

# Residential construction: Moving forward in the face of uncertainty

Shifting buyer demographics, new technologies and a changing regulatory landscape are reshaping Canada’s residential construction sector—presenting countless challenges, and opportunities, for homebuilders across the country. To mitigate the former while seizing the latter, the status quo is no longer sufficient. To weather these difficult times and emerge stronger, homebuilders will have to maximize every tool in their metaphorical toolbox.

To better understand what that will entail, Grant Thornton LLP hosted a roundtable with nine CEOs from leading residential construction companies. The purpose of the discussion was to find out what strategies these industry leaders plan to implement to remain energized and agile in the years ahead.

While their responses varied, attendees agreed that it is critical to focus less on the elements out of their control—such as economic and regulatory factors—and more on those within it. For many, this involves strengthening external relationships with customers and suppliers; building a stronger organization from within; and fostering a sense of optimism, both inside their office walls and beyond.

## Know your market

Amid considerably low interest rates, tighter mortgage rules and consistently-escalating housing prices, it’s understandable that today’s new homebuyers are different than those of the past. Not only are many Millennial buyers waiting longer to purchase homes—either renting or living with their parents as they save for a hefty down payment—but they have significantly less



money to play with. In fact, according to Royal LePage Real Estate Services, since January 2018, the budgets Millennials have to invest in a home have fallen by 16 percent.<sup>1</sup> Even though the recent [federal budget](#) increased the RRSP withdrawal limit for first-time homebuyers, and the Canada Mortgage Housing Corporation (CMHC) followed up with a First-Time Home Buyers Incentive (FTHBI), these incentives are likely insufficient to cause an upsurge of first-time home buyers in the market.

At the same time, many participants commented that those choosing to buy have different priorities and different housing demands than buyers of the past. The evolution of building materials, social media and housing trends have many buyers, young and old, coveting aesthetically-pleasing homes—complete with granite countertops, trendy cabinetry and hardwood floors. This trend is further exacerbated by the many real estate agents and brokers who opt to leverage Instagram, Facebook and other social media platforms to promote stylish homes, provide video tours of beautifully-staged properties and share interviews with real estate experts.<sup>2</sup>

This can be frustrating for builders, particularly because—thanks to rising interest rates and tightened mortgage rules—most of these buyers are demanding traditionally higher-end features at lower price points. In essence, builders are being asked to do more for less. That said, according to our respondents, it is possible to satisfy buyers in this environment and turn a profit at the same time—it just requires a little creativity and the willingness to explore opportunities builders may not have considered during easier economic times.

For instance, some builders are forging partnerships with product suppliers to minimize costs of higher-end products. Others are bolstering collaborative efforts with developers to share risks and rewards. Some are making efforts to educate consumers on the benefits of pre-sale arrangements, giving them product options at different price points and letting them know how these options differ (e.g. more expensive products may last longer than their less-expensive counterparts). Others say it may be time to revisit their offerings—those traditionally focused on high-level single-family homes, for instance, may consider moving towards mid-level, more affordable offerings, such as duplexes and townhomes. Still others are looking for ways to address oversupply in the condominium market—perhaps by turning the units into rentals, positioning them to sell as rental properties.

## Strengthen your organization from within

In addition to understanding the needs of their target markets, our respondents are taking a long, hard look at their organization's strengths and weaknesses—and making whatever adjustments are necessary to put their best foot forward. For many, this involves conducting a 360 degree assessment of their organization—from the products they produce to their talent pool—and evaluating how they measure up in today's market.

**Collecting such information is critical if you hope to build a strategic plan to see you through the rough landscape ahead—as it can provide invaluable insight into:**



### Your people

By evaluating the key roles and talents within your firm, you can determine where your team's strengths lie and identify holes to be filled. For instance, upon review, you may determine a need to bolster your IT function or identify training opportunities for existing staff. Alternatively, you may find you need to strengthen your internal communication around the value proposition of your company's products, or implement a mentoring program.



### Business development

As building trends evolve, new opportunities surrounding expansion, acquisition and product development arise. By taking the time to understand changing market forces, and comparing those changes to your existing business strategy, you can identify ways to get more out of existing projects, uncover new product opportunities and diversify your business activities.



### Your financial position

While many builders find it tempting to sit tight during tough economic times, in many circumstances these are often the best times to expand. To ensure agility, it's important to regularly review your cash flow, capital requirements and debt capacity—and take advantage of capital in the marketplace, as it becomes available. The key is to consistently monitor your debt levels to avoid becoming over-leveraged.

<sup>1</sup> CPA Canada, July 5, 2018. "Millennials: Here's where they stand in the Canadian housing marketplace," by Sophie Nicholls Jones. <https://www.cpacanada.ca/en/news/canada/2018-07-05-where-millennials-stand-in-canadian-housing-marketplace>

<sup>2</sup> Mansion Global, July 20, 2018. "A Strong Social Media Strategy Helps Homes Sell Faster," by Alanna Schubach. <https://www.mansionglobal.com/articles/a-strong-social-media-strategy-helps-homes-sell-faster-103386>

## Foster positivity

Everyone at the roundtable agreed that, in an industry like residential construction—where it's often difficult to predict what may happen from one day to the next—it's critical to focus on the positive. The rationale is that, by seeing the glass as half-full, it becomes easier to identify and seize new opportunities. According to participants, there are several ways to keep everyone upbeat and focused on the factors within your control:

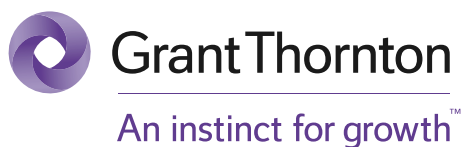
- **Check in.** One of the leaders at the roundtable suggested that it can be helpful if meetings proactively emphasize the things the organization is doing internally to address industry changes, rather than allowing rumors in the industry to become key topics of discussion.
- **Treat mistakes as learning experiences.** Rather than allowing people to dwell on their mistakes, take the time to deconstruct and learn from them. When a new challenge arises, leverage that knowledge to highlight two or three ways to overcome it—and make sure they align with your culture and strategy.
- **Celebrate your successes.** In tough times, it's important to celebrate your wins. So if you've had a strong quarter—or forged a new partnership—make sure to share it with your team. In a similar vein, if your company has overcome a challenge, or done something particularly innovative that others can learn from, don't be afraid to share it with the industry. Positive energy is contagious.



## Moving forward

While the road ahead won't be easy, it is possible for construction companies to grow, evolve and ultimately become stronger in this new housing era. By exploring new opportunities, focusing on what you can control and approaching issues in more energized, you can position now for a future rebound.

As this new residential construction environment is developing, your Grant Thornton advisor is monitoring trends, challenges and opportunities to help you make strategic decisions and take full advantage of sustainable growth. To learn how we can help, contact us.



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