TPF

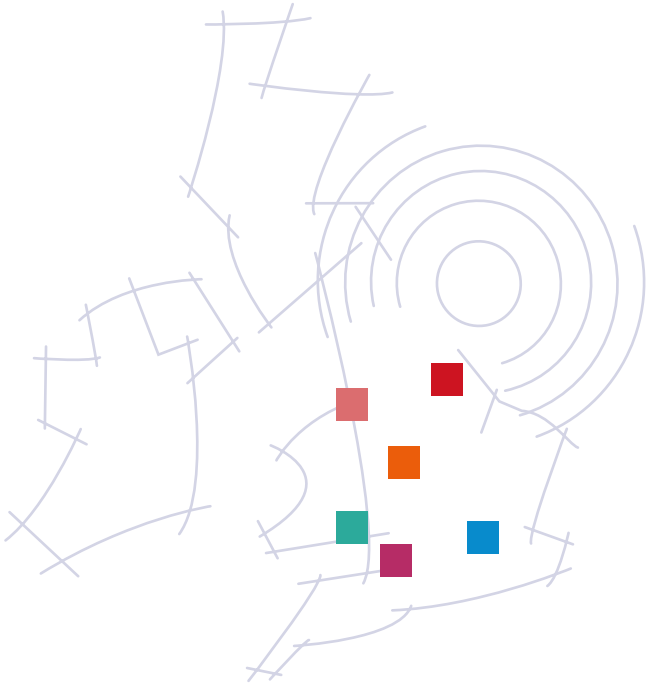
RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q4 2022

2022 Q4

RLB Rider Levett Bucknall

CONTENTS



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INTRODUCTION

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The recent coronation of Rishi Sunak as Prime Minister appears to be returning politics and economy in the UK to a more even keel. However, although the IMF's Economic Outlook forecast UK GDP at +3.6%, in its October 2022 publication, the OBR's figures in the back-up materials to the Chancellor's Autumn Statement put the 2022 figure at only +0.06%, and recessionary figures then through until the final quarter of 2023.

The economy has struggled to recover to near pre-covid equivalence this year, affected by the ongoing Russia-Ukraine war, historically high inflation levels, a spike in home loan interest rates, rising fuel bills, a creaking health service and static or falling GDP. Q3 once again showed a slight downturn, raising questions of technical recession in Q4.

On the ground, the future for the "levelling-up" imperative seems threatened by the increasing cost of funding. While fuel costs have settled somewhat, elevated energy costs remain a concern, as does the prospect of even further uplifts in those energy costs after the end of the six-month government support package in April. With general inflation still standing at over 10%, incomes relatively static and the Bank of England Base Rate now 3.00%, individuals and businesses are experiencing pain from multiple directions.

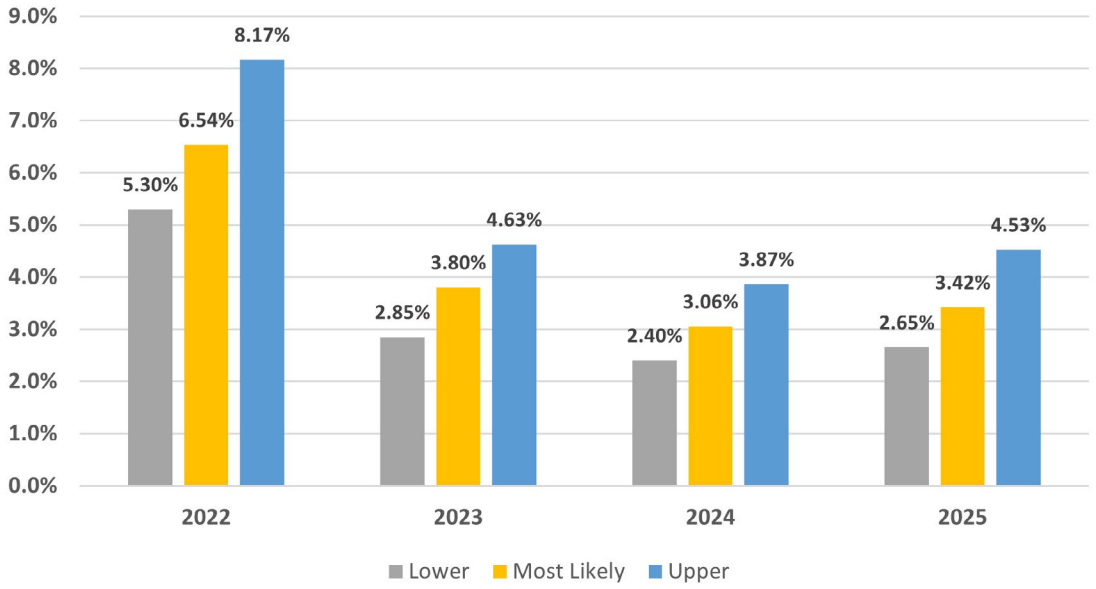
For construction nationwide, workload levels remain high, with recent construction output by value showing the highest five quarterly values ever recorded and new orders figures showing near record figures for three of the last four quarters. Meanwhile, BCIS reports that general building cost inflation will have risen by 9.7% against average tender price inflation of only 7.8%, indicating margin-squeeze continuing.

The Autumn Statement foreshadowed significant fiscal tightening via public spending cuts and tax increases, while maintaining the much-discussed "pensions triple-lock". However, it is also the case that the UK's debt to GDP ratio currently stands at second lowest in the G7, so there may yet be room for manoeuvre.

In this TPF, RLB once again provides a spread of possible outcomes for forecast Tender Price uplifts in each location, for 2022 to 2025. The continuing uncertainty in the market remains the backdrop for this approach, which will be re-assessed in the new year as further global and local economic developments take shape.

RLB's weighted-average tender price uplift models extends the foregoing approach to provide a weighted model of regional outcomes, again with the spreads noted above. 2022 and 2023 continue to display the widest spreads from lower to upper, reflecting the current unknowns in economies.

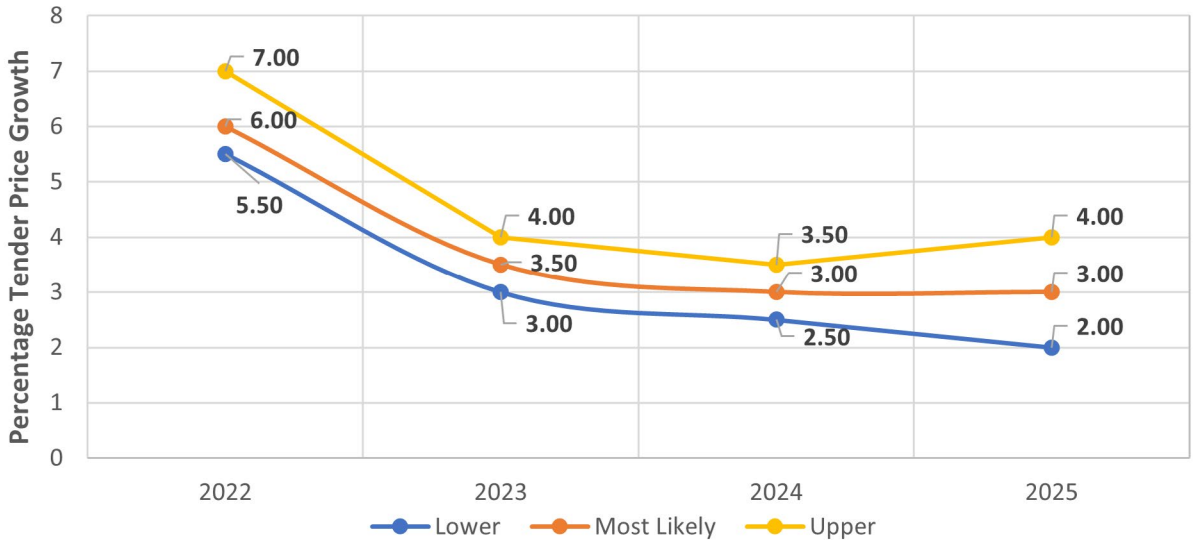
TPI Uplift - Weights: 2022 Q1 to Q3 New Orders Proportions Data



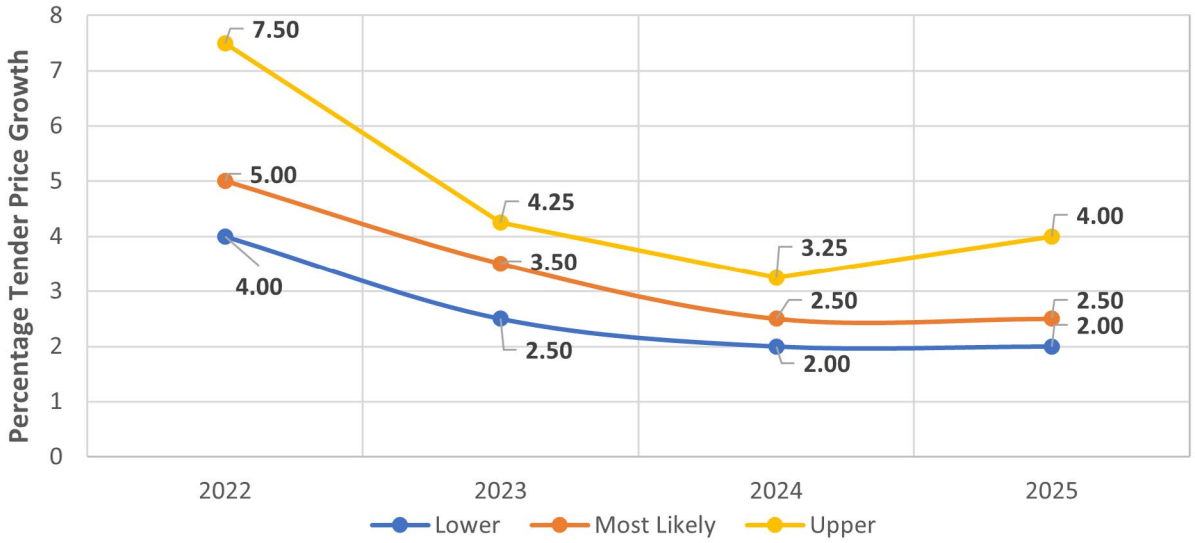
LONDON & SOUTH EAST

Source	% Uplift reported	2022	2023	2024	2025
London	Lower	5.50	3.00	2.50	2.00
London	Most Likely	6.00	3.50	3.00	3.00
London	Upper	7.00	4.00	3.50	4.00
Thames Valley	Lower	4.00	2.50	2.00	2.00
Thames Valley	Most Likely	5.00	3.50	2.50	2.50
Thames Valley	Upper	7.50	4.25	3.25	4.00
Competitors/Others - Upper Range (London)		9.00	5.70	5.00	4.50
Competitors/Others - Lower Range (London)		6.00	2.50	2.00	2.00
Competitors/Others - Upper Range (South East)		8.80	5.00	5.00	4.50
Competitors/Others - Lower Range (South East)		6.00	3.00	2.50	2.50
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		9.70	3.00	3.50	2.90

Tender Price Change - London



Tender Price Change - Thames Valley



OVERVIEW - LONDON & SOUTH EAST

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In general, workload levels remain high, although coloured by concerns as to the future.

ONS statistics show current value of work done in London in Q3 2022 as the highest on record, up over 7% on the previous quarter for new work (and up over 13% for total work as against Q3 2021), as well as up over 6% for repair and maintenance work.

Compared to Q3 last year, new work was up almost 16% by value and although a mixed bag by sector, up overall by almost 9% year to date as against last year. However, these uplifts include inflation to materials and labour costs.

For the South East, construction output was likewise up almost 26% Q3 to Q3, although new work coming on stream was down by over 5%. London and the South East now comprise approximately 31% of the total UK new work orders in the year 2022 to date, and are collectively less than 4% up by value on last year's first three quarters despite the BCIS Building Cost Index showing some 10% uplift for 2022.

These figures highlight one of the fundamental issues facing the UK construction industry as a whole and London and the South East in particular, namely that current workloads remain high, alongside high input cost imposts, and yet new orders are constrained by what may be sector-led confidence concerns.

In the present climate there is the sense of a constriction of return on investment. Bank of England inflation forecasts remain high, although commodity prices have moderated recently, but alongside the sharp increase in Base Rate, there is real uncertainty around commercial funding availability, mirrored in the current housing and mortgage market. Clients and developers alike are experiencing significantly challenging borrowing costs and criteria and without the continuing availability of debt, development may be affected.

On the ground, commercial new-build and refurbishment contractors are still seeing a good workload pipeline for 2022 and 2023, but mainly with legacy projects. Although there is little obvious evidence of projects being put on hold due to economic issues, the fact that there appears to be a lesser flow-through of replacement projects to market suggests that order books for 2024 could be under pressure.

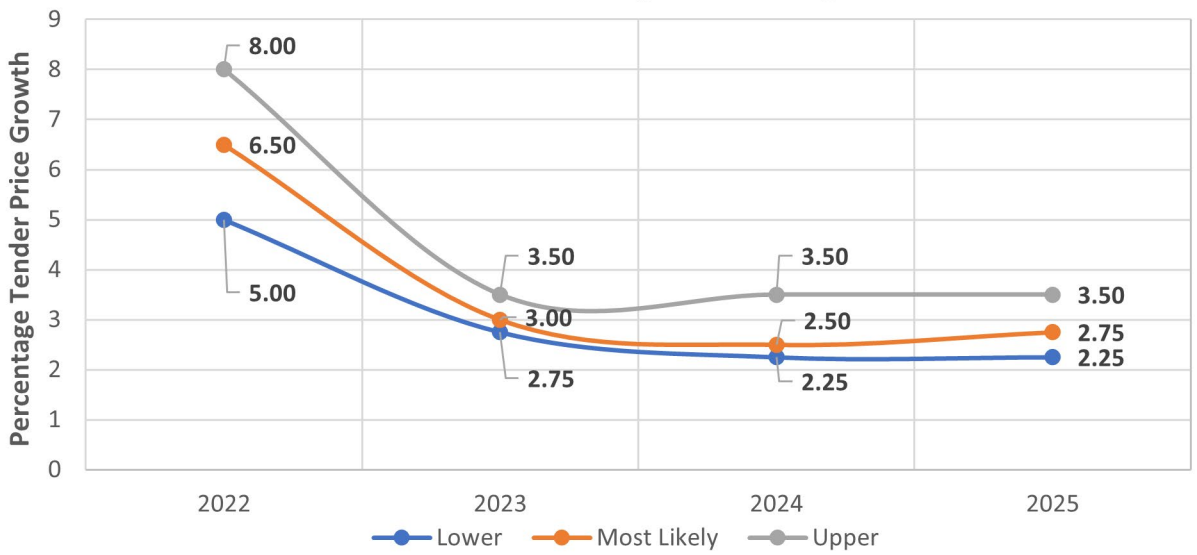
In the rapidly growing logistics sector, end-user/tenant-led projects remain relatively strong, as businesses are still needing to relocate/expand/consolidate, in contrast with the more traditional developer-led speculative market, which is showing much reduced activity with a cautious "wait and see" approach from many developers. We are seeing this trend across the manufacturing and logistics/e-commerce sub-sectors. More generally, some developers are pushing ahead on a speculative basis with enabling works to make their sites ready and to be better able to attract end users/tenants as against other available site locations, to offer increased speed-to-market/go-live operations.

Where end user/tenant led projects are proceeding, this is subject to much more rigorous and lengthy due diligence to inform corporate investment decision-making. However, once decisions have been made, clients are still wanting their new facilities up and running as quickly as possible.

MIDLANDS

Source	% Uplift reported	2022	2023	2024	2025
Birmingham	Lower	5.00	2.75	2.25	2.25
Birmingham	Most Likely	6.50	3.00	2.50	2.75
Birmingham	Upper	8.00	3.50	3.50	3.50
Competitors/Others - Upper Range (Birmingham)		8.30	5.00	4.50	4.30
Competitors/Others - Lower Range (Birmingham)		4.75	2.50	2.50	2.50
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		9.70	3.00	3.50	2.90

Tender Price Change - Birmingham



OVERVIEW - MIDLANDS

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In the Midlands, there appears to be an accepted view that turbulence is the new normal. Navigating that turbulence is problematic, but contractors are becoming used to attempting to plot a course.

High workload levels continue in the Region. Although for the latest quarter, ONS reports only a further uplift of just over 1% for work value carried-out, that uplift is the highest current value on record, and the last five quarters occupy the top five places in that current value list. Looking year-on-year , the latest four quarter-years outstrip the previous four by over 28%.

Even though these figures have an inflationary component within them, still they represent workload levels that are unprecedented in the West Midlands. For new orders coming through, although the last four quarters' values exceeded the previous four quarters by only 8%, the most recent quarter has the second highest value on record, adding weight to the analysis of a highly active local market.

Work output levels in repairs and maintenance sectors were up over 21% year-on-year , and new work carried-out up over 32%, within which private housing and infrastructure up almost 35% and 46% respectively stand out.

For new orders coming into the market, Private Industrial and Private Commercial are the standouts, up almost 76% and 53% respectively year-on-year , indicating continued workload pipeline stretching well into the next couple of years.

Alongside all of this, and whilst HS2 activity is evident across the region, there is some signs of capacity opening up through different levels of the civils supply chain. Nervousness around the impact of interest rates on residential site-enabling may be a driver. BTR consents continue to be bagged, with increasing numbers moving to site. Increasing interest rates are expected to lead to more challenging underwriting in the coming months; less rapidly rising construction costs may assist, but land values may need to ease, to permit deals to stack up.

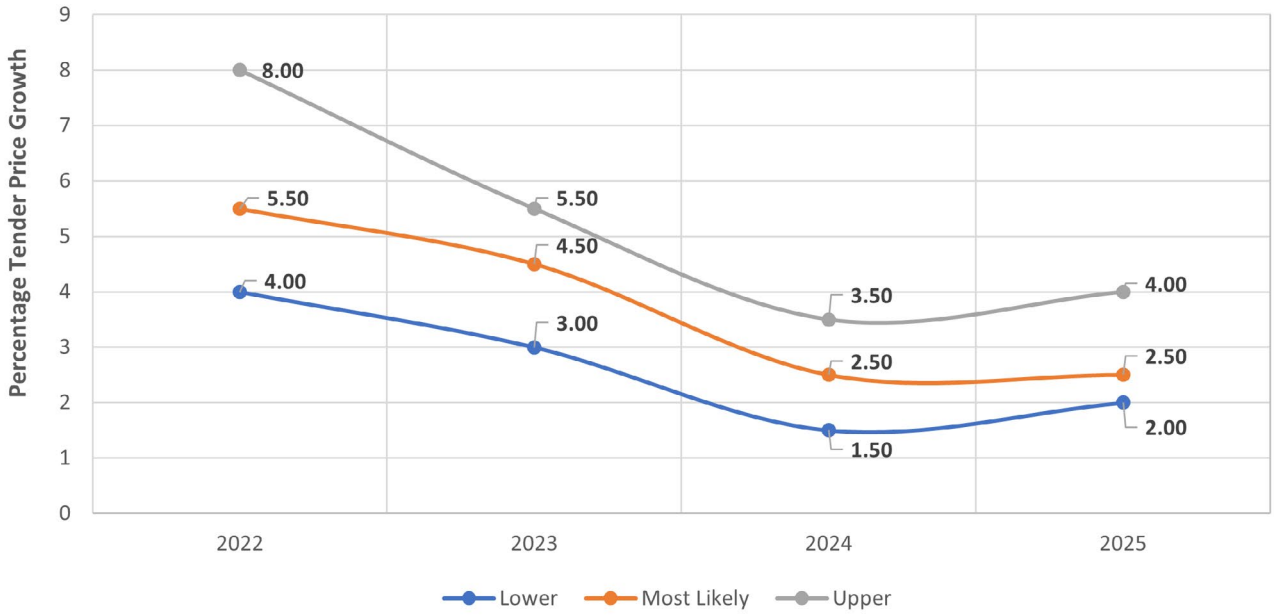
Commercial stock is beginning to transact, together with some refurbishment of secondary stock. Hospitality and leisure sectors remain strong, while the public sector pipeline is poised for the aftermath of the Autumn Statement, to assess public spending priorities and prospects.

At trades level, although there are signs of easing in groundworks, trades such as Frame, Brickwork, Cladding and MEP remain busy with high levels of demand on both materials and labour.

SOUTH WEST

Source	% Uplift reported	2022	2023	2024	2025
Bristol	Lower	4.00	3.00	1.50	2.00
Bristol	Most Likely	5.50	4.50	2.50	2.50
Bristol	Upper	8.00	5.50	3.50	4.00
Competitors/Others - Upper Range (Bristol)		8.80	5.00	4.80	4.50
Competitors/Others - Lower Range (Bristol)		4.50	3.75	3.50	2.50
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		9.70	3.00	3.50	2.90

Tender Price Change - Bristol



OVERVIEW - SOUTH WEST

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The construction industry in the South West region remains busy, with a steady flow of new enquiries, but the general mid-term view is that levels of activity in the region will slow in 2023.

Funding availability has slowed due to reductions in project margins and the increased cost of finance, which has meant the viability of some projects has been brought into question, causing some projects to be put on hold.

Particularly affected is the South West's Residential market, which has reacted sharply to interest rate increases and associated uncertainty. A large portion of the South West market is downsizers and relocations, and whilst enquiries to housebuilders remains high, sales are slowing due to a reluctance of buyers toward marketing their own homes until the market stabilises. This situation is causing a damping of demand for new-build housing stock. In order to deal with this and to maintain liquidity, some housebuilders have slowed production of units and put existing units on hold at current build stages until existing stock is sold.

The knock-on effect is increasing sub-contractor availability and creation of more competition in the market, which is stabilising tender price inflation. However, the rental market remains strong and we may yet see strategies shift to service this demand.

Groundworks and infrastructure prices currently remain strong, due to the shortage of Groundwork Contractors in the region and high materials cost inflation in this sector. However it is anticipated this activity will slow in the mid-term as pipeline projects fail to materialise on site, and we are seeing increased activity from groundworkers chasing project enquiries for their 2023/24 orderbooks.

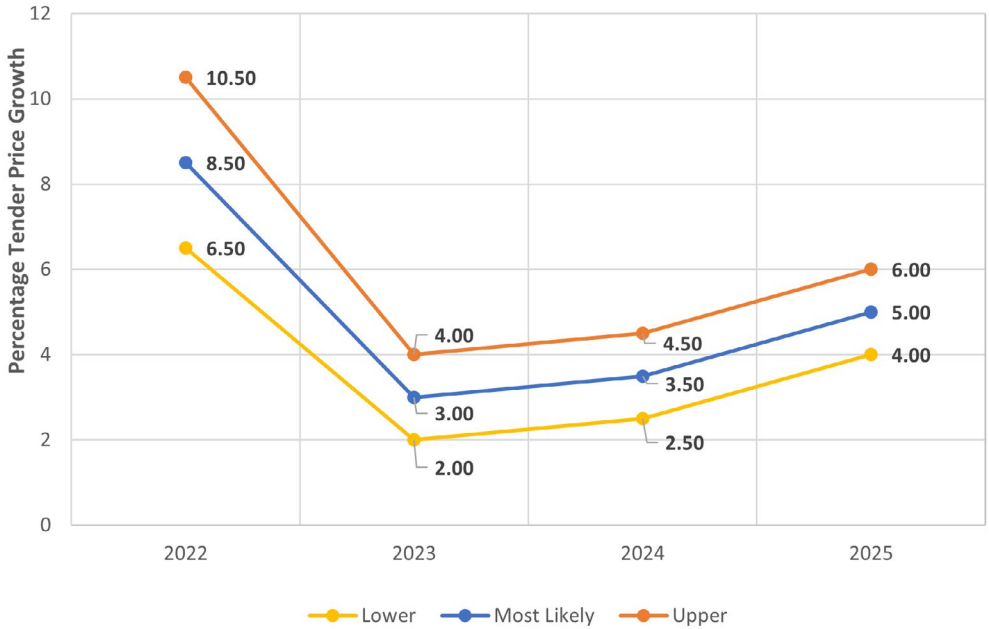
Likewise, we have started to see Demolition Tender prices fall, with this being the first trade in the supply chain to be affected by a general trend of fewer projects being brought to site in recent months.

A couple of Main Contractors in the area have entered into administration. The Main Contractor market continues to be highly risk averse in tendering works and increasingly aware of focusing on claims post contract, as they struggle to maintain liquidity in a market where materials and labour prices continue to rise, while prices are or may be fixed but order books for 2023/24 look less convincing than would normally be the case. The fundamental difficulty for both contractors and sub-contractors is the need to re-fill order books to replenish supply of workload, yet alongside rapidly inflating input costs and fixed output prices.

YORKS AND HUMBER

Source	% Uplift reported	2022	2023	2024	2025
Sheffield	Lower	6.50	2.00	2.50	4.00
Sheffield	Most Likely	8.50	3.00	3.50	5.00
Sheffield	Upper	10.50	4.00	4.50	6.00
Leeds	Lower	6.50	2.00	2.50	4.00
Leeds	Most Likely	8.50	3.00	3.50	5.00
Leeds	Upper	10.50	4.00	4.50	6.00
Competitors/Others - Upper Range (Yorks and Humber)		8.00	5.00	4.80	4.50
Competitors/Others - Lower Range (Yorks and Humber)		5.25	3.50	3.00	2.50
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		9.70	3.00	3.50	2.90

Tender Price Change - Yorks and Humber



OVERVIEW - YORKS AND HUMBER

Strong price growth has continued to be a challenge in recent months, which is impacting on development opportunities and the commercial viability of schemes in the region.

The anticipated slowing down of the UK-wide economy is creating further challenges for the construction sector, which needs underlying confidence in order to maintain momentum over the medium term. Construction activity currently continues to develop well across the region, however following a peak in output through 2021, a general reduction in output was always likely.

Price inflation in terms of materials and labour costs continues to add pressure for developments in the region, causing increasing pressure on development costs and ongoing concern relating to agreeable contract terms and risk profiles as between parties. These cost and risk increases will no doubt lead to altered financial imperatives for contractors and client organisations, particularly into 2023 when the effects of commercial risks come to fruition during the construction phase of developments.

We anticipate the slowing down of construction and the economy as a whole to have a settling effect on construction prices generally, which will add further pressure and risk into existing contracts due to the general rising input costs which still continue to affect contractor and sub-contractor direct project costs.

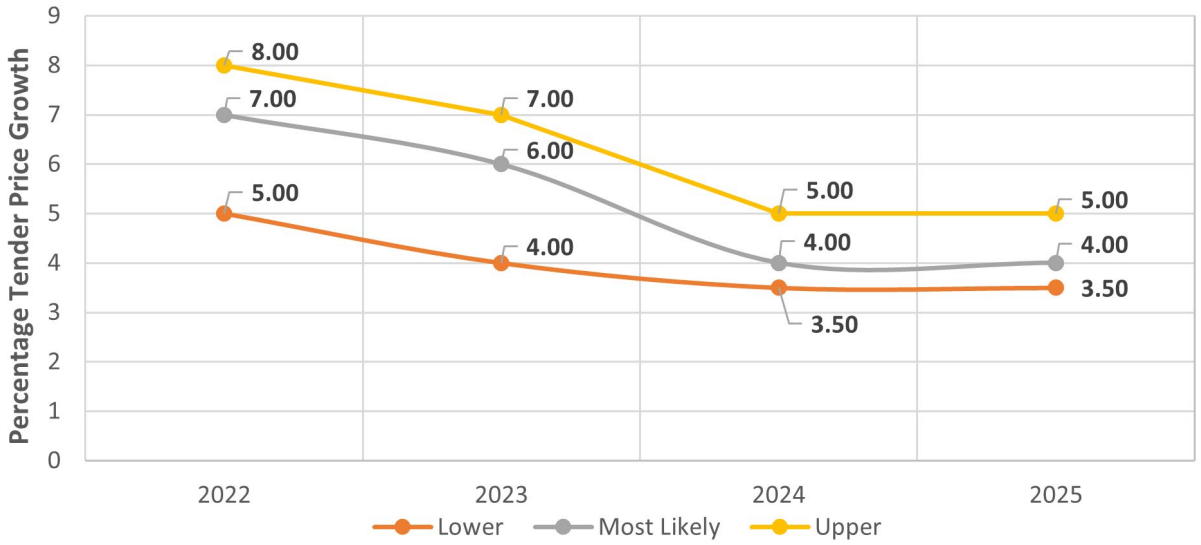
Despite all this concern with the wider economy, Leeds and Sheffield continue to show promise, with large scale developments ongoing and in the pipeline. Developments such as Heart of the City in Sheffield, spanning 7 acres, are expected to provide 7,000 new jobs by 2030 and development of private housing, apartments and student accommodation continue across Sheffield and Leeds.

With the opening of the UK Infrastructure Bank in Leeds and the ongoing recruitment that delivers in Leeds, this initiative will continue to support strong links in the development and construction sector, which has been one of the key sectors of growth over the last few years and is positioned to continue over the medium term, provided government funds filter through efficiently.

WALES

Source	% Uplift reported	2022	2023	2024	2025
Cardiff	Lower	5.00	4.00	3.50	3.50
Cardiff	Most Likely	7.00	6.00	4.00	4.00
Cardiff	Upper	8.00	7.00	5.00	5.00
Competitors/Others - Upper Range (Wales)		8.30	5.00	4.80	4.30
Competitors/Others - Lower Range (Wales)		4.50	2.00	2.00	2.00
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		9.70	3.00	3.50	2.90

Tender Price Change - Cardiff



OVERVIEW - WALES

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Latest ONS statistics once again show strong market activity in Wales, with over 5% uplift in current value of work carried out quarter on quarter, and an uplift of over 17% by current value year on previous year.

New orders statistics also remain high quarter on quarter, but the year-on-year figures are heavily influenced by the large Q2 figure noted in the previous Tender Price Forecast. Nonetheless, the combination of ongoing high levels of workload and of upcoming work on its way through the early stages and on into the high value spends in terms of both materials and labour, signify a Welsh national market that remains in the grip of rapid expansion, despite the increasing cost imposts being experienced across the wider UK market.

The new infrastructure projects that are now heading to and on-site will form the backbone of construction workload over the next several years and will continue the green infrastructure development sought by the Welsh government as we head towards 2030. The move toward a zero-carbon economy, though challenging, brings with it major development and change opportunities as markets adapt to new methods of working and distributing goods, all of which demands investment in facilities and potentially very high levels of build-input.

For Cardiff, as the principal commercial hub, construction activity continues apace with no shortage of pipeline work coming to market as of yet. Part of the vast infrastructure spend mentioned above is centred on Cardiff's rail transportation system and contributes to the greening and betterment of Cardiff's rail services. The effect of the high current and upcoming civils spend impacts more on materials and plant supplies due to higher plant utilisation rates in civils work than pound for pound in building work, but in overview, labour resources are already stretched anyway, a situation that Wales holds in common with most of the UK.

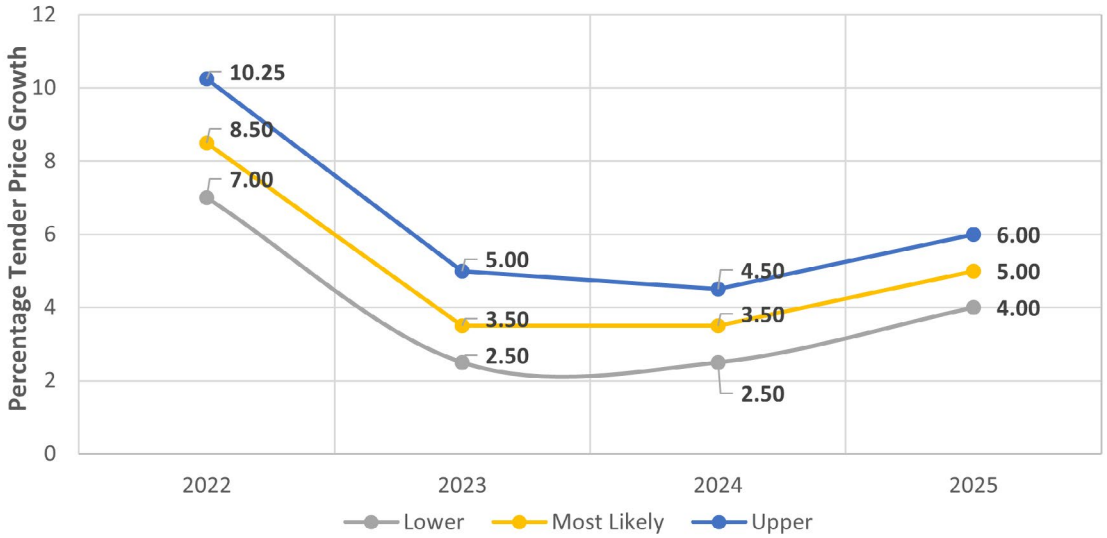
Any supposed trades' availability will be sucked-up by the advent of residential projects still in the pipeline for the East and West of Cardiff, part of the Council's direction to ease homelessness, raise housing standards and improve fire safety. Though admirable in themselves, these works are highly labour-intensive and must sit alongside an already bustling Cardiff market. It will be interesting to watch the programming develop and to see where these refurbishment works sit in sub-contractors' workload timelines and how any bottlenecks result in possible cost spikes. The council's new-build aspirations raise different questions for the labour supply, in that standardisation produces economy in procurement of labour and materials that cannot be as available to refurbishment works.

Excess levels of workload across the various aspects of the Welsh construction industry will continue to drive tender price escalation at the end of this year and into next, all other things being equal, especially as contractors and sub-contractors themselves will be affected by their own input cost imposts and must pass them through in order to maintain liquidity.

NORTH WEST

Source	% Uplift reported	2022	2023	2024	2025
Manchester	Lower	7.00	2.50	2.50	4.00
Manchester	Most Likely	8.50	3.50	3.50	5.00
Manchester	Upper	10.25	5.00	4.50	6.00
Liverpool	Lower	7.00	2.50	2.50	4.00
Liverpool	Most Likely	8.50	3.50	3.50	5.00
Liverpool	Upper	10.25	5.00	4.50	6.00
Competitors/Others - Upper Range (North West)		8.30	5.00	4.80	4.50
Competitors/Others - Lower Range (North West)		5.25	2.50	2.00	2.00
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		9.70	3.00	3.50	2.90

Tender Price Change - North West



OVERVIEW - NORTH WEST

For the North West, construction work carried out was up by less than 5% quarter on quarter, but up by over 15% year-on-year. It is notable that the last four quarters provide four of the six highest current value figures recorded for the Region. However, while figures for All New Work are up by almost 14% for the last year, one issue that is coming to the fore is that of a perceived shortfall in replacement workload.

In respect of new orders coming through to site, there was a fall of over 15% year-on-year, which is significant and bears examination at sector-level. Private industrial and private commercial are down by almost 16% and 35% respectively and "other new infrastructure work" and "other new work excluding infrastructure" down over 12% and almost 40%.

Although in the Q3 2022 TPF, RLB reported high levels of activity, we also presaged the question of sufficient levels of replacement workload for the marketplace. As activity levels are being maintained on site and the latest ONS figures support the perception of the dropping-away of new work coming to market, that perception still looks to be reasonably accurate.

Reiterating on the Q3 TPF, the ongoing Everton Stadium, though large in and of itself, still does not appear to be stressing the market due to its national draw of trades and materials. As a result, local trades and suppliers are still operating in their own microcosm of the whole wider regional market.

Government intervention in the workings of Liverpool City Council is still a consideration in relation to bringing some local authority projects to tender and will presumably be an issue for as long as the additional scrutiny continues to be in place.

The transition of the city centre markets in both Liverpool and Manchester appears to be proceeding, as there is a move away from rapid tender price escalation on the back of large amounts of potential work. Instead, the market may need to re-adjust perspectives as workload availability tightens and opportunities to tender become scarcer. That said, build-costs continue to outstrip any growth in tender pricing so the effect could be very much tighter tendering and real difficulty with post contract liquidity.

SUMMARY

Rider Levett Bucknall

Although construction markets around the country continue to operate at a high level relative to their capacity, there are concerns in some regions as to the replacement of workload as projects reach completion.

Over the market as a whole, procuring projects against the backdrop of considerable market volatility including fuel, energy and materials price rises, labour shortages and pressure to reflect cost of living increases, continues to be a major challenge.

- Clients are, not unreasonably, averse to what they view as unnecessary risk, so the continued open book/negotiated route where tendered sub-contract prices can be established and visible remains in favour.
- Main contractors and supply chain are still unable and unwilling to fix prices for any length of time beyond the immediate short-term.
- Key materials price increases continue, mainly around aggregates/cement/concrete and steel (whether for main structural steel, reinforcement for slabs and groundworks), roof and wall cladding and even for more minor packages such as raised floors.
- Fuel prices for plant appear relatively stable, albeit historically high at present, and the earlier 2022 red diesel tax implications have been factored into projects' costs/rates.
- Early pre-booking/reserving of key packages and their labour, to fix prices and increase certainty on delivery/program remains critical to help in de-risking these variables. This is particularly true of structural steelwork, roof and wall cladding and any bespoke/long-lead items such as mechanical/electrical/refrigeration/lift equipment/plant.

As such, the scope for pricing-in full pass-through of increasing labour and materials costs is constrained by the need to ensure a full or near-to-full order book in an increasingly competitive environment. Rapid cost inflation may not in the medium-term be capable of being passed-on to clients looking at their projects' collective viability and place in the market and wondering whether to even pull the trigger on spending commitments. In such times, it is even more the case that emphasis needs to be placed on value-for-money in respect of project design and procurement selection choices. Careful analysis at pre-contract stage can lead to significant improvements in buildability, contractual arrangements, and overall value in the project.

SUMMARY

For contractors, assessing what is a short-term blip and what may be longer-term trends is more difficult in such a volatile market. Those tier one contractors having reasonably lengthy projects on site, and a longer lead to their pipeline, may view relatively short-term volatility as largely immaterial to their pricing decisions. However, smaller, regional contractors may not be able to distinguish short term “noise” from long-term trends with the near-term immediacy of pipeline gaps in their workload. This imposes considerable additional pricing and tendering risks on smaller construction entities, and therefore greater liquidity risks, as they compete for materials and labour availability as well as for suitably priced work. Consequently, the larger market-players maintain a valuable advantage, as their workload, pipeline and pricing timelines spread out over longer periods and are less likely to be adversely affected by short-term impacts, which are mellowed over time.

ABOUT RIDER LEVETT BUCKNALL

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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 value outcomes for our clients.

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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 time, cost, quality, safety, environment and social value. 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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