# Building boom doom? or builders'

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The building boom is looking less cheery for contractors who face soaring material costs, labour shortages and squeezed margins, as ever-increasing numbers of firms compete for a share of the spoils.

There is also a fear in the industry that the sudden sharp rise in demand could fall just as suddenly, leaving firms saddled with more staff and other resources than they need.

Builders are already constructing private homes with more to come, given the bumper supply of state land that has been released. But now they have a new source of additional demand to contend with, in the form of a huge ramp-up in Housing Board projects.

The National Development Ministry announced last month that an additional 3,000 Build-to-Order (BTO) flats will be launched this year, bringing the total to a record 25,000 units this year.

Compare that with 2009, when only about 9,000 BTO flats were launched, while there were 16,100 last year.

A Kim Eng report estimates these additional BTO units this year will be worth about $380 million in construction revenue.

National Development Minister Khaw Boon Wan also committed to keeping up the pace next year, implying that an unprecedented 50,000 HDB flats could be launched in just two years.

At first glance, this spells a golden era for developers, with a wealth of new contracts in the offing.

But concerns are surfacing among industry players that this demand spike, together with a tight labour supply and limited resources, could send costs soaring.

Factor in the larger pool of developers - many came here for the integrated resorts contracts and have stayed on - and you have a recipe for tighter margins.

Mr Pek Lian Guan, executive director and chief executive of property and construction group Tiong Seng Holdings, noted that tender prices have 'dived' this year due to competitive bidding.

Yet at the same time, raw materials costs have shot up and foreign worker levies have increased.

Mr Pek cautioned that ramping up BTO flat construction to clear the backlog of demand will also increase costs, but if construction demand drops in two years, the industry might be hit.

'For us in construction, we prefer a more steady market because if you increase your demand suddenly, the industry has to respond by building its capacity,' he said.

'When a contractor builds his capacity, of course, it's more costly, so prices will go up. If two years later you shrink your programme after they've built their capacity, then what are they going to do?'

EL Development managing director Lim Yew Soon said building costs have risen by at least 10 per cent from a year ago, but many firms have absorbed the higher charges in a bid to secure contracts in a more competitive landscape.

'Especially with this push for productivity, we need to invest more in machinery as well. Yet we're not sure if construction demand might be as strong down the road, so this is a concern for all builders,' added Mr Lim.

Singapore Contractors Association president Ho Nyok Yong noted that while some of the cost increases can be passed on to developers of new projects, builders will have to bear the pain with projects secured earlier.

When there are plenty of contracts up for grabs, firms employ more people and invest in new technologies, but if the industry then slows suddenly, it will be a 'big problem', he added.

'There's always a risk in expanding the construction business too quickly, and we've constantly reminded our members to do so in a more careful manner with proper planning.

'A gradual growth of the industry is best for contractors so we can continue to retain skilled workers, engineers and professionals in the industry. We don't want a roller-coaster scenario, which will make the industry unsustainable.'

A Building and Construction Authority spokesman said the HDB ramp-up of supply is likely to have some impact on overall construction demand in the next three years.

But the most significant impact will be felt more in the public housing segment itself, with short-term pressures on the pool of regular contractors bidding for HDB jobs.

It said the HDB will seek to expand the pool of contractors tendering for its projects.

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