



2019
International Construction Costs
Smart decisions creating long-term value

Guangzhou
Jakarta
Shanghai
Beijing
Nairobi
Sofia
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Malaga
Santiago
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Barcelona
Porto
Madrid
Belfast
Memphis
Houston
Dallas
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Melbourne
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Seoul
Amsterdam
Rotterdam
Brisbane
Berlin
Milan
Rome
Montreal
Lyon
Miami
Phoenix
Singapore
Brussels
Doha
Muscat
Paris
Jeddah
Riyadh
Aberdeen
Salt Lake City
Cardiff
Calgary
Toronto
Detroit
Sydney
Ottawa
Leeds
Glasgow
Munich
Edinburgh
Christchurch
Washington DC
Liverpool
Moscow
Las Vegas
Birmingham
Manchester
Frankfurt
Bristol
Auckland
Los Angeles
Dublin
Chicago
Abu Dhabi
Dubai
Seattle
Stockholm
Philadelphia
Boston
Tokyo
Zurich
Macau
London
Geneva
Copenhagen
Hong Kong
San Francisco
New York City
Bengaluru
New Delhi
Mumbai
Kuala Lumpur
Ho Chi Minh
Wuhan



The global market

Based on the data published in the Arcadis International Construction Costs Comparison 2019, global developers remain under pressure to navigate economic headwinds and deliver improved business results. Most of West European countries report construction market grow around 1,5% and Tender price index increases around 2-4%. Poland reports 4,5% and 15%. And what about the Czech Republic?

The Czech economy

The official figures show that the economy grew by 4,6% in 2017 and by 2,9% in 2018. The outlook shows GDP relative slowdown to 2,5% in 2019 and modest increase to 2,8% in 2020. Consumer price inflation dropped from 2,5% in 2017 to 2,1% in 2018 and is expected to be around the same in 2019.

Unemployment rates are the lowest in last 2 decades, which keeps the wage dynamics at high levels expected to be around 7% this year and slightly decrease in 2020.

Czech Koruna has been more less stable around 25,5CZK/Euro after the stop of the intervention of the Czech National Bank in spring 2017 and is expected to stay there.



Miroslav Vaško MRICS
Head of Cost
and Commercial
Management,
Arcadis Czech Republic

THE CZECH CONSTRUCTION INDUSTRY SLOWLY REACHING ITS PEAK

“With the Czech economy very heavily reliant on the export market, its stable grow is dependent on a stable turn in the fortunes of Western countries, especially Germany. In the last years, the czech economy has experienced strong economic growth, which recently seems to be slowing down. The Czech construction market is buoyant and still growing. Construction companies are overloaded, and this is exacerbated by relatively low interest rates and very low unemployment. Overall, after a rapid growth in the years 2015-18, there is a sign of a slowdown in the Tender Price Index and we may see a stop or even slight downward shift in the next 2-3 years.”

The Czech Construction Industry Slowly Reaching its Peak

The real estate sector and construction market

The private sector has seen more than 5 years of stable growth with increscent dynamics, resulting in overall construction output increasing by 3-6% per annum over the last years. In private sector from 2012-2013, a continuous growth in all construction sectors has been visible, while 2014 showed signs of further recovery with booming acquisitions and big growth especially noted in the production/logistics sector, Commercial development was picking up especially in the prime residential sector but also in the office sector. What we saw than from 2015-16 was complete boom in all construction sectors with increasing share of speculative development. The boom now starts to reach its limits in terms of capacity and permitting constrains (especially in residential sector), despite strong demand.



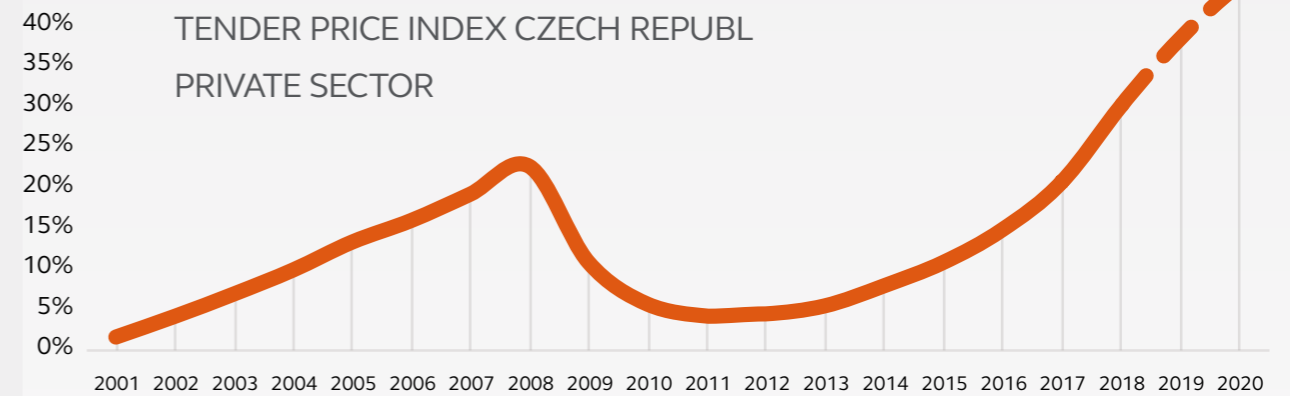
The Public Sector suffers from lack of coordination of public projects procurement and EU funding, but also the very complicated permitting procedures; due to these factors some of the projects planned are either delayed or have yet to start. Nevertheless, the government has declared that getting on track with those projects is a priority and securing EU subsidies to co-finance these projects should help the construction industry to grow.



Construction costs

As contractors and suppliers have responded to the impact of the economy boom, commodities prices have risen up, wages have increased, and margins have been pushed up. In the private property sector for example, we believe that the average tender prices have gone up around 35-45% above their bottom of 2011-2012.

The ARCADIS Tender Price Index for the property sector in the Czech Republic indicates that prices started to increase in 2013 and showed modest increases in 2014-2015. This trend was even amplified in 2014 by the artificial weakening of the Czech Koruna against the EURO. The dynamics of that increase than started to accelerate in 2016 and 17 and continued by what we would call market overheat in 2018, where it started to be hard to find competitive tender offers and procurement of construction works became difficult. This situation continues in 2019, even if the dynamics seems to slow down.



We believe that the main drivers of the local construction costs trends in the near future will be - apart from the commodity and raw materials prices fluctuations - human resources in construction sector and the dynamics in wage increase.



Looking to the future

The combination of relatively low interest rates, booming construction sector and modest expectations for overall economic growth are rising a lot of challenges for the sustainable development of the real estate market in the coming years. Despite the vulnerability of our economy (very dependent on western economies), affordability and new robust construction projects will remain of paramount importance, and so will be sustainability and refurbishment of existing assets, especially retail.

With regards to Tender price index, after a rapid growth in the years 2015-2018 and increase around 4-8% expected in 2019, there is a sign of a slowdown and we may see a stop or even slight downward shift in the next 2-3 years.

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June 2019