LONDON'S BOOMING

Massive spending in the run up to the 2012 Olympics, together with delivery of ambitious public transport and urban regeneration targets set out in Ken Livingston's 'London Plan', are putting pressure on the capital's construction capacity. **Mary Sweetman** reports.

CAPITAL INVESTMENT

Other major London projects on the cards include:

Cross Rail: The mooted £16 billion project, featuring a new deep tunnel between Paddington & Whitechapel, enabling suburban trains to travel from Heathrow and Maidenhead to Canary Wharf, Shenfield and Abbey Wood.

Heathrow East: The £1.5 billion replacement of Heathrow's Terminals 1 and 2, to be completed in time for the 2012 London Olympics. Part of BAA's £6.2bn ten-year investment plan for Heathrow.

The regeneration of Cricklewood, Brent Cross and West Hendon: A £4 billion scheme to "create a new gateway for London and a vibrant urban area in Barnet" over the next 20 years. The development is to incorporate up to 7,500 homes, the creation of retail and leisure space, a new main line railway station, major improvements to public transport provision and a range of community facilities.

Elephant and Castle regeneration: £1.5 billion project, on a 170 acre site, to transform one of the most run-down areas of London, including 5,300 new homes, the creation of a pedestrianised town centre, two tram routes, a market square, landmark buildings, and a civic heart for south-central London.

Thames Gateway: More of an economic concept than an area, the 'Gateway' stretches 40 miles along the Thames estuary from Canary Wharf in London to Southend in Essex and Sittingbourne in Kent. To date, the government has invested over £7 billion. Already home to approximately 1.45 million people, the construction of an additional 160,000 homes is targeted by 2016.

Stratford City: Lying within the M25 and covering 73 hectares of largely derelict land. The next 15 years will see the creation of a new £4bn metropolitan centre in East London, with more than 100 shops, three big department stores, cafés, schools, hotels, parks and health centres. There will be a new commercial district with landmark towers and new leisure facilities, all in a quality setting with water features. New urban districts will house an extra 11,000 residents and 30,000 workers. It will also house most of the 2012 Olympic athletes.

For more, see Enterprise Ireland's publication: Building Towards London. Also, download The London Plan at www.london.gov.uk/mayor/strategies/sds/

However, since most of the opportunities for small and medium sized enterprises are expected to come from the supply chains that will surround the major contracts, another invaluable resource will the 'Compete For' site, due to go live in January 2008. This will incorporate a 'dating agency' style service to help tier 2 suppliers and below get access to as many business opportunities as possible. Companies' skills will be matched up with potential partners. Or if there is no obvious fit, they will be offered coaching to see if their services could be tweaked to provide a potential fit.

For Irish companies planning on setting up shop in the capital, Think London promises to help with market research, finding premises, legal, tax and HR issues. Meanwhile, the London Business Network, which will work with LOCOG and the ODA to provide a conduit for information on business opportunities, organise 'meet the buyer' events and so on, will be another useful port of call.

PUSHING THE RIGHT BUTTONS

While price, skills and timing will obviously be critical, points can also be scored for helping buyers to manage their political agendas. And as Deborah Bartlett of the Major Events team at ODA explained, there are many to juggle. Besides the obvious - health, safety, security, and high quality design and construction - other buzzwords are sustainability, accessibility for all, diversity and equality in employment and legacy in terms of a regenerated east London, all of which are reflected in one way or another in the ODA's balanced scorecard for evaluating tenders.

Sustainability was a major plank in London's original bid to host the Olympics, including a focus on efficient water and energy use, renewable resources, waste minimisation, and low carbon emissions. David Hull, Group Director/Partner with Buro Happold UK, told delegates that this would centre on the simple strategy: "use less, lose less, pollute less". In other words, facilities and infrastructure should be designed to reduce demand, increase delivery efficiency and generate from renewables, where possible. Meanwhile, buildings should incorporate "good physics" (such as passive solar concepts), "good building services" and be capable of accommodating decentralised energy sources.

The legacy and local employment considerations are also important. Many of the political goals of the Olympics dovetail with Ken Livingston's London Plan, including a major focus on the regeneration of east London, especially the Thames Gateway and the London-Stansted-Cambridge corridor.

Activity will be concentrated in the Lower Lea Valley, where the Olympics are seen as a major catalyst to turn around the fortunes of this once heavily industrialised area, which now ranks among the bottom of the UK league on scores such as unemployment and child poverty. Guy Nicholson, Councillor for the London Borough of Hackney (and also Cabinet Member for Regeneration and the 2012 Games) told delegates that up to 14 per cent of those of working age have never worked, nor have most of their parents and their grandparents.

Among the 'legacies' will be the new Stratford city, which will accommodate 17,000 beds for athletes. Linked by rail services, just seven minutes into Kings Cross and 20 minutes to the Channel Tunnel, this is set to become one of the most connected parts of London and the sixth largest retail destination in the UK.

With property prices set to rise and rise, strategies aimed at helping local communities leverage some benefits include the £11 million Opportunities Fund, which aims to train over 14,000 Londoners as sport coaches, cooks and builders. In addition, some £20m is to be spent on training women to work in the building sector.

OTHER AGENDAS AND OPPORTUNITIES

Although the Olympics are certainly heating London's construction market, they are only part of the story. Think London estimates that the city will experience economic growth of $80 billion between 2006 and 2012, with only about 10 per cent of this related to the games.

According to director Brian Dineen, the capital is growing faster than any other city in Europe. Construction output is set to rise by 6.6 per cent pa to 2011. The population will spiral from 7.2 million in 2007 to 8.1 million in 2016, and over the next 20 years, the city will require an additional one million houses.

This view is echoed by Emanuel Carvalho of Enterprise Ireland, London, and John Taylor of KPMG's UK building and construction team, both of whom point to a bevy of other major multi-million-pound transport, energy and wastewater infrastructure projects mooted for the city and indeed elsewhere in the UK.

"In this environment, experienced contractors can afford to be selective about projects they choose to bid on, and highly qualified companies are in a strong position to negotiate on price and risk," Taylor said. Almost half of respondents (42 per cent) to KPMG's 2007 Global Construction Survey voiced concerns that the availability of qualified contactors and the rising costs of construction would pose a serious risk to the success of future projects.

"Contractors do have to look within and question whether they are equipped with the right people. Too many of the companies we surveyed said that they had seen contractors put forward one team as part of their bid to win work, only for them to supply a totally different, and often less experienced team, in order to deliver the project without a commensurate change in costs."

Councillor Guy Nicholson,
London Borough of Hackney

OTHER BUZZWORDS ARE SUSTAINABILITY, DIVERSITY AND EQUALITY IN EMPLOYMENT, AND LEGACY IN TERMS OF A REGENERATED EAST LONDON.

The study also confirmed that reputation really does matter when it comes to carving out a competitive advantage, with 57 percent of respondents citing expertise and credibility as the two most influential qualities that owners look for when selecting a contractor.

Other key trends, specifically in London, were identified by Gareth Whisson, of Turner & Townsend, UK. "Partnering and alliancing are becoming a big trend. In order to win work, you need to be able to demonstrate experience of partnering to bring supply chain benefits." On this score, Dermot Reidy of DTI advised Irish businesses to "think outside the box"; for example, linking up with southern hemisphere players with experience of the Sydney games, but without a base in Europe. Meanwhile, buying clubs were another hot trend, used extensively on the T5 Heathrow project, Gareth Whisson said, while favoured contracts types include the 'NC3', and to a lesser extent, the 'JCT'.

"London is going to provide a strong, stable construction market for the foreseeable future," he added, advising Irish companies to consider becoming second tier suppliers and view the current high concentration of activity as an ideal time to establish in the market. "Think long-term, foster relationships and identify the value proposition that makes you unique," he said. "You need to press the go button on this; the opportunities won't come looking for you." M

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Bosco SPORT

CONSTRUCTION GETS UNDERWAY FOR RUSSIAN WINTER OLYMPICS 2014

Mike Hogan reports from Moscow.

While there are a slew of Irish construction companies rightly zoning in on the London Summer Olympics of 2012, another red-hot market destination to watch is Sochi in Russia, recently selected to host the 2014 Winter Olympics. This is the first Olympics event to be clinched by Russia since the old USSR hosted the Summer Olympics in Moscow in 1980. And not given to doing things by half measures, the Russians are planning to make Sochi the world's most expensive Winter Olympics ever in terms of capital spend, with $12.2bn being invested in infrastructure projects. This is roughly comparable with the Athens spend for the 2004 Summer Games.

RUSSIA IS SET TO DELIVER THE WORLD'S MOST EXPENSIVE WINTER OLYMPICS, WITH $12.2BN BEING SPENT ON INFRASTRUCTURE PROJECTS.

Sochi has an enviable location, with a Mediterranean climate on the shores of the Black Sea, yet with a backdrop of mountains suitable for winter sports. Aside from sports facilities, the Sochi Olympics plan calls for the construction of more than 100 kms of roads in Sochi, a new bridge over the Sochi River, a federal highway and new railways. Major repairs to the Sochi-Adler and Sochi-Krasnaya Polyana motorways are also planned. To improve power supply, Russia will build two new thermal power plants and a new hydro-electric facility. Some $580m will be directed to improving local telecommunications, to ensure that a modern telecoms infrastructure is in place for the press centres, call centres, Olympic facilities and international television centres associated with the games.

The centrepieces, of course, will be the 15 Olympic winter sports facilities, including:

– Biathlon complex ($10m)
– Mountain skiing complex ($130m)
– Two ice hockey arenas ($40m & $220m)
– Ice-skating centre ($42m),
– Curling area ($17m),
– Medical-rehabilitation centre ($56m)
– Snowboarding park ($16.5m)
– Ski complex ($6.6m)
– Bobsled track ($165m)
– An ice skating arena ($55m)
– Central stadium ($12m),
– Main Olympic village ($110m)
– K-120 and K-90 ski jumps ($48m)
– Free-style centre ($16.5m)

Construction for the Sochi Olympics is already underway and major Russian and international construction and specialist service firms are vying for their piece of the substantial Olympics market.

See: http://sochi2014.com

FINDING A FOOTHOLD IN THE WORLD'S BIGGEST CONSTRUCTION SITE

Russia is booming, and so too is its construction sector, with the Sochi 2014 Games just the icing on a very sizeable pie. **Kyran Fitzgerald** and **Mike Hogan** report.

Throughout the nineteenth and twentieth centuries, Irish emigrants were advised to go west in search of their fortunes. Some ended up in California, or the Klondike, partaking in the great gold rushes of the late 19th century. Today, a new Gold Rush is underway, one that centres, ironically enough, on the countries of the former Soviet bloc. As the great Communistic glaciers have melted, vast new commercial opportunities have opened up. The rise of China is already transforming the globe, and along with it, the fortunes of countries engaged in the large scale production of commodities, the prices of which, by and large, have been soaring. One great beneficiary of this worldwide hunger for raw materials from oil and gas to copper has been Russia, a country which, barely a decade ago, was on its knees.

By 2000, Russia was the world's tenth biggest economy, with foreign reserves of €8.5bn. Today, it is the world's eighth largest with reserves of €407bn. In 2007, foreign direct investment is expected to reach €30bn.

In tandem with economic growth, the Russian construction sector has undergone massive build-out in all sub-categories including: residential; office; retail; warehousing; leisure; and most recently infrastructural developments. An estimated five million square metres (around fifty million square feet) of new residential accommodation is currently under construction across the country. Moscow (population: ten to eleven million) is currently being transformed. Its city government has claimed that there is currently more construction activity underway there than in any other city across the globe, with Moscow's growth even outstripping Shanghai, Beijing and Dubai.

Currently, every two weeks, ground is broken on a new hotel project in the city, with 75 new 3-star hotels to be delivered by 2012, a very welcome development as at present tourists and business people are forced to overnight in Moscow's very expensive 4 and 5 star offerings. Signs of construction are everywhere through Moscow, and giant cranes are a ubiquitous feature through the city, with Irish companies being contacted to allow their cranes to 'emigrate' to Russia to meet demand. The tale of resource-rich Russia's construction boom is not, however, just a Moscow story, and the ripple effect has now found its way to Russia's 14 other cities with populations over one million, coupled with a huge upswing in Russia's infrastructural build-out, with an expected construction spend of US$1trillion between 2007 and 2020.

It's always difficult to gauge Russia's long term political stability. The Putin administration has been riled by US plans to install new missile defence systems in eastern Europe. Meanwhile, the murders of the investigative journalist, Anna Politkovskaya and the former KGB operative turned dissident, Alexander Litvinenko, a year ago, have hardened attitudes in the west. A Central Bank deputy governor and American business journalists have also fallen to assassins. Meanwhile, concern has been expressed about the sustainability of Russia's economic model, in particular the country's dependence on oil and gas revenues. Indeed, the decision of the energy conglomerate Gazprom to turn off supplies of natural gas to its neighbours, particularly the Ukraine, two years ago, alarmed many. More immediate challenges businesses on the ground face include mammoth bureaucracy, costs - Moscow is now ranked as the world's most expensive capital city - and acute skills shortages.

However, there is also a very real sense that Russia is maturing as an economy and some Irish old-hands there believe it no longer deserves its lowly ranking in the global anti-corruption league. (The Transparency International Corruption Perception Index 2007 put Russia in joint 143rd place with Togo and Gambia.)

In parallel, the Russian state has taken some measures in the construction sector to improve conditions, with the sector as a whole benefiting from more open and lenient government policies. Not only is the government entering into partnerships with Russian companies in the hope of improving the country's infrastructure, but it is also open to agreements with foreign investors. Moves are also afoot to streamline the planning and approvals process for major infrastructure projects, a situation that may be familiar to construction companies in Ireland.

In any case, there is clearly a lot to play for. Construction is generally regarded as one of the most profitable branches of the Russian economy. In 2006, construction and engineering grew by 10.6 per cent to reach a value of $44 billion, with a forecast value of $64.8 billion by 2011. Despite the masive build out of residential property in H1 2007, the non-residential segment accounts for a 59.4 per cent share of the market's value.

Here's just a taste of what's underway or at the planning stage:

- Two new lateral highways in Moscow.
- A new port near St Petersburg, Russia's second city
- A new business quarter, Ekaterinberg City, the city where the Czar and his family met their deaths in 1918
- Seventy hotels to be opened across Russia by the Hilton Hotels Group.
- A €230m investment in a logistics terminal in St Petersburg.
- $1.5bn to be invested in three international airport terminals in Moscow.
- Construction of a 750 kilometre high speed rail line and public private partnership toll road between Moscow and St Petersburg.

MARKET PLAYERS AND IRISH OPPORTUNITIES

Whereas previously private companies stayed away from state infrastructure projects, increased government spending and the advent of Public Private Partnership (PPP) projects together with a clear state strategy for infrastructural development has evidently raised the stakes.

A number of very large Russian construction companies remain pre-eminent in the market, and for many years, they operated with limited competition from Turkish companies, who have a long established presence in the market. In recent years a strong foreign construction sector has emerged with construction giants such as Vinci, Strabag, Bouygues and Hochtief. In August of this year, Russia's richest man Oleg Deripaska and owner of RUSAL, took a 30 per cent stake in Strabag for $1.6bn and a further 10 per cent in Hochtief, a clear declaration of strategic intent as regards the Russian market. While Strabag's biggest market remains Germany, with 38 per cent of its 2006 output, central and eastern Europe including Russia, with 29 per cent, is growing more quickly, as chief executive Hans Peter Haselsteiner told the *Moscow Times* this October: "I've been in this business for 30 years now and I have never seen a market like this," he said. "In Russia, the question is not which order we can get, the question is which order we can accept given our limited resources."

Irish companies are also active in the market, including Kentech, Mercury Engineering and Project Management Group. On the property investment side, Quinn Group and Treasury Holdings are involved in large development projects. Dermot Desmond's investment holding company, IIU owns a one third stake in a Latvian bank, Rieitumu, and is said to be showing serious interest in Russia.

The surge in cement prices, in particular, is a boon to CRH, which owns and operates one of Russia's readymix concrete plants outside St Petersburg. According to the Russian Construction Review, wholesale producer prices for basic building materials jumped by 22 per cent between January and September, this year. Total construction costs have risen by 24 per cent in the first nine months of 2007. Over the year as a whole, the increase is expected to amount to between 30 per cent and 32 per cent. The price of cement alone jumped by 140 per cent during the period in question.

In the current climate, there is significant scope for further Irish involvement in the market. Specialist and niche construction skills are in high demand and this would encompass services as diverse as HVAC, smart building technologies, architecture and design and fit-out. Construction companies with experience of delivering major infrastructure such as: roads; airports; ports and logistical infrastructure would be especially welcomed. As the majority of construction materials continue to be imported, there are also opportunities for building material producers in Russia and there have already been successful examples of exports of raised flooring, wooden flooring, tiles, insulation and walling to Russia by Irish companies. Probably the best indication of the market opportunity is the number of European competitor companies already in the market; chances are they are there for a reason.

Interviews by
Kyran Fitzgerald

IRISH EXPERIENCES ON THE GROUND

BRIAN DONOHUE, MERCURY ENGINEERING

Founded in 1972, Mercury Engineering employs more than 2,500 people, mainly in Ireland, and has an annual turnover between €600m and €700m. The company has operations across Europe, America and the Middle East, with offices in Poland, France, Russia, Qatar, Libya and Bahrain.

Mercury has been in the Russian market since 2004, primarily in Moscow, where the focus is on installation of building services. Annual turnover in Russia reached €15m in 2005, rising to between €15m and €20m in 2006. 2007 levels are expected to be similar. Clients include Deutsche Bank, financial information group Bloomberg, Pilkington, Roche and JP Morgan.

"AS LONG AS OIL AND GAS PRICES REMAIN HIGH, RUSSIA'S PROSPECTS LOOK GOOD."

"We have hit the ground running," observes Brian Donohue, Chief Operations Officer of Mercury's International Division. "The Russian economy has grown incredibly. We got in at the right time. Russia, in effect, is a European country. Moscow is not that different to Warsaw."

Donohue, however, rejects comparisons of the two country's business environments. "Poland has become more like Ireland. It is an EU country with certain standard ways of doing business. Russia is a true emergent market. There is fluidity. There is not the same degree of established players. It is a very challenging place in which to do business, but there are lots of opportunities." This goes with the territory for Mercury. The company's strategy is to focus on emerging markets, with plenty of gaps rather than to try and take on established players in what might be seen as easier, or at least more predictable, advanced economies.

Among Russia's particular challenges are difficulties dealing with the authorities and sourcing employees. The company uses recruitment agencies to source expats, and currently in Russia, has about 15 expats, from 15 different countries. "It is quite expensive. An accountant paid €70,000 in Ireland could expect to be paid €100,000 in Moscow, and one would have to pay for their accommodation as well." Consequently, Russians are increasingly being employed in management roles as more people there acquire the necessary skills.

Brian Donohue expects good news with the launch of direct flights between Ireland and Moscow to come soon. "This will make a big difference. Right now, it takes a whole day to get there." He also believes that Russia could be a jumping point to neighbouring states such as energy-rich Kazakhstan. "I would agree that activity is spreading out of Moscow, but we have enough there to keep us going. Russia is such a massive country. People do not appreciate its scale."

CHARLES MAHON, PROJECT MANAGEMENT GROUP

PM Group, currently the lead project manager on the Lansdowne Road stadium redevelopment, employs 1,600, through operations in Ireland, Europe, the US and Asia.

Charles Mahon heads up PMG's Russian operation, which is set up as a wholly owned local subsidiary. Employment taxes are just 13 per cent, while corporation tax is 24 per cent.

The company moved into the country on the back of a leading client, Oriflame, the Swedish cosmetics producer, six years ago. "This is a typical route of entry," he says. PMG was involved in an extensive process of site selection on behalf of the client from 2001. "We checked 40 locations. Looking for a site was quite different to today. Nowadays the authorities are more familiar with how to facilitate people."

"RUSSIA IS DIFFERENT IN THAT THERE ARE SO MANY LAYERS OF AUTHORITY."

At the same time, another leading client, the French pharmaceuticals group Servier (a major investor in Ireland) decided to enter the Russian market. "Servier set up links with a local developer, who introduced them to a local engineering company, Pharmstroy, which works on accreditation matters. It was suggested that we partner with Pharmstroy - they became our subcontractors." PM Group has also worked for BASF, Nestle, and the glassmaker, Zippe. Getting local business is more challenging, however. Persuading Russian developers and industrialists to pay extra for more sophisticated services, which international groups take for granted, can be a hard sell.

Mahon cites the regulatory requirements for getting land and getting utilities to land, as another of the company's headaches. "In Ireland, design work is accredited by another engineering firm. In Russia, it is carried out by the civil service, which may not be familiar with all the technologies out there," he explains. PMG operates as much as possible, he says, through 'middlemen' in its dealings with the authorities. "Some people will use different methods to block a project. An objector will create a 'scandal', involving more people in the process." Sometimes, people on neighbouring sites will act so as to secure a deal under which services are put through their land.

Moscow is by no means a low-cost base. Rent is high, typically €8,000 a month for a small office (or €800 per sq metre). And like Mercury Engineering, PMG has found that it can be difficult to get the right people. The group has just ten people directly employed in Moscow. "We are trying to get our staff numbers up while simultaneously expanding the business. We bring staff over, mainly from Ireland or Poland. We are expanding our numbers of local staff, but are finding it difficult to get people. We have to headhunt engineers, managers and cost consultants."

Having spent seven years in Russia and having a Russian wife (Ilona), Mahon understands the Russian psyche better than most foreigners. "The economy is becoming more streamlined. However, sometimes local people will just sit on a project till they get more money. Deadlines are not as strict as elsewhere - you can get interruptions."

"Russians take business personally," he continues. "It is important to have a good personal relationship." In this respect, Mahon believes Moscow is not as unwelcoming as sometimes stereotyped. "People step back and look at you [as an outsider] with a light curiosity. They like to leave a good impression. One can be put off by their exterior, but they make very good friends, although brutally honest ones." He is also somewhat bemused by 'western' suspicions of Russia. "I have no nostalgia for the past - what they have done here is great. The longer I am here, the more I understand that the current political situation is unavoidable. The scare in the west about Russia has been going on for hundreds of years."

CALBHAC O'CARROLL, MURRAY O'LAOIRE ARCHITECTS

The Irish architecture firm Murray O'Laoire has had offices in Russia since the early 1990s. "Since 2004, our business here has taken off," says Calbhac O'Carroll, the partner heading up the firm's international division. "Turnover in the year to August last was a couple of million euro, up by 20 to 30 per cent on the previous year."

"We decided some years ago to focus on Russian clients. It has been a difficult process getting them to understand what we do and to be prepared to pay for good design work. But it has now paid off. Russia is much more sophisticated. There is a large pool of developers, with experience abroad, who understand the value of design."

"IT IS A HUGELY OVERLOOKED OPPORTUNITY - I WOULD LIKE TO SEE MORE IRISH PEOPLE MOVING OUT THERE."

"The scale of projects has grown enormously," he continues. "From 1993 to 2003, most of the business was fit outs of interiors. Most would now be large new builds. Until recently, we were happy with 5,000 sq-ft fit-outs - now we are routinely doing fit-outs of 30,000 sq-ft. In new build, retail has been the really strong element, but the business centre has also caught on."

The other growth area is master planning - the planning of entire communities from scratch. Moscow is spreading in all directions at an incredible rate, and, in the process, is acquiring entire new low-rise, low-density suburbs for the new middle classes.

"We don't take on every project we are offered - we try to take on sustainable projects. We can be selective. The other big change is that development is happening right across the regions, in Kazan, Samara, Krasnoyarsk - one just gets on a plane and goes."

While business is brisk, Murray O'Laoire encounters the same two problems as other Irish companies: bureaucracy – for example, every time an employee is going on holiday, a form must be filled out and registered with the authorities – and skills availability, which the company's tries to overcome by wooing employees with benefits such as healthcare, extra holidays, and a share of profits.

Calbhac has this parting advice: "The opportunities are fantastic. The scale at which Russians operate is large. There is a lot of bureaucracy. In certain areas of business, you need to form a joint-venture (JV) to do business. Finding the right local people is the key - when a business founders, it generally comes down to the relationship with the JV partner. M

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