RLB | Rider Levett Bucknall


# International Construction Cost Commentary

May 2009 Update Survey

# Construction costs continue to soften

Rider Levett Bucknall, leading property and construction consultants, recently conducted their latest International Construction Cost Commentary Update Survey. The comprehensive survey of Rider Levett Bucknall's international network of offices captured details of the current nature of local construction markets and construction costs as at May 2009. The survey also revealed the prospective future path of construction cost movements in these markets.

The majority of respondents report continuing deteriorating general economic conditions. Signs are however emerging of improvement in mainland China. Civil and infrastructure market conditions are holding up reflecting extensive government stimulus programs. Other construction markets however remain under pressure.

## Americas

There has been an overall decline in construction prices for the second consecutive quarter. This dramatic deflationary momentum is attributable to decreasing structural steel costs and to an even greater degree the growing contractor hunger, particularly within the subcontract trades. Contractors' concerns about the availability of work have overshadowed the role of commodities in driving down construction costs.

Our research suggests that between January 2009 and April 2009 the national average decrease in construction costs was 5.1%. All locations reported deep quarterly drops with Boston and Portland at the less dramatic end of the spectrum reporting declines of 3.2% and 3.7% respectively. Denver and Seattle showed more substantial quarterly decreases of 7.5% and 7.9% respectively.

In the recent past material price volatility together with the high volume of available work have driven substantial increases in construction costs. From April 2001 to October 2008 inflation in the price of labor and materials—as measured by Engineering News Record's Building Cost Index-overtook the increase in the Consumer Price Index by approximately 8%. In the same period, bid prices as measured by Rider Levett Bucknall's National Construction Cost Index outpaced an increase in the CPI by more than 23%.

It is our view that, as well as having to endure a shortage of projects, an uncertain economy and commodity price volatility, contractors and subcontractors will also have to deal with the closing of this index 'gap', the effects of which will be magnified at times by the seemingly illogical bidding tactics of some competitors.

Sectors hit hardest by the current crunch are housing and apartments, however civil infrastructure appears to be holding up as a consequence of government policies ramping up in this sector. There is an indication that East Coast construction markets, in particular Boston, Washington DC and New York may be stabilising.

## Asia

Mainland China construction markets appear to be stabilising. Hong Kong and Singapore construction, with the exception of infrastructure projects, remain depressed. In Singapore, continuing steep falls in building costs are evident and expected to continue. This reflects the boom and bust characteristics of the island's building cycle.

Tender prices in Mainland China have been falling since mid-2008 largely due to the decline in construction material prices and the widespread postponement of property development projects as a result of the credit crunch hitting the world economy. Since early 2009, the Chinese Government's economic stimulus packages appear to have been gradually producing the desired effect. Recent months have seen increased construction activities amid a much improved sentiment that China will be the first major country to recover. The overall fall in tender prices is expected to be mild throughout 2009.

In Hong Kong, construction activities have remained suppressed while tender prices have kept on falling in the first two quarters of 2009. With more infrastructure projects coming into the market and an expected imported inflation due to a weaker US dollar in the second half of 2009, tender prices are expected to stabilise with mild volatility in the coming months.

In Singapore the subdued property market resulting from the global economic downturn has reduced overall construction demand. Building tender prices have declined noticeably as the costs of major construction materials decrease and competition among contractors for limited building projects increase. Tender prices are anticipated to continue their downward trend for the next two quarters.

## EMEA (Europe Middle East and Africa)

Recent months have seen dramatic reductions in tender prices and perhaps of more concern, widening spreads on tender ranges.

This presents both opportunities and threats for clients. Opportunities due to the genuine reduction in the cost of construction and threats due to the real danger of engaging supply chains at unsustainable prices.

Cost reductions are occurring across all sectors of the industry and are affecting designers, consultants, contractors, sub-contractors and supply chains. The numerous predictions about tender price movements and the length of time that these will exist for vary enormously.

We think that in the UK tender prices will continue to fall for the remaining half of this year and well into next, albeit at a lesser rate. The level to which they fall will be entirely dependent on the length and severity of the recession, its effect on those bidding for work and the specific market in which the bidder is operating.

We are seeing the development of a two tier economy. Some of the larger financially stable contractors with relatively secure long term order books are only reducing tender costs by modest amounts. Smaller contractors and supply chains are competing harder for what work remains. This increased competition is producing lower prices, some of which may prove unsustainable over the contract period. This may result in increased insolvencies of small to medium sized contractors and their supply chains.

Predictions for tender price deflation range from reductions of 3% to 10% in 2009, and between 1% to 5% in 2010. BCIS currently forecast UK Construction deflation of 6.5% and 1.8% in 2009 and 2010 respectively, with 4.2% of the deflation happening during the second half of 2009.

Tender price inflation is generally expected to begin in 2011, although this is far from certain in a market which continues to surprise and disappoint in equal measure.

## Oceania

Australian construction markets are showing significant softening in construction costs during the March 2009 quarter in most capital cities. Rider Levett Bucknall expects the cost of construction to continue to fall in most states.

This fall in cost is a consequence of decreasing industry workloads and an increasingly competitive tender market exerting downward pressure on contractor, subcontractor and supplier margins.

Perth recorded the largest decline in construction costs of the quarter (6%). Melbourne and Adelaide recorded a 1% drop and Brisbane a slightly higher 1.1% drop in construction costs. Sydney, Canberra and Darwin's costs stabilised, showing no movement during the quarter.

New Zealand markets remain subdued with no indications of a revival in activity. Wellington is reporting deterioration in housing and apartment markets and together with Auckland, a continued lowering of building costs.

In Adelaide the Federal Government stimulus package is about to kick in and will impact on the construction industry, with the Government spend being significant in the infrastructure area.

A significant number of Brisbane commercial office projects are still in their construction phase with future projects difficult to prove financially viable. A large number of proposed retail projects have been put on hold or scrapped.

The Darwin market has become more cautious and competitive. There is a lot of work coming out due to government stimulus packages and, being a small economy, this has real impact and makes up for shortfall in potential commercial activity. A few large scale commercial projects have stalled but as they were only in the planning phase it has not affected the market especially as other projects have come on board.

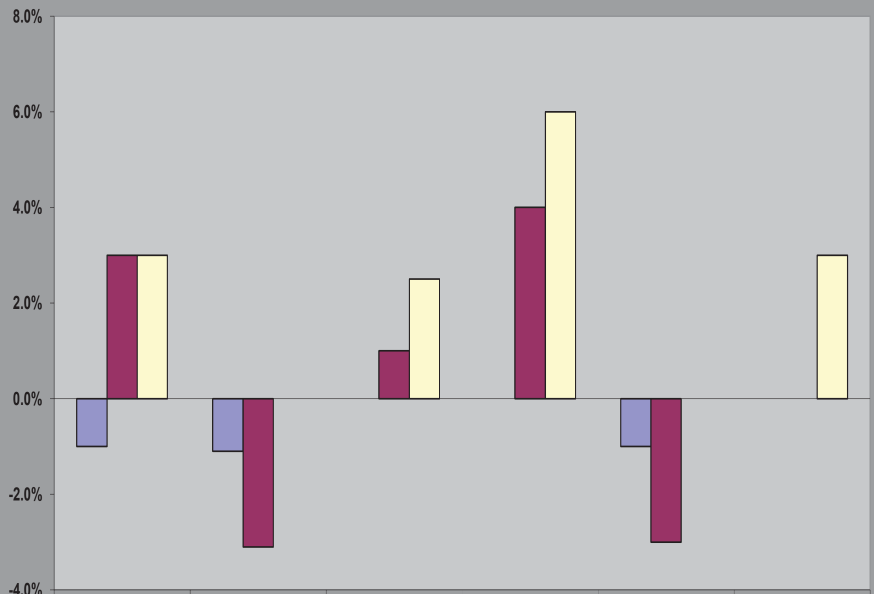
In Sydney the number of available projects for commencement is decreasing and contractors are taking steps to secure work in order to maintain cash flow and work force. Although labour costs have risen due to enterprise bargaining agreements, contractors are attempting to absorb them by reducing profit margins in an attempt to secure work in the short term and maintain cash flow through the business in order to survive the short term contracting business cycle.

**Green Square, Brisbane**
Quantity Surveying by Rider Levett Bucknall.

**Singapore Flyer** Project Management, Quantity Surveying and Contract Administration by Rider Levett Bucknall

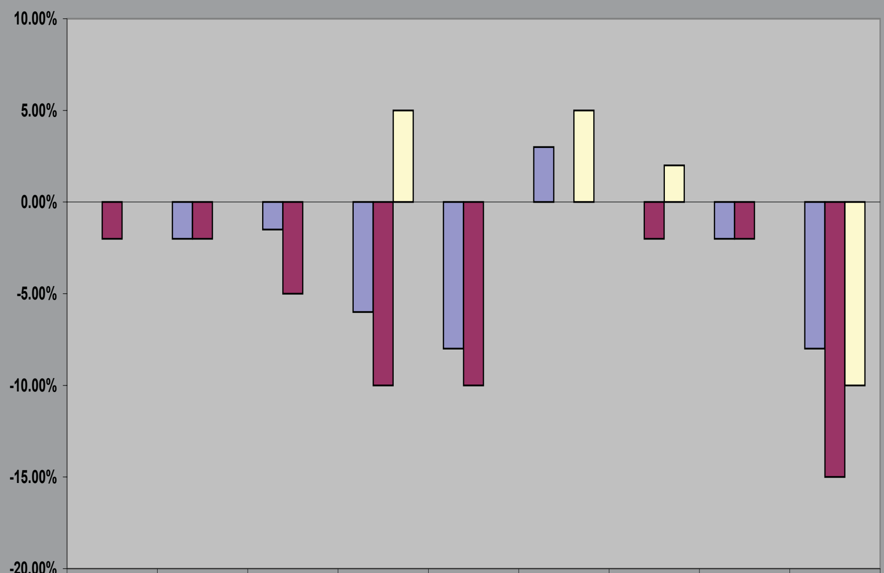
**Phoenix Convention Centre** Cost Estimating, Value Engineering & Scheduling by Rider Levett Bucknall

# Australia Tender Price Movements



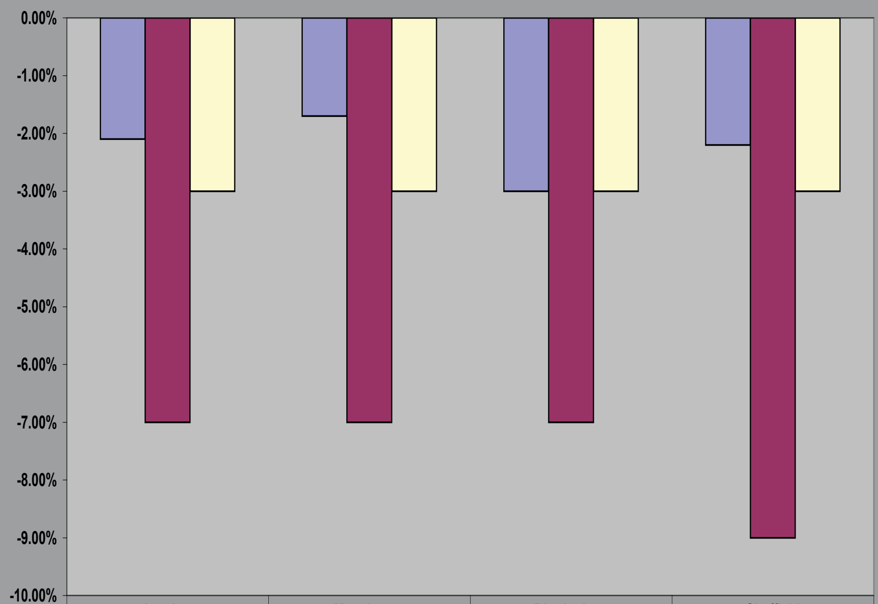

| | Adelaide | Brisbane | Canberra | Darwin | Melbourne | Sydney |
|---|---|---|---|---|---|---|
| March Qtr. 09 | -1.0% | -1.1% | 0.0% | 0.0% | -1.0% | 0.0% |
| 2009* | 3.0% | -3.1% | 1.0% | 4.0% | -3.0% | 0.0% |
| 2010* | 3.0% | 0.0% | 2.5% | 6.0% | 0.0% | 3.0% |

# Asia Tender Price Movements



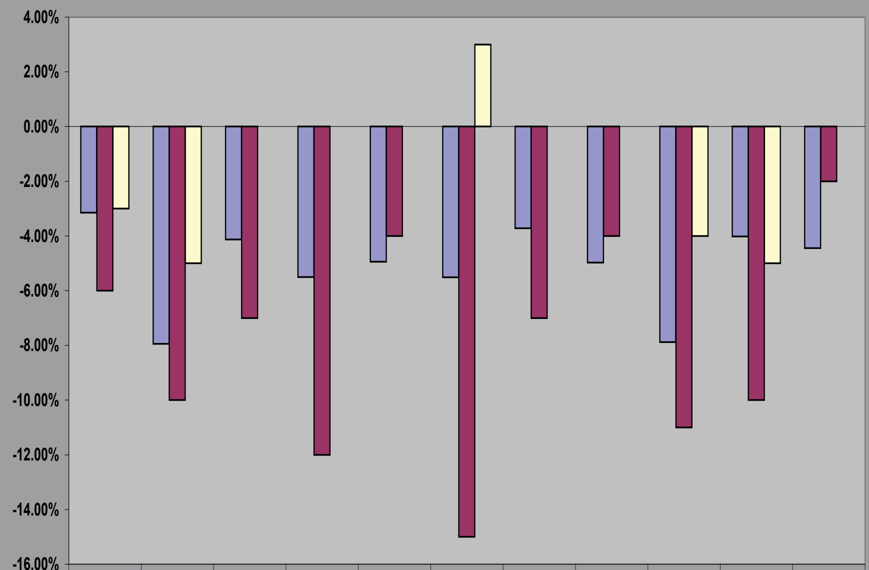

| | Beijing | Guangzhou | Ho Chi Minh City | Hong Kong | Macau | Philippines | Shanghai | Shenzhen | Singapore |
|---|---|---|---|---|---|---|---|---|---|
| March Qtr. 09 | 0.00% | -2.00% | -1.50% | -6.00% | -8.00% | 3.00% | 0.00% | -2.00% | -8.00% |
| 2009* | -2.00% | -2.00% | -5.00% | -10.00% | -10.00% | 0.00% | -2% | -2.00% | -15.00% |
| 2010* | 0.00% | 0.00% | 0.00% | 5.00% | 0.00% | 5.00% | 2.00% | 0.00% | -10.00% |

# UK Tender Price Movements



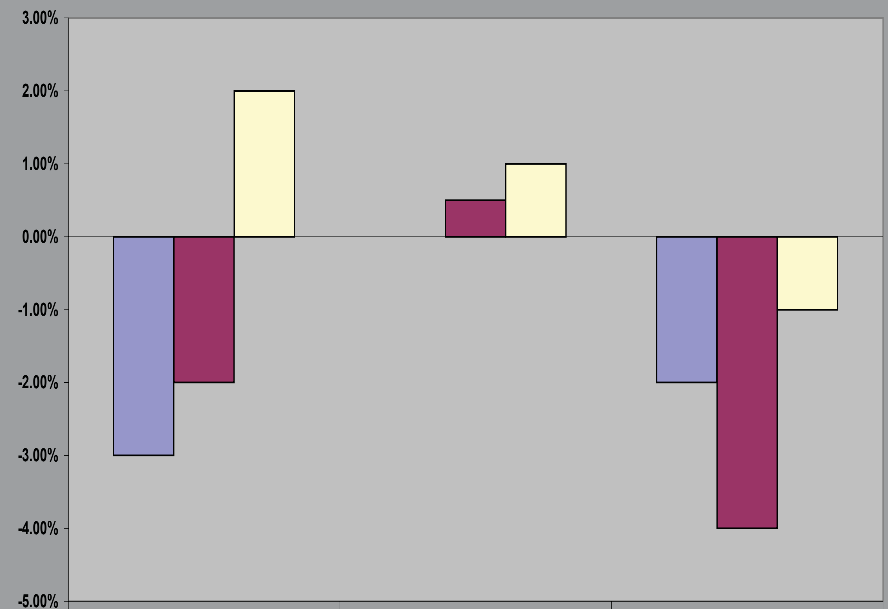
| | London | Manchester | Birmingham | Sheffield |
|---|---|---|---|---|
| March Qtr. 09 | -2.10% | -1.70% | -3.00% | -2.20% |
| 2009* | -7.00% | -7.00% | -7.00% | -9.00% |
| 2010* | -3.00% | -3.00% | -3.00% | -3.00% |

# USA Tender Price Movements



| | Boston | Denver | Honolulu | Las Vegas | Los Angeles | Phoenix | Portland | San Francisco | Seattle | Washington DC | New York |
|---|---|---|---|---|---|---|---|---|---|---|---|
| March Qtr. 09 | -3.15% | -7.94% | -4.13% | -5.50% | -4.94% | -5.51% | -3.72% | -4.97% | -7.88% | -4.02% | -4.44% |
| 2009* | -6.00% | -10.00% | -7.00% | -12.00% | -4.00% | -15.00% | -7.00% | -4.00% | -11.00% | -10.00% | -2.00% |
| 2010* | -3.00% | -5.00% | 0.00% | 0.00% | 0.00% | 3.00% | 0.00% | 0.00% | -4.00% | -5.00% | 0.00% |

# New Zealand Tender Price Movements




| | Auckland | Christchurch | Wellington |
|---|---|---|---|
| March Qtr. 09 | -3.00% | 0.00% | -2.00% |
| 2009* | -2.00% | 0.50% | -4.00% |
| 2010* | 2.00% | 1.00% | -1.00% |

## AMERICAS

**CANADA**
Calgary
Toronto

**USA**
Boston
Denver
Honolulu
Kona
Las Vegas
Los Angeles
New York
Portland
San Francisco
Phoenix
Seattle
Washington DC

**CARIBBEAN**
Barbados
Cayman Islands

## ASIA

**CHINA**
Beijing
Chengdu
Dalian
Hong Kong
Guangzhou
Guiyang
Macau
Sanya
Shanghai
Shenzhen
Shenyang
Tianjin
Wuhan
Wuxi
Xian
Zhuhai

**MALAYSIA**
Kota Kinabalu
Kuala Lumpur

**PHILIPPINES**
Manila

**SINGAPORE**
Singapore

**INDONESIA**
Jakarta

**SOUTH KOREA**
Seoul

**THAILAND**
Bangkok

**VIETNAM**
Ho Chi Minh City

## EMEA

**UK**
Birchwood/Warrington
Birmingham
Bristol
Edinburgh
Liverpool
London
Manchester
Newcastle
Sheffield
Warton
Wokingham
Welwyn Garden City

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Dubai
Muscat
Riyadh

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Belgium
Bulgaria
Czech Republic
Estonia
France
Germany
Greece
Hungary
Ireland
Italy
Kazakhstan
Latvia
Luxembourg
Malta
Netherlands
Norway
Poland
Portugal
Romania
Russia
Spain
Sweden
Slovakia
Slovenia
Switzerland
Turkey
Ukraine

## OCEANIA

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