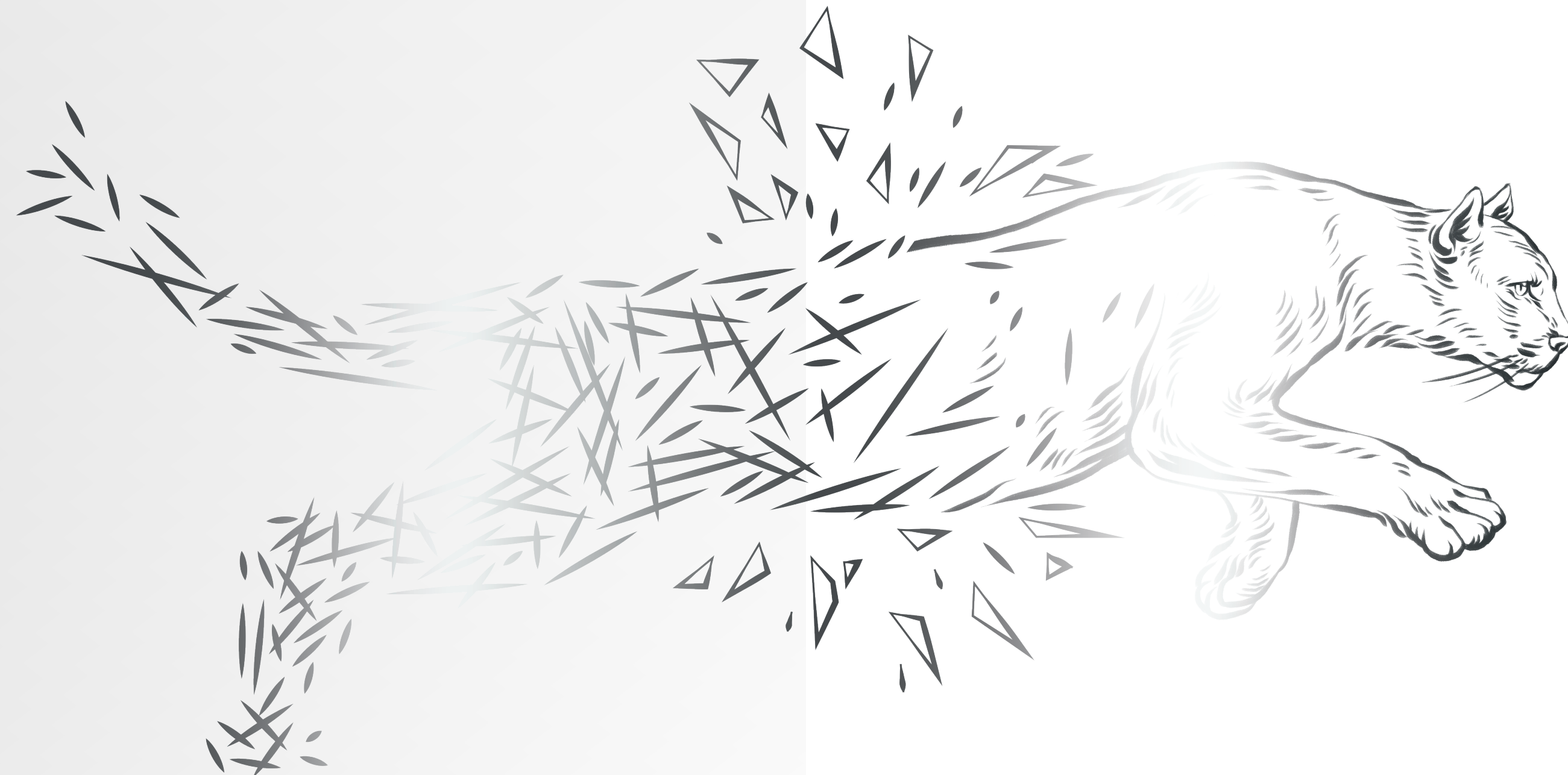


EMERGING STRONGER - RESTRUCTURING

COVID, BREXIT AND THE CONSTRUCTION INDUSTRY

Covid has caused untold disruption in many sectors and to almost every business issue, but that's not quite the whole story. Identifying all of the contributing factors is an important step on the road to recovery and this guide will highlight the specific challenges faced by the construction industry.

We will also look at what can be done to alleviate these issues.



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1 COVID

Construction sector output sank 1.6% in July - the fourth consecutive quarter of falls. Teasing out exactly what has happened to the construction industry vis-à-vis Covid, however, is complex. Costs have undoubtedly soared.

One effect of the pandemic was a reassessment of work/life balances and greater demand for outside space. Combined with the stamp-duty holiday, this fuelled price rises, triggering increased house-building demand.

At the same time, a boom in home-improvement, as people were stuck at home with little to do, meant that demand for materials spiked. All of this happened against a backdrop of numerous infrastructure projects, as well as Covid-inspired supply-chain issues. Materials costs rocketed which in turn meant merchants rationed supplies and delays naturally lengthened.

2 BREXIT

A 2010 study estimated that 64% of building materials were EU imports. Brexit border friction - increased customs checks, assessments, and duties - also caused or exacerbated delays and shortages, which hurt supplies and made costs shoot up.

continued overleaf

SKILLS SHORTAGES

Then there were skills shortages. From January, the points-based immigration system made it vastly more difficult to get construction workers to the UK, with red-tape demands and a cost of £10k per person.

SUPPLY CHAIN ISSUES

Almost every sector has been hit by similar supply chain issues. Economists are united in believing Brexit will negatively affect UK-EU trade and one concern is that when Covid recedes, Brexit problems won't. Companies that have wrongly attributed their troubles to the pandemic will be in trouble.

Whether as a result of COVID, or indeed Brexit, many companies are currently looking to restructure to best fit the new normal and take advantage of an anticipated recovery. Others are simply fighting to stay afloat. In order to survive, let alone thrive, businesses and their advisors need to be ruthlessly honest about what is causing their current headaches.

3 WHAT CAN BE DONE?

The increased costs facing the construction sector are unlikely to be contemplated in existing development finance structures where parties focus on cost certainty. Therefore, inflationary pressure will reduce further the already skinny margins in some older JCT Contracts rendering them completely unprofitable.

This situation will deteriorate further when the Government's Covid support measures (such as furlough and HMRC repayment deferrals) are finally withdrawn and those costs are reintroduced to embattled cash flow forecasts.

We are starting to see Company Voluntary Arrangements used in the sector by contractors to controversially get rid of unprofitable contracts and compromise, in the same way we saw retailers drop unprofitable stores - much to the disgust of the institutional landlord community.

Will this catch on? It might, but in our view consensually restructuring unprofitable contracts to better "share the pain" between employer and contractor may be a better option.

All of this means that we would recommend a sharper focus on supply chain resilience, through;

- Monitoring key relationships to manage risk in the supply chain and ensuring you are in a position to identify key suppliers and vulnerabilities.
- Responding to signs of distress through contingency planning and legal and operational mitigating actions.
- Understanding your commercial leverage and how to best to deal with an administrator.

The landscape has undoubtedly changed and as we begin to emerge from this period of disruption, it is clear that diligence must be exercised at every turn to take advantage of any recovery opportunities.

If you would like to discuss any of these recommendations with a member of our dedicated Restructuring team, please do not hesitate to get in touch.

FOCUSED UPON CREDITORS, INCLUDING INSTITUTIONAL LENDERS, BONDHOLDERS AND SPECIAL SITUATIONS, WE ARE ONE OF THE LARGEST RESTRUCTURING TEAMS NATIONALLY WITH OVER 40 DEDICATED LAWYERS.

If you would like a more comprehensive view of what we're seeing in the current environment and what steps you should take to maximise your chances of success, please get in touch.

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