DAVIS LANGDON

CONSTRUCTION SENTIMENT
The Davis Langdon Sentiment Monitor

Findings Report Six | November 2008

EXECUTIVE SUMMARY

We are pleased to release the findings of this, our sixth Davis Langdon Sentiment Monitor.

Our industry is in the midst of enormous change, pressured by both domestic and global challenges.

During the past six months, the Davis Langdon Construction Sentiment Index fell 28 points, the largest fall since the commencement of the survey in 2006, leaving the index at its lowest point yet at just 70.

Given the volatile environment facing the industry we intend to conduct more frequent surveys to better inform the market. We hope, with support from the respondents, to provide the next results at the end of the first quarter next year.

If you would like to discuss the details of this report further, please contact Rachel Kelloway, Davis Langdon's National Research Manager, by email or phone:

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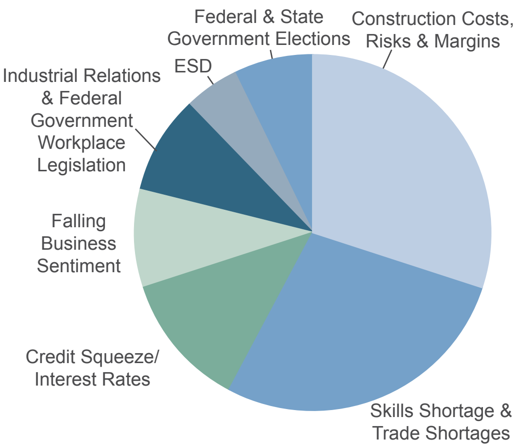
Key Findings

- Industry sentiment slides
- The Risks of Development take a front seat
- Skills Shortages – looking brighter
- Green Objectives – backlash in light of global economy
- Forward workload expectations sliding

THE HOT ISSUES

Forget the skills shortage, the industry has a lot more to worry about right now



Construction Costs, Risks & Margins became the hottest issue, more than doubling during the past six months to reach 30%.

The Skills Shortage slid from the hottest issue in the industry, to now account for just 28% of all responses (down by 26% during the past six months) indicating the industry has a lot more to worry about right now.

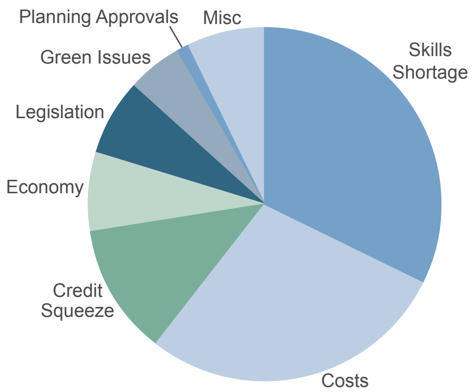
Concern about market volatility continues, with the Credit Crisis and Interest Rates remaining at a stable 12% since last survey.

However, a new category emerged surrounding the possibility of business contraction and Falling Business Sentiment, which recorded 9%.

Concern about Industrial Relations continues to ease – down a further 2% since last survey (now 9%), indicating that industry participants are more confident subsequent to the change in Government. This is despite initial concerns 12 months ago that a change in Government may adversely affect Industrial Relations.

PROBLEMS IN THE INDUSTRY

82% of participants now report that there are problems in the industry...



Concern about problems in the industry eased 7% on last survey, with 82% of participants now reporting that there are problems in the industry at the moment.

While the Skills Shortage remains the greatest problem in the industry at the moment according to 32% of respondents, industry concern has eased markedly (down 33% on the same time last year).

Costs are rapidly set to become the greatest concern for industry players, leaping by 17% on the same time last year to reach 28% this survey. While still ranking as the second greatest concern, the gap is narrowing and we would not be surprised to see this as the industry's number one concern by the time our next report findings go to print.

The Credit Squeeze and overall concern about the economy are featuring prominently as a problem in the industry – now ranked as one of the top three industry problems by 19% of respondents (up 6%).

Legislation and regulation have emerged as an issue this survey (7%), with participants stating that Government red tape, lack of adequate enforcement and the ever increasing risk/liability/costs to developers have no net benefit to the industry.

Concern about Planning Approvals plummeted to just 1% of responses – overshadowed by the more immediate concerns of spiralling costs and concerns about the economy.

NEW BUSINESS – FLATTENING OUT

The majority of participants reported their levels of new business remained unchanged...

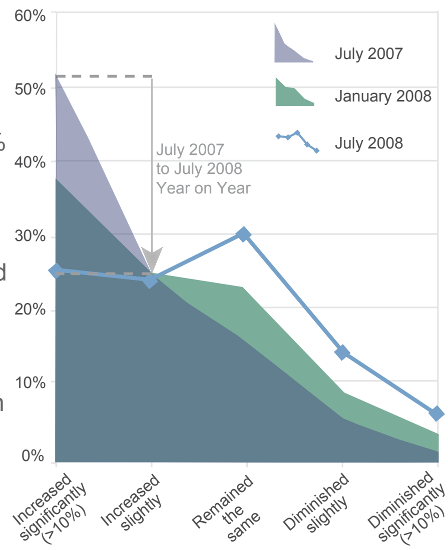
This survey we recorded some rapidly changing conditions associated with the level of new business being experienced.

For the first time since the commencement of this survey the majority of participants (30%) reported their levels of new business remain unchanged (up 6% on last survey). We consider this a strong indicator of a medium term flattening out in construction levels.

While 27% of respondents reported that new business had increased significantly – still 10% lower than the results of our last survey.

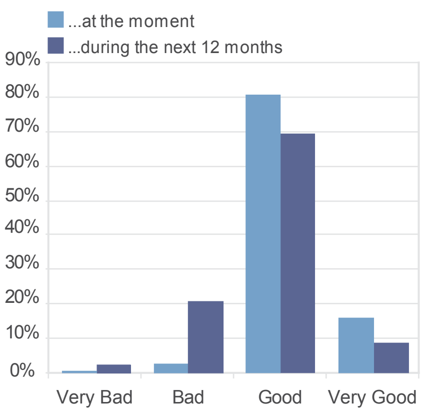
The most serious change was from those reporting that their level of new business had diminished in some way – up 5%, to reach 18%.

Has the level of new business in your company changed in the last six months?



THE STATE OF INDUSTRIAL RELATIONS

How do you perceive Industrial Relations?



Sentiment toward Industrial Relations remains very positive, with 81% of respondents agreeing that Industrial Relations are Good at the moment – up 2% on last survey. A further 16% believe industrial relations are Very Good at the moment.

Expectations for the next 12 months are for worsening conditions, with 21% of respondents anticipating Bad Industrial Relations ahead – worsening by 2% since our previous Construction Sentiment (May 2008). Having said this, it's important to highlight that similarly negative expectations emerged last survey, but never came to fruition. Historically, respondents have recorded a consistently gloomy outlook toward the future state of Industrial Relations, each time we have surveyed. However in three years we have yet to see Industrial Relations worsen by any significant amount.

GREATEST OBSTACLES IN BUILDING DEVELOPMENT

For the second time since the commencement of the survey, sentiment worsened toward obstacles in the building development process.

The Costs of Construction remains the greatest obstacle to building development at the moment, with 86% of respondents agreeing that it's the greatest obstacle they face at the moment. However, there is a general consensus among participants that this will ease slightly across the upcoming year.

The Risks of Development shot up several places to become the second greatest obstacle, with expectations that this will worsen during the upcoming 12 months.

Town Planning Approval, previously ranked as the second greatest obstacle, slid back down the list two places, to become the fourth greatest obstacle – despite the fact that approval timeframes have in fact worsened, according to respondents. We wonder whether planning, rather than becoming a lesser obstacle, is just becoming the least of their concerns.

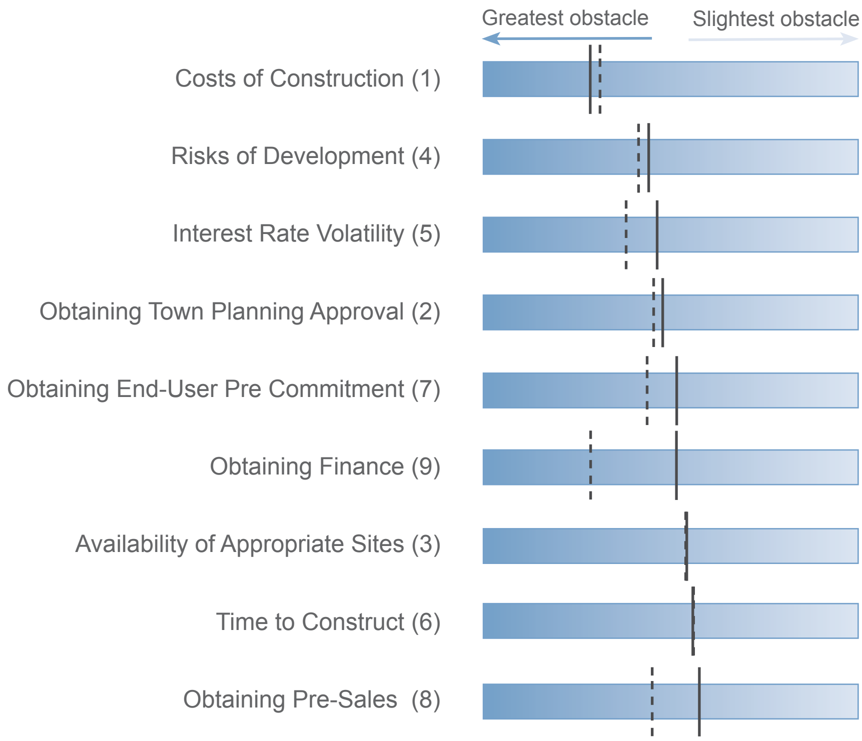
Obtaining Finance, which has sat near the bottom rung since the commencement of this survey, has clearly started to seriously concern participants. Previously posing the least concern to industry players, the issue leapt three places to become the sixth greatest obstacle in the industry – with a view to significantly worsening conditions during the upcoming 12 months. If participants' forecasts are correct, obtaining finance will be one of the top two obstacles in building development by this time next year.

Interest Rate Volatility, which previously sat midway up the obstacle scale, worsened considerably to become the third greatest obstacle to building development. Our survey participants hold a general consensus that the worst is yet to come, which indicates to us that the Reserve Bank's recent interest rate reprieves have still not managed to reverse sliding industry sentiment.

Obtaining Pre-Sales sits safely at the bottom of the rung, posing the least concern for the time being. Nevertheless, participants expect this situation will worsen significantly during the next 12 months and likely to reach the top three obstacles in building development by this time next year.

What are the greatest obstacles in the building development process?

Key
at the moment
during the next 12 months
(1) place in previous Sentiment Report



DESIGN AND CONSTRUCTION STANDARDS

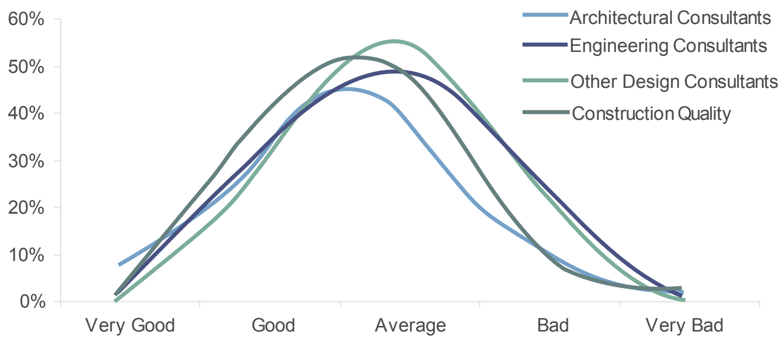
Each survey we ask participants how they rate the standard of Design Consultants and Construction Quality based on their recent experiences.

Sentiment towards Architects continued in a positive direction since last survey with 47% of industry participants experiencing Good to Very Good standards of Architectural Consultants – up 12% on a year ago.

Construction Quality slid further with 51% of respondents reporting Construction Quality as Average, 11% lower than a year ago.

The standard of Engineering Consultants took a pounding, with 25% of participants reporting that their recent experiences had been Bad to Very Bad (up 6%).

In your recent experience how would you rate the following ...



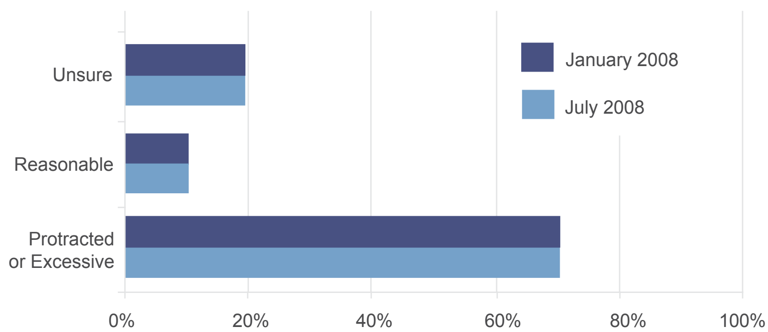
PLANNING APPROVAL – NOTHING TO SEE HERE FOLKS

Respondents are continuing to cite delays of 50% or more.

The dire state of Planning Approval across the nation remains unchanged on last survey, with 69% of respondents reporting Protracted or Excessive Delays. Just 12% of respondents report having experienced Reasonable timeframes for planning.

Still the bane of the development process, respondents are continuing to cite delays of 50% or more. The number of respondents experiencing these protracted timeframes increased 9% on last survey – now 42%.

Is the timeframe for obtaining town planning approvals excessive or reasonable?



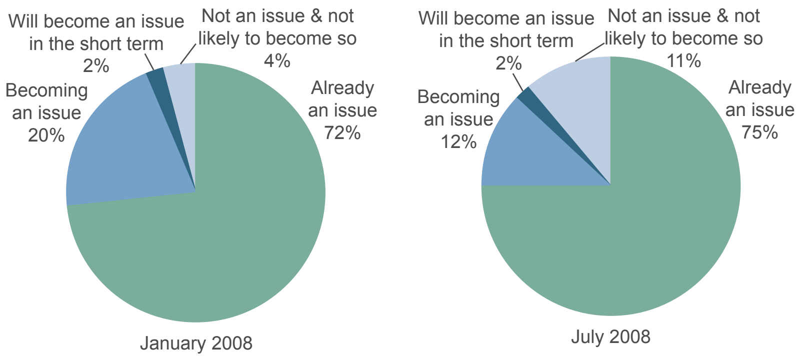
GREEN OBJECTIVES

Green objectives are showing some mild signs of fatigue, continuing to ease as an issue since our last survey in January 2008.

11% of respondents reported that they do not view green objectives as an issue, up 7% on last survey. When we think about the same time last year 0% were in this category, which makes us wonder whether the industry has been lulled into apathy – exhausted by the sheer saturation of carbon-based discussion during the past 12 months. Is this the first indicator of some kind of 'green backlash'?

While 87% of participants reported that green objectives are Already an issue or Becoming an issue, this figure still represents the least level of interest since the commencement of the survey.

To what extent do you see green objectives for development to be relevant to your sector and region?



GOVERNMENT PROJECTS

Exposure to Government projects increased slightly (up 3%) with 80% of the industry now reporting that their business is in some way involved in Government projects.

State Government work remains more dominant than Federal Government work, with participants reporting that, on average, State Government work makes up approximately 30% to 40% of their total workload at the moment. Federal Government projects accounting for just 10-11% of participant's total business at present.

Participants have expressed that they feel the Government has been playing 'catch up' on construction in health, roads and essential services and that this spending on large infrastructure projects has been putting a strain on the industry's capacity to deliver.

Nevertheless they recognise that it's this forward budget allocation and commitment to infrastructure injections that is keeping some level of confidence in their outlook.

PROCUREMENT PREFERENCES – BETTER SAFE THAN SORRY

Preference for Conventional Lump Sum contracts leapt 16% during the past six months...

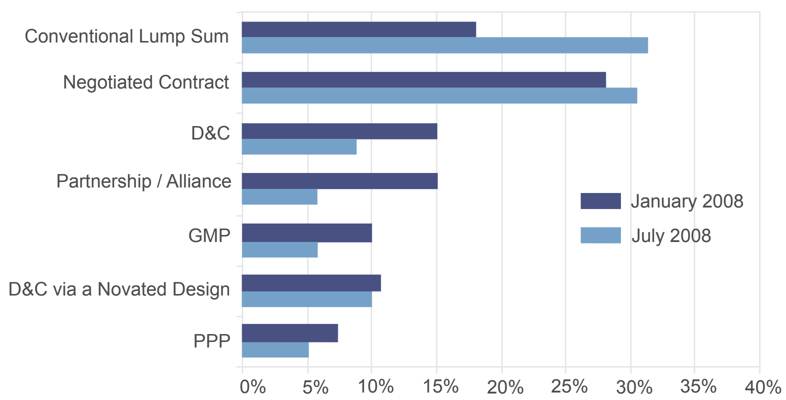
As the industry has started moving into a more competitive state, we have noticed a serious turnaround in contracting preferences.

Conventional Lump Sum contracts leapt 16% during the past six months to become the most preferred method of procurement by 32% of participants. Negotiated Contracts remain a near favourite, with 31% of respondents citing them as their preferred procurement method (up 3%).

We are anticipating that as the market starts to turn, keenly priced major contractors are expecting to reverse engineer some margin into their deals by taking advantage of more competitively priced Sub Contractors.

Partnership/Alliance contracts lost what little lustre they had, falling 8% during the past six months, and now preferred by just 6% of participants.

What is your preferred method of procurement?



STAFFING EXPECTATIONS – STABILISING

Thinking about your own staffing levels, how have these changed?

It appears that staffing expectations may be beginning to stabilise.

Respondents expecting their staffing levels to remain stable doubled during the past six months, indicating that the winds of change have begun in the industry.

Contract Staffing declined significantly during the six months to January with just 34% reporting Contract Staff increases (of up to 20%), while 45% reported Contract Staffing levels remained the same – indicating a measured slowdown in demand for Contract Staff.

44% of participants reported their own Permanent Staffing levels increased by up to 20%. While this is still positive news and unlikely to see the Skills Shortage ease any time soon, the result is still 19% lower than six months ago, indicating a slowing in expectations.

26% of respondents report that Permanent Staffing levels remained stable across the past six months and expect them to remain stable for the remainder of the year – double previous expectations.

SKILLS SHORTAGES – ABOUT TURN

Every respondent reported experiencing fewer skilled trades or professionals in short supply

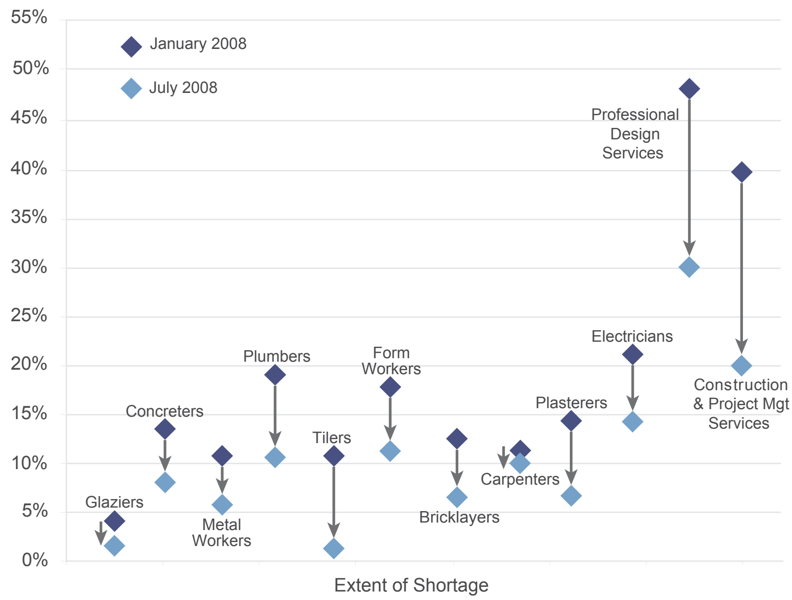
Skills shortages eased 8.1% since last survey, indicating some generous relief for the industry.

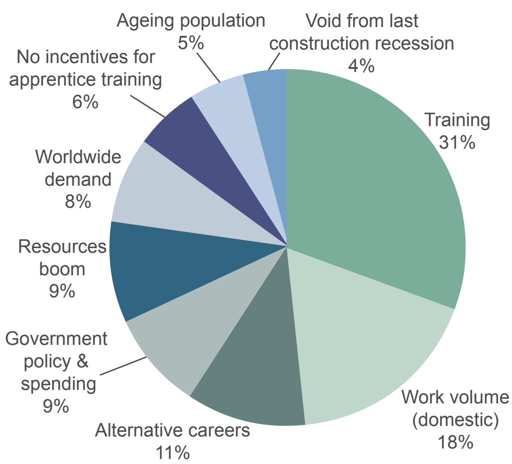
For the first time since the commencement of the survey, every respondent reported experiencing fewer skilled trades or professionals in short supply.

Of the skilled trades, shortages of Tilers declined the most (down 8.9%), with only 2% of participants now reporting shortages.

Despite Professional Design Services remaining at number one on the skills shortage heap, shortages eased substantially during the past six months (down 18%), now affecting 30% of participants. Similarly, availability of Construction & Project Management Services improved – now impacting on 20% of the industry, and just half of last survey's response.

Skilled trades shortages – which areas are worst affected?



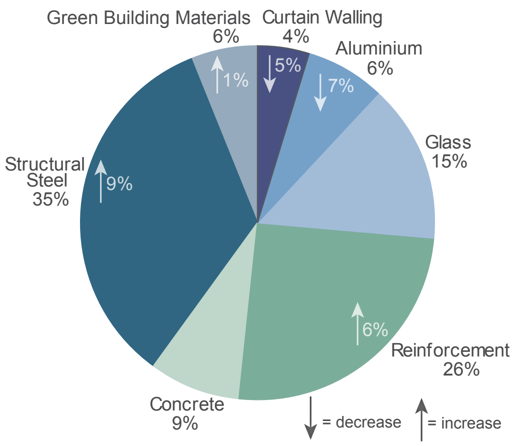


SKILLS SHORTAGES – MAJOR CAUSES

The majority of respondents still maintain that a lack of training and education in the industry over the last few decades is the major cause of any shortages we have in skilled labour. Some respondents say that the absence of structured training (for both younger and middle aged workers) that was once provided by institutional employers such as Government Works Departments has been one of the major underlying factors in this skills shortage equation.

MATERIALS SHORTAGES

Building materials in short supply



More than half the industry is continuing to experience building materials in short supply. Building material shortages worsened 18% since the last survey, now impacting on 52% of respondents.

The worst affected material continues to be Structural Steel (up 9%) – now with 35% of participants reporting it as the most problematic material to obtain. Similarly, Reinforcement crept up by another 6%, with 26% of industry respondents now impacted by the shortage.

Both Curtain Walling and Aluminium supply shortfall eased by 5% and 7% respectively.

COMPETITIVENESS – A NATION DIVIDED

Queensland and Western Australia appear to be holding up relatively well...

Competition among General Contractors and Sub Contractors is starting to tell a tale of a nation divided.

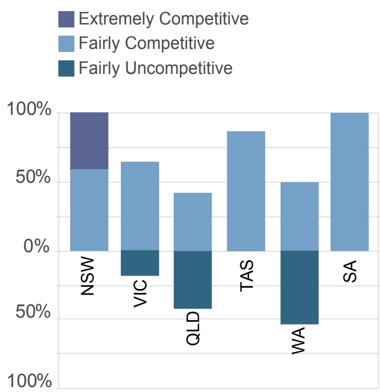
In New South Wales, 90% of General Contractors and 100% of Sub Contractors are experiencing Fairly to Extremely Competitive conditions. We expect that with this turn in the market, these keenly priced General Contractors will be factoring in their more competitive Sub Contractor base, in order to engineer some margin into their deals as projects come on line.

In a somewhat less desperate situation, 65% of Victorian General Contractors are reporting Fairly Competitive conditions. 53% of Sub Contractors are reporting Fairly Competitive conditions.

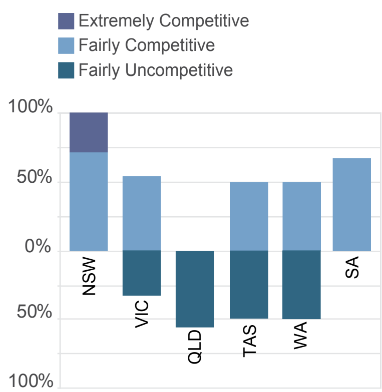
Queensland appears to be holding up well, with 87% ranking the level of competition among General Contractors in equal measure between Fairly Uncompetitive and Fairly Competitive. However, 56% of respondents rated Sub Contractors as Uncompetitive.

Similarly, 100% of Western Australian respondents ranked both General Contractors and Sub Contractors in neutral territory, on the border of Fairly Competitive and Fairly Uncompetitive.

Are General Contractors competitive?

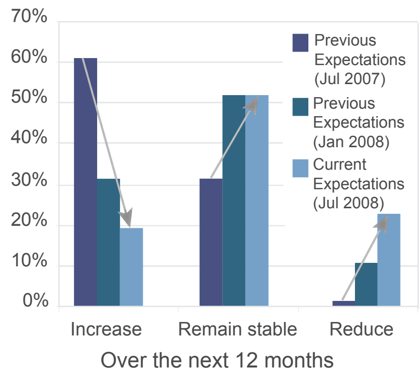


Are Sub Contractors competitive?



THE NEXT 12 MONTHS . . .

Construction industry work will . . .



Expectations about general industry workload have slid further during the past six months.

Nationally, 25% of respondents now expect industry workload to Reduce over the next 12 months, up 13% since last survey and 22% higher than a year ago.

At the same time, respondents expecting workload to Increase over the next 12 months plummeted to reach just 19%, down 43% on the same time last year – now reaching the lowest level since the commencement of the survey.

Just 53% of participants expect workload to remain relatively stable over the next 12 months – unchanged on last survey.

The state-by-state breakdown tells the story of a nation divided...

However, the news is not all bad – depending on your location. The state-by-state breakdown tells the story of a nation divided.

In terms of sentiment, Western Australia and South Australia remain very upbeat, with more than 50% of respondents anticipating workload will continue to increase during the upcoming 12 months. Participants have reported continuing good levels of enquiry and that current and forward workload is still on the increase.

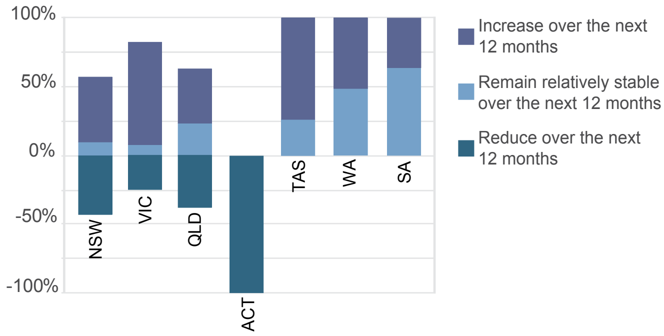
Victoria and Tasmania both anticipate workload to remain stable during the upcoming 12 months, as reported by 73% to 75% of respondents. Government commitments and the long timeframes for current work in progress are maintaining a stable sentiment in these states for now.

The ‘golden child’ of Queensland may be losing its shine. For the first time, 35% of respondents said they expect workload to decrease over the next 12 months. Deferred projects have made a significant dent in the state’s expectations looking forward, along with the surprise axing of some major public programmes in the billions of dollars.

90% of New South Wales respondents anticipate stable to falling conditions, citing economic factors and declining financial activity affecting commercial construction.

Worst affected, the Australian Capital Territory appears to be in a dire situation, with every respondent anticipating decreasing workload looking forward, as Government projects start drawing to an end.

Which of the following statements best describes your sentiment. . .



THE NEXT 12 MONTHS CONTINUED...

In every survey we question participants about the segments that they expect will make the most contribution to growth during the upcoming 12 months.

Health stepped back into the spotlight followed closely by Retirement & Aged Care Accommodation as the segments considered most likely to contribute to growth in the construction industry over the next 12 months. This is not entirely surprising given the magnitude of pump priming being undertaken by the Government.

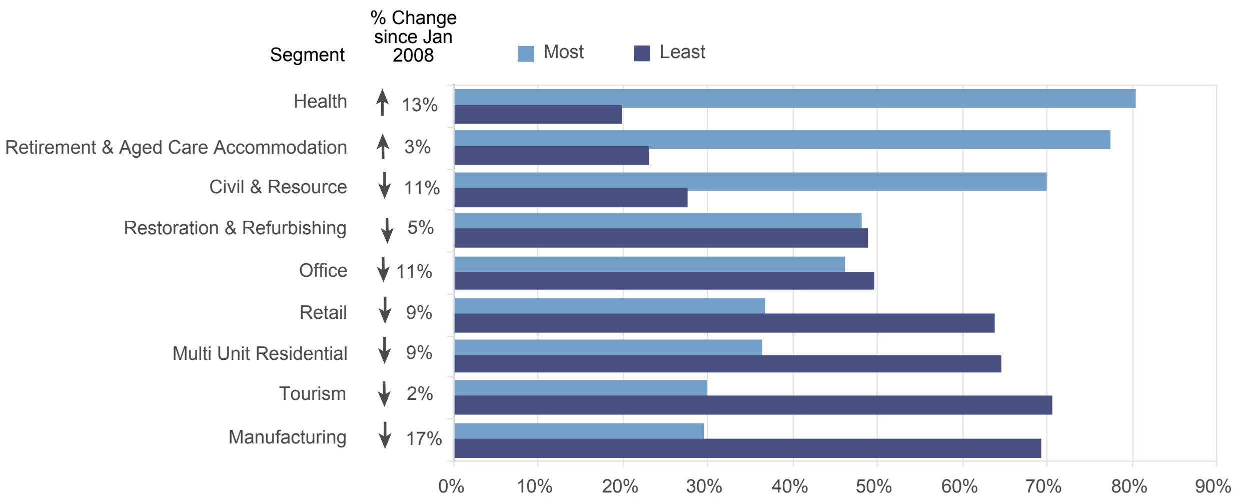
Similarly, the Civil & Resource sector remains in the top three with 70% of respondents considering this sector to continue being a major contributor to industry growth over the upcoming 12 months.

Both Retail and Multi Unit Residential took a tumble – both slipping back 9% and now nearing the bottom of the rung, with 66% of industry players considering these sectors least likely to contribute to growth in the industry. This gives us a fairly significant indication that recent interest rate cuts have done little to buoy the consumer edge of the market.

The Office sector slipped another notch – now the fifth most likely to contribute to construction growth (down from number one just a year ago). Just 47% of participants think it will contribute to growth during the upcoming year.

Expectations for Tourism related construction and Manufacturing have plummeted to the lowest since the commencement of the survey. 70% of respondents now view these sectors as least likely to contribute to growth, looking forward.

Which of the following segments do you think will contribute to growth in the construction industry in the next 12 months . . .



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