TPF

RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q1 2019

Q1

RLB Rider Levett Bucknall

CONTENTS

The essential forecast for Tender Price Inflation, RLB UK's TPF Q1 2019 contains an economic overview of the UK, along with a regional tender price breakdown and commentary from our cost management experts.

ECONOMIC OVERVIEW

As yet, the shape and substance of the final outcome of Brexit remains unclear. The variety of possibilities still ranges all the way from crashing out of the EU into a WTO existence, through to finalisation of a form of agreement, through to a new Referendum and on to revocation of the Article 50 notice. All we know for sure is that no-one knows for sure.

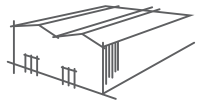
EU states' individual and collective positions regarding the Irish backstop appear not to have changed, which could be fundamental to any amendment of "the deal". While it is not impossible that a new settlement is attainable, time and opportunity march on and away, only exacerbating the ongoing uncertainty.

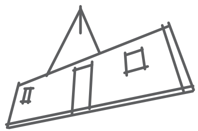
Although the political outcome remains shrouded in the uncertainty noted above, the practical realities of the most extreme of possible outcomes, a no-deal, run right through business and commerce in the UK. The construction industry has long been aware of the potential seriousness of a no-deal outcome, which position has been re-emphasised recently by the CBI and individual major business entities.

In a no-deal exit, there would be no transition period, the grace-period having fallen away together with any agreement, so the 60% of all imported construction materials that come from the EU could face tariffs and transportation barriers, as well as customs delays at the EU/UK border. Questions could immediately arise as to EU workers' rights not only to

TRENDS:

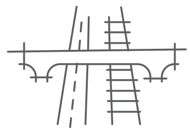
Increasing opportunity in the **industrial and logistics sector**





Increasing application of **modern methods of construction**

On-going opportunity in the **infrastructure sector**



work, but to even continue to live in the UK, as would those of their UK counterparts in Europe. Moreover, as some return to their home EU states, would there be any replacements?

Meantime, projects have long-since commenced on-site that have embedded within their costing structures, uncertainty as to continued availability of key materials, and issues as to labour rights. Where bidding contractors have sought to include "Brexit-effect escape clauses", these have been largely rebuffed by clients, which can only have resulted in the uncertainty being priced in to tender bids. While this may appear, to some, to be a knee-jerk response, to others it will seem to be a natural commercial response, and one which is necessary to avoid real commercial over-exposure.

Fundamentally, risk is priceable, whereas uncertainty is much less so, and in the current political environment, the uncertainty flowing from the lack of clarity needs to be dealt-with, as soon as is possible

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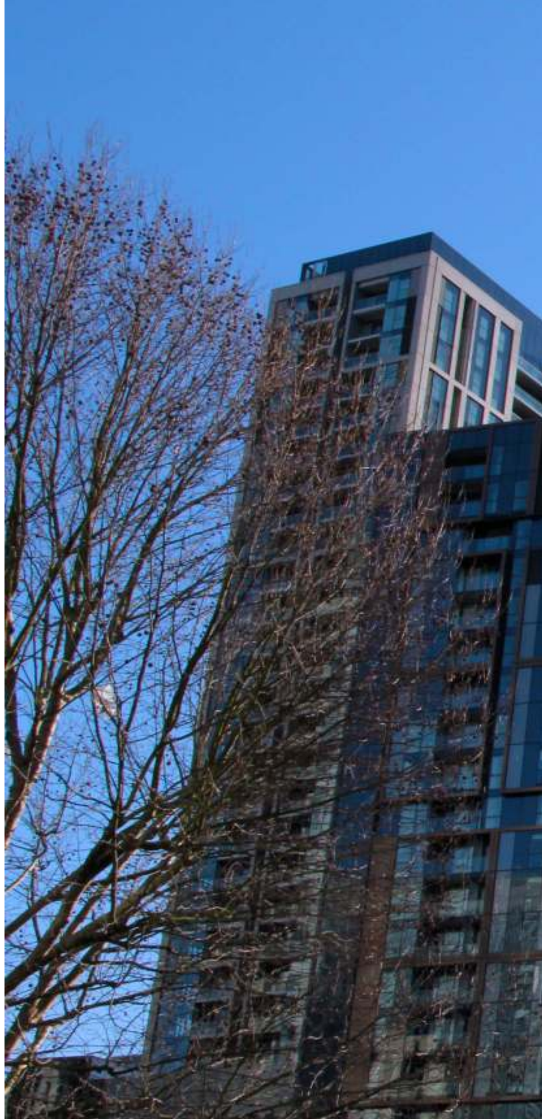

Harbour Central

LONDON, UK

RLB IS PROVIDING COST MANAGEMENT
AND EMPLOYER'S AGENT SERVICES

LONDON

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2018	2019	2020	2021	2022
RLB (London)	**Q1 2019**	**1.25**	**1.00**	**1.50**	**2.00**	**2.75**
Others - Upper range (London)	Q2 2018 - Q4 2018	2.50	2.80	3.50	4.00	5.00
Others - Lower range (London)	Q2 2018 - Q4 2018	1.00	0.50	1.00	1.50	2.00
BCIS (National)	Q1 2019	-2.80	3.80	3.90	6.40	6.30

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LONDON OVERVIEW

High volumes of workload continue across London and into the Greater London boroughs, although the prospect of political effects impinging on an already stressed market brings with it questions, relating to materials, skills shortage/labour costs and the impact on tender pricing and contractors' strategies. For once, all tiers of the industry face similar problems, as all must fish from the same pool of resources. One of the upshots to this problem is the fact that some projects are being placed on hold as banks consider their risk exposure.

Sectors

The London Construction Programme (LCP) £2 billion worth of works in London, is shortly to bring forward plans for a new delivery framework for major works. This will provide for project work in housing, education and leisure, as well as the historical and heritage sectors, together with related infrastructure.

Commercial - developers: The levels of opportunity for redevelopment and refurbishment in central London remain high although we have noted that a number of these opportunities are moved into a holding pattern awaiting any surety around a post Brexit London. We have noted an increase in interest from overseas investors in commercial offices, who may have only previously considered investment in residential projects.

Commercial – end user: There remains an under supply of great quality office space in central London that provides all of the amenity space, function and holistic performance expected by occupiers. The cut and carve market remains strong as long as project scope can accommodate increases in efficiency, the quality of space and an advantageous programme in comparison with redevelopment.

Residential: Although a total of £3.1bn was invested in 2018, up 33% from 2017, the for-sale residential sector has cooled in the last quarter. Rented house, student accommodation and hotels are all growing sectors still. As research suggests that rental demand will continue to expand by 200,000 households a year, investors have been diversifying and BTR (build to rent), as part of the PRS (private rented sector) will continue to gain market share.

Supply Chain

As the focus has been drawn to the outcome of Brexit, and the perception of related market-stresses, the Construction Products Association (CPA) has progressively downgraded projections of increased 2019 output, to the point of the current forecast barely being in positive territory. Moreover, imports of materials may be even more at risk in terms of cost and even availability, depending on the outcome of talks, and whatever agreement is reached.

Conclusion

Whilst a pause at this point would be understandable given the proximity of the UK's EU leaving date, there is little real evidence of consolidated slowdown. If anything, the opposite is true, which does, however, open the issue of contractual considerations should materials availability and/or labour availability become a concern post-Brexit.

BIRMINGHAM

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	**REPORTED**	**2018**	**2019**	**2020**	**2021**	**2022**
RLB (Birmingham)	**Q1 2019**	**2.50**	**2.25**	**3.25**	**4.00**	**4.00**
Others - Upper range (Birmingham)	Q3 2018 - Q4 2018	2.50	3.80	4.00	4.00	4.00
Others - Lower range (Birmingham)	Q3 2018 - Q4 2018	1.00	1.50	1.50	2.00	2.00
BCIS (National)	Q1 2019	-2.80	3.80	3.90	6.40	6.30

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BIRMINGHAM OVERVIEW

An impressive number of tower cranes currently grace the skyline of Birmingham. Current activity is buoyant. Pipeline projects in planning are strong, but with the Brexit can being kicked down the road, regional project starts are being stretched out. Meanwhile, the Birmingham Commonwealth Games and Coventry City of Culture are two fixed dates dictating project activity.

Sectors

The level of activity on Build-to-Rent projects continues to grow, with a seemingly strong investor appetite for the new asset class. Site assembly currently appears one of the few brakes on realisation of the enthusiasm.

The challenged retail sector will undoubtedly have an impact on city centre projects in Birmingham and across wider regional towns and cities. Proposals have already been announced for the re-purposing of Birmingham’s House of Fraser store.

Commercially, the industrial and logistics sector remains active, with a number of large new sites expected to come forward in the next couple of quarters. With a strong pipeline of new office schemes in construction, the secondary market and out of town locations are expected to be the next sub-sector growth areas.

Hotel projects are also expected to increase, with Birmingham hotels performing better than many regional cities but having lower quartile new openings forecast for 2019.

Supply Chain

Tier two contractors remain stretched in many trades. Tier ones may need to look beyond their established supply chains to meet demand; growth will be balanced against risk of supply chain expansion. Sustainable growth may not be able to be supported within existing chains.

Modern methods of construction have seen some increase in take up, but without significant impact on capacity.

Conclusion

Tender activity remains varied by sector and project size. A more competitive environment is faced by smaller to mid-sized regional businesses. The current activity levels of larger contractors and longer project durations results in any Brexit uncertainty having less of an impact on tender prices.

BRISTOL

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2018	2019	2020	2021	2022
RLB (Bristol)	**Q1 2019**	**3.00**	**3.00**	**3.00**	**3.00**	**NP**
Others - Upper range (Bristol)	Q3 2018 - Q4 2018	2.50	3.50	3.80	4.30	4.50
Others - Lower range (Bristol)	Q3 2018 - Q4 2018	0.50	1.00	1.00	1.00	1.50
BCIS (National)	Q1 2019	-2.80	3.80	3.90	6.40	6.30

NP: Not Published

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BRISTOL OVERVIEW

Bristol's strong pipeline of new work is continuing to work its way toward market and through the construction phase, with the result that levels of workload remain high, with more expected in the future

Sectors

University campus works at Temple Quarter are providing significant levels of workload across the spectrum of building types, together with some more major infrastructure works in preparation for the new centre. The ongoing Hinkley works packages, although they are not in themselves affecting specific areas of activity in the Bristol area, may now be impacting upon contractors and sub-contractors, and labour availability. Overall, the effect of this additional workload, in tandem with the commencement of works at Filton, is seeming to now be reflected in reasonable levels of tender price inflation, though tempered by other constraints surrounding larger political questions.

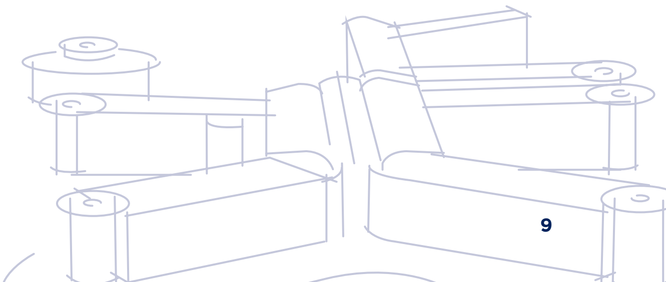
Supply Chain

The under-supply of qualified and experienced personnel noted in last quarter's TPF is an ongoing issue for the local market. Given the high volume of work available and the contractors' risk aversion stemming from the uncertain Brexit outcomes, normal expectation would be for something of a cost breakout. This would be especially likely in view of the significant input cost increases in respect of materials.

However, while the Tender Price Index forecasts for Bristol remain at a higher level than in some other key locations around the country, there is still a reluctance on the part of both contractors and sub-contractors to turn away work, as the continued availability of the pipeline of work for the future is not completely certain.

Conclusion

In overview, the construction industry in the region is operating at near to full capacity, across the whole spectrum of infrastructure and building, main contracting and trades sub-contracting. Although political constraints are keeping a lid on price escalation, input cost escalation may soon over-ride that constraint, particularly in the case of a favourable political outcome soon.



MANCHESTER

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2018	2019	2020	2021	2022
RLB (Manchester)	**Q1 2019**	**1.00**	**1.00**	**2.50**	**3.50**	**NP**
Others - Upper range (Manchester)	Q3 2018 - Q4 2018	2.50	4.00	4.30	5.30	5.30
Others - Lower range (Manchester)	Q3 2018 - Q4 2018	2.00	1.90	2.00	2.00	2.00
BCIS (National)	Q1 2019	-2.80	3.80	3.90	6.40	6.30

NP: Not Published

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MANCHESTER OVERVIEW

Manchester's Northern Powerhouse status continues to drive the region's development, and the key theme is that of continued high levels of building and construction activity.

Sectors

The high volumes of new-build works continue to be matched by correspondingly high levels of repair and maintenance work, which has resulted in a construction economy operating at near to capacity and in some respects, in excess of capacity. A feature facet of this is the current high level of output of residential accommodation, the construction of which is fundamentally more labour-intensive than work in some other sectors. However, running alongside is the equally buoyant higher education sector, which is growing, and building, rapidly both in Manchester and the surrounding area.

Supply Chain

Whilst high workload levels are to be commended, there is also a danger of significant cost inflation as contractors' order books reach or breach their capacity levels. Perhaps offsetting this, or certainly damping it, may be the uncertainty of the current political position, to the extent that reasonably priced turnover is to be preferred to the possible alternative should the pipeline dry up later in the year. On the other hand, we are not seeing evidence of "panic-buying" of work on the part of contractors, merely reasonable pricing in the context of the continuing uncertain outcomes. The price spikes that we had anticipated might arise have not eventuated yet, although we continue to monitor the situation carefully.

Conclusions

Although we see a continuing theme of high levels of workload in and around Manchester, there is no cost blow-out at present. Tender Price inflation is within expected bounds, and we anticipate that this situation will continue. Contractors' and sub-contractors' margins are remaining tight, given the availability of workload, likely due to significant materials and labour costs increases set against that backcloth and considering the continued uncertainty.

YORKSHIRE AND HUMBER

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2018	2019	2020	2021	2022
RLB (Sheffield)	**Q1 2019**	**1.20**	**3.75**	**4.25**	**5.60**	**5.60**
RLB (Leeds)	**Q1 2019**	**1.60**	**4.15**	**4.70**	**6.15**	**6.05**
Others - Upper range (Sheffield and Leeds)	Q3 2018 - Q4 2018	3.00	4.00	5.00	5.00	3.90
Others - Lower range (Sheffield and Leeds)	Q3 2018 - Q4 2018	1.00	1.00	1.00	1.00	1.00
BCIS (National)	Q1 2019	-2.80	3.80	3.90	6.40	6.30

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YORKSHIRE AND HUMBER OVERVIEW

Yorkshire and Humber's construction workloads continue to grow in the infrastructure, private and public housing sectors, whereas the private commercial and industrial sectors fell from Q3-2018. Furthermore, there is the possibility of applying 'Supercharged Free Port Status' to Immingham, Hull & Humberside to help boost international trade and alleviate rising input costs of materials, due to goods escaping import and other duties as they arrive or depart. The supercharging component would arise from alignment with Enterprise Zones within the region.

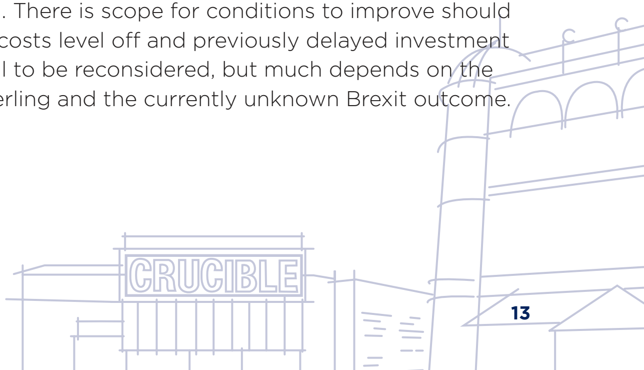
Supply Chain

Contractors are becoming less bullish about prospects as a result of funding uncertainty around the Brexit issue. However, contractor responses are still largely positive, with the average rate of price growth forecast to be 3.75%, 4.25% and 5.60% in 2019, 2020 and 2021 respectively. Contractors are reporting that the cost of a representative basket of construction materials will rise by more than 5% over the next 12 months, with Sterling's weakness playing a major factor in raising the cost of imported construction materials and components.

Similarly, labour shortages continue to nudge up wages and salary costs, with contractors expecting them to rise some 4.5% in the next year. Carpenters and bricklayers are the tradespeople forecast to see the highest wage increases, escalating by 4.8% over the coming 12 months. Contractors have been hit by a combination of falling demand and rising input costs, while increased competition among bidders has forced many to absorb a high degree of labour and materials cost inflation, resulting in much lower profit margins right across the supply chain. It is worth noting that the forecast tender price increases are underpinned by rising materials and input costs and do not currently indicate improving levels of tender opportunities.

Conclusion

In summary, Yorkshire and Humber workloads continue to grow in the infrastructure, private and public housing sectors, despite challenging market conditions. Contractors are referencing a drop in overall tender activity in addition to rising input costs as being the key challenges. The private commercial and industrial sectors' levels of activity have declined over the last two quarters due to a lack of funding confidence amid the uncertain outcomes after the Referendum. There is scope for conditions to improve should rising input costs level off and previously delayed investment decisions fall to be reconsidered, but much depends on the status of Sterling and the currently unknown Brexit outcome.



THAMES VALLEY

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2018	2019	2020	2021	2022
RLB (Thames Valley)	**Q1 2019**	**2.00**	**1.50**	**2.50**	**2.50**	**3.00**
Others - Upper range (Thames Valley)	Q3 2018 - Q4 2018	2.10	3.50	4.00	5.50	5.50
Others - Lower range (Thames Valley)	Q3 2018 - Q4 2018	0.50	0.50	0.50	1.00	1.50
BCIS (National)	Q1 2019	-2.80	3.80	3.90	6.40	6.30

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THAMES VALLEY OVERVIEW

In Thames Valley, market sentiment remains positive, and fresh enquiries and new developments continue across various sectors, most notably commercial, residential and higher education.

However, concerns around the outcome of Brexit are particularly pressing in this region, given the number of businesses' European HQ premises located in the region, and are still casting a shadow over the market to some extent.

Sectors

Regional and nationally significant infrastructure projects remain a key component of the local market, and of course include improved transport links across the region. Locations such as Reading seem to be continuing to benefit in terms of general demand, with evidence of companies' relocation.

Foreign investment has recently been another feature of the regional market, but there may yet be an adverse impact of Brexit on this workload source.

More generally, business parks continue to show high occupation rates, which has resulted in a number having brought forward expansion plans, regardless of uncertainties further afield. Likewise, the continuing localised regeneration of towns within the region is providing a steady source of workload across the spread of sectors and across the range of project sizes. The Government's Permitted Development Rights (PDR) scheme is also continuing to serve the demand for residential development in the area, via access to formerly commercial sites.

Notwithstanding the above, there is some evidence of sluggishness in some sub-sectors of the residential market, which could most likely be ascribed to broad-based concern as to the future of the local economy, resulting in reluctance to commit to borrowing.

Conclusion

In summary, the region is continuing to perform well. Though set against the background of some uncertainty, workload remains high, benefitting from the spin-off of the larger infrastructure projects and their impact on workload volumes. The broad spectrum of building workload across the region is providing something for everyone in terms of project size and type, with the expectation of continued reasonable levels of buoyancy going forward. Tender price movement expectations are in line with our forecasts last quarter, although questions remain to be answered around the potential for additional materials and possibly labour costs hikes as we look to the period beyond the end of March 2019.

ABOUT RIDER LEVETT BUCKNALL

Fresh perspective

We are a global independent construction, property and management consultancy. We bring a fresh perspective combining technical expertise and technology to deliver service excellence.

Flawless execution

We offer a range of complementary cost consultancy, project management, building surveying and H&S, and advisory services from conception, through design and construction and operational performance of facilities to their eventual disposal or reuse.

We are committed to developing new services and techniques aimed at enhancing our clients' businesses in the long term.

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Our clients have rapid access to the latest industry intelligence and innovations, which serve to enhance value and mitigate risk.

We provide expert management of the relationship between value, time and cost from inception to completion. We do this through our global and local team of experts, who possess a passion for both core services and innovation.

Our services:

- Cost Management
- Project Management
- Programme Management
- Building Surveying
- Health & Safety
- Specification Consultancy
- Design Management
- Strategic Facility Management
- Sustainability
- Contract Advisory

Independent, privately owned and managed

£260 Million
Global turnover

4,500
staff worldwide

£70 Million
UK turnover

123
Offices worldwide

650
UK Staff

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