



BUILDING COST UPDATE THIRD QUARTER 2011

MARKET SUMMARY

Tender prices in the industry continue to react to the opposing affect of falling workloads and rising material prices, which has led to continued mixed opinions around the industry.

New work output has continued to decline over the first six months and is currently projected to continue with a slight decline over the remainder of the year.

General trends in the market and the impact on tender prices are as follows:

Tender/Construction Prices

- BCIS has recently published data showing that tender prices bottomed out in 1Q2010 at 209 and have been followed by growth of 4.7% to 1Q2011.
- Currently BCIS are forecasting modest growth over the coming years at 3.2% from 1Q2011 to 1Q2012 and 3.1% from 1Q2012 to 1Q2013
- Industry commentators have largely reflected the views of the BCIS, however they generally demonstrate a little more scepticism and more modest growth.

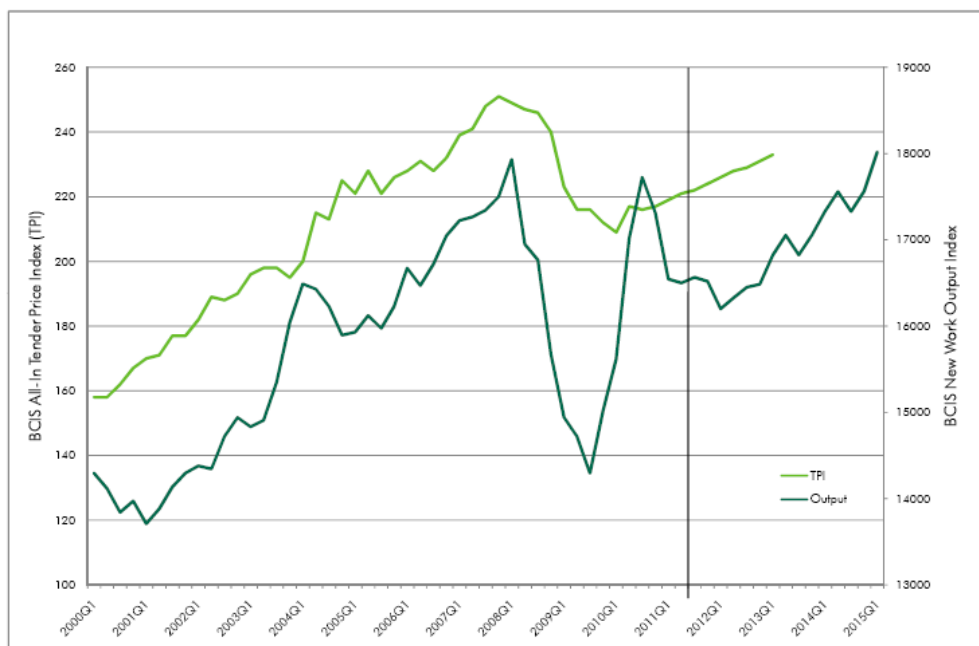
New Work & Construction Output

- In terms of new work output, after strong growth in 2010 the forecast for 2011 is less positive. The BCIS is currently reporting a fall of 2.1% from 3Q2011 to 3Q2012 followed by growth of 3.9% from 3Q2012 to 3Q2013.
- These figures however do not demonstrate the split in the industry between the London market and the remainder of the country. Although specific data has not been published the consensus around the industry is that workload in London, particularly commercial offices and residential schemes will continue to show good growth.
- This is demonstrated by schemes such as The Shard – London Bridge and The Pinnacle Tower – Bishopsgate.

Materials

- With continued strong demand from the BRIC economies (Brazil, Russia, India & China) and fuelled by the Libya conflict pushing oil prices to US\$125/barrel, materials have continued to see record highs.
- Copper most notably reached a record high at c. US\$10,000/tonne, hitting mechanical & electrical services heavily.
- The general theme around the industry suggests continued growth, however more in line with inflation at around 3% per annum over the coming years.

GRAPH 1— BCIS ALL IN TENDER PRICE INDEX



Source data:

BCIS Online

NEW BUILDING COST UPDATE

Commercial Office Construction Costs—£/sqft GIA

	SHELL & CORE		CATEGORY 'A' FIT-OUT		CATEGORY 'B' FIT-OUT		
	LOW	HIGH	LOW	HIGH		LOW	HIGH
Out of town business park	85	140	20	40	Finance/Banking	90	180
City Centre (Medium rise)	125	210	30	50	Legal	55	125
City/West End London	170	235	40	75	Media	55	110
Iconic City High Rise	230	325	50	85	Commercial office	65	100

Capital Allowances

The capital allowances available for office projects will be in the form of 'integral features' and 'general' plant and machinery.

The writing down allowances for integral features is 10% and 20% for general plant and machinery (these rates will be reduced to 8% and 18% for chargeable periods ending on or after 1 April 2012). Broad conditions for entitlement to claim these allowances are as follows:

- Be within the charge to UK tax
- Incur capital expenditure on the asset
- Own the asset and use it in the course of a qualifying activity

	SHELL & CORE		CATEGORY 'A' FIT-OUT		CATEGORY 'B' FIT-OUT	
	LOW	HIGH	LOW	HIGH	LOW	HIGH
Typical % of total construction cost qualifying for capital allowances	25%	38%	55%	75%	65%	85%

Notes

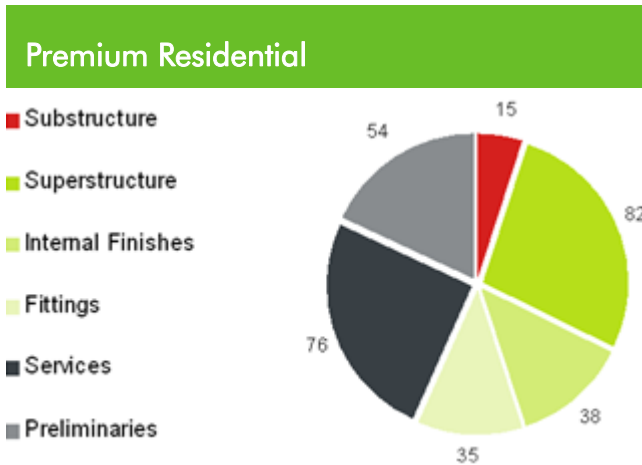
1. Costs are based on the national average, a location adjustment of an additional 20% would be applicable to Central London
2. All costs are exclusive of external works
3. All costs are indicative and exclusive of professional fees & VAT
4. The costs provided are very much indicative and will vary depending on a number of parameters for an individual scheme

RESIDENTIAL FOCUS—LONDON

A CLOSER LOOK AT THE RESIDENTIAL SECTOR

RESIDENTIAL BENCHMARKING

- Premium Residential (Townhouses) Construction Cost is £360 - £400 / ft²
- Premium Residential (Apartments) Construction Cost is £260 - £330 / ft²
- Standard Plus Residential Construction Cost is £210 - £260 / ft²
- Standard Residential Construction Cost is £170 - £210 / ft²
- Affordable Construction Cost is £120 - £140 / ft²



Specification Notes

- High quality façade
- Grain timber / limestone / high quality cut pile carpet flooring throughout
- High quality ironmongery.

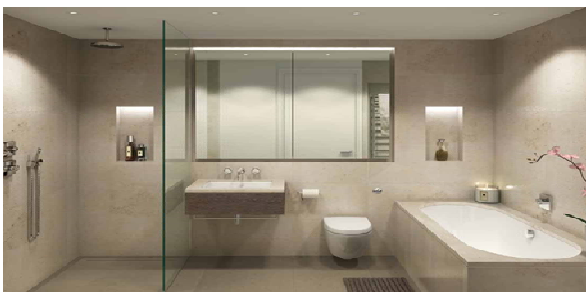
Specification Notes

- High quality finishes, Gaggenau kitchens, high quality ironmongery, Villeroy & Boch bathroom fittings.
- Granite worktops to kitchens, matt laquer handleless units, marble in bathrooms, built in wardrobes and marble fireplaces.
- Double ended under-mounted bath, limestone surround



M&E Specification Notes

- Whole house ventilation system.
- Programmable lighting controls with touch screen controls
- In house entertainment system fully wired back to AV cupboard.
- Flush ceiling mounted LED lighting
- Intruder alarm and access controls to all external doors.
- A comprehensive data distribution system including Category 6 cabling.



CONTACTS

For more detailed advice on construction costs and capital allowances please contact the following:

Robert Ridgwell

Executive Director, Quantity Surveying

T: 020 7182 3519

E: robert.ridgwell@cbre.com

Jon Hannon

Director, Quantity Surveying

T: 020 7182 3297

E: jon.hannon@cbre.com

David Nutt

Director, Capital Allowances

T: 020 7182 3176

E: david.nutt@cbre.com

PREPARED BY

Tom Butler

Senior Surveyor, Quantity Surveying

T: 020 7182 3102

E: tom.butler@cbre.com