# BRIEFING

CONSTRUCTION, ECONOMIC AND PROCUREMENT UPDATE – SUMMER 2012

## FEATURES



STEVE JONES

sjones@mdaconsulting.co.uk

## CAN SOMEONE SHOW ME THE LIGHT AT THE END OF THE TUNNEL?

As I sat down to write this update I was determined to try and be positive - alas it is not easy.

I quickly reviewed our November Briefing which was my first mistake. The first three articles all prescribed continued 'doom and gloom' - Keith Warburton's 'Looking Back to Look Forward' suggested 2015 as the earliest target for economic recovery in the construction sector although he did finish by asking us not to get too disheartened as this was only 3 years away!

Undaunted, and with positive pen in hand, I read through a recent edition of The Times and last week's trade press, which was my second mistake.

**Four pieces in that edition of The Times caught my eye.**

Firstly, and very close to home, apparently in the first quarter of this year new public sector construction projects fell to their lowest levels in 20 years. New works dropped by over 15% and this was offset by only a 2% increase in private sector projects. Government spending cuts are clearly working hard. However, the problem is the rate of private sector growth is not even close to making up the shortfall which the Government had hoped for.

This is where their grand plan is failing - overall the UK construction actually fell by nearly 5% in the first quarter.

There were two articles on the Euro crisis. A prediction of definite default for Greece and potential default for Spain - one poor (excuse the pun) village in Spain (only 3,000 souls) will require 7,000 years to repay the €16 million debt that it has run up. It's no longer even comforting to know there is always someone in a worse plight than you.

*(Continued on Page 6 . . . .. )*

KEVIN HEATON

kheaton@mdaconsulting.co.uk

## TENDER PRICE FORECAST

The small signs of a slight improvement in activity and tender levels witnessed in early 2012 have now, sadly, slipped back. Any recovery continues to be hampered by the continuing uncertainty caused by the Eurozone debt crisis and disappointing data on the UK economy.

The Office for National Statistics (ONS) reported that the UK economy shrunk by 0.20% in the first quarter of 2012 following the 0.30% contraction seen in the final quarter of 2011.

The ONS also reported that the volume of all new work fell by 7.1% in the 1st Quarter 2012. The falling workload is expected to exert even greater downward pressure on tender prices as 2012 progresses and any recovery in tender prices is not now expected until the beginning of 2013 for London and the South East, and not until towards the end of 2013 for the Regions.

The market outlook continues to look gloomy with public sector work really starting to feel the impact of the spending cuts alongside the general weakness in the private sector. However, the infrastructure sector is fairing slightly better with the ONS reporting an increase in output of 5.3% in the year to Q1 2012 ONS announced that whilst the total volume of all new construction orders in the first quarter of 2012 is estimated to have grown by 4.6% compared with the fourth quarter of 2011, it is 3.6% lower than first quarter 2011.


As a consequence of the continued pressures on the market, together with further disappointing data, we have marked down our forecasts for tender prices for London and the South East to between -0.5 and +0.5% for 2012 and +1 to +2% in 2013 with the regions running at -1% to 0% in 2012 and between 0% and +1% in 2013. It is hoped that the outlook for 2014 will become gradually more settled and we are currently forecasting tender price increases in London and the South East of between 3% and 3.5% and increases of between 2% and 2.5% for the regions.

**Sources:**

**Office of National Statistics (ONS): Output in the Construction Industry: April 2012**

**Office of National Statistics (ONS): New Orders in the Construction Industry Q1 2012**

KEITH WARBURTON

kwarburton@mdaconsulting.co.uk

## DEVELOPERS AND THE YIELD

We are all familiar with the developer's financial development appraisal and its use to calculate what price a piece of land may be worth purchasing for. You will also be familiar with the yield used to calculate what a project is worth overall but is it always necessary for the developer to rely on the yield to determine the viability of a project?

The yield is determined by the market and is the expected return from a development. The riskier the development the higher the yield, the higher the yield, less is the development worth.

In times of recession these yields are higher reflecting more risk in the market and projects are no longer viable.

To explain this change in viability I include below simplified development appraisals for an office development comprising 4,460m$^2$ gross internal area and 3,176m$^2$ nett lettable area.

| 2007 | £ | 2012 | £ |
|---|---|---|---|
| Rental income per annum | 850,000 | Rental income per annum | 850,000 |
| Yield 5.5% | | Yield 8% | |
| Development value | 15,454.000 | Development value | 10,625,000 |
| Development costs and land | 11,000.000 | Development costs and land | 11,000,000 |
| Profit | £4,454.000 | Loss | (£375,000) |

The yield is divided into 100 and then used to multiply the rental income per year to provide the development value because the rental income needs to fund the interest payment. In other words the banks sees £850,000 income as the sum available to pay the interest on a loan of £10,625,000 in the current financial year. The developer does not pay the loan monies just the interest payments.

Hence in 2012, a development value of £10,625,000 is all the developer can afford to invest to cover the 8% yield return given the expected rental income the project will provide. This assumes the developer is funding the project via long term bank financing.

**Should the developer be concerned with the yield if he has his own funds?** He could leave his £11,000,000 in a bank at interest of 3 to 4%, earning £430,000 plus, or he can invest the £11,000,000 in property and earn £850,000 as rental income per year.

If the developer is looking to sell the property to say an investment institution, then the yield will determine the property's value.

So whether the developer is funding a project via long term bank financing or selling on the property once developed the yield is very important. If the developer has his own funds and wants to retain a longer term interest in the property then the yield is not so important. Just the added problems of finding a tenant and maintaining the rental levels! Still a difficult road ahead!

**DAVID HELM**

dhelm@mdaconsulting.co.uk

## BOOMING BRAZIL; Joao Passoa, Paraiba, Brazil

### ‘Brisa de Coqueirinho’ Country Club and Residential Development


- **Coastal beach paradise town**
- **100 miles north of Recife**
- **County of Paraiba**

MDA have been appointed as Project Manager and to develop procurement strategy and cost/risk management on a proposed new build residential/country club development near the coastal town of Joáo Pessoa in North East Brazil.

The project will involve the construction of communal facilities including leisure, pool, infrastructure, roads and utility services and to enable the sale of serviced house building plots for up to 800 Houses.

## BOOMING BRAZIL; Joao Passoa, Paraiba, Brazil

### 'Brisa de Coqueirinho' Country Club and Residential Development

The Project is being developed by a UK developer James Laurence Developments who are based in Birmingham and who have a track record in Brazil having recently completed a 37 condominium apartment project in the area. JL have a Brazilian trading company called **NE BRAZIL INVESTMENTS**.

The project has full planning approval/zoning and has been designed by International Architect, Sandra Moura.

MDA have had successful projects in Brazil in the past but this is seen as a fantastic opportunity to develop in a country which is currently a powerhouse for economic growth underpinned by its vast wealth of natural resources.

Some Brazilian statistics and facts

- Jan 2012 World Economic League Table ranked 6th
- Growth, 2010-7.5%, 2011-3.5%, 2012- 4% est.
- Population, 200 million
- Poverty reducing
- Emerging wealthy middle class
- Elected government since 1985
- Resources, gas, oil, minerals ( tin, copper, bauxite, gold) timber, soya
- 190 million cattle
- World Cup 2014
- Olympics 2016
- £95 billion spend on highways, ports and rail between 2010-2013

**Booming high rise residential developments in Joao Pessoa**

**For further Information please contact:**

David Helm: dhelm@mdaconsulting.co.uk

Or visit: www.nebrazilinvestments.com

**MIKE JEWELL**

mjewell@mdaconsulting.co.uk

## A VIEW FROM THE MIDDLE EAST

Although I am a quantity surveyor (keep quiet there at the back!), I do not know how many "Summits" the EU has had to save the Greek economy, but my guess would be "quite a few". The Greeks themselves want to sidestep the austerity package that (like many of the world's cars) was made in Germany, by refusing to comply. Consequently, people from other countries might conclude that the Greeks want to get out of the Euro and revert to the Drachma. However, they seem to want to reject austerity **and** stay in the Eurozone, so they want their cake and eat it. That's something we'd all like and it's hard to predict an outcome. The scary bit is that Greece produces only 2% of the Eurozone's GDP, yet they have caused all this mayhem.

After the troubled PIIGS, we now have slightly less-encouraging news from the BRICS, so we hope that OPEC and other energy producers can come to our rescue. Many countries from the "old world" seem to be caught up in a whirlpool of debt. This morning, CNN declared that Spain is … "too big to fail and too big to bail", so the whole thing is definitely a work in progress. We are all being drawn in to the argument on whether to spend our way out of debt, or cut spending and hope that heaven-sent market factors from elsewhere will come to our aid.

The oil producers could well help us out by continuing to pump oil, because that will lower prices and stimulate a feel-good factor and growth. I read recently that Iraq exported about 3m barrels of oil per day in April and this is expected to double by 2015, so oil prices should fall soon to benefit the industrialised world. This is good news, insofar as we have been expecting that oil prices would remain high and that is the longer term prospect. When I was a child, we were told that all the oil would be gone by about 2020, so we do have something to boost our optimism.

The main oil exporting countries in the Middle East felt the effects of the collapse of 2008 and this caused a period of retrenchment, particularly with the burst property bubble in Dubai, but this seems to have passed and there are now ambitious plans throughout the Middle East. Last year's "Arab spring" caused a minor blip but confidence is now rising, illustrated by the resumption of work for MDA on the New Louvre Museum in Abu Dhabi. There is also going to be massive expenditure in Qatar with the World Cup and other things, which will help GB Plc, because we are very well-favoured there.

*(Continued from Front Page . . . . Can Someone Show Me the light at the End of the Tunnel)*

Thankfully none of this matters does it? Theoretically, we can all relocate our staff to the BRIC countries to ride out the storm.

The fourth article was a small piece noting that China's economic boom was spluttering with both property investment and bank lending slowing.

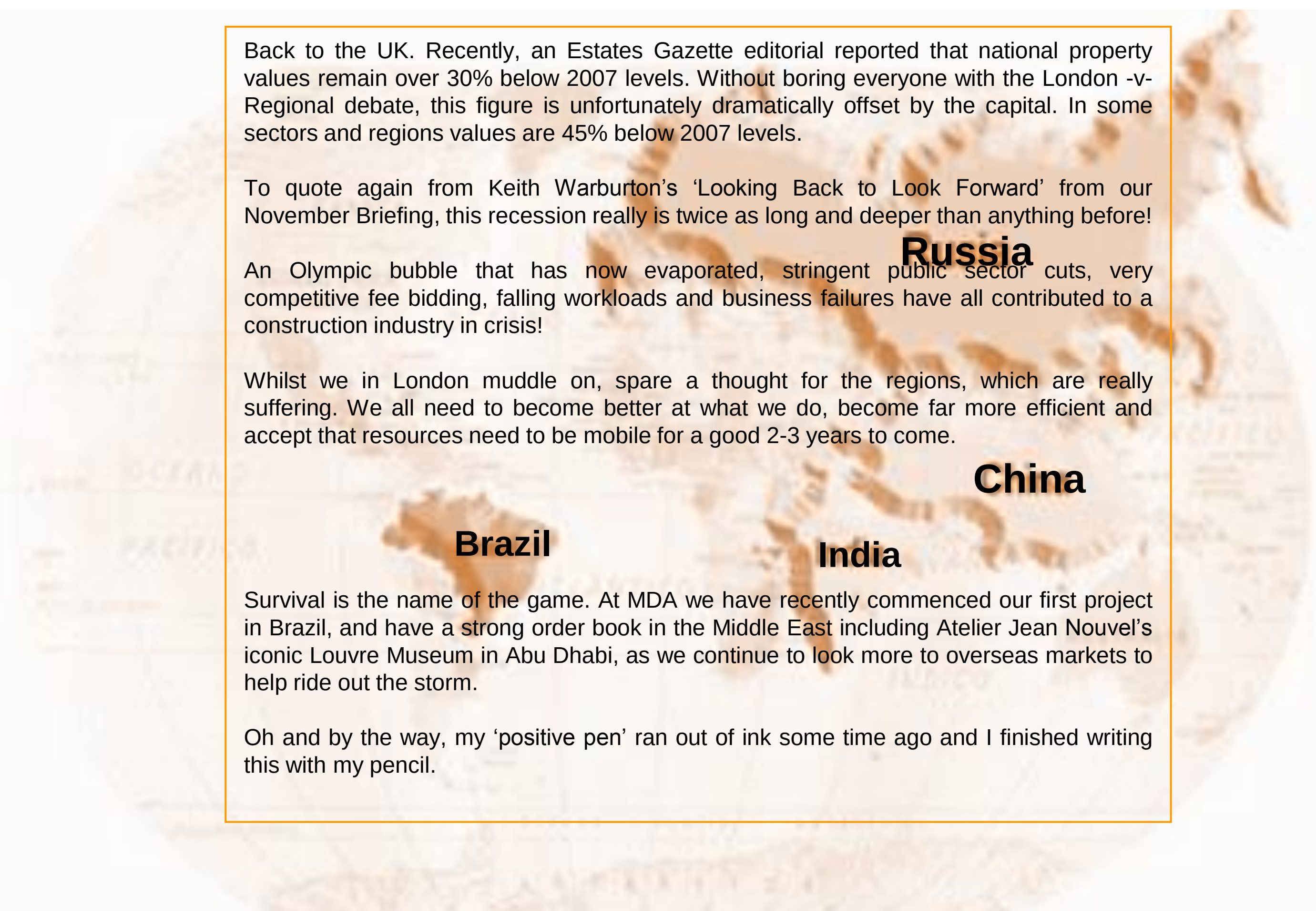
However, overall growth rates in China (and indeed the other BRIC countries) are still rising favourably compared to European and other western countries so maybe still a chink of light there, certainly enough to keep the passports up to date.

Back to the UK. Recently, an Estates Gazette editorial reported that national property values remain over 30% below 2007 levels. Without boring everyone with the London -v- Regional debate, this figure is unfortunately dramatically offset by the capital. In some sectors and regions values are 45% below 2007 levels.

To quote again from Keith Warburton's 'Looking Back to Look Forward' from our November Briefing, this recession really is twice as long and deeper than anything before!

An Olympic bubble that has now evaporated, stringent public sector cuts, very competitive fee bidding, falling workloads and business failures have all contributed to a construction industry in crisis!

Whilst we in London muddle on, spare a thought for the regions, which are really suffering. We all need to become better at what we do, become far more efficient and accept that resources need to be mobile for a good 2-3 years to come.




Survival is the name of the game. At MDA we have recently commenced our first project in Brazil, and have a strong order book in the Middle East including Atelier Jean Nouvel's iconic Louvre Museum in Abu Dhabi, as we continue to look more to overseas markets to help ride out the storm.

Oh and by the way, my 'positive pen' ran out of ink some time ago and I finished writing this with my pencil.

**HELEN RICHARDS-CARPENTER**

hrc@mdaconsulting.co.uk

## MARKETING ACTIVITIES

It is, without doubt, a continuing busy period for our marketing team, who strive to maintain a strong presence in these troubled times. As a result of all things fiscal and socio-economic, it is an exciting challenging time, but also a permanent opportunity launch pad for all of us.

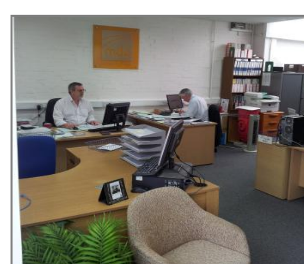
We remain positive; MDA has a heritage in excess of 60 years, we are still here and standing proud, whilst others have sadly crumbled away. Here are a few key snapshots of the latest marketing activities:

### OFFICE RELOCATION:

In the south, we have now said goodbye to Philip House, Croydon and are in the midst of moving into our new Head Quarters in Victoria, London. This has been a long-awaited move, but our farewell to Croydon has opened up a positive future, with a strong 'London' team in a great position to continue our success, particularly in the residential and hotel sectors. MDA will host a 'launch' event once settled in and I will keep you posted on these details.

### LAUNCH OF MDA BRIGHTON:

The Brighton office is in a good central location for MDA to grow our presence across the home counties. There is much activity in Kent, Surrey and throughout Sussex and Martin Taylor will be leading our growth in these regions. In addition, Steve Banks' "Corporate Support Services Division" are happily relocated in this office too and have maintained their position as a 'backbone' to ensure the necessary resources/logistics have been in place to support all the activities throughout the move. Thank you.



### NETWORKING:

These events remain a key platform to raise our profile and for clients and other professionals to get to meet all of us as people. MDA are now regulars at the following events:

- Movers & Shakers
- Kent Forum for the Built Environment
- London Forum for the Built Environment
- Chartered Institute of Housing Conference, Manchester
- British Council of Offices (BCO) Awards
- Procon – Leicester
- Interact - Bristol
- FORGE Networking
- ISG Informal Networking event
- Kent Construction Focus Group
- Fuse Property Event
- Young Entrepreneurs in Property
- Women in Social Housing (clearly, all welcome but dresses a necessity!)

### MDA'S "CORPORATE TAG LINE"; INTRODUCING . . . . .

**Building Relationships in Construction; aka the 'BRIC' philosophy**

**BRIC** has been developed as a catch phrase that we are to integrate into our email footers and into our marketing material as an extension to our 'brand'. In the long-term, we are aiming to host 'BRIC Networking Events' too.

SEAN GATEHOUSE

sgatehouse@mdaconsulting.co.uk

## PROJECT UPDATE – 2 HYDE PARK SQUARE

| | |
|---|---|
| **PROJECT:** | 2 Hyde Park Square |
| **CLIENT:** | Liberty Properties |
| **VALUE:** | Circa £10,500,000 |
| **SERVICE PROVISION:** | Cost Consultancy |
| **APPOINTED:** | Original appointment 2008 |
| **CONTRACT DURATION:** | Completion scheduled for August 2012<br>(total construction period 21 months) |

### PROJECT DESCRIPTION AND PROGRESS:

MDA was appointed to provide Cost Consultancy services for Liberty Properties, for the strip-out, extension and refurbishment to create 35 luxury residence apartments and the creation of a top floor penthouse in the exclusive Hyde Park Square/Connaught Village area.

The development is entering its final stages with the fitting out of the apartments to the designers high level finishes requirements.

The fundamental design aspects included the strip out of the existing building back to shell, the creation of a new 3 storey extension to the rear, the reconfiguration of the existing buildings floor plates, the creation of a new 8th floor level penthouse all ultimately culminating in creating 35 new 1, 2, and 3 bedroom apartments and the showcase penthouse. In addition to the above the contract required the well known Bombay Palace restaurant to remain in operation and ultimately to carry out a complete refurbishment.

The development required the whole external facades to be cleaned and re-pointed with the balconies redesigned in “natural stone” to provide new streamlined projecting bays and the installation of new metal windows allowing the benefits of solar and thermal performance as well as providing extensive “green roofs” and solar power for the Penthouse.

As expected with a quality development in this prestigious area the internal finishes have been specified with high end quality in mind and include, European oak flooring and matching doors, bespoke kitchens, designer fitted wardrobes, Petri floor and wall tiles to all bathroom/shower and en-suites as well as bespoke bathroom joinery (again matching the doors and floors) and with each apartment having the most up to date security and telecommunication systems installed.

As ever with a development of this level the most critical drivers have been managing the Clients expectations within certain cost criteria.

The critical drivers for the development have been to overcome the reduced floor to ceiling height, the existing condition of the building as well as the works having to be constructed around a fully operational restaurant.

MIKE JEWELL

mjewell@mdaconsulting.co.uk

## INTRODUCING RICS' NEW FORM OF MEASUREMENT: NRM2


As some of you may know, NRM2 is the new method of measurement, prepared independently by the RICS to follow on from SMM7. Over the years, the series of SMMs has been produced by various organisations working together. The RICS wishes to further its role in being the premier organisation in the world dealing with surveying and measurement and this project is part of its scheme. It is almost inevitable that the document will be translated into Cantonese and other languages, but that will not reduce its significance and place of prominence.

MDA has a history of involvement in standard phraseologies and methods of measurement, most recently with Shorter Bills, so when Mike Jewell was asked back in about 2006 whether he would assist with the new document, he agreed. RICS members have become concerned that fewer BoQs are being produced these days and that if a simplified format could be produced, this trend might be reversed.

The early meetings were well-attended, but inevitably, people fell by the wayside and a rump of six QSs saw the project through to conclusion, by dint of internal iterative reviews. John Davidson, who had retired from Cyril Sweett a little earlier, had been determining the outcome of measurement disputes on behalf of the RICS for a few years and he led the process. The various sections of work were "road-tested" with trade bodies and specialists, to ensure that there was some consensus in the industry.

This task was undertaken as a stand-alone process at the outset and followed a set of guiding parameters, but by 2010, we discovered that it had become the second part of a suite of three documents. We were then shown NRM1, which was a comprehensive set of inclusive descriptions and outline notes for Elemental cost planning. Furthermore, there was a keenness for our (Trade-based) rules for measurement to follow that format.

After much discussion, the trade order in NRM2 was maintained to keep the rules as succinct as possible. It was agreed that Elemental considerations could be managed by using Elemental codes within the measurement process. On the subject of brevity (or lack of it) NRM2 has become a cross between a method of measurement, combined with guidance notes for people towards the base of the learning curve.

NRM2 has now been published and will be in use from the beginning of 2013. In the Acknowledgements section of NRM2, Mike's name appears in the list of 6 "contributors" that consists of 5 people from the industry and one from the academic side of QS-ing.

Fame at last.

## MARKETING COLLATERAL

### LAUNCH: 'PROJECT PLUS'

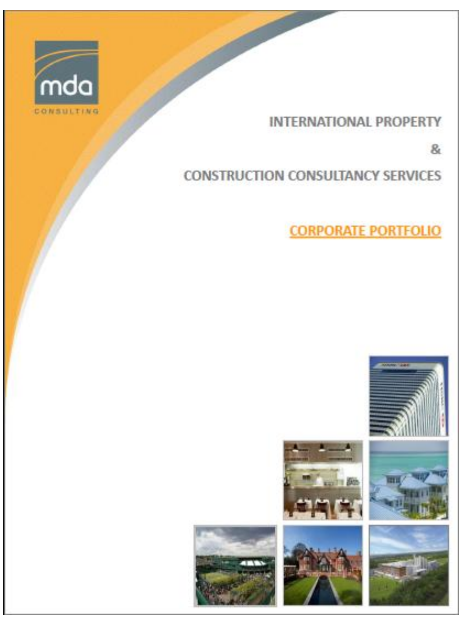
**MDA has launched a new internal database, to update our projects in real-time to heighten our Quality Assurance and advance our marketing material.**

Project Database
PROJECT+

### MDA CORPORATE BROCHURES

**MDA has launched a new suite of corporate brochures.**

**For copies, please email london@mdaconsulting.co.uk with your brochure request and preference of electronic and/or hard format.**




| CORPORATE BROCHURE |
|---|
| MDA Corporate Service Descriptions |
| MDA General Portfolio |
| Education Sector |
| Fund Monitoring |
| General Residential sector |
| Heritage Lottery Fund Museum & Conservation sector |
| Hotel sector |
| Hotels and Luxury Residential sectors combines |
| Industrial sector |
| Industrial and Plant Rollout Programme |
| Luxury Residential |
| Retail sector |

## BRIEFING PRODUCTION TEAM

Steve Banks
Maria Billings
Robert Kennedy
Helen Richards-Carpenter

Thank you from **Briefing** to all our article authors and contributors

## DISCLAIMER

Building Relationships In Construction

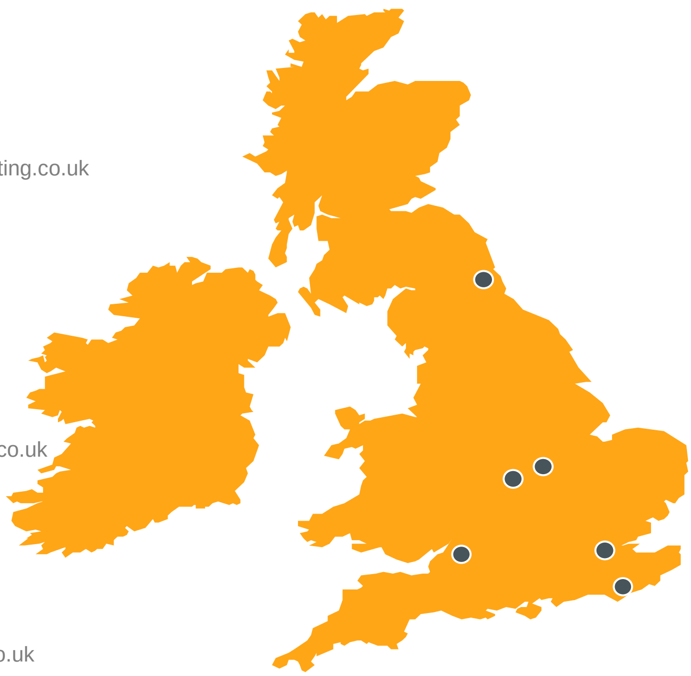


## OFFICE LOCATIONS – UNITED KINGDOM

**BIRMINGHAM**
12 St Paul's Square
Birmingham B3 1RB
T: 0121 233 3839
F: 0121 233 3841
E: birmingham@mdaconsulting.co.uk
Contact: Rob Kennedy

**BRIGHTON**
Verulam House
142 Old Shoreham Road
Hove
East Sussex
BN3 7BD
M: 01273 956 087
F: 01273 328 162
E: mtaylor@mdaconsulting.co.uk
Contact: Martin Taylor

**BRISTOL**
11-12 Queen Square
Bristol BS1 4NT
T: 0117 929 2641
F: 0117 929 2125
E: bristol@mdaconsulting.co.uk
Contact: Kevin Heaton



**LEICESTER**
No 1 Museum Square
Leicester LE1 6UF
T: 0116 254 8951
F: 0116 254 7676
E: leicester@mdaconsulting.co.uk
Contact: Rob McGuinn

**LONDON**
17 Grosvenor Hill
Mayfair,
London
W1K 3QB
T: 020 7399 0888
F: 020 7399 0889
E: london@mdaconsulting.co.uk
Contact: Steve Jones

**NEWCASTLE-UPON-TYNE**
5-13 The Side
The Quayside
Newcastle upon Tyne NE1 3JE
T: 0191 232 0888
F: 0191 232 0919
E: newcastle@mdaconsulting.co.uk
Contact: Maurice Low

## OFFICE LOCATIONS - INTERNATIONAL

**MDA OMAN**
**MONK DUNSTONE ASSOCIATES LLC**
Sohar House
Madinat Al Sultan Qaboos
Sultanate of Oman
M: +44 7803 288 054
E: mjewell@mdaconsulting.co.uk
Contact: Mike Jewell

**MDA CZECH REPUBLIC**
**MDA PRAHA s.r.o**
Vinohradská 22
120 00 Praha 2
Czech Republic
T: +420 2 4248 6780
E: jhrubes@mdapraha.cz
Contact: Jan Hrubes

**MDA TURKS AND CAICOS**
**MDA CONSULTING (TCI) LTD**
Richmond House
Leeward Highway
PO Box 127
Providenciales
Turks & Caicos Islands
British West Indies
M: +44 (0)7803 288 055
E: jcollinge@mdaconsulting.co.uk
Contact: John Collinge

**MDA LIBYA**
**MDA CONSULTING LTD**
El Arosi Street
Hay Alandalus
Tripoli
Libya
M: +44 (0)7803 288 050
E: sjones@mdaconsulting.co.uk
Contact: Steve Jones