TPF

RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

H1 2022

2022 H1

RLB Rider Levett Bucknall

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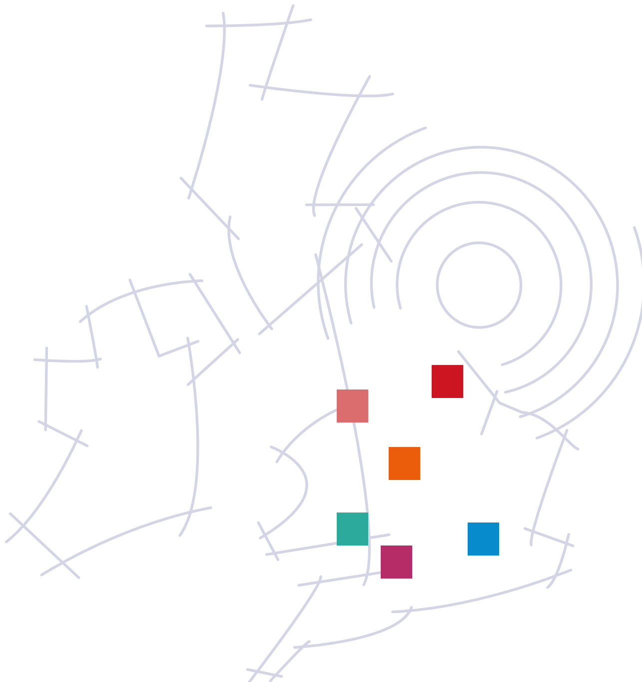

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INTRODUCTION

The first quarter of a new year is usually a timely point to consider the general state of the UK construction market in relation to the wider economy. However, the invasion of Ukraine by Russia demoted all of that to a side-show by comparison.

As the situation developed mid-way through Q1 2022, it quickly became clear that the already complex market situation would be further complicated by the knock-on effects.

As a result, and acknowledging the added layers of uncertainty, RLB's normal quarterly TPF production has been replaced by this H1 2022 document, which captures what has taken place in the greater part of the first half of the year.

Countries around the globe agreed packages of sanctions to hit Russia's financial, energy, transport, export and visa policies, seeking to erode its industrial base and financial sector, as well as individuals' finances. The UK response has been along similar lines, emphasising efforts to "hobble" the Russian economy and to cease the West's dependence on Russian oil and gas.

While this is still a developing situation, the fundamentals of sanctions take time to effect, while the immediate impacts of the situation are driving up commodities costs. Oil prices shot up rapidly to over the $100 threshold, and the price of natural gas increased by 30%. There will, of course be further commodities price effects as, for example, Russia produces some 10% of global Copper.

The UK economy in general bounced back from Covid constraints in 2021, with GDP growth of 6.1%, reaching in November the level of December 2019. However, related to that rebound, the Consumer Price Index (CPI) also rose rapidly, up 5.4% on 2020. Underlying both of these measures was a complex matrix of effects arising from additional Chinese lockdowns, global supply, distribution and cost issues, employment and workplace environment difficulties, worker availability and ongoing health and welfare questions, that even the coming of mass-scale Covid-19 inoculation could not resolve instantly.

The Office for National Statistics (ONS) data for construction work output volume show that the 2021 uplift of 12.75% followed on from the near 15% fall in 2020. Private housing and non-housing maintenance showed significant volume growth in 2021, which accounted for over 41% of the overall work volume uplift for the year. Another 35% of that uplift came from increased Infrastructure volume, leaving only 24%

for all of the other sectors of, mostly, new-build. This analysis demonstrates that the recovery of construction work volume is not clear-cut and is not evenly distributed across building sectors nationally.

There is also a significant tension between the UK Government's "levelling-up" initiatives and the potential for flooding the construction market with public sector projects at a time when the sector is already coping with labour shortages and an ageing workforce. Recent ONS statistics on vacancies in construction show that the last six months of 2021 showed the six highest monthly figures for vacancies since recording began in 2001.

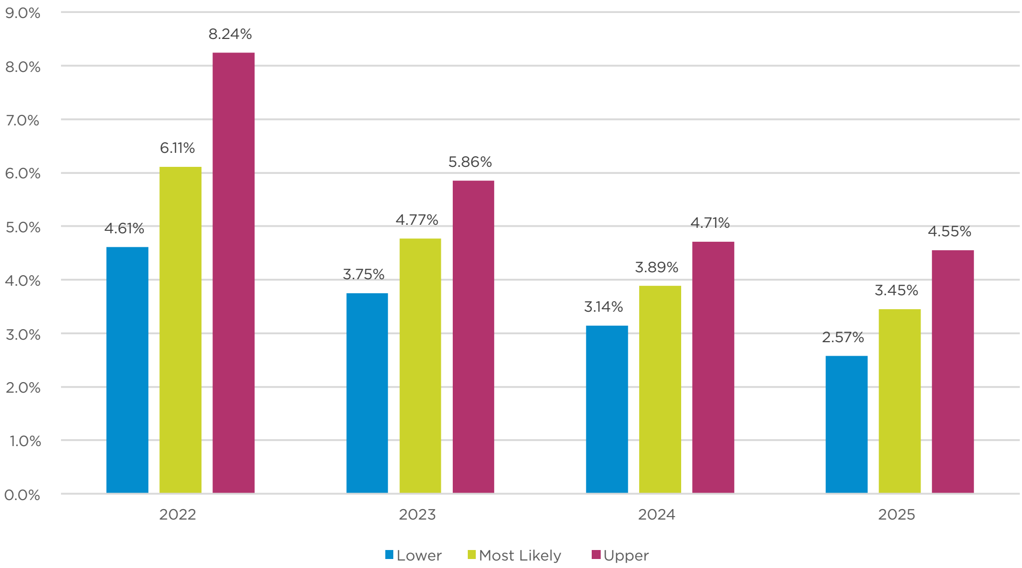
Setting this in the context of a national view of tender price indexation, the RICS Building Cost Information Service (BCIS) shows a Provisional uplift of 4.9% for 2021, with a forecast of another 7.3% for 2022. Private sector consultants' views of forecast tender price uplift for 2022 are noticeably wide-ranging, acknowledging not only the differing regional experiences, but the level of uncertainty that remains in the marketplace. This uncertainty is not altogether unexpected. Although it is suggested that the Covid-19 and Brexit effects should by now be built-in to construction market performance, there remain significant considerations of effects of new variants and also concerns as to materials availability and cost, new standards for materials and also their subsequent relationships with the EU standards. Overlaying everything, is the now incorporated effect of the ongoing Ukraine situation, with risks exacerbated by high degrees of uncertainty.

In combination, contractors and sub-contractors still face a more variable and uncertain costing landscape than is usually the case, and management's overview remains fraught with issues as to lead-in and delivery times, programme implications and overall risk premium concerns. It is this uncertainty that is contributing to volatility in pricing and forecasts.

For these reasons, RLB has chosen to express forecasts of tender price inflation for upcoming periods in groupings of Lower, Most Likely and Upper percentages. The intent is to provide-for a range of possible outcomes in this very uncertain environment, with an indication of the currently perceived most likely outcome. All figures will be reviewed and updated next quarter.

Below is a weighted average of RLB's forecast tender price uplifts for the UK regions shown in this report, weightings being via volumes of New Orders reported by the Office for National Statistics (ONS). The combination of "most likely" outcomes is approximately double what would be ordinarily expected to be seen across the country. Although the upper and lower bounds show a fairly wide spread of tender uplift expectation, the cumulative figures shown for the most likely outcomes are approximately similar to those currently shown by BCIS for 2022-2025.

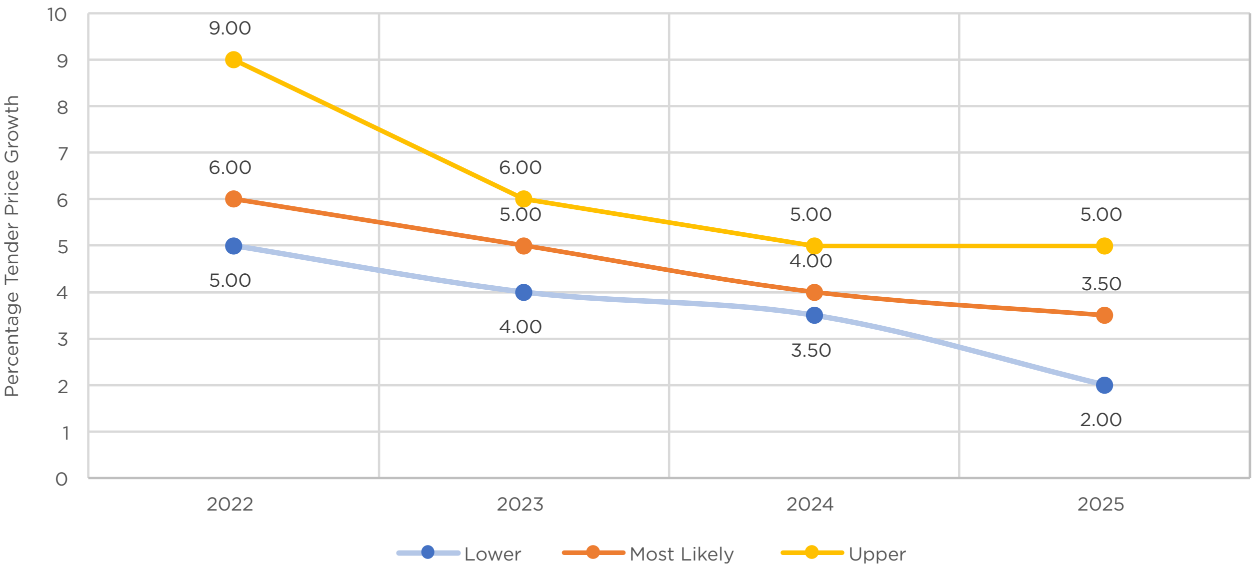
TPI Uplift - Weighted by 2021 New Orders Proportions Data



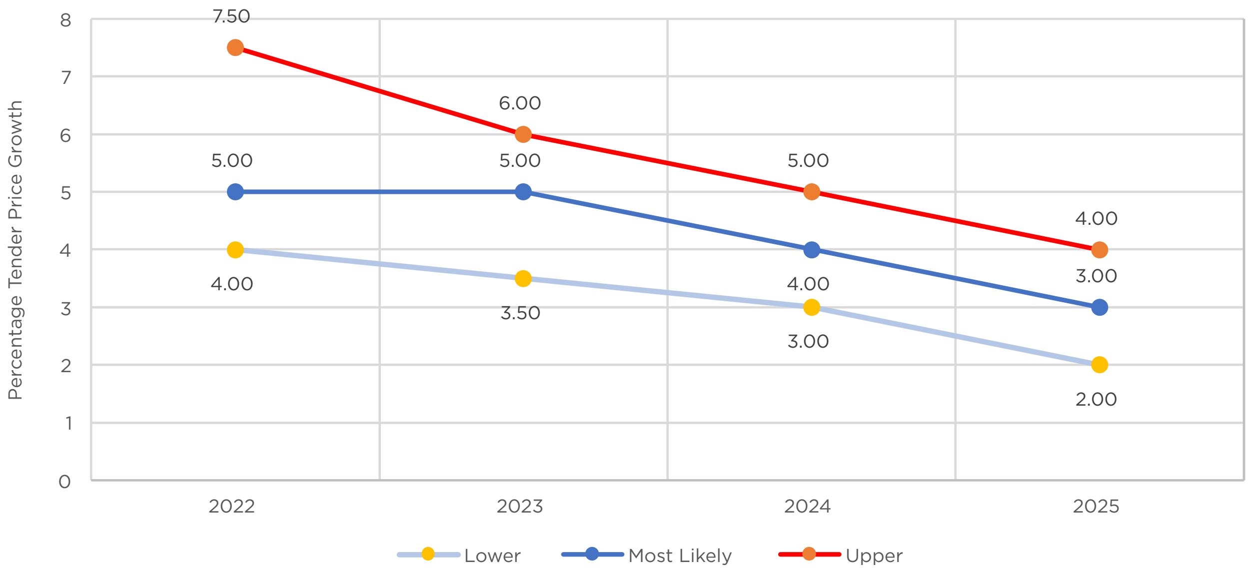
LONDON & SOUTH EAST

Source	% Uplift reported	DATED	2022	2023	2024	2025
London	Lower	April 2022	5.00	4.00	3.50	2.00
London	Most Likely	April 2022	6.00	5.00	4.00	3.50
London	Upper	April 2022	9.00	6.00	5.00	5.00
Thames Valley	Lower	April 2022	4.00	3.50	3.00	2.00
Thames Valley	Most Likely	April 2022	5.00	5.00	4.00	3.00
Thames Valley	Upper	April 2022	7.50	6.00	5.00	4.00
Competitors/Others - Upper Range (London)		April 2022	5.50	4.50	5.00	5.00
Competitors/Others - Lower Range (London)		April 2022	2.50	2.00	2.00	2.00
Competitors/Others - Upper Range (South East)		April 2022	4.50	4.00	4.00	4.50
Competitors/Others - Lower Range (South East)		April 2022	2.50	2.00	2.00	2,00
BCIS (National)		31/03/2022	7.30	2.40	4.00	3.60

Tender Price Change - London



Tender Price Change - Thames Valley



OVERVIEW - London & South East

In the first month of the first quarter of the year, many projects that were previously put on hold by developers were progressing to the build phase. Planning applications were moving again, appraisal numbers being crunched and speed-of-mobilisation discussions being had.

However, in some instances, due to the timing of negotiations and the now current climate, levels of inflation have been volatile. We have seen a mix of trades holding fast on their inflated numbers or declining to fix the risk of future inflation, yet that same risk being fixed between developers and main contractors at a negotiated value. Such outcomes effectively share the risk of inflation and simultaneously protect the supply chain beneath the head contractor.

Covid is a less-cited problem now; the world is learning to live with it. However, it has changed the way the world works and interacts, perhaps forever or at least for the foreseeable future. Workers can now request more flexibility and the option to work where it suits their work best. In many instances, the 9-5 office norm is now no more and the concept of the workplace as a meeting hub, and collaboration space is even more important than before.

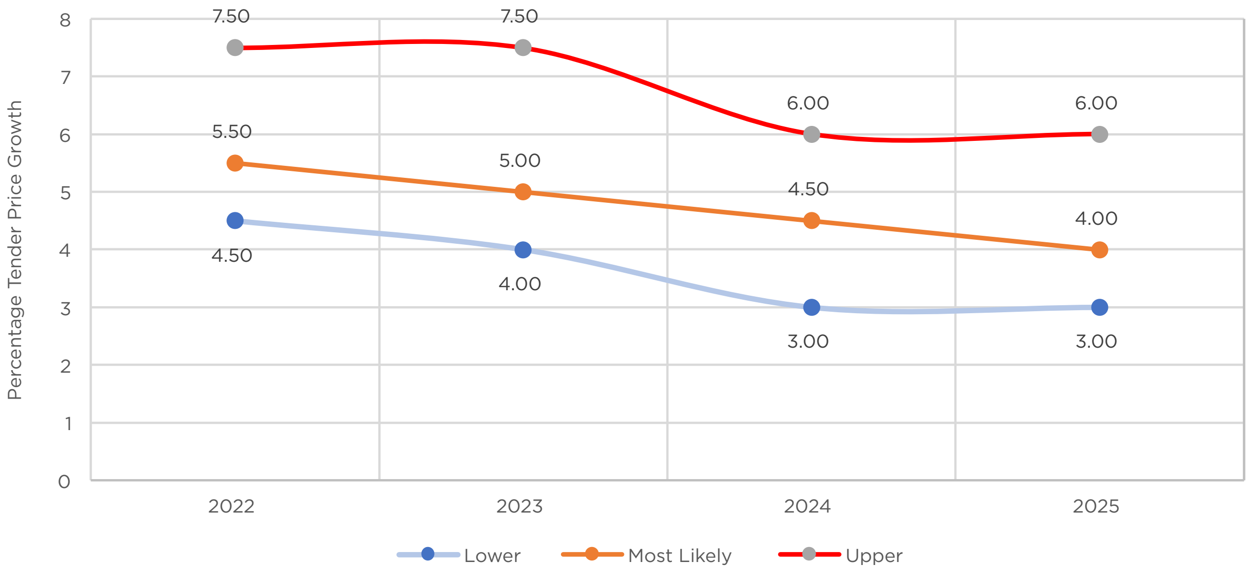
More widely, the world is awakening even more to its carbon footprint. Contractors want to work on sustainable projects; people want to work for carbon responsible employers. People want to travel less and reduce their impact. As a consequence of all of the foregoing, far more refurbishment is happening, with a focus on retention or cut and carve as the first consideration, rather than an immediate decision to demolish and rebuild. In some cases, demolish and rebuild will be the most sustainable solution, so this option will not disappear altogether. Further, we are seeing more sustainable solutions come to the fore, and an emphasis on reusing materials; steel is increasingly being repurposed from demolished buildings rather than melted down, and interior designers are looking at ways of using demolished materials in Fit-Outs, which also tells an interesting story about the history of a building.

Brexit remains an irksome undercurrent even though the deal is ‘done’ and we are years in now. The market generally sees this expressed in increased tariffs, inflated materials costs and skilled labour shortages, particularly linked to lesser availability of European labour.

BIRMINGHAM

Source	% Uplift reported	DATED	2022	2023	2024	2025
Birmingham	Lower	April 2022	4.50	4.00	3.00	3.00
Birmingham	Most Likely	April 2022	5.50	5.00	4.50	4.00
Birmingham	Upper	April 2022	7.50	7.50	6.00	6.00
Competitors/Others - Upper Range (Birmingham)		April 2022	4.50	4.00	4.00	4.50
Competitors/Others - Lower Range (Birmingham)		April 2022	2.50	2.00	2.00	2.00
BCIS (National)		31/03/2022	7.30	2.40	4.00	3.60

Tender Price Change - Birmingham



OVERVIEW - Birmingham

Supply side pressures continue to drive the market, in terms of materials and labour availability and pricing, but also in contractor availability to undertake both pre-construction activity and delivery. Contractors are being far more selective in the opportunities being considered, with parts of the market partly driven by availability of pre-construction bid resource.

Busy sectors remain: residential, industrial and infrastructure. Build-to-Rent (BTR) is particularly active in Birmingham, but with increased evidence of interest in other regional towns and cities. Single family BTR seems to be gaining traction, typically at earlier stages of planning. Commercial projects remain subdued, but the few that do exist are increasing the volume of activity overall. A number of high profile completions have seen stock added to the market and a number of pipeline projects are known to be being advanced.

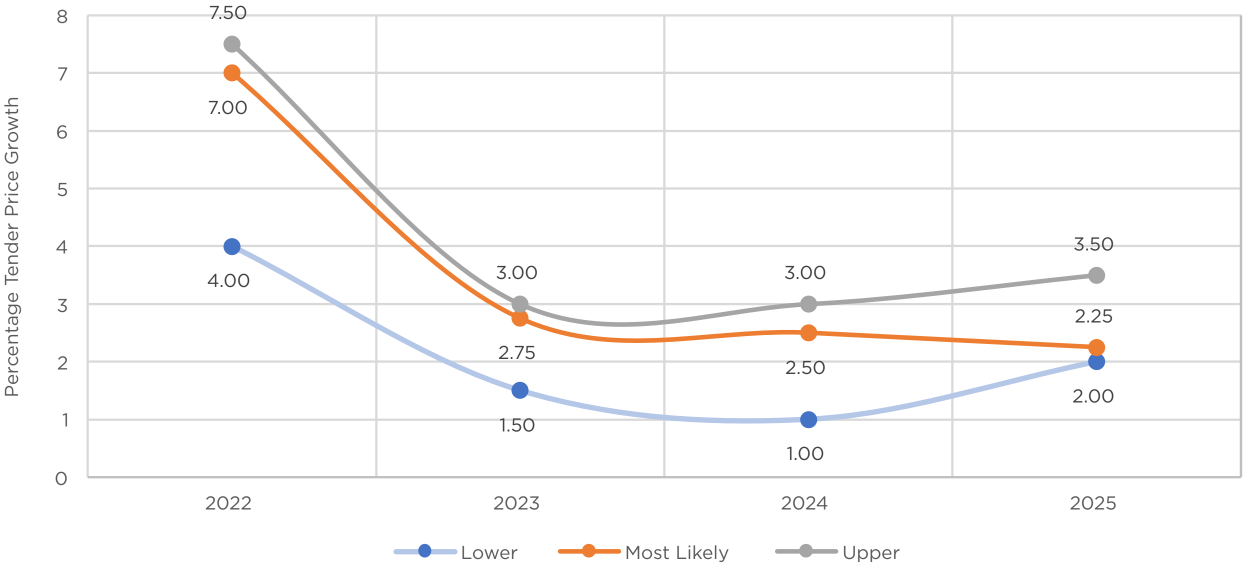
Hotel and leisure (food and beverage) projects are starting to return to the construction market, but are perhaps hampered by increasing costs, whilst values have not rebounded as strongly as in other sectors. City centre retail repurposing remains highly visible in planning stages, but less so in terms of site construction activity.

We have now seen evidence of contractors offering tender sums for acceptance for curtailed periods of time, which proves challenging in respect of resolving contract awards within those timeframes. Trades experiencing heated market conditions are becoming increasingly selective in the nature of the work that they take on, leaving an availability gap for some contractors. Likewise, contractors are pricing-in risk, to account for materials availability risk and perceived likely levels of sub-contractor interest. There is also evidence that some projects are seeing stalled two stage processes due to lack of sub-contractor bid capacity and limited returns driving up pricing levels. Building on this, of course, the Ukraine situation is creating a whole new level of uncertainty. However, estimating the pass-through rate (to tender prices) of commodities' price increases is problematic, particularly where there are long and complex chains between commodity extraction and incorporation of finished product. Not only are there many processes between, but a complex web of supply/demand considerations, all composing a small part of any end-purchaser price change.

BRISTOL

Source	% Uplift reported	DATED	2022	2023	2024	2025
Bristol	Lower	April 2022	4.00	1.50	1.00	2.00
Bristol	Most Likely	April 2022	7.00	2.75	2.50	2.25
Bristol	Upper	April 2022	7.50	3.00	3.00	3.50
Competitors/Others - Upper Range (Bristol)		April 2022	4.50	4.00	4.00	4.50
Competitors/Others - Lower Range (Bristol)		April 2022	2.50	2.00	2.00	2.00
BCIS (National)		31/03/2022	7.30	2.40	4.00	3.60

Tender Price Change - Bristol



OVERVIEW - Bristol

In the South West, some commercial developments are struggling to remain viable in the face of increasing build-cost inflation. By contrast, the residential sector is holding up well, although any upcoming increases in interest rates would probably brake that sector. That said, the South West remains attractive to people relocating outside of the main cities, a trend spurred by work-from-home opportunities.

The major trades effects recently have been the increases flowing through from commodities prices rises, particularly in the case of steel. After multiple price rises from British Steel, the market is facing substantially inflated steel costs, affecting in particular the major commercial and industrial projects. Moreover, delivery and lead-in times are blowing out due to lack of capacity. Another major effect is being experienced on Aluminium windows, whose cost rose steeply in the first quarter, in some cases by up to 50%.

Price increases on sanitary goods and architectural ironmongery have also been prevalent, especially on goods imported from Europe.

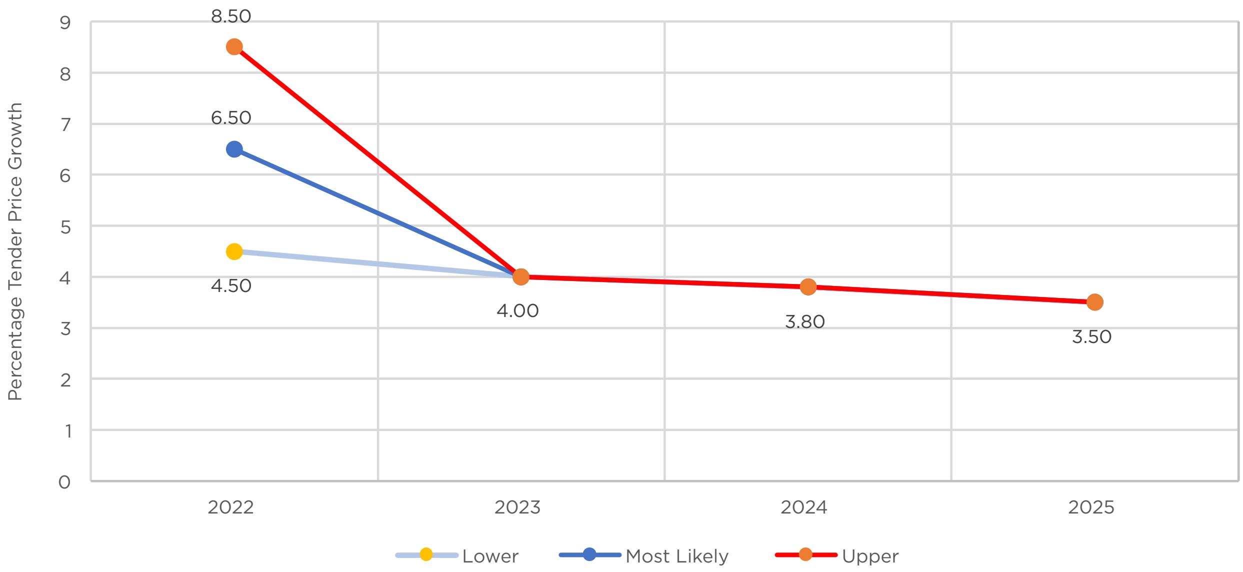
Lying over and above all of this is the impact of market effects flowing from the Ukraine situation. Not only are materials costs increasing, but so is the uncertainty within pricing frameworks. Ordinarily, contractors and sub-contractors can deal with risk by pricing-in, if they are required to carry it, but where the uncertainty is amplified by lack of knowledge of a certain outcome, that translates to unwillingness to commit to fixed prices for any length of time. That situation clearly upsets standard norms of pricing, which is why RLB is showing a range of tender price index movements for this and the coming years. Our expectation of uplift for 2022 is coloured by the effects noted above, and the current expectation is that the outcome will be well to the upper end of the range shown.

YORKS AND HUMBER

Rider Levett Bucknall

Source	% Uplift reported	DATED	2022	2023	2024	2025
Yorks and Humber	Lower	April 2022	4.50	4.00	3.80	3.50
Yorks and Humber	Most Likely	April 2022	6.50	4.00	3.80	3.50
Yorks and Humber	Upper	April 2022	8.50	4.00	3.80	3.50
Competitors/Others - Upper Range (Yorks and Humber)		April 2022	4.50	4.00	4.00	4.50
Competitors/Others - Lower Range (Yorks and Humber)		April 2022	2.00	2.00	1.50	1.50
BCIS (National)		31/03/2022	7.30	2.40	4.00	3.60

Tender Price Change - Yorks and Humber



OVERVIEW - Yorks and Humber

With a strong period of growth through 2021, demand for, and confidence in, construction in Yorkshire remains high in the early months of 2022. However, a shortage of skilled labour and materials across the industry is affecting the region's short-term ability to react to current demand for new developments.

We are currently seeing contractors being more selective over new opportunities, which is symptomatic of the sustained increased demand and confidence in continuing demand over the medium term. Contractors are targeting improved margin levels and lower risk, to create sustainable growth, which is adding to cost pressures within the overall Yorkshire market.

The previous willingness to absorb cost increases is now less evident, given sustained demand for labour and materials, so increased costs are being passed through to clients, along with increased prevalence of demand for contract-clause and risk-profile amendments. This is also producing broad-spreads in tender price returns across sectors. As a consequence, this effect may tend toward an uptick in insolvencies amongst contractors who sought to secure their order books during the initial demand slump in early 2020.

Despite the continued ongoing challenges faced by both demand-led and cost-led inflation, including energy price increases yet to materialise, the sector remains buoyant in both Leeds and Sheffield, with several large-scale developments in planning and underway. Developments such as the Leeds South Bank, where multiple residential and commercial schemes are underway, and several other large scale city centre development sites, all add to the ongoing advancement of the city.

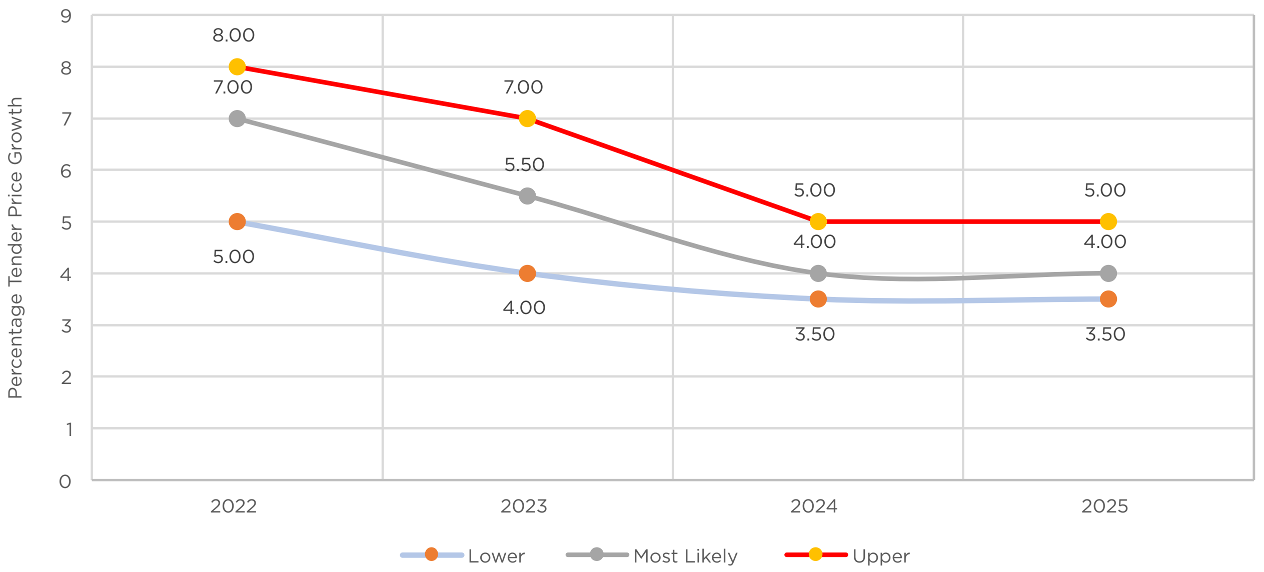
The arrival of the UK Infrastructure Bank, in Leeds, is a step in the right direction towards "levelling- up". However the advent of further demand arising out of specific levelling-up plans remains to be seen, and will only add to current demand for construction services. Such a situation will further strain the market's ability to respond, and will consequently drive up construction prices. As demand for construction increases, so too will the desire and need to adopt Modern Methods of Construction to improve efficiency, although the impact is not likely to provide actual cost efficiency within the short or medium term.

CARDIFF

Rider Levett Bucknall

Source	% Uplift reported	DATED	2022	2023	2024	2025
Cardiff	Lower	April 2022	5.00	4.00	3.50	3.50
Cardiff	Most Likely	April 2022	7.00	5.50	4.00	4.00
Cardiff	Upper	April 2022	8.00	7.00	5.00	5.00
Competitors/Others - Upper Range (Cardiff)		April 2022	4.50	3.50	4.00	4.50
Competitors/Others - Lower Range (Cardiff)		April 2022	2.50	1.75	1.75	1.75
BCIS (National)		31/03/2022	7.30	2.40	4.00	3.60

Tender Price Change - Cardiff



OVERVIEW - Cardiff

The construction market in Cardiff and the surrounding area remains highly active, although there are several larger projects in the city centre which are nearing completion, some of which will complete in the next few months. Balancing these, there are also several new projects about to commence. Coupled with the continued high levels of activity in and around Cardiff, the overall picture is of a construction sector operating at close to capacity, certainly in terms of Tier 1 and Tier 2 contractors' projects.

Projects on-site at present cover a wide range of building types. Large-scale renovation is represented by the Custom House project, producing a new 248-bed hotel on the site. The three office blocks of the John Street development are also underway, with permission for a further hotel-build.

The new interchange bus station is looking to complete at the end of the year, while the new Cardiff University project for Support and Wellbeing Services and associated lecture spaces remains ongoing, and new student apartments are being built in Bradley Court. The site of the Brains Brewery is to host new office, residential and leisure buildings, on a site requiring significant demolition and site preparation works.

Additional major residential project work can be seen at Capital Quarter and at Dumball's Road. Both sites feature new apartments for rent.

Taken together, these current projects in the nation's capital form part of the ONS statistical analysis of construction work done in Wales in 2021. In 2021, activity levels for new work in Wales seemed to recover, being 25% up on 2020, but still they were some 30% down on 2018 figures. However, although the total work figures were down by 13% on 2018, there was a substantial uplift in Repair and Maintenance work, of 35%.

Total new orders value actually rose in Wales for 2020, by almost 23%, to be followed by a fall of 30% for 2021. As ever though, delving further into the statistics reveals that Infrastructure and Industrial new work rose by 138% and 204% respectively in 2020, so falls in both in 2021 underpinned the return of new work volumes for 2021 to 13% less than 2018 levels. The effect of the 2020 uplifts is that, as a large part of that work wends its way to completion this year, the new projects envisaged above for Cardiff will play an important part in sustaining existing levels of activity and employment.

NORTH WEST

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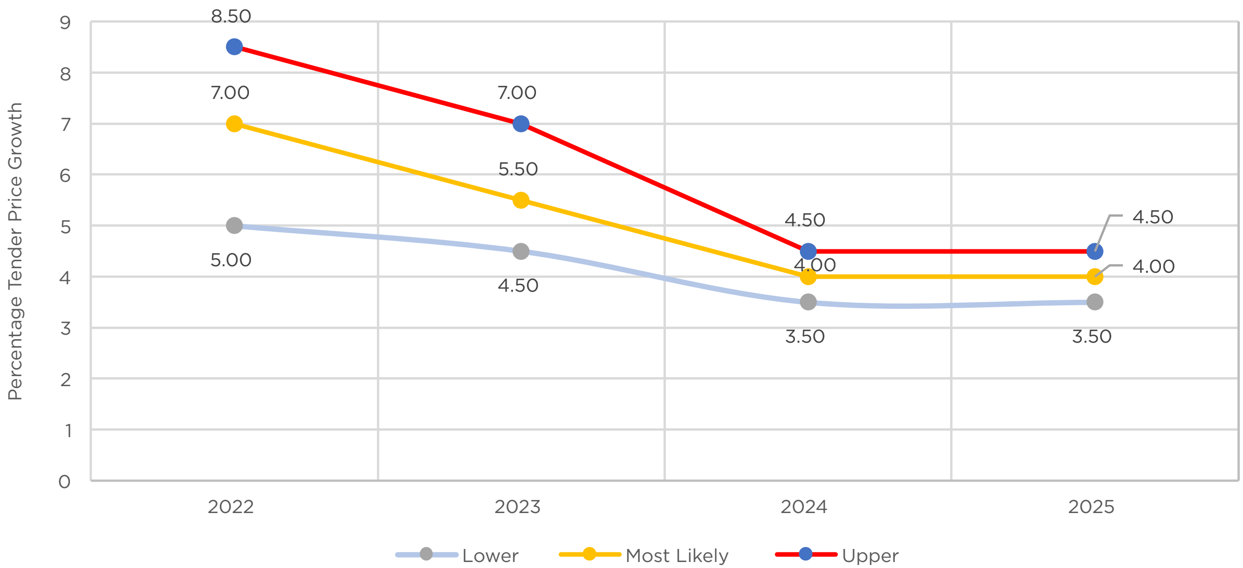
Source	% Uplift reported	DATED	2022	2023	2024	2025
North West	Lower	April 2022	5.00	4.50	3.50	3.50
North West	Most Likely	April 2022	7.00	5.50	4.00	4.00
North West	Upper	April 2022	8.50	7.00	4.50	4.50
Competitors/Others - Upper Range (Yorks and Humber)		April 2022	4.50	4.00	4.00	4.50
Competitors/Others - Lower Range (Yorks and Humber)		April 2022	2.50	2.50	2.00	2.00
BCIS (National)		31/03/2022	7.30	2.40	4.00	3.60

Tender Price Change - North West



OVERVIEW - North West

For the major cities of the north west, namely Liverpool and Manchester, major issues can be said to be bundled in what is an unprecedented grouping of effects. With Brexit and Covid as yet not fully expelled from the risk-list, now we have the Ukraine situation, backed-up by large increases in energy costs, rapid and growing general inflation, general vehicle fuel increases and also the change of tax regime surrounding red diesel. On top of all of that, we face commodities price increases flowing through into building materials costs and creating a perfect storm of price rises and wider market-uncertainty.

The normal construction environment features the ebb and flow of well-known and priceable risks, existing in a framework of known work quantity and readily understandable pricing structures. However, that certainty is lacking at present, as previously existing supply chains are in doubt, lead-times are extending, and contractors and sub-contractors alike are reluctant to commit to the usual fixed price contractual relationships.

All of this necessarily elongates negotiation phases leading to bringing contractors on-board, and complicates the commercial structure of agreements. Traditional solutions to procurement are badly strained in these circumstances, due to the balance of risk and uncertainty being weighted heavily in the direction of uncertainty.

RLB TPI uplift this year is forecast as most likely to be around 7%, with a lower figure of 5% and a higher figure of 8.5%, depending on the continuing fall-out from the three major economic shocks of Brexit, Covid and Ukraine. Such figures are far above the normal expectation of 2-4%, being broadly double that, and more. Looking farther on, 2023 is forecast to show a similar outlook, before settling-down somewhat in 2024. These forecasts are of course very fluid, and will likely change in the next quarter, but they are broadly in-line with that of BCIS and other commentators.

From clients' standpoint, appropriate economic outcomes depend upon managing their own and understanding contractors' risk exposure. So, moving forward in the current circumstances, there is a premium on negotiation and communication to ensure that compromises can be reached that can work on both sides of contractual fences and can deliver reasonable outcomes in the face of unparalleled risk positions.

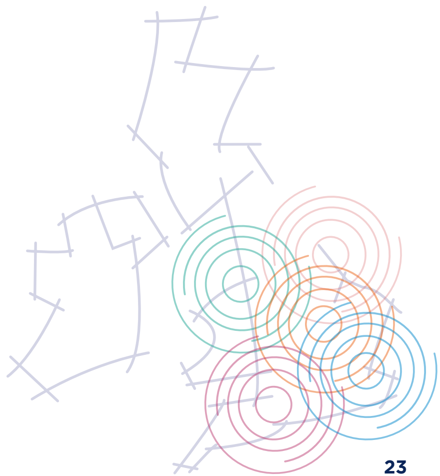
SUMMARY

Clearly, the advent of the geopolitical shake-up surrounding the Ukraine has affected all markets, including construction, all around the world. What is ostensibly a local matter has now inevitable knock-on effects throughout a long chain of supply and demand links, not only directly in terms of products, but indirectly in terms of distribution, availability and pricing.

While estimators in sub-contractor and main contractor offices had been able to understand the full nature of the Covid and, to a lesser extent, the Brexit effects, this third economic shock is rippling through all aspects of global economy. Not only are there complex relationships to consider, but also the very global nature of the situation. Application of sanctions and constraints on Russia have in-house impacts which are extremely difficult to quantify, as they form only a part of the overall framework. So, uncertainty has bred not only price escalation, but even circumstances where fixing of prices for any length of time involves a major risk.

As matters develop, there will, of course, have to be solutions found to deal with the uncertainty. Procurement models will have to accommodate the need for surety, but that commercial model will take time to develop and to bed-in to construction markets.

Fixed price contracts have been the norm for many years and moving to something resembling a fluctuating price contract would be a considerable shift for many industry actors, although forms of fluctuations agreement have been mooted on recent contract negotiations. Any shift in procurement strategy caused by the current market volatility and inflation should also take the opportunity to take into account wider project value outcomes in accord with the principles of the Construction Playbook and the CIH Value Toolkit.



ABOUT RIDER LEVETT BUCKNALL

RLB 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.

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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.

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- Cost management
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