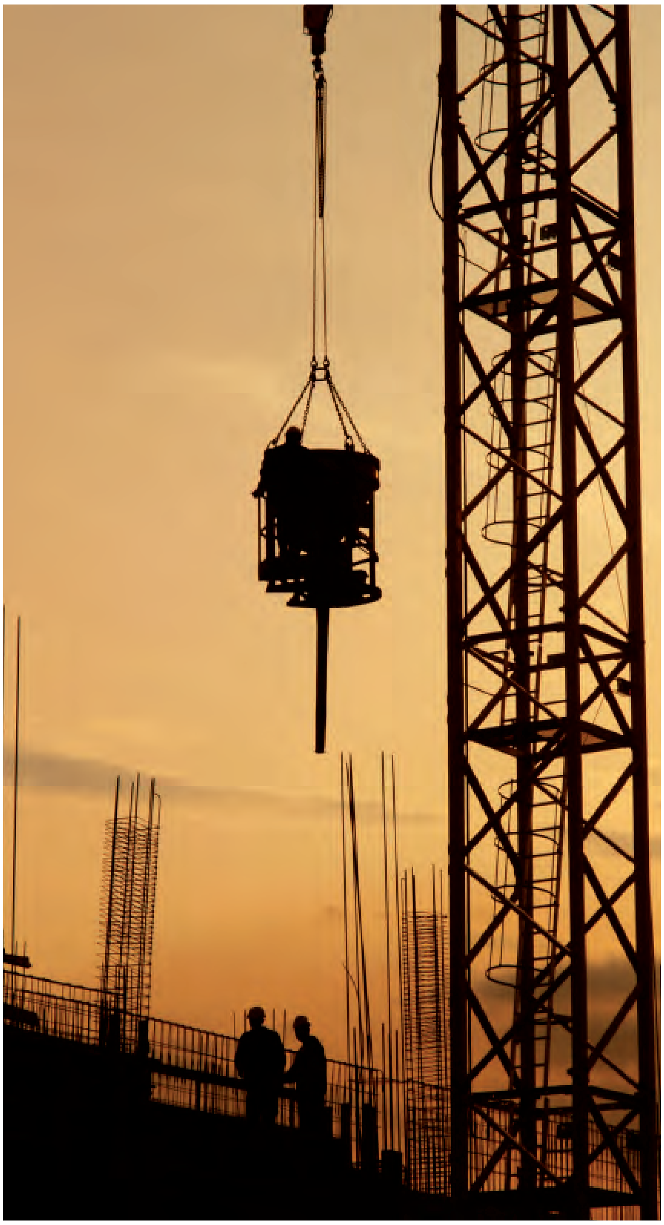
GLOBAL DOWNTURN REDUCES CONTRACTORS' PROFITS AND BRINGS DOWN TENDER PRICES



Europe is the most expensive place in the world in which to build and construction costs in Switzerland top the league with prices some 60% higher than the UK. The fall in tender prices in the UK - down by almost 10% since this time last year - means that the UK only comes in 8th in the European league, well behind Denmark and Finland where costs are respectively 41% and 35% above UK costs, while Sweden slots into 5th place with costs currently running at 115 - 120% of the UK.

Despite the severe financial problems in Ireland, costs remain high, running at around 20% above UK prices. The backlash to the huge expansion of the Irish economy is now being seen and is having an effect on the construction industry where severe cutbacks in workload are being pushed through; construction prices fell by 15-20% last year with a similar fall expected this year.

In the UK, tender prices peaked in mid 2008 and have now been falling for 2 straight years. UK prices are now approximately 16% below the peak and a further year of falling prices is forecast. Recovery, when it comes is not expected to be uniform and there could be a 2-speed movement in tender prices with small and medium sized jobs in London moving out of the red in the 2nd quarter of 2011; on major schemes however, where the supply of contractors / sub contractors is limited, increases in workload could result in higher levels of inflation. Away from London recovery is expected to be slower and tender prices nationally are forecast to fall by a further 3 - 3.5% over the next year.

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"Construction costs in many parts of the world have frozen or fallen over the past year as the global downturn has continued to affect construction workload, leading to reduced profits and bringing down tender prices. Looking ahead, rising commodity prices could create problems of delivery of construction projects which have been won by contractors on low or zero margins".

Peter Madden, Regional Leader, Europe (Mainland) and North Africa

Europe

There is a remarkable level of consistency of price levels among the largest and more established EU countries, with Germany, France, Belgium and Italy all within a range of 97-107% of costs in the UK. Spain is the only one of the larger countries which falls outside the range and Spain is, of course, one of the EU countries which is in the middle of a severe financial crisis of its own and where the construction industry is suffering from a huge level of over-extension in the past. Costs in Spain are around 75% of UK costs and, with investment more or less dried up, costs are expected to show little movement over the next year.

Six years after the enlargement of the European Union to include our Eastern European neighbours, the pricing levels in the countries of Central and Eastern Europe (CEE) also tend to be grouped although at a lower level than most Western European countries. Prior to 2008 a number of these CEE countries benefited from high levels of inward investment from developers looking to get a foothold in their emerging economies. The crash caused a lot of those same developers to think twice about their strategies and in some cases to pull out, leaving the banks and financial institutions in possession of half completed schemes for which there was no demand. Despite state intervention, falling wages and cuts in profits mean that construction prices have fallen substantially in a number of CEE countries. As a result, costs range from around 50-55% of UK prices in Bosnia, Macedonia, Slovakia and Ukraine to 63% in the Czech Republic, 71% in Croatia and 75 - 80% in Poland.

Prices in Russia are some 65-78% of UK prices although for many clients certainty of delivery will point them towards using more reliable Western contractors at higher cost, rather than locally based contractors who may not be able to deliver. Since the credit crunch most developers have frozen their activities in Russia and tender prices have fallen by 15-25% when measured in US$.

The expectation is that the Eurozone countries will see GDP rise by 1.1% this year and by a further 1.3% in 2011. Within that figure there are obviously some winners and losers with Greece and Spain expected to see GDP fall this year, by 4.5% and 0.4% respectively; the Greek economy is expected to show a further contraction of 4.3% in 2011 while the Spanish economy is expected to show a marginal recovery of 0.6%.

North America

The USA was one of the first countries to be hit by the recession but has responded well to the various economic stimuli and is well ahead of Europe on the road to recovery. However construction prices have fallen by as much as 15% since last year and a recovery of prices is not expected until the beginning of next year with a return to a 'normal' market in mid to late 2012. The pricing of key economic components is very fluid at the moment and contractors' overhead and profits have been cut from the normal level of 10-12 % down to 6-9% as contractors struggle to secure workload. Costs in the USA are around 90% of UK costs, but it should be borne in mind that the USA is a vast country with huge regional variations.

Prices in Canada are currently some 10-15% above the UK. Prices in Canadian dollars showed little movement over the past year, but show a substantial increase of around 20% when measured against most other currencies because the Canadian dollar has risen in value by the same amount.

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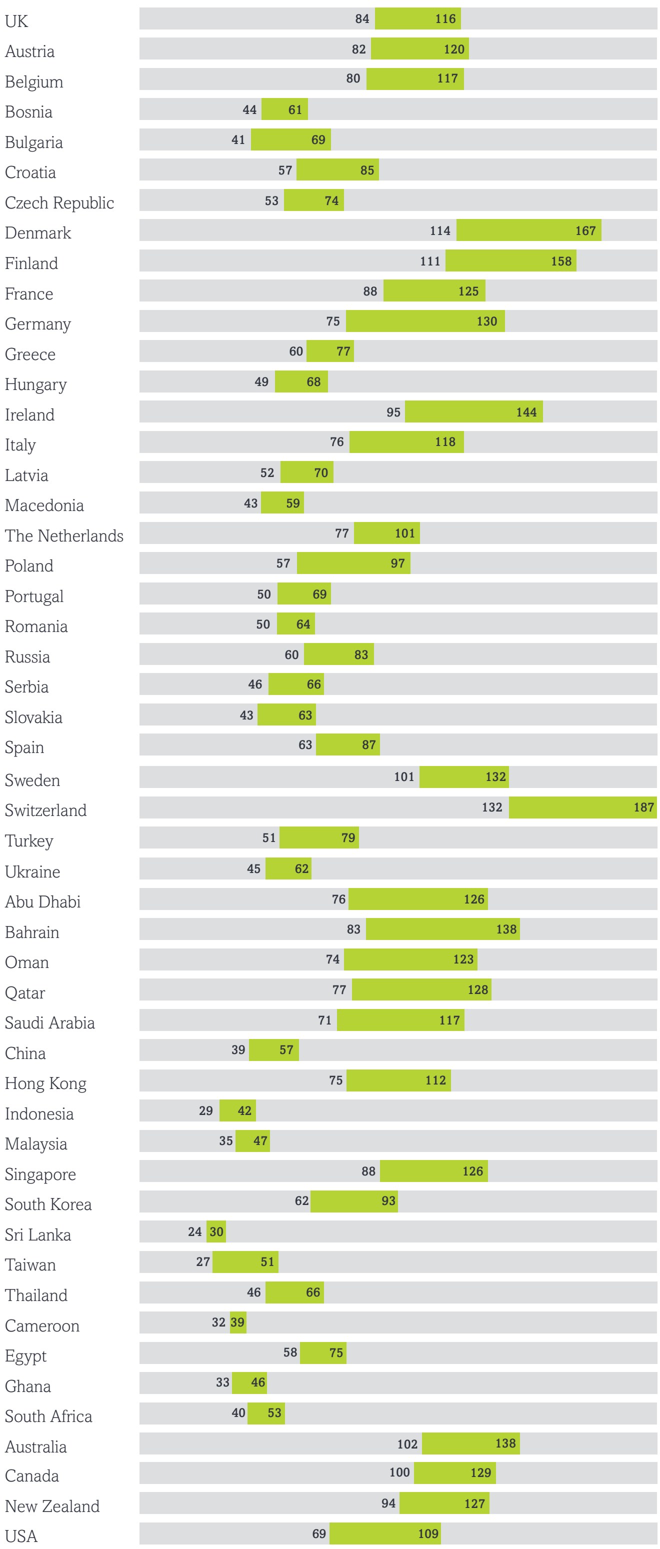
International cost comparison graph



Middle East

Following boom and bust the Middle East is slowly recovering from the situation it was in 12 months ago where huge numbers of schemes were on hold. However that recovery is going to take a long time. Current market conditions mean that clients are rarely securing loans at competitive rates and it is only those organisations with available working capital that are able to press forward with their built asset investments.

Pricing In the region is grouped quite closely and is not dissimilar to the level of pricing in the UK. Bahrain is the most expensive of the GCC countries with prices running at around 11% above UK prices; at the other end of the scale is Saudi Arabia where prices are around 94% of UK prices.

Construction workload in the region is expected to increase towards the end of 2010. In Qatar and the Kingdom of Saudi Arabia (KSA) a shortage of skilled labour is expected to push up labour costs by around 15% by December 2011. In addition, since there are a relatively small number of contractors eligible to operate in Qatar and Saudi Arabia, as workload increases, higher profits margins are also expected to kick in. Inflation is expected to be very similar in the UAE and Saudi Arabia, but is expected to increase significantly higher in Qatar as a result of global energy demand. By the end of 2011, it is anticipated that construction costs in the GCC will be very different to historic performance, with KSA prices rising at a sustainable pace and prices in Qatar reaching similar levels to those witnessed towards the end of 2007.

Asia Pacific

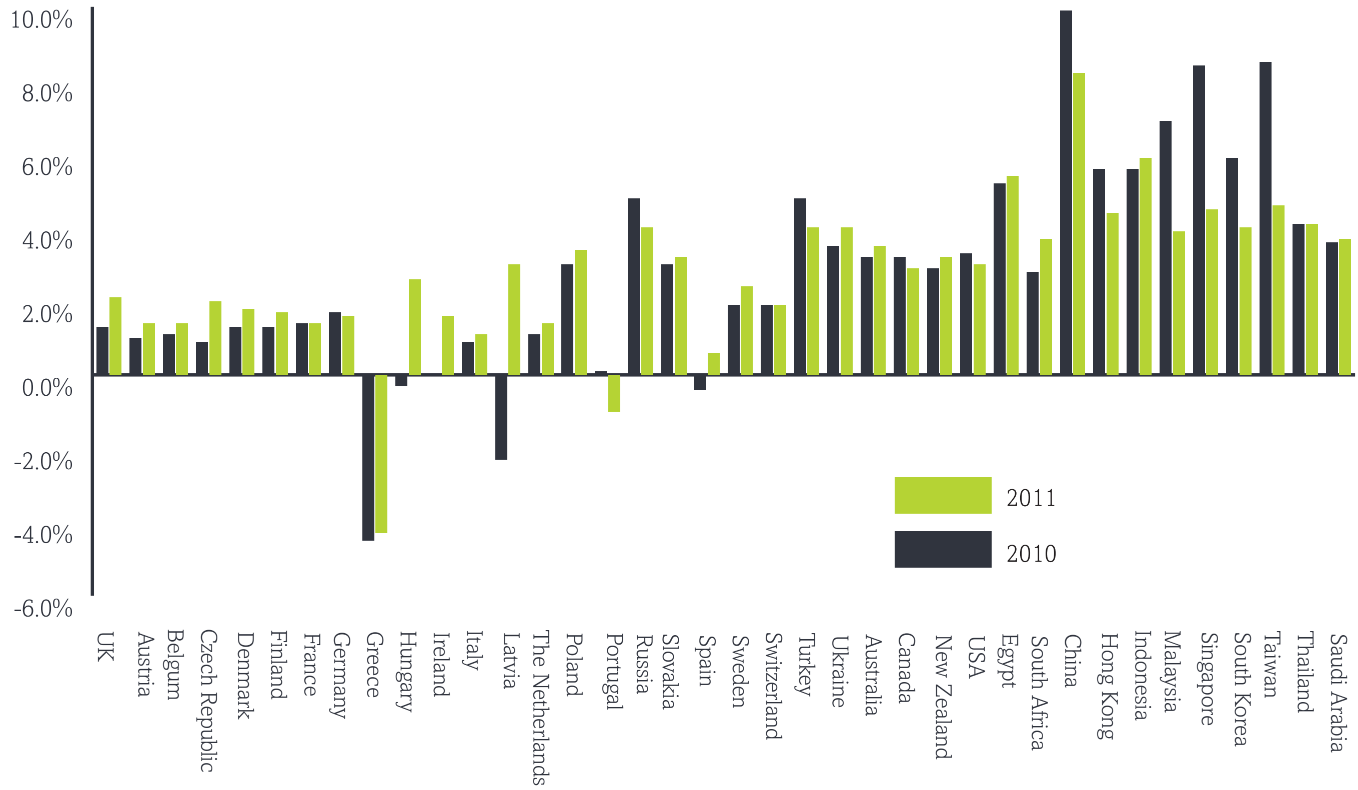
Even as most economies were crashing, the Chinese economy never stopped expanding. Industrial production increased by 16% over the past year and the current expectation is that the economy will grow by 9.9% this year and by a further 8.2% in 2011.

China's response to the banking crisis was to inject over US$500 billion into the economy with major programmes of infrastructure and housing investment for first time buyers. Partly as a result of this injection of cash, construction output rose by 22% in 2009 creating an element of overheating and leading the government to impose a number of measures to slow down the property market. The rise in construction output had little effect on tender prices in China, which are expected to rise by 3% this year and then by a further 5% in 2011. Construction prices in China are currently around 50% of the level of prices in the UK.

The economic climate in Hong Kong is not as favourable as in the rest of China, although prices are well ahead of those in China with Hong Kong prices as a whole running at 90 - 95% of UK prices. Construction workload and tender prices in Hong Kong rose steadily throughout 2009, driven primarily by government spending on infrastructure. This increase in investment has led to sharp rises in some prices and it is expected that there will be a period of readjustment as the supply chain tries to rebuild capacity. The market in Hong Kong is very difficult to predict; a number of different scenarios present themselves which could see tender price inflation ranging from 2% to 20% over the next year.

Construction prices in Singapore remain the most expensive in the Asia Pacific region and are currently running at around 5 to 10% above UK prices. Tender prices in Singapore fell by around 8% last year, but the market now appears to be recovering on the back of the strong economic growth in the country. The completion of around 550,000 m² of new build office in Singapore over the coming year and the resultant fit out of this space is creating a locally 'hot' market, which could see a strain on the supply chain and increases in tender prices. In fact the bounce back in the Singapore economy has outstripped even China with industrial production up by 50%, feeding a rise in GDP of 38% in the first quarter of 2010. The growth is expected to slow somewhat over the rest of the year, but nevertheless the economy is forecast to grow by 8% this year and by a further 4.5% in 2011.

Worldwide Economic Growth (2010 - 2011)



Details of the survey

The indicative figures above have been calculated from the EC Harris survey of construction costs in 50 different countries. The survey was conducted across EC Harris' offices worldwide, with data collected in cost per m² format for a wide spectrum of building types covering industrial, offices, retail, residential hotels, etc.

All buildings are deemed to be 'International', and constructed to Western European specification standards, but there will always be differences in specification for the same building constructed in different countries. Even within Western Europe, the insulation and heating requirements will be very different in countries as diverse as Sweden, Italy or Spain. Where buildings are constructed to local standards, using local techniques, costs can be substantially cheaper than those given, particularly in some Third World countries.

Procurement and contractual arrangements can also have a substantial effect on costs, Site labour costs remains one of the key drivers, while the sourcing of materials, including the use of imported mechanical and electrical engineering plant, can have a profound effect on prices.

The full EC Harris publication gives cost per m² figures for 44 different building types, across all sectors.

Contact

Paul Moore
Head of Cost Research

e paul.moore@echarris.com

w echarris.com/research