



TPF

# RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q4 2020

TOWARDS A K-SHAPED OUTCOME - THE CHANGING  
SHAPE OF ECONOMIC RECOVERY

Q4

RLB

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RLB UK's quarterly Tender Price Forecast (TPF) provides regional tender price breakdowns and commentary from our cost management experts.

# INTRODUCTION



The tide finally seems to be turning, as we move through the final quarter of 2020. A period notable for a national lockdown in England, and more regulated, tiered systems, in the rest of the UK, has now offered-up light at the end of the COVID tunnel, in the shape of effective vaccination.

The four-week lockdown in England resulted in closed pubs and restaurants, only essential shops remaining open, the directive to work from home if possible, and constraints on mixing beyond household groups. The objective, to contain the virus and to depress the R-number, was partially achieved, and the lockdown was then succeeded by imposition of a stringent tiered system across England. However, it is worth noting that in the month of November alone, the UK experienced an increase of cumulative COVID-19 cases of over 60%, so there remains much to do.

For construction, the second lockdown seemed to have few new adverse effects, as increased health and safety obligations had already largely been built-in to sites' operations.

From the business standpoint, the Chancellor's further extension to the Job Retention Scheme (JRS), through to March 2021 is helpful, as is the additional support provided to the self-employed, but the over-riding fact remains that these are temporary and necessary measures, to deflect the impact of what may be far-reaching effects of the pandemic's progress.

Set alongside this, the final outcome of Brexit is fast-approaching. The 4-year process has been punctuated by uncertainty, and regardless of a deal/no-deal outcome, uncertainties will remain even after the turn of the year, as has already been evidenced by recent reports of stockpiling of key materials in anticipation of shortages and/or supply chain disruption.

The RLB Q4 2020 Tender Price Forecast seeks to set the above issues in the context of their respective sectoral and regional implications, providing a considered overview and analysis from our experts on-the-ground.



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# INTRODUCTION

## MARKET OVERVIEW:

The overriding narrative is a 'K-shaped recovery', driven by sector rather than region:

- Where sectors have been impacted positively by the pandemic, contractors will continue to tender and win viable work
- Sectors impacted negatively by the pandemic continue experiencing difficulties
- Activity gearing up in Q4 with funding constraints resolved as many contractors look to push through work before labour, materials and other possible 'hard' Brexit issues affect the industry
- Planning approval remaining an issue in some areas as resources are stretched, with a knock-on effect as projects are delayed to site
- Despite contractors having pipeline to fill they are being selective about which tenders to respond to, with Tier 1 contractors favouring early engagement contracts or two stage open book.

Resulting in:

- On the one hand, a need to reset construction costs and realign for those sectors with lack of demand
- On the other, the acknowledgment that Brexit would make availability of both materials and labour difficult in the future.

The question remains as to whether these two opposing elements can co-exist comfortably when viable prospects in the pipeline are needed, yet input costs are rising.

# INTRODUCTION

Quarterly Private New Housing Work output in Q3 **+84.4%**



Materials price indices (all work) **+1.6%** (Annual to Oct 2020)

UK COVID-19 cases in November **+61%**

**+89.2%**  
New orders Q3 (after -54% in Q2)

Construction output in September 2020 was **7.3%** below that in February 2020

Quarterly new work output in Q3 **+40.8%**



Source: ONS

## SECTOR OVERVIEW

### Commercial

It is no surprise that the commercial sector has been paused, with many developers and investors holding off to see what a post COVID-19 office space looks like and those proceeding having been invested far back in the pre-pandemic world. There is speculation that new ways of working could lead in certain regions to the resurgence of business parks outside of city centres, with parking and desks rented if the new working model of less office-based days becomes a permanent fixture.

### Data centres

The data centres sector is seeing London, alongside the other FLAP (and now FLAD (Frankfurt, London, Amsterdam and Dublin)) cities continuing to increase MW output exponentially over the next coming two years.



### Education

University estates departments remain focused on the difficult task of delivering socially distanced learning whilst at the same time, maintaining the student experience. This, together with increasing pressure on Higher Education capital budgets, has led to the postponement of projects that are not essential to operational delivery. The government's initial tranche of additional funding for School and FE College condition improvement is now finding its way through to the market and this is leading to an increase in condition related work. The Spending Review's confirmation of the planned investment in education is welcome although more detail is needed to identify how and when this will impact the market.



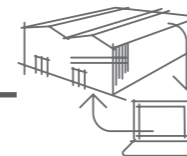
### Healthcare

Within healthcare, key NHS Trusts look to start to procure the investment promised by government back in June with Boris' commitment to 40 new hospitals, A&E upgrades and a focus on mental health services. However, obviously all of this work is dependent on the Strategic, Outline and Full Business Cases being approved before commencement of work.

## SECTOR OVERVIEW

### Industrial & Logistics

There is no surprise that with the continuing rise of online retail, the industrial & logistics sector remains not just buoyant but is seeing huge growth. With consumer demand levels being so high and Christmas 2020 on the horizon, there is huge pressure on the supply chain to maintain their service levels in response.



### Infrastructure

With the government's announcement that infrastructure will play a key role in helping rebuild the economy, it is no surprise that the sector continues to be buoyant. The Chancellor's Spending Review in Q4 continued this commitment and many contractors remain working throughout Q4 on long term projects such as HS2 and ports and coastal routes to be ready for trade post-Brexit. Additionally, new framework opportunities from Network Rail and Highways England are emerging.

### Residential

In the residential sector, despite house sales in the last few months having been strong due to the Stamp Duty holiday and Help to Build schemes, the next few months are less certain. On a positive note, the government continues its on-going commitment to placing housing centre stage for investment to invigorate the economy.

### Retail

Outside of online, retail activity has been focused more around dealing with the negative impact on the high street and repurposing of core retail assets. The focus now is how we reshape and repurpose our towns and cities to re-attract footfall and breathe life back into the central districts. The recipe for each town or city is different and we see a range of solutions being carefully considered with a major emphasis on the community aspects of regeneration.



# LONDON AND THE SOUTH EAST

## TENDER PRICE FORECAST UPLIFT PERCENTAGES

SOURCE	REPORTED	%			
		2020	2021	2022	2023
<b>RLB (London and SE)</b>	<b>Q4 2020</b>	<b>0.00</b>	<b>-1.00</b>	<b>1.50</b>	<b>2.50</b>
Others - Upper range (London and SE)	Q4 2020	2.50	3.50	5.40	4.70
Others - Lower range (London and SE)	Q4 2020	-4.00	-2.00	0.50	1.00
BCIS (National)	Q4 2020	-1.50	2.40	3.60	4.00



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## LONDON AND THE SOUTH EAST OVERVIEW



Unlike in previous tender price forecasts where the South East and London has been seen to be slightly cushioned to nationwide factors, this quarter there was a sentiment within the region of feeling no different than the rest of the country.

The residential sector, although booming at present due to the government incentives, looks likely to slow in its trajectory into 2021. The strongest growth over the next few years is anticipated to be away from London and the South East as developers and house builders currently focus on investing and buying land across other regions.

Industrial & logistics and data centres remain buoyant in the South East. In coastal areas with port facilities such as Kent, there is a high level of activity with building speculative and end user led warehouse space, some of it precautionary, to help ensure the UK is ready post-Brexit to manage its changing supply chain capacity and product flows. Demand continues for Last Mile facilities to meet online retail/e-commerce growth, and a rise in the repurposing of existing retail stock to Last Mile use located both at edges of town and town centres is expected.

The commercial sector remains hesitant, with an estimated 25% drop in commercial starts. The decision to remodel and refurbish rather than rebuild is likely to make up a significant proportion of development activity, certainly in the foreseeable future. Our expectation is that post pandemic demand for office space will remain low and there will be a polarisation in occupier demand between exceptional space commanding a top rent and all the remaining space at far lower figures.

Public sector investment within the region is indicative of the national picture, with infrastructure especially around the port and coastal areas, being invested heavily in, as is healthcare as promised by the government back in its Build, Build, Build new deal early in the year.



# MIDLANDS

## TENDER PRICE FORECAST UPLIFT PERCENTAGES

SOURCE	REPORTED	%			
		2020	2021	2022	2023
<b>RLB (Birmingham)</b>	<b>Q4 2020</b>	<b>0.00</b>	<b>0.50</b>	<b>3.00</b>	<b>4.00</b>
Others - Upper range (Birmingham)	Q4 2020	2.90	3.40	5.90	5.00
Others - Lower range (Birmingham)	Q4 2020	-3.60	-0.50	2.00	2.00
BCIS (National)	Q4 2020	-1.50	2.40	3.60	4.00



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## MIDLANDS OVERVIEW

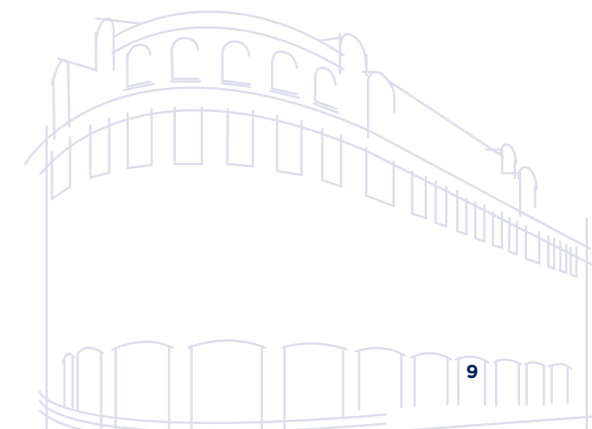


Construction activity within the Midlands seems to have been minimally impacted by the second lockdown with activity in Q4 continuing apace, especially with large, heavily invested infrastructure projects in the region, such as HS2, remaining dominant. However, this is in the context of a slowing down of other sectors, resulting in a flat TPF for this quarter.

Playing an integral role within the regional built environment, civil infrastructure continues to utilise many of the resources in terms of materials and labour as well as road space, network reinforcement and the like. It is noted that early invested and large public sector projects such as HS2 have a large part to play in the upward kick of the K-shaped economy that continues to be robust, alongside data centres, online retail and consequentially industrial & logistics markets.

Residential is still achieving large volumes with the build-to-rent market still strong and with the volume house building sector being buoyed by stamp duty holidays. Purpose built student accommodation remains robust for now, although some cities in the region are reassessing supply pipelines into 2021 and beyond.

The Midlands commercial market for Q4 remains on par with last year but much of this is driven from projects in Q1 with, not surprisingly, Q2 and Q3 being quieter, and little change in this sector expected imminently. Reasonable sized lettings are still anticipated, driven by lease events.



# SOUTH WEST

## TENDER PRICE FORECAST UPLIFT PERCENTAGES

SOURCE	REPORTED	%			
		2020	2021	2022	2023
<b>RLB (Bristol)</b>	<b>Q4 2020</b>	<b>0.50</b>	<b>1.50</b>	<b>4.50</b>	<b>5.00</b>
Others - Upper range (Bristol)	Q4 2020	2.50	3.20	4.60	5.50
Others - Lower range (Bristol)	Q4 2020	-3.60	-1.00	0.00	1.00
BCIS (National)	Q4 2020	-1.50	2.40	3.60	4.00



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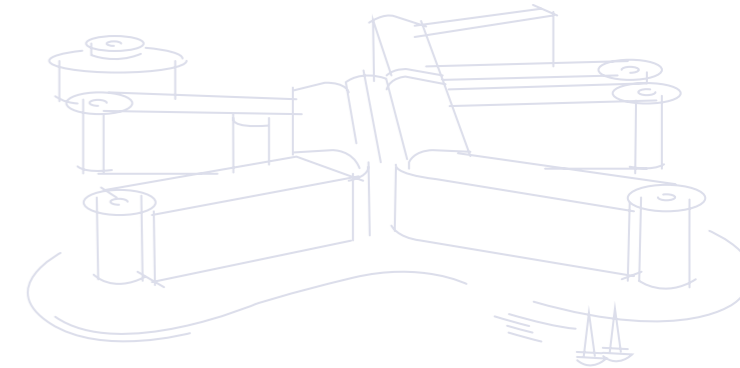
## SOUTH WEST OVERVIEW



The South West remains buoyant, with consultants and advisory practices being particularly busy having seen a significant number of enquiries this quarter. Much of this activity is public sector led, with the lion's share of that being healthcare, although there is still on-going private sector work. As expected at this time in the cycle, local authorities are actively driving to commit funding for projects before the end of the financial year.

Alongside a very positive healthcare sector, residential remains active in new build as well as in maintenance, particularly in affordable housing, where providers have the funding in place ready to build out. Bristol has a particular focus on housing, and a benefit of COVID-19 has seen placemaking and connecting communities come to the fore. Similarly, care and extra care projects are going well as they are funded by a mix of local authorities, health trusts and private money.

The industrial & logistics sector remains strong, and there has been significant growth in numbers of fire safety and compliance projects post Grenfell. In contrast, education has been fairly quiet. The Higher Education sector is re-evaluating business plans around the student mix, and further education and schools have been waiting for more information around the next round of government funding.



# NORTH WEST

## TENDER PRICE FORECAST UPLIFT PERCENTAGES

SOURCE	REPORTED	%			
		2020	2021	2022	2023
<b>RLB (Manchester)</b>	<b>Q4 2020</b>	<b>2.50</b>	<b>3.50</b>	<b>3.50</b>	<b>3.50</b>
<b>RLB (Liverpool)</b>	<b>Q4 2020</b>	<b>2.00</b>	<b>3.50</b>	<b>3.50</b>	<b>3.50</b>
Others - Upper range (North West)	Q4 2020	2.50	3.30	5.00	4.50
Others - Lower range (North West)	Q4 2020	-3.80	0.25	1.00	1.50
BCIS (National)	Q4 2020	-1.50	2.40	3.60	4.00



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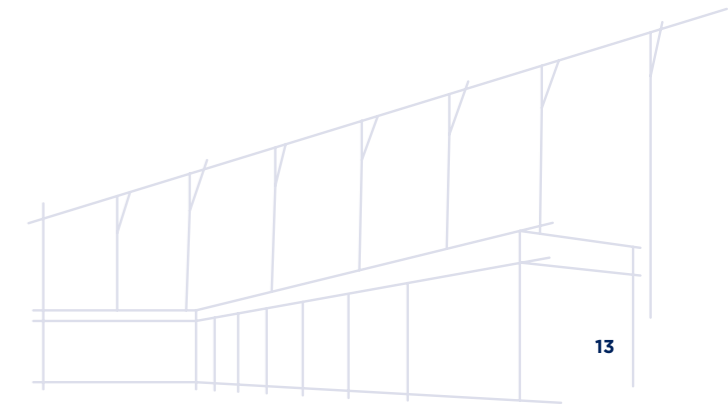
## NORTH WEST OVERVIEW



Activity across the North West is on-going at a good rate, despite some areas having restrictions brought in prior to the nationwide lockdown in November. Tender prices are varying across sectors, with some seeing dramatic fluctuations and others demonstrating stability.

A number of contractors are commenting that they are seeing order book uncertainty that, in turn, is leading to a tightening of margins and speculation that this is likely to continue with the unknown impact of Brexit as we go into 2021. There is also fluctuation in the materials market, for example, increases in concrete pricing and the possibility of Brexit-related higher tariffs relating to other products such as insulation materials. However, Brexit-related labour issues seem to have settled in the region and are fairly stable but there remains still a shortage of skilled labour in some trades due to a legacy of under investment in apprenticeships and training.

Infrastructure remains a key sector for the region with public and private sectors including Highways England and Network Rail inviting tenders on large frameworks. The utilities sector also continues to invest in on-going work to update networks. Additionally, Q4 has seen an increase in activity in ports in those areas with waterfronts as the industry invests to prepare for Brexit and new border control requirements for seaports. Healthcare, residential and of course industrial & logistics (I&L) also continue apace, with new builds in the residential and I&L sectors, and maintenance within healthcare via emergency compliance funding.





# YORKSHIRE & HUMBER

## TENDER PRICE FORECAST UPLIFT PERCENTAGES

SOURCE	REPORTED	%			
		2020	2021	2022	2023
<b>RLB (Sheffield)</b>	<b>Q4 2020</b>	<b>2.60</b>	<b>3.00</b>	<b>3.60</b>	<b>3.60</b>
<b>RLB (Leeds)</b>	<b>Q4 2020</b>	<b>2.80</b>	<b>3.20</b>	<b>3.80</b>	<b>3.80</b>
Others - Upper range (Sheffield and Leeds)	Q4 2020	2.70	3.20	5.40	4.60
Others - Lower range (Sheffield and Leeds)	Q4 2020	-3.30	0.50	1.00	1.50
BCIS (National)	Q4 2020	-1.50	2.40	3.60	4.00



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# YORKSHIRE & HUMBER OVERVIEW



With the second lockdown in full operation during Q4 the feeling in Yorkshire & Humber is that there was far less of an impact on construction than previously felt earlier in the year with the first lockdown. This of course, could be reflective of a heavy distribution of clients within the Yorkshire & Humber region that are public sector or within the industrial & logistics market – both markets that have been impacted positively from COVID-19 and the changing business landscape.

Given that the Yorkshire & Humber region boasts a motorway network of transportation corridors from the north to the south, supplemented by the fact that land and labour are relatively low-cost, it is no surprise that the industrial & logistics sector remains strong.

Healthcare and other public sector facilities such as blue light services also remain active and buoyant with the HIP 1 and HIP 2 promised investments going ahead in Leeds and the A&E upgrades continuing.

The working from home directive has obviously impacted the city centres of Leeds and Sheffield with decimated footfall and traffic to retail and hospitality. However, smaller local centres are popping up outside the city centres that are expected to grow as those living and working from home continue to look to local hospitality outlets.

The education sector has also seen the postponement of projects. In particular the Higher Education market remains cautious and little, if any, activity is taking place within the university towns of Leeds and Sheffield, both cities that previously had seen heavy investment.



## CONCLUSION

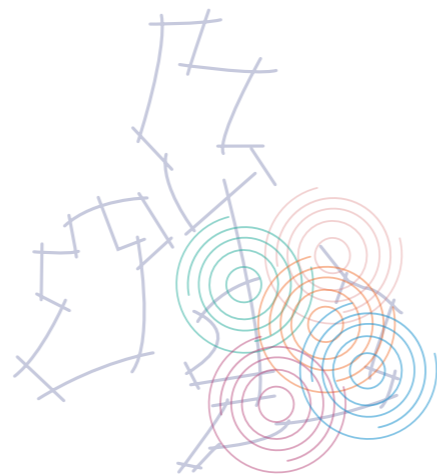
It is clear that the passage of the final quarter of 2020 has yet to dispel the overriding uncertainty that has overshadowed 2020.

Multiple factors will continue to influence both the macro-economic and the micro-economic picture, principal among these of course being COVID-19 and Brexit. However, each of these carries with it a complex range of problems, possible outcomes and solutions.

The advent of vaccination of course seems to indicate imminent suppression of the virus, but mass inoculation will not happen overnight. Likewise, the effects of the Brexit end-game, at the end of December, will undoubtedly herald change. However, in neither case is the outcome readily predictable, there being too many unknowns and too many inter-related issues to permit definitive forecasting.

Nevertheless, contractors and subcontractors alike have to face the New Year knowing that pipeline workload needs to be priced, bid and won, yet in a world of unknowns far in excess of the levels of uncertainty ever experienced before.

As can be seen from RLB's foregoing sectoral and regional analyses, there is significant variability in markets' positions and reactions, so the overall view is not completely consistent, even though supposedly similar conditions apply nationwide.



## 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, programme management, building surveying, health & safety and advisory services. We work from conception, through design, 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.

### Independent advice



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 consultancy
- Contract advisory

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