

TENDER PRICE INDICES AND COST TRENDS IN HONG KONG

March 2004

Commentary

Review of tender price movements

According to Levett and Bailey's Tender Price Index, which measures tender price movements in the private sector, there was an increase of 1.26% in tender price in the fourth quarter of 2003. On a year-on-year basis, there was an increase of 2.11% as compared with the fourth quarter of 2002. For the first time since the peak in the fourth quarter of 1997, the decline in tender price in the private sector has been reversed.

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

1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
-4.48%	-11.88%	-8.51%	-8.14%	+2.11%

Forecast of tender price trends

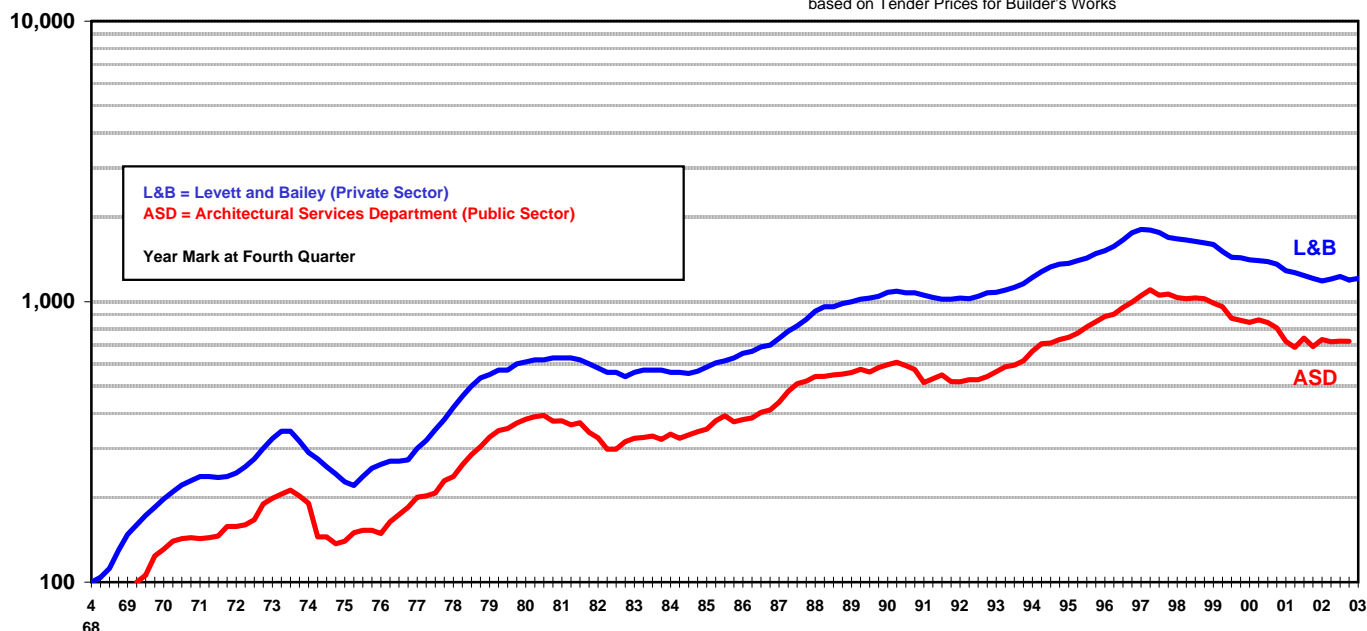
Hong Kong's economic recovery since middle of last year has been continuing in the last quarter. The improvement in property prices has led to the expectation that construction activities will pick up in the medium term as developers begin to invest in more new projects.

However, in the short term, movement in construction cost is influenced by the prices of materials more than anything else. The weak US dollar has resulted in higher prices of materials imported from countries such as those in Europe, Australia and Japan. Due to strong demand in China and shortage of raw materials, the prices of steel have risen quite significantly in recent months, and this factor has contributed to a great extent the reverse in the downward movement of tender price last year.

On the whole, with tender price in Hong Kong having bottomed out last year, it is expected a gradual upward trend will be established this year.

Tender Price Indices

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



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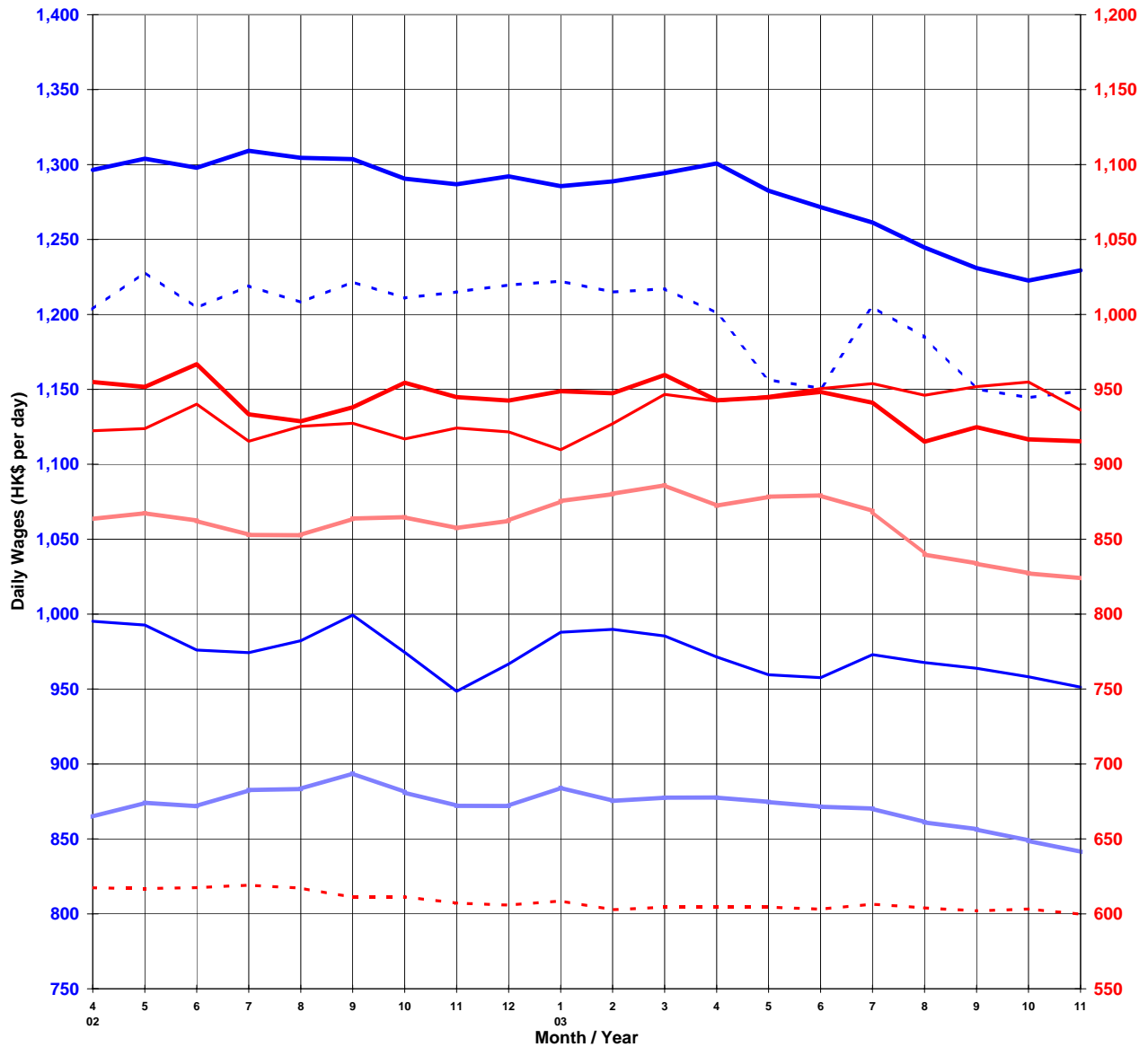
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Labour Cost Trends

Average Daily Wages of Workers Engaged in Government Building and Construction Projects

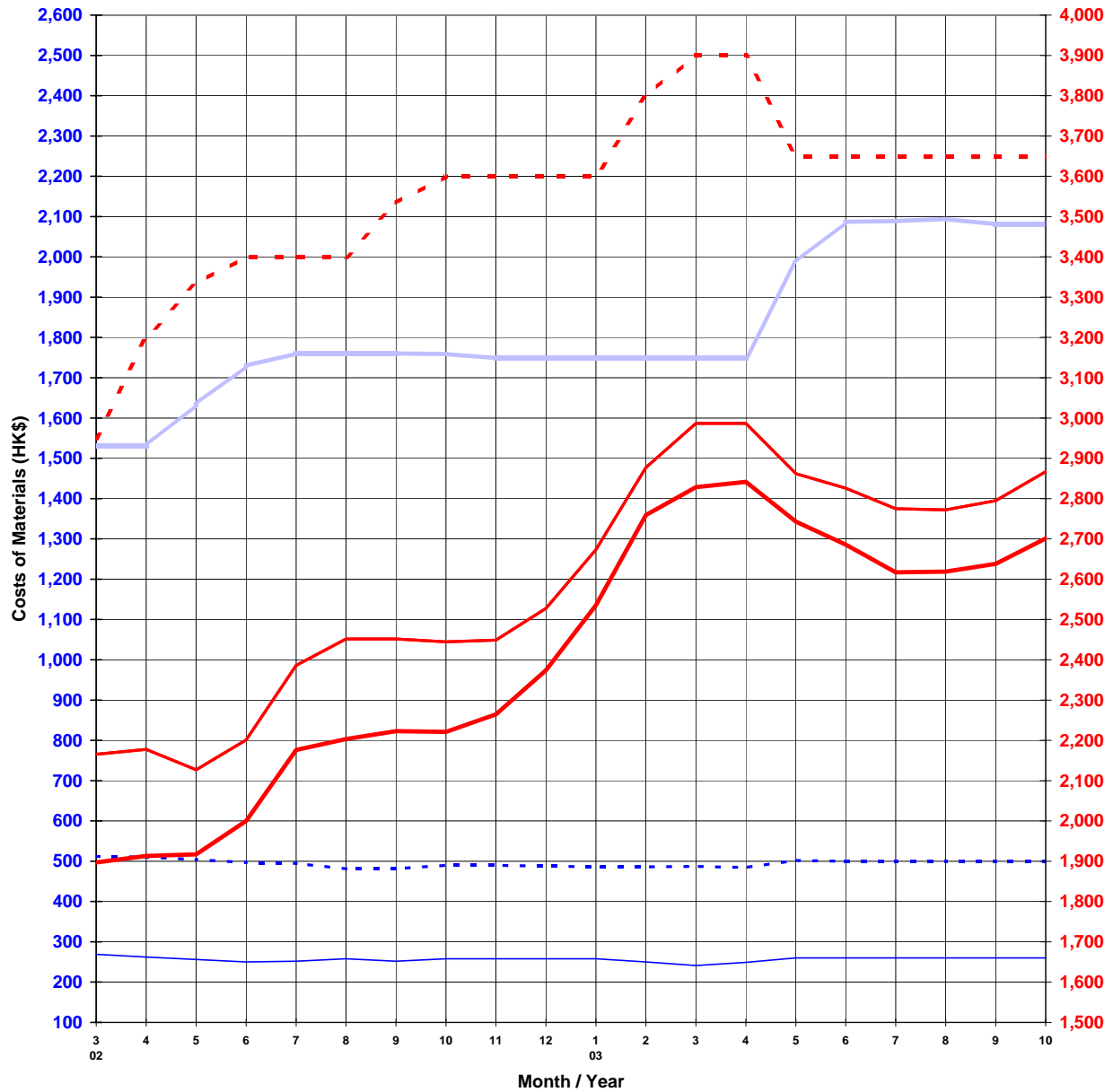


Selected Occupations	Average Daily Wages in HK\$ per day																				
	2002												2003								
	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	
Steel Bender	1,296.4	1,303.9	1,297.9	1,309.2	1,304.5	1,303.6	1,290.6	1,286.8	1,292.1	1,285.6	1,288.8	1,294.3	1,300.7	1,282.5	1,271.6	1,261.3	1,244.6	1,230.9	1,222.6	1,229.4	
Concretor	995.2	992.7	976.0	974.3	982.3	999.3	974.5	948.5	966.7	987.9	989.8	985.4	971.4	959.5	957.6	973.0	967.7	963.9	958.2	951.3	
Carpenter & Joiner	1,203.4	1,228.3	1,204.3	1,219.0	1,208.0	1,221.7	1,211.0	1,215.0	1,219.6	1,222.2	1,214.9	1,217.1	1,200.9	1,156.4	1,150.7	1,205.1	1,184.8	1,150.3	1,144.4	1,148.9	
Painter	863.5	867.4	862.3	852.8	852.7	863.8	864.7	857.4	862.3	875.4	880.2	886.1	872.2	878.4	879.2	868.7	839.9	833.8	827.2	824.0	
Plasterer	954.9	951.6	966.8	933.3	928.7	938.0	954.4	944.8	942.5	948.7	947.4	959.6	942.7	944.6	948.3	941.1	915.1	924.8	916.6	915.4	
Blacksmith	864.8	874.2	871.8	882.6	883.3	893.8	881.1	872.1	872.0	884.3	875.3	877.5	877.6	874.7	871.5	870.3	861.1	856.4	848.9	841.3	
Plumber	922.4	923.8	940.1	915.4	925.3	927.4	916.9	924.2	921.6	909.7	927.1	946.6	942.1	945.4	950.5	953.8	946.1	951.8	954.9	936.2	
Unskilled Labourer (Male)	617.4	616.8	617.5	619.1	617.1	611.1	611.4	607.2	605.8	608.6	602.7	604.5	604.8	604.5	603.1	606.5	604.0	602.0	603.2	599.8	

(Source: Census and Statistics Department)

Material Cost Trends

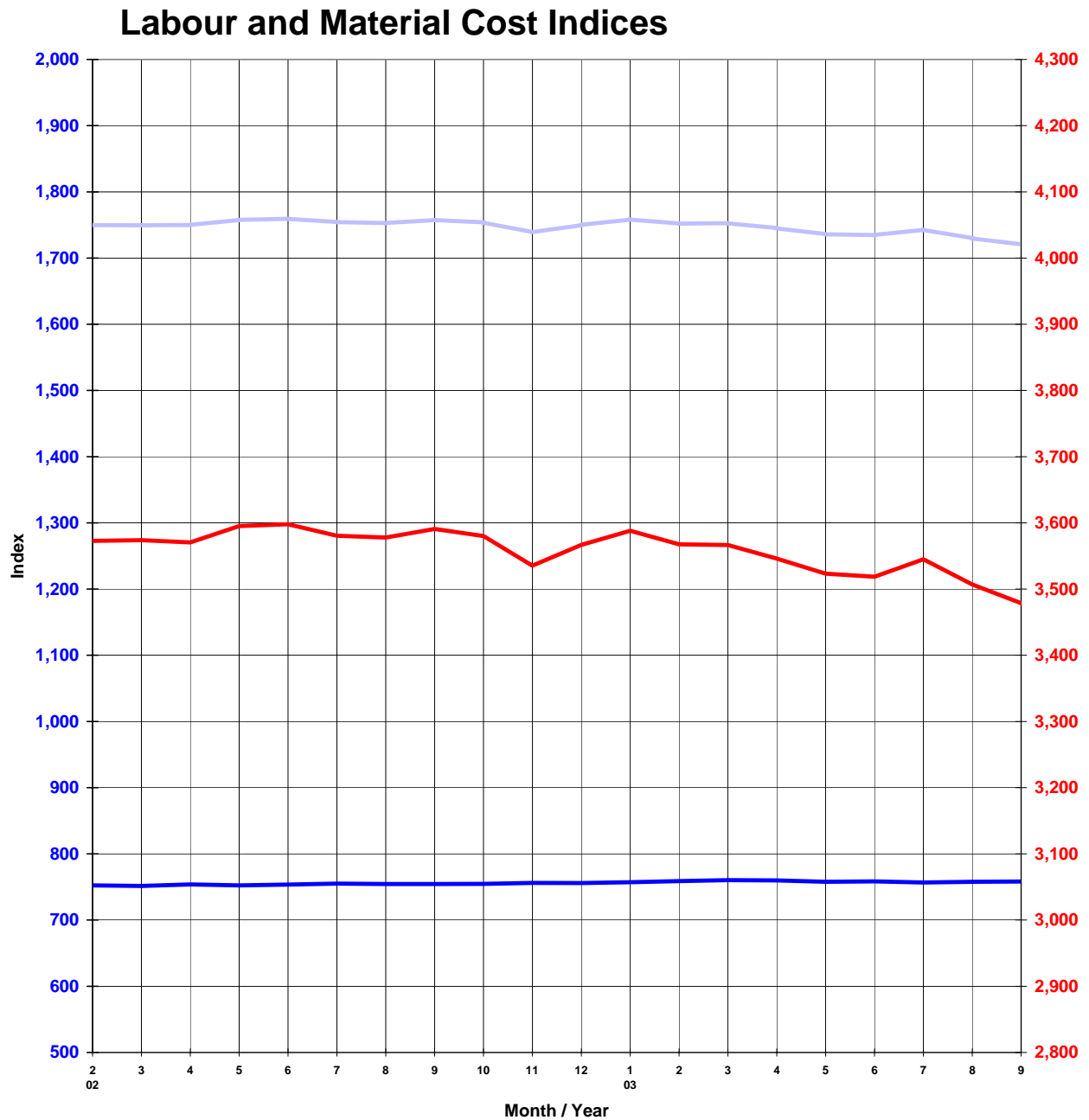
Average Wholesale Prices of Selected Building Materials



Building Materials	2002												2003									
	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10		
Sand (\$/10 t)	269.00	262.00	256.00	250.00	252.00	258.00	252.00	258.00	258.00	258.00	258.00	250.00	241.00	249.00	260.00	260.00	260.00	260.00	260.00	260.00		
Bitumen (\$/t)	2,950.00	3,200.00	3,333.33	3,400.00	3,400.00	3,400.00	3,533.33	3,600.00	3,600.00	3,600.00	3,600.00	3,800.00	3,900.00	3,900.00	3,650.00	3,650.00	3,650.00	3,650.00	3,650.00	3,650.00		
Portland Cement (\$/t)	512.08	510.26	504.05	496.77	494.60	481.12	481.55	489.82	489.82	487.74	486.07	486.07	487.21	484.60	502.00	500.00	500.00	500.00	500.00	500.00		
Sawn Hardwood 50x75 (\$/m3)	1,530.72	1,530.72	1,633.66	1,729.46	1,760.26	1,760.26	1,760.26	1,758.82	1,748.88	1,748.88	1,748.88	1,748.88	1,748.88	1,748.88	1,987.00	2,087.00	2,089.00	2,094.00	2,081.00	2,081.00		
Mild Steel Round Bars (\$/t)	2,165.37	2,177.75	2,127.02	2,201.00	2,385.91	2,451.54	2,451.70	2,444.53	2,448.84	2,527.57	2,673.33	2,877.15	2,986.67	2,986.67	2,862.00	2,826.00	2,775.00	2,772.00	2,795.00	2,867.00		
High Tensile Steel Bars (\$/t)	1,897.14	1,913.14	1,917.06	2,000.00	2,176.19	2,203.17	2,222.79	2,221.09	2,264.59	2,374.14	2,535.54	2,759.43	2,828.40	2,841.61	2,743.00	2,686.00	2,617.00	2,619.00	2,638.00	2,701.00		

(Source: Census and Statistics Department)

Labour and Material Cost Indices



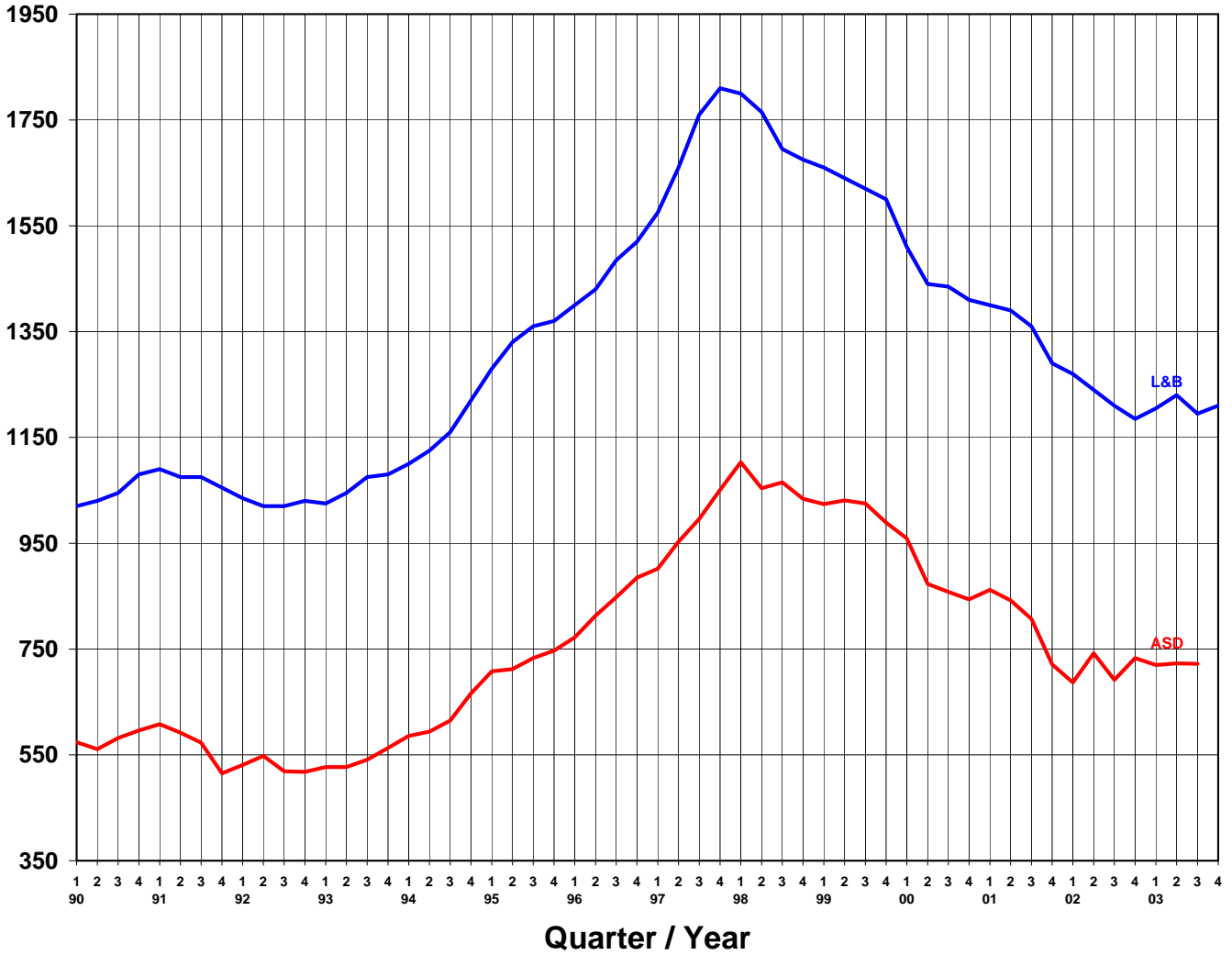
Labour and Material Cost Indices

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

Index	2002												2003								
	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	
Material Index	752.43	751.44	753.73	752.36	753.62	755.08	754.42	754.54	754.71	756.05	756.02	757.19	758.75	760.37	759.83	757.86	758.40	756.70	757.77	758.32	
Labour Index	3,572.69	3,573.93	3,570.55	3,595.06	3,597.84	3,580.47	3,577.86	3,590.69	3,580.06	3,535.30	3,566.64	3,588.10	3,567.53	3,566.43	3,545.93	3,523.28	3,518.72	3,545.00	3,506.83	3,478.73	
Consolidated Labour & Material Index (Building Cost Index)	1,749.79	1,749.58	1,749.87	1,757.64	1,759.44	1,754.25	1,752.90	1,757.51	1,753.86	1,738.91	1,749.97	1,758.31	1,752.05	1,752.71	1,745.12	1,735.83	1,734.57	1,742.76	1,729.96	1,720.38	

(Source: Architectural Services Department)

Tender Price Indices since 1990



Tender Price Indices

Quarter	L&B	ASD	L&B	ASD	L&B	ASD	L&B	ASD	L&B	ASD	L&B	ASD	L&B	ASD	L&B	ASD	L&B	ASD	L&B	ASD	L&B	ASD		
	1968		1969		1970		1971		1972		1973		1974		1975		1976		1977		1978		1979	
1			104		160	100	210	140	238	144	258	160	345	206	275	145	221	150	270	164	320	203	460	262
2			112		173	106	222	143	236	146	275	167	345	213	258	145	238	153	270	174	350	208	500	285
3			130		185	124	230	144	238	158	300	190	318	203	243	137	255	153	273	185	380	230	535	304
4	100		148		198	131	238	143	245	158	325	199	290	191	228	140	263	149	300	201	420	238	550	329
	1980		1981		1982		1983		1984		1985		1986		1987		1988		1989		1990		1991	
1	570	347	620	389	630	364	560	298	570	328	560	326	605	376	665	385	785	479	960	542	1020	574	1090	608
2	570	353	620	393	620	370	560	298	570	332	555	335	615	392	690	403	820	510	960	548	1030	561	1075	592
3	600	369	630	375	600	342	540	317	570	323	565	344	630	373	700	411	865	521	985	552	1045	582	1075	573
4	610	381	630	376	580	327	560	326	560	337	585	351	655	380	740	438	925	541	1000	559	1080	596	1055	515
	1992		1993		1994		1995		1996		1997		1998		1999		2000		2001		2002		2003	
1	1035	531	1025	527	1100	586	1280	708	1400	772	1575	902	1800	1103	1660	1024	1510	959	1400	862	1270	687	1205	720
2	1020	548	1045	527	1125	594	1330	712	1430	813	1660	953	1765	1054	1640	1031	1440	873	1390	842	1240	742	1230	723
3	1020	519	1075	541	1160	615	1360	733	1485	848	1760	996	1695	1065	1620	1025	1435	858	1360	807	1210	692	1195	722
4	1030	518	1080	563	1220	666	1370	747	1520	885	1810	1051	1675	1034	1600	989	1410	844	1290	721	1185	733	1210	

Construction Costs

Approximate Order of Construction Costs in Hong Kong and Major Cities in China (Cost per Square Metre Construction Floor Area at 4 th Quarter 2003 Prices)					
Type of Building	Hong Kong HK\$	Beijing RMB	Shanghai RMB	Guangzhou RMB	Shenzhen RMB
Office					
<i>High Quality</i>	9,350 - 12,500	5,500 - 8,000	5,300 - 7,800	5,200 - 7,600	5,200 - 7,600
<i>Medium Quality</i>	8,150 - 9,300	4,200 - 5,500	4,000 - 5,300	3,800 - 5,000	3,800 - 5,000
<i>Ordinary Quality</i>	7,000 - 8,600	3,000 - 4,000	2,800 - 3,800	2,700 - 3,700	2,700 - 3,700
Shopping Centre					
<i>High Quality</i>	13,100 - 15,500	6,200 - 9,200	6,000 - 9,000	5,800 - 8,500	5,800 - 8,500
<i>Medium Quality</i>	10,000 - 11,700	4,700 - 6,000	4,500 - 5,800	4,000 - 5,500	4,000 - 5,500
Residential					
<i>High Rise; High Quality</i>	8,300 - 10,450	3,200 - 4,200	3,100 - 4,000	2,900 - 3,800	2,900 - 3,800
<i>High Rise; Better Quality</i>	7,100 - 8,500	2,500 - 3,000	2,400 - 2,900	2,300 - 2,800	2,300 - 2,800
<i>High Rise; Ordinary Quality</i>	6,000 - 7,250	1,500 - 2,100	1,400 - 2,000	1,300 - 1,800	1,300 - 1,800
<i>House; High Quality</i>	13,600 - 16,200	3,500 - 4,500	3,300 - 4,300	3,200 - 4,200	3,200 - 4,200
<i>House; Medium Quality</i>	10,100 - 12,700	2,200 - 2,800	2,000 - 2,600	1,800 - 2,500	1,800 - 2,500
Hotel (including FF&E)					
<i>5-Star</i>	14,600 - 17,500	9,300 - 11,800	9,200 - 11,500	8,800 - 11,000	8,800 - 11,000
<i>3-Star</i>	11,500 - 13,200	6,700 - 9,700	6,600 - 9,500	6,300 - 9,000	6,300 - 9,000
Industrial					
<i>Landlord; High Rise</i>	4,400 - 5,000	1,800 - 2,400	1,800 - 2,400	1,500 - 2,100	1,500 - 2,100
<i>End User; Low Rise</i>	5,100 - 8,600	2,800 - 4,800	2,800 - 4,800	2,500 - 4,500	2,500 - 4,500
Carpark					
<i>Basement; up to 2 Levels</i>	6,400 - 9,400	2,500 - 4,500	2,800 - 4,700	2,500 - 4,500	2,500 - 4,500
<i>Multi-Storey</i>	3,700 - 4,300	1,700 - 2,200	1,700 - 2,200	1,600 - 2,100	1,600 - 2,100
NOTES					
<ul style="list-style-type: none"> • 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). 					