CONSTRUCTION REPORT

2nd Qtr 2008

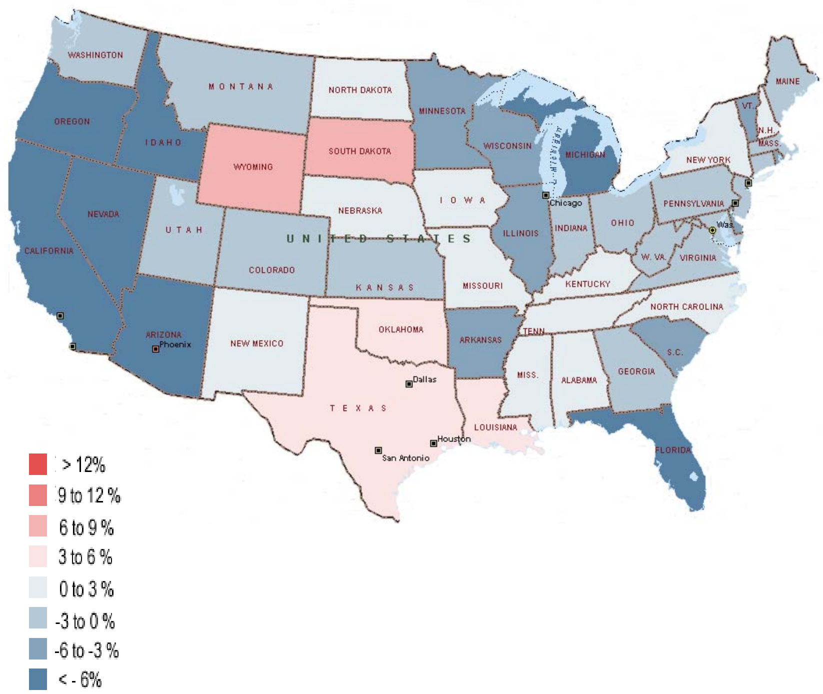
MARKET OVERVIEW

The trends that were evident in the first quarter of 2008 have continued almost unchanged through the second quarter of 2008. Construction markets have remained weak; in most regions the rate of decline has stabilized, but there are no signs of any broad-based recovery in construction activity. The market weakness is most pronounced in the residential and commercial sectors, and in the Southeast and Western states, areas which had seen the greatest growth in preceding years. Commodity prices, most particularly steel and oil, remained volatile, and prices for many raw materials are continuing to rise steadily.

The uncertainty in the broader economy also continues to disrupt the construction market. While there is some evidence of a minor easing of the liquidity crisis, with cash beginning to flow again and borrowing becoming slightly easier, widespread economic weakness remains a major challenge. Both in the public and private sectors, active projects are being delayed or canceled, and prospective projects put on hold, due to a combination of lack of project funding, and uncertainty over project revenues. Because the delays and cancellations are now occurring throughout the project lifespan, even during construction, project teams can not be as confident in secured work and backlogs. Contractors also face risks in funding, and could find themselves less able to bridge short term cash flow shortfalls.

The market is therefore faced with two countervailing trends which make construction escalation difficult to forecast with a high level of confidence. The fall in construction activity and demand for construction services creates excess capacity in the market, which in turn will usually lead to greater competition and falling prices. On the other hand, rapidly rising input costs place a significant strain on contractors. Not only do they have to accommodate sharp increases in cost, they also have to cover the uncertainty and risk of future cost increases. This puts a high degree of inflationary pressure into the market.

Rate of Change in Construction Employment June 2008



Taken together, these drivers create a very uncertain outlook for construction in the coming year. Each trend by itself is far stronger than has been experienced in the market before. The rate of decline in the markets has been both more rapid and larger than that in previous contractions, the material price volatility is significantly greater than in the past, and the depth of the liquidity trouble is unprecedented. As such, each could be expected to have a dramatic effect on construction costs; collectively they create the conditions for widely varying outcomes. In areas that had a relatively strong construction market in 2006 and 2007, it is likely that the deflationary effect of the downturn will be stronger than the inflationary effect of material volatility, and we will see flat or even falling prices for construction. In areas that had been struggling in past years, there is no excess capacity to cushion the downturn, and the material volatility is likely to lead to continuing cost escalation.

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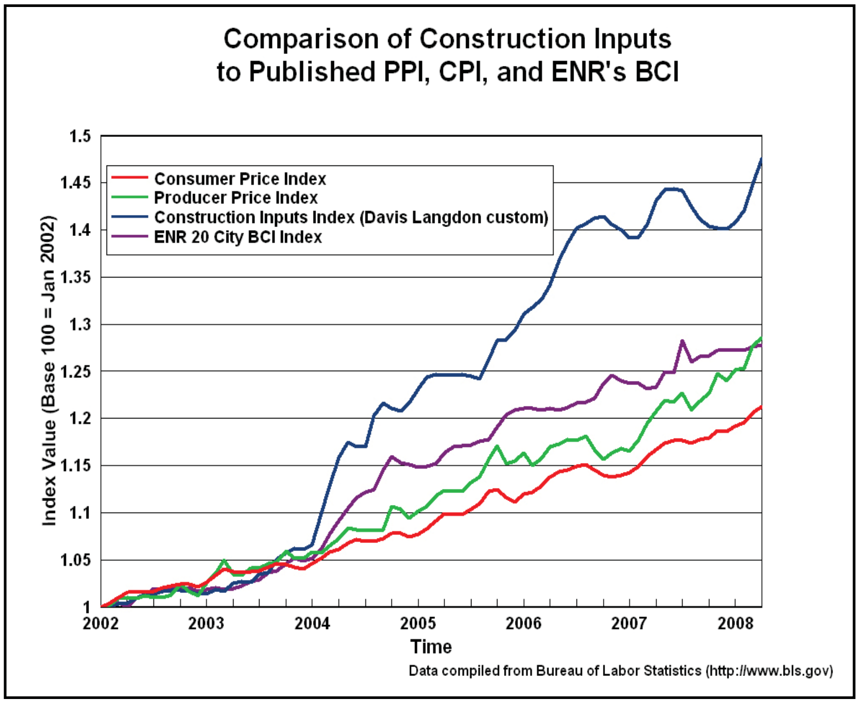

Mid- to long-term prospects

All of the current drivers look set to continue, at least for the next two to three years, and so the uncertainty of the volatility in both the markets and escalation is likely to continue for some time. The prospects for the construction economy remain poor. The broad economy is unlikely to recover quickly, and investors are likely to be wary of construction for some time. Public finances will take even longer to strengthen as revenues lag recovery. This means that demand is likely to be depressed for two to three years, if not longer. Material prices are likely to experience prolonged volatility, both due to global demand and, more troublingly, to the increased speculation in commodities as investors hunt for the next high return investment.

In addition, escalation has the potential to change rapidly in response to changes in the construction market and in the broader economy. The past five years have seen two dramatic changes in the cost of construction. The first of these, in 2004, was the rapid increase in construction escalation due both to the high level of domestic construction demand and changes in global commodity demand. The second came at the end of 2007, with the collapse of the residential construction market and the associated liquidity crisis brought on by the failure of the complex financial instruments behind the mortgages. In both cases the changes were in response to relatively small initial triggers, and neither were foreseen, at least in magnitude or timing. There is a strong possibility that such changes could occur again in the next few years, and escalation could change rapidly with little warning.

Overall, construction markets and escalation will experience a high degree of uncertainty and volatility. Escalation planning will be marked more by the need to manage the uncertainty than to accommodate the actual escalation rate, and projects will need to recognize that increased risk in the planning process. In many respects the construction market is entering entirely new territory, with factors and conditions that are unprecedented. Traditional responses to these new challenges are unlikely to be adequate.

Direct Costs - Material Prices

Material prices have trended steadily upwards since the beginning of the year. The larger increases have been seen in materials that are not exclusively construction related, such as steel, copper, oil based products, and fuel. For products that are more directly construction related, such as gypsum board and wood products, prices have remained relatively flat, or even fallen over the past six months. Volatility still remains a concern, with fluctuating prices creating challenges for contractors, and increasing their risk for both price and schedule.

The weakness in the US dollar makes global commodities more expensive in the domestic market. However, it also helps make US materials more attractive abroad, allowing growth in export markets to make up for weakness in domestic markets for material and commodity suppliers. While this is highly desirable for the manufacturing

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industries, it means that the material prices remain high for construction industries even in a falling economy.

In addition to concern over prices, material availability continues to be a serious problem in some regions. Structural steel availability has been the headline concern in this area, but many other materials are experiencing transient shortages. This effect, which is being seen nationwide, can have a significant impact on overall construction costs, both due to premiums paid to expedite materials, and to the costs of delay, extended overhead, liquidated damage risks, and added inflation.

Labor

Labor costs have grown steadily, but with relative stability in the past year, and this pattern is likely to continue for the coming year. Many contracts which were negotiated in the past one to two years are providing for increases in the coming years despite the weakening economy, and so there will be steady moderate pressure on labor costs. In states where union presence is less evident, the labor cost pressure is likely to be lower due to the increased pool of available workers. Labor unit costs are generally rising at around 4 to 5% per annum in most regions.

Labor availability should improve, particularly in the residential and smaller non-residential projects.

Overall Implications

Escalation planning will be very difficult for the next two to three years as escalation becomes more reactive to external factors and thus more unpredictable. Generally, escalation for a given project will be the result of the interplay of the competing factors.

For markets with limited range to absorb material and risk premiums, escalation is likely to remain high. These include markets with limited contractor pools, such as those for large, complex or specialized projects, or projects with limited bid invitations, and markets which have not grown strongly in prior years, such as those in the northeast and Great Lakes regions. These markets could see escalation in the 5 to 8% range.

For markets with residual excess capacity, the deflationary effect of falling demand is likely to be the prevailing driver. These include the hitherto strong regions such as the western and southeastern states, and the residential and small, simple non-residential sectors. These markets could experience flat or falling prices, with escalation running from extremes of -10 to -15%, to a more likely range of -3 to +3%.

Within both these pools, there will be aberrations as bidders seek to gauge the competition for any given project. This could lead to localized significant bid overages or savings on individual projects.

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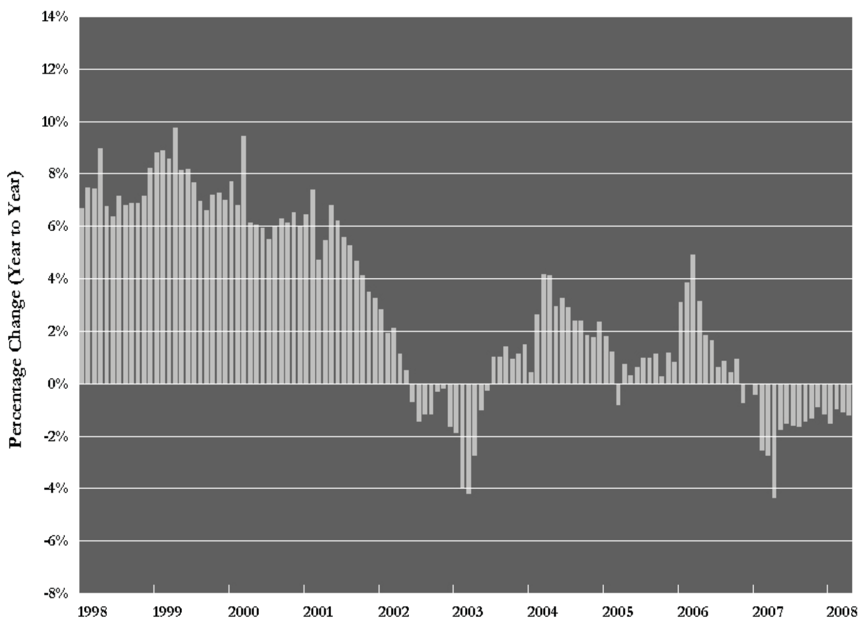
Region I Construction Employment Percent Change



Region I continues to experience a contraction in its construction market, and has now given back much of the growth of the past five years, with activity levels running close to the levels of 2003. None of the states are showing any sustained strength, as each drifts between 3 to 4% contraction and 1% growth.

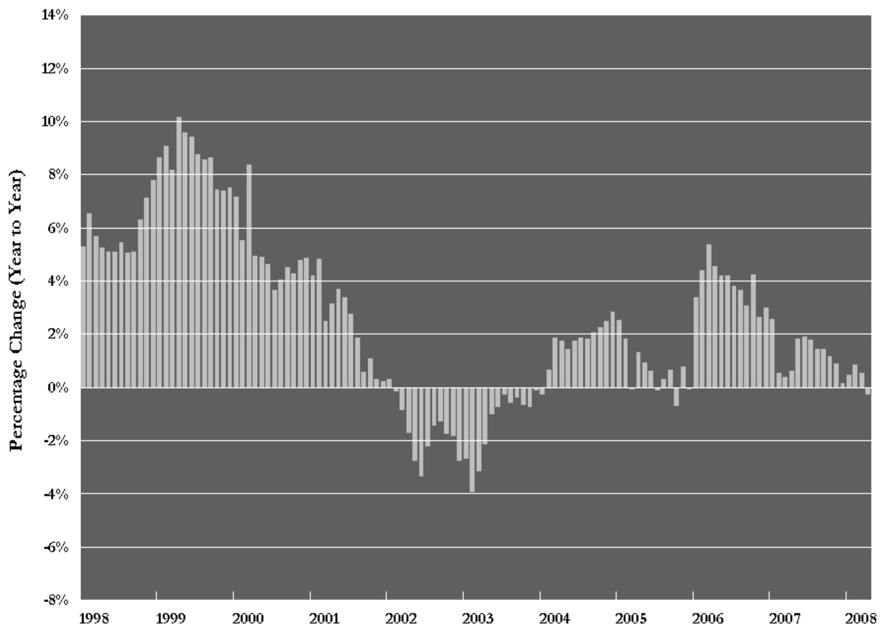
The overall economic picture in the region is generally poor. There is weak job growth and a limited prospect for continued demand for construction services, and there are no signs of a strong increase in demand in the near term.

Escalation in Region I is being driven primarily by cost push, since there is little slack capacity in the market to absorb increased material and risk pricing, the one exception possibly being Rhode Island.

Escalation for the twelve months to July 2009 is expected to run at around 4 - 7% in the region.

[1] Data in all graphs in this report are from US Bureau of Labor Statistics (http://www.bls.gov/)

Region II Construction Employment Percent Change



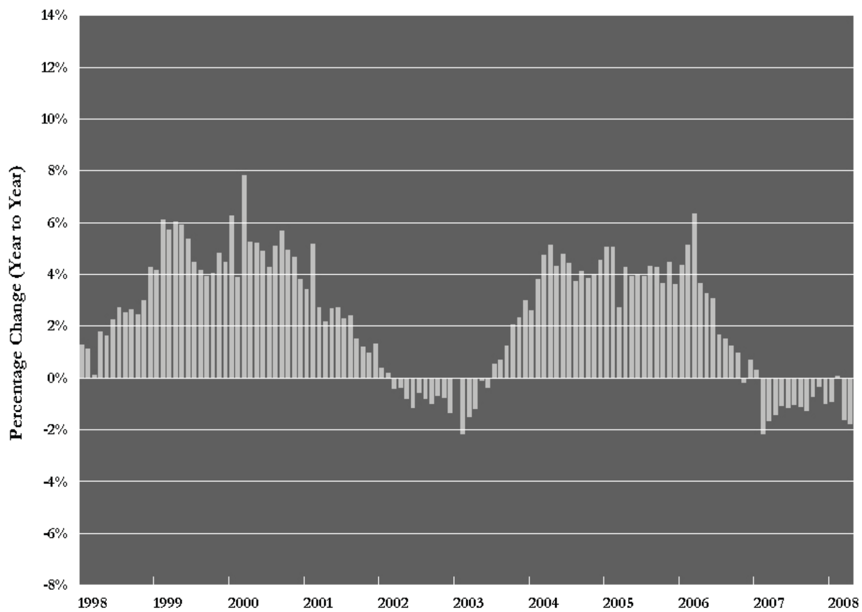
The construction market in Region II has finally entered negative territory following a steady decline in growth rate over the past two years. Most of this change has taken place in the state of New York, which had been growing moderately strongly, but has now fallen to almost zero growth. New Jersey has maintained a steady rate of decline at around 2% per annum.

Escalation in Region II is likely to be driven primarily by cost push, but for different reasons in different areas. The strength of demand in New York City, which has picked up dramatically in the past year, and the difficulty of bringing in contractors from outside the region, means that there is not much capacity for absorption of increased risk and material cost. For large projects in particular, there is significant concern over the ability to get sufficient participation from bidders to ensure responsive pricing.

In the other states and the upstate areas of New York, the effect is the same, but the lack of absorption capacity is the consequence of prolonged weakness in the market. New Jersey could see some capacity relief coming from the excess in the previously strong markets to the south.

Escalation for the twelve months to July 2009 is expected to run at around 6 - 8% in the New York City and urban New Jersey portions of the region, and 4 - 7% in the remainder of the region.

Region III Construction Employment Percent Change

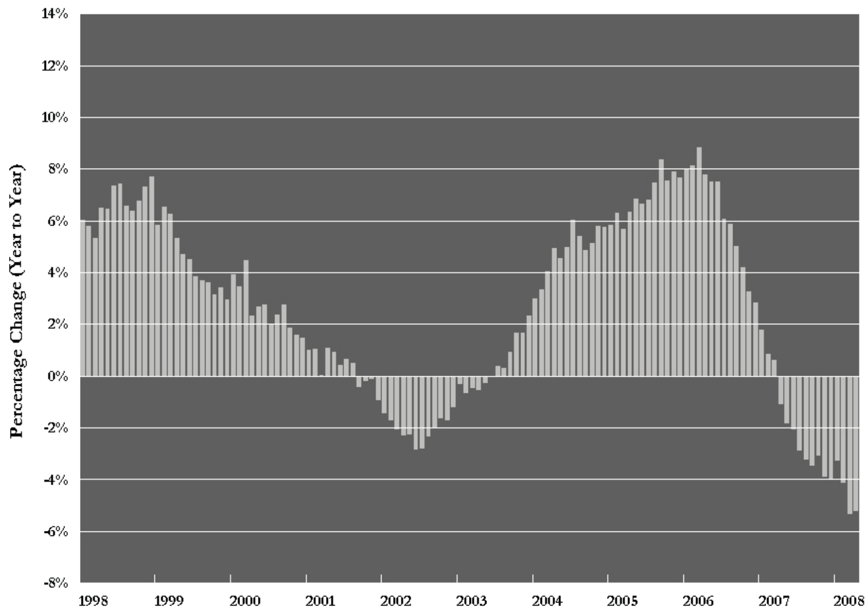


Construction activity in the region continues to slow, and the only portion with moderate strength is the District of Columbia, which is currently showing mild growth in the range of 1 to 2%. Overall, the region has shed some 25,000 construction workers over the past two years, which is creating some excess capacity within the regional market, creating some ability to absorb some of the material and risk premiums.

The overall economic picture in the region is relatively strong. There is likely to be steady job growth and reasonable prospects for continued long-term demand for construction services. There are several major construction projects planned for the region, which will continue the pressure on contractors for the next two years.

Escalation for the twelve months to July 2009 is expected to run at around 3 - 5% in the region.

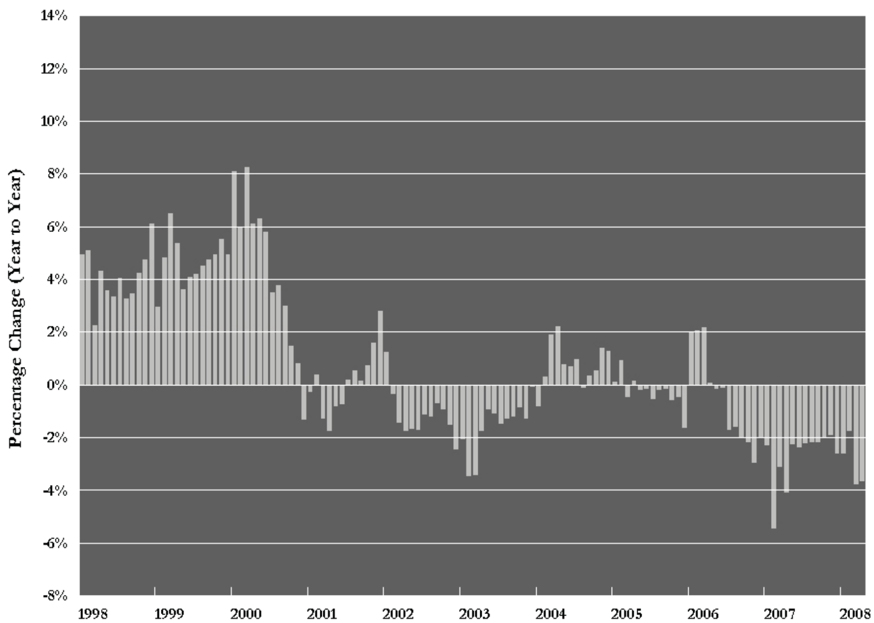
Region IV Construction Employment Percent Change



Region IV remains divided into three distinct markets. Florida is continuing to shrink sharply: annualized contraction in the region has now reached over 13%, and construction employment is now 125,000 workers lower than the peak two years ago, roughly equal to levels seen in 2004. Kentucky and Tennessee, on the other hand, are maintaining steady mild growth, while the remaining states are settled around neutral at plus or minus 2%. As such, escalation expectations are mixed. Florida is likely to have significant excess capacity, particularly in the residential and small scale non-residential markets. The other two sub-regions have not released excess capacity, and so will be experiencing more of the cost push escalation.

Escalation in the region for the twelve months to July 2009 is expected to run at around 4 - 7% in Alabama, Mississippi, Georgia and the Carolinas, possibly a point or two higher in Kentucky and Tennessee, and -2 to +2% in Florida, with the possibility of localized, significant bid overages in certain projects.

Region V Construction Employment Percent Change



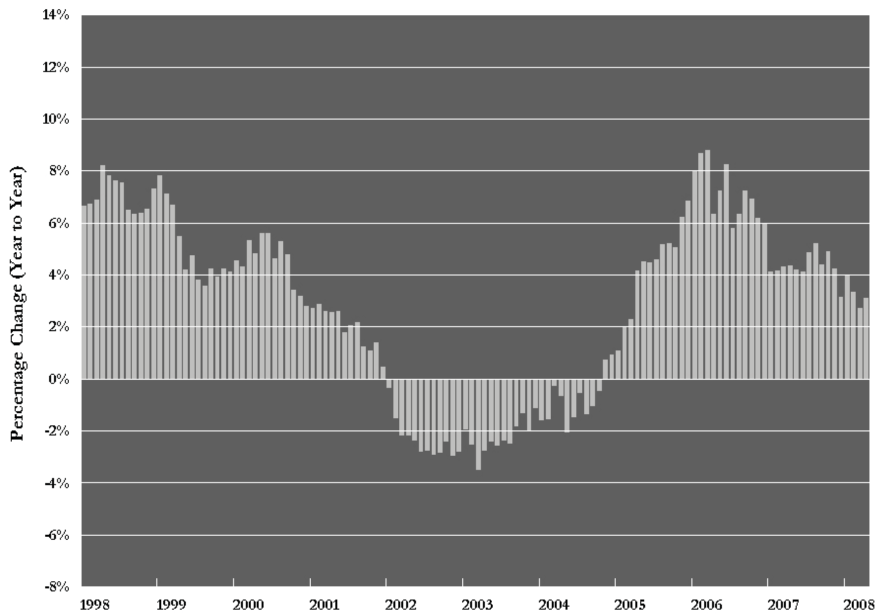
Region V is still the weakest overall construction market in the country. Employment levels have now fallen to the levels last seen in 1998, indicating no net change in construction employment over the past 10 years. For Michigan specifically, the picture is even bleaker, with construction employment some 40,000 workers less than it was 10 years ago.

The overall economies in the region are also quite weak, with low employment growth and low economic activity. There is little sign of a pick up in demand for construction in the region over the next two years.

Escalation in Region V is being driven primarily by cost push, since there is little slack capacity in the market to absorb increased material and risk pricing.

Escalation in the region for the twelve months to July 2009 is expected to run at around 4 - 7%.

Region VI Construction Employment Percent Change

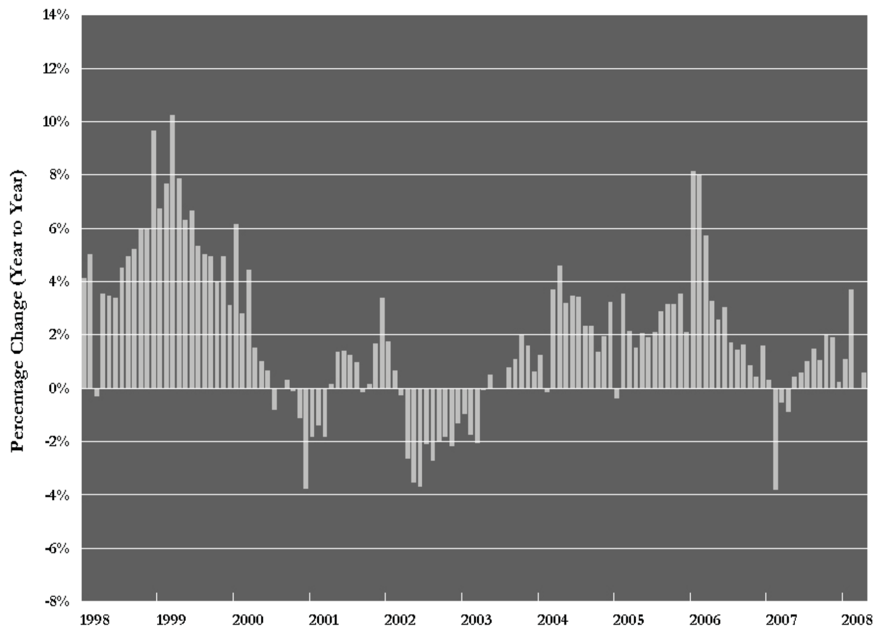


Region VI is one of only two regions currently showing growth in construction activity, and is actually the strongest region overall, with growth still running above 3%. The growth is fairly well distributed throughout the region, and has been relatively strong and sustained. New Mexico remains a weak state in the region with current employment identical to this time last year.

Escalation in the region is generally driven by cost push, since there is no market capacity to absorb the cost and risk premiums. New Mexico will have more capacity than the other states within the region, and escalation there is likely to be more moderate.

Escalation in the region for the twelve months to July 2009 is expected to run at around 4 - 8% in most of the area. In New Mexico, escalation will be in the range of 2 - 4%.

Region VII Construction Employment Percent Change

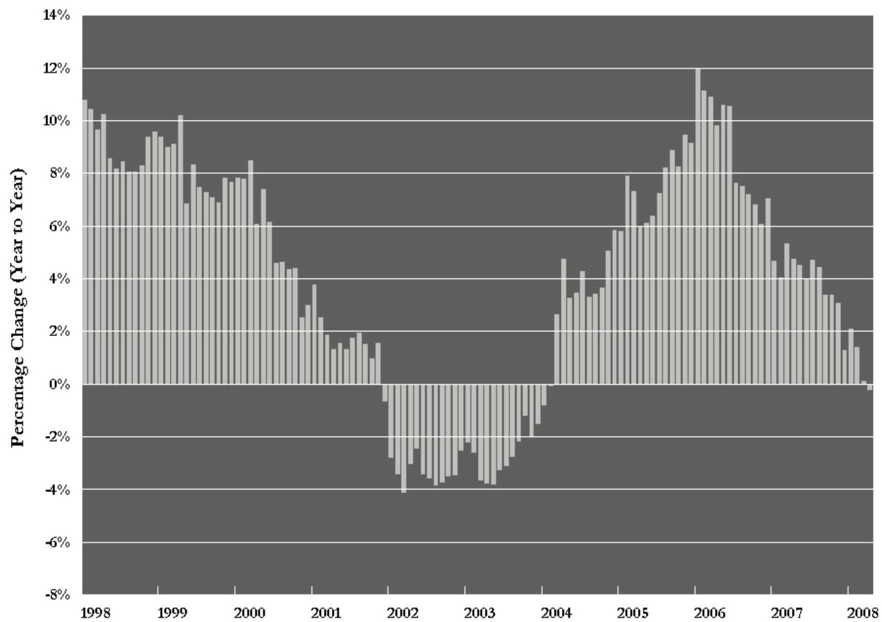


Region VII is the only other region showing overall positive growth, but the growth is relatively weak at less than 1%. The overall economic picture in the region is very uncertain following the severe flooding in Iowa and Missouri. While the flooding will create the need for extensive rebuilding, it is likely that this will be several years in coming in many of the communities. The experience of New Orleans following the hurricanes in 2005 would suggest that the region is likely to experience a high level of economic stress in the coming year, with the possibility of greater recovery in 2009.

Escalation in Region VII is being driven primarily by cost push, since there is little slack capacity in the market to absorb increased material and risk pricing.

Escalation in the region for the twelve months to July 2009 is expected to run at around 4 - 7%.

Region VIII Construction Employment Percent Change



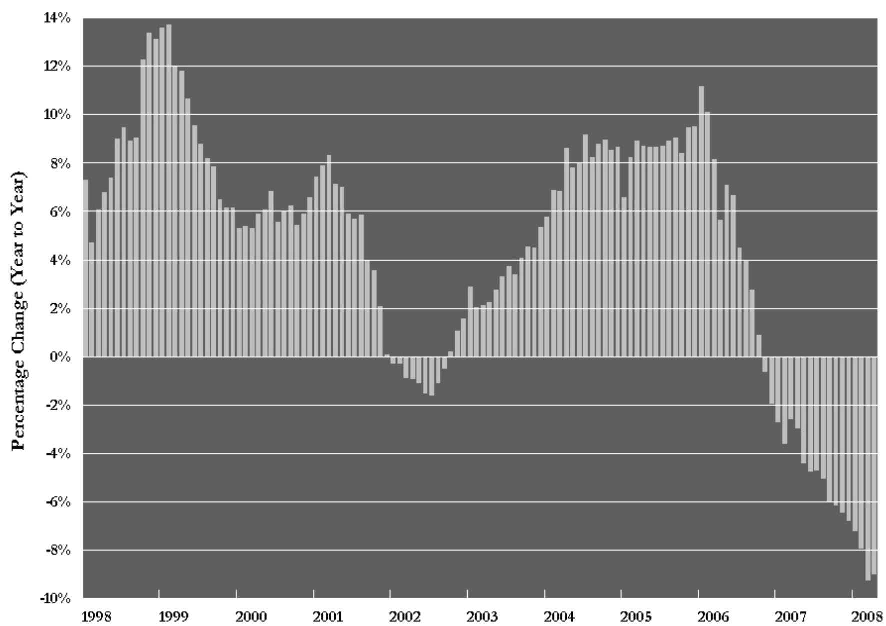
Region VIII has finally moved into negative territory, albeit a very minor contraction in the range of 0.25%. This is being driven by reductions in the two largest markets of Colorado and Utah, which account for almost three quarters of the employment in the region. The other states in the region, which make up the northern tier, are continuing to grow moderately strongly, at slightly over 7%.

This region includes the two strongest states in the country – South Dakota and Wyoming. They are, however, relatively small markets, together employing less than two thirds of the number of workers shed in Florida in the past year.

The overall economic outlook in the region is quite strong, and the long term prospect is that the region should continue to experience a high level of construction demand due to population growth.

Escalation in the region for the twelve months to July 2009 is expected to run at around 4 - 7% in Montana, the Dakotas and Wyoming, and at 2 - 4% in Colorado and Utah, with the possibility of localized, significant bid savings.

Region IX Construction Employment Percent Change



Escalation in the region for the twelve months to July 2009 is expected to run at around -2 to +2%, with the possibility of localized, significant bid overages in certain projects.

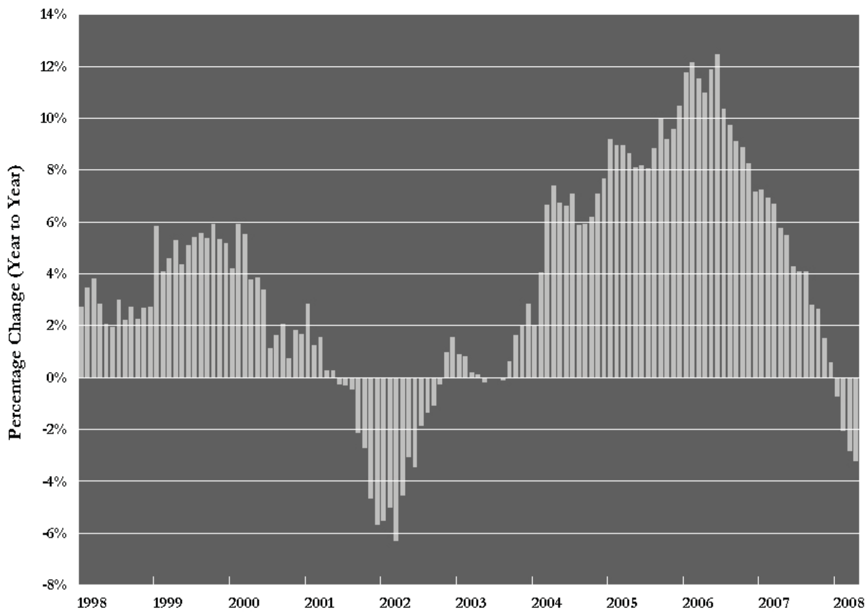
After years of being one of the strongest regions, Region IX has dropped to being the hardest hit. Unlike Region IV, where Florida's extreme weakness is offset by strength in other states, weakness in Region IX is widespread, and affecting all states except for the relatively small market of Hawaii. While the rate of decline is dramatic, and the total number of job losses over the past two years is over 150,000, the total employment picture has not yet fallen back to 2004 levels, reflecting the strength of the growth in the past few years.

Nevertheless, the sharp slowdown in activity has led to substantial excess capacity, particularly in the residential and smaller non-residential sectors, although most sectors have some excess capacity. This has led to some very competitive bidding, with large bid responses, and some very low bids, erasing much of the escalation in the past year. This is not universal, however, and some sectors are still quite highly constrained, most notably healthcare in California, which is facing both current work and the anticipated SB 1953 work required to meet the extended 2013 deadline for compliance.

The economic outlook for the region is mixed. In general the region has the potential for high construction demand to meet population, but state governments within the region are experiencing severe structural budget challenges, which could cloud economic growth for some time.

Escalation in Region IX is being strongly driven by the sudden drop in demand for construction services within the region, and excess capacity will serve to keep bidding competitive in most sectors for the coming year. There will be exceptions, however, and individual projects may experience higher than expected bids where bidders feel confident to increase their prices to capture the higher material and risk premiums.

Region X Construction Employment Percent Change



The rate of decline in construction activity in Region X has accelerated, and the market is now contracting at a rate of roughly 3% per annum. The overall contraction has been relatively small however, and the market is still stronger than it was two years ago. There will be moderate slack capacity in the market in this region, and there should be some offset to the increased material and risk premiums. Economic prospects in the region remain strong, and the region may be able to recover quite quickly from the current downturn.

Escalation in the region for the twelve months to July 2009 is expected to run at around 0 to 3%, with the possibility of localized, significant bid overages in certain projects.