

Move to new markets stunted by lack of financing

In today's relatively weak construction environment, contractors who want to expand beyond their home market to increase project activity may find it difficult to obtain the necessary surety credit.

That's the finding of a national survey of surety bond agents conducted by Grant Thornton, a national accounting and management consulting firm with offices in Southfield.

Among the limitations imposed in the last year on both large and small contractors, geographic expansion was most commonly cited by the 337 surety agents polled. More than half of the surety agents surveyed say construction companies are not restricted from performing work be-

yond their traditional geographic regions.

But in a similar study conducted by Grant Thornton in 1989, this same condition for credit was mentioned by less than 5 percent of the 361 respondents.

"In the fast and furious 1980s, contractors were aggressively searching for new markets in which to do business. But without a thorough knowledge of the marketplace, the projects or the labor force, many contractors underestimated their costs and suffered major losses," said Russel Agosta, chairman of Grant Thornton's national construction group in Southfield.

"With growth in many municipali-

ties stalled due to a saturated real estate market and limited funding for public works projects, the temptation to move into new regions is even greater today. However, the surety industry wants to ensure that the history of the past decade doesn't repeat itself in the 1990s."

ALTHOUGH PERSONAL guarantees will remain a requirement for contractors in need of surety credit, the importance has dropped slightly, the study found. The number of agents giving this response declined from 65 percent in 1989 to 56 percent this year. And nearly half of the

agents surveyed say contractors will be forced to manage their debt more effectively, which was similar to the 1989 findings.

Only 13 percent of those polled believe their construction clients received no additional restrictions in the past year.

"A tight market will force more contractors to emphasize and demonstrate their companies' fiscal strength to minimize the presumption that they present a high risk," Agosta said.

As in the past, surety agents continue to recognize that proper presentation of contractors' financial

statements can have a significant impact on their credit rating. As many as 93 percent consider this their most important advice to help their clients improve credit standing, a finding that's consistent with Grant Thornton's previous survey.

But the study revealed that many agents are now requiring their clients to improve the quality of their job-status reports. Two-thirds of those surveyed now recommend this to contractors.

"Sureties will continue to demand their clients' accountability throughout the life of a construction project. Even contractors perceived as hav-

ing high credit capacity will be forced to comply with stiffer rules and guidelines in the next several years," Agosta said. "In leaner times neither the contractor nor the surety can afford to take unnecessary chances."

To gauge the outlook for surety credit for construction contractors, Grant Thornton mailed questionnaires in July 1991 to 1,925 surety bond producers and received 337 back, a response rate of 18 percent. The prior survey had a 19-percent response rate. The margin of sampling error for both surveys is plus/minus 6 percent.

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— Russel Agosta
Grant Thornton

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