PUBLICATION

TENDER PRICE FORECAST

UNITED KINGDOM EDITION

Q3 2023

RLB Rider Levett Bucknall

CONTENTS

Rider Levett Bucknall

INTRODUCTION

The Bank of England's increase of the interest rate to 5.25%, looking to return inflation to its 2% target, has had a continued impact on the cost of borrowing, for clients of the industry and contractors alike.

Interestingly, two members of the Committee proposed a 0.5% increase rather than the agreed 0.25% uplift, so more increases may follow. The Bank of England Monetary Policy report indicates a peak of interest rates at just over 6%. A clear indication of the drastic change in lending and borrowing conditions can be seen in the Conditioning Assumptions table on page 9 which shows an average rate of 0.1% from 2010 to 2019, and forecasts of 5.8%, 5.9% and 5.0% for 2023, 2024 and 2025 respectively.

According to the Bank, underlying quarterly GDP was around 0.2% for the first half of the year, with similar results expected for the remainder of the year. Despite tightness in the labour market in May, the unemployment rate rose to 4.0%, indicating some signs of easing, while private sector pay levels rose to 7.7%.

There was a decrease in the Consumer Price Index (CPI) from 8.6% in May to 7.9% in June, still a considerable distance from the 2% target, although the level is expected to decrease to around 5% by year-end due to lower fuel prices and, to a lesser extent, reduced food costs. The Bank sees CPI returning to target only in Q2 2025, almost two years from now, alongside increasingly weak economic conditions, and elevated interest rates as indicated above.

In construction, according to HM Government (BEIS), overall input materials costs have risen by less than 1% in the six months to May, a marked change from the near 4% in the previous six months. According to the overall figures, there has been a significant drop in steel and timber costs of approximately 20% over the past year to May. Aside from concrete and its constituents, inflationary pressures persist elsewhere.

The Office for National Statistics (ONS) reports that while the total seasonally adjusted volume of new work performed during the six months to May 2023 was marginally down from the previous six months, when compared to the same timeframe in the previous year, it was up by over 1.5%, indicating a reasonable stability in the market.

In the labour market, according to Building Cost Information Service (BCIS) data, the cost for skilled labour averaged an increase of over 5% on the last year, with M&E over 7% and unskilled and semi-skilled up over 9%. Similarly, BCIS forecasts a 5% increase in general building input costs for 2023, compared with a 3.5% increase in tender prices, which will place more pressure on tenderers' margins.

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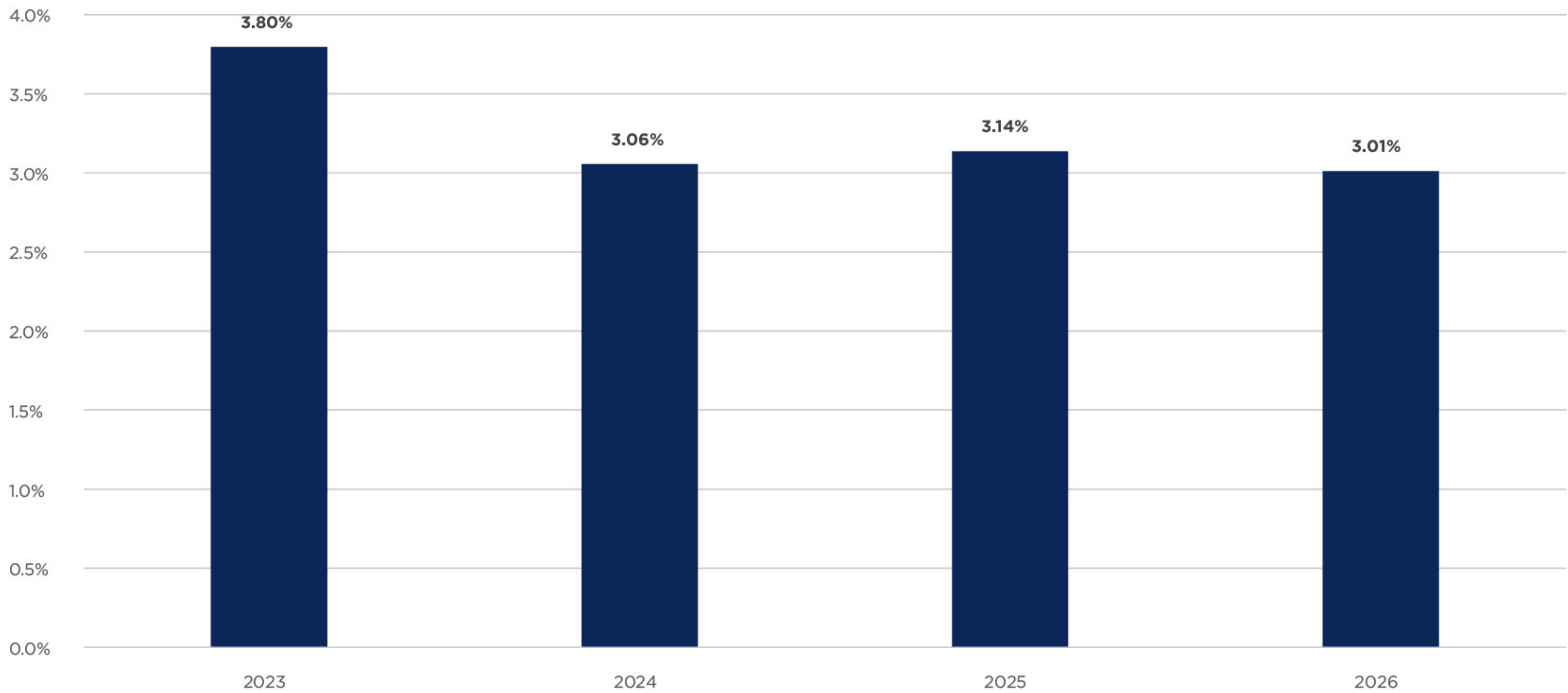
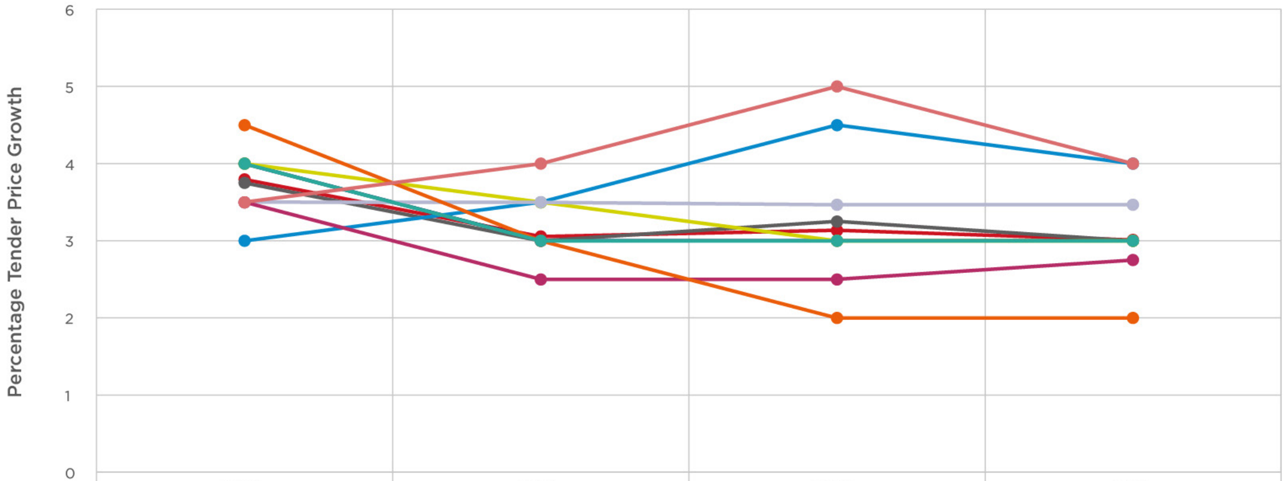
REGIONS

RLB Regions' Weighted Average TPI Uplifts

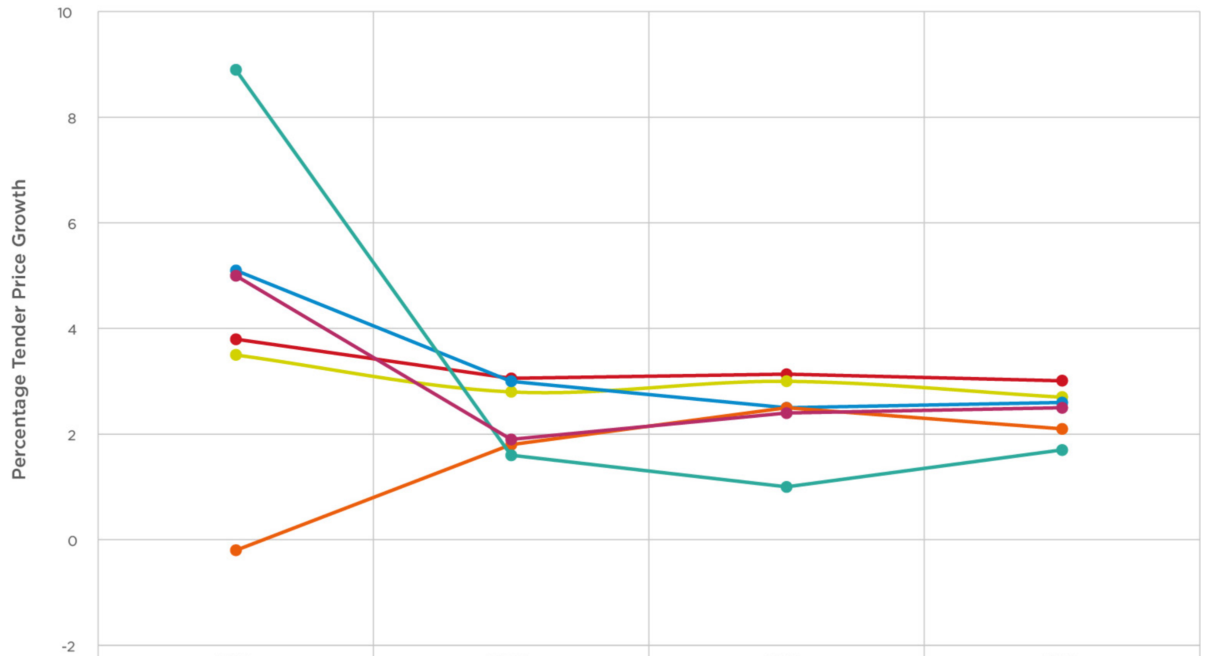


Consolidated Regional Tender Price Changes



	2023	2024	2025	2026
RLB National Average Q3 2023	3.80	3.06	3.14	3.01
RLB London	4.00	3.00	3.00	3.00
RLB Midlands	3.75	3.00	3.25	3.00
RLB North East	3.00	3.50	4.50	4.00
RLB North West	4.00	3.50	3.00	3.00
RLB Northern Ireland	3.50	3.50	3.50	3.50
RLB South East	3.50	2.50	2.50	2.75
RLB South West	4.50	3.00	2.00	2.00
RLB Wales	4.00	3.00	3.00	3.00
RLB Yorkshire & Humber	3.50	4.00	5.00	4.00

Key Data Series Uplift

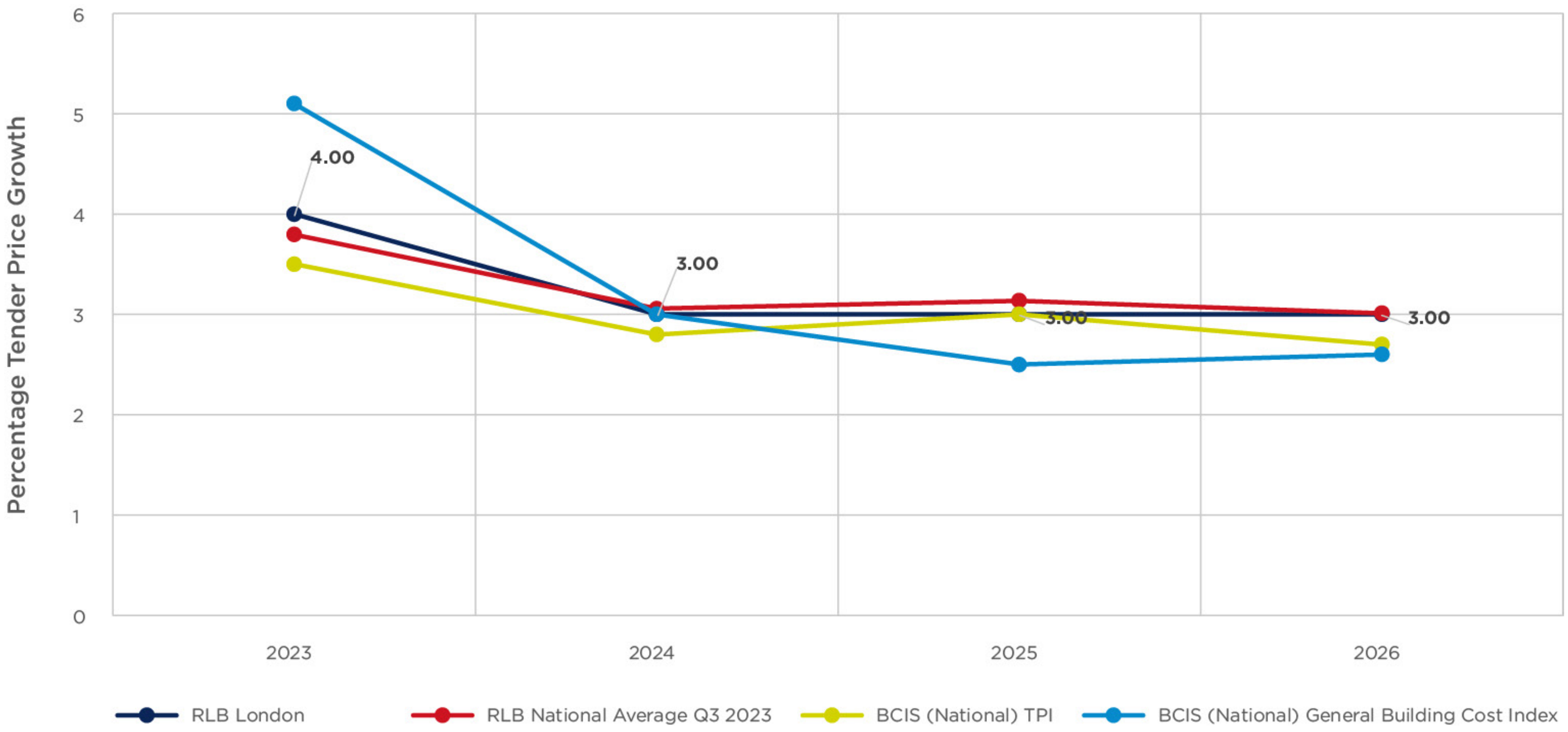


	2023	2024	2025	2026
RLB National Average Q3 2023	3.80	3.06	3.14	3.01
BCIS (National) TPI	3.50	2.80	3.00	2.70
BCIS (National) General Building Cost Index	5.10	3.00	2.50	2.60
GDP (OBR March 2023)	-0.20	1.80	2.50	2.10
RPI (OBR March 2023)	8.90	1.60	1.00	1.70
Wages and Salaries (OBR March 2023)	5.00	1.90	2.40	2.50

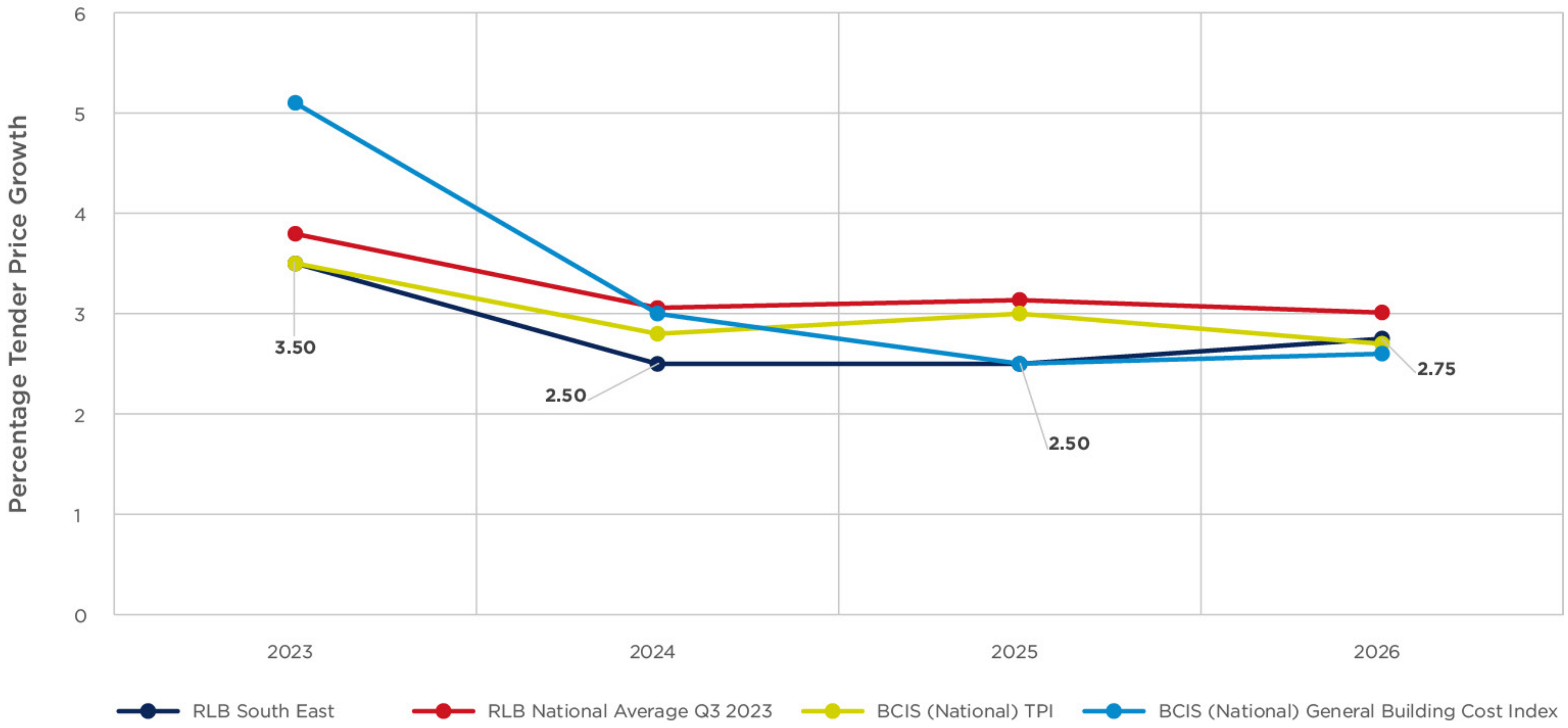
LONDON & SOUTH EAST

Source	% Uplift reported	2023	2024	2025	2026
London		4.00	3.00	3.00	3.00
Thames Valley		3.50	2.50	2.50	2.75
Competitors/Others - Upper Range (London)		5.00	4.00	4.00	5.00
Competitors/Others - Lower Range (London)		2.00	2.00	2.50	2.50
Competitors/Others - Upper Range (South East)		4.75	4.50	4.00	4.80
Competitors/Others - Lower Range (South East)		3.25	2.25	2.50	2.50
RLB National Average		3.80	3.06	3.14	3.01
BCIS (National) TPI		3.50	2.80	3.00	2.70
BCIS (National) General Building Cost Index		5.10	3.00	2.50	2.60

Tender Price Change - London



Tender Price Change - South East



OVERVIEW - LONDON

London construction pipeline not only forms the largest proportion of UK regions, it currently epitomises market conditions: slowing, but not without resilience as clients cautiously navigate more difficult economic environments.

In the London construction market, the data centre sector has gone through a tremulous six-to-twelve-month period due to the unstable economy and lead-time issues with switchgear equipment, although that storm has passed now and data centre enquiries continue to appear, emphasising strong demand. Due to the significant investment made in London's fibre and power infrastructure, most data centres are being located in the tech hubs such as west London.

The healthcare sector appears to be going through a difficult period, due to strains caused by lack of funding availability despite declared government aims in respect of building-spend on new hospitals.

The London office market has experienced continued growth in the fit-out sector, driven by the push to refurbish rather than build new, coupled with a demand for high quality, inviting and collaborative workspace. Many businesses are now looking to upgrade their offices to give a hotel feel which provides a comfortable and exciting hybrid space. Some companies such as HSBC are now choosing to relocate their offices from Canary Wharf to central London where all the "buzz" is. In addition, moves to downsize accommodation requirements due to working-from-home initiatives are further driving the rapidly changing office landscape. The consequent high demand for work has seen packages being split between multiple sub-contractors to manage labour issues and ensure that the programme of works is not affected.

Overall, there are a number of factors continuing to affect London's construction prices. The significant cost increases, over a wide range of building materials over the past couple of years appear to have eased.

Of particular concern in London, is the fact that in comparison with three years ago, there are now fewer workers in the construction sector. The shortage of labour has driven contractors toward the use of prefabricated materials to ensure that programmes are protected. This suggests that the alternatives to shortage of labour will eventually result in prefabricated materials providing preferred solutions. However, elevated demand is likely to continue to impact the cost of materials going forward, even in respect of prefabricated outputs.

In the current environment, we continue to see the perfect storm—a combination of the pandemic, the global economy, and events in Eastern Europe. Covid disruptions had a significant impact on productivity and many manufacturers' profit levels were eroded during the period, which flowed onto long lead-times and price hikes for some materials. Lead times continue to be an issue, and this has resulted in some clients seeking to ensure timely delivery through early and direct purchasing of key items of materials and plant, to avoid programme delays. Lead times have now become the primary driver, and constraint, of project programmes.

OVERVIEW - SOUTH EAST

In the South East, contractor pipelines remain robust, and ongoing projects are expected to continue. ONS figures show private new housing work down by around 7% in value for the last six months as against last year, but the real story lies in the rapid, near 60% rise in infrastructure spend value.

While most sectors have returned strong growth over the last six months, amounting to a near 22% additional value output, new orders levels paint a very different picture, showing several negative figures for the last six months and being down by 5% in comparison with last year. The most favourable sector is that of private industrial, up almost 39%, but still constituting only around 10% of the overall market.

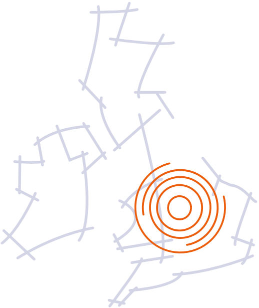
The odd juxtaposition of ups and downs in the statistics can be best-understood in the context of wider-economy concerns giving rise to re-examination of some projects' viability and opportunities, and due to uncertainties especially around rising borrowing costs.

Despite the perceived relatively solid project pipelines, the general feel of market activity levels suggests that enquiries have slowed somewhat, with some schemes being paused after planning submission and unlikely to restart until economic conditions improve and borrowing costs ease.

The residential sector in particular is likely to face slowdown in the pace of construction due to rising interest rates and mortgage costs. In light of these pressures, decline in output for this sector is expected in the next few quarters.

In sectors such as commercial office fit-out, life sciences, higher education and healthcare, schemes continue to move ahead, with a range of decarbonisation and refurbishment projects. There is a strong forecast pipeline in particular for healthcare projects. A combination of these factors is sustaining formerly forecast tender price inflation levels through to the end of 2023.

Overall, projects with secured funding are pressing on, whereas those with viability reliant on prevailing economic conditions face uncertainties and consequent delays on their implementation phases. How this trickles through to affect activity levels in the tendering and subsequent contracting and subcontracting markets will become clearer as we move into the end of the year and the early part of 2024.

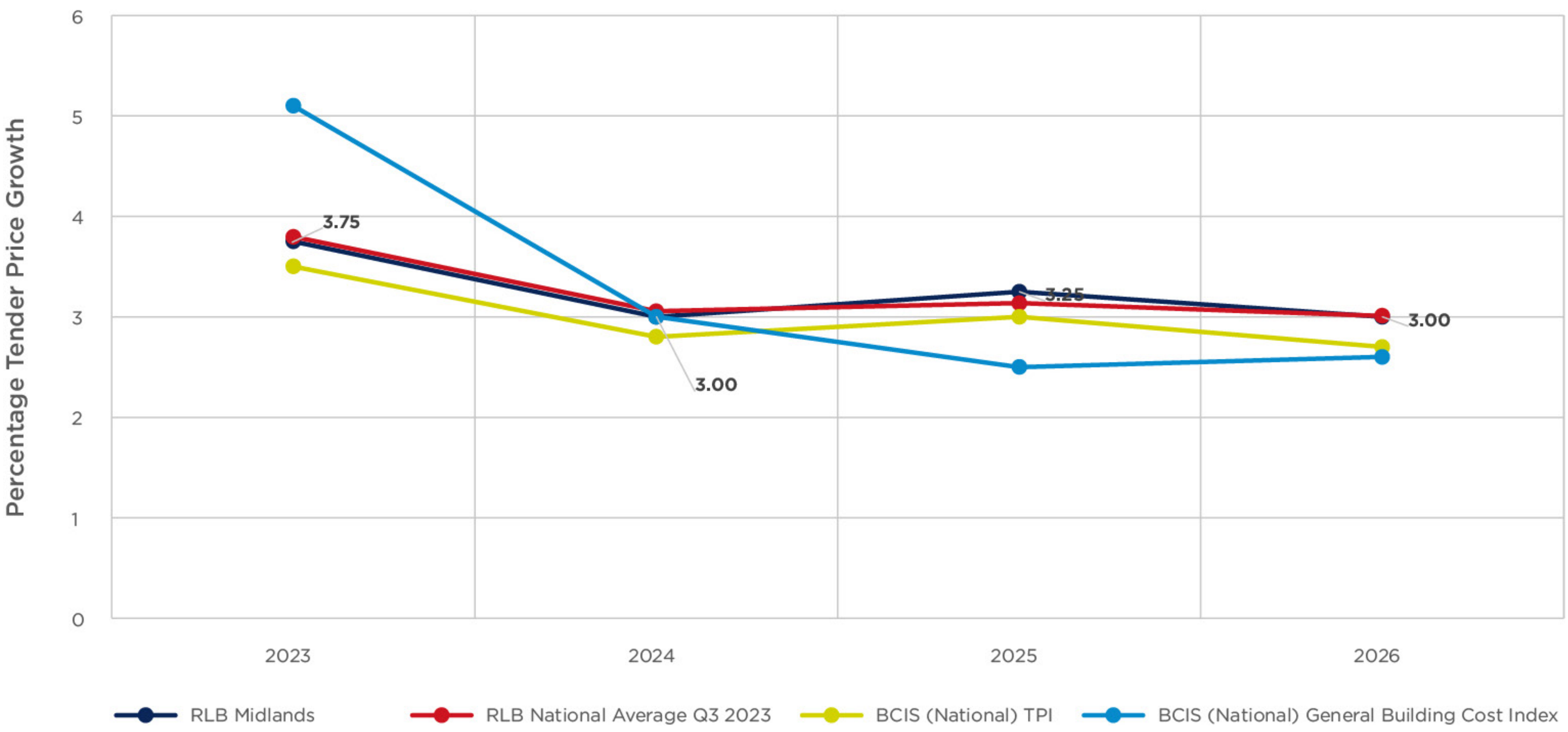


MIDLANDS

Rider Levett Bucknall

Source	% Uplift reported	2023	2024	2025	2026
Birmingham		3.75	3.00	3.25	3.00
Competitors/Others - Upper Range (West Midlands)		6.00	3.50	3.50	4.50
Competitors/Others - Lower Range (West Midlands)		3.25	2.25	2.00	2.50
RLB National Average		3.80	3.06	3.14	3.01
BCIS (National) TPI		3.50	2.80	3.00	2.70
BCIS (National) General Building Cost Index		5.10	3.00	2.50	2.60

Tender Price Change - Birmingham



OVERVIEW - MIDLANDS

While uncertainties persist within the Midlands' regional economy, the long-term outlook is one of slow progress, but progress, nonetheless. With persistent general inflationary pressure seen over the first half of the year easing to its lowest figures since March 2022, a gradual easing in households' cost pressures is pointing to potential relief in the Midlands.

As we continue to grapple with 'sticky' construction cost and price inflation and the short-term effects of planning, financing and project delays, client/contractor hesitancy will continue to impede progress, but there are positives to draw from the Midlands construction sector.

With the UK-wide normalising of material costs and supply and demand issues of the past 24 months starting to dissipate, fluctuating lead-times have balanced and shortened. In some instances, steel rates have shown significant reductions in recent months, with larger package orders benefiting as the supply chain looks to maintain pipeline amid the uncertainty.

However, labour rates are still increasing within the region, driven by capacity demands and a heated job market. Site workload remains stable, with robust output and contractors securing large proportions of their 2023/24 pipeline requirement. While this 'busy' period has allowed contractors to become more selective as to which tenders to pursue, the impact of continued high interest rates may yet cause more projects to be paused and clients to re-assess commercials, thus forcing contractors into a more competitive tendering market.

Our Q2 Tender Price Forecast noted a declining residential sector, and that trend situation is still apparent. Volume-house-builder starts have slowed further and Build-to-Rent product is suffering through higher project financing costs, leaving sector-skilled labour with easing capacity. With skilled trades now more available, a short-term labour rate decrease is expected on specific trades.

Higher education in the region is showing signs of strengthening pipeline moving into 2024, with investment being ploughed back into estates as confidence in plans returns post-Covid.

While the politics may have undermined confidence in HS2, with negative red rating reports and the delayed Phase 2 announcement causing some uncertainty within the region's infrastructure sector, activity remains extensive and visible across the region.

Industrial and logistics developers are transitioning to pre-let deals to manage risk across their development portfolios, resulting in slowing activity. Pressures remain on the sector, resulting from continued increases in build cost, interest rate hikes and struggling yields. Recent signs of price normalisation and decreases in structural steel costs may help alleviate the above difficulties, and nonetheless demand for prime logistics and manufacturing space remains strong, with a steady pipeline of projects progressing through various stages of planning.

With the commercial sector bracing itself for the Minimum Energy Efficiency Standard (MEES) regulations, and the evolving 'hybrid 'working practices still being ironed out, a sector shift to 'retrofit' is anticipated. This may appear to be good news for tier 2 contractors looking to benefit through estate upgrades, however tier 1 contractors may be less optimistic as to their commercial pipeline as some notable projects have completed in the period, such as 10 Brindley Place.

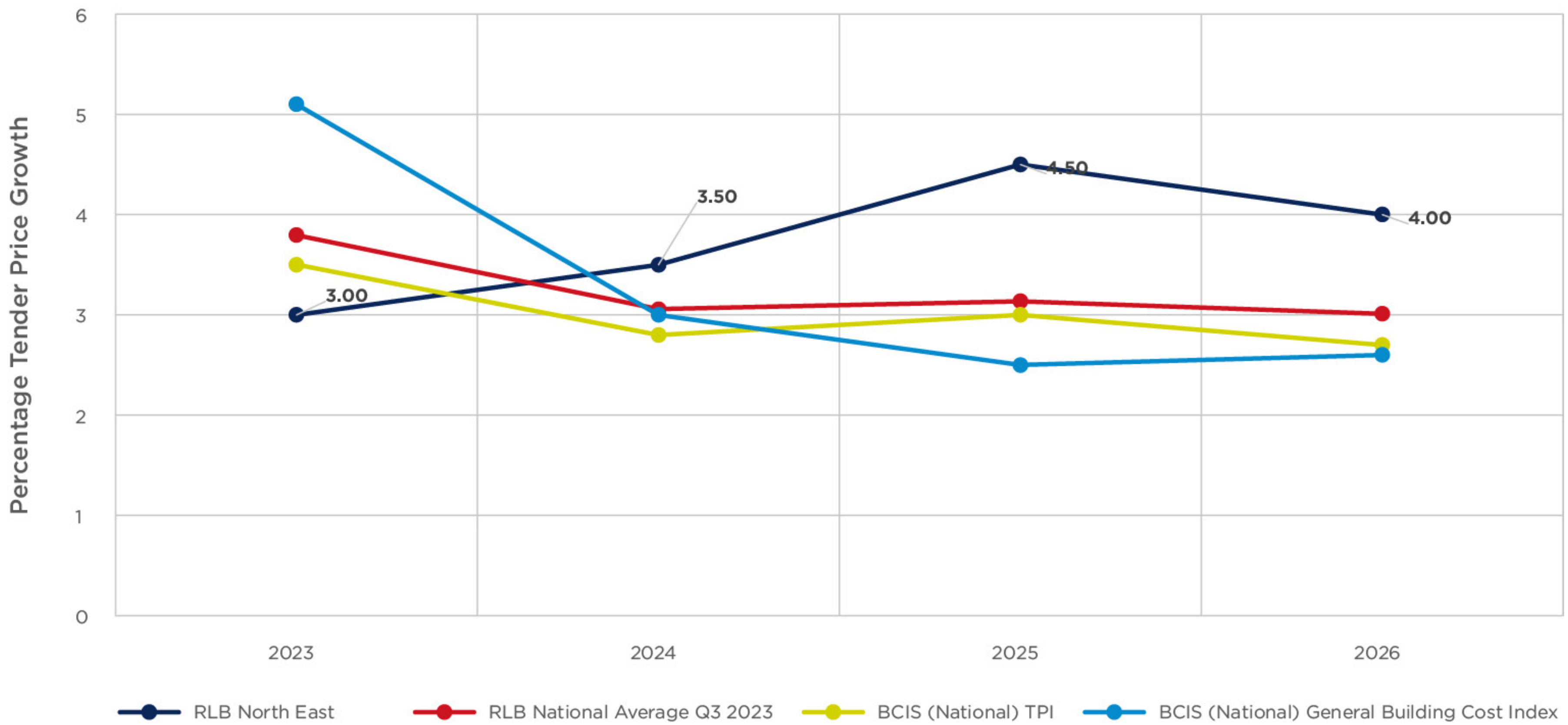
The cumulative cross-sector impact is expected to remain one of delayed and slipping pipelines resulting in less contractor confidence up and down the supply chain, and with a knock-on impact of margin compression, notwithstanding input-side inflation. Whilst the precise blend of input cost impact and margin compression may not be the same this quarter as last, we have held our regional tender price forecast for 2023 in anticipation of the same end-result. A market with more capacity but arguably greater supply chain fragility is expected to translate to a continuation of growing levels of sector insolvencies. As a result, contractors' appetite for single stage projects is returning, but with increasing focus on risk allocation and exposure.

NORTH EAST

Rider Levett Bucknall

Source	% Uplift reported	2023	2024	2025	2026
Newcastle		3.00	3.50	4.50	4.00
Competitors/Others - Upper Range (North East)		5.00	3.50	3.50	4.20
Competitors/Others - Lower Range (North East)		2.50	2.00	2.00	2.00
RLB National Average		3.80	3.06	3.14	3.01
BCIS (National) TPI		3.50	2.80	3.00	2.70
BCIS (National) General Building Cost Index		5.10	3.00	2.50	2.60

Tender Price Change - North East



OVERVIEW - NORTH EAST

Confidence in the North East region continues, with major investment ongoing in the infrastructure, education and residential sectors. Clearly however, the impact of several increases in the Bank of England base rate is filtering through to investment and having a slowing effect on residential, leisure and retail developments in the short term.

Skills shortages are commonplace, as they are across the country, however, the North East has regional initiatives such as iBuiltNE and PlanBEE to support students in developing interest and the skills needed for the construction sector. Regional colleges and partnerships with construction companies are supporting continued success in these areas to encourage links with careers advisors, primary and secondary schools and also those already in work to provide easier options for those wanting to develop careers in the sector.

Huge developments are drawing in resources in the region, including Newcastle University Campus for Ageing and Vitality (£1.75bn), FullwellCain Studios in Sunderland (£500m) and Gateshead Quays Arena (£300m+) to name a few. With work continuing at Teesworks, the UK's largest industrial zone and also connected to Teesport, significant investment and further opportunities will transpire for the region over the coming years providing significant opportunities.

Similar to other areas of the UK, North East region contractors are grappling with the significant challenge of rising material and labour prices which, although they have settled in recent months, still the effects of previous rises continue to impact on contract commitments already underway.

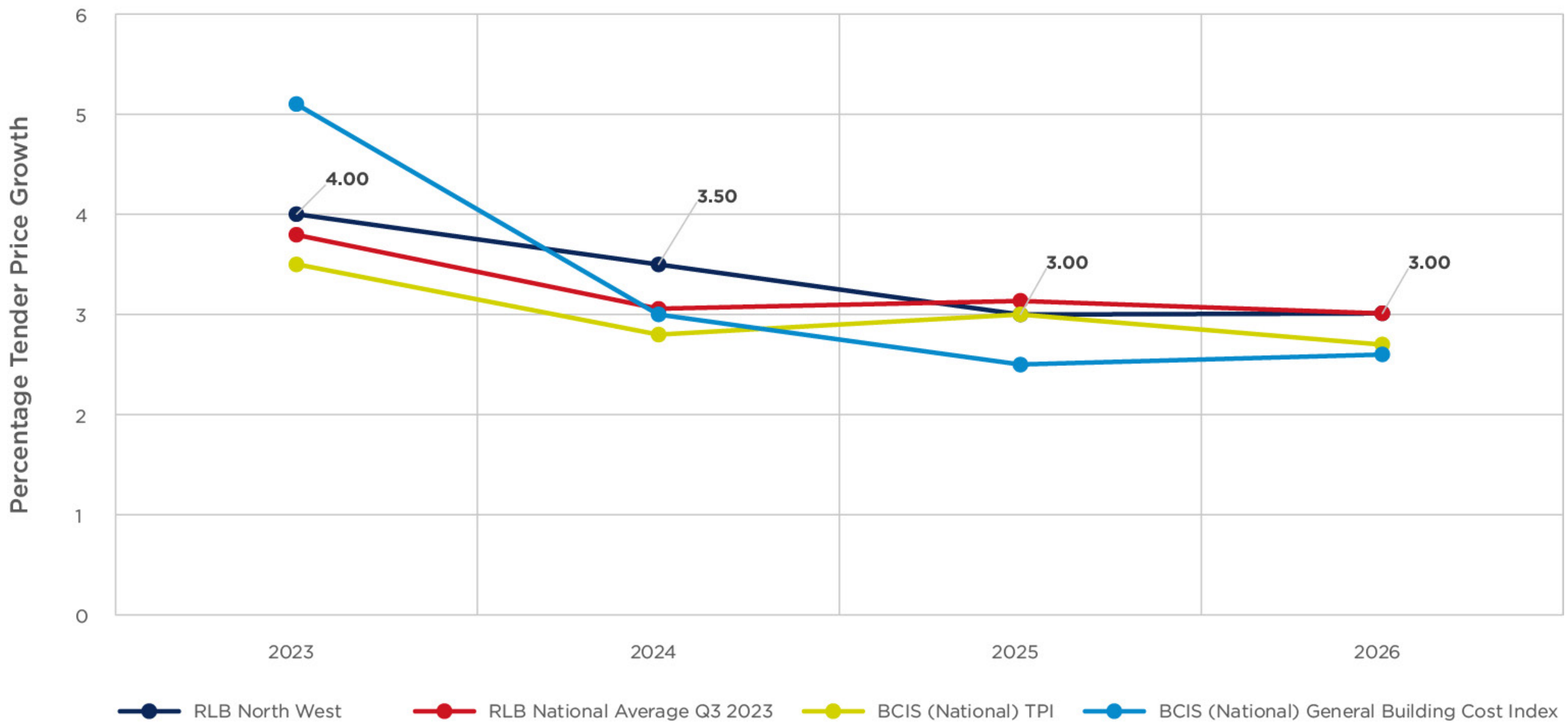
By way of example of market difficulties, RLB is currently working with Siglion Developments on the Vaux Residential development, a significant development to create highly sustainable homes of the future as part of a substantial redevelopment of the Riverside in Sunderland. This scheme is in the process of recommencing following the entering into administration of the previous contractor, which highlights the significant challenges in the sector but also perhaps continued confidence in the region.

Ongoing investment in the North East, in particular in the infrastructure, industrial and education sectors, continues to provide much encouragement for the region despite the backdrop of wider uncertainty in the economy at present.

NORTH WEST

Source	% Uplift reported	2023	2024	2025	2026
North West		4.00	3.50	3.00	3.00
Competitors/Others - Upper Range (North West)		4.30	3.80	4.00	4.80
Competitors/Others - Lower Range (North West)		2.00	1.75	1.75	1.75
RLB National Average		3.80	3.06	3.14	3.01
BCIS (National) TPI		3.50	2.80	3.00	2.70
BCIS (National) General Building Cost Index		5.10	3.00	2.50	2.60

Tender Price Change - North West



OVERVIEW - NORTH WEST

In respect of total construction work carried out across the North West, total output value for the year to June 2023 was up by almost 10% over the corresponding previous period. However, comparing the 6-month periods to June of each year, the figures are flat, which means that the second half of 2022 bore the greater part of that output value increase.

Year on year, the major stories are the somewhat surprising 20% increase in new-housing spend, weighted very much toward the private sector, and the private commercial sector showing a significant increase of almost 28%. However, the most recent six months to June, shows a decrease, indicating that the weight of change was in the latter half of last year, as noted for the total figures referred to above.

For new orders, the year-on-year figures were down almost 8%, and for the last six months, as compared to the first half of 2022, were down by 10%. Some sectors were of course more affected, the worst being private commercial, down around 50% on both measures.

The cooler commercial sector in Manchester reported in last quarter's TPF has not worsened noticeably and we retain our view of a return to higher confidence levels over the next quarter and into 2024, as there remain multiple schemes on hold and awaiting the go-ahead.

In the education sector, growth is apparent in the region as the universities seek to bring back plans for expansion, post their Covid difficulties and the aftermath of price inflation. Also, there are continuing encouraging moves in respect of the building of hotels in the Liverpool area.

For the North West, the generally cool wider economy continues to pose questions as to the prospects for replacement workload as projects near their completion. Though levels of building input cost inflation are seeming to continue to stabilise, providing for a levelling-off of tender price inflation, contractors' and subcontractors' continual search for new profitable work is beginning to butt against burgeoning competition conditions. This renewed competitiveness is by no means general across all markets, but is more oriented toward smaller-scale works, where contractor risk-exposure levels are lower given shorter timescales and often less technically challenging forms of construction.

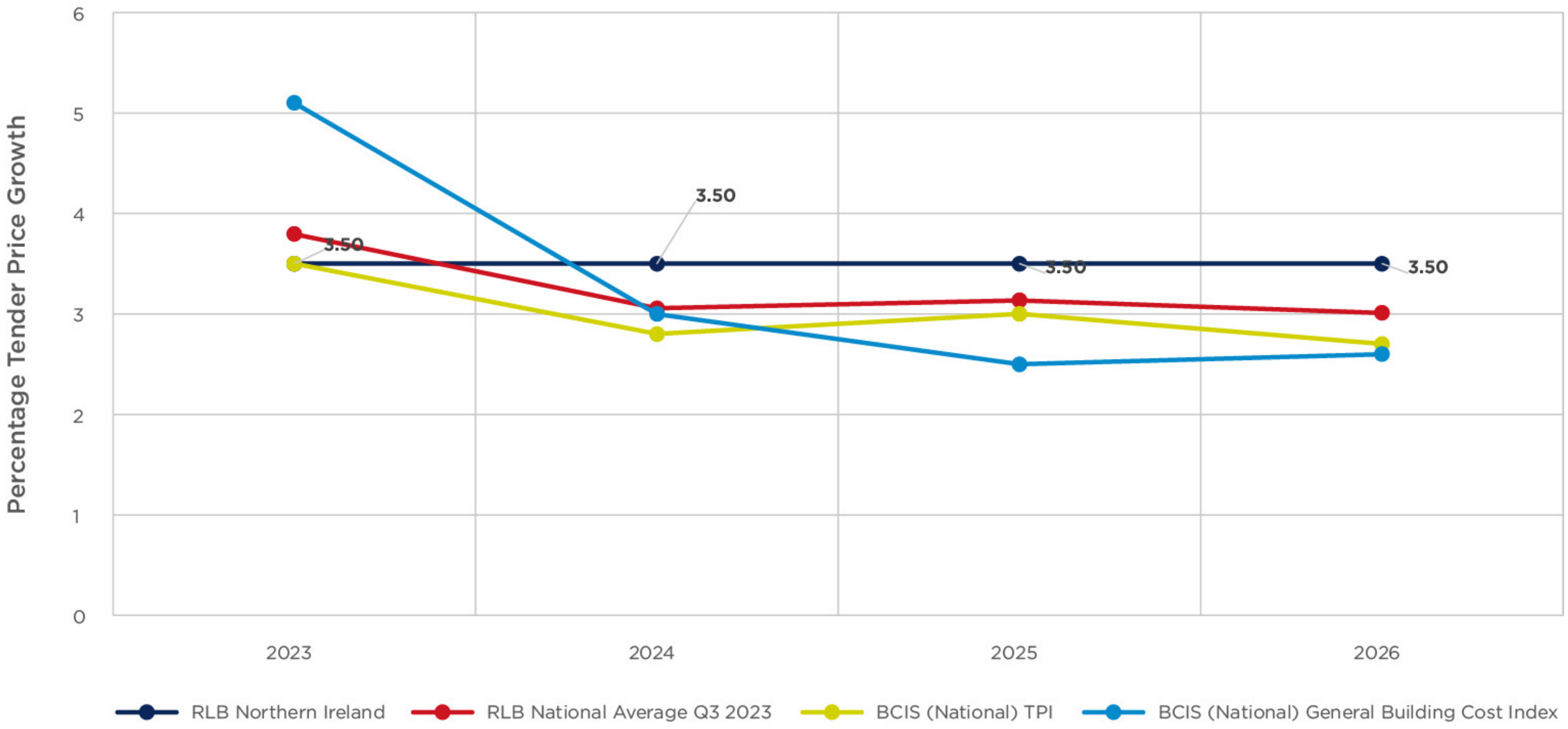
From the perspective of input costs, last year's spiking of materials costs has given way to a cooler environment in which steel and timber prices in particular have fallen back, together with now more moderate, 'long-term-average', cost inflation more or less across the board.

For the major schemes and contractors, there continues to be a reluctance to compete via more traditional forms of project procurement, which is causing some clients to pause as they review already strained budgets which have been repeatedly extended due to input-cost inflation and programme extension requirements of the last 18 months.

NORTHERN IRELAND

Source	% Uplift reported	2023	2024	2025	2026
Northern Ireland		3.50	3.50	3.50	3.50
Competitors/Others - Upper Range (Northern Ireland)		4.30	3.50	3.70	4.80
Competitors/Others - Lower Range (Northern Ireland)		3.00	2.25	2.00	2.50
RLB National Average		3.80	3.06	3.14	3.01
BCIS (National) TPI		3.50	2.80	3.00	2.70
BCIS (National) General Building Cost Index		5.10	3.00	2.50	2.60

Tender Price Change - Northern Ireland



OVERVIEW - NORTHERN IRELAND

Northern Ireland is seeing some slowdown in future pipeline, but with a reasonable amount of current on-site activity keeping the market relatively busy.

Workload depending on public sector spending continues to be hampered by the lack of a functioning devolved assembly. The private housing pipeline is less robust (and with output down on last year), but with both Build-to-Rent and Purpose-Built student accommodation seeing some notable activity and project starts despite interest rate pressures. Schemes may still be being brought forward, but they are taking longer to reach site as they navigate both approvals and financial challenges.

Notwithstanding the political stalemate, the health sector pipeline looks robust, as does education, partially driven by higher education projects returning following the period of Covid uncertainty. The industrial sector is also seeing good activity levels now and in pipeline prospects.

Retail and office schemes are affected by the shift in working and leisure patterns and generally schemes being brought forward include an element of re-purposing, repositioning or value addition to assets. Infrastructure schemes remain reasonably buoyant in terms of on-site activity, despite the absence of any significant devolved assembly spending, although pipelines are now looking less robust following the Department for Infrastructure's announcement of a number of paused schemes.

Despite some easing input costs (for example in steel and timber products) and less robust pipelines, there are pockets where trade availability and hot spots are causing shortages, including in relation to bricklayers. The cost-of-living pressures are partially feeding through to labour costs more generally.

Future tender price forecasts are partially driven by uncertainty in the devolved assembly.

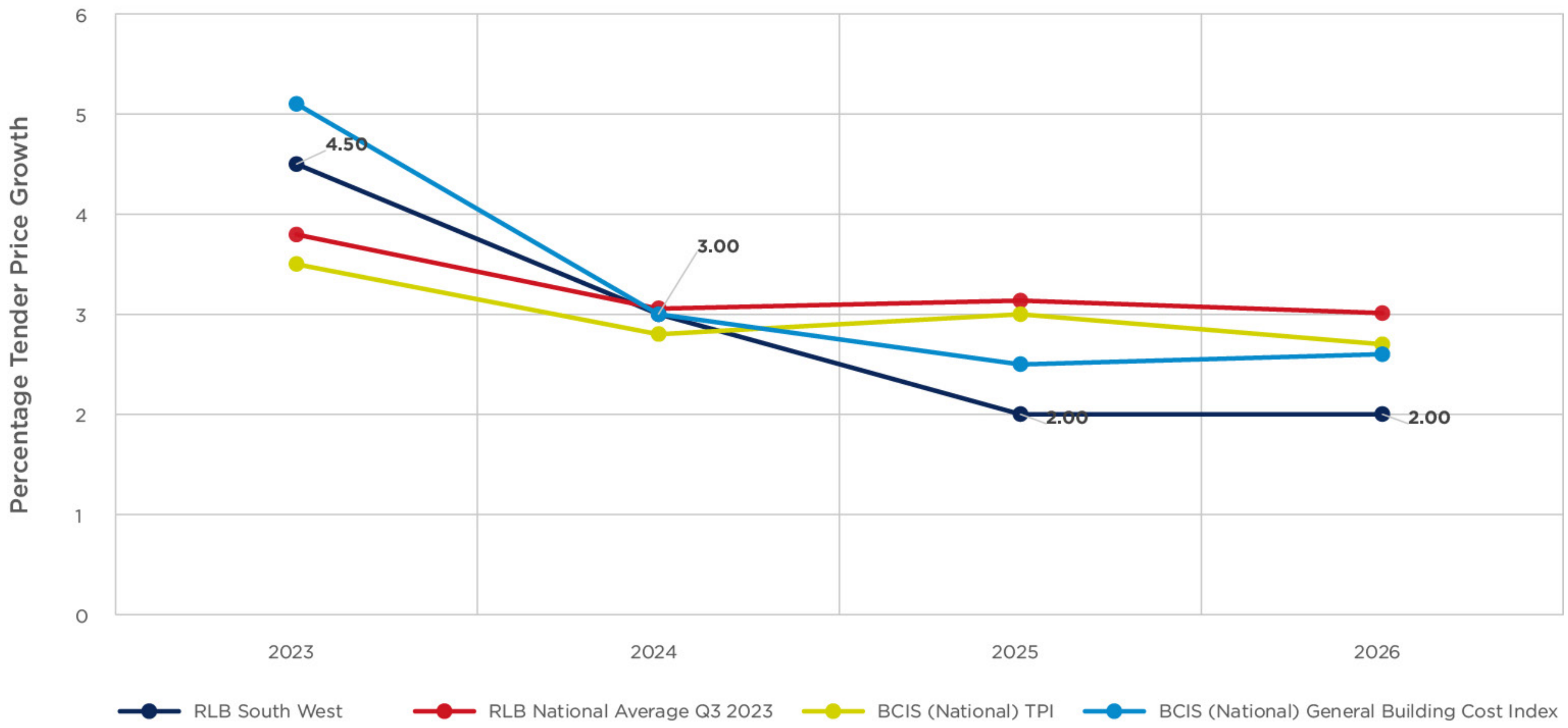
Such uncertainty may be compounding weaker economic forecasts and rising interest rates compared to the rest of the UK. Whilst business confidence is down, the market is certainly looking for opportunity and there are sizeable projects coming forward.

Being a smaller market than many in the UK, any changes in pipeline have typically weighted heavily into tender pricing as contractors look to fill order books. However, contractor sentiment is mindful of a number of high-profile insolvencies around the UK and input costs rising against a more competitive bidding environment. As a result, tender price inflation is not directly and solely correlating with pipeline. The risk profile of any project taken to the market is a key consideration of a contractor's bidding strategy. Although there may be nervousness around pipeline, there is cautious optimism about medium term prospects.

SOUTH WEST

Source	% Uplift reported	2023	2024	2025	2026
Bristol		4.50	3.00	2.00	2.00
Competitors/Others - Upper Range (South West)		4.30	3.50	4.00	4.70
Competitors/Others - Lower Range (South West)		2.75	2.25	2.25	2.25
RLB National Average		3.80	3.06	3.14	3.01
BCIS (National) TPI		3.50	2.80	3.00	2.70
BCIS (National) General Building Cost Index		5.10	3.00	2.50	2.60

Tender Price Change - Bristol



OVERVIEW - SOUTH WEST

We continue to see large multi-use schemes being brought forward to planning, now across several regional locations.

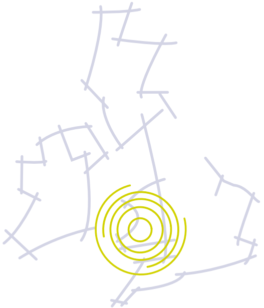
However, in the residential markets, it is clear that demand is beginning to soften in the South West as purchasers are increasingly wary of the current interest rate level and the possibility of upcoming further increases. That said, the affordable housing part of the residential sector remains busy with multiple Housing Associations looking at development sites and taking designed developments through planning processes. Alongside this, the student residential market remains strong, with large-scale schemes going through planning in the university cities of Exeter, Bristol and Bath.

The commercial fit-out market in particular appears to be becoming busier as firms look at how their office space is working post-Covid and also relocating accommodation provision.

More widely, it is also clear that more contractors are now increasingly seeking replacement workload, across most sectors. ONS new order statistics for the South West show multiple negative sector performances for the last six months as compared with the same period last year. That suggests that contractors' and sub-contractors' order books need further replenishment. Overall, new workload is over 41% down by this measure, spread across all sectors, with only private industrial showing positive figures, being up over 25%, and the small public sector housing figures having doubled.

However, there is ongoing very significant large-scale energy infrastructure interest in the region, with offshore wind, nuclear, and new foreign power cable supplies programmes to come ashore in the South West. All of this is expected to dramatically increase energy capacity in the region, boosting commercial, data and energy storage and infrastructure sectors in the region over the next five years. For the remainder of the infrastructure sector, there is also increasing workload coming through in air, sea, road and rail infrastructure, as well as in defence spending.

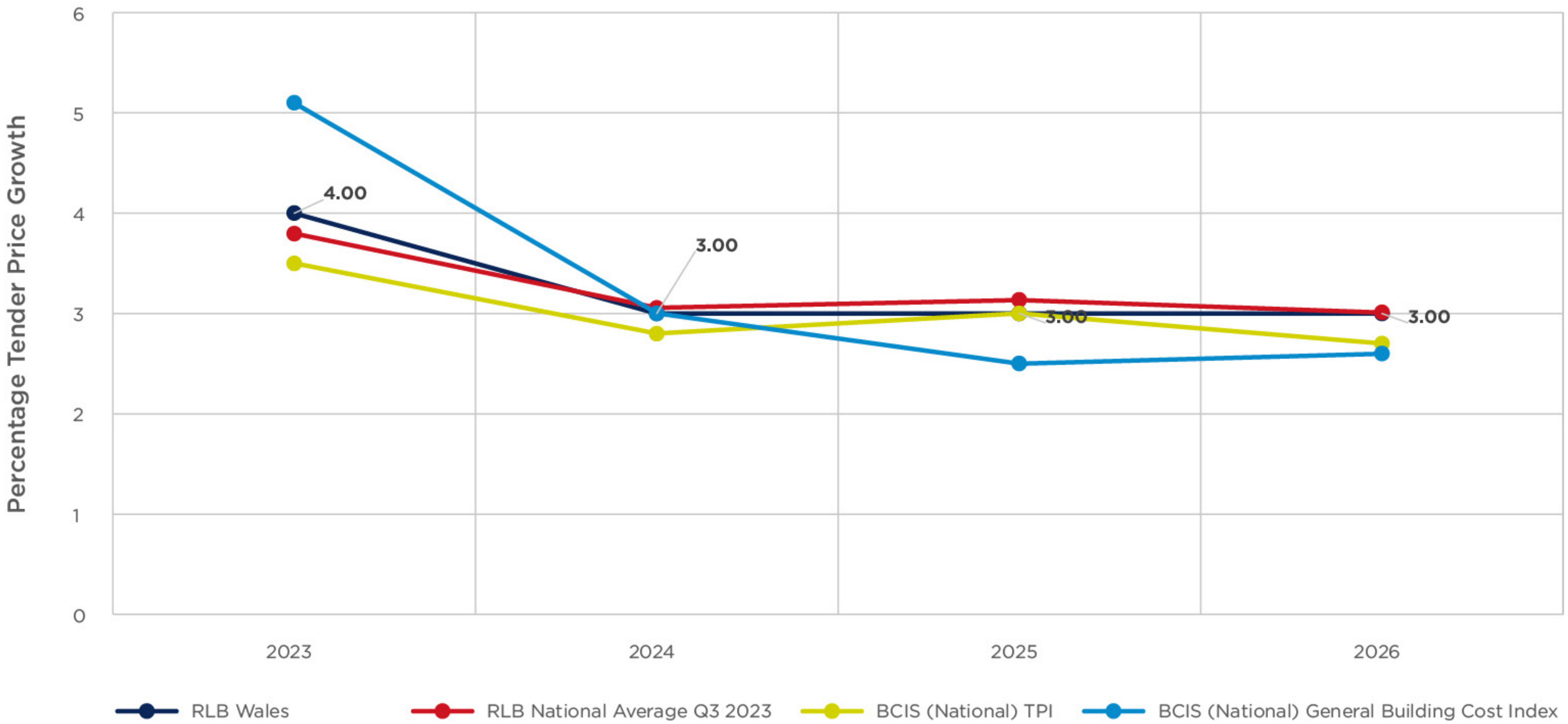
Overall, despite the relatively poor new orders figures, the outlook for the region is considered to be one of stable growth and investment in the South West region, although the wider construction market is still dealing with the issue of ongoing labour shortages and the aftermath of sudden, though now relenting, materials cost inflation.



WALES

Source	% Uplift reported	2023	2024	2025	2026
Cardiff		4.00	3.00	3.00	3.00
Competitors/Others - Upper Range (Wales)		4.50	3.75	3.50	4.50
Competitors/Others - Lower Range (Wales)		2.75	2.50	2.50	2.50
RLB National Average		3.80	3.06	3.14	3.01
BCIS (National) TPI		3.50	2.80	3.00	2.70
BCIS (National) General Building Cost Index		5.10	3.00	2.50	2.60

Tender Price Change - Wales



OVERVIEW - WALES

Total new construction work value carried out in Wales in the last year is up by 35% on the previous year according to ONS, with the last six months showing an increase of 45% over the same period last year.

Within that, the repairs and maintenance share fell from 40% to 26% for a comparable six month period this year and last. The key driver for Wales is the large value of work carried out in the new infrastructure sector over the last 18 months, which distorts the overall figures and masks some significant growth patterns over the other sectors. Private new commercial and public non-infrastructure are up over 50% and 38% respectively for the last six months compared to last year, so the market is highly active across a range of works.

New orders statistics reveal a very different, though mixed story. Although total new orders were up over 31% year on year, the comparison of the last six months against last year's figures shows a fall of 7%. Worst affected appears to be the housing sector, down almost 35%, but the industrial sector is up by over 110%, although still a relatively small proportion of the whole market for Wales. Private commercial work remains strong, with new orders up almost 33% for the first half of the year.

Levels of construction activity in and around Cardiff are still high, although there are several large projects in the city centre which are nearing completion. This includes the new interchange bus station which is due for completion imminently. Weighing against these completions, there are also several other large projects which are starting on site in the city including the Brains Brewery development which is now on site and progressing well. This will provide some continuity for sub-contractors and certainly the opportunity to bid for significant replacement workload.

Lead times across the market in general are decreasing and specialist trades such as mechanical and electrical are more readily available. However, the upcoming large-scale residential development flagged in earlier editions of the TPF and scheduled across Wales will soak up some of any spare capacity occurring in the market due to project completions. Although new public infrastructure orders are down most recently, the end of 2022 saw a surge of new orders coming to market, which will again absorb trades over the coming quarters.

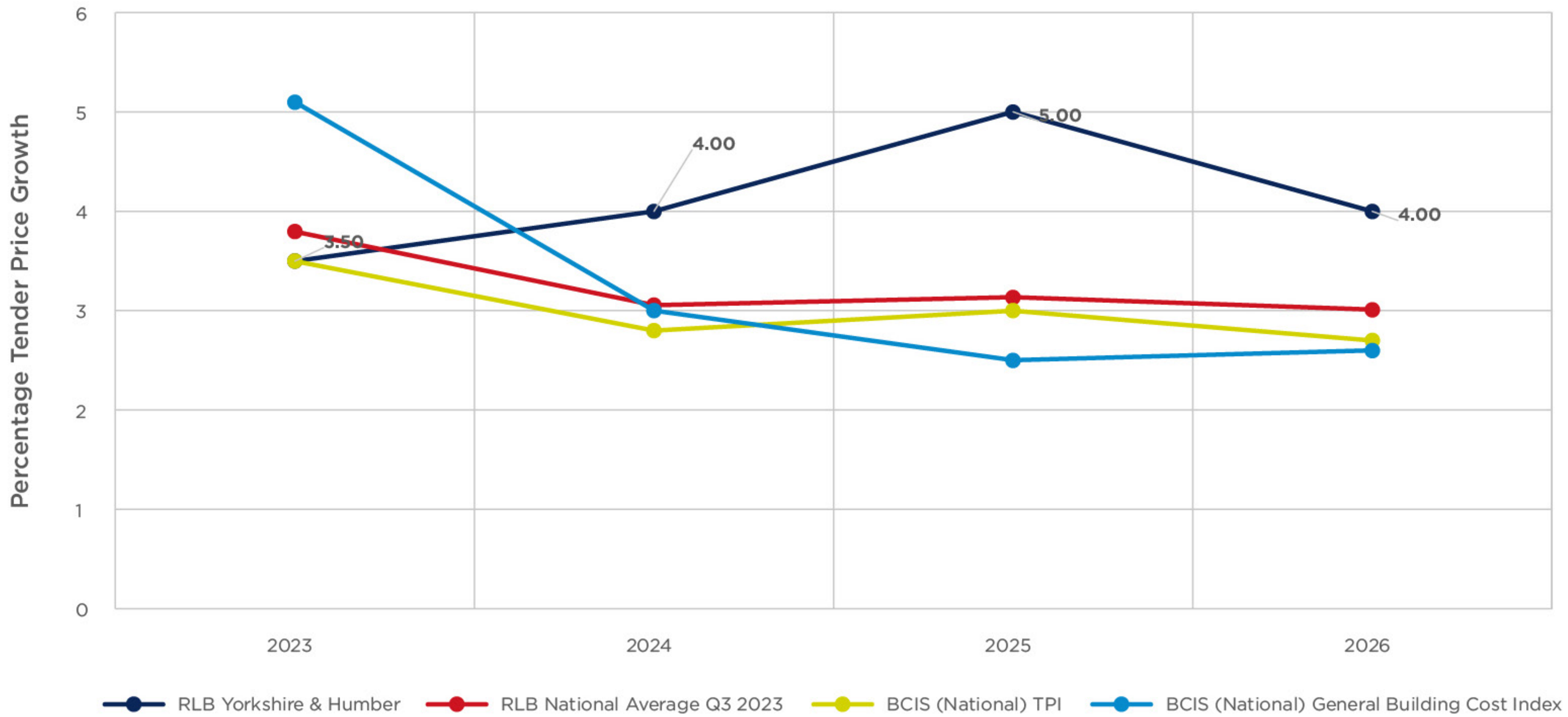
Newport and Swansea continue to face busy construction market conditions, with private developers driving a thriving student accommodation market.

The overall picture across Wales continues to feature highly active subcontractors and a busy general contracting market, although a potential slowdown on private sector housing development may yet free-up a range of trades operatives.

YORKSHIRE & HUMBER

Source	% Uplift reported	2023	2024	2025	2026
Sheffield		3.50	4.00	5.00	4.00
Leeds		3.50	4.00	5.00	4.00
Competitors/Others - Upper Range (Yorkshire & Humber)		4.50	4.00	4.00	4.80
Competitors/Others - Lower Range (Yorkshire & Humber)		2.00	2.00	2.00	2.00
RLB National Average		3.80	3.06	3.14	3.01
BCIS (National) TPI		3.50	2.80	3.00	2.70
BCIS (National) General Building Cost Index		5.10	3.00	2.50	2.60

Tender Price Change - Yorkshire & Humber



OVERVIEW - YORKSHIRE & HUMBER

Following the several increases in the Bank of England base rate, construction in Yorkshire and Humber has remained resilient, however the inevitable impact on public spending and a cooling of the housing market is working its way through to a slowing of the residential sector.

Despite this impact, other sectors and in particular the public sector, continue to support the industry for the time being. We anticipate new housing schemes will stall and continue to do so over the next several months whilst the market settles in the residential sector.

Labour and skills shortages are continuing to affect the region's ability to deliver. This is also resulting in inflationary pressure on contractors' costs, with suppliers and sub-contractors still holding strong positions and unwilling to commit to long-term fixed prices. This is likely to continue for the foreseeable future as the labour shortage and challenges faced around materials supply and prices continue.

Sectors clearly adversely impacted in the region are retail and hospitality sectors, with reduced consumer spending which is impacting directly on construction opportunities. These project types are likely to be slow to recover, given the longer-term shift in consumer habits to online spending. Reduced consumer confidence due to inflation and increases in the base rate are affecting demand for consumer goods and are impacting on new manufacturing developments and logistics in the region currently.

We expect the rebalancing and consolidation of the construction market in Yorkshire and Humber will continue for the remainder of 2023 and into early 2024, when consumer confidence may revive along with increased starts in the private sector market. This would coincide however with the potential for a general election, so 2024 could also present key challenges in public sector spending and decision-making until a new administration asserts their priorities and new spending plans.

Demand for "greener" office space across the region is a key area of growth which is continuing post-pandemic and due to an ever-increasing demand to move towards a net zero carbon economy. Many large employers in the region are refurbishing or relocating premises to provide flexible and improved office environments. This is a growing trend, with the shift of staff back to the office, and is becoming a key element for employers in any recruitment and retention drive. With new low carbon office developments such as City Square House in Leeds including 140,000 sq.ft of Grade A office space and the associated City Square alterations, confidence in the office market is clearly apparent and, we anticipate, here to stay for the medium-term as part of these new drivers for better, greener workspaces.

Despite the key challenges faced in the wider economy, there is a resilience and underlying confidence remaining in the sector, which continues to be demonstrated in new large-scale developments across the region. A key example is the Leeds Urban Village, which is a residential-led mixed-use scheme. Similarly, in Sheffield, large mixed-use developments such as 190 Norfolk Street and the Hive at Kelham Island have sustainability and wellbeing at their core and are exciting developments for the region.

Agreement of terms on large developments continues to be a challenge between clients and contractors, particularly around commercial risk and inflation. However, this is to be expected and flexibility will be required by all parties to prevent adverse impact on the pace of growth in the region.

SUMMARY

Overall, the third quarter of the year is showing a reasonably consistent continuation of the first half of the year, with high levels of construction industry activity alongside issues surrounding lead-times, labour shortage concerns, programme delays and the continued effects of the previous year's materials' costs inflationary spike.

The labour shortages alluded-to previously in earlier editions of the RLB Tender Price Forecast are still rolling on and are not easily resolved, particularly if new orders levels return to growth and existing projects are as yet incomplete.

Although commodities and materials prices have been noted across the regions as having moderated, construction costs have risen significantly over the last couple of years and have consequently brought viability issues into sharp focus. Just as contractors' margins can be squeezed in competitive circumstances, so too can client business cases suffer when cost imposts exceed value growth. What we have previously referred-to as 'sticky' inflation, is persisting and there is no real prospect of actual falls in construction prices.

Weakness in new orders statistics in some regions, together with a broad body of project work having reached and about to reach completion, will continue to attract the attention of main contractors and sub-contractors. The replacement of the tail of existing workload is even more of an issue in light of the continued, though now more moderate, levels of materials price inflation and labour cost inflation. All of this is surrounded by the wider performance levels of the general economy and in particular, inflationary effects on labour operating in construction, who have to be compensated in sufficient terms for them to stay in the sector. The fact of the continuing shortages of labour, with no obvious solution in terms of growing numbers of operatives, may yet drive further production off-site, but that process is no overnight solution. In the meantime, cost imposts from the labour component of the build-up will become an even more relevant issue and proportion of the whole.

'Sticky' inflation and a number of high-profile main contractor and sub-contractor insolvencies have placed risk management at the forefront of contractors' bidding strategies. Whilst less pipeline has partly driven increased appetite for single stage competitive tenders, such appetite is tempered by the overall risk structure of the intended contractual arrangements. The increased collaborative dialogue on procurement approaches that many client and contractor teams engaged in through Covid and the market volatility that followed may have endured.

Although Covid's effects have seemed to have been resolved, the principles espoused live on in risk-averse bidding strategies and so encourage clients' design teams to continue to develop 'non-standard' procurement solutions. Medium to long-term of course, 'non-standard' becomes 'standard', and then the world of project procurement will have changed as the shifts in approach will have become embedded and drive a more sophisticated approach to pre-contract dealings. Such a situation may favour the larger contractors and sub-contractors with more internal procurement expertise within their teams, so giving rise to further exacerbation of differentials between tiers of contracting.

Yet, ahead of us all, lie the looming sustainability and net zero carbon targets. The design of JCT Constructing Excellence (Partnering) and New Engineering Contract (NEC) will now be seen to have to operate alongside more traditional hard-edged commercial procurement models previously favoured by many clients. So, the challenge will become how to impress-upon clients that a more balanced approach to risk management promotes better project outcomes, even though absolute cost certainty at the outset may need to be set aside.

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RLB Rider Levett Bucknall

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