



By Derry Scully

## Economic Outlook



**In these turbulent economic times the only certain thing is that this article will be quickly out of date.**

As everybody knows, the credit crisis that some had hoped by now would be nearing an end has instead worsened dramatically in September and October and we have seen the demise or Government bail-out of major banks in the US, UK, Europe and throughout the World. In Ireland, bank share values have plummeted and the Government has had to guarantee all their deposits and borrowings.

These external factors combined with a major slowdown in construction and a dramatic reduction in consumer demand at home has driven our economy into its first recession for 25 years. The major difference between this and previous recessions is the speed with which it has occurred and this has taken many commentators by surprise.

The slowdown in construction started with the expected fall in the number of houses being built. In 2008 this is likely to total approximately 45,000, down from 78,000 in 2007. The outlook for 2009 is even worse with only between 25,000 and 30,000 units expected to be built. A further shock has occurred with commercial projects grinding to a halt due to funding difficulties and public sector projects slowing down due to the deteriorating Government finances. It is not surprising therefore that unemployment levels are rising, particularly in the construction sector, where numbers employed have been falling steadily since April 2007. Numbers employed in construction in August 2008 were 18% lower than 12 months previously.

The slowdown in economic activity has meant that the Government has had to prepare a Budget with the background that they will have up to €10 billion less revenue in 2009 than anticipated 12 months before. Despite the announcement of significant tax increases, borrowing has had to rise and the anticipated budget deficit in 2009 will be 6.5% of GDP, well above the EU limit of 3%. The growth in net current spending by Government departments will be restricted to 2.6% and net capital spending will be scaled back by 8.8%.

The Budget did however contain some relief for construction. Stamp duty on commercial property has been reduced to 6% from 9% and this brings it closer to European and UK levels of 5% and 4% respectively and in time this will stimulate investment.

Although reduced in monetary terms, public capital expenditure will still equal 5% of GNP in 2009 and increased expenditure is planned in some areas such as schools, water and waste services and PPP projects. There are also measures aimed at assisting first time house buyers.

*So, is it all doom and gloom?* Unfortunately, largely yes at present, but there are some glimmers of hope – interest rates have been cut by 0.5% and oil prices are falling. These reductions will lead to lower inflation levels. It is clear though that 2009 will be a very difficult year with a further decline in economic growth. Looking ahead, growth in 2010 will be flat at best but assuming an improvement in external factors and a bottoming out of housing output during 2009 it is hoped that the overall economy and construction will return to trend growth rates in 2011.

*How will the construction industry survive until then?* While there will be inevitable redundancies and some firms will fail, as in previous recessions, both contractors and consultants will have to look to foreign markets to tide them over and allow them to retain key staff. In Bruce Shaw we have opened our new office in Romania 18 months ago and this allows us to serve the Central and Eastern European region locally. From our base in Dublin we are currently project managing and cost managing projects in Western European countries including the UK, Holland, France and Italy. We have also deployed staff to Paris to work on a very large university project in Saudi Arabia and have recently secured work in Dubai.

Back home the recession has driven construction tender prices down and we estimate that by year end the Bruce Shaw Tender Index will have fallen by 8% to 10% on average. This is despite some significant increases in input costs of labour and materials. The fall in prices is likely to continue during 2009 as contractors and sub-contractors chase increasingly diminishing volumes of work. However the falls in 2009 will be less dramatic as below cost tendering can only be a short-term solution. So, for Clients with the necessary funds in place 2009 will be a very good time to build.



By Mark Wearen

## Spotlight on Bruce Shaw Civils *Planes, Trains and Automobiles*

The National Development Plan 2007-2013 entitled *Transforming Ireland - A Better Quality of Life for All*, sets out the roadmap to Ireland's future. This roadmap takes on a new significance given the current economic outlook.

This budget which has been formulated and published in the context of dramatic decreases in Government revenues compared to those envisaged even as recently as three months ago contains a commitment to maintain a level of capital spending at 5.8% or higher of GNP for the next 5 years. Under the heading 'Multi-Annual Capital Envelopes 2009 to 2013, the budget confirms the Government's commitment to a 'cumulative capital spend over the period in excess of €52 billion (over €43.5 billion of which will be Exchequer funded with over €8.6 billion to be funded by PPPs). This sustained commitment to capital investment over the medium term will facilitate those investments under the NDP which are necessary for our future prosperity and which will position Ireland to take advantage of an eventual global economic upswing.'

Investment in capital projects is essential to attracting further foreign investment and improving quality of life both of which are key components of achieving sustainable economic growth and prosperity. The NDP includes provision for the expenditure of €184 Billion on a diverse range of projects from enterprise, science and innovation (€20 Billion) to economic infrastructure (€54.6 Billion). Many of the infrastructure projects included in the plan are at various stages of development ranging from the instigation of feasibility studies to planning right through to construction. The benefits of the plan are evidenced by the marked improvements in our major inter-urban roads network and the roll out of a range of light and heavy rail improvement and expansion schemes.

In these current times of economic uncertainty, capital investment and the benefits that will accrue will rarely if ever be of greater importance to all the people of our country. Those not directly involved in the construction process must recognize that the impact of investment in capital

projects such as those included within the plan reaches far beyond the agencies, consultants and contractors who will plan and deliver the works.

It can be argued that given Budget 2009 in the context of the dramatic decrease in Government revenue, this is clearly recognized by Government.

*Whilst cutbacks in spending levels have been made which will be keenly felt in some parts of the country and by some sectors of society, the commitment to an ongoing programme of capital investment for at least five years as outlined above at levels similar to those included in the 2009 figures is to be welcomed.*

Considering the importance of capital spending when faced with the current economic circumstances, it could also be argued that the ideal course of action would have been to maintain if not increase capital spending levels to avail of the increased capacity within the market to deliver value for money.

At Bruce Shaw, we are helping key state agencies including the National Roads Authority, the Department of Health and the Office of Public Works to ensure compliance with the Capital Works Management Framework and to manage the procurement implications including the transfer of risk associated with the new DOF forms of contract.

Let us hope that the international factors which are critical to our own national economic wellbeing change for the better and the Government can preside over and even improve upon the Budget 09 projected levels of capital spending for the next five years.





By John Ballance

# Planning For Recovery

This short note is motivated by the experience of four recessions, two respectively in Ireland and the UK. Recessions evolve in three phases that can be characterised by three old tunes.

*"Those were the days my friend, we thought they'd never end"*, applies to the peak year of the preceding boom. This invariably precedes the first phase of the recession and the switch from boom to bust is a financial and psychological shock. We may not see the likes of the development site values achieved in Ballsbridge and the Docklands for another ten years. Expectations of turnover levels, profits and values are changing to a new norm significantly lower than 2006/2007 levels.

*"Buddy can you spare a dime"* was the theme tune of the 1930s Depression but it characterises the second phase of retrenchment. Layoffs, downsizing, reduced overheads and lower prices, lower wages and lower values are the order of the day. This is not all bad news nationally as affordable housing and lower rents and inflation will eventually follow.

*"Happy days are here again"* will not be heard for some time but it will inevitably follow, despite all the doom and gloom. In addition the lower expectations developed in the second phase will not need a huge improvement to be seen as happier days.

The phases overlap and we are presently in mixed mode involving phases one and two. The task for those assessing values for businesses and property is fiendishly difficult in this dramatic changing environment but the outlook is already gloomy and will significantly alter the old wisdom on high value developments.

The "gravity" of high property values for land and commercial developments has provided the basis for laudable town planning policies to provide social and affordable housing and improve the environment. The current financial developments are already affecting this approach as evidenced by the recent withdrawal by a developer from a number of city centre regeneration schemes.

The effect will apply widely and every organisation in the country will have to accept the new realism regarding the lower values for residential, retail and office developments and the altered relativities between the different uses.

Tall buildings are another case in point where the planning authorities are encouraging higher urban densities to enhance transportation nodes and see tall buildings as part of this strategy. However the desirable combination of iconic all glass architecture, Part L environmental constraints and the aspiration to reach to the sky is producing prospective towers which are magnificent but unaffordable.

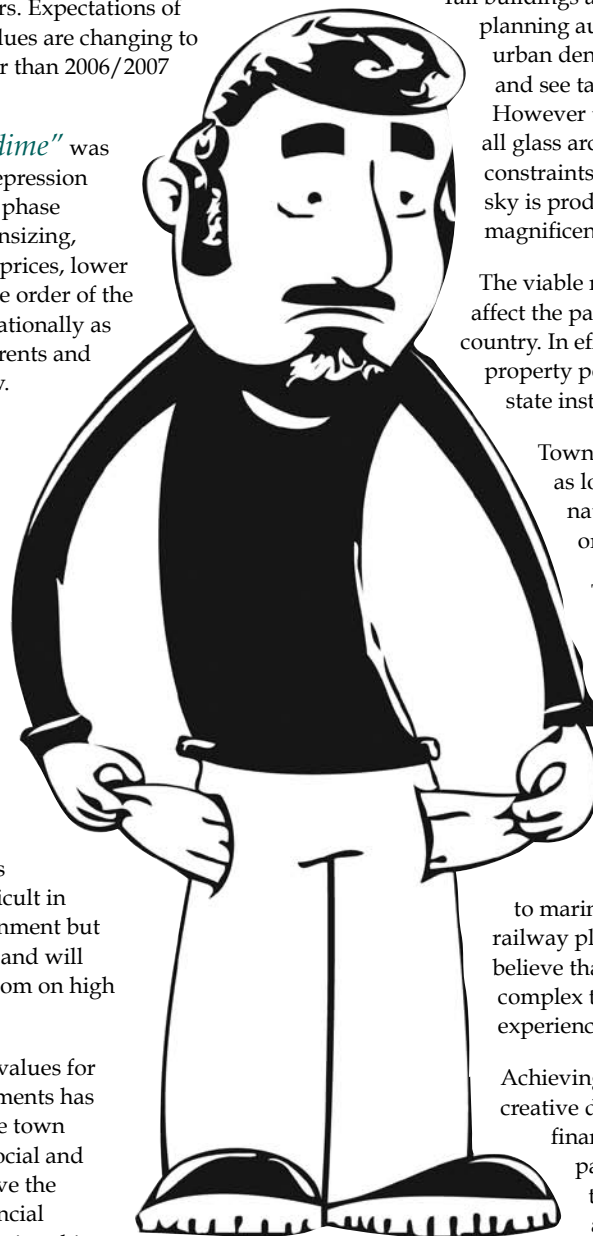
The viable mix of uses has changed and this will affect the pattern of development right across the country. In effect every master plan developed for property portfolios by developers, businesses and state institutions will have to be re-appraised.

Town planning policy will also be affected as local authorities and their officials have naturally absorbed the current relativities on land values and commercial uses.

The year 2009 will mark that gradual transition from deep gloom to hope in the future and there will be a spate of master planning activity.

BSPM have been involved in major master planning projects which require input by a huge variety of specialists. A recent master plan involved twenty eight different specialists from archaeologists to marine biologists and from underground railway planners to theatre consultants. We believe that managing these sophisticated and complex teams requires management that is experienced and has gravitas and courage.

Achieving the best output in terms of creative design, value for money and financial viability inevitably requires passionate debate and analysis and the extraction of the best from all participants and this is an art developed only with experience.



We look forward to these interesting times.

## Bruce Shaw News...



### Ciarán Chesser Appointed General Manager of European Operations

We are pleased to announce the appointment of Ciarán Chesser MBA FSCS FRICS FCI. Arb MAPM as General Manager, based in our Bucharest office he will be responsible for projects in the CEE region. Ciarán has previously been Partner / Director in two respected international consultancies and joins us with strong cost and project management experience.

### Bruce Shaw Rank 7th in the Irish Cancer Society's Back to the Shop Floor Campaign



Well done to Caroline Moynihan (Facilities Manager Dublin) who coordinated the fundraising activities and to all those who supported the Irish Cancer Society's latest fund raiser. We came 7th in the ranking for funds raised, considering some of the largest companies in Ireland participated in the event, we did very well indeed.

### Recent Appointment of Associates in Dublin



Earlier this year Tony Madden ASCS, MRICS, BSc. and Gary Devenney ASCS, MRICS, BSc. joined Bruce Shaw Partnership's management team (Dublin office) as Associates.



### Lending a Helping Hand

**In February 2007, I was invited by Mary Donohoe of the Rose Project, to visit both Kenya and Malawi, to see for myself the awful conditions people live in. In both countries we visited many locations where work is being supported by the Rose Project.**

By Brendan O'Mara

I was particularly appalled by the dreadful conditions we saw in Bwaila Hospital in Lilongwe, capital of Malawi. The conditions there were akin to something one might have seen in Ireland in the eighteenth century. On the way home we concluded that it would have to change, and we decided that we would find money to build a new hospital. So we selected a local architect, project manager, quantity surveyor, engineer and started designing. With the pro bono help of Saran O'Byrne and Paul Butler from Bruce Shaw, and Nicholas Sutton from HKR Architects, we concluded the design in September 2007. In December we signed up with a local contractor to build a new 110 bed maternity hospital for the princely sum of €1.8m. It will be completed in April 2009, and with the help of generous donors in Norway, will be fitted out with the most modern medical equipment.

The Rose Project is an Irish organisation established in 2003 by Mary Donohoe to fund developments in sub-Saharan Africa, the area most affected by the HIV pandemic. There are 22.5 million people living with HIV and AIDS in Africa, which represents 68% of the global figure. The Hospital will facilitate 12,000 births each year when complete in 2009, to put this in context, the National Maternity Hospital Holles Street, currently handles 8,000 births per year.



Having joined the Board of The Rose Project this year, I am delighted with the support Bruce Shaw has given the project and I hope it will be the first of many that we can assist with.

To find out more or to contribute to this worthy cause please visit [www.roseproject.org](http://www.roseproject.org)

### Bruce Shaw Romania Reaches New Heights!



Congratulations also to Teofil Vlad and Marius Gane of Bruce Shaw Romania who reached the top of Gasherbrum 2, an 8,035 m peak in Himalayan Mountains.

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