

CONSTRUCTION INSIGHTS



petrelawinter.com | January 2021

2021 Construction Outlook

It is going to be hard to identify 2020 with anything other than the challenges presented by the pandemic. Despite the mandated shutdown for a few weeks in some parts of Canada, the construction industry has held up comparatively well. Contractors are rising to the occasion, demonstrating, yet again, their resiliency and adaptability in the face of adversity.

We typically synthesize economic and construction industry forecasts with on-the-ground feedback from the hundreds of business leaders that we count as our clients, and the underwriters, construction lawyers, accountants, claims consultants, and other network of professionals that we work with every day. We then roll out a crystal ball and offer our perspective on what is in store for the coming year.

That said, it may come as no surprise that this year no one is pretending to predict what will happen next quarter, next year, or beyond. In fact, uncertainty seems to be the only thing that people are certain about.

Consumer and business behaviours have changed dramatically, and there is no expectation – and perhaps no reason – that a return to the familiar would occur, even in a post-vaccine world. What does that mean for the prospects for ongoing investment in broad segments of the construction industry such as retail, hospitality, office and commercial development? Large question marks abound throughout the industry.

Some contractors have used the pandemic environment as an opportunity to review business plans and overhead cost structures. Many of our customers are paying attention to expense details with this fresh lens, balancing overhead with backlog, evaluating the impact of government incentives, and revisiting planned expenditures. This seems a prudent and worthwhile exercise to ensure the business is right sized for opportunities to come.

WHAT WE ARE SEEING

So let's focus for a moment on what we do know with some certainty:

Despite the headwinds, and a pause in construction that varied depending on segment, the **second half of 2020 saw a return to familiar levels** of public bidding opportunities for contractors as temporarily delayed procurement processes sought to catch up. Private construction seems to be taking a measured approach – while not drying up completely, there are cancellations and delays amid new projects being announced.

WE WELCOME READERS TO OUR 2021 NEWSLETTER



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BENEFIT FROM OUR SPECIALIZATION



2021 CONSTRUCTION OUTLOOK (CONT.)

We continue to see **ongoing consolidation in the industry**: one large national general contractor was recently acquired by another, and large heavy civil firms continue to be sought after for merger or acquisition by domestic and international players. Subs and suppliers are undergoing the same trend. This concentration of resources is presenting difficulties for contractors to diversify a subtrade base or a customer portfolio. As Geoff Smith, CEO of EllisDon, noted in his address to the TCA in November, it is not necessarily the consolidation that creates the problem (you only need one price after all), but rather the death of trust and movement away from value and transparency. Fewer pricing options is one reason contractors are getting put into more difficult positions, more often.

Long Term Care construction took off in a massive way, supported by financing initiatives either direct from CMHC or through private lenders that were able to take advantage of government program backstops. Based on an evaluation of the demand vs capacity for these institutions, we would expect a pipeline that is many years long.

Legislative change is still progressing across the country, with federal prompt payment and provincial lien legislation updates underway. The new arbitration regime in Ontario has seen its first cases, and while the volume is not heavy (32 adjudications commenced and just three decisions rendered), it may suggest that the legislation is driving negotiations and settlements, which is its intended goal.

Supply chains and labour availability remain impacted. Lead times for all manner of equipment and supplies that were previously in stock, or available within a day or two, are now stretching into the weeks or even months. Employee availability, while statistically abundant, is being impacted suddenly with potential virus exposures and quarantine requirements. There is no insight into how long these types of disruptions will continue.

There is some certainty in where there is expected to be some investment: **green energy and building efficiency retrofits** are two areas that the Canadian Infrastructure Bank has highlighted, earmarking \$10 billion from its working budget of \$35 billion for sustainable infrastructure.

MOVING FORWARD

Finally, in terms of forecasts, there is light at the end of the tunnel. **Both 2021 and 2022 are predicted to be strong growth years** for the Canadian economy. For an industry that commands 15% of its nation's GDP, like construction does, this bodes well.

So, what can we offer clients for 2021 and moving forward?

Hone your competitive advantage. Avoid the “mushy middle” where everyone plays without distinction or recognition of value. Right size your business to weather any pandemic related disruptions, while remaining well positioned for a bounce back. In other words: walk a tightrope of fiscal prudence while staying flexible to target the opportunities that are to come. Of course, the best contractors have been doing this from the day they opened shop.

Onwards and upwards!





INSURANCE MARKET UPDATE

Readers may recall that in last year's newsletter we touched on the challenges of the insurance marketplace. That 'hard market' trend was perpetuated into 2020, when the industry then was struck with the new, unprecedented challenges brought about by COVID-19.

During the first quarter of 2020, the Canadian property & casualty insurance industry reported an earnings drop of over 65% from the same quarter in 2019, primarily the result of lower investment returns due to COVID-19 related financial market turmoil. The unease in the financial market was only marginally offset by improved underwriting performance, with the industry posting a smaller underwriting loss in Q1 2020 (\$279 Million) versus Q1 2019 (\$951 Million). Unfortunately, the 2020 Q2 results were not as rosy, and the industry returned to underwriting losses in line with prior years (\$893 Million at Q2 2020, versus \$804.5 Million at Q2 2019).

According to industry executives, the current hard market is expected to continue through at least 2021. Insurance companies operating in Canada and abroad are all pressing to return to a healthy and sustainable business model founded on underwriting profits, and not only investment returns. This means rates are likely to remain in an upward trend, and underwriting will remain disciplined.

Being a distinct segment of the insurance industry, **construction insurance** has its own unique challenges. The smaller pool of insurers who offered Builders Risk insurance in 2020 continue to demand higher deductibles and rates, while restricting coverage for some projects. However, it is not all bad news as we have seen Canadian domiciled insurers, who have been sitting on the sidelines for some time, start to provide more builders risk capacity – albeit at higher rates than in years past. Professional Liability (Errors & Omissions) insurance has also experienced historic premium increases, due to insurers either restricting the type of industries they will offer this product to, or exiting the space entirely. Generally, insurers continue to take a highly cautious approach to classes of business that they deem higher risk, which includes many sub-sectors within the construction business. Throughout 2020, commercial insurance buyers, and especially those deemed “high risk”, have seen major premium increases.

During these challenging times, it is more important than ever for contractors to be receiving sound, strategic advice. With the right guidance and timing, you can outperform your peer group's insurance buying experience. Engage your PWA insurance advisor for tips and strategies on how to improve your risk control measures.



SURETY MARKET UPDATE

Canadian surety was on pace through the third quarter of 2020 to have a second successive profitable year with claims hovering around 30% of premiums taken in. However, what looms ahead has the industry only cautiously optimistic as many fear 2021 will see the challenges brought about by COVID-19 catch up to financially strapped contractors.

The economic disruption from the pandemic saw an immediate impact on underwriting philosophy and imparted a more cautious approach from sureties in 2020 that largely remains in place as we enter 2021. Though to be fair, the level of 'recoil' varies amongst individual sureties, with some tightening more than others.

For profitable and financially sound construction companies, things may have seemed "business as usual" last year with their surety, aside from perhaps a little extra scrutiny and questions around how they managed COVID-19. But for contractors that push the limits of their bond program, struggle to generate consistent profits, or are weighed down with high debt levels, dealings with their surety were likely more difficult in 2020 and that will continue into future quarters, as underwriters monitor the financial impact of the crisis on contractor Balance Sheets.

One area of focus for surety underwriters in 2021 will be the approach contractors take to building backlog and whether they are remaining disciplined with their margins. It may be tempting for contractors hit hard by COVID-19 to 'make up' for a poor year by piling on work, but for those we remind of FMI's wise maxim that "Contractors don't starve to death; they die from gluttony. They get too much work, too fast, with inadequate resources, and then they get into financial trouble and run out of cash." (FMI, Why Large Contractors Fail – A Fresh Perspective, 2016).

As the coming year shakes out we recommend contractors be communicative and transparent with their surety partners about financial reporting and their business in general. This lends itself to a strong, trusting surety relationship, with a well-informed surety more inclined to offer extra support than one who has been kept in the dark, or been the recipient of unwelcome surprises.

NEW BOND ORDERING PLATFORM

BONDLINE
NAVASURE™

Bond customers of PWA will be familiar with "Bondworks", PWA's secure online bond ordering system.

We are excited to announce that we've developed a new and enhanced version of the portal, which will be branded as "BondLine". BondLine permits contractors to order bonds online (including from your mobile device), convert successful tenders into final bond requests, and to review your backlog.

Soon you will also be able to order your Insurance Certificates through the portal as well. BondLine is offered exclusively (and at no cost) to clients of Petrela, Winter & Associates and Navacord.

Coming in Spring 2021!



BRANCH OFFICE UPDATE: SOUTHWESTERN ONTARIO

Led by Shawn McCallum, who was this year appointed partner in the firm, Petrela Winter has continued to see tremendous growth in the Southwestern Ontario region, as contractors are recognizing the value of a construction specialist in a challenging insurance market. We also welcomed industry veteran Jackie Kempa to PWA this year. Jackie will be an Account Manager dedicated to servicing clients in the region.

Our London branch office has relocated to 700 Richmond Street, Suite 310, in downtown London. We are now in the same building as SelectPath benefits and Financial Inc., a long time leader in benefits, pension and financial planning in Southwestern Ontario, and fellow Navacord broker. The new office location is conveniently located on Richmond Street and provides additional capacity for future growth. It will facilitate collaboration between Petrela Winter and SelectPath in offering contractors in the region market leading options for all their bonding, construction insurance, group benefits and financial planning needs.

The recent tragedy in London is forefront in our minds, and has reverberated across the industry. Our thoughts and prayers go out to the families and employees at Teeple Terrace. Here's to a safe, healthy return to normal in 2021.

BRANCH OFFICE UPDATE: THE RESILIENT NORTH

Jocelyn Horsfall, who leads our Sudbury office, has joined the Northeastern Ontario Construction Association (NOCA) as a director, and will be chairing the new **Women In Construction** committee that is launching in 2021. We also congratulate Brad Isaac on his appointment as the new Executive Director of NOCA.

Sudbury and the Northeastern Ontario Construction Industry has seen their share of projects that have been delayed or put-on hold, labour uncertainties and public health regulations impacting day to day operations. Looking ahead, we expect government funding announcements to provide a boost to construction prospects in our northern economy.

PWA has found its message of specialization is resonating in the region, and we have been fortunate to establish new relationships with a number of high quality construction companies. Contractors are telling us that PWA is providing a competitive and refreshing new option in the market, and new clients have been very pleased with the difference we have been able to make in the quality of service and advice they are provided.



PWA TEAM UPDATE

2020 marked not only the end of a decade, but numerous significant changes within the PWA team:

Jim English graciously set sail from the PWA harbour at the end of 2020. As the centrepiece of the insurance department for the last decade, nearly every PWA client will have had some interaction with Jim and witnessed his attention to detail and hands-on approach. A mentor to several and a friend to many, Jim has left his mark and will always be a part of the PWA family.

In anticipation of Jim's retirement, PWA brought on Peter Toole as its VP and Insurance Practice Leader. Strategic and personable, Peter arrived with over 15 years of construction insurance experience, having worked at several of the largest brokerages and insurance companies in Canada. With insurance contacts across the country, Peter brings a competitive yet friendly attitude to the mix and will lead the PWA insurance team to next-level heights.

In the Spring, PWA also made a major move in Northern Ontario introducing a Sudbury office, headed by Sudbury native Jocelyn Horsfall. Jocelyn is another industry veteran, known by most for her perpetual positivity and dedication to provide top-level service.

The insurance service team has also benefitted from some other important additions, including Jackie Kempa, who joined PWA's London branch in the Spring, and Despina Iliadis and Denise Jambalos who joined in late 2020. Jackie, Despina, and Denise will all help manage our increasingly busy insurance operation. Please welcome them to the team!



**WE
CELEBRATED
IN 2020!**

MARTINA SOBOTIK

25 YEARS

JAN PETERSEN

10 YEARS

MICHAEL SAN

5 YEARS

ERILYN JASPE

GOT ENGAGED!

ALEXANDER PETRELA

HAD A BABY GIRL!

INVESTMENT IN DIGITAL SOLUTIONS: “IT” IN OUR BROKERAGE

Insurance Company Executives have come out unanimously in emphasizing the importance of brokers investment in technology, and identify it as a reflection of the overall sophistication of their broker partners.

There is no question that the pandemic served to expose those businesses that were not sufficiently prepared for the challenges of a remote work force, both from the client and the staff perspective.

In the last 12 months, PWA has made several major investments in IT:

- Improved cyber security of all brokerage operations platforms, supported by a top tier system administrator selected via RFP.
- We upgraded our broker management system, the backbone of our office operations. That system, EPIC, is the gold standard for efficiency and security for insurance brokers.
- This enabled us to become completely paperless, and for our staff to operate in any combination of remote or in office environments.
- We custom built a new bond ordering and management portal called **BondLine**. It promises to improve the user experience, allow real time management of client's bond facilities, and get bonds into our client's hands even quicker.

Sophisticated IT is now a factor in determining if a broker has access to a particular market, and Navacord and PWA are proud to share the best brokerage IT in the industry.



TOP 5 COMMERCIAL BROKERAGES IN CANADA

1,000+ Employees

30,000+ Commercial Clients

75% B2B (Commercial & Benefits)

~\$2 Billion Annual Premium

Distinctly Canadian

Driven by Entrepreneurial Spirit



NAVACORD UPDATE

As many are aware PWA joined the Navacord Group of Brokerages in 2015. While 2020 has undoubtedly presented its challenges to many businesses, the Navacord group has never been stronger. The unparalleled growth realized in 2020 has brought Navacord over a significant milestone and it is now recognized as the #1 surety and construction insurance broker in Canada.

Navacord continues to make strategic acquisitions in the brokerage space, and currently consists of over 30 broker partners across Canada, and is majority employee-owned. In addition to strengths in construction, transportation, and real estate, Navacord is one of the leading group benefits and retirement practices in the country.

2021 NATIONAL CONSTRUCTION CONFERENCE

SAVE THE DATE!



FEBRUARY 24, 2021
11:00AM - 4:30PM EST

Navacord was founded to disrupt unchallenged standards and bring together like-minded entrepreneurs to change the face of insurance; to be better for our clients and to build better—together.

Join us as we bring this concept to life through our inaugural National Virtual Construction Conference—**CHALLENGE + CHANGE**.

Construction Industry thought-leaders and leading professionals will come together to face tomorrow's challenges today; to change perspectives and challenge expectations—creating a truly interactive and engaging event.

For more information: construction@navacord.com



We hope this update provided value to you and we wish you a prosperous 2021.
Feel free to contact us if you have any questions about the information presented in this document.

BENEFIT FROM OUR SPECIALIZATION

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