TPF

# RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q3 2020

Q3

RLB Rider Levett Bucknall

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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

As the UK continues to move through the pandemic, the majority of locations now find themselves in a position where tentative steps forward have been taken, even if with wary assessment of any uptick in COVID-19 case numbers. Blanket lockdown has given way to localised lockdowns, with much of the UK re-opening, if only to a limited extent, and in the context of a significantly different workplace environment than existed pre-COVID.

A key element of this re-opening has been the return of children to school, and the start of the autumn term for college and university students. However, as we reach the end of Q3 of 2020, the outturn effects of these relaxations have yet to fully materialise, and the real impact may be felt in the final quarter of the year.

Local lockdowns in the UK have mirrored similar situations in other countries, where governments have tried to come to terms with upsurges in cases by re-instituted local lockdown and targeted application of testing and tracing, rather than re-visit the pain of national closure. However, the middle of September saw the introduction of nationwide rules around socialising being implemented again.

The only solution still appears to be a vaccination, but that seems even now to be several months away.

**JRS comes to its conclusion**

We're now fast approaching the end of the Job Retention Scheme (JRS), which sheltered some 9.4m jobs from some of the economic effects of the pandemic, but which also had the related effect of denuding city centres of footfall and passing trade. The conclusion of the scheme undoubtedly gives rise to concerns for jobs, where businesses can, at least for now, no longer function in the same way as before, and also do not have the turnover to justify staffing numbers.

Central government has consistently held that the JRS will close by the end of October 2020, despite calls from the devolved governments, and other commentators, for it to be extended. However, noting that the cost of extension of the JRS weighs against prospective large-scale deficit and significant increase in overall debt, the Chancellor's new Job Support Scheme (JSS) is to be commenced in its place. The JSS entails a sharing of jobs' costs between employers and government, with an obligation on employers to pay one third of wage/salary. While it has yet to be seen how this will work in practice, its commencement could be viewed as a halfway house position - some support for viable jobs, however viability is defined.

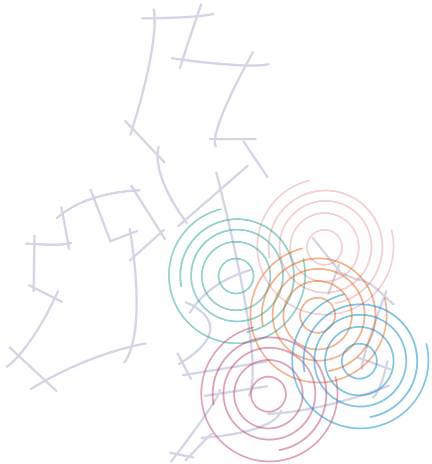
# INTRODUCTION

### The cost of re-opening

Re-opening has in itself imposed challenges to ways of working and systems of operation. The construction industry has largely accommodated these changes, the effects of which vary across sectors and types of work, but the costs of which will have to be wrapped into tender bids for forthcoming projects. Even though a great many project work sites in the UK remained open throughout the national lockdown, the impacts of adherence to safety considerations were felt nonetheless and will continue until the virus is completely and permanently suppressed.

As the final quarter of the year rushes toward us, the recovery still has to take place, set against the backcloth of sustained vigilance. Hopes for the U or V-shaped rebound may have been overtaken by recognition that the bathtub or hockey stick image is the more likely outcome, but much still depends on how markets and their participants perceive the world looking after the end of the pandemic.

The UK government has sought to stimulate activity, in a number of ways, but wider levels of business activity will determine how the private sector responds, and whether normality will ever be the same again.



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# MARKET OVERVIEW

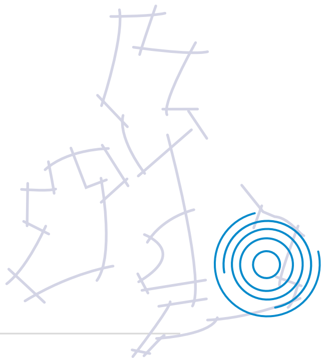
Generally, initial fears of a plunge in site productivity due to COVID-19 measures have been allayed, as contractors and sub-contractors have found ways to work around the constraints on their activities. What was initially thought of as a major hurdle to production, has now been accepted as a necessity and commonplace. However, it remains the case that sectors are affected differently. The burden of costs has fallen on work-types having high labour intensity, where work teams and trades have to work close to and around each other. In such cases, close-proximity working is now a major issue, requiring detailed monitoring of behaviours and safety considerations. Clearly, there is an associated cost, regardless of the fact that builders have managed the difficulties and carried on with their work.

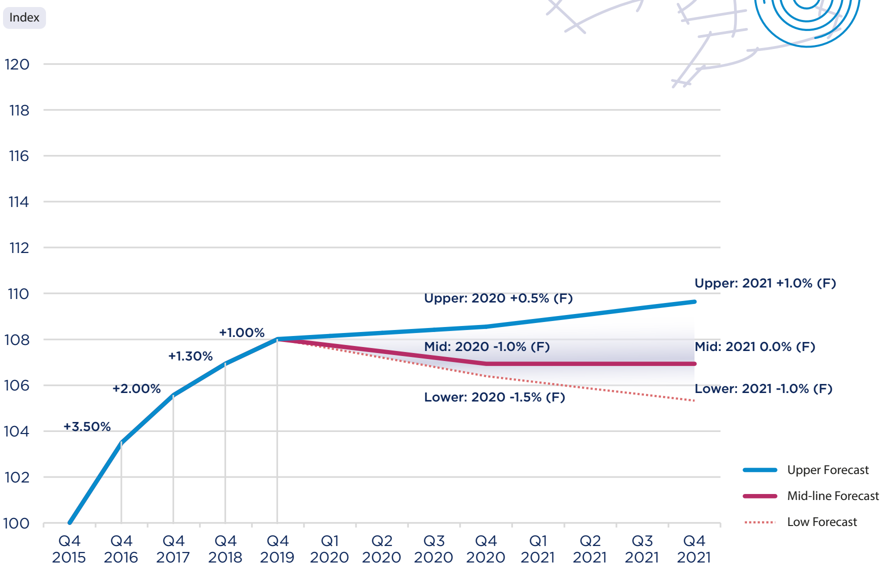
**Ensuring continuity and minimising disruption**

With no definite end in sight and the now looming spectre of the exit of the UK from the EU single market end of December, thoughts are now focusing on how to ensure continuity and to minimise disruption of both materials and labour supply.

UK government policy is to spend the economy back to health, with its 'Build, Build, Build' strategy. But the timing and release of public sector projects is complex and is also tied to constraints of planning, notwithstanding the intent to relax planning constraints. It remains true that change takes time, and releasing large amounts of work onto a resource-challenged construction industry may cause demand-driven cost spikes, particularly in an environment in which both labour and materials could be in tight supply. Such an outcome could, seemingly perversely, result in price hikes as availability of resources falls and workload over-supply comes into play. For the private sector, that has a downside as private work could be bid-out of the marketplace by the continued availability of public workload. That is not to say that any new work would not be welcomed by the industry, as uncertainty exists at present regarding future workload, but the key to balanced recovery lies in the timing of that work finding its way to market.

# LONDON & SOUTH EAST






In London and the South East, 2020 is now forecast to show -1% tender price movement, with a range from +0.5% to -1.5%. In 2021, the forecast is for 0% movement, with a range of +/-1%.

Construction is bouncing back with a 'V shaped recovery', but we believe this could be a bumpier ascent for some more than others. Certain sectors are particularly busy; for example, the data centres sector has seen a spike in demand as we all scramble to the virtual world not only to shop but also to work, on a scale never seen before. Although new activity in the commercial sector is muted, we believe there will be a stronger demand for refurbishment and alteration of existing stock. It will take some time for businesses to assess their post-pandemic circumstances, which could delay or defer investment commitments, causing a lag in transactions and development.

We are currently seeing keen pricing on tender returns, which may be symptomatic of depleted order books and programmes stalling over the Spring and Summer. We anticipate and are experiencing lower tenders in some sectors, in particular data centres, reflecting an enthusiasm for work-winning over the remainder of 2020 and into 2021. Lower labour rates are likely to enable some lower pricing, but the industry needs to be mindful of the effect of cut-throat rates and bids.

# SECTORS

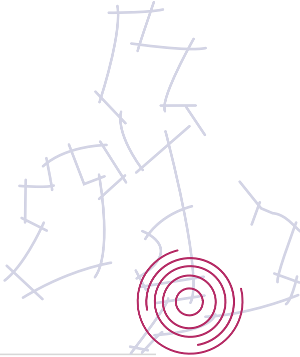
Across the sectors, there is undoubtedly a mixed outlook for the construction industry over the next quarter, with some sectors seeing that aforementioned 'V shaped' recovery. However, others are stumbling out of the blocks and will continue to do so until the economy finds its feet after what has been a seismic shock. The reaction by the government is to be commended, putting the construction industry firmly in the centre of its recovery plans, with the 'Build, Build, Build' initiative aiming to kickstart the most radical reforms to our planning system since the Second World War.

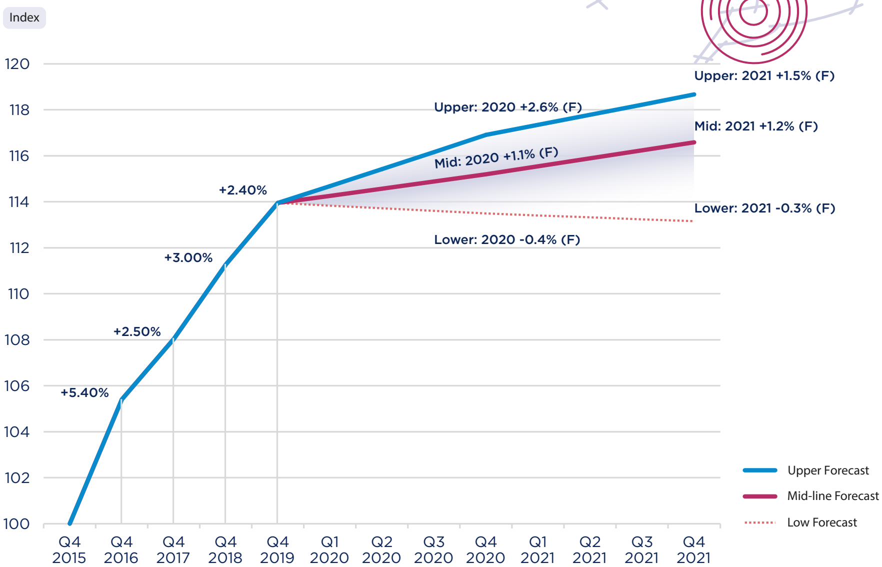
At the forefront of the recovery, therefore, is the **housing** sector, recording the steepest expansion of construction work in five years, reflecting the mid-May relaxation of the restrictions that froze the sector from the end of March. In particular, there is a focus on new housing developments in the suburbs of the region, with inner city developments seeing lesser levels of productivity due to distancing measures. In contrast, the **commercial** sector is seeing harder times, with uncertainty leading developers to scale back.

As last quarter, we are seeing very strong demand for **data centres**, as the trend towards home-working appears here to stay and workers remain hesitant to return to offices in the city. Hyperscale clients are expanding their plans for more space, and this has led to a tightening in the market in both labour and materials. Similarly, the **industrial & logistics** sector is continuing to show strength as online retailers dominate consumer spending.

The **aviation**, **leisure, sports & hospitality** sectors are all seeing the same trends as reported in the last quarter – a severe contraction that may take a number of years to return to the levels seen pre-pandemic. On a brighter note we are seeing unprecedented levels of government investment and the **public** sector offering tremendous opportunity, as the government aims to retain skilled labour and prevent large scale job losses which other parts of the economy are experiencing.

# SOUTH WEST






For the South West, 2020 shows a mid-point uplift of 1.1%, with a range of +/- 1.5%. In 2021, the mid-point uplift is forecast at 1.2%, with a high of 1.5% and a low of -0.3%.

The tightening of the tendering market reported in our Q2 2020 TPF has continued as the COVID-19 pandemic has rolled-on, with slight improvements seen. In spite of continued activity on-site, and concerns as to productivity and output, contractors and sub-contractors are becoming increasingly conscious of an upcoming need to replenish orderbooks in the medium term, with tenders returned generally below budget.

While we are retaining our estimate of a pull-back of between 0 and 3% from forecasts for 2020 which were made at the end of 2019, the real effect on market participants is that margins are being squeezed from both the input and the output ends. Materials still face long lead times, increased costs, and difficulty in obtaining material prices from suppliers. The cost increase of materials outweighs the tender forecast costs, suggesting contractors are bearing the costs from their overhead and profits to secure work. The upshot is that the cost of inputs is rising, while the selling price, the output price, looks set to fall. This reality will inevitably place pressure on tendering participants, as work has to be bid and won, but margins have to be made in order to continue viably.

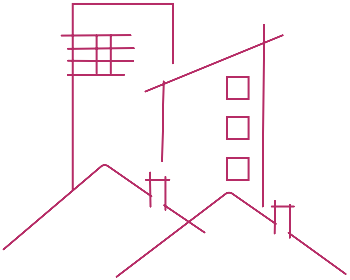
A continuation of these conditions may lead to more bulk buying of key materials, which in itself can only exacerbate the supply and demand issues, as well as the storage and waste costs associated with holding owned but not incorporated materials. In addition, many contractors and sub-contractors will be at a disadvantage, through simply not having the storage capability to amass a stockpile, especially in city centre projects.

Extension of tendering periods is a natural consequence of these market difficulties and is clearly evident at head-contract level. However, the effect is also present for sub-contractors. The general consensus is that the furlough period has provided a significant backlog on tenders, with contractors and sub-contractors only starting to recover and return to careful considerations of bids. Both are also currently coming to terms with the end of the furlough scheme, and the decision to be made as to the future of a large number of jobs.

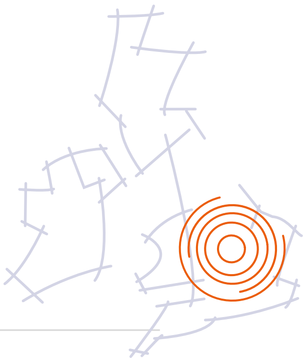
As a consequence, while we see a short-term reduction in tender prices, costs are still rising, and must be dealt-with eventually, for projects' pricing to remain viable.

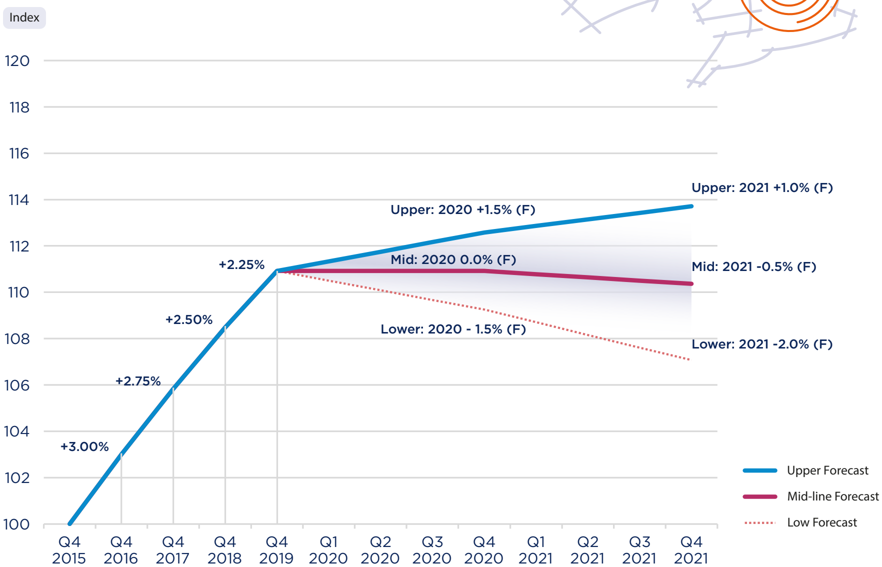
# SECTORS

Across the South West, the local and national backing for social **housing** is continuing to support participants in that part of the market. For the student accommodation sector, there are live projects, but the future level of workload is still shrouded in the uncertainty of the outcome for overseas students, European students and indeed the future of teaching at universities themselves. While there is still private sector housing workload coming to market, the drive at national level toward spending to support recovery is helpful, as are intimations of planning relaxations which could assist in bringing workload to a marketplace which will shortly be in real need of replacement work.



# WEST MIDLANDS






In the West Midlands, the TPF shows a spread of +/- 1.5% above and below the new forecast of 0% for 2020. For 2021, the forecast is a mid-point of -0.5%, showing a range from -2.0% to +1.0%.

Birmingham had, until recently, avoided a second wave local lockdown but any current localised lockdowns are not expected to further dent local confidence across most sectors or create any major short-term output decline.

Across many sectors, demand is reasonable. A number of high-profile starts have suggested that clients are willing to continue with investment plans, particularly when construction periods are lengthy.

Tender prices continue to react with hesitancy. COVID-related productivity challenges are being felt immediately, and contractors up and down the supply chain are reading the likely pipeline impact. Productivity impacts have been variable by trade and sector. Likewise, demand and pipeline is currently highly variable by sector. The resulting compounded impact has resulted in tender price volatility, which is expected to continue in the near term.

# SECTORS

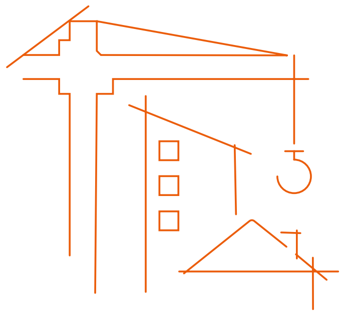
HS2 continues to dominate **infrastructure** projects, with frequent project news of planning consents, proceed notices or forthcoming procurement plans.  On-the-ground activity is also starting to be noticeable around the city and along the route.

**Commercially**, projects have stalled, other than the remodelling of the city centre Paradise development, and any sizeable new build Grade A stock projects that are on site pre-date the pandemic.  Landlord-led cut and carve projects are expected to happen as lease events occur, and tenant fit-out projects may increase if tenants take lease-break opportunities and consider reducing their space with a new-found love of agile working. Industrial schemes remain busy, with much activity still driving the market.

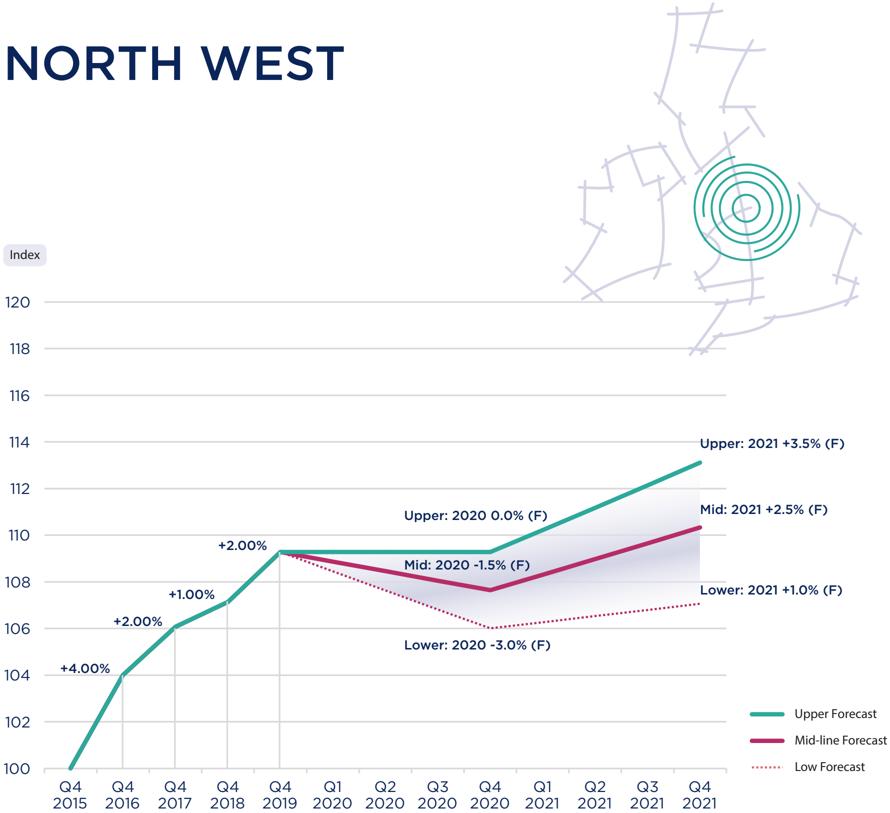
House-builder-led **residential** may have momentarily slowed, but the Chancellor's stamp duty changes are beginning to invigorate the market.  Opportunistic acquisitions and progressing planning consents are still also a feature of the market.  Build-to-rent and purpose-build student accommodation schemes are still being brought forward without any obvious negative impact. The **healthcare** sector is still busy, with a focus on capital works programmes in the short term.

In **education**, a number of school projects are being brought to the market from local authorities, academies and private sectors. Higher education capital projects are largely on hold, where not already committed, with universities looking to take stock of the impact on student numbers and finances.  A return to 'in person' teaching will complete a difficult period for the sector.

Across the region, the extent of the toll on the **hospitality** sector is probably too early to tell.  It is a big employer in the region, with everything from international venues down to local hotels and restaurants. Along with **retail**, the sector has been the most adversely affected by the pandemic. In the city there were already a number of projects that could have been bought forward to repurpose, re-zone and re-position retail and hospitality assets, and these may now be further dusted off and considered again in light of changing consumer demand.



# NORTH WEST




In the North West, tender prices movements look to be ranging from 0 to 3% down on 2019, with a tentative recovery next year of between 1% and 3.5% uplift.

Site activity across the North West is now back to a 'new normal', incorporating mandated social distancing and sanitation measures both in site premises and around sites themselves. The overall effects on output and productivity are variable, dependent on the type of work and the stage of work, also varying considerably between trades. Where work is predominantly plant-based, outputs can be minimally affected, but where multiple trades would otherwise have been working in close proximity and around each other, alleviation steps have had to be taken. Project-wide, and industry-wide, our estimate of the consequent fall in productivity is now somewhat less than 20%, as site and project managers have re-programmed to accommodate limitations on close-contact working. Concerns about materials' availability remain an issue, as does the question of some trades' availability in light of not only the COVID effects, but also the ongoing Brexit-related labour considerations.

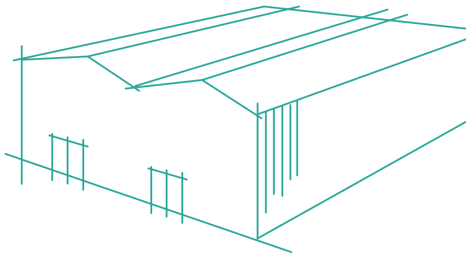
While we appreciate that negative effects on output now appear less than had originally been thought, they are nonetheless biting into margin, for both head-contractors and sub-contractors. Preliminaries costs have risen due to the necessity of social distancing and constraints on multiple persons' use of spaces around the site and in amenity areas, as well as in relation to provision of additional cleaning and sanitising facilities.

The ongoing concerns regarding local lockdowns and doubt as to direction of progress through the outbreak have not helped, and previously 'held' projects remain on hold, while others are now joining the queue. While this does not noticeably affect demand, other than in deferring its alleviation, it may lead to a rush of projects to market when we see a clear light at the end of the COVID tunnel.

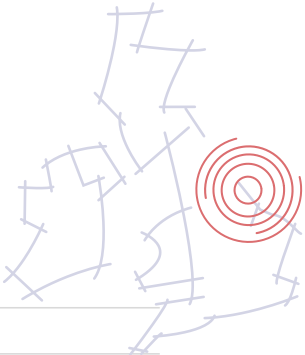
# SECTORS

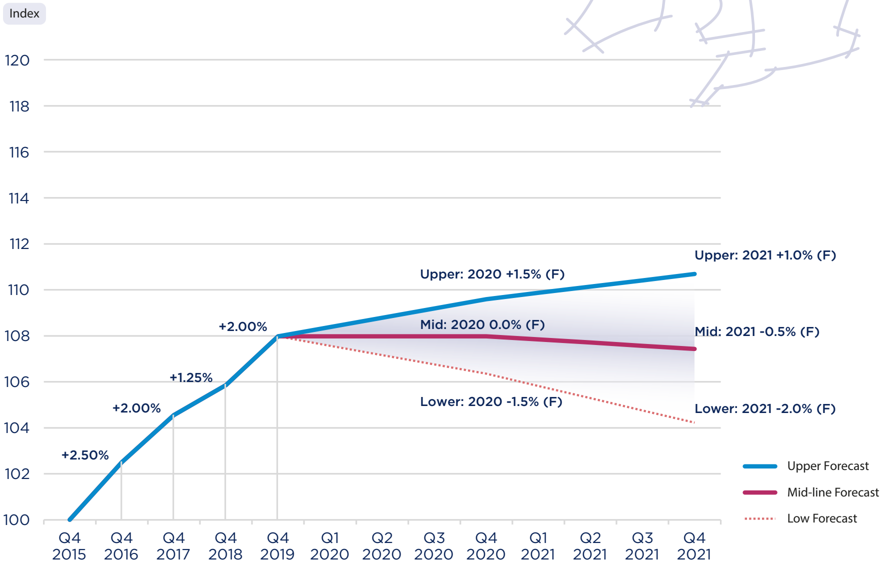
We still see the social **housing** sector, low-rise housing and the private rented sector as leading the way out of the slowdown, particularly as government itself has emphasised spending in these areas. In the **industrial & logistics** sectors, demand remains strong, due in part to the move toward on-line retail, as well as the less labour-intensive nature of industrial construction per unit of built area. Meanwhile, **education** development has recorded significant impact on projects making their way to market, as uncertainty continues regarding overseas students and the future for face-to-face teaching in universities. Spending on schools is likewise being affected, as programmes are being re-assessed to cope with current spending needs and lack of knowledge regarding future budget availability for new-build and renovation work.

Central government funding of the **healthcare** sector has resulted in continued activity and progress on the NHSI HIP programme. Likewise, there is expectation of continued development for government departments and public sector works in general. The prospect of relaxation of planning constraints may be key to taking development proposals through to construction, but as yet the full effects remain to be seen.



# YORKSHIRE & HUMBER






In Yorkshire and Humberside, there is a spread of +/- 1.5% above and below the revised RLB mid-point forecast of 0% for 2020. For 2021, the forecast shows a mid-point of -0.5% for the year, with a range from -2.0% to +1.0%.

We are anticipating that recovery from COVID-19 will be gradual and that lost output will require up to two years to recover, with most of the recovery being in 2021. We expect the current uncertainty to continue until the final quarter of 2020, alongside the level of suppressed tender prices that such market sentiment usually brings.

Costs and delivery time are likely to increase as a result of lost productivity arising from the implementation of social distancing. This will erode low margins even further and place additional cost pressure on firms, making it harder to invest for the future. As the economy stabilises and the industry adapts to a more collaborative approach to the management of these risks, we expect tender prices to reduce in 2021, due to the combined impact of businesses re-sizing to reflect demand and an increased appetite in the supply chain to secure replacement workload.

# SECTORS

Looking to sectors' performance, the **industrial & logistics** sector has actually benefited from more people shopping online than ever before. Large online retailers are performing well nationwide and continue to develop large industrial fulfilment units, particularly in the North East. Yorkshire and Humberside could do particularly well in this respect due to the appeal of the excellent local transport links. In relation to ongoing development of **infrastructure** and the region's transport links, continued investment by the West Yorkshire Combined Authority and the devolution deal for the Sheffield City Region being signed into Parliament, should see a significant growth in infrastructure investment in those areas over the next 10 years.

In **healthcare**, a range of new schemes are now commencing at feasibility stage, and there is an ongoing focus on providing leading educational and training facilities to attract entry level healthcare professionals into local hospital trusts.

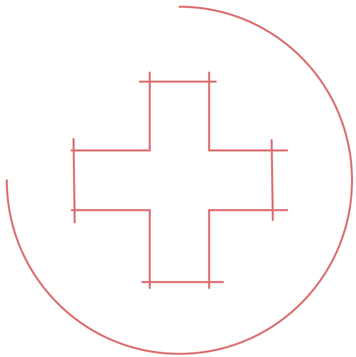
In **education**, there continues to be a strong appetite to continue condition improvements at eligible academies, sixth forms and colleges. In Higher Education, student numbers for the new term seem to be not as bad as had been expected. There has been some reduction of international students, but the universities are hopeful that these places will be taken or deferred. The number of international students enrolling for the 2020/21 academic year will have significant impact on universities' finances, and by the end of the calendar year the higher education sector should be clearer about the future and of its development plans.

**Residential** care home and modular housing schemes are continuing in multiple portfolios, together with public sector affordable homes initiatives.

The **commercial** offices sector remains challenging, with many office workers continuing to operate remotely. As lockdown restrictions are relaxed and people return to work, there will be demand for refurbishment schemes to be undertaken to ensure that office layouts and employers achieve compliance with COVID-19 working requirements.

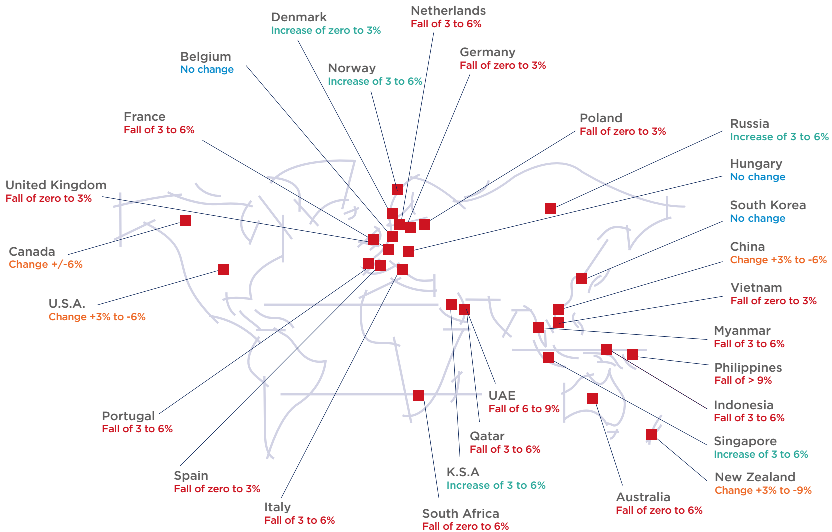
Similarly, in **retail** the Future High Streets Fund is supporting the re-purposing of some retail stores, with a £1bn investment from central government, although there remains a huge challenge in the retail sector as people shift to online purchasing. However, the larger supermarkets remain buoyant, with continuing investment in their existing estates.

Overall, sectors are showing mixed impacts of the COVID-19 outbreak and, we believe, will return to 'normality' over a long period of time, depending, of course, on what form the new normal takes.



# GLOBAL PERSPECTIVE

The map below represents the views of our colleagues across the world on tender price forecasts as a consequence of the COVID-19 crisis.




The August issue of the RLB COVID-19 survey returned analysis from 28 countries around the world. In total, over 60% of responses indicate that the expectation is for a fall in tender prices for the year, up to 6% down on the change for 2020 forecast at December 2019. An additional nearly 25% take the view that prices will rise over and above previous forecasts, due to cost-associated effects. In the UK, the general view is that there will be a fall of no more than 3% in expected tender price movements. However, government policy will affect the whole market, and the actual outcome may depend on a wide array of factors, some of which cannot be quantified at this time.

# CONCLUSION

Clearly, there is a significant degree of uncertainty around the globe, particularly as governments have taken varying approaches to dealing with the pandemic and are also at different stages of dealing with its consequences. The next few months, however, will give rise to a much clearer appreciation of the overall effects, as localised COVID-19 spikes appear and are dealt with on a local basis, whilst maintaining high levels of social distancing and health-maintenance measures virtually worldwide.

No country can afford to remove all constraints, as local, national and international effects would briskly expose such a policy, and only continued vigilance and developing inoculative solutions will provide an end to the problem.

For a hard-pressed UK construction industry, the advent of public spending commitments is helpful, but the proof of that assistance will lie in the timing and delivery of project work.

The Chancellor's announcement of the new Job Support Scheme within his winter jobs plan is some consolation for the closure of the Job Retention Scheme, but its extent and protections remain to be fully identified as it is rolled-out. For construction, as with the wider economy, the next few months will be pivotal in understanding the full impacts of the competing and combined economic questions of Coronavirus and Brexit.

# OUR EXPERTS

Please contact our experts across our UK offices to discuss how the tender prices may affect your project or programme.

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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:

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- Project management
- Programme management
- Building surveying
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- Specification consultancy
- Design management
- Strategic facility management
- Sustainability consultancy
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