TPF

RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q3 2019

Q3

RLB Rider Levett Bucknall

CONTENTS

The essential forecast for Tender Price Inflation, RLB UK's quarterly Tender Price Forecast provides regional tender price breakdowns and commentary from our cost management experts.

ECONOMIC OVERVIEW

As we pass through the third quarter of 2019, toward the 31 October deadline, the clarity sought by business on issues surrounding Brexit remains at large.

The members of the Conservative Party successfully completed their selection process to appoint a new Prime Minister, Boris Johnson, who has formally taken up the reins of power. However, the structure, content and timing of possible outcomes remain elusive.

Now, with the prorogation of Parliament in place, and seemingly only a matter of time before a General Election is called, more subplots have been added.

Having re-established the possibility of a no-deal Brexit, Prime Minister Johnson has sought to negotiate and conclude a revised leaving deal between the UK and the EU. Cross-party moves in Parliament, however, have gained momentum to set aside no-deal as a result, with the successful passing of the Benn bill. Failing any other political outcome or any deal coalescing, the default outcome could yet be no-deal, impacting on trade, industry and consumers alike, reaching through the economies of Europe and the UK, and likely with knock-on effects globally. Although there are many statements from Government that no-deal is not the preferred outcome, there remain factions in Parliament which would be comfortable with that as the end result.

KEY ISSUES:

Looming deadline

Deal or no deal

Supply & **demand**

National, Global & Regional effects

Development **backlog**

Whatever the result, it will have to be achieved quickly. Notwithstanding prorogation or other intervening political events, there are few sitting days in Parliament following MPs' summer break and the looming party conference season. Political activity will see a new urgency as we approach All Hallows' Eve.

The new Conservative Government has undertaken to assure existing EU citizens living in the UK that they will not be summarily expelled, even in the event of no-deal. There is clearly much work to do on immigration policy, from the administration of registration, through to questions of minimum required income levels. For the construction industry, particularly in London, the continuing hiatus and doubt on the labour front, reflects the slowing of projects' progress in coming to market. This is in itself reflective of investors' concerns in light of wide-ranging uncertainty.

These concerns have been expressed as falls in activity levels across the construction industry, with the IHS Markit/CIPS Construction Purchasing Managers' Index (PMI) diving into the negative territory of the sub-50 figure of 42. When the PMI index is in excess of 50, the industry is growing, whereas sub-50 means a shrinking industry, based on a composite of performance measures.

There is a complex mix of supply and demand issues and labour concerns, amplified by political uncertainty and continuing inflation, particularly of imported materials. This situation will challenge the most experienced industry professionals. Whatever the outcome, the world will go on after 31 October, and today's challenges will become opportunities for some, and possible crises for others. What is perceived as a backlog of development work may come to market when more is known of the actual conditions in which the industry will have to price and operate. The sooner the uncertainty is resolved, the more comfortable the construction market as a whole will feel.

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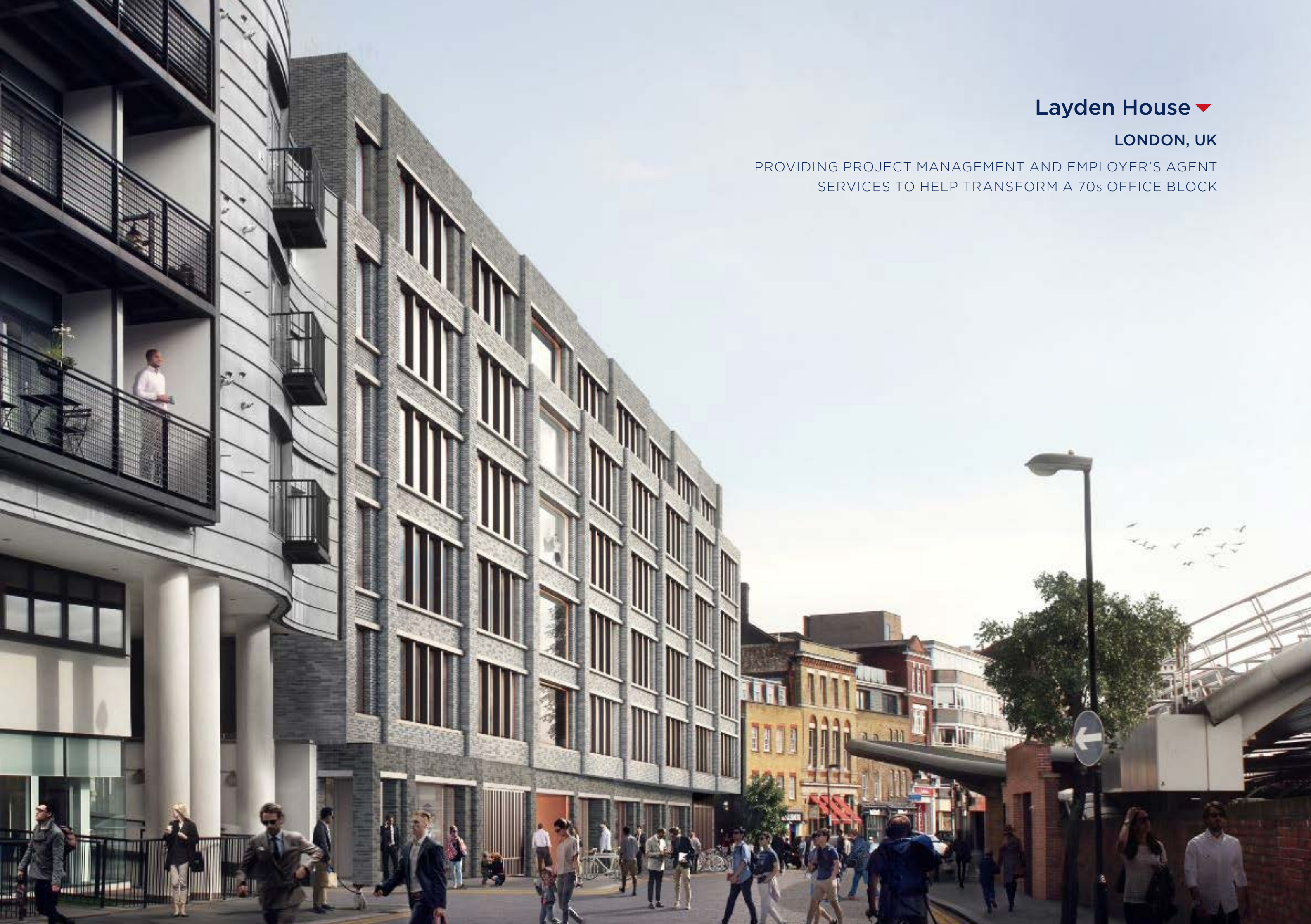
PROVIDING PROJECT MANAGEMENT AND EMPLOYER'S AGENT SERVICES TO HELP TRANSFORM A 70s OFFICE BLOCK



LONDON

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2019	2020	2021	2022	2023
RLB (London)	**Q3 2019**	**1.00**	**1.50**	**2.00**	**2.75**	**NP**
Others - Upper range (London)	Q3 2019	2.90	3.00	5.00	5.00	4.50
Others - Lower range (London)	Q3 2019	1.00	1.00	1.50	1.50	3.00
BCIS (National)	Q3 2019	1.20	3.50	4.50	6.20	6.60

NP: Not Published

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LONDON OVERVIEW

And so the state of limbo persists… As we continue to await an outcome from the UK/EU impasse, our ability to forecast its impact on the London market remains a significant challenge.

As a general feeling of "hunkering down" continues, our latest London Tender Price Forecasts (TPF) are unchanged from our previous Tender Price Index (TPI) report. Despite the ongoing increases in materials prices, the current competitive market conditions mean that higher contractor and subcontractor costs are not fully feeding through into tender returns.

Sectors

Currently there are mixed fortunes across our key markets within the commercial sector. Investment is almost 40% down from last year on construction of new office buildings and slowing supply will drive rents up. In contrast, the office fit-out and refurbishment market is strong as our clients seek to improve their office space to enhance employee wellbeing and satisfaction.

While output in the private residential sector grew in the last quarter, the latest Purchasing Managers' Index (PMI) survey showed a reduction in housing activity and demand due to growing 'risk aversion'. A principal constraint on the delivery of housing is the estimated rate of sales for developers.

On a positive note, demand for the Private Rented Sector (PRS) housing continues to grow and will contribute significantly towards the solution of the housing challenge, especially as legislation and taxation initiatives by the UK government continue to support it.

Confidence in the industrial and logistics sector remains strong, fuelled by continued e-commerce consumer growth and investor and fund interest. The majority of these industrial developments are still end-user-led and there is still some speculative activity on smaller units in the right locations.

Conclusion

As we look forward into the next quarter, the imminent proroguing of Parliament brings yet another level of instability to the market. While the last three years since the UK voted to leave the EU have been dogged by uncertainty, the London market has remained reasonably resilient. The question is, how much more can it continue to withstand?

BIRMINGHAM

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2019	2020	2021	2022	2023
RLB (Birmingham)	**Q3 2019**	**2.25**	**3.25**	**4.00**	**4.00**	**3.00**
Others - Upper range (Birmingham)	Q3 2019	3.50	4.00	5.00	5.00	4.00
Others - Lower range (Birmingham)	Q3 2019	1.50	1.50	1.50	1.50	3.00
BCIS (National)	Q3 2019	1.20	3.50	4.50	6.20	6.60

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BIRMINGHAM OVERVIEW

Current on-site construction activity appears to remain buoyant, but with an uncertain near-term outlook. Large numbers of major pipeline projects are either in planning or progressing towards planning, but with no firm commitments thereafter. A number of major projects are committed on site, either secured by pre-lets or driven by fixed timescale commitments, such as in the case of the Commonwealth Games.

Brexit, along with retail and automotive sector uncertainties, are two drags on overall confidence and activity levels. Brexit in particular is a clear brake on schemes progressing from planning to construction.

Sectors

All sectors of residential projects remain strong, including build to rent, private for sale, older person schemes 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.

In the health sector the new Prime Minister has grabbed headlines with new committed funding, but some of this appears to be recommitment, not new. Meanwhile, education projects face challenges due to reduction in student numbers and the impact of the Augar Review. The public sector generally may benefit from further readying for a prospective snap general election.

Supply Chain

Supply chain capacity remains a significant concern for main contractors. Delivery risk is arguably increasing, with stretched capacity across a number of trades and the potential adverse impact of Brexit on material supply and labour availability. Brickwork, blockwork, joinery, groundworks and concrete frames trades appear the most heated. Smaller regional contractors appear to have more capacity than larger contractors. Insolvencies, however, are evident at both local main contractor and specialist subcontractor levels.

Conclusion

Tender activity remains varied by sector and project size. With the prospect of an impending no-deal Brexit, contractors are facing difficult decisions in pricing projects. Delivery risk and uncertainty is undoubtedly increasing, but pipeline prospects look fragile. This is leading to muted inflation, but the expectation of eventual Brexit clarity could lead to an adjustment in current forecasts.

BRISTOL

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2019	2020	2021	2022	2023
RLB (Bristol)	**Q3 2019**	**2.40**	**2.60**	**3.20**	**3.80**	**NP**
Others - Upper range (Bristol)	Q3 2019	4.00	4.50	5.00	5.00	4.00
Others - Lower range (Bristol)	Q3 2019	1.00	1.50	1.50	1.50	3.40
BCIS (National)	Q3 2019	1.20	3.50	4.50	6.20	6.60

NP: Not Published

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BRISTOL OVERVIEW

Large developments and regeneration schemes across the region have continued this year and developers in Bristol seem to continue driving projects forward to site. The commercial new-build and fit-out markets are seeing large investment, certainly around Finzels Reach and Temple Way, with end clients continuing to see the South West as an area for relocation.

Sectors

The higher education sector continues to drive forward, with expansive plans from Bristol University in their creation of the Temple Quarter Enterprise Campus. The long sought clarifications on the Temple Island, Brabazon and Bristol Arena projects are also unlocking further development in this area and further afield. Residential development remains a key driver of growth across Bristol and the South West.

Supply Chain

The contractor market remains competitive. Companies continue to appear willing to price extremely competitively to secure turnover for the coming period and also to embark on pipelines of work with new clients. We also continue to see contractors from other regions such as the South East and South Wales looking to launch a presence in the region to take advantage of ongoing investment.

Conclusion

The overall feeling seems to be one of cautious optimism. As with other regions, the ongoing political uncertainty is still having a holding effect on any upsurge in tender prices, with some projects moving into next year as a precautionary measure. Brexit uncertainty continues to affect trade contractors, such as carpentry and brickwork, who are risk averse in relation to supplying materials direct, and are also experiencing the continuing challenge of availability of labour.

MANCHESTER & LIVERPOOL

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2019	2020	2021	2022	2023
RLB (Manchester)	**Q3 2019**	**2.00**	**2.50**	**3.50**	**3.50**	**3.50**
RLB (Liverpool)	**Q3 2019**	**1.00**	**2.50**	**3.50**	**NP**	**NP**
Others - Upper range (North West)	Q3 2019	4.50	4.50	4.50	4.50	3.50
Others - Lower range (North West)	Q3 2019	1.00	1.50	1.50	1.50	3.00
BCIS (National)	Q3 2019	1.20	3.50	4.50	6.20	6.60

NP: Not Published

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MANCHESTER & LIVERPOOL OVERVIEW

There has been a slowdown in development, with Brexit being the primary reason for delaying project starts. Demand remains high compared to availability of contractors and suppliers, however, particularly in relation to favoured subcontractors. The ability to contract financially stable contractors and suppliers is a problem, with many already having strong and even full order books.

Sectors

Residential development continues as the main driver of growth across the region, with the ongoing residential work in the heart of Manchester, in particular, absorbing large amounts of the region's main contractor and trade contractor resources.

Project work at Manchester Airport is continuing, as are the many university projects that represent a substantial pull on resources. In addition, there are many live commercial, leisure and hotel projects underway, all of which are working from a shallowing pool of labour resources.

Supply Chain

Even given the perceived slowing of local development, the region's available contracting and subcontracting resources remain stretched. Skills shortages persist, with pressure particularly prevalent in respect of the masonry, plasterboard and cladding trades. In addition, the longer-term outlook appears strong, with major public and private sector clients planning to spend and major regeneration / investment planned in areas including Liverpool.

Although any tender price increase break-out that we would normally expect in such capacity-stretched circumstances continues to hover on the horizon, the likelihood of its coming to fruition is tempered by the continued concern for new replacement work in the uncertain political environment.

Conclusions

While there is currently no evidence of the panic buying of work, there is marketplace concern regarding pipeline work, beyond the end point of the existing high levels of activity. Persistent increases in materials costs and the inevitability of labour cost increases, due particularly to the highly labour-intensive later stages of project work, are piling pressure on contractors' estimators and directors. Despite awareness of the upcoming need for workload, they are constrained by the narrowing of their competitive options as projects in the region near completion and their competitors face a similar future.

YORKSHIRE & HUMBER

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2019	2020	2021	2022	2023
RLB (Sheffield)	**Q3 2019**	**2.00**	**2.60**	**3.00**	**3.60**	**NP**
RLB (Leeds)	**Q3 2019**	**2.20**	**2.80**	**3.20**	**3.80**	**NP**
Others - Upper range (Sheffield and Leeds)	Q3 2019	4.00	4.00	5.00	5.00	3.80
Others - Lower range (Sheffield and Leeds)	Q3 2019	1.00	0.75	0.75	1.00	2.50
BCIS (National)	Q3 2019	1.20	3.50	4.50	6.20	6.60

NP: Not Published

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YORKSHIRE & HUMBER OVERVIEW

Despite wider economic uncertainty, firms in the region are looking forward to additional projects over the coming months, particularly within the infrastructure, rail and energy sectors, but also in private housing and industrial works.

Sectors

Sector by sector, the construction industry across Yorkshire and Humber appears mixed. Those working within the major infrastructure and energy sectors are reporting expectations of additional projects over the coming months. However, those in private housing and industrial sectors are recording modest growth, while offices and retail sectors are experiencing falls in levels of activity.

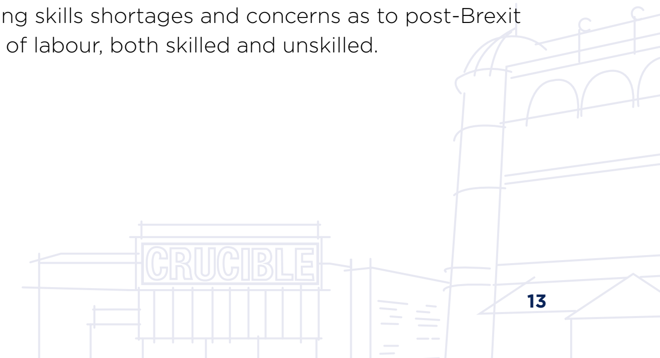
Supply Chain

Businesses in the region expect to hire more staff (a net balance of 2%) during the next year. This is an improvement on June, when a net balance of 9% expected to have to reduce staff levels overall. Interestingly there is evidence that banks in the region are tempering that positive outlook with the knowledge that the overall local business outlook appears subdued. The banks have been at pains to pledge significant lending availability, given the fact that the greater part of the region's businesses have reported not only existing adverse impacts due to the exit of the UK from the European Union, but the prospect of more effects to come.

The UK Steel Charter, launched in May, encourages procurement of British-made steel for major UK projects. As a result, the UK steel market, and Humberside in particular, is set to benefit from projects such as the proposed Heathrow Airport expansion plan, which will procure the majority of its steel from Yorkshire and Humberside or Wales. It is anticipated that the expansion plans will create up to 11,000 new jobs and £12 billion in economic benefits for Yorkshire and Humber as a region.

Conclusion

More generally, cost pressures continue to pile up, impacted by normal levels of inflation coupled with imported inflation on externally sourced materials. An interesting parallel point is that in the wider employment market, job seekers have seen opportunity fade significantly. In construction, however, demand and opportunities still exist; all the more so in light of continuing skills shortages and concerns as to post-Brexit availability of labour, both skilled and unskilled.



THAMES VALLEY

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%				
SOURCE	REPORTED	2019	2020	2021	2022	2023
RLB (Thames Valley)	**Q3 2019**	**1.50**	**2.50**	**2.50**	**3.00**	**NP**
Others - Upper range (Thames Valley)	Q3 2019	2.70	3.00	5.00	5.00	4.20
Others - Lower range (Thames Valley)	Q3 2019	1.00	1.00	1.50	1.50	3.00
BCIS (National)	Q3 2019	1.20	3.50	4.50	6.20	6.60

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THAMES VALLEY OVERVIEW

There is enough activity in the marketplace generally for a buoyant and positive outlook to be maintained, regardless of the political back drop and unknowns.

Given the general activity and pipeline of work in the marketplace, we expect current levels of tender pricing to be maintained in the short-term, although forecasting tender price inflation over medium-to-long-time frames is problematic.

Sectors

With the appointment of Boris Johnson as PM, it will be interesting to see how things progress with regards to the third runaway at Heathrow.

Public sector activity remains strong across the region, with a number of regional local authorities setting up property companies and/or JV partnerships with developers, to drive through their housing or general regeneration requirements.

Activity in the commercial sector continues, with investment in regional business parks evident both in terms of upgrading the existing stock and in building new plots to satisfy strong levels of occupancy and demand overall.

There is still plenty of activity in the residential sector, much of which is house builder led, but also in private apartments.

Increased competition in the higher education sector remains, and is driving campus upgrade and redevelopment schemes. Recent government spending commitments on healthcare and infrastructure are expected to be positive for the healthcare sector at a regional level.

Supply Chain

Tender pricing remains stable, with labour and material import cost increases being off-set by uncertainty as to where the market may be heading on a short-to-medium-term basis.

In the wake of relatively recent examples of main contracting organisations falling into financial difficulty, it is evident that Tier 1 and 2 supply chains continue to display a more risk averse approach to the opportunities being pursued.

Conclusion

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

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 tender price uplift forecasts are 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

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or through the QR Code

Independent, privately owned and managed

4,700
STAFF WORLDWIDE
(INCLUDING RLB EURO ALLIANCE)

£80 Million
UK TURNOVER

123
OFFICES WORLDWIDE

675
UK STAFF