

Buildxact Residential Construction

ACTIVITY REPORT



January – June 2021



About this report

Data from this report is drawn from residential builders across Australia who use Buildxact.

Buildxact is Australia's fastest growing provider of construction management software for builders and trades. Thousands of builders use Buildxact's estimating and job management software to estimate and manage residential construction projects across Australia, New Zealand, the United States and Canada.

Using information collated from the software, Buildxact can provide detailed market insights on building activity over a given period. Data in this report focuses on trends that have emerged between January 2021 to June 2021. All dollar values in this report are in AUD.

To find out more, visit www.buildxact.com.au

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Executive summary

The construction industry continues to live with the cloud of lockdowns and uncertainty overhead.

Through it all, it enjoyed strong growth thanks to increased demand. It is likely that government incentives, such as the HomeBuilder Grant and changes to stamp duty policies, provided a shot in the arm to the industry during this period. Not surprisingly, when the incentives ended, the demand for residential builders slowed.

The win rate of estimates remained stable in 2020 and through the first half of 2021, despite fluctuations in demand. Builders deserve a large part of the credit for the stability thanks to their agility and adaptability during the pandemic, allowing them to take on more work during periods in which demand increased.

However, when looking more closely at individual states, the pandemic's impact is varied. Victoria, for example, suffered from lockdowns in 2020. Despite the demand for estimates increasing, the average value of estimates in Victoria sharply declined, negatively impacting builders' overall profits.



Win rate of estimates remained stable



Strong growth thanks to increased demand



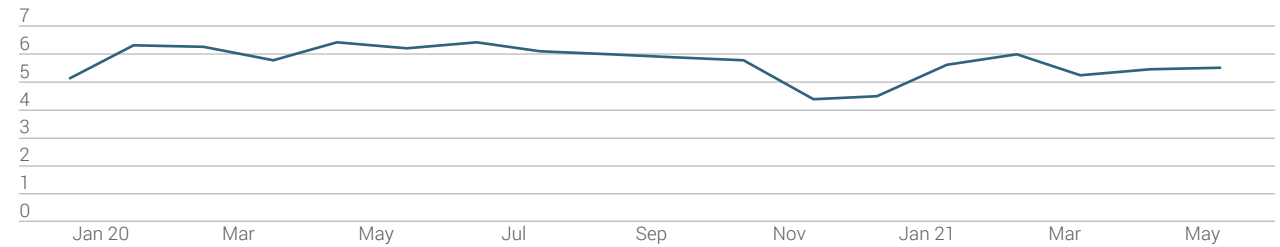
Pandemic's impact is varied across states

Average estimates per builder

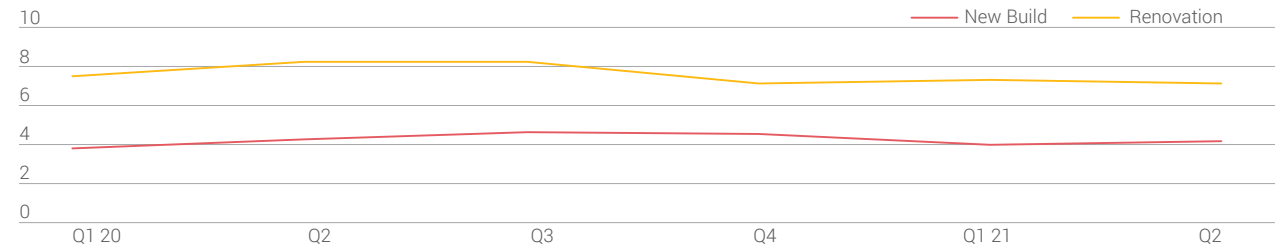
Demand for residential builders saw steady growth during the first three quarters of 2020, with the average number of estimates increasing 6% from Q1 to Q3 2020. As expected, the industry saw a seasonal dip in December, resulting in a 24% decline in the average estimates per builder from November results.

This trend did recover in February 2021 and peaked in March; however, average estimates per builder saw a 13% decline in April, in line with the end of the government incentives. New builds and renovations both suffered a dip in average estimates per builder. The average estimates for renovations were down 13.4%, while new builds were down 10.4% from the peak in Q3 2020 to Q2 2021.

Average estimates per builder – monthly



Average estimates per builder by category



↓ **13%**

Decline in average number of estimates for April in line with the **end of government incentives.**

Decrease since peak in Q3 2020 in the average number of estimates for:

↓ **13.4%**
RENOVATIONS

↓ **10.4%**
NEW BUILDS

Estimate value

The impact of COVID-19 was evident between Q4 2019 and Q1 2020, when the average value of estimates declined 13.9%. They enjoyed a recovery in Q3 2020 and have remained stable since.

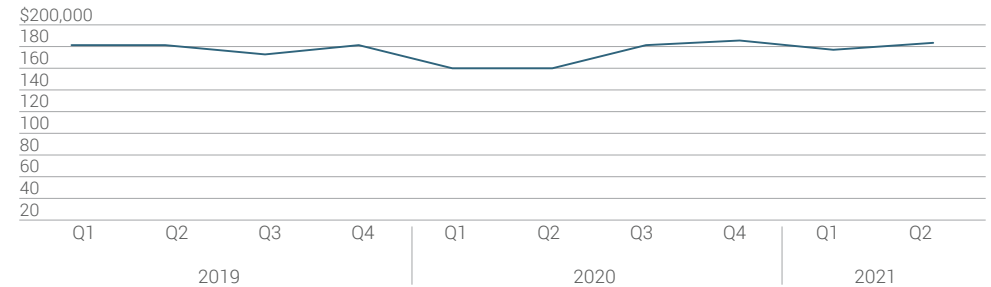
The average value of estimates by building type, however, tells a different story. New builds suffered the most due to COVID-19. New build estimates declined 14.9% from Q4 2019 to Q2 2020. This decline took fewer than six months to unfold, and a year and a half later, the value of new-build estimates has not recovered. The average value is lower than in Q4 2019, however, the average value of new builds has increased by 8.7% in 2021 (Q4 2020 to Q2 2021).

Two key factors may have influenced the drop in the average value of new build estimates: pausing high-end builds due to increased uncertainty and the government incentives.

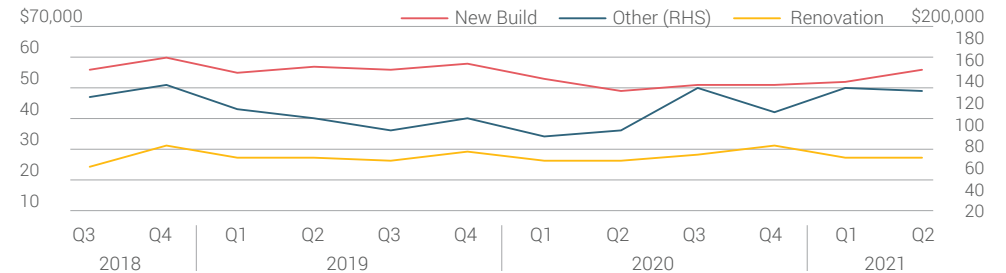
Pre-COVID-19, these high-end builds would have driven the average price up. The grant would have allowed buyers, who previously may not have been able to afford to enter the market, to buy their first home, and as a result, bring down the overall price.

Renovations enjoyed an increase in the average value throughout 2020, up 19.3% from Q1 to Q4. This trend, however, has since trained off, with the average value of renovations down 14.2% (Q4 2020 vs. Q2 2021).

▲ Average estimate quoted total



▲ Average estimate value by category



↑ **8.7%**

Increase in the average value of new build estimates (Q4 2020 to Q2 2021)

↓ **14.2%**

Decrease in average value of renovations estimates (Q4 2020 vs. Q2 2021)

Win rate

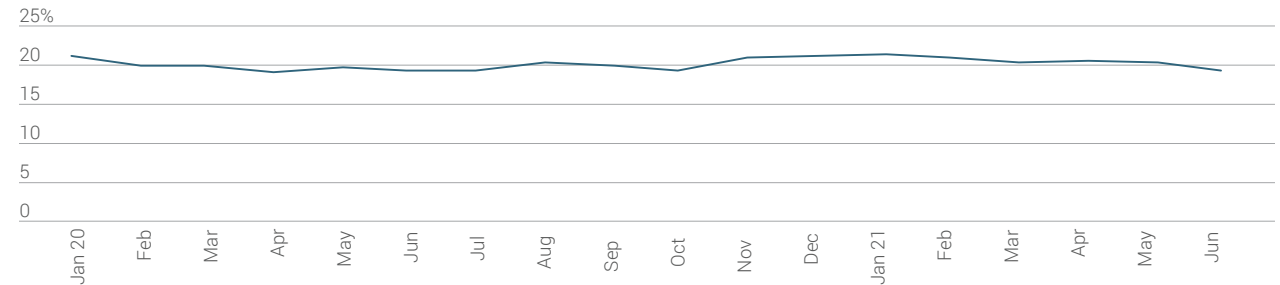
The adjusted win rate* has remained stable despite increased demand for residential builders during 2020. The trend is also a positive sign for the industry. Stable win rates mean builders can accept more jobs during periods of high demand. Demand slowed down in H1 2021, and ideally, the win rate would have increased. Instead, it remained flat. As demand slows down in H1 2021, a stable win rate means builders take on fewer jobs.

New-build win rates continued their growth trend throughout 2020, from 17% in January to 22% in December. Despite the win rate for new builds peaking during the last quarter of 2020, it has since tapered off, ending the first half of 2021 at 16%. The April 2021 decline coincides with the ending of the government incentives.

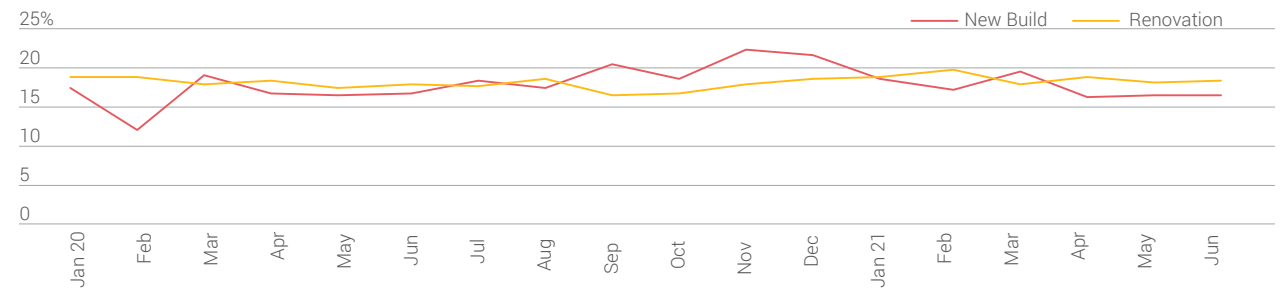
Following a two-percentage point decline in September 2020, the win rate for renovations continued to recover until February 2021. March did see a slight decrease; however, the win rate for renovations has remained relatively stable and in line with long-term averages during the first half of 2021. It is worth noting that volatility affected the win rate on new builds during the first half of 2021. On the other hand, renovations remained somewhat stable around the 18-19% range.

* The 'adjusted win rate' includes estimates for which the final win or loss outcome was yet to be recorded. Buildxact uses historical data to forecast the likely outcome of these cases.

Adjusted win rate



Win rate by category



16%

Win rate for **new builds** at the end of Q1 2021

18-19%

Win rate for **renovations** at the end of Q1 2021

Estimates by margin

H2 2020 experienced an increase in percentage markup overall, but this trend declined in Q1 2021 (down 9%). It only slightly recovered in Q2 (up 5%). Estimates for new home builds are driving the volatility, while margin percentages are relatively stable for renovations.

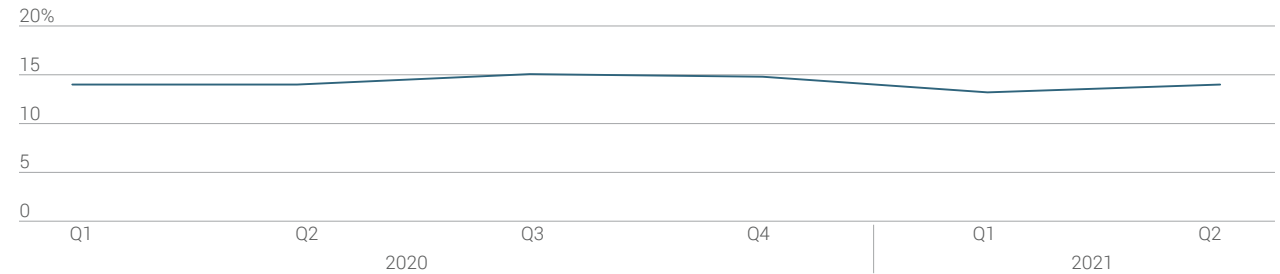
Despite seeing an increase in the markup percentage during 2020, new build estimates experienced a steep decline in the average cost per estimate. The dollar amount builders made on each build was less than what they made in 2019.

The silver lining is that demand and win rates increased in 2020. As a result, builders could work on more jobs, without losing money.

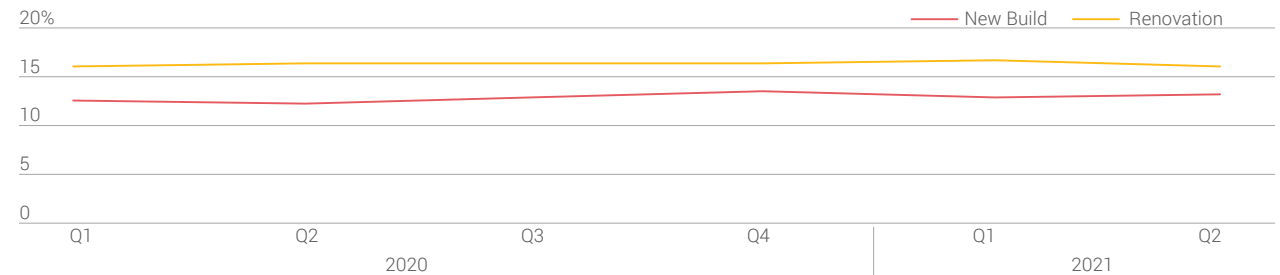
Despite a decline in the demand for new builds in H1 2021, the average price of estimates for new builds is starting to show signs of recovery. Builders are enjoying higher profits thanks to markup percentages remaining relatively stable.

Builders are starting to see the same average value money per build they saw in 2019.

Estimate markup %



Markup % by building type



↑ 5%

Increase in **markup** from Q1 2021 to Q2 2021



Builders are enjoying higher profits thanks to markup percentages remaining relatively stable

State level trends

Buildxact's analysis of 2019-2021 data from four key states¹ shows what is happening locally and nationally.

VIC

Demand for residential builders remains higher than pre-COVID-19

NSW

Overall decline in demand for new builds. Demand for renovations showing signs of recovery.

QLD

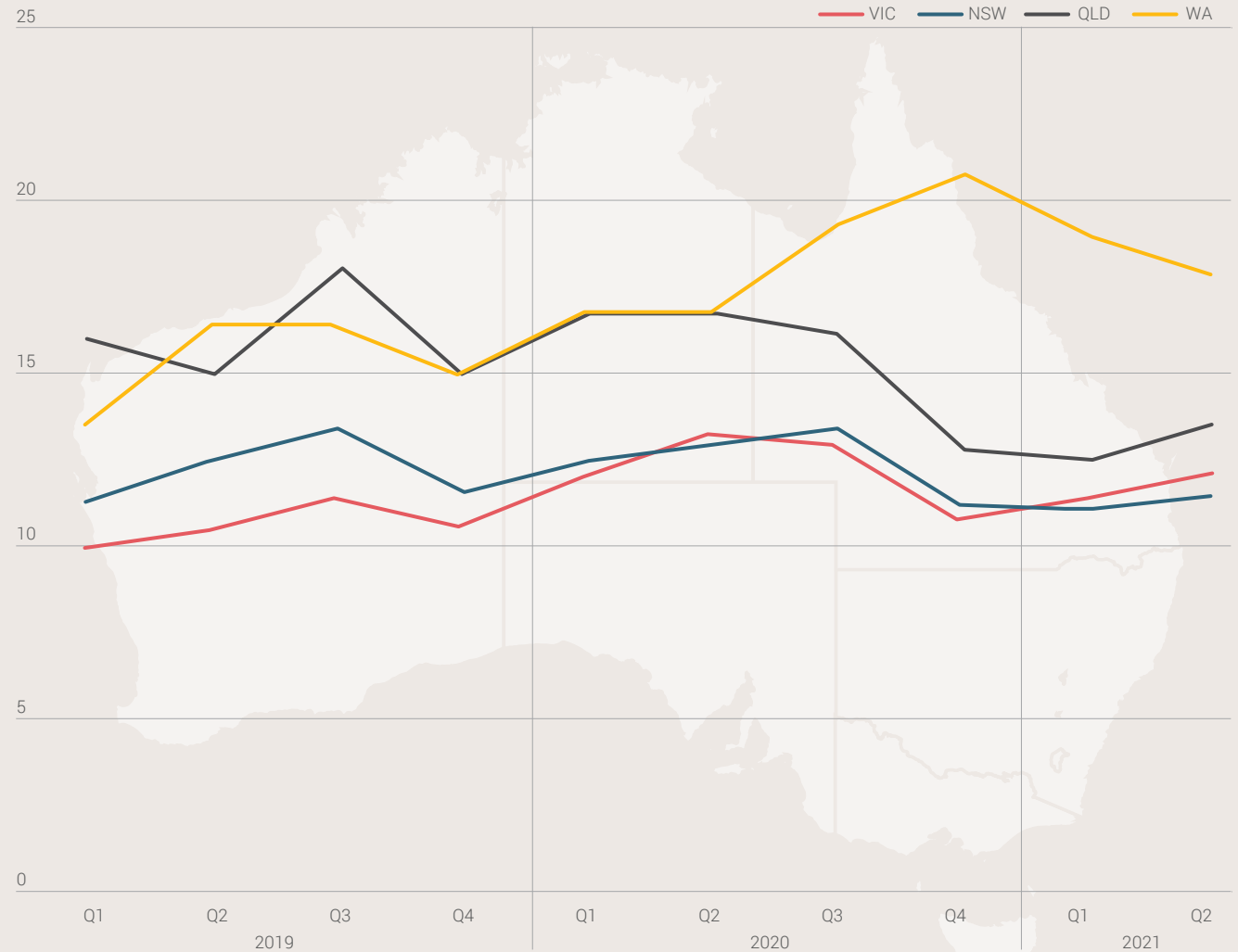
Builders are benefiting from increased demand and value for new builds

WA

Most robust growth levels seen across Australia in 2020

1. For the purposes of this report, key states include Victoria, NSW, Western Australia and Queensland.

Average number of estimates per builder by state



State level trends Victoria



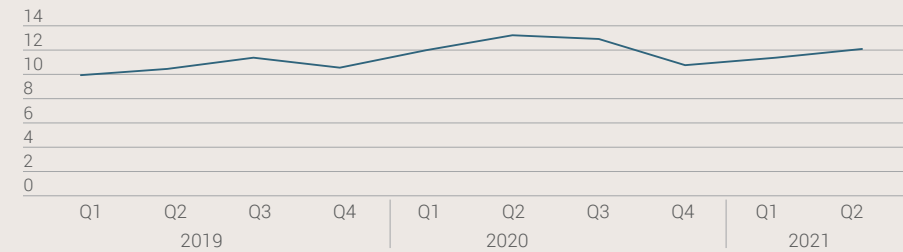
Despite Victoria being the hardest hit state in Australia in terms of lockdown during 2020, there was a notable increase in the average number of estimates per builder during the first three quarters of 2020, followed by a seasonal decline in Q4. The first half of 2021 showed signs of recovery. Still, the demand for residential builders in Victoria remains higher than pre-COVID-19.

Throughout 2020 and the first half of 2021, we can see a similar trend in the number of estimates per builder for new builds and renovations; however, renovations are experiencing significantly more volatility. The average number of renovations estimates per builder grew 21.7% from Q4 2019 to Q3 2020, but this growth was lost during Q4 2020 and is yet to recover to the levels seen last year.

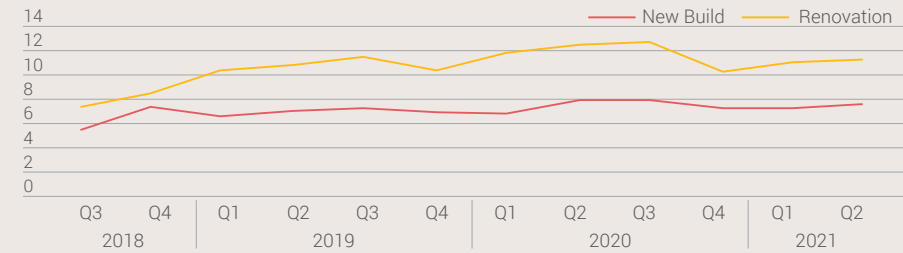
Demand for new builds remains higher than in 2019 and Q1 2020. Still, the average number of estimates for new builds during the first half of 2021 is lower than seen during the peak of lockdown (Q2 and Q3).

The average profit margins on estimates during 2020 and 2021 fell below 2019 profits. The drop in the average price of new builds was a key driver of reduced profits. While the Victorian market saw a significant decline in the average cost of new builds during 2020, this was not offset by increasing margins on estimates, meaning the profit value builders took home also dropped.

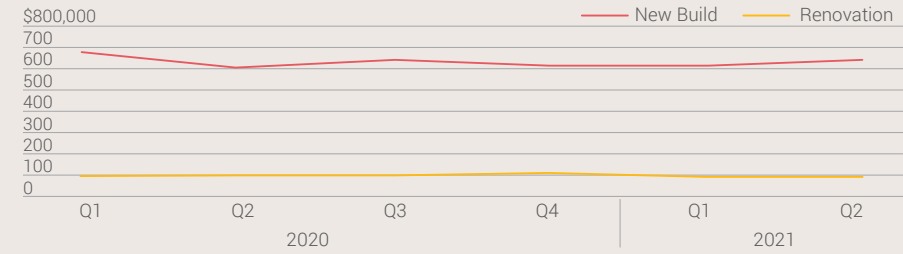
Average estimates per builder



Average estimates by building type



Average value of estimate by building type



Demand for residential builders remains higher than pre-covid



Take-home profit has dropped



Estimates for new builds declined

State level trends New South Wales

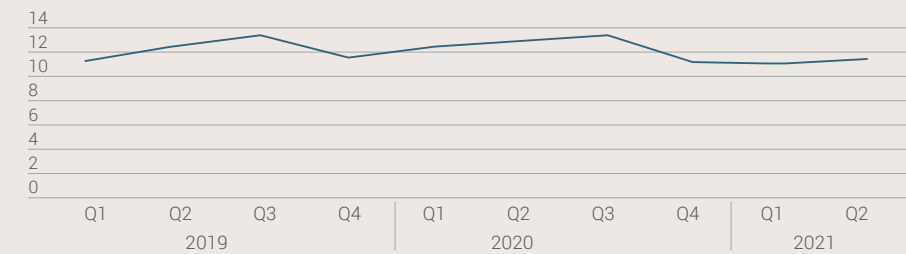


Demand for estimates in NSW experienced a sharp decline in Q4 2020 and did not recover during H1 2021.

Estimates for renovations declined 16% from their peak from Q3 2020 through Q1 2021. Demand for renovations in NSW remains lower than the second half of 2020, despite some signs of recovery. Despite signs of recovery in Q2 2021, the level of demand remains below the levels seen in 2020.

The declining trend, which started in Q3 2020, continues for new builds. Demand for new builds, unlike renovations, has not shown any sign of recovery.

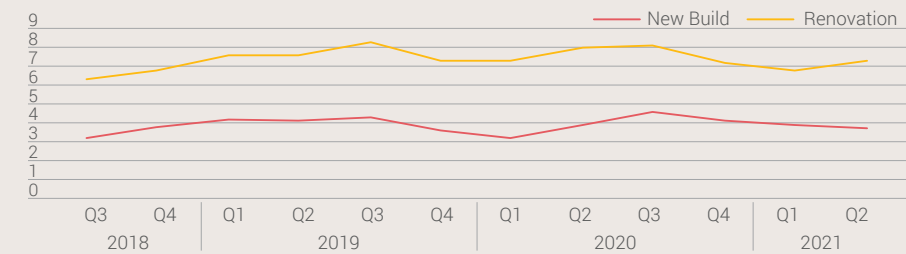
▼ Average estimates per builder



Estimates for renovations declined 16% from their Q3 2020 peak

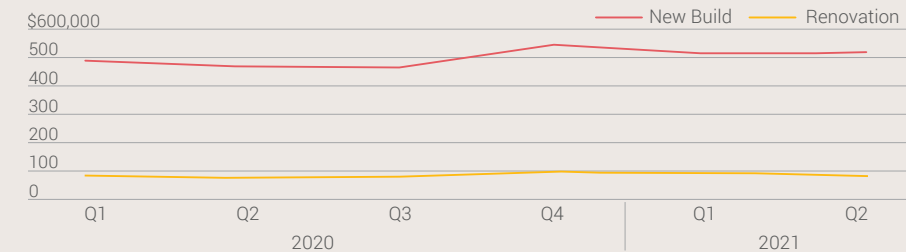


▼ Average estimates by building type

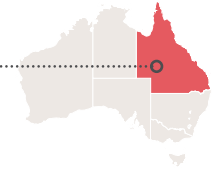


Decline in demand for new builds

▼ Average value of estimate by building type



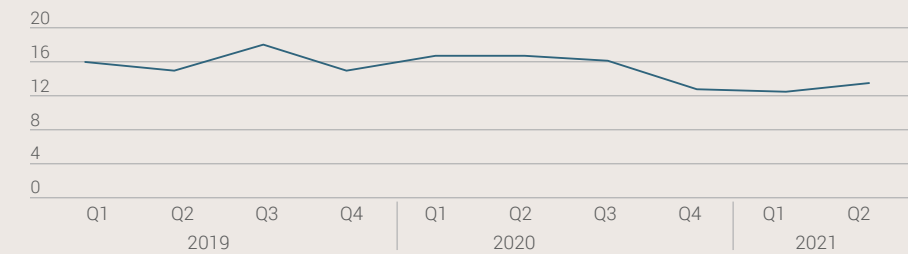
State level trends Queensland



Queensland saw a steep decline in the average number of estimates per builder during Q4 2020, and did not enter a recovery phase during the first half of 2021.

The demand for new builds remains strong. This is despite the overall decline driven by reduced demand for renovations dropping 24.5% from Q3 to Q4 2020. Q2 2021 recorded the second-highest levels of estimates for new builds seen over the last 2.5 years. Builders in Queensland are benefiting from increased demand and value for new builds. These builders enjoyed a 27.3% uplift in the average margin for new builds.

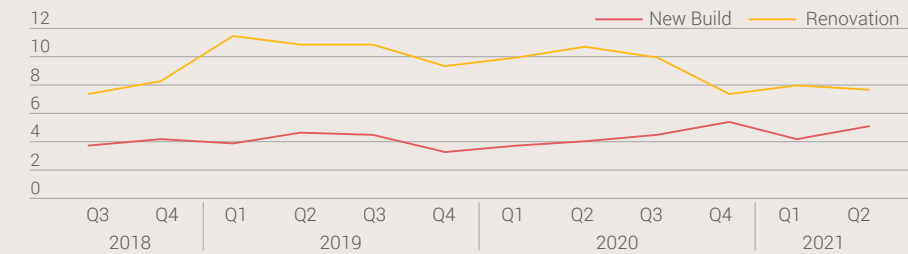
▼ Average estimates per builder



Demand for new builds remains strong

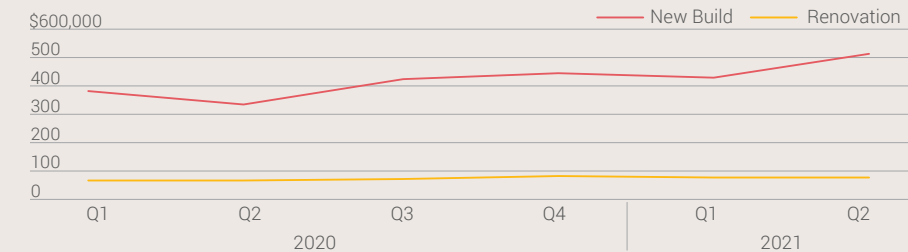


▼ Average estimates by building type



Second-highest levels of estimates for new builds seen over the last 2.5 years

▼ Average value of estimate by building type



27.3% uplift in the average margin for new builds

State level trends Western Australia

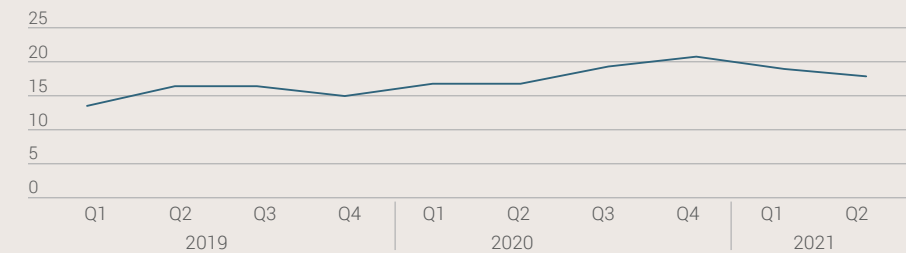


Western Australia, like other states, experienced reduced demand during the first half of 2021. Still, it experienced the most robust growth levels seen across Australia in 2020. Despite the reduction in demand, average estimates for residential builders in Q2 2021 remain 8.6% higher than Q2 2020.

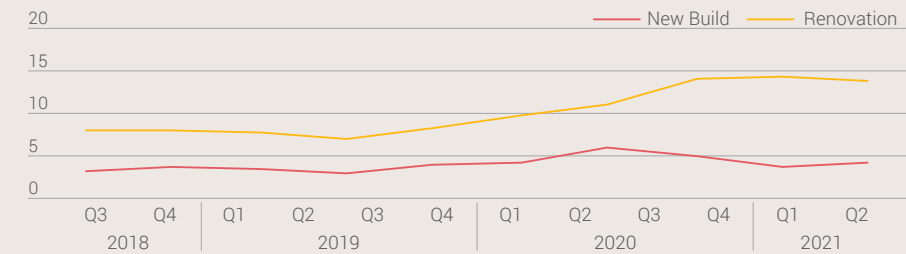
There are positive signs that growth remains strong with high demand for renovations remain hot. The trend that started in Q4 2019 remained strong through the first half of 2021. New builds, which saw demand peak in Q3 2020, has stabilized to the levels seen in the first half of 2020.

In Western Australia, builders have been steadily increasing their average margins on estimates, most notably on new builds, since Q2 2020. Overall, these builders enjoyed a significant increase in their profits for new builds.

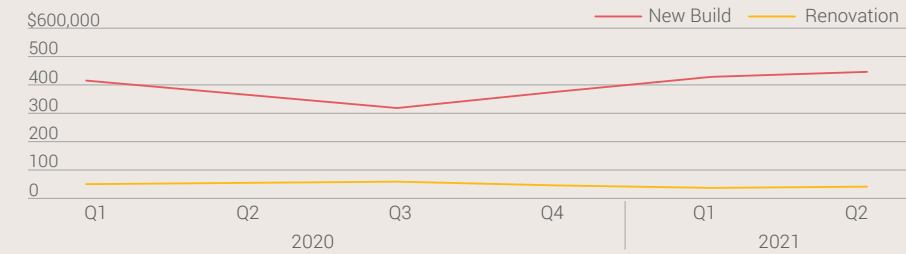
▼ Average estimates per builder



▼ Average estimates by building type



▼ Average value of estimate by building type



Most robust growth levels seen across Australia in 2020



Estimates for residential builders in Q2 2021 remain 8.6% higher



High demand for renovations

Conclusion

Overall, demand for residential builders has dropped in line with government incentives ceasing earlier this year.

However, despite the fluctuations in demand, the win rate of estimates remained stable through the first half of 2021 – a promising sign for residential builders.

The next report will analyze into the impact the lockdown that started in July will have on NSW's construction industry.



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