

Uncertain Times Ahead for the Construction Industry

AUSTRALIA, Sydney 17 April, 2008: Rider Levett Bucknall's April 08 Oceania Construction Cost Commentary released today confirms there are uncertain times ahead for the Australian and New Zealand construction industry.

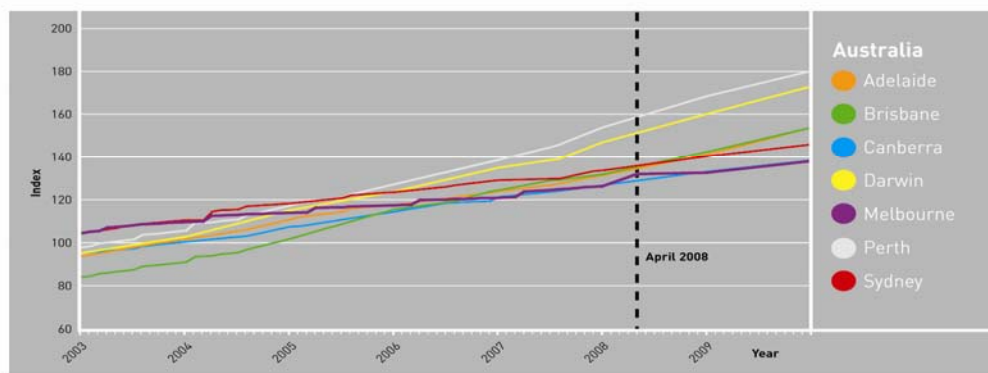
Whilst in the United States, the Federal Reserve continues to reduce rates in hopes of invigorating the economy, in Australia the converse has been true, with the Reserve Bank raising interest rates in a bid to control inflation. In construction markets, the global credit squeeze has affected New Zealand confidence levels to a greater extent than it has in Australia where current activity levels are at an all time high.

Mark Lochran, Director of Research & Development at Rider Levett Bucknall commented that the fire in Perth's construction market is still all-consuming, with Queensland and the Northern Territory displaying similar conditions, but less aggressively so. "Australia-wide, there is an abundance of workload at an all time high, although the latest building Approvals have slipped somewhat," he said. The value of construction work done in Australia rose by \$13.6 billion from 2006 (\$112.9Bn) to 2007 (\$126.5Bn), corresponding with a 1.5% rise in GDP growth (2.9% in 2006 and 4.4% in 2007) and a CPI increase of 0.1% (from 2.9% in 2006 to 3.0% in 2007).

In New Zealand, the market is less vibrant, as the credit squeeze is having an impact and nervousness has begun to pervade the market. This could further reduce construction activity, which has already seen significant reductions with a minor \$600 million increase in construction work from 2006 (\$20.5Bn) and 2007 (\$21.1Bn) as opposed to a \$1.8 billion increase between the years of 2005 and 2006.

The below charts entitled Price Trends for Australia and New Zealand, show the changing costs of works over time for each capital city relative to Sydney's base of 100. Darwin and Perth are the markets to keep a close eye on in the future, with further cost increases forecast.

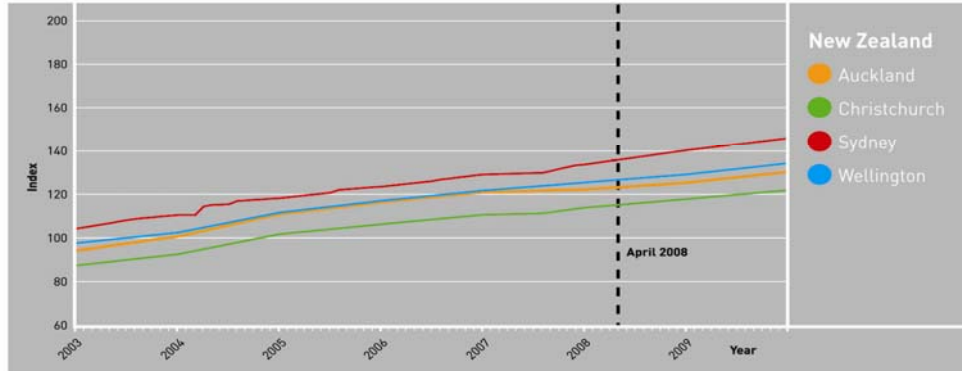
Price Trends for Australia



Tender Price Index – Sydney Base
The tender price index graph shows the changing costs of works over time relative to Sydney's base 100 at January

2000 and is based upon Rider Levett Bucknall models of CBD/CBD fringe commercial office and residential multi-storey construction

Price Trends for New Zealand



Tender Price Index – Sydney Base
The tender price index graph shows the changing costs of works over time relative to Sydney's base 100 at January

2000 and is based upon Rider Levett Bucknall models of CBD/CBD fringe commercial office and residential multi-storey construction

AUSTRALIA

Adelaide

Over the past six months, contractors have been particularly keen to obtain work, but this enthusiasm is now tapering as labour resources are becoming scarce and trades contractors are being more selective in their tendering.

Low levels of office vacancies, relocation of Government departments and several major corporates seeking office space have all contributed to the continued high levels of office activity. This, together with over \$16Bn of other major infrastructure and building works entering the market this year, suggests possible market saturation, with skilled labour resource shortages likely.

Both committed and potential projects coming on line include the \$550 mill Hardened Networked Army project – the relocation of Defence's 7RAR Battalion from Darwin's Robertson Barracks, new prison projects (\$700 mill), several schools (\$200 mill), a new hospital (\$1.7 bill) and Port Adelaide Waterfront redevelopment (\$250 mill).

All of the foregoing together with base material price increases will impact adversely upon tender price inflation.

Rider Levett Bucknall has seen the market notably tighten up. Director Stephen Knight has commented, "There have been developers and architects in this market going out to 6 builders, but on occasions only receiving 2 to 3 tender prices."

"Across the board, labour resources are becoming scarce and trades contractors are being more selective in their tendering", he said.

Brisbane

Recent commercial office project commences have imposed a high level of demand on earthworks, piling and structural trades, whilst infrastructure workload remains at unprecedented levels.

Inevitably, this has resulted in significant pressure on supply of reinforcement, concrete and steelwork. Increased office sector rentals have enabled projects to proceed despite rising construction costs, although residential apartment feasibilities have been constrained by investor price point ceilings and interest rate rises.

Demand for investment apartments is capped by borrowing capability and low yields. Tender price growth softened slightly throughout 2007, due to a lag in the commencement of office projects.

The forecast is now for increasing pressure on construction costs as many concurrent projects come to the market, including the State Government social infrastructure projects which are due to commence later this year.

Mark Burow, Managing Director of Rider Levett Bucknall Queensland commented that with the amount of projects on hand, expertise is stretched.

“We are seeing our infrastructure clients move more toward alliance contracts to deliver the complex projects in shorter timeframes,” he said.

“The industry is experiencing major escalation in precast concrete items and steel, in addition to wages and salaried staff. Additional payments to retain employees for the duration of the project are also increasing construction prices.”

Canberra

The last four months has seen a dip in tendering activity levels. This has given rise to more competitive pricing, however there are several large projects now entering the tender market which will restore the previous pricing levels.

Lack of resources remains an issue, with tradespeople and supervisory staff being imported from Sydney and Melbourne.

For the larger contractors, much is dependent upon the advent of several large Government commercial office projects over the next six month period.

Workload levels remain relatively high in historical terms, such that the impact of this additional work will once again stimulate inflationary effects.

Darwin

High levels of general economic activity continue to place heavy demands on human resources, with a number of residential, hospitality, industrial and commercial office projects in both planning and construction stages.

The defence sector is also active with sizeable projects in preconstruction phases. Additionally, other large scale gas and process industry projects are undergoing feasibility studies and may get the green light. This would further improve the economic outlook, whilst maintaining pressure on the construction industry.

Meanwhile, the Government Strategic Intervention in remote communities is potentially laying the foundation for increased house-building and maintenance work, flowing on into educational and health development projects.

Overall, building activity and tender prices are expected to continue on an upward trend.

Melbourne

Workload remains high, with current projects utilising the full capacity of the market.

In the last six months, no serious spikes in cost have been generated, however the recent rise in steel prices is yet to feed through.

Workload projections are high through to the end of the year, but beyond 2008 the forecast is for a general stabilisation of the market.

The expiry in December 2008 of the Enterprise Bargaining Agreement (EBA) will give rise to another round of wage bargaining, with the possibility of wage expectations outweighing sustainable levels of increases.

Overall, the expectation is for sustainable levels of workload for the year, and beyond, however this prognosis could be adversely affected if the global credit turmoil continues to rumble on.

Perth

The white-heat of the Perth construction market shows no signs of subsiding.

Rising commercial, residential and retail rental rates have sparked a further round of development.

Although there are early signs that the market may be slowing in the small to medium sized project sector, increased large-scale work and ongoing labour constraints have maintained pressure on construction costs.

A number of significant CBD projects have either recently commenced construction or are about to do so, at a time when resource shortages are at their most severe.

Although a continuation of the current growth phase is anticipated, the inflation in living costs, wages and construction costs may exhaust the market's ability to provide adequate returns on investment for some development opportunities.

Sydney

Work volumes in Sydney have remained fairly constant during the last six months. To date, the market has been shielded from the worst of the sub prime and credit squeeze crisis.

Increases in base material costs have been mitigated by reliance upon imported, fabricated materials from China, resulting in overall industry prices remaining reasonably static. Recently announced increases in steel supply prices may however be the first of many.

Difficult and complex work continues to attract a premium due to ongoing shortages of skilled labour. Whilst commercial office development activity continues, residential commencements remain subdued despite pent up demand and rising rents.

Given recent interest rate increases and uncertainty in relation to future movement, a postponement of some potential projects and possible discounting of tender prices is anticipated in the second quarter of 2008.

The industry is expecting increased wage requests and possible industrial activity as EBAs expire this year, however demands may be tempered if construction workload starts to reduce.

NEW ZEALAND

Auckland

The demise of several second tier financial/funding companies has created tension in the market, especially in light of continuing high interest rates and a slowdown in the apartment and residential market.

The upside is that contractors are eager to tender and their pricing reflects competitive conditions. On the other hand, raw materials prices continue to rise due to foreign demand and the labour market remains tight due to the lack of available skilled workers. Current workload is being sustained predominantly by ongoing commercial office, retail and Government projects. Contractors keen to obtain this work have to some extent absorb cost increases.

Perversely however, some upcoming projects may be deferred due to a lack of available finance, even though competitive conditions show a market primed for more work.

Christchurch

Tendering activity in Christchurch is easing, although contractors remain busy with existing workload. There are however several large projects at design and procurement stages which could increase medium term demand. That said, the residential market is expected to continue to slow amid funding concerns which apply equally to commercial projects.

Materials prices continue to rise, although imports are sheltered to a degree by the relative strength of the dollar. In overview, the next six months are likely to see an increased level of competitiveness in the market as contractors seek to maintain turnover in an uncertain environment.

Wellington

For the Wellington market, the recent collapse of mezzanine funders has led to several developments being put on hold due to limited available finance.

The stabilising residential property market and the collateral high interest rates have together stemmed the demand for new-build residential.

Ongoing commercial office projects are still feeding workload into the market, and will continue to do so through 2008 and on into 2009. There are also signs of interest in retail projects at early design stages.

On balance, although there is a perceived lack of small to medium sized projects of less than \$10million value, the forecast is for steady prices, wages and margins for the next six months with possible impacts from price shocks in major materials such as steel.

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