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23

# CONSTRUCTION PAYMENTS REPORT

Insight into the \$273 billion impact of slow payments  
on the construction industry

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# ▶ ABOUT THE SURVEY

How the Speed of Payments Continues  
to Impact the Construction Industry



In 2022, fresh construction activity in the United States hit an impressive \$1.80 trillion, a significant uptick from the \$1.63 trillion recorded in 2021. Despite fewer construction starts in the first half of 2023, the U.S. Census Bureau estimates 2023 is on track to notch an estimated \$1.97 trillion.

Each year, Rabbet conducts a survey of subcontractors and general contractors about the speed of payments in the construction industry; then analyzes the impact on cost for a wide spectrum of stakeholders including contractors, developers, lenders, equity partners, and other vested parties. [This year's report compares survey data from 2023 with data collected in previous years to examine payment trends for the construction industry as a whole.](#)

# ► 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 14% of total construction costs in 2023, an increase from the approximate 12% cost in 2022.



**\$273  
BILLION**

**The U.S. Construction Industry is estimated to reach \$1.97 trillion this year, causing the current cost of slow payments to be \$273 billion.**

**The impact goes beyond costs.** Fifty-seven percent of general contractors and 78% of subcontractors report that work has been delayed—or even stopped—due to a delay in payments to crew members in the last 12 months.

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.

# ► SURVEY HIGHLIGHTS

**56**

**HOURS-PER-MONTH**

general contractors spend managing payments to subcontractors and vendors, a 27.3% increase from 2022

**14%**

of total construction costs can be eliminated with faster, more reliable payments to contractors

**\$273  
BILLION**

is the cost of slow payments to the U.S. Construction Industry

**100%**

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

**141%**

increase in liens filed by subcontractors due to slow payments in the last 12 months

**34%**

of general contractors' contracts have fallen out due to developers not securing project financing in the last 12 months

**57%**

of general contractors have had work delayed or stopped because of a delay in payments to crew members

# ► THE STUDY

The survey captured how general contractors and subcontractors across the U.S. 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 August 2023. Rabbet distributed the survey to contractors representing a wide diversity of trades and would like to thank all survey respondents who gave their valuable time to contribute to this report.

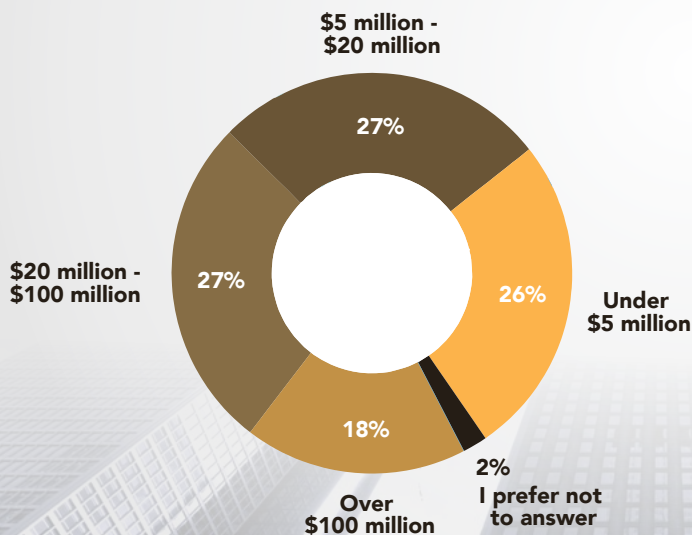
## RESPONDENT BREAKDOWN

Contractor Type: 65% Subcontractors, 35% General Contractors

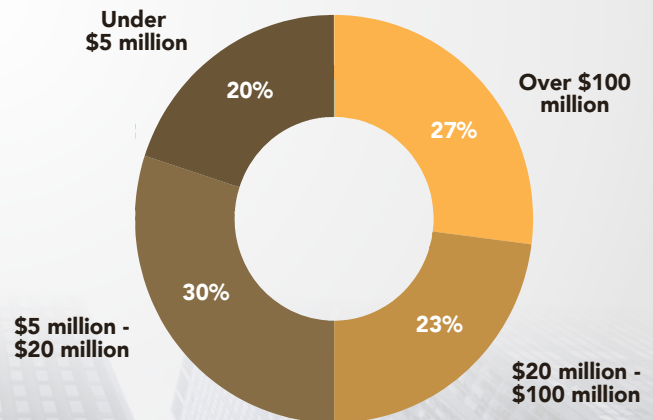
Locations Represented: 100% United States

Top Trades Represented: Roofing, Remodeling, Flooring, Painting

### SUBCONTRACTOR REVENUE BREAKDOWN



### GENERAL CONTRACTOR REVENUE BREAKDOWN



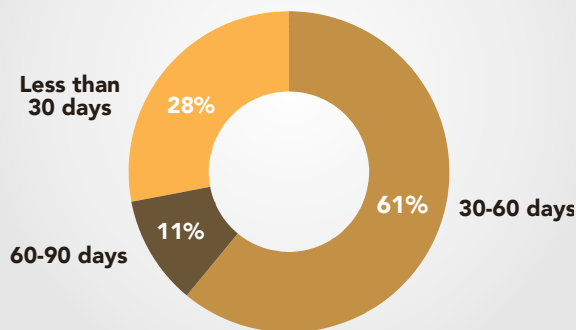
# ► THE REAL COST OF SLOW PAYMENTS FOR SUBCONTRACTORS AND GENERAL CONTRACTORS

## Working Capital Is Imperative To Contracting Businesses

In the construction industry, business expenses are incurred and often must 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 2023, an estimated 72% of subcontractors reported they waited longer than 30 days to receive payment. This number has spiked significantly from previous years as 49% made this claim in 2022 and 50% did so in 2021.

### 72% of subcontractors wait longer than 30 days for payment



Floating payments is not solely a subcontractor problem. General contractors are not immune from the impacts of slow payments and also see value in expediting payments for subcontractors. Sixty-seven percent of general contractors incurred financing costs while floating payments to subcontractors, a minimal change from 62% in 2022, 63% in 2021, and 65% in 2020.

## How Subcontractors Float Payments

Before subcontractors and general contractors receive payment for their services, they have to spend money upfront. To cover these upfront costs, they need to include sufficient funds in their project bids to account for things like overhead expenses. Survey data shows that a significant 92% of subcontractors feel reasonably confident in their ability to accurately estimate and include these overhead costs in their bids. This level of confidence has remained consistent since last year when 93% of subcontractors surveyed expressed the same level of confidence.

To manage their finances while waiting for payment from the general contractor, subcontractors often tap into various sources of financing to cover expenses such as wages and materials. Subcontractors are leveraging every means possible to remain afloat while they are waiting for payment.

After a significant jump last year in the use of credit cards, that trend continues to increase as they use this method to cover the gap in the short term. Subcontractors are drawing down their reserve capital by using business savings and personal savings more in the last 12 months. **The use of business savings to float payments increased by 52% and the use of personal savings spiked by 105%.** Reliance on retirement savings more than doubled from last year.

When asked what the biggest contributor to project delays is, the most frequent response amongst subcontractors pertained to banks and their operations.

SOURCE OF FINANCING	2019	2020	2021	2022	2023
<b>Business Savings</b>	36%	41%	39%	46%	70%
<b>Line of Credit</b>	22%	46%	36%	37%	46%
<b>Credit Card</b>	25%	36%	22%	51%	57%
<b>Personal Savings</b>	31%	20%	15%	19%	39%
<b>Retirement Savings</b>	8%	17%	6%	17%	39%

## How General Contractors Float Payments

While awaiting payment, general contractors must also rely on various financing sources to float payments. The use of credit lines and credit cards has fallen and general contractors are now increasingly utilizing various savings accounts. In the last 12 months, 67% of general contractors have relied on their personal savings. It is noteworthy that there was close to a 68% increase from 2022 to 2023 in the reliance on business savings.

When asked about the biggest contributor to project delays, the top responses amongst general contractors were:

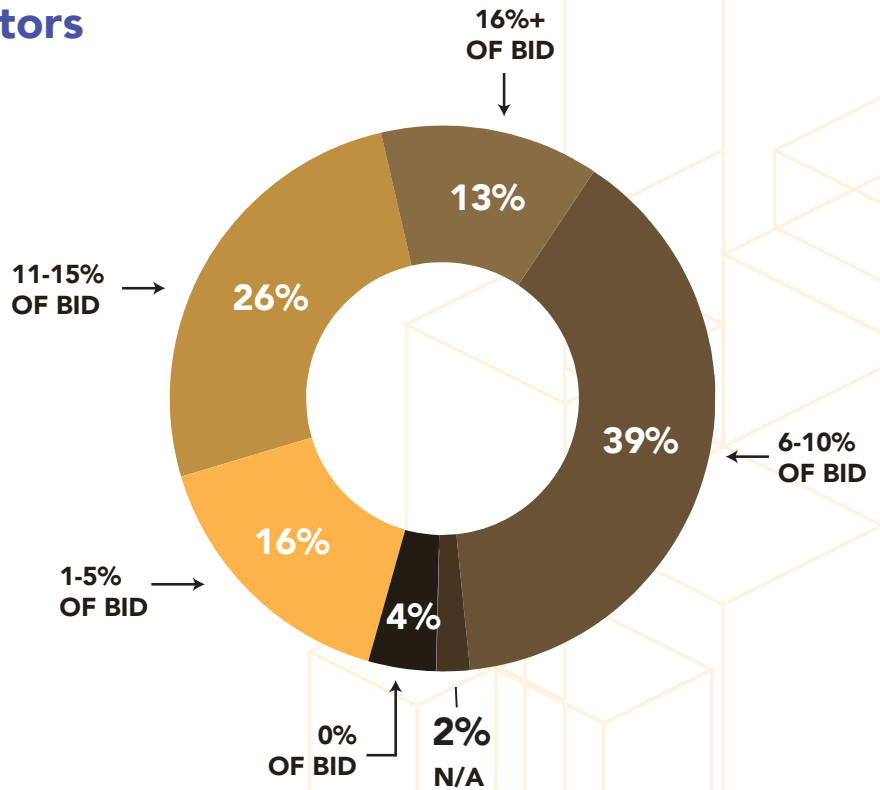
1. Current systems of payments and financial processes
2. Delays in materials
3. Cash flow concerns

SOURCE OF FINANCING	2019	2020	2021	2022	2023
<b>Business Savings</b>	38%	38%	53%	40%	67%
<b>Line of Credit</b>	29%	25%	44%	41%	30%
<b>Credit Card</b>	15%	25%	44%	49%	30%
<b>Personal Savings</b>	6%	23%	27%	28%	37%
<b>Retirement Savings</b>	2%	3%	2%	19%	23%

## Cost Of Slow Payments Included In Bids From Subcontractors And General Contractors

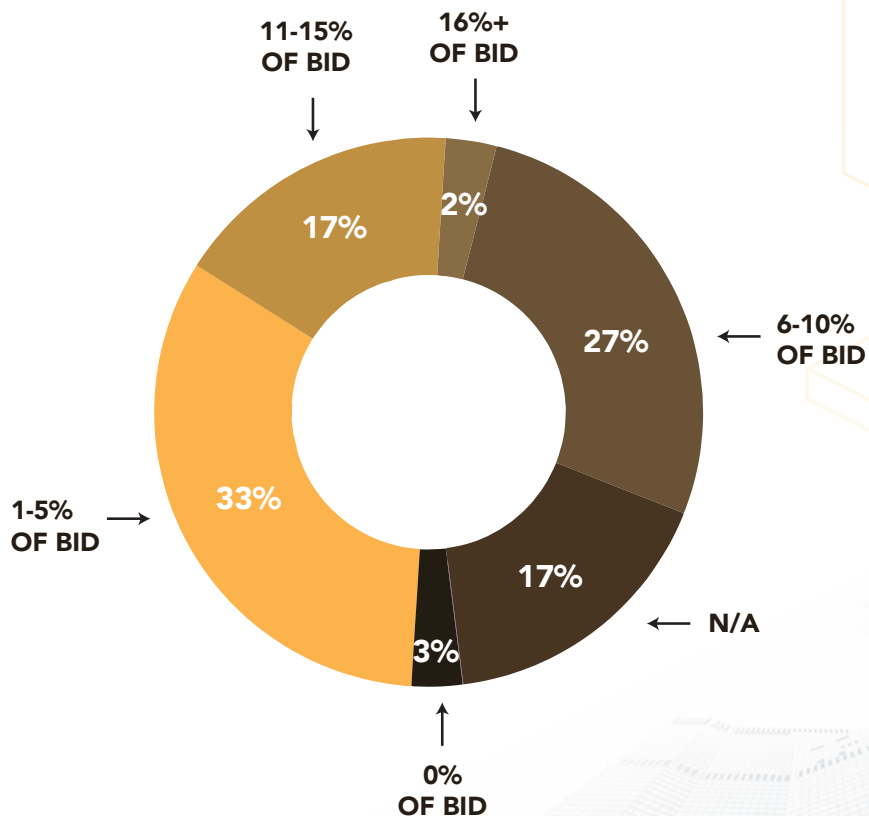
# \$175B

Estimated overhead included  
in **subcontractors' bids** to  
finance slow payments



# \$98B

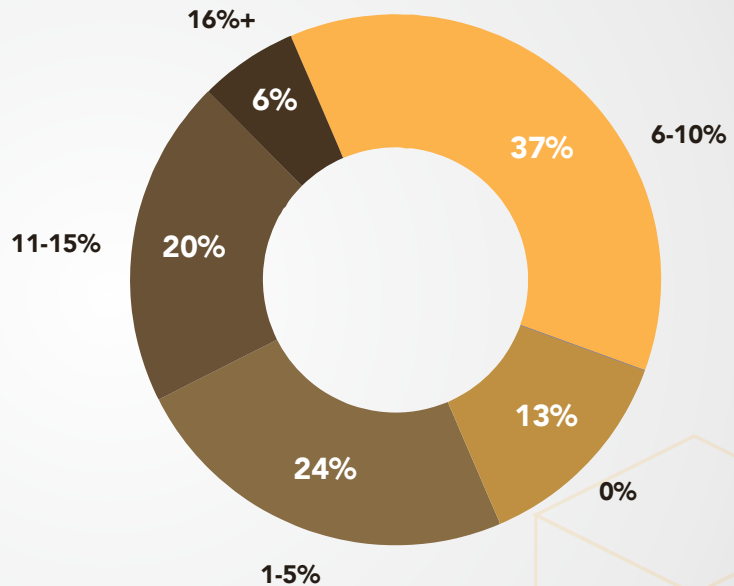
Estimated overhead included  
in **general contractors' bids**  
to finance slow payments



Subcontractors report the average cost of floating payments was 8.9%. This percentage has almost doubled year-over-year since 2021.

### How much of a discount would contractors offer for timely payments?

- 87% of contractors surveyed said they would offer a discount for faster payments.
- 26% of those contractors would discount their contracts more than 10% for faster payments.



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

**First, better relationships yield better results.** Budget, timeline, scope, and quality are all directly related to the general contractor's and subcontractor's ability to carry out their responsibilities. We asked subcontractors how a late payment from a general contractor affects productivity—87% of subcontractor respondents claimed a late payment had an effect on their crew's productivity to some degree.

**Second, reliable payments to general contractors and subcontractors creates certainty.** Certainty reduces project risk and cost at all levels. A full 100% 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 will 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.

# ► SLOW PAYMENTS MATERIALLY IMPACTED PROJECT RETURNS IN 2023

By every measure—schedule, cost, and risk—slow payments were 17% more expensive in 2023 than in 2022. This can be attributed to rising interest rates, material costs, and other market factors.





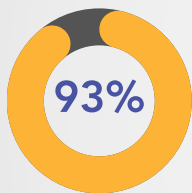
# ► THE IMPLICATIONS OF SLOW PAYMENTS

## **Developers And Capital Partners May Not Realize Their Role In The Overall Cost Of A Project**

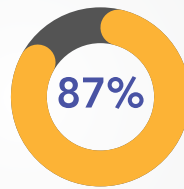
Developers and lenders are the major contributors to slow payments. The impacts of slow low payments on project outcomes is harder to recognize, but slow payments affect project feasibility, schedule, costs, and quality.

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, subcontractors report putting even more weight on the owners reputation when creating bids for projects.

In 2023, 93% of subcontractors are considering the payment reputation of the owner when deciding how much to bid on a project. This is a notable increase from previous years. This number remained relatively stable from 2020 to 2022 between 71% and 78%.



of contractors report work was delayed or stopped due to a delay in payments



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

### What are qualities of someone with a “good” reputation in the industry?

We asked what contractors look for in a developer or project sponsor when considering if they will take on a project, given the current market position.

General contractors value developers or project sponsors who they can trust to have financial security and the financial capabilities to keep a project viable. Subcontractors choose developers or project sponsors who have well-known reputations for reliable payments.

**Ninety-three percent of subcontractors and 67% of general contractors have incurred billing charges, financing charges, or other costs when floating payments to others.**

In reality, lenders, developers, and general contractors all share responsibility for addressing the issue of slow payments in the construction industry. Even those several steps removed from the job site are not immune to the associated costs, scheduling setbacks, and increased project risks.

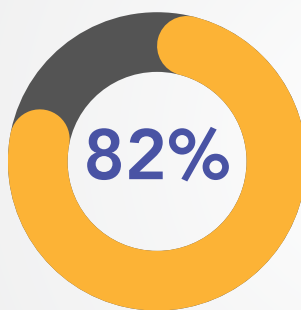
# ► THRIVE THROUGH '25

## Resilience And Pivots Amidst Economic Headwinds

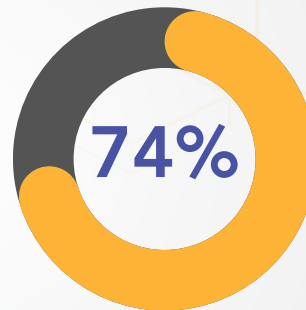
Commercial real estate developers have coined a new phrase called “survive until 25.” This phrase basically means that the industry should be mindful of the current economic environment and take additional precautions to consider cash flow management in all operational, financial, or investment decisions. Some development CFOs may intentionally slow down payments to improve cash positions, but those who speed up payments through process improvements and lender negotiations may help their firms outperform in this economic environment. Negotiating a 14% cost savings by committing faster payments would significantly impact project feasibility. **Now, more than ever, that 14% can be the difference—for subcontractors, general contractors, developers, lenders, and all stakeholders involved—to thrive through 2025.**

This survey sought to understand the current status quo and the risks in today's environment.

### CONFIDENCE IN BUSINESS SURVIVAL: A 12-MONTH OUTLOOK



**GENERAL  
CONTRACTORS**



**SUBCONTRACTORS**

**Eighty-two percent of general contractors and 74% of subcontractors are confident their business will survive the next 12 months.**

Business volumes for subcontractors and general contractors are not crashing. Work is available to them at relatively unchanged volumes in comparison to the rest of the industry.

General contractors claim that their “good reputations, loyal and happy customers, good reviews, and the installation of new technology to handle other departments” bolster their confidence that their business model will sustain the next 12 months.

**Developers who gain a reputation for slow payments may struggle to secure competitive bids from quality subcontractors and general contractors who are in a position to be selective about who they work with.**



Some players in the industry are shifting their focus to adapt to the changing landscape by focusing on alternate or additional assets. We asked subcontractors and general contractors where they have potentially shifted their focuses. Their answers varied but the top two answers amongst both groups revealed a newfound focus on healthcare and science facilities as well as warehouses and industrial projects.

**While 24% of subcontractors report that they are focusing on the same asset type as the previous year; many reported shifts.**

**Additional asset types subcontractors are focusing on in 2023:**

1. Healthcare and science facilities
2. Warehouses and industrial projects
3. Cold storage
4. Student housing projects
5. Data centers
6. Affordable housing projects

**While 30% of general contractors report that they are focusing on the same asset type as the previous year; many reported shifts.**

**Additional asset types general contractors are focusing on in 2023:**

1. Warehouses and industrial projects
2. Healthcare and science facilities
3. Affordable housing projects
4. Student housing projects
5. Cold storage
6. Data centers

### **Are contracts falling out or has the market simply pivoted?**

Thirty-four percent of general contractor's contracts have fallen out due to developers not securing project financing in the last 12 months; 52% of subcontractors made the same claim.



## Why Have Contracts Fallen Out In The Last 12 Months?

Subcontractors		General Contractors
30%	◀ Change in costs ▶	27%
15%	◀ Project was not able to obtain debt financing ▶	10%
37%	◀ Project was not able to obtain equity financing ▶	20%

While business volumes for both groups have remained relatively stable, the shifting focus towards healthcare, science facilities, warehouses, and industrial projects shows adaptation to the evolving landscape. These adaptations underscore the impact of contract disruptions due to financing challenges and changing costs as well as the resilience of the industry as a whole. **Contractors are sourcing and pursuing opportunities wherever necessary to help their businesses “thrive through 2025.”**

# ► TRENDS AND TAKEAWAYS

## 2023 Trends

This year, the estimated cost of slow payments has surged to \$273 billion, approaching 14% of total construction costs. The report highlights a concerning trend regarding the increasing impact of slow payments in the construction industry. This represents a significant uptick from previous years, with 72% of contractors reporting payment delays longer than 30 days in 2023, contrasted to only 49% reporting the same a year ago. This trend spotlights the growing financial burden placed on contractors, developers, lenders, and equity partners due to delayed payments.

Slow payments have materially impacted project returns, with a 17% increase in the cost of slow payments in 2023 compared to 2022. This escalation is attributed to factors such as rising interest rates and material costs. The report also found that work delays due to payment delays have been reported by 67% of respondents, with 65% of subcontractors resorting to filing liens because of slow payments. This is a 141% increase from 2022 and is an indicator of how much more valuable timely payments are today to contractors. [These findings emphasize the direct and indirect effects of slow payments on project schedules, costs, and risks.](#)

### **Takeaway #1: The Market Is Healthy For General Contractors And Subcontractors**

As previously mentioned, business volumes for subcontractors and general contractors are not crashing; however, today a developer's access to these contractors is greatly impacted. In the current environment, contractors hold the keys to profitable projects. Owners need them to submit reasonable bids, show up to job sites, and perform with quality and adherence to timelines. This is another reason a reliable payment reputation is critical for owners.

### **Takeaway #2: Industrial And Science-Based Facilities Are Providing Sustainable Business For Contractors**

Seventy-six percent of subcontractors and 70% of general contractors reported shifting their focus to additional asset types in the last 12 months. Both groups were bidding on healthcare and science facilities as well as warehouses and industrial projects more than other asset types.

### **Takeaway #3: The Cost—And Implications—Of Slow Payments Are More Paramount Now Than Ever**

The construction industry is witnessing a substantial increase in the financial repercussions of slow payments. As the cost of slow payments reaches a staggering \$273 billion, it is imperative for commercial real estate developers and construction lenders to recognize the urgency of addressing this issue. 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. Proactive measures to expedite payments can yield substantial savings and improve overall project viability. If a contractor receives reliable payments, they are less likely to file a lien. The 141% increase in subcontractors filing liens in the past 12 months shows how imperative it is for developers and lenders to pay their contractors on time.

### **Takeaway #4: Certainty Has Value**

For commercial real estate developers and construction lenders, the implications of slow payments extend beyond financial costs. Ensuring timely payments not only reduces project risk and costs, but also enhances the certainty of project outcomes. General contractors and subcontractors emphasize the importance of timely payments in maintaining project quality, adhering to timelines, and ensuring that all parties can fulfill their responsibilities. This reinforces the critical role that timely payments play in achieving successful projects. This survey explored the qualities sought by contractors when selecting developers or project sponsors, emphasizing trust, financial stability, and payment reliability. All are contributors to certainty.

## About Rabbet

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Rabbet is transforming the construction finance industry with tailored solutions that provide a complete picture of construction and asset management portfolios. Designed for real-time workflows and comprehensive insights, Rabbet enables real estate developers, construction lenders, 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 \$60B in construction and capital expenditure projects.

**Want to manage construction finances more efficiently?**

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