly; all figures, for example the number of newly launched residential projects, are pointing at a visible decline in construction activities. This excess demand over supply disappeared and the builders will have to respond - save on their costs, search for reserves in their economy.

In addition to prices, property developers often also complained about the quality of work of builders. As a matter of fact, they are complaining all the time. A short time ago, architects and property developers talked about the "very bottom of the construction sector" in connection with a specific luxurious residential project. Is this about to change?

Let's get back a bit. In the 1990s, our construction sector took a new technical and technological breath. Many posh buildings were created, proving the skills of the construction sector in the Czech Republic. This was all possible thanks to the top-quality engineering base in the sector and skilled workers. But times goes on and things have changed. The domestic sources of workforce were not sufficient any more for the

high demand, which we talked about a while ago, so it was necessary to use the help of un-qualified workers, usually from abroad. Of course, this was visible in the quality. This is a global problem and is associated with the general social climate - everybody wants at least a final certificate and, even better, a college diploma, crafts are not so popular. The outcome is that vocational education in construction has almost vanished in our country. The construction sector and SPS are responding but it is obvious that we have a lot of catching up to do. And it won't be easy. We are also concerned about the year 2012 a bit, when the German and Austrian markets will open up for our workforce. This could deepen the deficit of high-quality skilled workers, because these countries are also lacking them.

But isn't it a chronic, really global problem? Building trade, it usually means hard physical labour, "outdoors", even in winter, in summer, and in developed market economies the social reputation is not too good. Isn't the dependence on the import of workers from less developed countries something we have to count on as a constant feature?

We have to make a distinction. Yes, the construction sector will not do without a shovel, a pick and a wheelbarrow, today and in the future. We will probably need foreign help in this regard, no matter what. But many other works on construction site require highly qualified personnel, sophisticated technology and construction equipment that requires demanding professional education; and this field has undergone dramatic changes. Many building professions are quickly shifting from blue to white collars. We can see a chance here, we want to present our industry to the public in this light, to inspire interest among the younger generations - but, of course, it is a long way to go.

Won't the ongoing crisis help in this respect, more efficiently and quickly?

Definitely, unqualified workers are disappearing from construction sites. We are not looking at the "nationality" of construction workers, but it is clear that domestic firms will focus on domestic workforce more. On the other hand, it is necessary to emphasize that many foreign builders have coped with new technology easily and in many cases have offered better performance than domestic workers.

It seems a bit that our builders can only lament. Some time ago about a lack of capacities, people and materials, today about a lack of contracts?!

Definitely not. SPS evaluated the previous boom positively, but two or three years ago we were already pointing at the fact that it might not last forever, the economy always develops in cycles. And we are not complaining today, either. On the other hand, we're appreciating the steps of the current government and trying to contribute to an improvement of the existing difficult situation. For example by taking a pragmatic approach at the tripartite negotiations, where we don't want to aggravate the conditions even more and often concede, as employers.

Is the property developer - builder relationship, often so hostile, changing in any way during the crisis?

I wouldn't talk about hostility, but yes, it was not good in many cases. Especially where the customer was really extremely tight in the project's economy when dealing with the construction firm. And combined with strict control over technological processes, this could create emotions and tension. But I wouldn't say that these were principal matters, it helped the projects as such. However, exaggerated and inadequate requirements by some property developers, for example on finishing works, guarantee terms and guarantees - were a different thing, and they had nothing to do with the quality of the final work. We are therefore striving for a legislative specification of general commercial conditions, for limiting the practice of supplier credits and for improving the payment discipline of our customers.

Do you think you will be successful?

The question is, what direction these issues will take. Construction firms were willing to accept to these conditions, unfavourable for them, when, figuratively, the reservoir of work was full. But I really don't know what will happen now, when it is empty.

I would almost dare to predict that the relationships between property developers and builders will not improve much?!

I would be optimistic. Last year we already started consulting some problems with property developers, for example how to give an impetus to residential construction. And we're thinking about setting up a special expert group for the builder - property developer relationship in SPS.

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