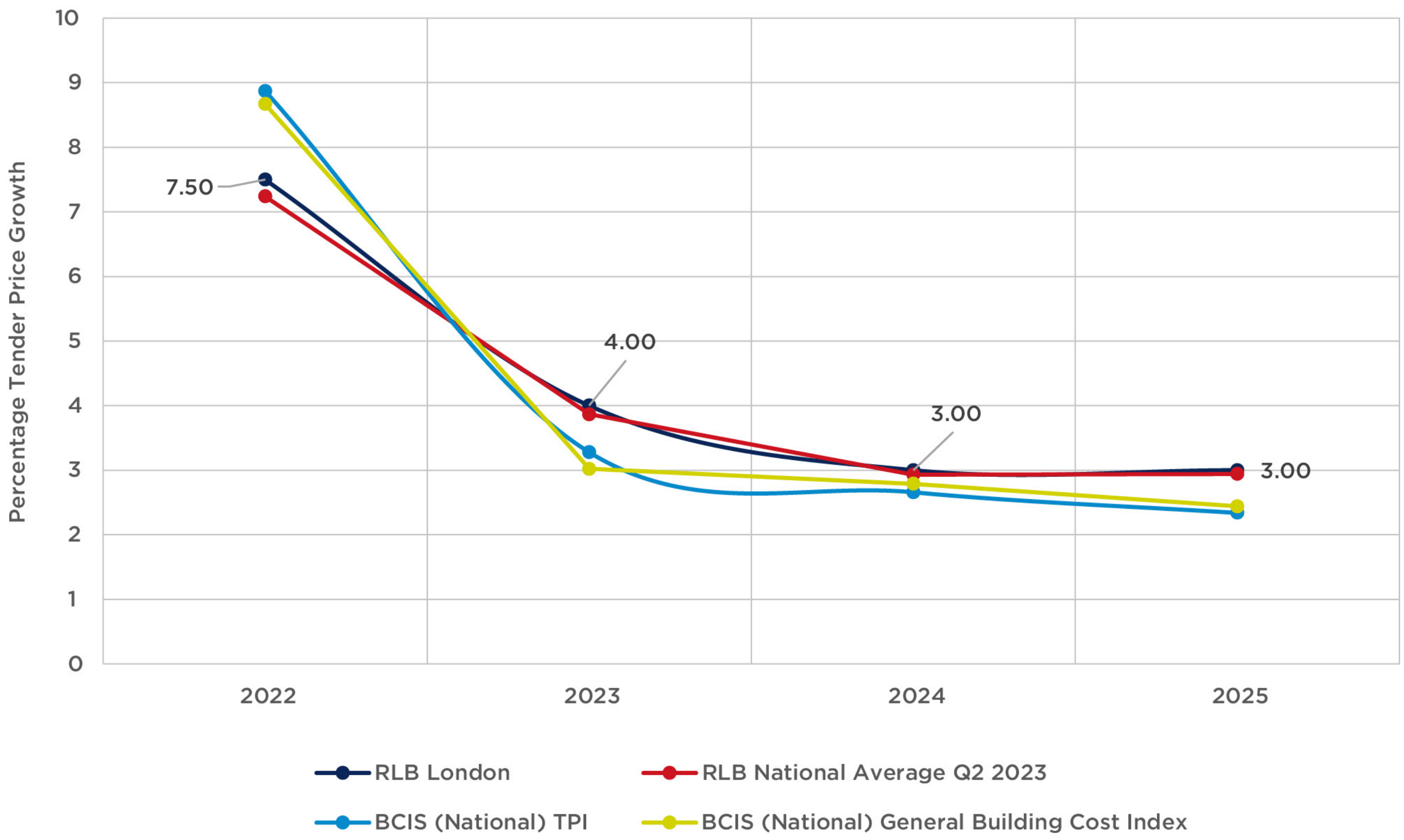
LONDON & SOUTH EAST

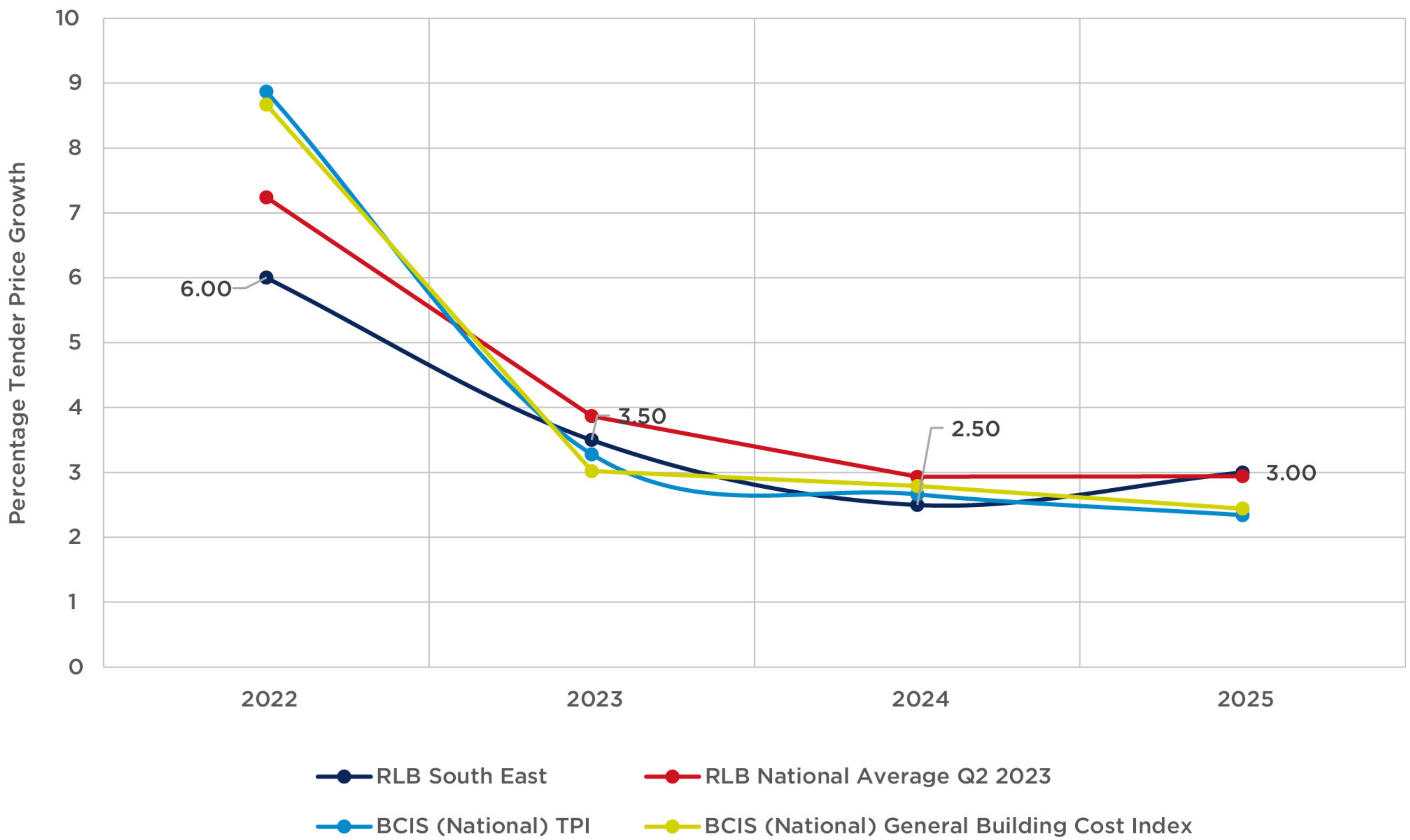
Source	% Uplift reported	2022	2023	2024	2025
London		7.50	4.00	3.00	3.00
Thames Valley		6.00	3.50	2.50	3.00
Competitors/Others - Upper Range (London)		10.00	5.00	5.00	4.30
Competitors/Others - Lower Range (London)		6.00	2.50	2.00	2.00
Competitors/Others - Upper Range (South East)		9.50	4.75	4.50	4.20
Competitors/Others - Lower Range (South East)		6.00	2.75	2.00	2.50

RLB National Average		7.24	4.01	3.02	3.01
BCIS (National) TPI		8.87	3.28	2.66	2.34
BCIS (National) General Building Cost Index		8.67	3.02	2.79	2.44

Tender Price Change - London



Tender Price Change - South East



OVERVIEW - LONDON & SOUTH EAST

Across the construction industry in London, people had braced themselves for a challenging period.

However, we have not seen the predicted wider-economy recession emerge and we are all left wondering whether we have avoided a downturn or whether a cooler market may yet emerge. For now, workloads feel busier than ever; enquiries are not slowing down and we have not seen projects' development grinding to a halt.

While short-term the market feels 'busy', longer-term prospects for contractors still seem less than ideal. However, we have not yet seen this translate into lower tenders, although historically contractors have had to bid low to win work to fill their order books. It may be that this need has yet to transpire fully and, as yet, the supply chain is holding-on to existing pricing levels rather than contemplating reductions.

We are mindful of the problems that can face contractors that bid overly competitively to win work. While part of the reality of competitive market pricing, such a situation can signal danger and concerns about financial stability. However, it is fair to say that, if the work becomes scarcer, we expect from past experience, that bidding and competitive tension would become keener.

We don't have to look too far into the past to review what caused contractors to cut prices to win work in past recessions, and unfortunately insolvency took some major players. However, now there is a sense of a more mature market where the undercutting of the past is exactly that – of the past. Contractors seem much more cautious, careful, and ready to talk about and seek to apportion risk, rather than to simply absorb it as part of standard contract conditions.

That said, the contractor market seems more complex now. Some materials are still scarce, material prices and labour costs are high and lead times for some items are considerably longer than has been experienced previously. In addition, there is a general labour and skills shortage. Supply chains are still refusing to fix prices on some items, despite the fact that we are hearing that the market is settling.

The sharp increases in materials costs and tenders over 2022 were unexpected and although inflationary pressures have not yet diminished, they are set to settle down over the next few years. Moderation in commodity prices, stabilisation of supply and global logistics balance all point toward a return to "less interesting times".

Tender prices are still more heated than could have been envisaged a few years ago, and for industry clients who budgeted before the inflationary spike from 2021, pricing remains challenging. In addition, activity levels over the last quarter seem to have been inflated due to a flood to the market of retrofitting and sustainability/net zero projects. With carbon targets of 2030 and 2050 closing fast, many clients are re-assessing their estate strategies.

From a funding perspective, green shoots of wider market confidence have seemed to be evident recently with the return of 100% mortgages. In tandem, funding regimes for construction projects had become problematic too, with market confidence faltering for some major projects. With things now feeling more stable, there should be more confidence in future project funding.

There remains, however, a conundrum: New projects (new build or retrofit) need to comply with new standards, and yet solutions are only now coming into view. Structure, fabric, services and finishes are reflected in the new environmental standards for building works.

Against that backdrop, the cost implications of new technologies are only now beginning to emerge, and for this reason, budgets can be strained. By way of evidence of this, the speculative office market seems damped. However fit-out is thriving, again largely driven by the push to refurbish rather than build new, and coupled with a demand for high quality, inviting and collaborative space in the London office market.

For retail, London's future depends on prospects for disposable income and specifically tourism. Although tourism is thriving, the Governor of the Bank of England recently stated that two thirds of the issue relating to high interest rates is still to come (i.e. mortgages yet to be renegotiated at higher rates). This will affect disposable income significantly, so retailers will plan for the reduced activity and possibly stall development and refurbishment plans where they can. However, development and/or upgrades cannot be delayed too long, lest the retailer falls behind competition, so there will remain a reasonable baseline of activity.