



Q3 2018: RICS Asia-Pacific Construction and Infrastructure Survey

Margins under pressure despite robust demand expected across Asia-Pacific

- Construction and infrastructure workloads are expected to increase over the next twelve months across most Asia-Pacific countries.
- Profit margins are being squeezed as costs are expected to continue rising and barriers remain in certain markets.

Respondents to the RICS Q3 Global Construction and Infrastructure market survey from the Asia-Pacific region reported a mix of headline activity during Q3 of 2018. As shown by Chart 1, respondents in Vietnam, New Zealand, Australia and India reported an increase in total workloads during Q3, while workloads in China, Sri Lanka and Hong Kong were little changed.

Respondents in Singapore reported a modest decline in overall activity, while those in South Korea and Malaysia saw workloads decline at a slightly quicker pace. Despite mixed current conditions, the outlook for workloads across most markets is fairly positive. The exception was South Korea, where headline workloads are still expected to post a slight decline over the next year.

Credit conditions were fairly supportive of activity in most markets during the quarter, perhaps with the exception of Malaysia (Chart 3). Although credit conditions are generally seen remaining largely unchanged over the next twelve months, respondents in Australia see some risk of deterioration while those in India expect credit conditions to improve.

A majority of respondents across all countries included in the survey, with the exception of South Korea, reported additional hiring to support new workloads. As shown by Chart 2, tender prices for both building and civil engineering increased across most regions, though was more muted in Hong Kong, Singapore and Malaysia.

Despite the increase in workloads in some markets, profit margins were reported to have seen some degree of compression outside of Australia and New Zealand. Chart 4 shows that the outlook for margins is mixed over the next year.

Respondents in Vietnam, and to a lesser degree Australia and India, are expecting to see margins widen, while little change is expected in New Zealand and Singapore. Meanwhile, contributors in Hong Kong, China, Malaysia, Sri Lanka and

South Korea foresee further margin compression.

Survey respondents cited several factors that were restraining activity in the sector. Although there was some degree of variance by geography, most Asia-Pacific respondents identified financial constraints and competition as chief amongst these.

Meanwhile, in New Zealand and Sri Lanka, a shortage of skills were seen as being particularly restrictive. A majority of respondents in both of these markets, as well as in China, India, South Korea and Vietnam, identified a shortage of quantity surveyors/commercial managers.

Conditions for infrastructure were similarly mixed across Asia-Pacific, as shown in Chart 5. Respondents in India and Australia reported a robust increase in infrastructure workloads during Q3, while contributors in Singapore, China, and Malaysia also reported a more modest increase (in net balance terms).

Infrastructure workloads in Sri Lanka, Vietnam and Hong Kong were reported to have been little changed in Q3. This is despite ongoing investment in One-Belt-One-Road projects in these regions, and in the Greater Bay Region in Hong Kong, though some major rail projects have recently been completed in Hong Kong.

South Korea and Malaysia were the two regions to report a decline in infrastructure workloads during Q3. In Malaysia, some of this may be attributed to continued policy uncertainty, as the recently elected government continues its review of infrastructure projects.

A majority of respondents in almost every region included in the survey, see new infrastructure projects continuing to need to be prioritized over the repair and maintenance of existing projects (Chart 6). The lone exception was in South Korea, where respondents were split roughly 50/50 over the need for new projects vs the repair and maintenance of existing projects.

Asia-Pacific Key Indicators

Chart 1: Workloads

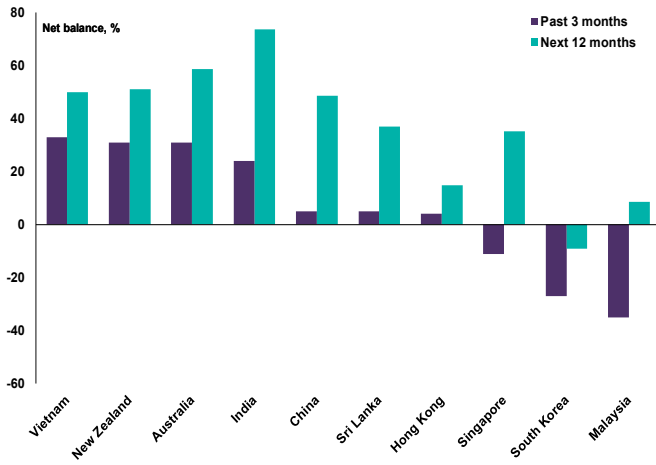


Chart 2: Tender Prices, Next 12 months

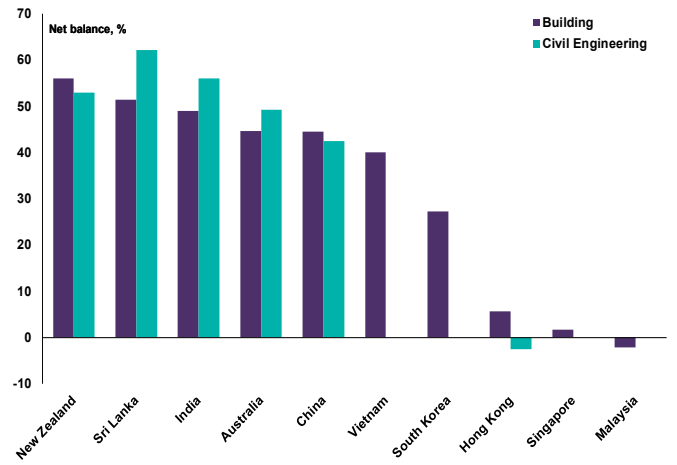


Chart 3: Credit Conditions

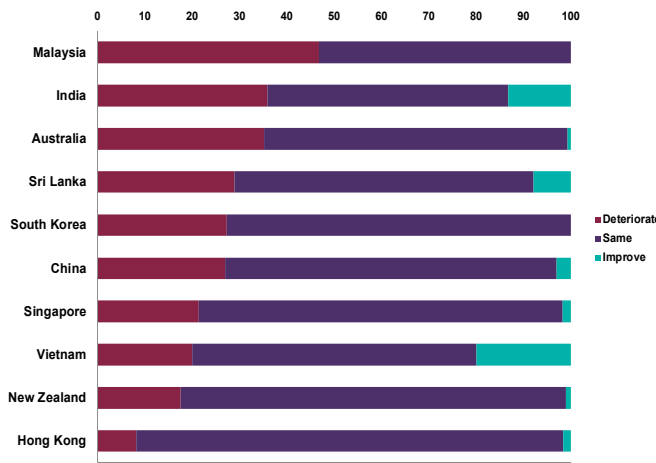


Chart 4: Profit Margins



Chart 5: Infrastructure Workloads, Past 3 months

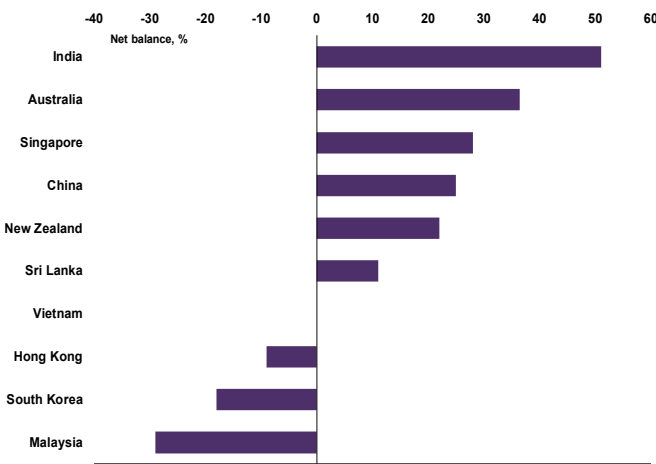
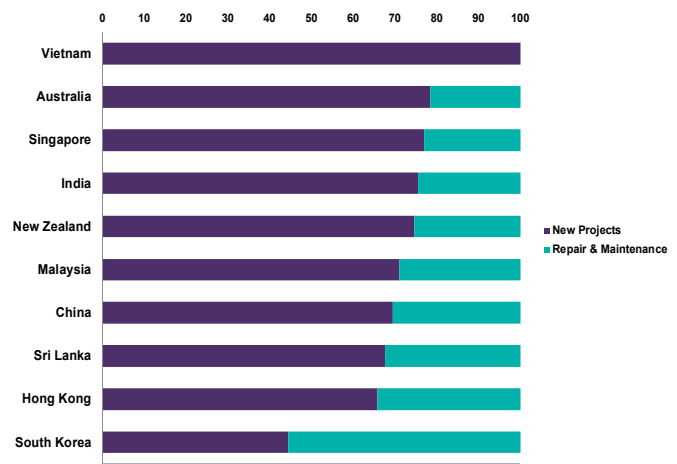


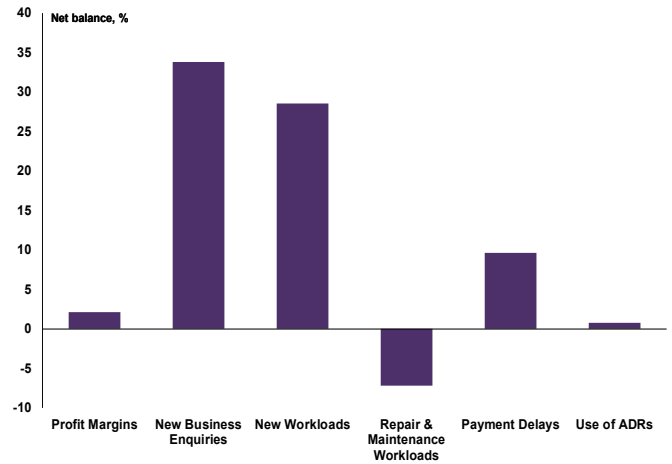
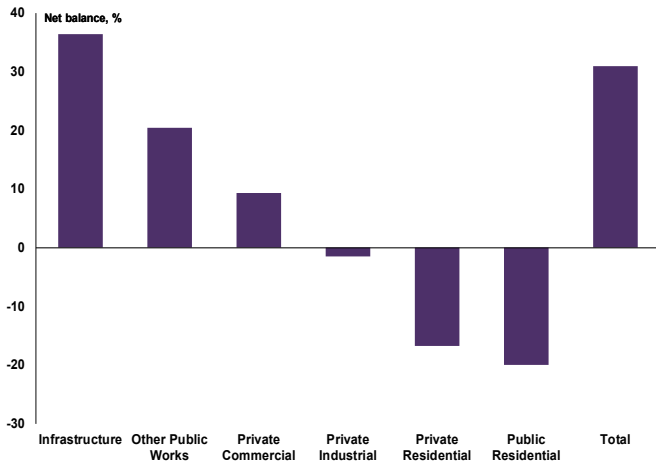
Chart 6: Infrastructure Needs



Australia Key Indicators

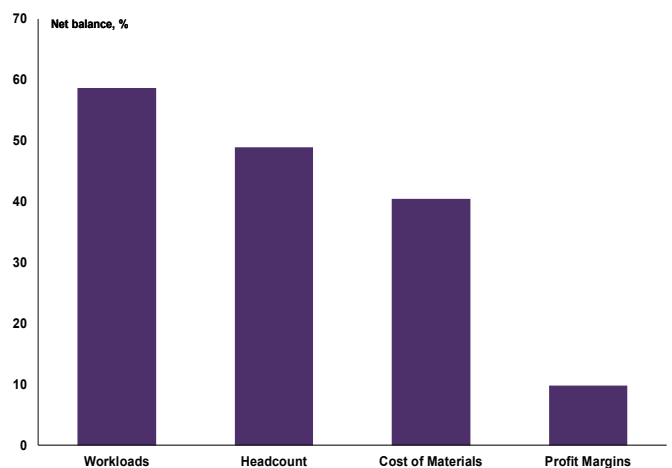
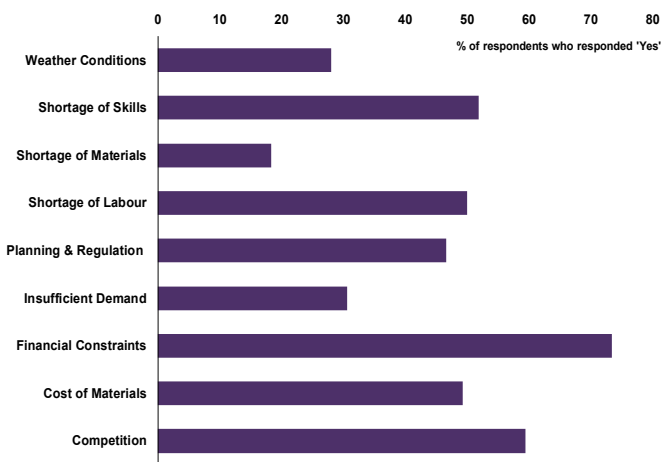
Workloads - Total workloads were reported to have increased in Q3, led by infrastructure projects. Workloads on other public works and private commercial projects were reported to have increased, while those for residential (both private and public) declined. Private Industrial workloads were reported to have been little changed.

Enquiries & Workloads - New business enquiries and new projects increased during Q3. However workloads for the repair and maintenance of existing projects were little changed during the quarter, and profit margins were also flat. Respondents also reported a moderate increase in payment delays.



Factors Holding Back Activity - Financial constraints were identified by 73% of respondents in Australia, while competition was identified as a constraint by 59%. A shortage of labour, skills, and the cost of materials were all identified as constraints by ~50% of respondents.

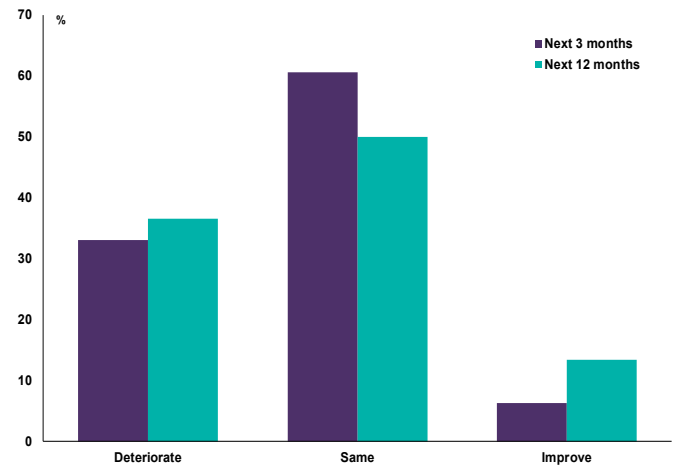
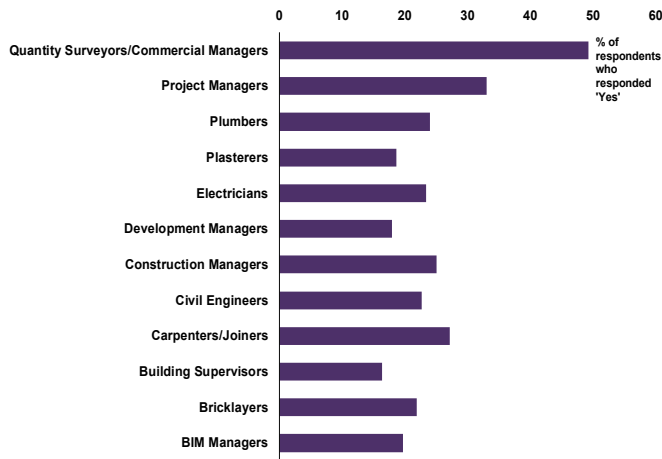
12-month Expectations - A net balance of 59% of respondents expect workloads to increase over the next 12 months. However, this isn't expected to significantly effect margins, perhaps as a result of an expected increase in both headcount and the cost of materials.



Australia Key Indicators

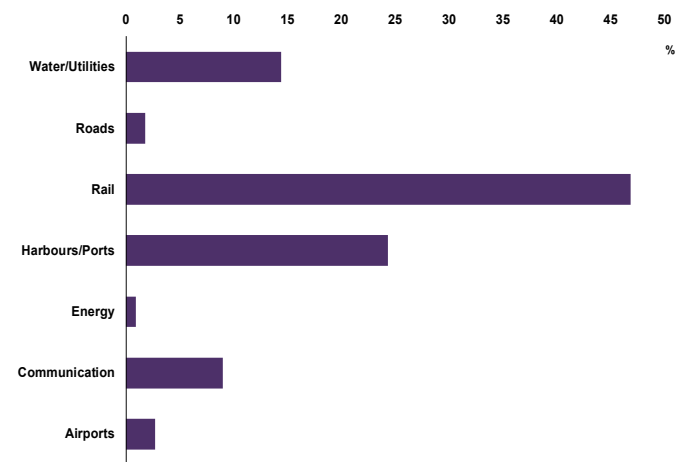
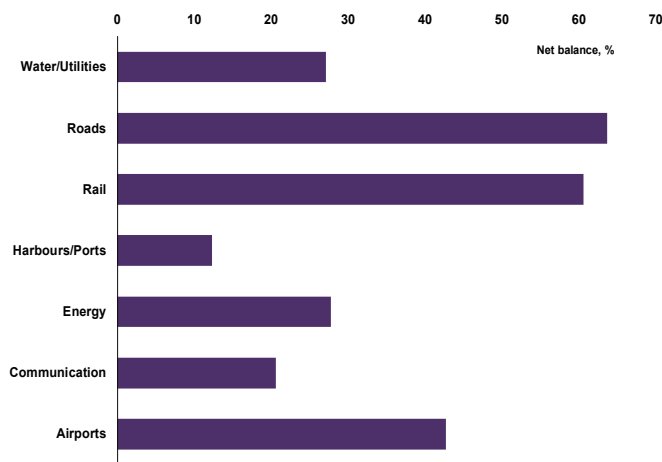
Skill Shortages - 49% of respondents highlighted a shortage of quantity surveyors/commercial managers. The only other area where more than 30% of respondents saw a skills shortage was for project managers.

Expectations for Credit Conditions - Credit conditions are seen little changed over the next three and twelve months, though approximately a third of respondents expect some degree of deterioration over both periods.



Infrastructure Workloads - Roads and rail saw the largest increase in workloads among infrastructure subsectors during Q3 in net balance terms, while a balance of 43% of respondents also reported an increase in Airport projects. Workloads were reported to have increased (in net balance terms) across all segments.

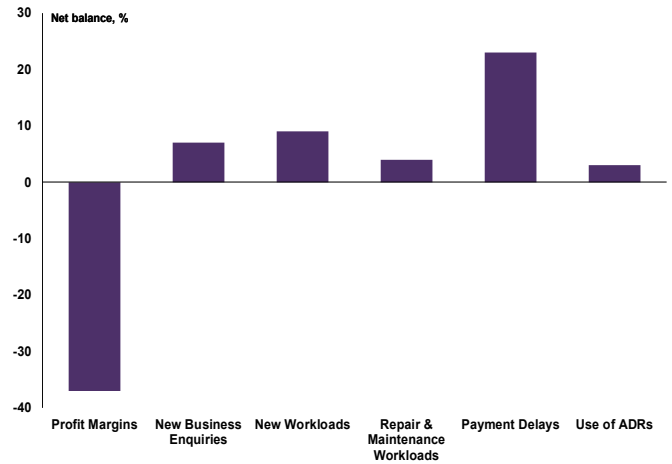
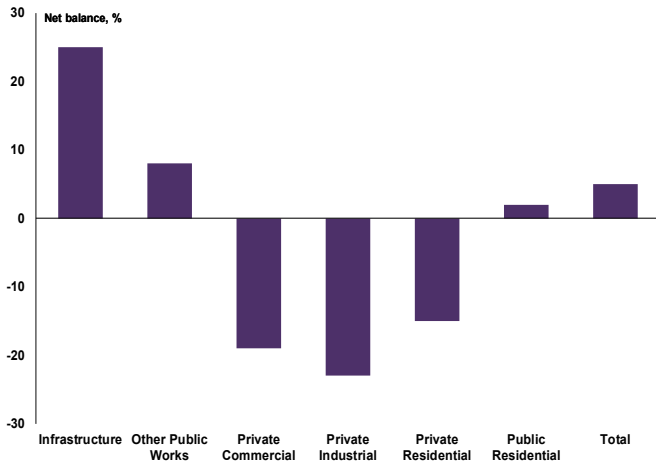
Infrastructure Expectations - Rail projects are expected to see the largest increase in workloads over the next twelve months, according to 47% of respondents. 24% of respondents expect harbors and ports to see the largest increase in activity, while 14% expect this for water and utilities projects.



China Key Indicators

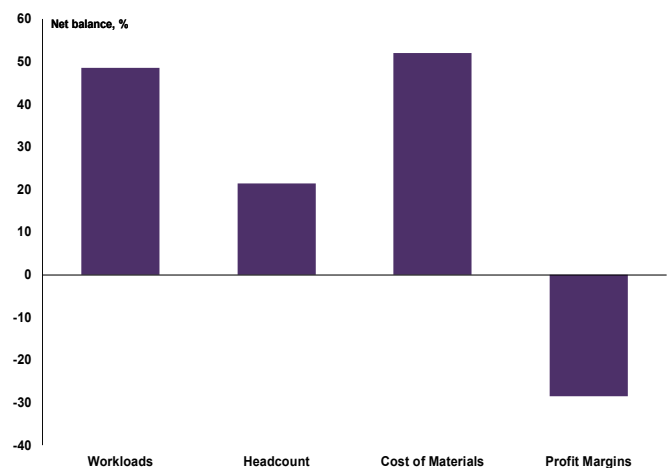
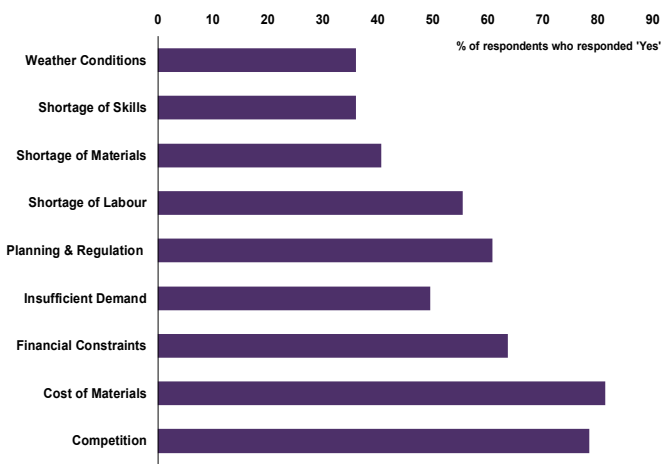
Workloads - Headline workloads rose only modestly during the third quarter of 2018, and were driven by an increase in infrastructure activity. Public projects, including public residential projects, were little changed, while activity in the private sector (commercial, industrial and residential) declined.

Enquiries & Workloads - Respondents reported a deterioration in profit margins during Q3, and an increase in payment delays. There was relatively little change in the level of new business enquiries and workloads for new projects or the repair and maintenance of existing projects.



Factors Holding Back Activity - Several factors were reported to have constrained activity during Q3 by a majority of respondents. Chief amongst these were the cost of materials and competition, which were flagged by 81% and 78% of respondents respectively. Financial constraints, planning and regulation, and labour shortages were also identified as holding back activity by a majority of respondents.

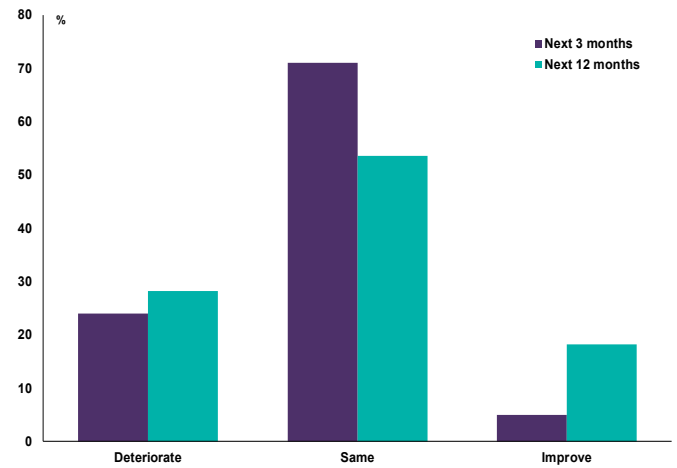
12-month Expectations - Although a net balance of 48% of respondents are expecting workloads to increase over the next twelve months, profit margins are expected to decline over this period. Some of this may be accounted for by headcounts being expected to increase at a modest pace, though material price inflation is also likely to stress margins.



China Key Indicators

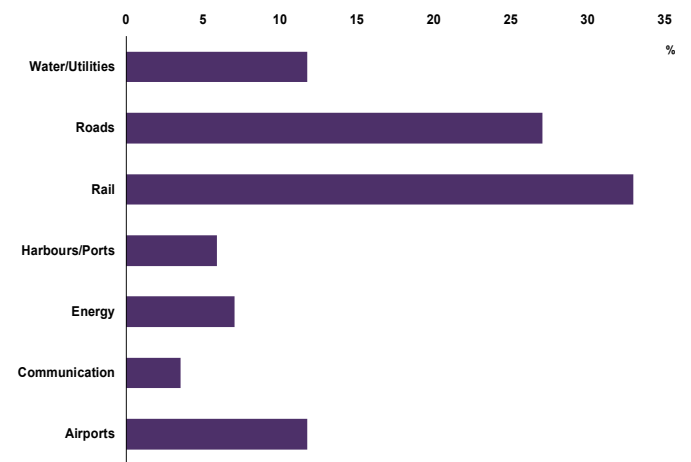
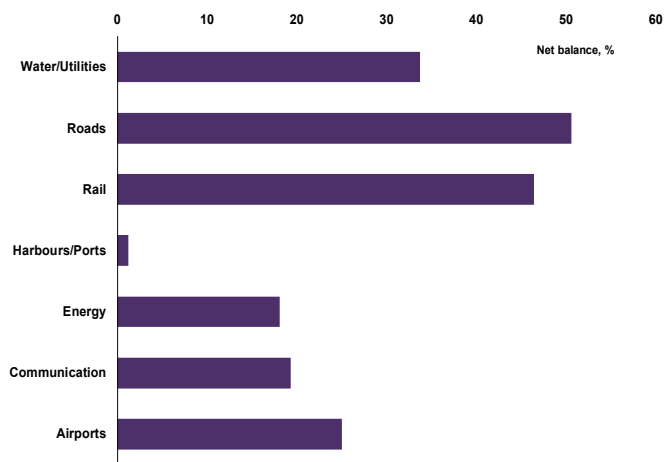
Skill Shortages - A lack of quantity surveyors/commercial managers in the Chinese market was identified by 74% of contributors. Meanwhile, 64% of respondents highlighted a shortage of project managers, and approximately half of respondents noted a shortage of BIM and construction managers.

Expectations for Credit Conditions - Credit conditions are expected to remain little changed over the next three months, though a quarter of respondents expect some deterioration. Over the next twelve months, expectations for credit conditions are fairly evenly skewed.



Infrastructure Workloads - A net balance of 51% of respondents reported an increase in workloads for roads, while a balance of 46% reported an increase in rail workloads. Workloads for harbours and ports were little changed during the quarter.

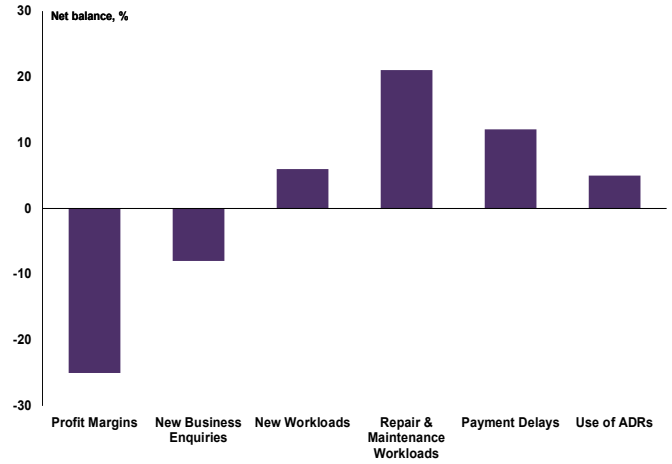
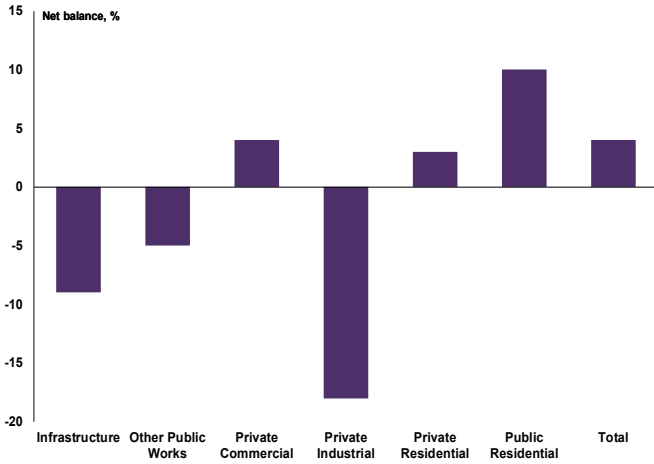
Infrastructure Expectations - Rail is expected to be the segment of the infrastructure market to see the largest increase in activity over the next 12 months, according to 33% of contributors. This was followed by roads, which 27% of contributors thought would be the segment to receive the most activity.



Hong Kong Key Indicators

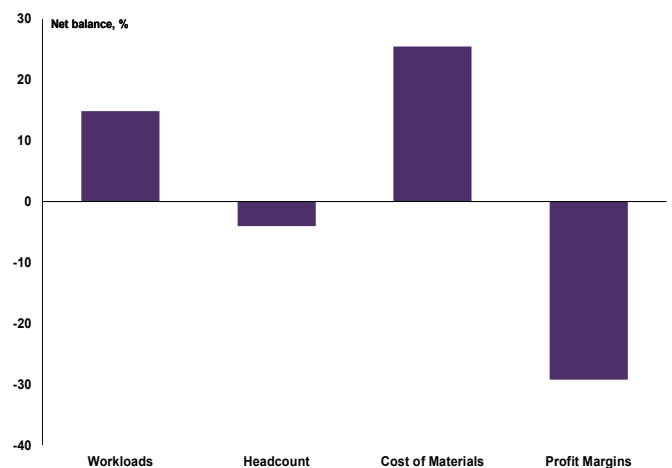
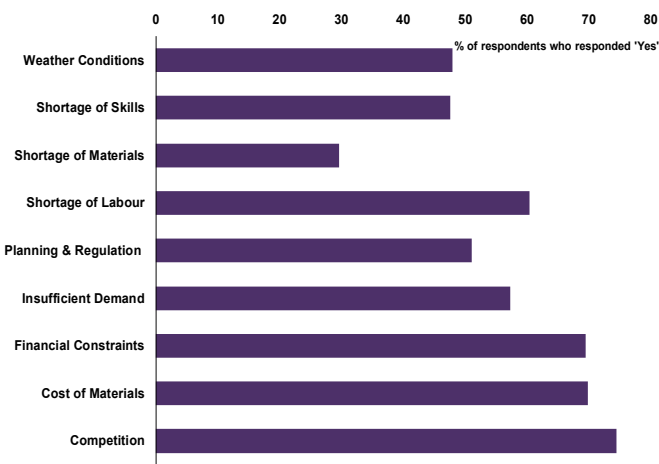
Workloads - Workloads were little changed in Hong Kong across most segments. However, respondents did report a moderate decrease in workloads on private industrial projects.

Enquiries & Workloads - Although respondents reported a modest increase in workloads for repair and maintenance, new enquiries and new workloads were little changed in Q3. Respondents reported a contraction in profit margins during the quarter, and a slight increase in payment delays.



Factors Holding Back Activity - A number of factors were highlighted as a constraint on activity. 74% of respondents highlighted competition as a constraint, while the cost of materials, financial constraints, a shortage of labour, insufficient demand and planning and regulation were identified as limiting activity by more than 50% of respondents.

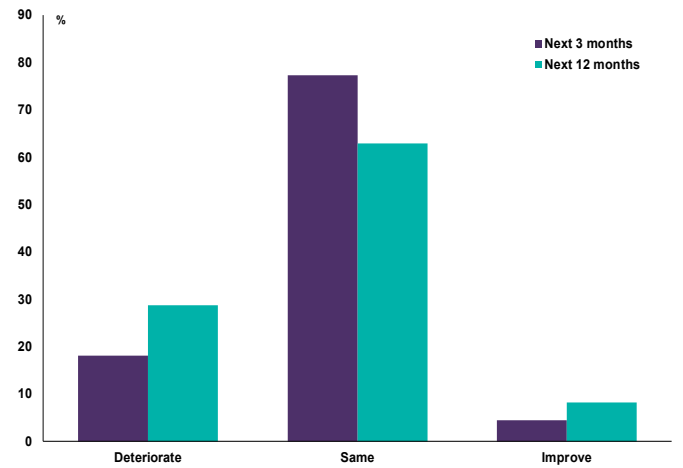
12-month Expectations - Contributors expect a moderate increase in workloads over the next twelve months in net balance terms, though headcounts are not expected to change significantly. Perhaps owing to an expected increase in the cost of materials over this period, profit margins are expected to decline over the next year.



Hong Kong Key Indicators

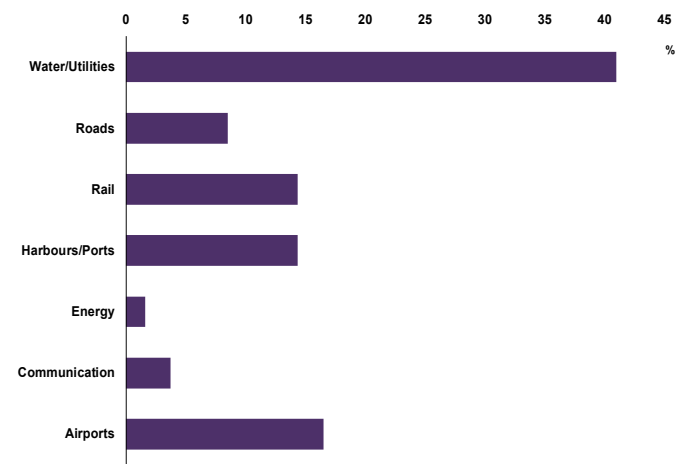
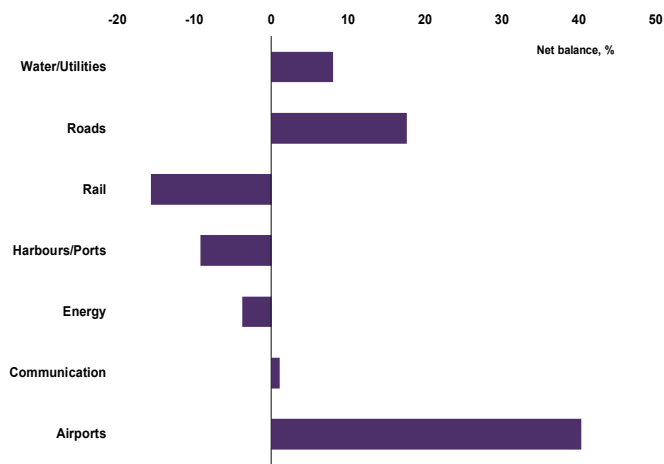
Skill Shortages - There was not one specific skill shortage reported during Q3, though nearly half (48%) of respondents noted a shortage of BIM managers. Between 25-45% of respondents reported a shortage of other skills.

Expectations for Credit Conditions - Credit conditions are seen to remain largely unchanged over the next three and twelve months, though more are expecting a deterioration than an improvement over each period.



Infrastructure Workloads - Workloads on infrastructure segments were mixed. Respondents reported an increase on workloads for airports, and a more moderate increase in workloads on roads. Workloads on rail were reported to have declined in Q3, following the completion of the line connecting Hong Kong to Shenzhen.

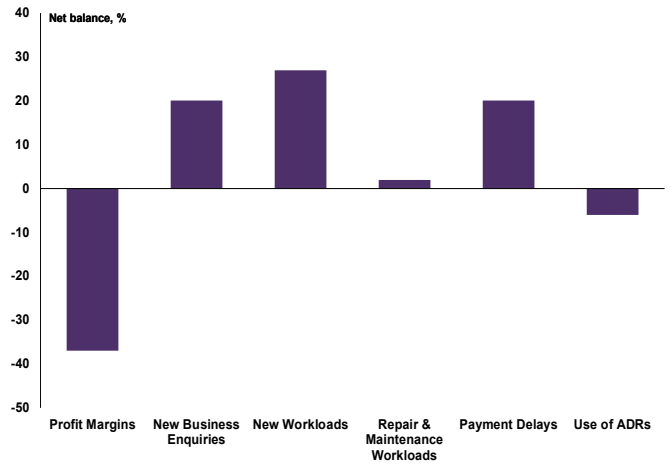
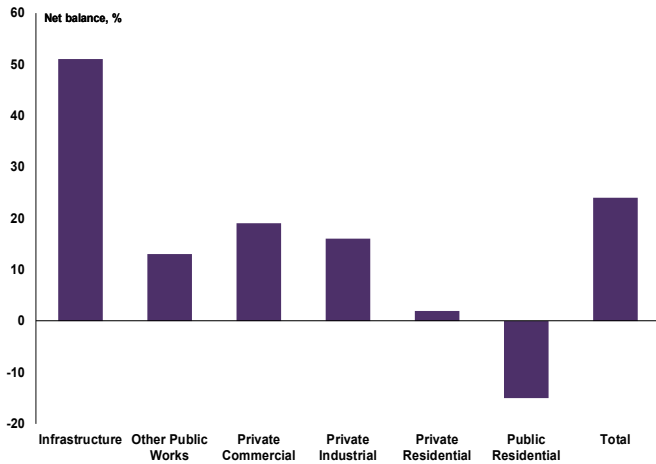
Infrastructure Expectations - More than 40% of respondents expect water and utilities projects to see the heaviest workloads over the next year. Meanwhile, between 10-15% of respondents expect rail, harbours and ports, and airports to see the heaviest workloads over the next year.



India Key Indicators

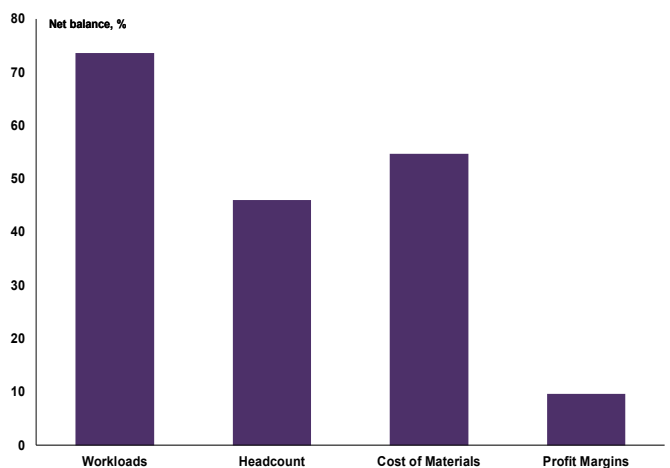
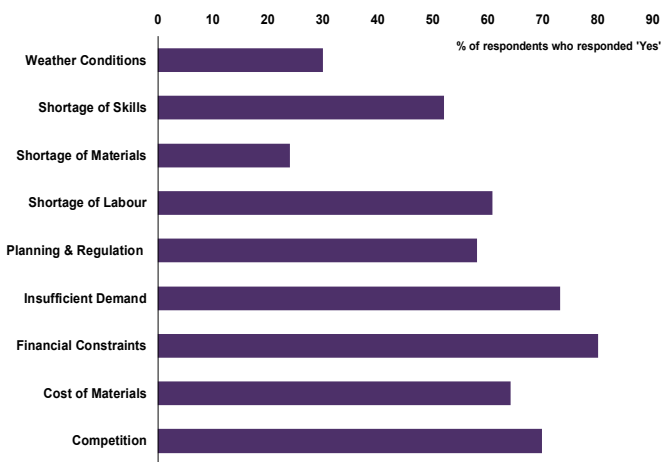
Workloads - Headline workloads increased at a moderate pace during Q3, as workloads on private commercial industrial projects increased modestly. Respondents highlighted a significant pickup in infrastructure workloads during the quarter.

Enquiries & Workloads - New business enquiries and new workloads were both said to have increased in Q3. However, contributors also noted a deterioration in profit margins, and an increase in payment delays.



Factors Holding Back Activity - Financial constraints was the factor identified by the most respondents (80%) as holding back activity, though 70% and 73% have identified competition and insufficient demand, respectively. More than 50% of respondents also said that the cost of materials, planning and regulation, labour shortages and skills shortages as restricting activity.

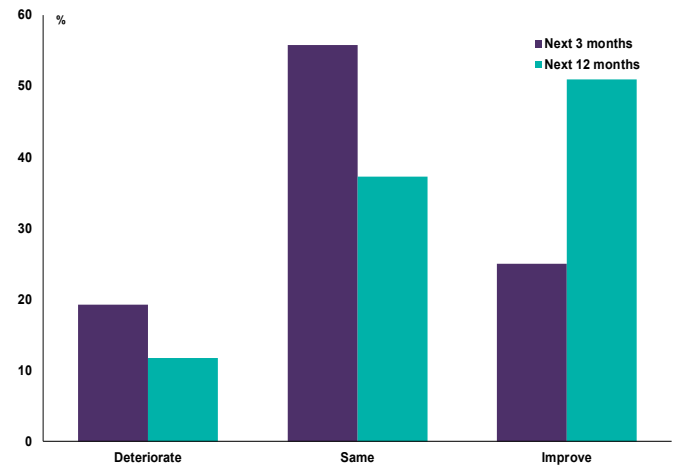
12-month Expectations - Workloads appear likely to increase at a robust pace over the next twelve months, with a net balance of 74% of contributors expecting an increase. However, headcounts and the cost of materials are also expected to increase and profit margins are only seen to improve slightly, over the next twelve months.



India Key Indicators

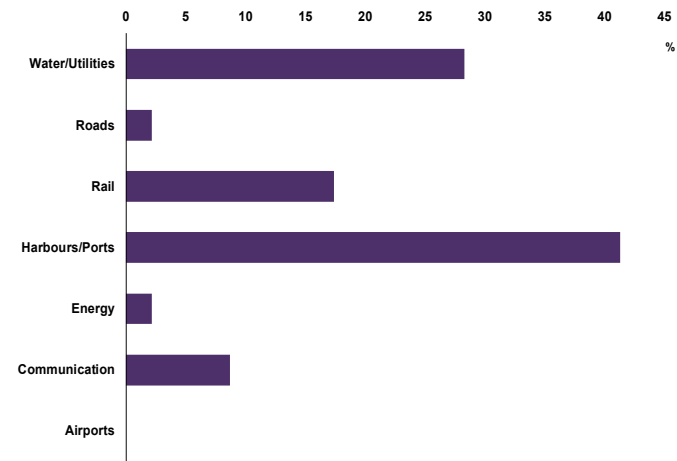
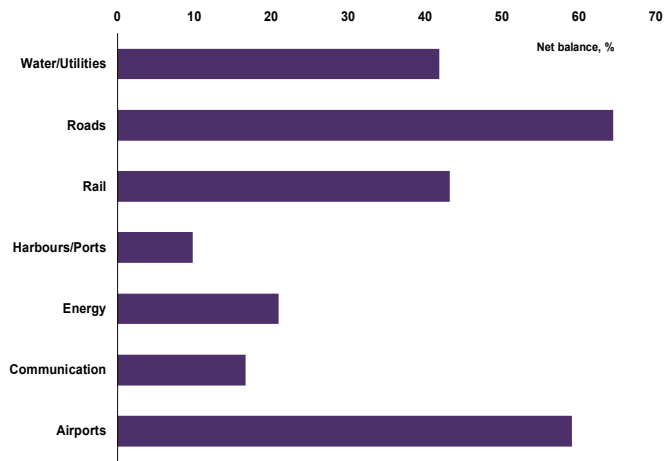
Skill Shortages - Approximately 65% of respondents identified shortages of skills for quantity surveyors/commercial managers and BIM managers. Meanwhile, more than half of respondents highlighted shortages in construction managers and project managers.

Expectations for Credit Conditions - Credit conditions are seen to be evenly skewed over the next three months, with the majority of respondents expecting them to be unchanged. However, most respondents expect conditions to improve over the next year.



Infrastructure Workloads - A net balance of nearly 60% of respondents reported an increase in workloads for both roads and airports, followed by a balance of more than 40% of respondents who saw an increase in workloads on water and utilities and rail projects.

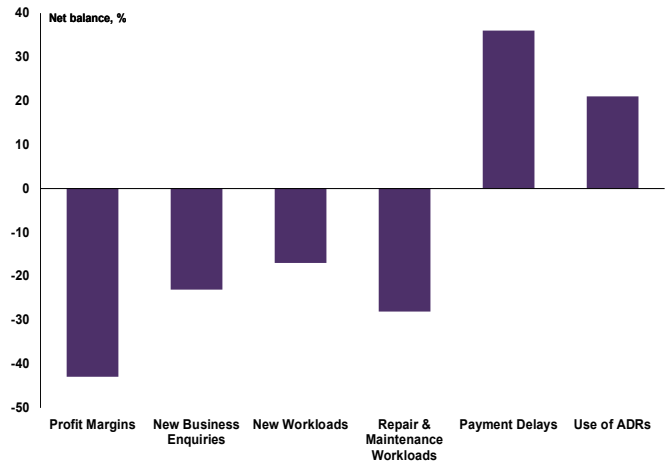
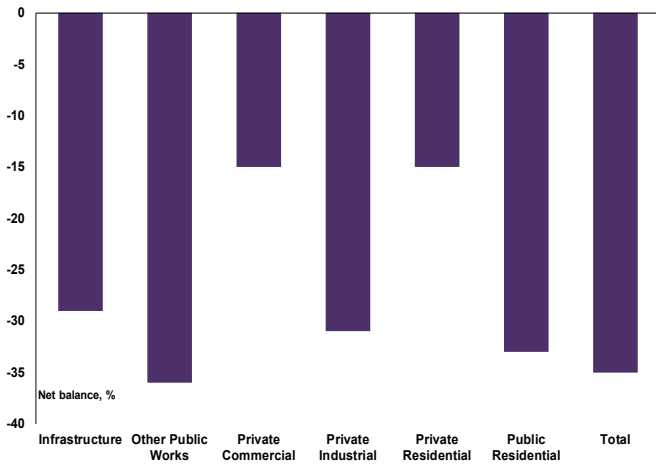
Infrastructure Expectations - The largest share (37%) of contributors expect harbours and ports to see the largest increase in infrastructure workloads over the next twelve months, while 30% see this in water and utilities.



Malaysia Key Indicators

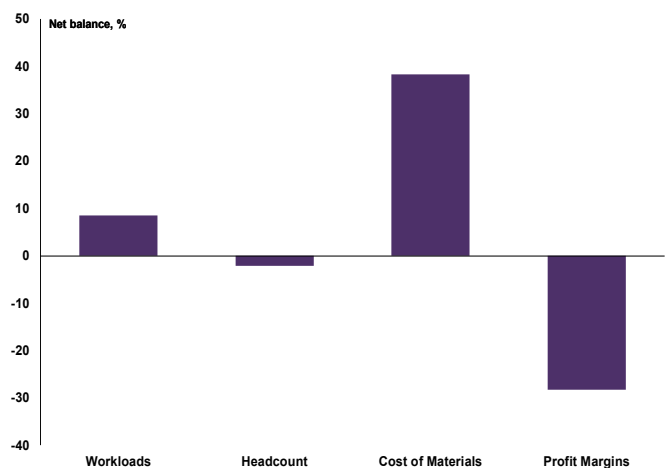
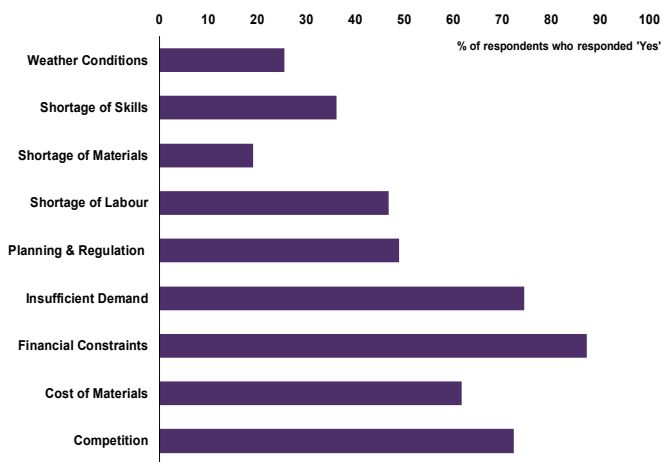
Workloads - Workloads declined across the board in Q3, with respondents reporting particularly steep declines in public works, public residential, private industrial, and infrastructure projects.

Enquiries & Workloads - Both new and repair and maintenance workloads declined during Q3, as did new business enquiries. Perhaps unsurprisingly, profit margins deteriorated and delays to payments increased.



Factors Holding Back Activity - Nearly 90% of respondents identified financial constraints as holding back activity, while more than 70% highlighted insufficient demand and competition. The cost of materials was seen as a constraint on activity by 62% of contributors.

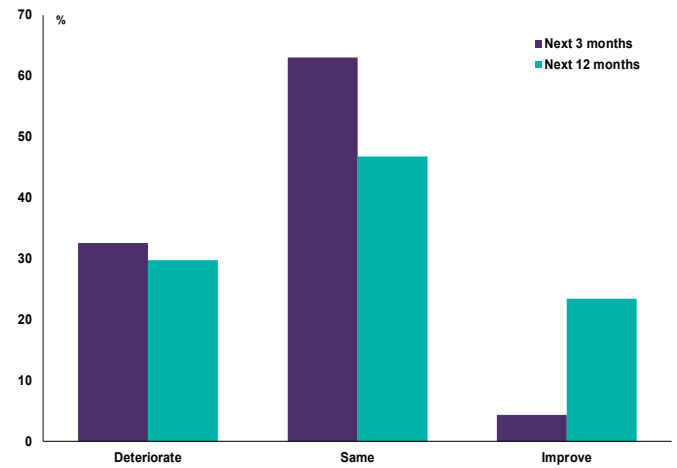
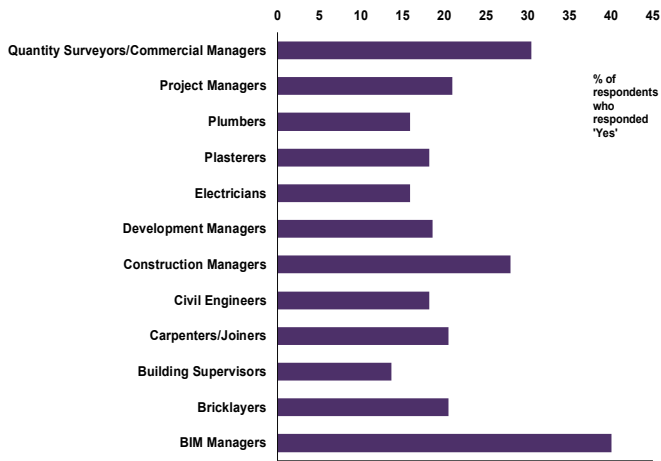
12-month Expectations - Respondents see little change in workloads and headcounts over the next twelve months, but the cost of materials is expected to rise. Profit margins are expected to deteriorate over this period.



Malaysia Key Indicators

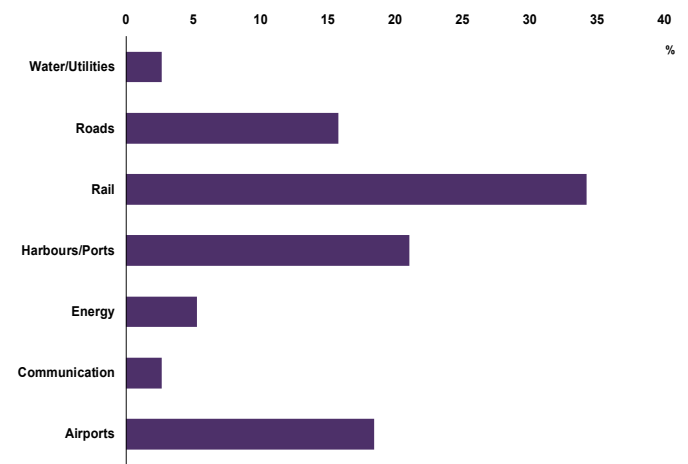
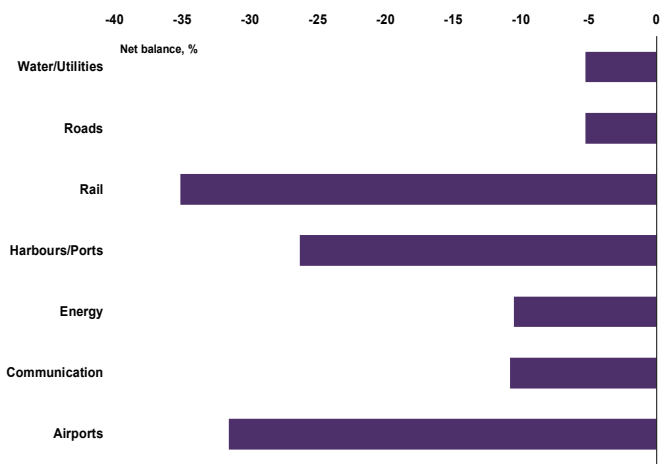
Skill Shortages - 40% of respondents noted a shortage of BIM managers, while 28% and 30% respectively identified a shortage of construction managers and quantity surveyors/commercial managers, respectively.

Expectations for Credit Conditions - Most respondents expect little change in credit conditions over the next three and twelve months. However, expectations are skewed more towards a deterioration than an improvement over the next three months.



Infrastructure Workloads - Infrastructure workloads declined across the board in Q3, with rail, airport, and harbour and port projects seeing a particularly sharp pullback.

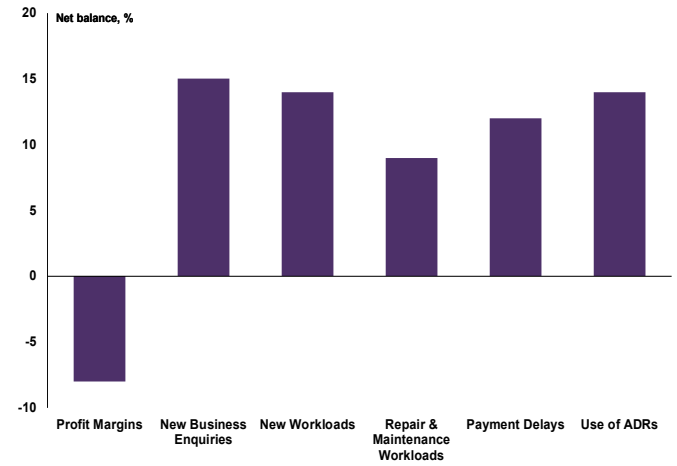
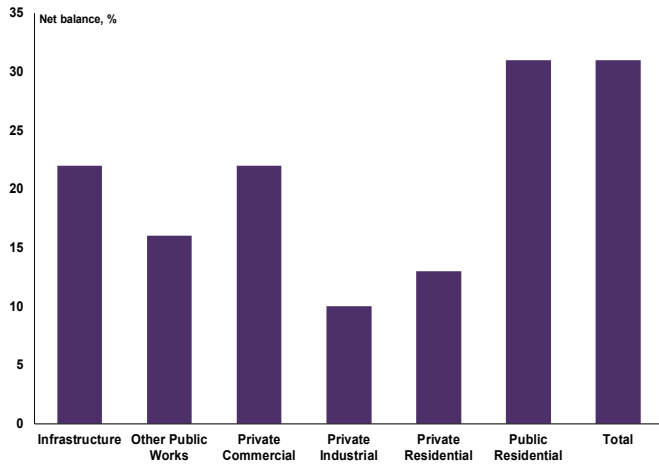
Infrastructure Expectations - Despite the decline in workloads in these segments in Q3, rail, harbours and ports, and airports are seen as receiving the most demand over the next twelve months.



New Zealand Key Indicators

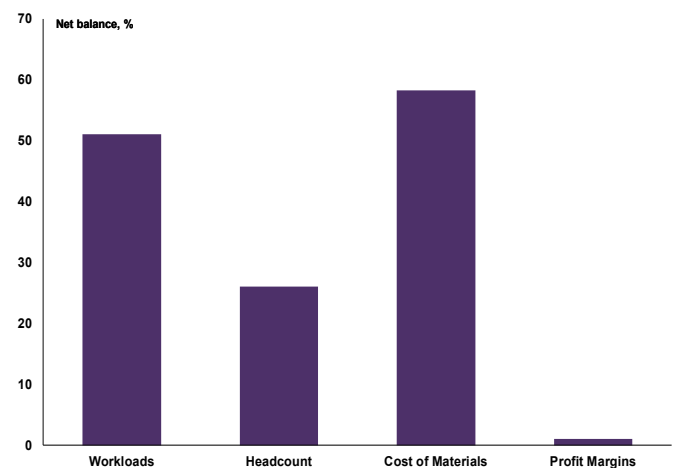
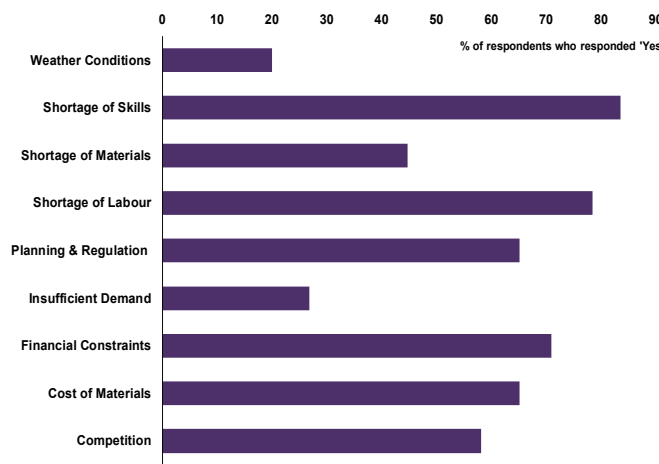
Workloads - Respondents reported higher workloads across the board in Q3. Growth in public residential workloads saw the most robust growth in the third quarter, while the increase in private industrial and private residential workloads was more subdued.

Enquiries & Workloads - Although contributors reported an increase in new business enquiries and new workloads during the quarter, margins were still relatively flat and there was a modest increase in payment delays reported.



Factors Holding Back Activity - A skills shortage was identified by the greatest portion of respondents (84%) as a factor holding back activity. A majority of respondents also identified a number of other factors, such as a shortage of labour (78%), financial constraints (71%), planning and regulation (65%), cost of materials (65%), and competition (58%).

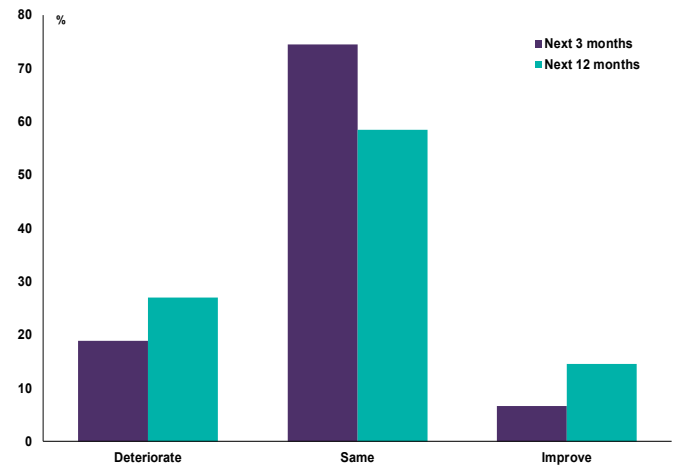
12-month Expectations - Workloads are expected to increase at a robust pace over the next year, as are headcounts (albeit at a more moderate rate). Meanwhile, the cost of materials is expected to increase at a faster pace than new workload and profit margins, are expected to be little changed.



New Zealand Key Indicators

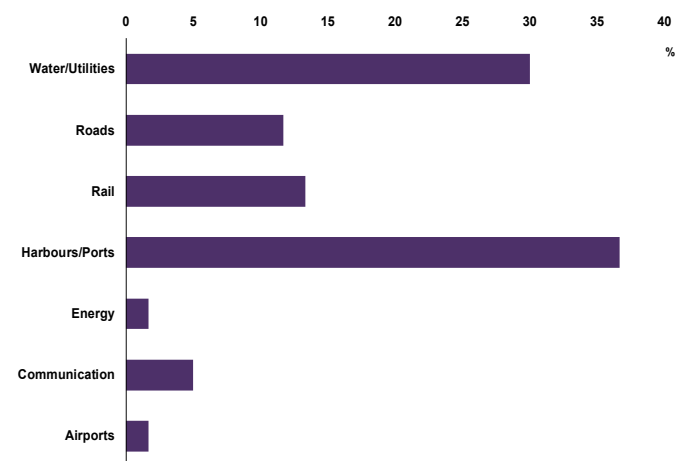
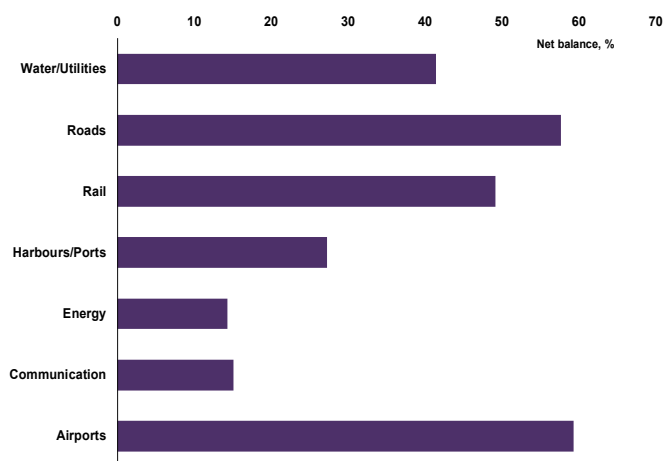
Skill Shortages - More than 50% of respondents identified a shortage of quantity surveyors and commercial managers (60%), carpenters and joiners (56%), and plumbers (53%), while half of respondents identified a shortage of project managers.

Expectations for Credit Conditions - Credit conditions are not expected to change over the next three and twelve months, though over both periods expectations are slightly skewed towards a deterioration more so than an improvement.



Infrastructure Workloads - Respondents reported an increase in workloads for all infrastructure segments. Airports, roads, rail and water and utilities projects saw the quickest growth during Q3 in net balance terms.

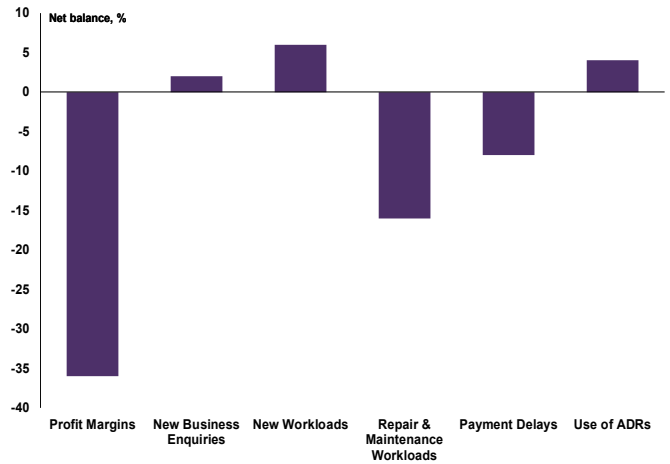
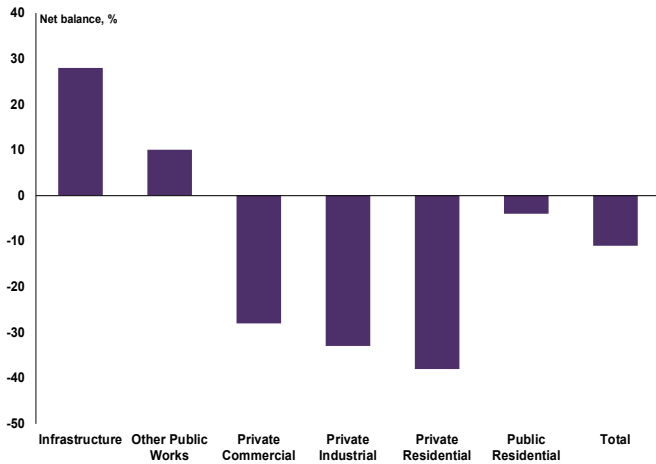
Infrastructure Expectations - Respondents expect workloads on harbours and ports to see the quickest increase over the next year, though 30% of contributors expect water and utilities workloads to see the strongest growth over the next twelve months.



Singapore Key Indicators

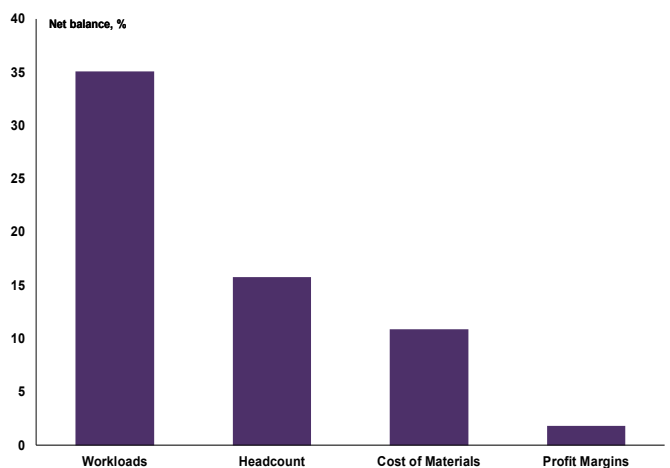
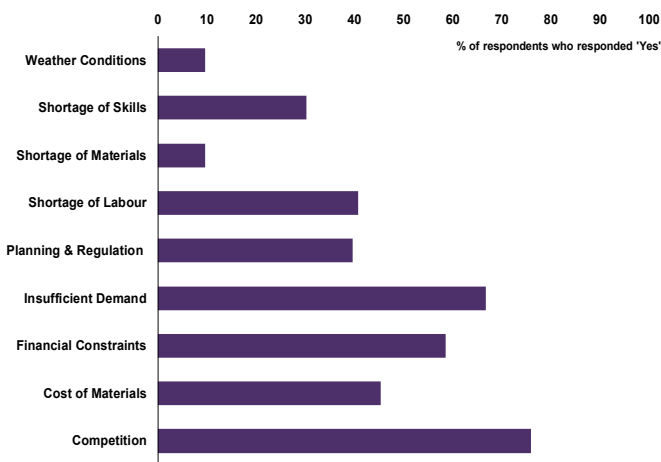
Workloads - Respondents reported mixed workloads in Q3. Headline workloads were said to have declined slightly, driven by a pullback in private commercial, industrial and residential projects. Meanwhile, infrastructure workloads increased during the third quarter.

Enquiries & Workloads - Profit margins were said to have contracted during Q3. Other metrics were relatively muted in the quarter, though repair and maintenance workloads were reported to have declined modestly.



Factors Holding Back Activity - Three quarters of respondents identified competition as holding back activity, while more than 50% highlighted insufficient demand (67%) and financial constraints (58%).

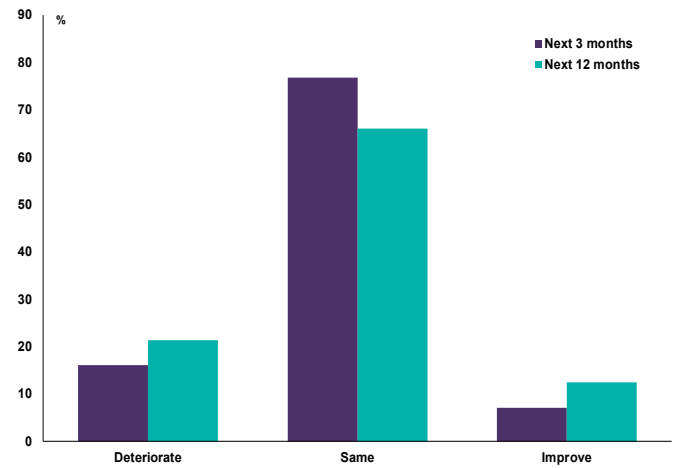
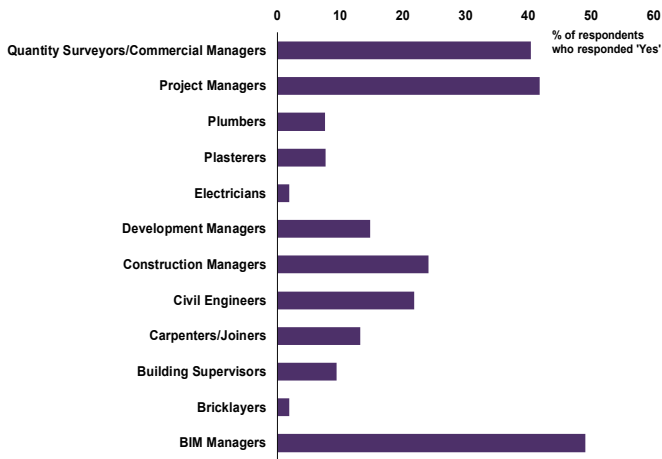
12-month Expectations - Workloads are expected to increase over the next year, while headcounts and material costs are seen to grow at a more moderate pace.



Singapore Key Indicators

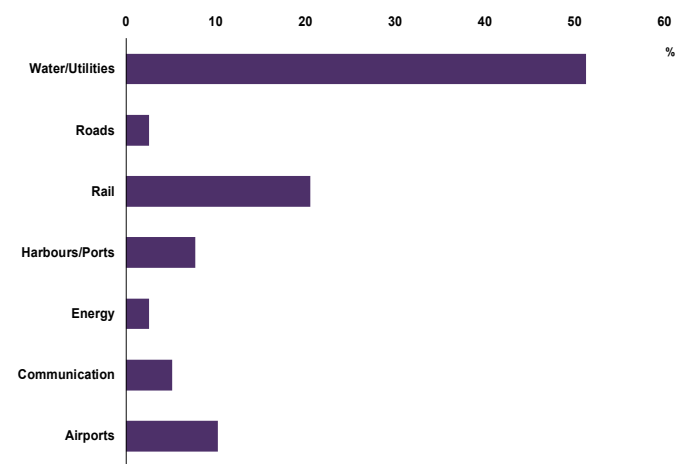
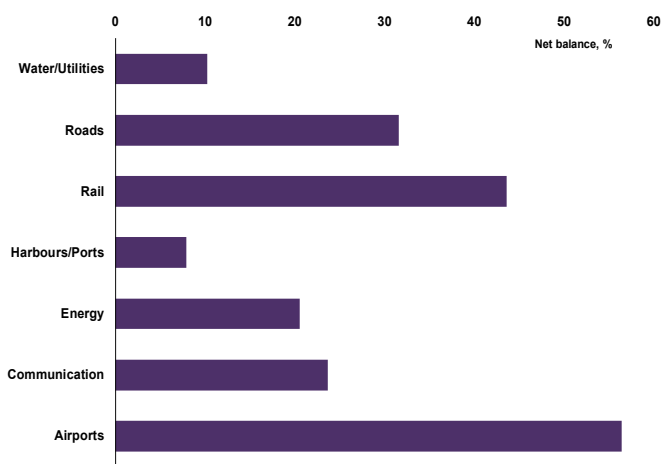
Skill Shortages - Nearly 50% of respondents identified a shortage of BIM managers, while more than 40% reported a shortage of quantity surveyors/commercial managers and project managers. Relatively few respondents reported a shortage of other skills.

Expectations for Credit Conditions - Credit conditions are not expected to change over the next three months, or twelve months.



Infrastructure Workloads - Airports saw the biggest increase in workloads in net balance terms during Q3. Workloads for rail and road projects also saw a fairly robust increase, while workloads for no segment were reported to have declined.

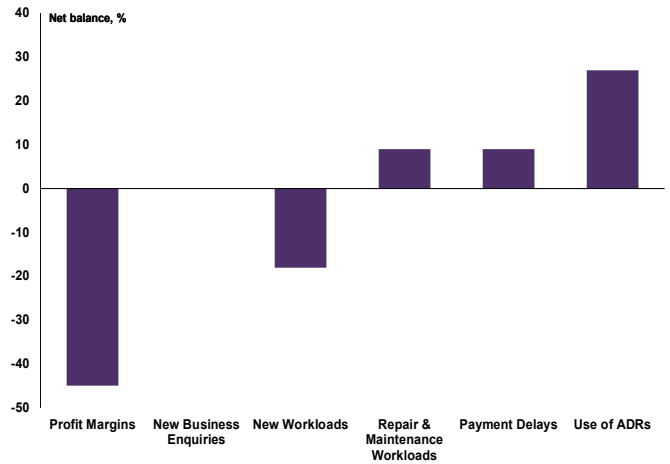
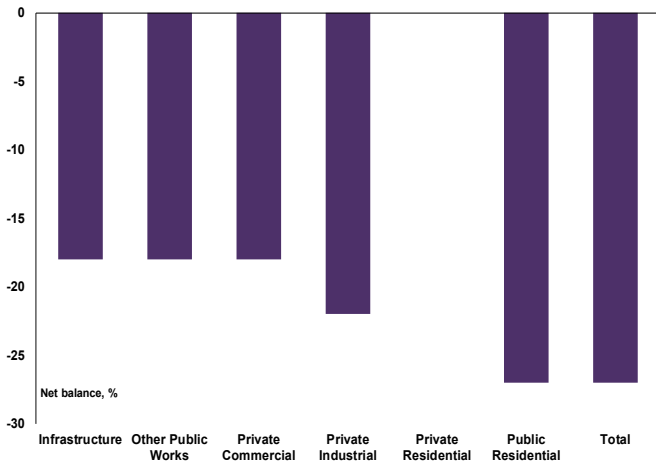
Infrastructure Expectations - Slightly more than half of respondents expect water and utility projects to see the largest increase in demand over the next year, while 21% expect rail projects to experience the largest increase in demand over the next twelve months.



South Korea Key Indicators

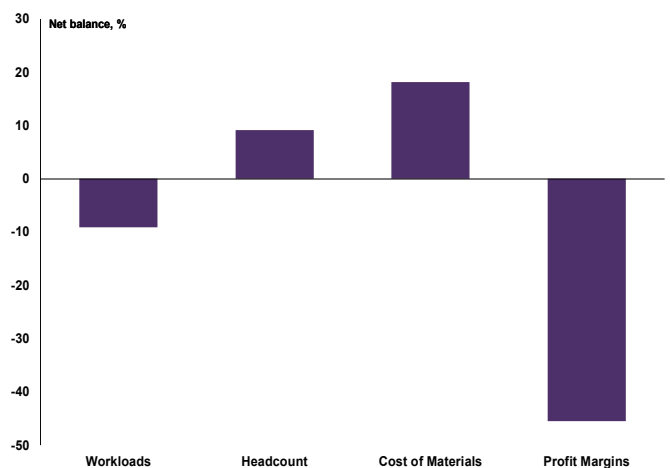
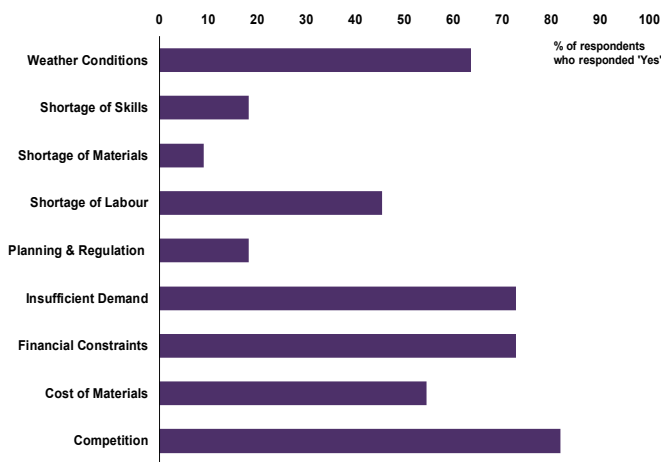
Workloads - Workloads were reported to have declined across the board in Q3, with the exception of workloads on private residential projects, which were little changed during the quarter.

Enquiries & Workloads - Respondents reported no change in new business enquiries during Q3, though new workloads declined. Profit margins also deteriorated during the quarter.



Factors Holding Back Activity - 82% of respondents cited competition as holding back activity, while 73% each identified financial constraints and insufficient demand. 64% of respondents identified weather conditions as a factor holding back activity.

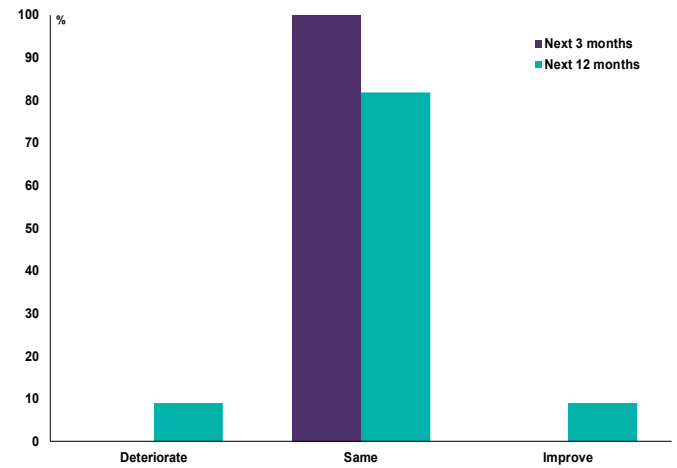
12-month Expectations - Workloads and headcount are expected to be little changed, though respondents do expect to see modest material price inflation. Respondents do expect a deterioration in profit margins over the next year.



South Korea Key Indicators

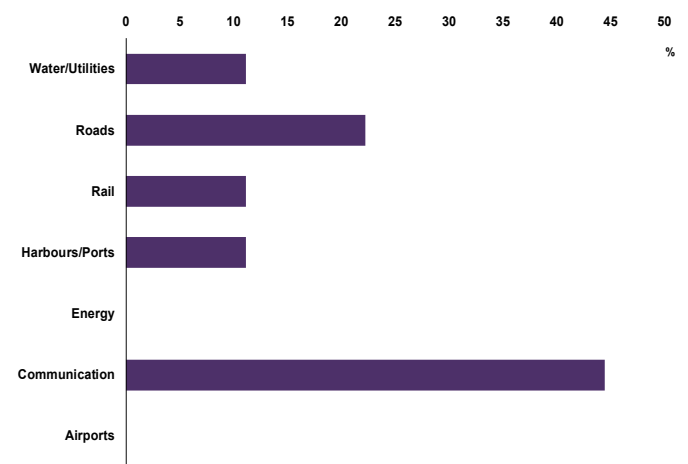
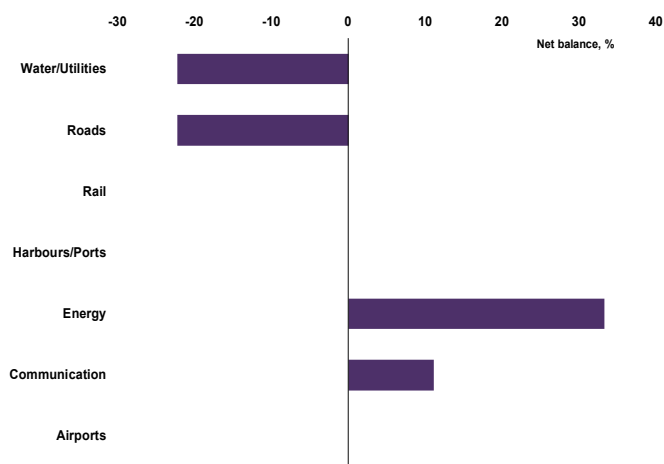
Skill Shortages - 73% of respondents reported a shortage of BIM managers, while 64% noted a shortage of quantity surveyors/commercial managers and project managers.

Expectations for Credit Conditions - Respondents were unanimous in expecting no change in credit conditions over the next three months. Credit conditions are also expected to be unchanged over the next year.



Infrastructure Workloads - Infrastructure workloads were mixed during the third quarter. Respondents reported a decline in workloads on water and utilities and road projects. Meanwhile, workloads on energy projects increased during Q3.

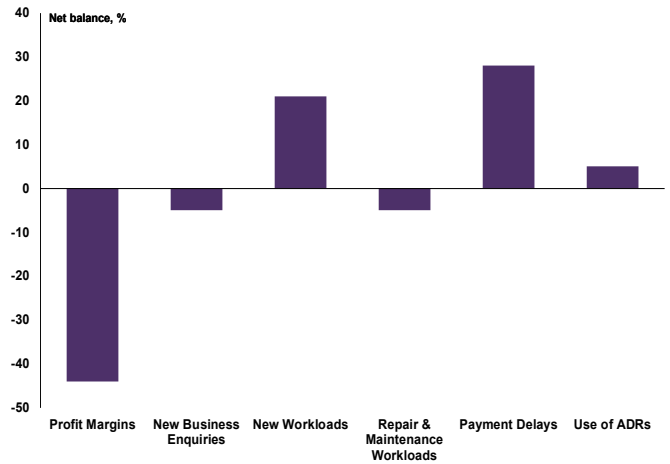
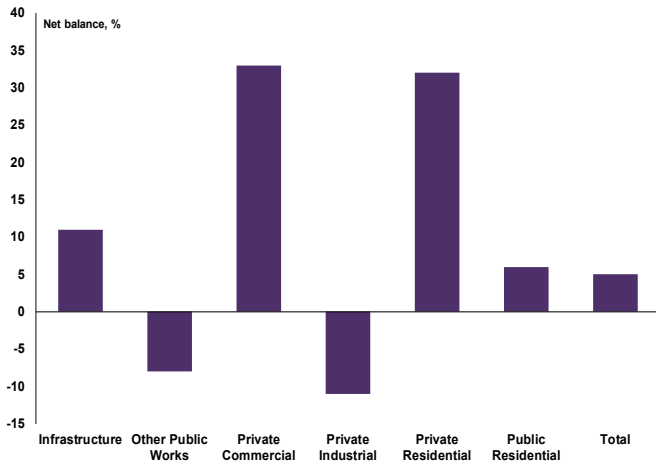
Infrastructure Expectations - 44% of respondents expect workloads on communications projects to see the biggest increase over the next 12 months.



Sri Lanka Key Indicators

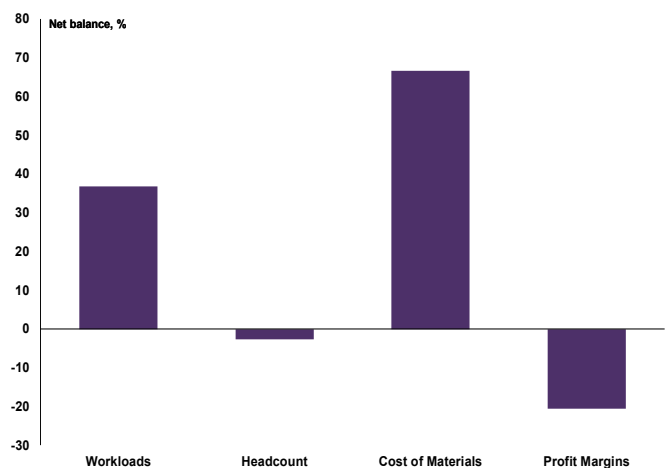
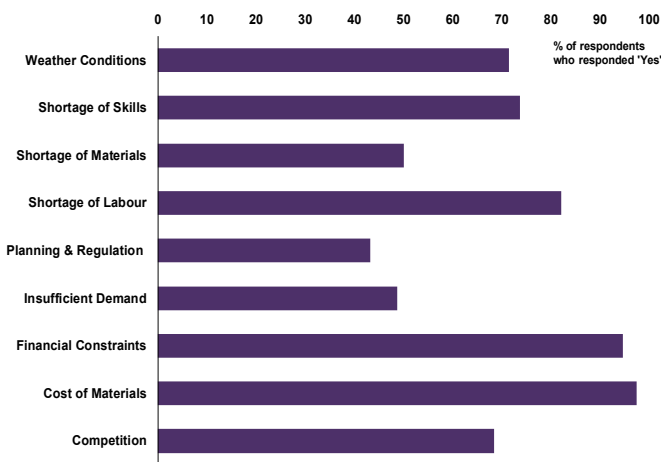
Workloads - Workloads in Sri Lanka were mixed in Q3. Respondents reported an increase in private commercial projects and private residential projects, however, workloads on other segments of the market were little changed.

Enquiries & Workloads - There was little change in new business enquiries and repair and maintenance workloads, though new workloads did increase moderately. Meanwhile, profit margins deteriorated and payment delays increased.



Factors Holding Back Activity - Respondents identified a number of factors holding back activity. The cost of materials and financial constraints were identified by 97% and 95% of respondents respectively. 82%, 74%, 71% respectively identified a shortage of labour, skills, and weather conditions, while 68% noted competition.

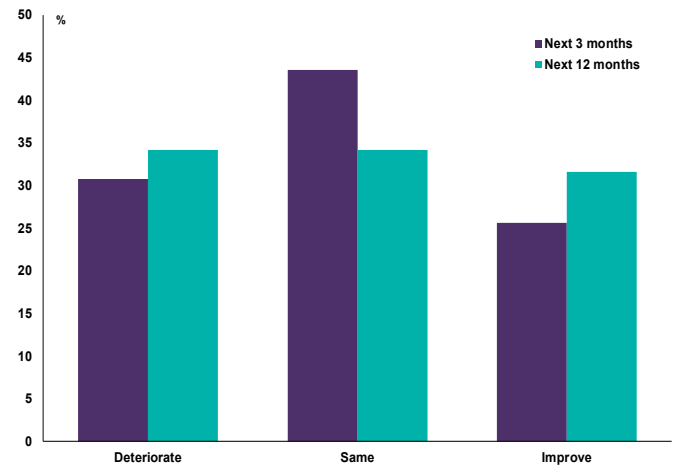
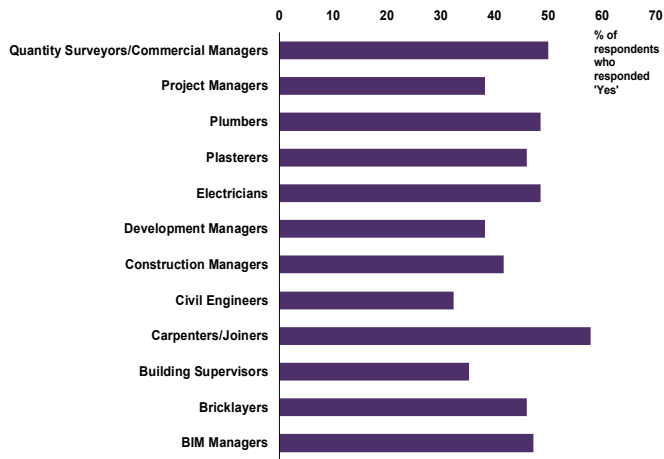
12-month Expectations - Workloads are expected to increase, though not as quickly as the costs of materials, and headcounts are expected to remain largely unchanged. Profit margins are expected to deteriorate further over the next twelve months.



Sri Lanka Key Indicators

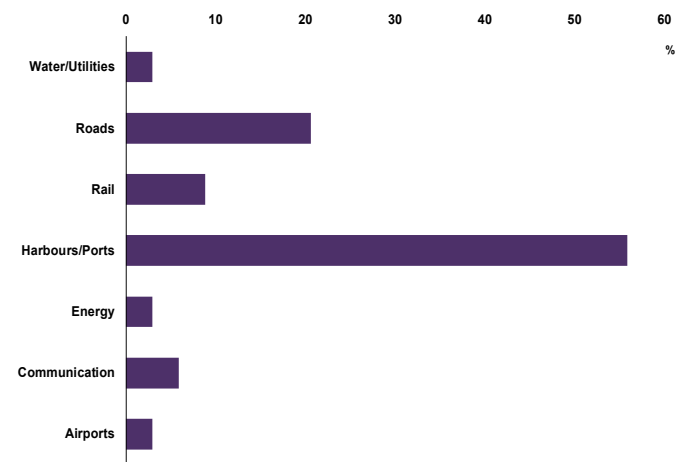
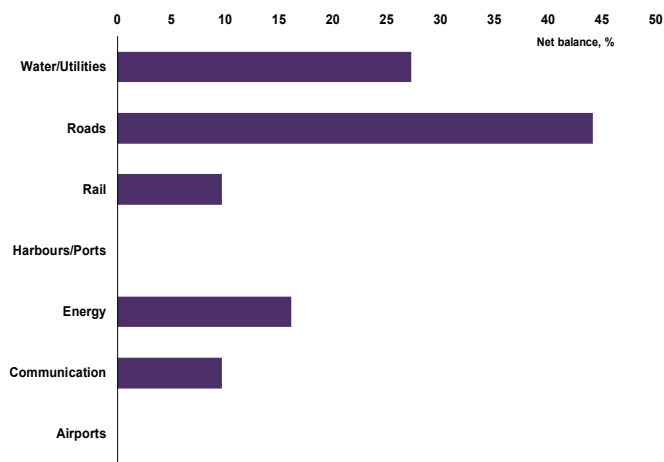
Skill Shortages - 58% of contributors reported a shortage of carpenters/joiners, while 50% noted a shortage in quantity surveyors/commercial managers.

Expectations for Credit Conditions - Credit conditions are seen remaining unchanged over the next three months. Over the next year, however, respondents are fairly evenly split over whether conditions will deteriorate, remain the same, or improve.



Infrastructure Workloads - Respondents reported that workloads on road and water and utilities projects increased at a robust pace in the third quarter, in net balance terms. Meanwhile workloads on harbours, ports and airports were reported to have been little changed.

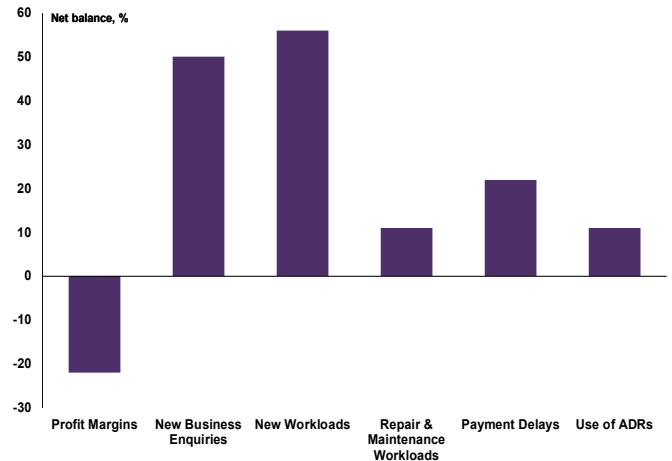
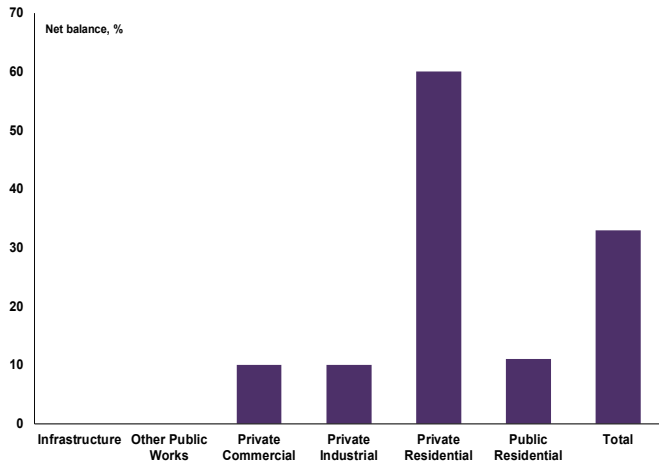
Infrastructure Expectations - Despite seeing little change in workloads in Q3, a majority of respondents (56%) expect harbours and ports to see the biggest increase in workloads over the next twelve months.



Vietnam Key Indicators

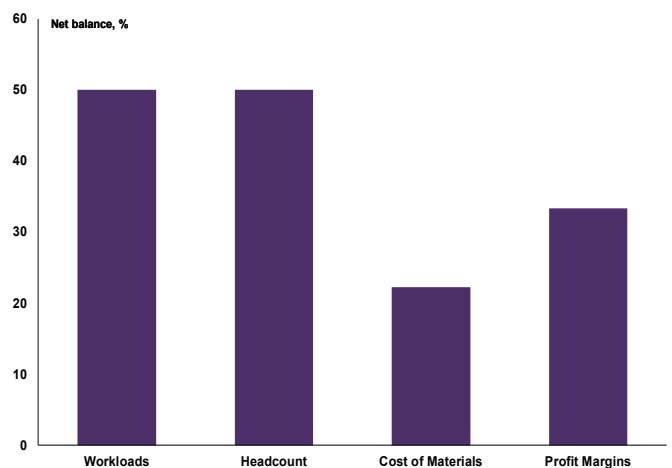
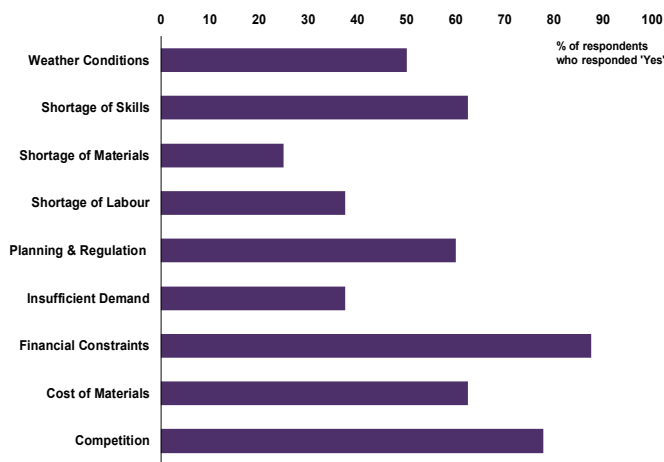
Workloads - Headline workloads increased in Q3, driven almost entirely by the private residential segment of the market. Other market segments saw very little change in the level of workloads.

Enquiries & Workloads - New business enquiries increased during Q3, in net balance terms, as did new workloads. Meanwhile respondents reported a modest decline in profit margins and increase in payment delays during the quarter.



Factors Holding Back Activity - Nearly 90% of respondents said that financial constraints were restricting activity, while nearly 80% highlighted competition as a constraint.

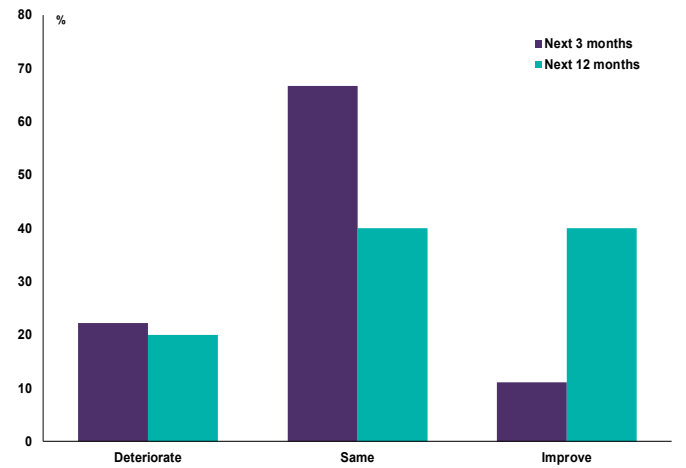
12-month Expectations - Workloads and headcount are expected to increase at a similar pace over the next twelve months. Profit margins are also expected to expand over the next year.



Vietnam Key Indicators

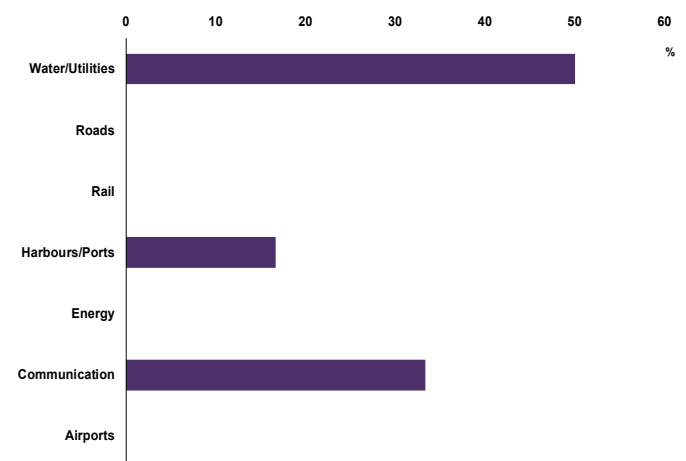
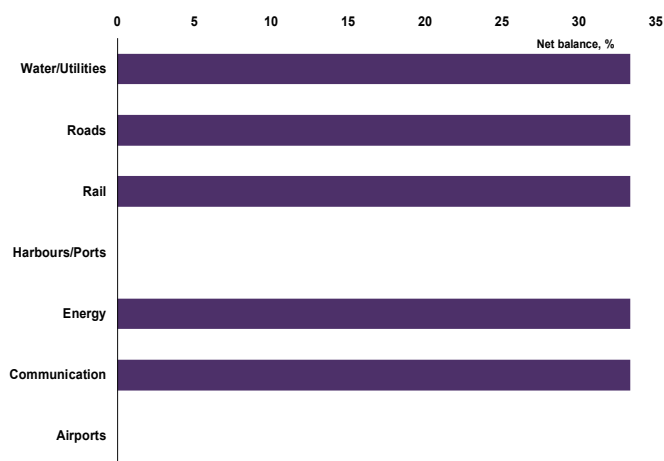
Skill Shortages - 70% of respondents reported a shortage of quantity surveyors/commercial managers, while 50% each reported a shortage of development and project managers.

Expectations for Credit Conditions - Credit conditions are largely expected to remain unchanged over the next three months, though expectations are skewed towards an improvement over the next year.



Infrastructure Workloads - Respondents reported an increase in most infrastructure workloads during Q3, with the exception of harbours, ports and airports (which were unchanged).

Infrastructure Expectations - Half of respondents expect workloads on water and utilities projects to increase the most across infrastructure subsegments over the next twelve months.



Information

Construction and Infrastructure Survey

RICS' Asia-Pacific and Middle East Construction and Infrastructure Survey is a quarterly guide to the trends in the construction and infrastructure markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 24 September 2018 with responses received until 21 October 2018. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 984 company responses were received. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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