



ESTONIA – THOUGHTS ON DEVELOPMENT AND CONSTRUCTION IN UNCERTAIN TIMES

The development/construction industry is facing many obstacles to recovery. Whether it be materials shortages, shrinking pool of labor, soaring energy costs, declining purchasing sentiment by end users, we are yet to feel the full impact of the worsening situation in Ukraine on the Estonian economy.

Could the current scenario lead to postponement or cancelling of “shovel ready” projects?

Inevitably, the shortage of construction workers leads to wage inflation. Shortage of materials adds wood to the fire. Design consultants are experiencing similar inflationary pressures. Bringing in staff at a lower level needs extensive planned training and contribution to the design and/or the construction output takes time and will not alleviate the short term problems being experienced.

With the global economy now structured by shortages, if

construction firms want to survive, they must manage the risk and instability of their supply chains to avoid derailing their projects and their business. They also need to find a way to keep costs down across the rest of their operations to stop increased prices creating cash flow issues and potential business failures.

Prices are rising rapidly for steel, concrete, plastics, aluminium, copper, timber products. Delivery times for materials, even at higher prices, are also heading upwards at an alarming rate which could add 6-8 months onto original construction schedules.

One big issue for is the fluctuation in delivery dates and the supply chain's lack of predictability. Sudden shortages and last-minute changes threaten to throw a project off course – causing costs to spiral. Missed deadlines could mean contractual penalties. Contractors and their Clients really need to focus their communication and work together to solve the issues of today.



Efficient companies should prevail in the shortage economy – non efficient companies may well fail. Construction firms need to find a way to recoup costs elsewhere. They can do this by working as productively and efficiently as possible, so that they are not wasting money and resources through sluggish or outdated processes.

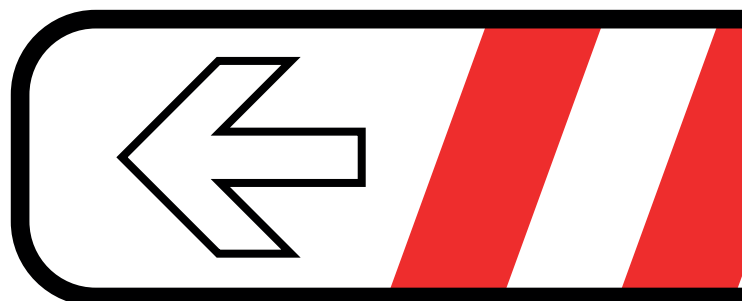
In response to the further escalation of the Russia-Ukraine conflict, the US, the EU and the UK have imposed a severe package of restrictions on Russia. The conflict and related sanctions are causing, and will continue to cause, renewed disruption to supply chains, which were just showing signs of improvement after the pandemic.

Russia and Ukraine are critical suppliers of metals, raw materials, chemical products and machinery. Russia controls around 10% of global copper reserves and is a major

producer of nickel and platinum. Ukraine is one of Europe's top producers of uranium, titanium, manganese, iron and mercury ores and has the third largest shale gas reserves in Europe.

The increased price of oil and gas will affect the costs of production as well as transportation of equipment, materials and project parts. Shipping – particularly tanker, dry bulk and container shipping.

Some developers and contractors may resort to hoarding materials to ensure projects are completed. Procurement agents are very busy and the historical relationship development with key suppliers is really important. Any new planned entrants to the market will undoubtedly find it very difficult to secure resources. It could be a good time for warehouse owners – or even temporary warehouse solutions.



From a contractual standpoint parties within the construction sector need to consider:

- Reviewing contractual requirements, particularly where there are condition precedents, even though the long-term effect remains an unknown.
- The allocation of risk and how long the bid price remains valid for projects currently under tender.
- Improving visibility in the supply chain beyond immediate suppliers and planning accordingly. This needs cross functional teams to assist.
- Whether certain materials need to move away from a just-in-time procurement strategy and/or it is possible to stockpile key materials.
- Whether it is possible to diversify sources of supply, by scoping different routes or suppliers.
- Preparing a risk response plan for the most vulnerable parts of their supply chains. This involves constant review of alternatives and needs daily action by the design team to review specifications.

The importance of accurate cost management of projects in all aspects of the projects design, procurement and construction can not be overstressed. Different systems and ideas are needed as the “old way” is not good enough. Cross functional teams need to be considered with designers/contractors/developers all working together in a holistic mode.

Value management and value engineering are needed from the outset of a project and not only when the tender price comes back significantly higher than predicted.

In summary to be successful the development industry, design teams, and contractors need to work together to develop achievable strategies for the short and medium term. The old adversarial contract arrangements are unlikely to bring success in any way, shape or form.

