TPF

# RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q1 2020

Q1

RLB Rider Levett Bucknall

# CONTENTS



The essential forecast for Tender Price Inflation, RLB UK's quarterly Tender Price Forecast provides regional tender price breakdowns and commentary from our cost management experts.

# ECONOMIC OVERVIEW

Rider Levett Bucknall

Having passed the point of no return on 31 January, Brexit is now a reality. However, that is not to say that there is no ongoing uncertainty. The new deadline date for sign off of an extension to the transition period is 1 July. Assuming there is no extension, 31 December 2020 will see the end of the transition to the UK no longer being a member of the EU.

Between now and the final quarter of 2020, negotiating teams from both the UK and the EU will be working to craft a deal acceptable to all. The unique circumstances of negotiating the UK's leaving will certainly raise challenges.

Not least of these challenges will be the after-Brexit position on skilled and unskilled labour entering, living in and working in the UK. Already, as can be seen from our regional commentaries, we are seeing a reduction in the number of tradespeople moving to the UK from Europe, and we are likely to see further falls. The Government is racing to produce an immigration programme that facilitates, in part, the construction industry's access to skilled trades, yet the ongoing problem of shortages underpins the contradiction in policy. Regardless of the eventual policy outcome, it is hard to see how the existing shortfalls can be alleviated by further restricting the supply.

## KEY ISSUES:

EU **negotiations**

Project **cost increases**

**Transition** period

Infrastructure **spending commitments**

**Immigration** programme

From the standpoint of materials, our analyses note that input costs are exceeding tender price uplifts. This is due to the impact of stalling or deferring of projects due to clients' perceptions of market and economic uncertainty. Costs are increasing but, in many regions, opportunities to tender are relatively fewer, the result being a squeeze on contractors from both ends of the tendering process. Where previously contractors could expect buying gain on their subcontractors' work once a project win had been secured, the very squeeze that has affected main contractors has also impacted on subcontractors.

Meanwhile, recognising the need to break the cycle of growing north-south wealth divide, the Government has sought to make good on manifesto promises of historically high levels of public spending on major infrastructure projects. However, these changes take time to bring to market.

If a significant amount of public sector workload does find its way to market quickly, there is the prospect of creating a pre-Brexit-post-Brexit bubble. This excess workload in an already workload-heavy, margin-light market could result in a cost-driven inflation spike resulting from labour and materials cost increases.

While there is a long way to go, the political and economic outcomes of the next year's activities will shape the UK's economy and development for long after it has left the EU.


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# LONDON

## TENDER PRICE FORECAST UPLIFT PERCENTAGES

| | | % | | | |
|---|---|---|---|---|---|
| SOURCE | REPORTED | 2020 | 2021 | 2022 | 2023 |
| **RLB (London)** | **Q1 2020** | **1.50** | **2.00** | **2.75** | **2.75** |
| Others - Upper range (London) | Q1 2020 | 3.00 | 5.00 | 5.00 | 4.30 |
| Others - Lower range (London) | Q1 2020 | 1.00 | 1.50 | 1.50 | 3.00 |
| BCIS (National) | Q1 2020 | 0.30 | 4.50 | 5.50 | 6.60 |

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# LONDON OVERVIEW

There is a feeling of positivity post General Election and Brexit, with a definite 'Boris bounce' in confidence in the first quarter of this year. The overall sentiment is that this will translate into more investment within London and a more buoyant market come 2021 and beyond to 2025.

However, uncertainty remains in the marketplace, with UK trading deals still to be finalised with the European Union and the Chinese market still ambiguous. Therefore, the forecast from the RLB London office is of a relatively flat tender price uplift for the year.

## Sectors

The commercial sector in London continues to be constrained by there being insufficient good quality office space to meet current occupancy trends. There is a continued growth in demand resulting in the sector progressing at pace. The commercial fit-out sector remains buoyant, with end user clients investing in improving and renovating their offices, with employee wellbeing remaining front of mind. Residential developers who had previously moved out of the capital are now looking for space back in the centre and its surroundings. When combined with the investment that is now beginning to come back to the housing market, there is a feeling of a residential uplift that might start having an impact by 2021.

With the Government looking to deliver on its promise of a cash influx into health and infrastructure, those involved in these sectors are rallying their teams, awaiting budgets to be confirmed on paused individual projects, and green lights for new developments and improvements.

The industrial sector continues to boom in its own development bubble, driven by online activity, data and the never-ending demand of consumers for technology and online retail. This looks unlikely to change in this quarter, or across the year. The challenge here is how to repurpose space in town centres to be able to fulfil last mile distribution and deliveries.

## Supply Chain

As noted in RLB's recent Supply Chain roundtable event, glimmers of hope are already being seen in the supply chain, with those at the beginning of the chain, such as demolition companies, seeing an uplift in Q4 2019 that is already resulting in orders in the first quarter of this year. This was echoed across the chain with brickwork, cabling and fit-out suppliers and contractors expressing positivity for the year ahead.

## Conclusion

Although there is still some hesitancy and caution, the general feeling is that the construction industry is at last moving in a positive, upward direction with the lid of the pressure cooker having been now released, freeing up confidence and investment in the London market across the majority of sectors.

# BIRMINGHAM

## TENDER PRICE FORECAST UPLIFT PERCENTAGES

| | | % | | | |
|---|---|---|---|---|---|
| SOURCE | REPORTED | 2020 | 2021 | 2022 | 2023 |
| **RLB (Birmingham)** | **Q1 2020** | **3.25** | **4.00** | **4.00** | **3.00** |
| Others - Upper range (Birmingham) | Q1 2020 | 4.00 | 5.00 | 5.00 | 4.00 |
| Others - Lower range (Birmingham) | Q1 2020 | 2.00 | 1.50 | 1.50 | 3.00 |
| BCIS (National) | Q1 2020 | 0.30 | 4.50 | 5.50 | 6.60 |

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# BIRMINGHAM OVERVIEW

Rider Levett Bucknall

The wider economic outlook is now key to the next 12 months of construction activity. The main question is whether residual Brexit uncertainty will continue to suppress any rebound of stalled projects. While the new Government has a decisive working majority to permit it to take forward its ambitious plans, there are wider geopolitical and economic issues with which to contend. And, on top of this, upcoming Brexit negotiations are becoming a reality.

## Sectors

Birmingham's residential Build-to-Rent (BTR) and Purpose Built Student Accommodation (PBSA) sub-sectors remain buoyant. The number of planning applications has remained strong. Elsewhere in the market, evidence of movement towards commercial refurbishment projects continues to gain traction. While a number of hotel completions/openings are expected in the first half of the year, city and town centre retail regeneration/re-use projects are moving through planning stages, towards project starts. However, larger schemes are some way off from being brought to market.

Larger main contractors appear to have reasonable order books, although the limited contractor pool is resulting in a two-tier market opening up, with more intense competition at smaller project values.

## Supply Chain

Skills shortages remain variable by trade. Overall, labour availability remains reasonable, but some trades (e.g. brickwork and drylining) are prone to greater transience and cost pressures, resulting in overall input cost inflation. With tender prices subdued and input costs rising, there is evidence of increased diligence in sourcing risk to mitigate exposure. There is evidence that specification and design considerations can have an impact not only on input costs, but also on the risk allocations made by tendering contractors. Therefore, good design and a well-developed pre-tender sourcing strategy need to be considered in early cost and procurement discussions.

## Conclusion

Overall, input costs are rising faster than tender prices. As a result, input cost changes are expected to have a relatively quick and direct translation to tender prices. This could result in an erratic period in respect of tender price levels. Our key concerns over contractor and subcontractor solvency remain. The tightening insurance market has given rise to increased supervision of design and production by main contractors, a trend that is expected at all levels in the industry with insurers, funders and buyers all wishing to see evidence of good practice, supervision and management. Preliminaries cut to the bone are never a good way to win work.

# BRISTOL

## TENDER PRICE FORECAST UPLIFT PERCENTAGES

| | | % | | | |
|---|---|---|---|---|---|
| SOURCE | REPORTED | 2020 | 2021 | 2022 | 2023 |
| **RLB (Bristol)** | **Q1 2020** | **2.60** | **3.20** | **3.80** | **NP** |
| Others - Upper range (Bristol) | Q1 2020 | 4.50 | 5.00 | 5.00 | 4.00 |
| Others - Lower range (Bristol) | Q1 2020 | 1.50 | 1.50 | 1.50 | 3.40 |
| BCIS (National) | Q1 2020 | 0.30 | 4.50 | 5.50 | 6.60 |

NP: Not Published

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# BRISTOL OVERVIEW

Ongoing competitive pricing of tenders and projects has led to continued pressure on margins, leaving minimal risk capacity for contractors. Main contractors continue to be squeezed between clients and subcontractors, seeking to maintain acceptable levels of margins, while subcontractor pricing is rising.

Subcontractor availability is also an issue. The current high levels of available subcontractor workload and correspondingly high rates, mean subcontractors have little need to expose themselves to any perceived risk. The result, from a main contractor's perspective, is that there is little opportunity to gain any buying premium at trades level.

The market, from a client's perspective and in respect of funding, has livened up, given the deferral of any Brexit crisis.

## Sectors

Residential projects continue to provide significant workload, reflecting high accommodation price levels and the general pull of Bristol. Universities remain at the forefront, with the high demand for places giving rise to high levels of student fee income, providing both the funding for developments and the need for expansion. In the public sector, social housing provision is being driven by continued under-supply, and also by the mayor of Bristol City Council's targets. Retail projects continue to face a downward trend given changing consumer preferences as to shopping behaviours.

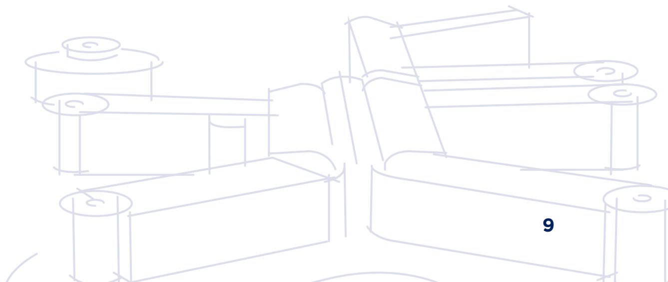
## Supply Chain

Overall, there appears to be enough labour to resource schemes, but at the right rates and conditions. As materials costs continue to increase, contractors are choosing to source more locally, given the continued Brexit uncertainty. Payment for materials offsite is now becoming more of a consideration, in order to guarantee availability and delivery. This comes with risks, however, and has introduced another facet of concern into the mix.

Commercial pressure appears to be weighted more on the shoulders of the main contractors, subcontractors seeming to have more leeway in their pricing and tendering. Consequently, consistent and well-managed cashflow is essential for main contractors.

## Conclusion

Tender prices seem constant and competitive, with input costs outpacing them. Subcontractor workload remains strong – hence the pressure on main contractors, and the need for absorption of that pressure in order to win work.



# MANCHESTER & LIVERPOOL

## TENDER PRICE FORECAST UPLIFT PERCENTAGES

| | | % | | | |
|---|---|---|---|---|---|
| SOURCE | REPORTED | 2020 | 2021 | 2022 | 2023 |
| **RLB (Manchester)** | **Q1 2020** | **2.50** | **3.50** | **3.50** | **3.50** |
| **RLB (Liverpool)** | **Q1 2020** | **2.50** | **3.50** | **NP** | **NP** |
| Others - Upper range (North West) | Q1 2020 | 4.50 | 4.50 | 4.50 | 3.50 |
| Others - Lower range (North West) | Q1 2020 | 1.50 | 1.50 | 1.50 | 3.00 |
| BCIS (National) | Q1 2020 | 0.30 | 4.50 | 5.50 | 6.60 |

NP: Not Published

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# MANCHESTER & LIVERPOOL OVERVIEW

The main impact in the NW region in Q1 is the effect on the supply chain, as contractors continue to be able to pick and choose their workload due to the high demand and low supply in the region. This has been additionally affected by contractor failures with both Manchester-based Bardsley and Cheshire-based Pochins recently ceasing trading and having had administrators appointed. This busy trend is likely to continue this year as we see increased activity in the regional market following Brexit.

## Sectors

The residential sector remains very active in Manchester and Salford with over 12,000 units and 2 million $ft^2$ of new commercial office space under construction. The hotel sector is also buoyant, with nearly 2,500 beds under construction. As supply comes on-stream, the residential sector in Manchester will start to tail off and the City will look to an increase of commercial developments to create a more balanced offer. Manchester's city centre continues to be a hot spot of development with the City expanding daily. However, Liverpool is also seeing an increase in activity, particularly in the residential sector, as well as some major town centre redevelopment schemes on the horizon (e.g. Bolton), that will increase strain on the supply chain.

## Supply Chain

Overall, Manchester is a very tight market, but subcontractors remain busy. Materials costs and their effect on tendering are relatively stable but evidence shows that availability is the key issue when it comes to tendering. This will eventually feed into prices. This has become a very buoyant market and the biggest risk to the supply chain is around contractors' solvency.

## Conclusion

Overall, tender prices are competitive for the prime projects but are still increasing as contractors minimise pricing risk. Our key concerns currently lie in listing contractors to price more complex projects and in supply chain constraints, both of which tend to compress the market and drive up prices.

With new Government spending commitments in the North, there is a positive feeling that construction activity is likely to increase, predominantly in the health and infrastructure sectors. The increased activity, however, may place a strain on the local market.

# YORKSHIRE & HUMBER

## TENDER PRICE FORECAST UPLIFT PERCENTAGES

| | | % | | | |
|---|---|---|---|---|---|
| SOURCE | REPORTED | 2020 | 2021 | 2022 | 2023 |
| **RLB (Sheffield)** | **Q1 2020** | **2.60** | **3.00** | **3.60** | **3.60** |
| **RLB (Leeds)** | **Q1 2020** | **2.80** | **3.20** | **3.80** | **3.80** |
| Others - Upper range (Sheffield and Leeds) | Q1 2020 | 4.00 | 5.00 | 5.00 | 3.80 |
| Others - Lower range (Sheffield and Leeds) | Q1 2020 | 1.00 | 1.50 | 2.00 | 2.50 |
| BCIS (National) | Q1 2020 | 0.30 | 4.50 | 5.50 | 6.60 |

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# YORKSHIRE & HUMBER OVERVIEW

RLB Rider Levett Bucknall

As Brexit continues to be front-of-mind across the construction sector, it looks as though the fog won't lift until we're well into this year. Contractors will hope to see evidence of the large-scale projects pledged in manifestos becoming reality. Only recently, West Yorkshire-based Sanderson Contracts and Scunthorpe-based Clugston Construction both ceased trading and had administrators appointed, due to difficult conditions arising from projects being postponed or cancelled.

It is hoped that projects such as HS2, Leicester Hospitals Development, and the Infrastructure Improvement Strategy do actually move ahead.

## Sectors

The Yorkshire region's activity across different sectors is currently mixed, with a number of industrial projects continuing, such as Unit North East at a value of £90m. Infrastructure remains active, with ongoing work improving transportation links. Development of student accommodation across Sheffield is also continuing. Meanwhile, the retail and leisure sectors face the challenge of reduced levels of investment from some large hotel and pub chains.

## Supply Chain

According to the Federation of Master Builders, 68% of construction SMEs are struggling to hire bricklayers and 63% are having difficulty finding carpenters and joiners, the highest figures since records began in 2008. Firms reporting problems in recruiting plumbers and electricians stand at 48%, plasterers 46% and floorers 30%, that are also record highs*.

## Conclusion

Main contractor tender prices are rising, due to higher input costs of materials price increases, but more significantly due to skilled labour shortages. Buoyant economies in central Europe are attracting labour such as bricklayers and joiners who would formerly have been lured to the UK. While the Government has set itself an ambitious target to build 300,000 homes every year in England alone, this begs the question as to who will build these new homes and associated infrastructure.

With the end of the Brexit transition phase looming, we need to take account of the worsening construction skills shortages. The immigration system that replaces free movement of people will have to accommodate the particular needs of key sectors, such as construction and house building. Without skilled labour from the EU, the skills shortages we face would be considerably worse, and it is not in anyone's best interests to pull the rug out from under the sector by introducing an inflexible and unresponsive immigration system.

*https://www.fmb.org.uk/about-the-fmb/newsroom/two-thirds-of-construction-bosses-can-t-find-a-bricky-or-chippy/

# THAMES VALLEY

## TENDER PRICE FORECAST UPLIFT PERCENTAGES

| | | % | | | |
|---|---|---|---|---|---|
| SOURCE | REPORTED | 2020 | 2021 | 2022 | 2023 |
| **RLB (Thames Valley)** | **Q1 2020** | **1.50** | **2.25** | **2.50** | **2.75** |
| Others - Upper range (Thames Valley) | Q1 2020 | 3.00 | 5.00 | 5.00 | 3.50 |
| Others - Lower range (Thames Valley) | Q1 2020 | 1.00 | 1.50 | 1.50 | 3.00 |
| BCIS (National) | Q1 2020 | 0.30 | 4.50 | 5.50 | 6.60 |

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# THAMES VALLEY OVERVIEW

The Thames Valley market retained a generally positive outlook throughout 2019, though slightly subdued towards the latter part of the year, as was the case across the country, given the ongoing political and macro-economic uncertainty.

This was particularly evident in the commercial, residential, retail and industrial/warehouse sectors and also with schemes funded by Central Government. In the final quarter of last year, some main contractors were suggesting their markets were becoming tighter, and that there were fewer tendering opportunities coming through.

However, following the December election and clarity regarding Brexit timescales, we have observed an increased level of activity and a more positive outlook for 2020, with the supply chain reporting a higher level of enquiries being issued.

Following the numerous insolvency and administration cases in 2019, supply chain members continue to review tender opportunities with a high level of rigour in relation to risk exposure. Concerns around labour supply and materials prices still remain, the dynamics of which will become clearer as the year progresses and we move closer to finalising both immigration and trade deals.

## Sectors

The commercial, industrial and retail sectors remain relatively active. Although the residential sector is still active, sales were slightly lacking in Q4 2019 and housing stock was not always moving as quickly as had been hoped. Permitted development rights (PDR) schemes seem to have lost impetus in some locations, with housing stock not always selling/renting, and there is at least some level of cynicism in the marketplace now in relation to PDR. In higher education, the sector is mixed, with some examples of projects being stalled by clients due to affordability/budget constraints linked to broader issues in the sector.

## Conclusion

The Thames Valley market remains positive and upbeat with significant development and regeneration projects coming through the pipeline. For longer term projects, main contractors and their estimators are, and will be, concerned about the impact of final trade and immigration deals on materials prices, which will also be impacted by foreign exchange rate fluctuations. The progression of trade and immigration deals will also likely influence construction tender pricing. For the time being, as before, we are forecasting a consistent upward trend in tender prices in the short to medium term.

# ABOUT RIDER LEVETT BUCKNALL

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