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2022
CONSTRUCTION PAYMENTS REPORT

Insight into the $208 billion impact of slow payments on the construction industry.

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ABOUT THE SURVEY

Well over one trillion dollars is spent on construction annually in the United States. In 2021, new construction put in place in the United States was valued at $1.59T, a slight increase from the $1.36T in 2020. In 2022, the construction industry is on trend to put in place an estimated $1.77T.

Each year Rabbet conducts a survey of subcontractors and general contractors about the speed of payments in the construction industry and analyzes the impact on cost for contractors, developers, lenders, equity partners and other stakeholders.

This year's report compares survey data from 2022 with data collected in previous years to examine the growing cost of slow payments for the industry as a whole.

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SURVEY HIGHLIGHTS

Subcontractors experience the primary effects of slow payments, including the cost of floating payments for payroll and supplies, higher risk of bankruptcy during downcycles, and challenges in growing a cash-intensive business. General contractors also face some of these primary effects alongside secondary effects like inflated project costs and delays. The estimated cost of slow payments is approaching 12% of total construction costs in 2022.

The impact goes beyond costs. 37% of contractors report that work has been delayed or stopped due to a delay in payments to crew members in the last 12 months. This is a notable increase from the 32% reported in the 2021 Construction Payments Report.

Rabbet's Annual Construction Payments Report demonstrates the primary and secondary cost of slow payments and why all parties in the construction industry should take action to address them.

is the cost of slow payments to the US construction industry

of all respondents report that work has been delayed or stopped due to a delay in payments to crew members in the last 12 months

per month general contractors spend managing payments to subs and vendors

of general contractors surveyed see the value in paying their subcontractors faster

of general contractors have incurred billing charges, financing charges, or other costs when floating payments to others in the last 12 months

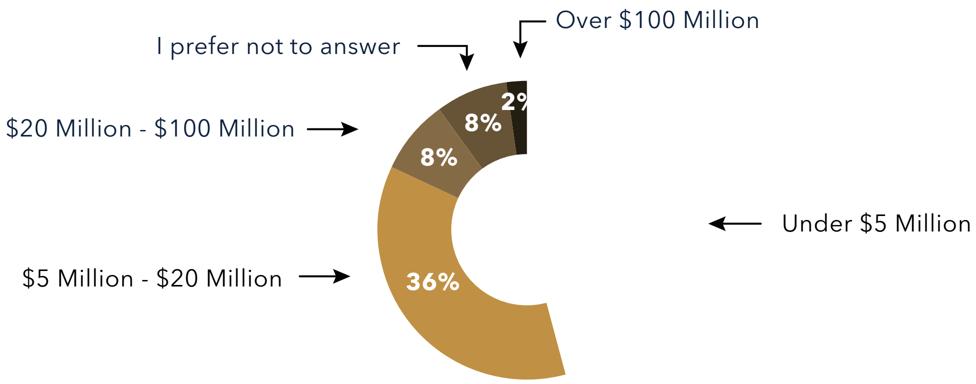
increase in general contractors using retirement savings to float payments for their business

THE STUDY

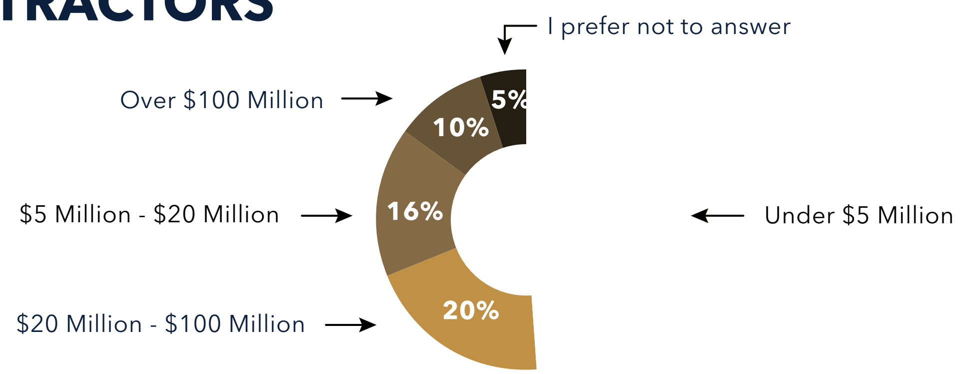
The survey captured how 137 general contractors and subcontractors across the US managed working capital, bidding decisions, and project risks in the face of slow payments during the last 12 months. Participants completed the online survey during September 2022. Rabbet distributed the survey to contractors representing a wide diversity of trades and would like to thank all survey participants who gave their valuable time to participate in the report.

Contractor type: 43% subcontractors, 57% general contractors
Locations represented: 100% US
Top trades represented: roofing, remodeling, flooring, plumbing

SUBCONTRACTORS



GENERAL CONTRACTORS



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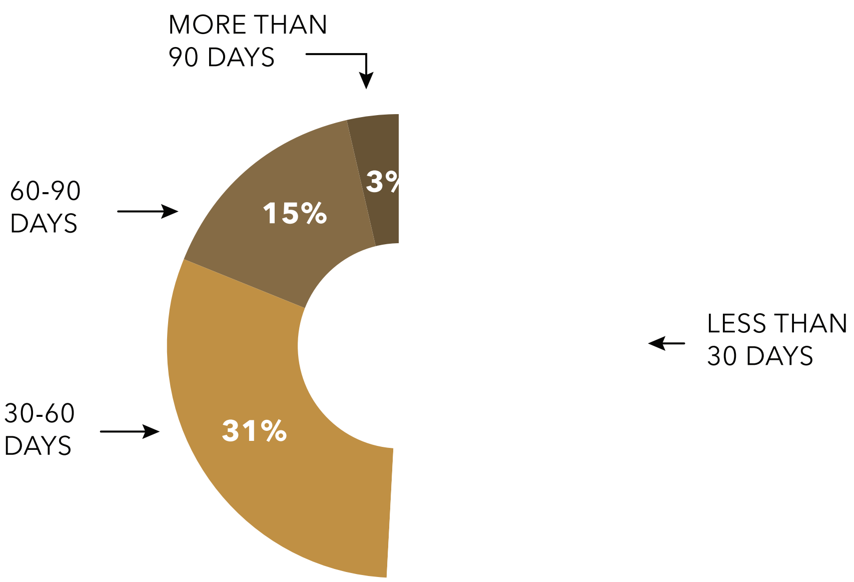
THE REAL COST OF SLOW PAYMENTS FOR SUBCONTRACTORS AND GENERAL CONTRACTORS

In the construction industry, business expenses are incurred and must often be paid before payments are received for work conducted.

Simply put, cash flows out of a subcontracting business for wages and materials much quicker than the time it takes for cash to flow in. Wages must be paid weekly or biweekly, and materials are typically purchased on 30-day invoice terms. In 2022 an estimated 49% of contractors reported that they wait longer than 30 days to receive payment. This is unchanged from 2021 data that shows an estimated 50% of contractors claiming they waited longer than 30 days to receive payment.

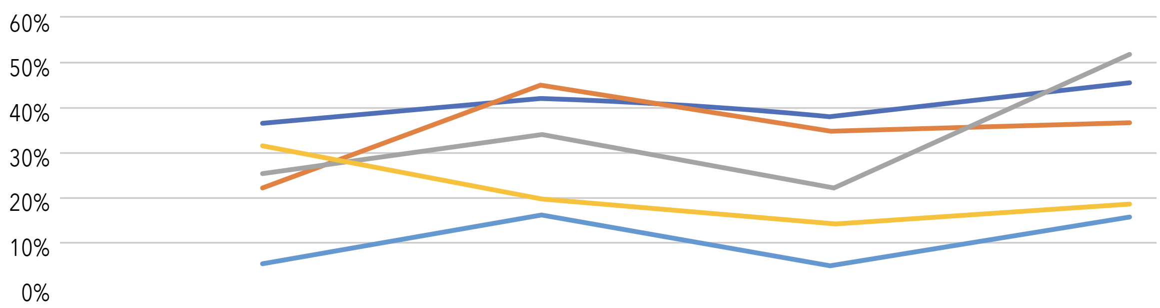
General contractors aren't immune from the impacts of slow payments and also see value in expediting payments for subcontractors. 62% of general contractors incurred financing costs while floating payments to subcontractors, a minimal change from 63% in 2021 and 65% in 2020.

of subcontractors wait longer than 30 days for payment



HOW SUBCONTRACTORS FLOAT PAYMENTS

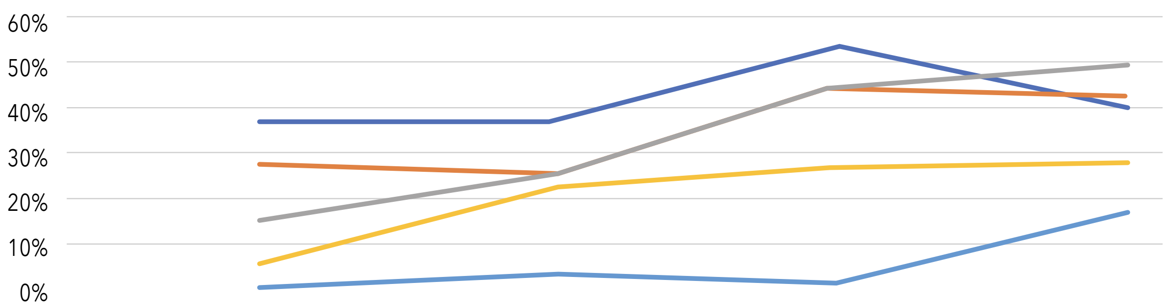
Now, 93% of subcontractors claim they are at least somewhat confident that they have included enough overhead costs. Subcontractors turn to many sources of financing for wages and materials while they wait for payment from the general contractor. This year, subcontractors report a large spike in their use of credit cards to float payments.



Source of Financing	2019	2020	2021	2022
Business Savings	36%	41%	39%	46%
Line of Credit	22%	46%	36%	37%
Credit Card	25%	36%	22%	51%
Personal Savings	31%	20%	15%	19%
Retirement Savings	8%	17%	6%	17%

HOW GENERAL CONTRACTORS FLOAT PAYMENTS

General contractors also rely on various financing sources while awaiting payment. 49% of general contractors claim they rely on credit cards followed by a line of credit (41%), business savings (40%), personal savings (28%) and lastly, retirement savings (19%). In 2021, only 2% of general contractors reported tapping into their retirement savings. It is noteworthy that there was a nearly 17 point increase from 2021 to 2022 in the reliance on retirement savings.



Source of Financing	2019	2020	2021	2022
Business Savings	38%	38%	53%	40%
Line of Credit	29%	25%	44%	41%
Credit Card	15%	25%	44%	49%
Personal Savings	6%	23%	27%	28%
Retirement Savings	2%	3%	2%	19%

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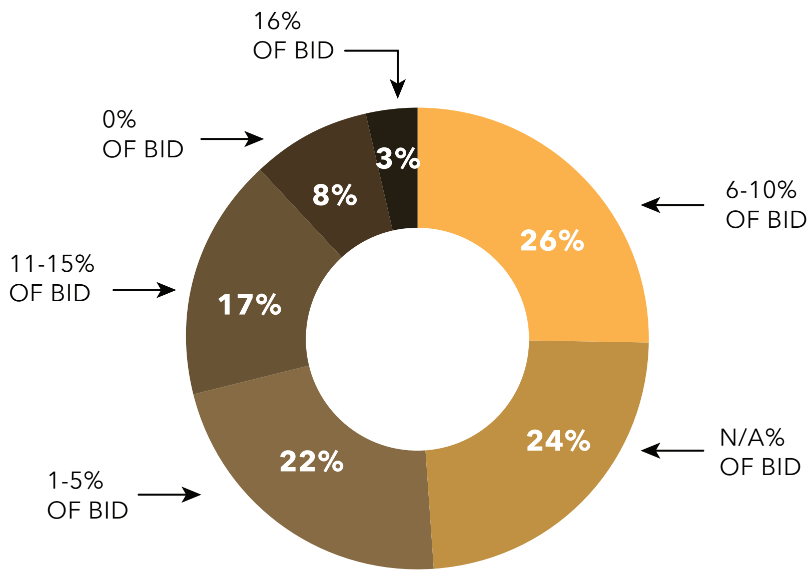
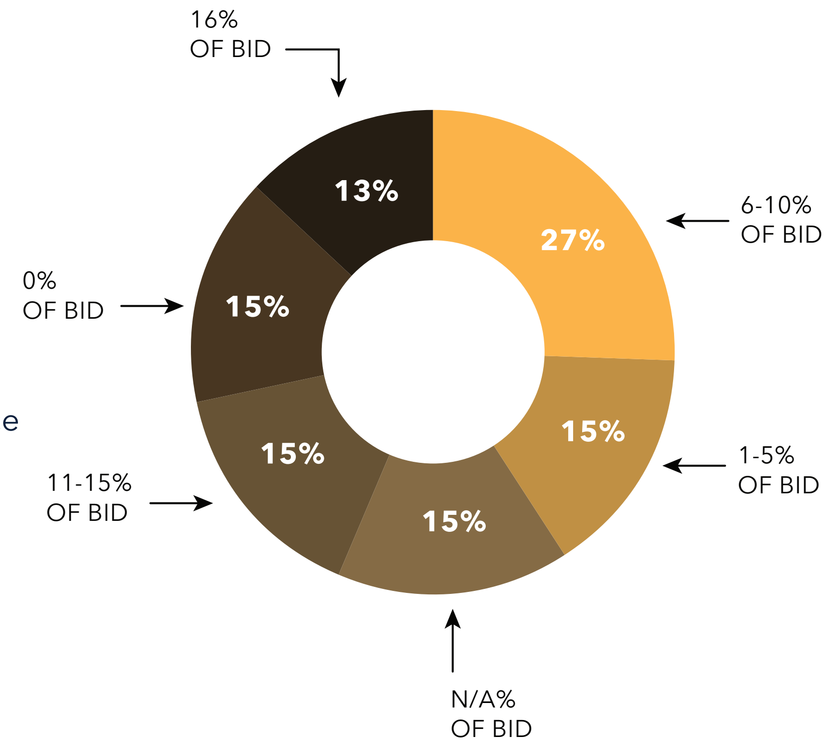
COST OF SLOW PAYMENTS INCLUDED IN BIDS FROM SUBCONTRACTORS AND GENERAL CONTRACTORS



Estimated overhead included in bids to finance slow payments



Estimated overhead included in bids to finance slow payments

Subcontractors indicate that the value of faster payments was about the same as the value of alleviating financing costs. They report the average cost of floating payments was 4.9%, a huge spike from the 2.75% average cost in 2021. Subcontractors say they would provide an average of a 5.1% discount for payments made within 30 days, which is a slight decrease from the 5.9% average discount in 2020.

Even among those who say they did not incur costs for floating payments in the last 12 months, 58% said they would offer a discount.

So what do late payments to subcontractors and general contractors mean for real estate developers? And does this impact the risk to construction lenders?

Budget, timeline, scope, and quality are all directly related to the general contractor and subcontractor's ability to carry out their responsibilities. We asked subcontractors how a late payment from a general contractor affects productivity. 86% of subcontractor respondents claimed a late payment had an affect on their crew's productivity to some degree.

90% of general contractors surveyed noted that they see the value in paying their subcontractors faster because it ensures quality of work, adherence to the project timeline, and that subcontractors are able to show up to the job site. The communication, expectations, and relationships between general contractors and subcontractors can directly impact a crew's productivity which would then influence project timelines and overall quality of work.

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SLOW PAYMENTS MATERIALLY IMPACTED PROJECT RETURNS IN 2022

By every measure—schedule, cost, and risk—slow payments were 30% more expensive in 2022 due to inflation and rising interest rates.

37%

Schedule Delays

37% Subcontractors report work was delayed or stopped due to a delay in payments in the last 12 months (28% in 2021)

27%

Risk Increase

27% Subcontractors report filing a lien due to slow payments in the last 12 months (17% in 2021)

12%

Costs Surge

Added 12% to overall project costs

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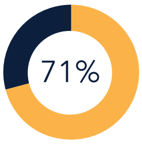
THE IMPLICATIONS OF SLOW PAYMENTS

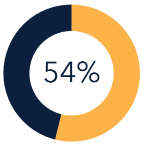
Developers and lenders are the major contributors to slow payments. The impacts of slow low payments on project outcomes is harder to recognize, but slow payments affect project feasibility, schedule, costs, and quality.

A developer’s reputation for slow payments affects how much contractors estimate and bid, or even if they bid at all. A poor reputation leads to construction prices above market, which threatens deals penciling at all, especially in the current capital markets environment.

This year, 71% of subcontractors report considering the payment reputation of the owner when deciding how much to bid on a project. This number has remained consistent with 72% of subcontractors making this claim in 2020 and 78% in 2021.



of subcontractors report considering the payment reputation of the owner when deciding how much to bid on a project



of subcontractors have chosen not to bid on a job because of a general contractor or owner's reputation of slow payments

Their answers varied but the top three answers were:

1. Workforce shortage: trouble finding labor
2. Materials concerns: supply chain issues and rising materials costs
3. Payment processes: the speed of payments and the overall payment process needs to be streamlined

A developer's reputation for slow payments threatens the general contractor's ability to earn competitive bids, and this challenge is further compounded by the enormous strain from a continuing worldwide pandemic. It seems obvious but it stands true that when general contractors can't get the best bids from the best contractors, it becomes very difficult to manage project costs and schedules effectively. As a result, developers lose their ability to complete projects on time and on budget when bids are inflated.

Ultimately, all owners, investors, lenders, developers, and general contractors share responsibility for slow payments in the industry. In fact, as stated in last year's report,

Subcontractors and general contractors have long been carrying the burden of slow payments—and all stakeholders suffer from the costs. It's time for owners, investors, lenders, and developers to adapt to 21st-century processes and technology to improve the construction industry for all.

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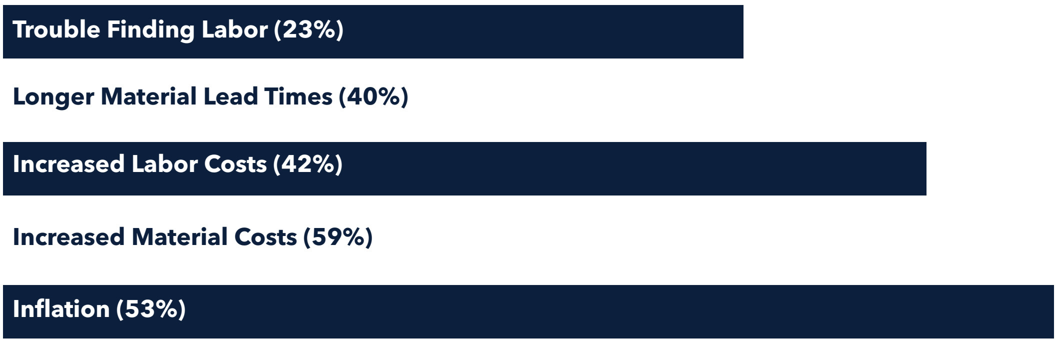
THE COST OF INFLATION ON CONSTRUCTION

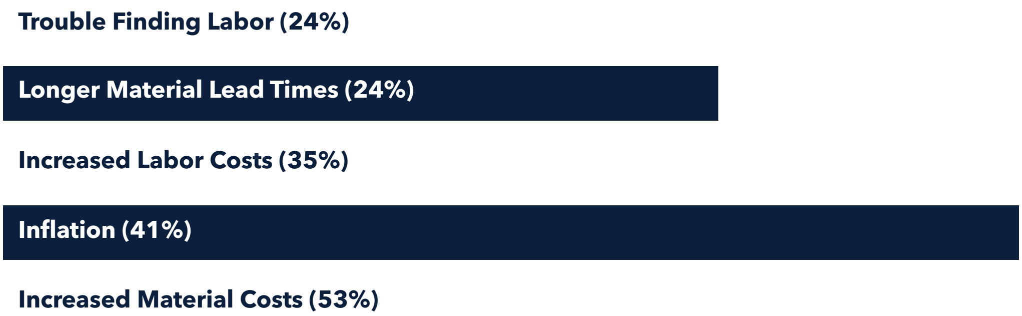
Because of the realities of financing and slow payments, contractors have a significantly higher risk of going out of business in 2022 than they did a year ago. This risk is dire and it is pertinent to the survival of the industry that all developers and lenders be mindful of the elevated impacts. In 2021, general contractors reported that rising material costs were their number one concern negatively impacting cash flow or preventing them from bidding on a project.

Which of these factors, if any, have negatively impacted your cash flow over the last year?



Over half of the general contractors surveyed reported that increased material costs prevented them from bidding on a project in the last year and 41% of them also mentioned that inflation concerns prevented them from bidding this year

Which of these factors, if any, prevented you from bidding on a project over the last year?



As construction costs increase in an inflationary environment, construction pricing will likely continue to increase. These rising project costs can both reduce project returns and increase risk. Of course, inflation and materials costs are not in the control of project stakeholders. One way to mitigate the impact and risk these pressures introduce is to control how fast you pay contractors and subcontractors.

Because inflation can directly impact how general contractors and subcontractors bid on projects and plan ahead, this survey sought to understand how inflation will impact bidding strategies on projects and how confident they were that their business model will survive the next 12 months.

Both subcontractors and general contractors claimed their bidding strategy has shifted to account for the changing environment. Many respondents claimed they were choosing to bid more carefully and doing more extensive research before submitting bids because rising costs have cut into profitability. Additionally, some contractors are choosing to boost their bids anywhere from 5-10% to help absorb some of the additional costs. One respondent claimed that inflation has caused them to charge more for jobs because of rising cost for labor, and supplies. While another stated that they have had to be pickier when selecting bids to take into account the increased prices of labor and supplies.

The answers were across the board when asked how confident they were that their bidding strategies would cause them to survive the next 12 months. Of course, some mentioned they were nervous and that business has declined, but the large majority of respondents felt confident that with proper management and established business they will survive the current economic environment.

TAKEAWAYS FOR 2023

This year's report data remained aligned with last year's in many ways. The areas where the data shifted; however, seemed to be mostly related to the current economic shifts in the US. The rising inflationary environment coupled with climbing interest rates have direct and indirect impacts on schedule, cost, and risk for the entire construction industry. These takeaways suggest that industry is beginning to prepare for this economic shift.

Rising material costs is the biggest factor preventing bids for the second year in a row. Supply chain issues which cause scarcity and timeline delays along with inflation continue to drive up materials cost. This can cut into profits as well as increase the total project cost.

Inflation is a major concern for general contractors and subcontractors as money itself becomes more expensive. The current inflationary environment coupled with rising interest rates has made construction more expensive and the money needed to fuel construction more expensive. In 2021 we reported the cost of slow payments to the industry was $136B. Today, that number stands at $208B. Though the 53% jump from $136B is significant, it is not surprising when factoring in this current state of the industry. Now more than ever, the value of faster and more reliable payments to general contractors and subcontractors is critical.

As the industry grows, so does the cost of slow payments. A growing construction industry is seemingly a good thing. But, as highlighted in this report and Rabbet's annual State of Construction Finance Report, this industry is plagued with antiquated and disjointed processes that make it difficult for parties to track and collect payments in a timely manner. As the industry grows, so will the risk associated with these serious process problems, bottlenecks, and decentralized payment structures.

General contractors reported using their retirement savings to float payments to their business 8.5x more often than in 2021 and subcontractors are relying on their retirement savings almost 2x more often than last year. Though this is a notable jump, respondents claim that credit cards are still the predominant method employed by both general contractors and subcontractors this year.

About Rabbet

Rabbet is transforming the construction finance industry with tailored solutions that provide a complete picture of real estate development portfolios. Designed for real-time workflows and comprehensive insights, Rabbet enables real estate developers, lenders, investors and related service providers to lower operational costs, make more informed decisions, and earn trust with other financial stakeholders. Founded in Austin, TX in 2017, Rabbet has improved visibility and efficiency for over $40B in construction projects.

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