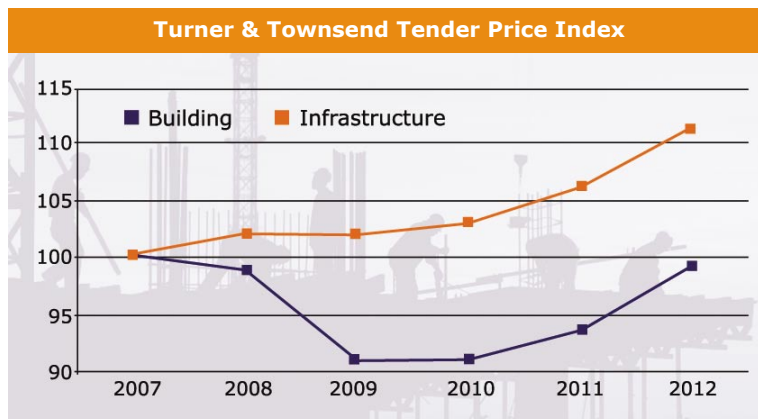




UK Market Intelligence

Winter Of Delight Or Despair

The Turner & Townsend Building Tender Price Index (TPI) continues to forecast stabilisation in 2010. With sharp falls in the building index already experienced in late 2008 and the first half of 2009, prices are now starting to plateau. Infrastructure prices have not experienced the same falls as building prices due to longer term secured programmes of work in utilities and transport.



Whilst the construction industry in the UK may take some time to recover, our indicators suggest that UK Tender Prices have hit a floor.

Year	Building TPI	Infrastructure TPI
2008	(1%)	2%
2009	(8%)	0%
2010	1%	1%
2011	3%	3%
2012	5%	5%

Key Indicators

- LABOUR:** Wages were held under statutory agreement until June 09. The unions have rejected motions to hold wages, but it is likely that rates will remain frozen until the year end.
- MATERIALS:** Supply has been cut to meet recent low demands but renewed global construction activity will increase demand, exceeding supply.
- PRELIMINARIES:** With diesel prices rising steadily, mechanical plant rates will also rise. This will be offset in the short term by competition and supplier initiatives to improve efficiency.
- OVERHEADS & PROFIT:** Profit margins remain low or even below zero to secure turnover. These are unlikely to reduce much further than current levels.

www.turnerandtowntsend.com

Page 1
Winter Of Delight Or Despair

Construction costs have fallen much more dramatically in some parts of the world than anyone forecast in the first quarter of this year, when we published our first Global Construction Cost Index.

[more ...](#)

Page 2
Procurement gets tougher

Market conditions are changing the way organisations are buying construction. Savvy buyers are renegotiating market beating framework deals.

[more ...](#)

Page 3
Consultants' fees down 25%

Competition has forced professional fees down by around 25% in the recession. So what trends can we expect in the coming year?

[more ...](#)

Page 4
Green light for the UK?

We are standing at the threshold of an environmental revolution. Taking a lead in sustainable construction may offer the UK a green light at the end of the recessionary tunnel.

[more ...](#)

Page 1

Winter Of Delight Or Despair

Construction costs have fallen much more dramatically in some parts of the world than anyone forecast in the first quarter of this year, when we published our first Global Construction Cost Index.

[more ...](#)

Page 2

Procurement gets tougher

Market conditions are changing the way organisations are buying construction. Savvy buyers are renegotiating market beating framework deals.

[more ...](#)

Page 3

Consultants' fees down 25%

Competition has forced professional fees down by around 25% in the recession. So what trends can we expect in the coming year?

[more ...](#)

Page 4

Green light for the UK?

We are standing at the threshold of an environmental revolution. Taking a lead in sustainable construction may offer the UK a green light at the end of the recessionary tunnel.

[more ...](#)

Falling Output, Rising Prices?

The return to growth for the wider UK economy is predicted but fears remain of a second down-turn. Political pressures on public spending will hamper the speed of recovery with mitigation measures reliant on bank lending levels and on receipts from foreign investment.

Organisations with secure capital investment plans should consider forward buying and fixing prices for any systems with prices driven by globally traded commodities.

The UK construction industry will take longer to emerge from recession if the budget deficit does not allow public sector spending to be maintained until the private sector has recovered. If government stimulus is withdrawn early, the impact on UK construction could be pronounced.

With UK public spending set to fall and global material prices likely to rise, tender prices could buck the historic trend and rise against falling construction output.

The tender price trend now is likely to be one of stagnation or gentle increase driven by recovery in other parts of the global economy. Materials in particular may rise where the price is driven by globally traded commodities. World steel production, for example, has been rising since February according to the World Steel Association. Prices will continue to rise, with previously mothballed steelworks being re-fired across the globe. This raises the potential scenario of future tender price rises against the tide of construction output.

Procurement: Risk and Reward

Prevailing market conditions have seen a natural move away from two-stage towards single-stage competitive tendering for main contractor procurement. This natural swing will inevitably be mirrored by a similar swing from non-confrontational partnering to traditional construction industry adversarialism.

It is critical that construction clients are aware of this correlation and actively manage their risks. Favourable lump sum deals procured in the last three to six months, if set up properly, should deliver. However, with tender prices starting to turn and world material prices potentially volatile, competent contractors are starting to show signs of nerves in signing up to longer term fixed price deals. Construction clients should proceed with similar caution in the coming months and not accept the cheapest price without sufficient understanding of the costs and risks associated with the deal.

The recession will take its victims and we expect to see some notable construction industry insolvencies in 2010. In terms of client impact we have already seen increased enquiries into adjudication; increased litigation activity born out of recession is not expected to emerge until 2010. There has never been a more important time for our fragmented industry to collaborate. Buyer beware.

Savvy clients are re-negotiating market beating framework deals at an opportune time.

Further Information

For further information on our Programme and Project Management, Cost Management and Management Consultancy services, please visit:

www.turnerandtowntsend.com

Page 1

Winter Of Delight Or Despair

Construction costs have fallen much more dramatically in some parts of the world than anyone forecast in the first quarter of this year, when we published our first Global Construction Cost Index.

more ...

Page 2

Procurement gets tougher

Market conditions are changing the way organisations are buying construction. Savvy buyers are renegotiating market beating framework deals.

more ...

Page 3

Consultants' fees down 25%

Competition has forced professional fees down by around 25% in the recession. So what trends can we expect in the coming year?

more ...

Page 4

Green light for the UK?

We are standing at the threshold of an environmental revolution. Taking a lead in sustainable construction may offer the UK a green light at the end of the recessionary tunnel.

more ...

The New Competitive Landscape

Consultant fees have fallen by around 25% in the wake of recession, but with these starting to plateau, what will the trend be in the coming year?

The downturn in the construction industry has resulted in a more aggressive and competitive market which has engendered a belief that the best deals are derived from competitive tendering. This has resulted in an increase in open market competition and major construction clients renegotiating or retendering their established frameworks.

Astute businesses are capitalising on the market and negotiating commercially advantageous, long term deals. However, whilst competition will continue to provide the best commercial deal for commoditised services, solutions focussed services which require a high degree of client-consultant integration are more likely to be secured efficiently outside competition.

We have seen evidence of established partners of major construction clients applying existing framework rates in open market competition – and winning on price! This not only demonstrates the inherent value in re-negotiated framework rates, but also demonstrates that incumbent suppliers often have a better understanding of the risks, opportunities and business practices of their client.

This coming of age for framework partnerships is a breakthrough and should help framework principles to evolve through difficult times. Clients with mature frameworks looking to drive improved efficiency and performance are increasingly looking to remunerate consultant partners through incentivised arrangements focussed on the delivery of outputs and outcomes. Understanding and contributing to the sustainable performance of client's businesses has never been more important.

Time For The Environmental Revolution

Whilst there is a consensus in the UK that major spend in the next decade will be on infrastructure projects, the long-term sustainability of these projects for both the environment and the economy will be key.

The future of our children and grandchildren is dependent upon the investments we make now in the preservation and generation of energy. Not only will this investment reduce our reliance on imported fossil fuels that are finite in supply, pollute the environment and fluctuate wildly in price, it will create thousands of jobs and could enable the UK to become a world leader once again in technology, innovation and engineering.

Business Case or SocioEconomic Imperative?

The combined effects of population growth, climate change and scarcity of land, water, energy and food will have a profound impact on global society.

Wider market recovery from the last recession was generally credited to the 'dot-com' revolution. The financial system was broken in 2008, but we've been breaking the planet for decades. Addressing this through extensive private and public investment in the environmental revolution just might be the catalyst for recovery this time around.

Harnessing the global momentum for sustainability may offer construction firms the opportunity to steal a march in recovery.

The UK's Chance To Take The Lead ...page 4

Forward Thinking

Our winter update will explore how changes in the UK Government may impact the UK construction industry and the UK approach to sustainable development. For further details of our publications, please visit:

www.turnerandtowntsend.com

Page 1

Winter Of Delight Or Despair

Construction costs have fallen much more dramatically in some parts of the world than anyone forecast in the first quarter of this year, when we published our first Global Construction Cost Index.

more ...

Page 2

Procurement gets tougher

Market conditions are changing the way organisations are buying construction. Savvy buyers are renegotiating market beating framework deals.

more ...

Page 3

Consultants' fees down 25%

Competition has forced professional fees down by around 25% in the recession.

So what trends can we expect in the coming year?

more ...

Page 4

Green light for the UK?

We are standing at the threshold of an environmental revolution. Taking a lead in sustainable construction may offer the UK a green light at the end of the recessionary tunnel.

more ...

The UK's Chance To Take The Lead

Whilst all UK businesses will recognise the physical, legislative and reputational risks; the pioneers will also recognise the significant opportunities that these challenges will present in the 21st Century.

Risk	Example Impact on Business
Legislative	Introductions of mandatory schemes such as the Carbon Reduction Commitment are scheduled to come into force in early 2010, governed by the Climate Change Act 2008.
Physical	Global demand for oil is projected to outstrip supply by 2013. Rapid growth in China and India will exacerbate demand, and while new oil has been found recently, the cost of drilling is increasing due to the significant depths at which oil is being found. With many UK nuclear plants due for closure in 2016 and new facilities unlikely to become live until 2020, there is inevitability about future price rises.
Reputational	Ethical pressures on all businesses and individuals will increase in the coming years. Those whose activities are not environmentally or socially responsible may soon find it harder to succeed. The green trailblazers with sustainability at the heart of their business will start to prevail.

The UK construction industry can and should take the lead in responding to these risks and converting them to opportunities by designing, engineering and building the energy infrastructure needed for a sustainable future. At the same time, the industry must provide solutions that help businesses to improve the efficiency and environmental impact of existing and new build assets.

Investment in alternative energies has proved to pay in other countries.

Germany is a world leader in demonstrating the economic benefit of solar energy. Many innovative German companies are advancing to become international technological leaders by providing key components for the wind energy, hydropower, solar energy, geothermic and biomass sectors, a burgeoning export market.

As an island, the United Kingdom has a fabulous natural opportunity to capitalise on the development of high load offshore wind farms.

Investment is required in research, manufacturing and delivery of sustainable solutions to safeguard the future of the UK.

In June 2009, Lord Hunt's report, "A Prevailing Wind: Advancing UK Offshore Wind Deployment", announced an offshore wind programme to deliver 25GW of new capacity. Such investment in UK infrastructure is critical in order to conserve energy and resolve medium term energy shortfalls, but also could provide a basis from which to build momentum in the alternative energies market and ultimately attract foreign investment. Lord Hunt suggests that the offshore wind industry alone has the potential to provide up to 70,000 new jobs and £8bn in annual revenues for our country.

Investment in other alternative energies, including nuclear, must surely follow. The UK has to make a radical adjustment, rebalancing the economy towards export production. Government intervention will be essential to make this happen, but as an industry, UK construction should retool now for a sustainable future.

If you would like to discuss your market response solutions please contact Duncan McIndoe on +44 (0)207 544 4093 or visit our website: www.turnerandtowntsend.com