

## TENDER PRICE INDICES AND COST TRENDS IN HONG KONG

December 2006

### Commentary

#### Review of tender price movements

According to Levett and Bailey's Tender Price Index, which measures tender price movements in builder's works in the private sector in Hong Kong, there was an increase of 3.82% in tender price in the third quarter of 2006. On a year-on-year basis, there was an increase of 6.67% as compared with the third quarter of 2005.

The following were the third quarter year-on-year tender price movements in the private sector in the past five years:

2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
-11.03%	-1.24%	+2.93%	+3.66%	+6.67%

Since last year, tender price of building services trades has been increasing at a much faster rate than those of builder's works. In some contracts, the increase has been more than 20% on a year-on-year basis.

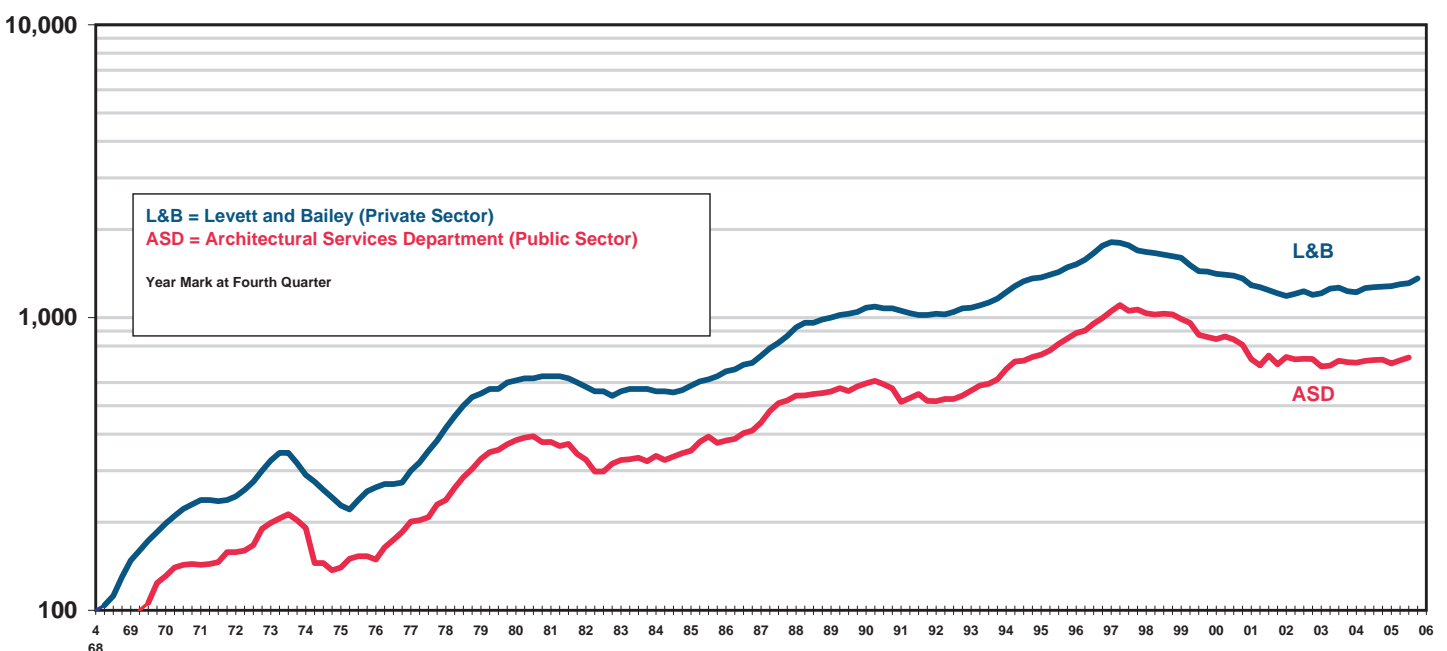
#### Forecast of tender price trends

The rising trend in tender price in Hong Kong has accelerated in the third quarter of this year, especially in the building services trades. The combined effects of a heavy demand of contractors in Macau, the weaker US dollar and a sustained high level of commodity prices have pushed up the basic construction costs while the contractors have taken the opportunity to become more selective in tendering for projects in Hong Kong and to improve their profit margins. It has not been uncommon that in any tendering exercise in Hong Kong, at least one or two tenderers selected for tendering eventually declined to submit a tender thereby reducing the overall competitiveness of the tenders.

The US dollar has further weakened since November this year while the appreciation in value of Renminbi has become more significant. As many construction materials and components are imported from China, the continual increase in the value of Renminbi will lead to a further rise in building material costs. With the construction boom in Macau showing no sign of abatement and an expected increase in the number of new projects in Hong Kong, the rising trend in tender price in Hong Kong will continue at a much faster pace next year.

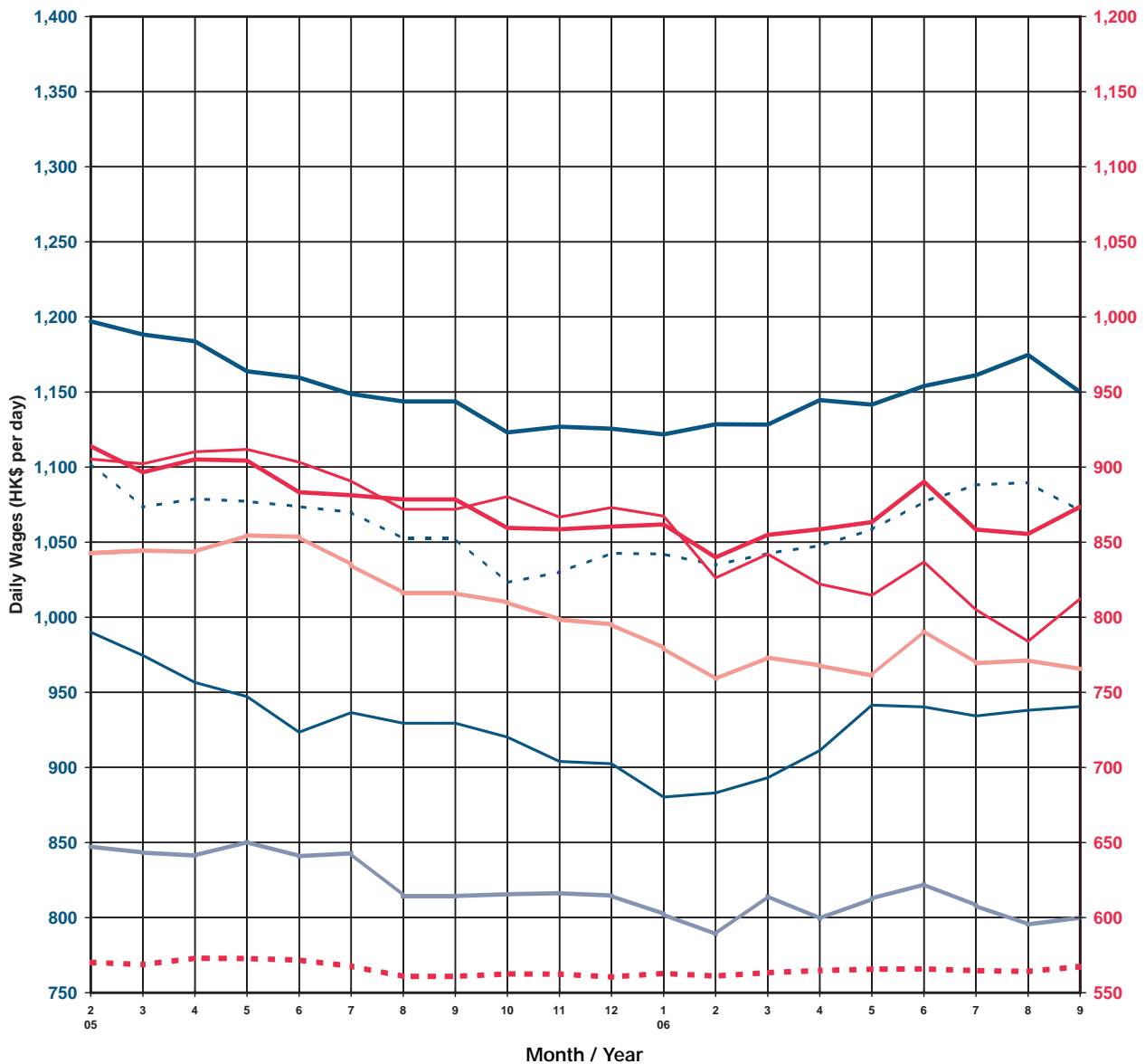
### Tender Price Indices

Graph showing cost trends in the construction industry in Hong Kong based on Tender Prices for Builder's Works



For Average Tendered Rates and more, please visit our web site [www.LevettandBailey.com](http://www.LevettandBailey.com)

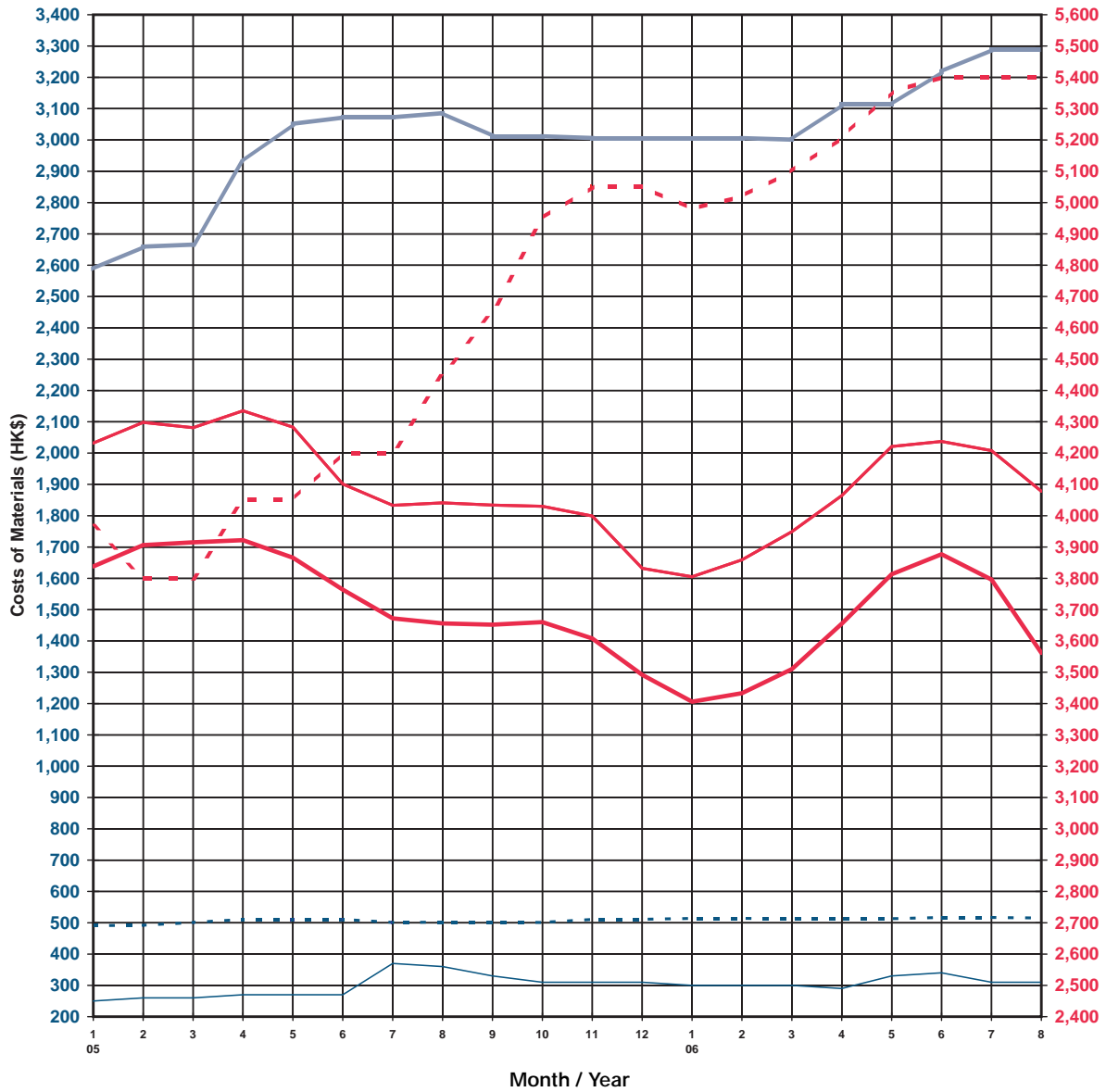
## Average Daily Wages of Workers Engaged in Public Sector Construction Projects



Selected Occupations	Average Daily Wages in HK\$ per day																			
	2005												2006							
	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9
Bar Bender and Fixer	1,197.0	1,188.3	1,183.8	1,163.8	1,159.6	1,148.7	1,143.7	1,143.7	1,123.1	1,126.9	1,125.6	1,121.8	1,128.5	1,128.3	1,144.6	1,141.6	1,154.0	1,161.2	1,174.7	1,150.0
Concretor	990.1	974.6	956.6	947.2	923.5	936.5	929.5	929.5	920.2	904.0	902.5	880.3	883.1	893.2	911.3	941.5	940.3	934.3	938.1	940.6
Carpenter (formwork)	1,102.5	1,073.4	1,078.9	1,077.2	1,073.7	1,069.9	1,052.3	1,052.3	1,023.1	1,030.1	1,042.6	1,042.1	1,034.8	1,042.5	1,047.7	1,058.4	1,076.9	1,088.2	1,089.7	1,070.8
Painter and Decorator	842.7	844.4	843.6	854.5	853.6	834.9	816.0	816.0	809.9	798.5	795.3	779.5	758.7	773.3	767.8	761.1	791.2	769.4	771.3	765.5
Plasterer	913.9	896.6	905.1	904.3	883.3	881.3	878.5	878.5	859.5	858.6	860.4	861.8	839.9	854.9	858.6	863.4	890.3	858.4	855.5	873.6
Metal Worker	847.3	843.3	841.3	850.4	840.9	842.9	814.4	814.4	815.6	816.3	814.7	802.3	788.8	814.5	799.3	812.6	822.3	808.0	795.4	800.1
Plumber	905.3	902.2	910.2	911.8	903.3	890.6	871.9	871.9	880.4	866.7	873.1	867.4	826.2	842.1	822.1	814.7	836.8	805.0	784.0	812.3
General Workers	570.2	568.8	573.0	572.8	571.7	567.7	560.9	560.9	562.5	562.4	560.5	562.9	561.1	563.4	564.8	565.7	565.9	564.7	564.2	567.4

(Source: Census and Statistics Department)

## Average Wholesale Prices of Selected Building Materials

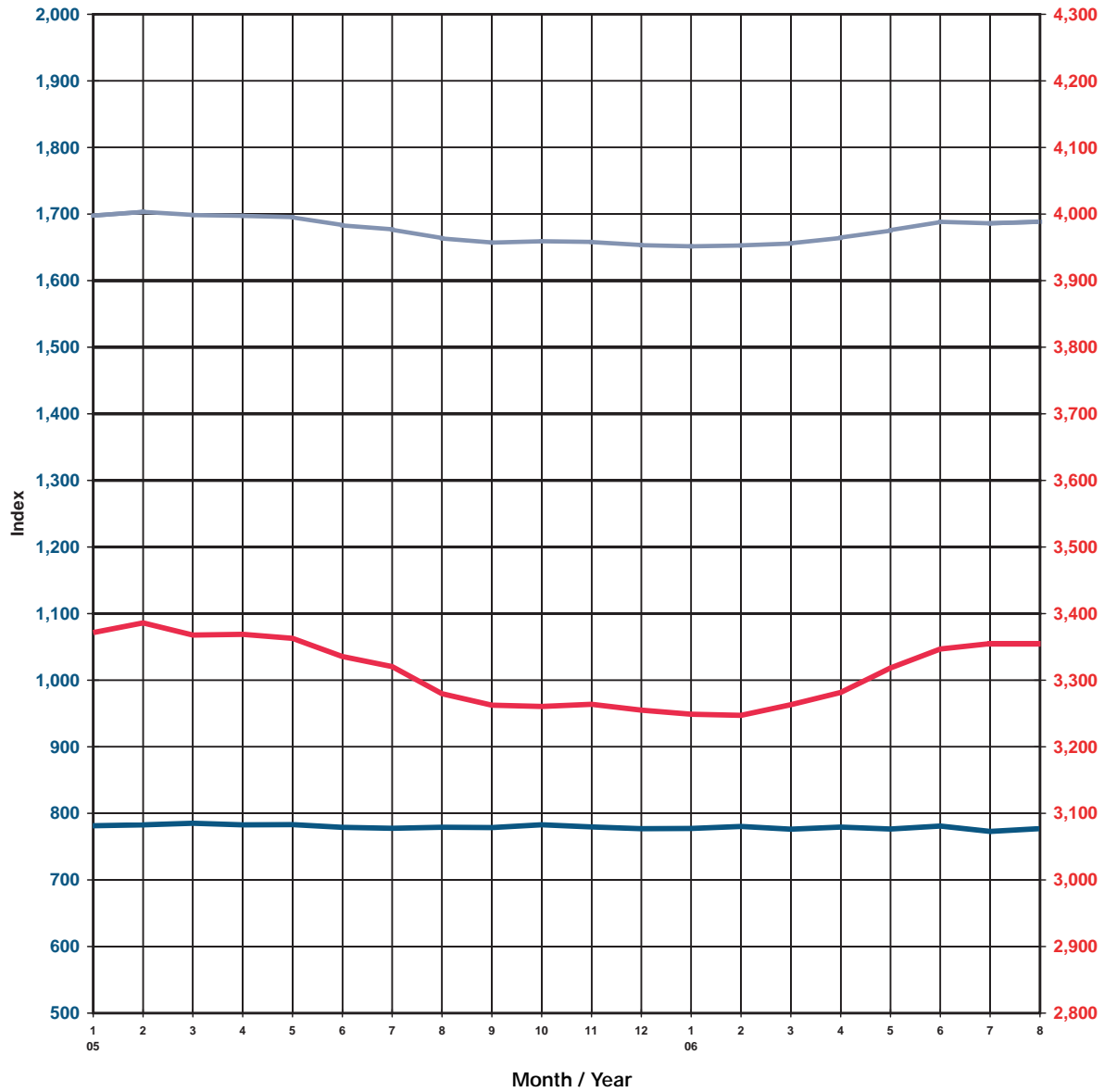


Building Materials	2005												2006							
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8
Sand (\$/10 t)	250.00	260.00	260.00	270.00	270.00	270.00	370.00	360.00	330.00	310.00	310.00	310.00	300.00	300.00	300.00	290.00	330.00	340.00	310.00	310.00
Bitumen (\$/t)	3,967.00	3,800.00	3,800.00	4,050.00	4,050.00	4,200.00	4,200.00	4,450.00	4,650.00	4,950.00	5,050.00	5,050.00	4,980.00	5,020.00	5,100.00	5,207.00	5,353.00	5,400.00	5,400.00	5,400.00
Portland Cement (\$/t)	491.00	492.00	501.00	511.00	511.00	511.00	501.00	502.00	502.00	501.00	511.00	511.00	514.00	514.00	513.00	513.00	513.00	517.00	517.00	515.00
Sawn Hardwood 50x75 (\$/m <sup>3</sup> )	2,588.00	2,659.00	2,666.00	2,931.00	3,051.00	3,072.00	3,072.00	3,086.00	3,012.00	3,012.00	3,006.00	3,006.00	3,006.00	3,006.00	3,001.00	3,113.00	3,113.00	3,218.00	3,288.00	3,288.00
Mild Steel Round Bars (\$/t)	4,232.00	4,298.00	4,281.00	4,335.00	4,283.00	4,101.00	4,033.00	4,041.00	4,034.00	4,030.00	3,999.00	3,832.00	3,805.00	3,859.00	3,949.00	4,064.00	4,221.00	4,237.00	4,208.00	4,078.00
High Tensile Steel Bars (\$/t)	3,838.00	3,906.00	3,915.00	3,922.00	3,866.00	3,764.00	3,672.00	3,656.00	3,652.00	3,660.00	3,608.00	3,492.00	3,406.00	3,433.00	3,510.00	3,655.00	3,813.00	3,877.00	3,796.00	3,562.00

(Source: Census and Statistics Department)

# Labour and Material Cost Indices

## Labour and Material Cost Indices



### Labour and Material Cost Indices

(Note : These indices are prepared on basis of Government building projects which do not necessarily reflect conditions in the private sector)

Index	2005												2006							
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8
Material Index	781.40	782.71	785.16	782.71	783.10	778.97	777.60	779.14	778.62	782.89	779.58	776.92	777.34	780.33	776.22	779.41	776.43	780.92	772.90	777.03
Labour Index	3,371.43	3,386.06	3,367.78	3,368.87	3,362.80	3,335.59	3,320.45	3,279.62	3,262.43	3,260.51	3,263.74	3,255.01	3,248.93	3,247.20	3,263.20	3,281.54	3,318.41	3,346.79	3,354.95	3,354.51
Consolidated Labour & Material Index (Building Cost Index)	1,697.39	1,703.41	1,698.54	1,697.33	1,695.44	1,683.15	1,676.91	1,663.48	1,657.07	1,659.15	1,658.15	1,653.34	1,651.46	1,652.79	1,655.79	1,664.33	1,675.44	1,688.37	1,686.06	1,688.59

(Source: Architectural Services Department)

# Construction Costs

## Approximate Order of Construction Costs in Hong Kong and Major Cities in China

(Cost per Square Metre Construction Floor Area at 3<sup>rd</sup> Quarter 2006 Prices)

Type of Building	Hong Kong HK\$	Beijing RMB	Shanghai RMB	Guangzhou RMB	Shenzhen RMB	Macau MOP
<b>Office</b>						
<i>High Quality</i>	10,900 - 14,700	5,700 - 8,400	5,500 - 8,200	5,400 - 8,000	5,400 - 8,000	10,300 - 13,400
<i>Medium Quality</i>	9,500 - 11,000	4,300 - 5,900	4,000 - 5,700	3,800 - 5,400	3,800 - 5,400	8,700 - 10,400
<i>Ordinary Quality</i>	8,300 - 10,000	3,100 - 4,200	2,900 - 4,000	2,800 - 3,800	2,800 - 3,800	7,100 - 9,100
<b>Shopping Centre</b>						
<i>High Quality</i>	15,100 - 18,000	6,400 - 9,700	6,200 - 9,500	6,000 - 8,800	6,000 - 8,800	N/A
<i>Medium Quality</i>	11,700 - 13,900	4,900 - 6,300	4,700 - 6,100	4,100 - 5,800	4,100 - 5,800	N/A
<b>Residential</b>						
<i>High Rise; High Quality</i>	9,700 - 12,100	3,100 - 4,300	3,000 - 4,100	2,800 - 3,800	2,800 - 3,800	7,300 - 9,500
<i>High Rise; Better Quality</i>	8,400 - 9,900	2,600 - 3,100	2,500 - 3,000	2,300 - 2,900	2,300 - 2,900	6,000 - 7,800
<i>High Rise; Ordinary Quality</i>	7,000 - 8,500	1,500 - 2,200	1,400 - 2,100	1,300 - 1,900	1,300 - 1,900	5,000 - 6,200
<i>House; High Quality</i>	16,000 - 18,800	3,600 - 4,800	3,400 - 4,500	3,300 - 4,400	3,300 - 4,400	N/A
<i>House; Medium Quality</i>	11,900 - 15,000	2,200 - 2,900	2,000 - 2,700	1,800 - 2,600	1,800 - 2,600	N/A
<b>Hotel (including FF&amp;E)</b>						
<i>5-Star</i>	16,800 - 20,400	9,600 - 12,300	9,500 - 12,200	9,100 - 11,500	9,100 - 11,500	16,400 - 20,200
<i>3-Star</i>	13,600 - 15,800	6,900 - 8,800	6,900 - 8,600	6,500 - 8,200	6,500 - 8,200	13,100 - 15,700
<b>Industrial</b>						
<i>Landlord; High Rise</i>	5,100 - 5,900	1,800 - 2,500	1,800 - 2,500	1,500 - 2,200	1,500 - 2,200	N/A
<i>End User; Low Rise</i>	6,200 - 9,900	2,900 - 5,000	2,900 - 5,000	2,600 - 4,800	2,600 - 4,800	N/A
<b>Carpark</b>						
<i>Basement; up to 2 Levels</i>	7,500 - 10,900	2,600 - 4,700	2,900 - 5,000	2,600 - 4,800	2,600 - 4,800	4,900 - 6,700
<i>Multi-Storey</i>	4,400 - 5,100	1,700 - 2,200	1,700 - 2,200	1,600 - 2,100	1,600 - 2,100	N/A

### NOTES

- The construction costs above are based on prices obtained by competitive tendering for lump sum fixed price contracts with a normal contract period and are based on normal site conditions and locations.
- The costs are average square metre unit costs only not based on any specific drawings / design. Therefore they provide nothing more than a rough guide to the probable cost of a building. Figures outside the given ranges may be encountered. When information is required on a specific project, it is essential that professional advice be sought.
- The standards for each type of building in major cities in China do not necessarily follow those in Hong Kong due to local design practices and choice of materials.
- The costs exclude furniture, fittings and equipment (except hotel / serviced apartment), site formation and external works, finance and legal expenses, consultants' fees and reimbursibles, value of land and fluctuations in prices between now and the time of calling tenders.
- Other Specific Exclusions:  
 Hotel: pre-opening expenses, operating expenses, working capital, staff training and administrative costs  
 Shopping Centre: fit out to tenant areas  
 Industrial; Landlord: security system, air conditioning, electrical distribution in tenant areas; production and warehousing equipment; special M&E provisions  
 Projects in Major Cities in China: utilities to the site beyond site boundary, connection charges and capital contribution; local authority levies and taxation; import duties
- Construction floor areas are measured to the outside face of external walls (or in the absence of such walls, the external perimeter) of the building & include all lift shafts, stairwells and E&M rooms but exclude lightwells and atrium voids. These areas are usually larger than Architect's calculation of **Gross Floor Area** (Plot Ratio Area).

