TPF

RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q2 2019

Q2

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The essential forecast for Tender Price Inflation, RLB UK's TPF Q2 2019 contains an economic overview of the UK, along with a regional tender price breakdown and commentary from our cost management experts.

ECONOMIC OVERVIEW

The protracted process of leaving or not leaving the EU, with or without a deal, has moved to a new phase of uncertainty. This follows the failure of cross-party negotiations, the end of Mrs May's Premiership and the recent calamitous showing of the two major political parties in the European Elections.

According to the Conservative party, their in-house election process should yield a new leader by, at the latest, the end of July; having given the proposed incumbents ample opportunity to digest the meaning of the public's votes along the way. However, that process also eats into the few remaining months before the new leaving date of 31 October, leaving only 3 months with which to work. Unfortunately, the UK Parliament will also have to somehow accommodate the Summer Recess.

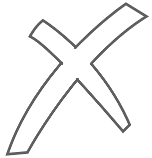
While there are various scenarios of possible outcomes, all results still remain in play. In reality, nothing has really changed – there is still no consensus or majority in the corridors of power on whether, how, or even if at all, the UK should leave the EU. All that appears to be known is that the House of Commons rejected both the May deal and a no-deal outcome.

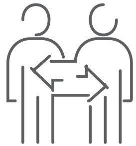
The result has been to extend the uncertainty for a further seven months.

KEY ISSUES:

Brexit quandary

No-deal possibility





Immigration **income cap**

Trades' availability

Rising **input costs**

For construction, the imperatives have simply moved on by a few months, with the focus now on the new end-date.

Given the ongoing lack of any agreement, the questions as to labour availability remain front and centre. Though no-deal has been theoretically excluded, the real danger of arriving at 31 October with no agreement, places no-deal at the forefront as the default result. In such a case, the future for EU nationals living and working in the UK would have no known outcome, which has to be extraordinarily unsettling for EU citizens who have lived and worked in the UK for years. In addition, the suggestion of a minimum income cap as a way of deciding upon third party citizens' work-rights, could lock out a swathe of the EU workers looking to come to the UK. Among those currently in the UK, the long-term jobs and rights prognosis may not appear terribly appealing, which could result in numbers leaving, seriously affecting labour availability here in the UK.

Meanwhile, businesses throughout the industry and its supply chains must continue to cope with so many unknowns that planning and budgeting has inevitably become challenging. The current situation is so uniquely different from anything that has been experienced before, that much of the perceived wisdom cannot apply - there are simply too many factors in play and too many facets of too many possible outcomes.

RLB offices around the country continue to provide clients with valuable insight on project-specific scenarios, which of course differ widely, depending on labour and materials content, sources of materials and local availability of constructors, workforce and services.

Get in touch:

ROGER HOGG

Research and
Development Manager

e. roger.hogg@uk.rlb.com
m. +44 (0)7786 078520

Castle Park View

BRISTOL, UK

BRISTOL'S TALLEST RESIDENTIAL BUILDING

LONDON

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2019	2020	2021	2022	2023
RLB (London)	**Q2 2019**	**1.00**	**1.50**	**2.00**	**2.75**	**NP**
Others - Upper range (London)	Q3 2018 - Q1 2019	2.50	3.00	4.00	5.00	4.50
Others - Lower range (London)	Q3 2018 - Q1 2019	1.00	1.00	1.50	1.50	4.00
BCIS (National)	Q2 2019	2.40	3.90	4.60	6.30	6.40

NP: Not Published

GET IN TOUCH:

Nick Eliot
Managing Partner - London

e. nick.eliot@uk.rlb.com
m. +44 (0)7795 427997

Rider Levett Bucknall
60 New Broad Street
London
EC2M 1JJ

LONDON OVERVIEW

As the economic and political climate continues to be characterised by indecisiveness and uncertainty, long term forecasting is proving to be more difficult than ever. The melting pot of National and Global political and economic turmoil is clearly impacting the UK's capital, but how this will play out in the next 12 months will be an ever-changing landscape.

London does, however, remain resilient to the turmoil and by many measures shows excellent growth across a number of sectors. This increase in output is offset by the on-going challenges of materials and labour costs and the skills shortage that faces the industry as a whole.

Sectors

Commercial - developers: The levels of opportunity for redevelopment and refurbishment in central London remain high although we note that a number of these opportunities have moved into a holding pattern. There have been some significant purchase opportunities in the City since our last issue, with competitive bidding for large redevelopment and refurbishment projects.

Commercial – end user: In central London there is an under-supply of high-quality office space, that provides all of the amenity space, function and holistic performance expected by occupiers. Moreover, demographic and social changes are contributing to a shift in how the workplace is viewed by our clients, to ensure that wellness and collaboration are at the heart of their vision.

Residential: Confidence in the London market remains weak due to the prolonged political uncertainty and continues to be underpinned by the Government's Help to Buy scheme. Build to Rent (BTR) is gaining market share, albeit from a low threshold, and will continue to expand, as this asset class matures and attracts institutional investors.

Industrial & Logistics: This sector is considered one of the fastest-growing in commercial property, as the changing retail / e-commerce landscape, land use regulations and urban / last mile logistics are influencing its growth. Warehouses are becoming larger, in order to accommodate technological requirements, with 54% of all new space over 100,000ft^2 used for dedicated internet fulfilment use, plus an increased demand for smaller size urban / last mile units.

Supply Chain

The Construction Products Association (CPA) has been reducing projections of output growth to almost negligible for 2019 and 1.6% in 2020. As a large proportion of building materials are imported from Europe, higher taxation rates on imports of materials may present even more risk in terms of cost and availability, regardless of any agreement that is reached but especially in the event of a no-deal Brexit.

Conclusion

With the imminent appointment of a new PM and the implications this will have on changing tax rates, public spending and how London is represented on the world stage, we are in for some interesting months ahead.

BIRMINGHAM

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2019	2020	2021	2022	2023
RLB (Birmingham)	**Q2 2019**	**2.25**	**3.25**	**4.00**	**4.00**	**NP**
Others - Upper range (Birmingham)	Q1 2019 - Q2 2019	4.50	5.00	6.00	6.00	4.00
Others - Lower range (Birmingham)	Q1 2019 - Q2 2019	1.50	1.50	1.50	1.50	3.00
BCIS (National)	Q2 2019	2.40	3.90	4.60	6.30	6.40

NP: Not Published

GET IN TOUCH:

Dean Sheehy
Director - Birmingham

e. dean.sheehy@uk.rlb.com
m. +44 (0)7825 384920

Rider Levett Bucknall
Fifteen Colmore Row
Birmingham
B3 2BH

BIRMINGHAM OVERVIEW

Current levels of construction activity remain buoyant. There are large numbers of major pipeline projects either in planning or progressing towards planning. A number of major projects are committed on-site, either secured by pre-lets, or driven by fixed timescale commitments in the case of Commonwealth Games work.

Brexit, along with retail and automotive sector uncertainties, are the two major drags on overall confidence and activity levels. Brexit in particular is (and could continue to be) a brake on schemes progressing from planning to the construction phase.

Sectors

All types of residential project remain strong, including Build to Rent, private for sale and student accommodation.

The industrial and logistics sector also remains active, with a number of large new sites expected to come forward in the next couple of quarters. With a strong pipeline of new office schemes in construction, the secondary market and out-of-town locations are expected to be the next sub-sector growth areas.

A number of reasonably-sized pipeline health projects are expected to come forward in the region in the next period, but this is set against the wider funding challenges in the NHS. Education projects are similarly challenged by reduction in student numbers and the impact of the Augar Review.

Despite the sectoral challenges highlighted above, the market seems to have most confidence in the education and commercial sectors providing growth in the coming twelve months.

Supply Chain

Supply chain capacity remains a principal concern for main contractors. Delivery risk is arguably increasing, with stretched capacity across a number of trades and the potential impact of Brexit on materials supply and labour availability. The brickwork and blockwork, joinery, groundworks and concrete frames trades appear the most heated. Interestingly, smaller regional contractors have more spare capacity at present than larger contractors and generally face a more competitive bidding environment.

Conclusion

Tender activity remains varied by sector and project size. A new Prime Minister and resolution of a parliament-induced Brexit stalemate may however transfer concerns back from pipeline risk to delivery risk. As a result, a clearing of the political fog could bring with it an acceleration of rate of uplift in tender price levels. This uplift, should it come to fruition, is expected to be driven by the combination of multiple sub-sectors and project types and sizes that would need to overbear any residual market uncertainty.

BRISTOL

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2019	2020	2021	2022	2023
RLB (Bristol)	**Q2 2019**	**3.00**	**3.00**	**3.00**	**NP**	**NP**
Others - Upper range (Bristol)	Q1 2019 - Q2 2019	3.50	4.50	4.50	5.00	4.00
Others - Lower range (Bristol)	Q1 2019 - Q2 2019	1.00	1.00	1.50	1.50	3.00
BCIS (National)	Q2 2019	2.40	3.90	4.60	6.30	6.40

NP: Not Published

GET IN TOUCH:

Jackie Pinder
Managing Partner – Bristol

e. jackie.pinder@uk.rlb.com
m. +44 (0)7967 739595

Rider Levett Bucknall
Embassy House
86 Queen's Ave
Bristol
BS8 1SB

BRISTOL OVERVIEW

Bristol's high levels of ongoing workload are continuing, with the prospect of additional large projects tendering and heading to site.

Sectors

The workload levels noted above continue to be being driven across sectoral divides, providing work for a broad range of contractors' services. The major works at Hinckley range from buildings work through to large-scale infrastructure packages. Alongside this, the significantly active wider market, and in particular the Universities sector, is calling for building and construction services across the range of available providers. The result is that workload availability is not now the constraining factor – the constraining factor is now labour, and skilled labour in particular. Whereas elsewhere in the country tender price inflation is quite muted, in the South West there is a return to levels which match or outstrip actual cost increases. However, the back-story is still uncertainty as to the national political position, which may be holding back any upsurge in tender prices.

Supply Chain

With regard to the overall supply chain, although there are resource constraints, there is a perception of the necessity to capture workload to see contractors through, what remains, an unclear near-term outlook. This necessity is certainly maintaining the ceiling on bidding, but will continue to be strained by increasing input costs. For all bidders, there is no other option than to try to understand what their current situation is, how they can best cope with the ending of their current suite of live projects, and where they need replacement workload to fill gaps in turnover. However, whether the resource availability and the costs can be made to balance is, at present, much more challenging than usual. This concern continues to be expressed in keen tendering despite the high levels of project-availability.

Conclusion

Capacity levels in the South West remain stretched across the range of building and engineering projects and packages. We are continuing to monitor the increases in input costs against margin levels, as contractors and sub-contractors try to find an acceptable balance for their own particular slate of work.

MANCHESTER & LIVERPOOL

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	**REPORTED**	**2019**	**2020**	**2021**	**2022**	**2023**
RLB (Manchester)	**Q2 2019**	**1.00**	**2.50**	**3.50**	**NP**	**NP**
RLB (Liverpool)	**Q2 2019**	**1.00**	**2.50**	**3.50**	**NP**	**NP**
Others - Upper range (North West)	Q1 2019 - Q2 2019	3.00	3.30	4.00	4.00	3.50
Others - Lower range (North West)	Q1 2019 - Q2 2019	1.50	1.50	1.50	2.00	2.80
BCIS (National)	Q2 2019	2.40	3.90	4.60	6.30	6.40

NP: Not Published

GET IN TOUCH:

Russell Bolton
Managing Partner – Manchester & Liverpool

e. russell.bolton@uk.rlb.com
m. +44 (0)7764 631607

Rider Levett Bucknall
1 King St
Manchester
M2 6AW

Rider Levett Bucknall
8 Princes Parade
Liverpool
L3 1DL

MANCHESTER & LIVERPOOL OVERVIEW

Manchester, and the North West region generally, continue to display a high level of development activity, with contractors having strong order books. There is also a wide spread of this activity, with investors still considering the region to be a strong market with good opportunities.

Sectors

High levels of construction activity continue across most sectors. However, locally, the main thrust is in the ongoing residential development work in and around Manchester city centre. There is also evidence that, in addition, investors are now looking into developments in other cities in the region.

High levels of activity are particularly prevalent and increasing around the airport, and further afield, in connection with education and the research and development facilities predominantly associated with Universities' projects. Underpinning all of this lies the significant and ongoing workload in the residential market in the region, which shows no sign of abating. Also feeding the market, there are several large commercial developments under construction, featuring a mix of hotels, leisure and commercial offices.

Taken together, project numbers and overall values, both on drawing boards and working their way to completion on site, depict a bustling building and construction market in Manchester at present.

Supply Chain

Given the high workload levels mentioned previously, there would ordinarily be a significant danger of project cost inflation, as contractors' order books reach or breach their capacity. However, the current political situation may be damping or partly offsetting this, to the extent that reasonably-priced workload may be preferred, rather than the alternative of the possibility of the pipeline drying-up later in the year.

There is no evidence as yet of contractors panic-buying work, merely reasonably competitive pricing in light of the level of uncertainty. Juxtaposing this, at the sub-contracting level we are still seeing evidence of the picking and choosing of which projects to bid. Overall, while anticipated pricing spikes have not eventuated, the uncertainty has created complex competition and market concerns which we continue to monitor carefully.

Conclusions

Although we see the continuation of the theme of high levels of workload in Manchester, there is no discernible cost blow-out at present. Tender price inflation levels are within reasonable bounds and we expect this situation to continue. The overall backcloth of uncertainty remains as a drag on contractors' and sub-contractors' margins even as input labour and materials costs increase and even in light of the high levels of current workload.

YORKSHIRE & HUMBER

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2019	2020	2021	2022	2023
RLB (Sheffield)	**Q2 2019**	**2.40**	**3.00**	**3.30**	**4.00**	**NP**
RLB (Leeds)	**Q2 2019**	**2.60**	**3.30**	**3.50**	**4.20**	**NP**
Others - Upper range (Sheffield and Leeds)	Q1 2019 - Q2 2019	4.00	5.00	5.00	5.00	3.80
Others - Lower range (Sheffield and Leeds)	Q1 2019 - Q2 2019	1.00	0.75	0.75	1.00	2.50
BCIS (National)	Q2 2019	2.40	3.90	4.60	6.30	6.40

NP: Not Published

GET IN TOUCH:

Matt Summerhill
Managing Partner - Yorkshire & Humber

e. matt.summerhill@uk.rlb.com
m. +44 (0)7920 292545

Rider Levett Bucknall
6th Floor Orchard Lane Wing
Fountain Precinct
Balm Green
Sheffield
S1 2JA

Rider Levett Bucknall
4D
Platform
New Station St
Leeds
LS1 4JB

YORKSHIRE AND HUMBER OVERVIEW

Building and construction activity across the region continues at a high level, despite wider economic concerns.

Sectors

The construction industry across Yorkshire and Humber appears mixed on a sector by sector basis. Major infrastructure, warehouses and ports are enjoying considerable growth, however the offices and retail sectors are experiencing falls in activity.

Consumer spending has remained strong in the region, though retail sector construction nationally is forecast to fall 10.0% each year in 2019 and 2020 due to shifts toward online spending. That has already led to restructuring of high street retailers and re-direction of construction demand towards provision of storage, distribution and logistics facilities. This phenomenon is clearly evident in Sheffield and Leeds, as developers lead the way in defining how the future face of major cities will look.

In housing, private house building activity is expected to remain at current levels over the forecast period, albeit at a high level across the buoyant housing markets of Yorkshire, the Midlands and the North West.

Of all the sectors, infrastructure is expected to experience the strongest sectoral movement near-term, with growth forecasts of 9.3% for 2019 and 9.7% for 2020. Knock-on effects will be felt in the region's market, impacting particularly on labour costs.

Overall, contractors are reporting reductions in overall tender activity, with rising input costs as key challenges.

Supply Chain

While industrial activity is offsetting a reduction in retail workload, housebuilding continues and there is evidence of a possible upsurge in infrastructure work. All must be set against materials input cost increases, rising labour costs and the unease in tendering circles about the current political uncertainty.

Conclusion

A resolution of Brexit, either way, would likely open the door to further development in the region, whether that be through housing construction or the expansion of industrial / logistics market works. These sectors, together with infrastructure works, are already active, and the settling of economic uncertainty could serve to stimulate developers' interest in investing. Furthermore, the prospect of Free Port status for Immingham and/or Grimsby after Brexit could bring with it development and expansion opportunities for the region, regardless of wider outcomes. However, while it is not the case that investors have actively put their hands in their pockets, it is clear that risk-appetite has been damped somewhat for the time being.

THAMES VALLEY

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2019	2020	2021	2022	2023
RLB (Thames Valley)	**Q2 2019**	**1.50**	**2.50**	**2.50**	**3.00**	**NP**
Others - Upper range (Thames Valley)	Q1 2019 - Q2 2019	4.00	4.50	5.50	5.00	4.50
Others - Lower range (Thames Valley)	Q1 2019 - Q2 2019	1.00	1.00	1.00	1.50	3.00
BCIS (National)	Q2 2019	2.40	3.90	4.60	6.30	6.40

GET IN TOUCH:

Michael Righton
Managing Partner – Thames Valley

e. michael.righton@uk.rlb.com
m. +44 (0)7920 570600

Rider Levett Bucknall
1000 Eskdale Road
Winnersh Triangle
Wokingham
Berkshire
RG41 5TS

THAMES VALLEY OVERVIEW

In Thames Valley, market sentiment remains positive; with relatively high volumes of workload being evident. Significant opportunities are coming through the development pipeline across a range of sectors, but most notably mixed-use, commercial, residential, higher education and infrastructure development programmes.

With that said, talk of Brexit and political uncertainty is never too far away, with continued concerns regarding skills shortage, materials availability and pricing. Whilst the consensus seems to be that we are not too far away from the next market correction, for now there appears to be enough buoyancy and resilience in the marketplace for a generally positive outlook to be maintained, all of which links into our tender price forecasts.

Sectors

There is still considerable activity with regard to regional regeneration schemes, some of which is linking to improved infrastructure schemes across the region.

In Reading, the long-awaited Station Hill redevelopment appears to be gathering pace under its new owners, Lincoln MGT, with a significant mixed-use scheme currently being planned for delivery to the marketplace. This scheme will transform this area of Reading and will provide a new gateway. General activity in Reading remains strong across the residential and commercial sectors, albeit we understand that competition for re-development plots has slightly softened in recent months.

Elsewhere, key towns and cities such as Bracknell, Oxford, Slough and Camberley all have significant and ongoing regeneration and development programmes.

Supply Chain

Availability remains tight across the Tier 1 and 2 supply chain although, anecdotally, we are noticing an increased appetite for main contractor organisations to engage in single stage competitive tender processes in comparison to other periods in the market over the last few years. Tender pricing is still being maintained at stable levels across the supply chain, with market forces perhaps coming into play with regard to macro level price escalation risk. This risk is being off-set by uncertainty as to where the market may be heading on a short to medium term basis.

Conclusion

As referred to above, for now, the market appears to be relatively buoyant and tender activity remains varied across sectors.

The prolonged political uncertainty from Brexit and its associated consequences, combined with what appears to be a relatively dynamic demand for development projects coming through the pipeline, provides an interesting mix. For now our TPF is being held as reported last quarter.

ABOUT 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 and H&S, and advisory services from conception, through design and 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.

Independent advice

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.

Our services:

- Cost Management
- Project Management
- Programme Management
- Building Surveying
- Health & Safety
- Specification Consultancy
- Design Management
- Strategic Facility Management
- Sustainability Consultancy
- Contract Advisory

Independent, privately owned and managed

£275 Million
GLOBAL TURNOVER

4,700
STAFF WORLDWIDE
(INCLUDING RLB EURO ALLIANCE)

£80 Million
UK TURNOVER

123
OFFICES WORLDWIDE

675
UK STAFF