

## Property and Construction Sector Focus

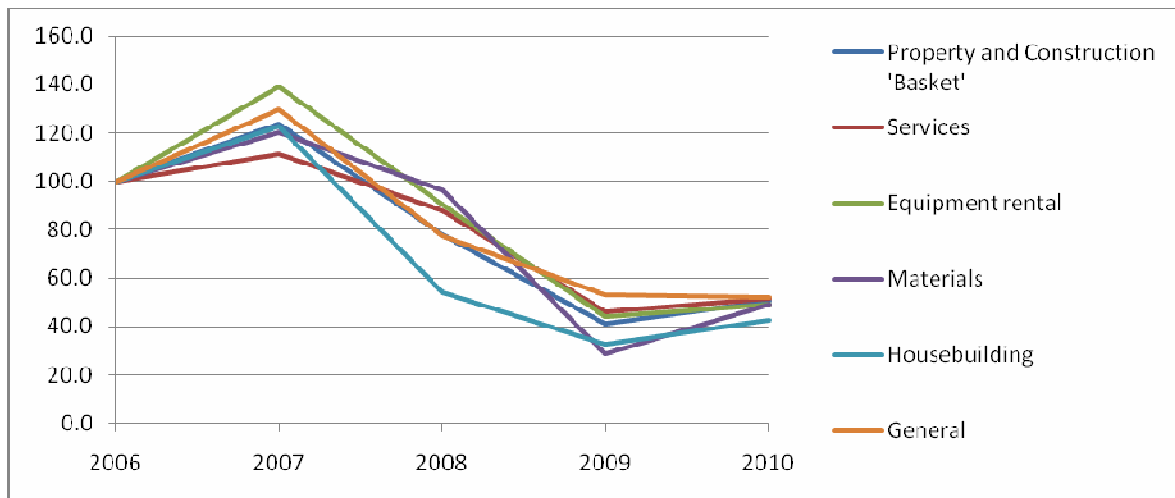
### Foreword

Welcome to the 2010 edition of the Critchleys Property and Construction snapshot. Over the years Critchleys has gathered enough market intelligence and have acted for enough property related businesses to make us an 'expert' in this field. This snapshot should not be used as an investment tool; it merely depicts our sentiment of the issues and concerns affecting the industry.

### Market Overview

- Although a recent report highlighted the strongest activity in the service sector for the past two years, with growth in new orders rising to a new high, the general market consensus is that the Construction Industry is not going to return to growth until 2011.
- With that in mind, the infrastructure sector is the least affected by the economic downturn and has benefited from public spending in transportation.
- Public private partnerships (PPP's) continue to be an important factor in the commercial sector, being led by spending on hospitals and education.
- Key changes from our last issue do however show that there are signs of improvement, with operating margins for housebuilders margins improving as costs structures have been improved, which has had a knock on effect on P/E multiples and hence valuations.

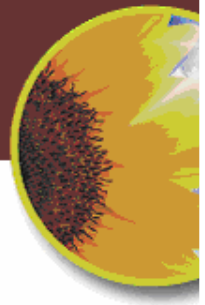
The graph below shows the median benchmarked price index (based at 100 in 2006) for various subsectors of the property and construction sector.



### Key Quoted Property and Construction Related Sectors (FTSE and AiM)

	Average Revenue (m)	Average Operating Margin	Average Market Cap (m)	Average P/E	Average Fcst P/E
Property Sector					
'Property and Construction 'Basket'	£248	2.2%	£80	7.6	12.8
Building Services	£142	5.4%	£20	6.1	9.1
Equipment hire	£362	15.9%	£123	3.9	11.3
Building Materials	£55	3.5%	£33	8.1	15.2
Housebuilding	£684	-32.4%	£459	11.6	20.5
General Construction	£394	1.9%	£143	7.8	9.4

Source: Digital Look – all data is the sector Median



## Issues Affecting the Market

- Government funding:
  - It will be interesting to see the ultimate investment criteria behind the £2bn Green Investment Bank announced in the budget, but it's stated intention is to back low carbon industries. A consultation process is expected over the summer.
  - UK Finance for Growth (UKFG) was set up to streamline the Governments SME Finance support to promote low carbon innovation, including the UKIIF fund.
- Working Capital: a significant number of property and construction players have experienced difficulties in managing their working capital cycle. In a lot of cases this has meant seeking further funding from the banks or re-basing existing covenants.
- Funding: Our Corporate Finance team have noted that construction companies are still finding it difficult to raise debt from banks due to the decline in property valuations and the banks own resources having been put under pressure. However, we are finding that if a Business Plan has been properly thought through and the loan makes commercial sense from the banks viewpoint, companies are still being able to raise bank finance.
- Redundancies: Almost all of the major housebuilders and construction companies have reported significant redundancies since our last report.
- The office and retail commercial sector is currently experiencing a severe downturn due to problems in the banking industry and reduced consumer spending, which in turn has led to suppliers of building materials cutting back on expenditure.
- WIP valuation: assessment of work in progress and land values are always a contentious issue when it comes to the auditing of accounts, with the current economic climate making assessments in this area an even harder task to perform.
- Entrepreneurs' Relief lifetime limit has been doubled to £2m, creating a further tax saving for entrepreneurs looking to realise their investment in SME's.
- Green construction: New legislation is coming into force to make all new housing zero carbon by 2016. There is therefore a lot of investment being made into efficient controls and lighting/heating products as well as renewable construction techniques.
  - Code for Sustainable Homes:

	Impact	Social Housing	All Housing
<b>Code level 3</b>	25% reduction in carbon from 2006 building regulations	Mandatory for Social Housing	From <b>2011</b> compulsory for all new houses
<b>Code Level 4</b>	44% reduction in carbon from 2006 building regulations	From <b>2011</b> compulsory for all new Social Housing	By 2013 all new housing must comply
<b>Code level 6</b>	Zero carbon	Compulsory by 2014	Compulsory by 2016

- Housing minister John Healey recently announced that all public buildings will be zero carbon by 2018 and all other buildings by 2019
- Other drivers: Climate change bill; BRE Green guide to specification; energy performance in buildings directive.

## How Can Critchleys Help?

Critchleys act for a high number of property and construction based companies in helping them achieve their goals and aspirations throughout their lifecycle. In addition, the following service lines provide business advice for our clients in the Property and Construction sector

- Business Support: audit, accounting, payroll and advice
- Corporate Finance: Fund raising; acquisitions; due diligence; expert valuations and disposals
- Taxation advice including compliance and structuring; share options; VAT
- HR: expertise in HR advice
- Corporate Financial Planning – Keyman, corporate investing, pensions, employee benefits