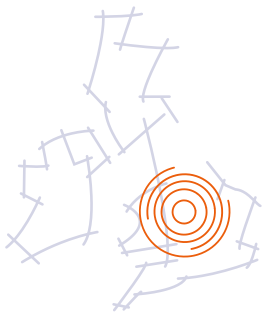
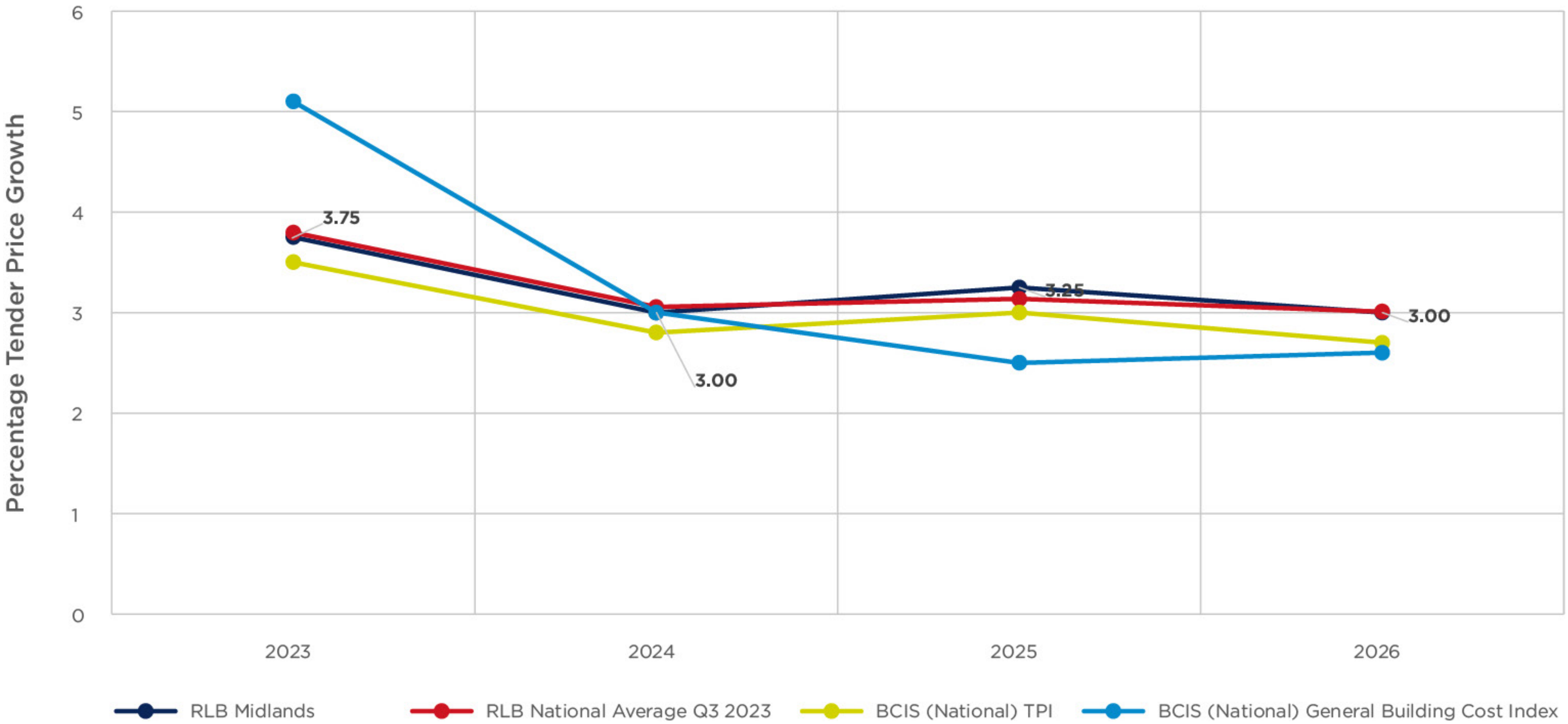


MIDLANDS

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.