TPF

RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q4 2018

Q4

RLB Rider Levett Bucknall

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The essential forecast for Tender Price Inflation, RLB UK's TPF Q4 2018 contains an economic overview of the UK, along with a regional tender price breakdown and commentary from our cost management experts.

ECONOMIC OVERVIEW

With the ongoing political machinations, including the deferred vote on Mrs May's Brexit deal, the construction sector awaits the overall outcome with bated breath. However, the uncertainty of the last 30 months has had economy-wide effects.

Growth and GDP

Had the UK economy grown at the same rate as the rest of the European Union since mid-2016, the effect would have been additional economic activity in excess of £38bn over the two years, or approximately £370m per week. The UK has gone from heading the G7 in GDP in early 2016, to bringing up the rear, with Italy, in 2018. Opinions vary on the effects of any shade of final deal, but business imperatives have given rise to a variety of warnings.

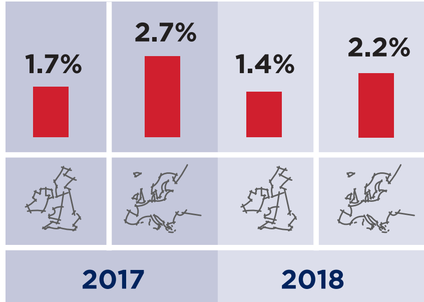
Brexit Focus

As 29 March 2019 moves inexorably closer, the necessity for certainty in relation to EU workers' status in the UK has become more significant as has the situation for UK workers in Europe. The ongoing uncertainty has been affecting numbers of European newcomers to the UK's construction sites. Nationally, some 10% of the construction workforce is from the EU, a figure which swells to over 30% in London. Further, the real uncertainty lies in the shorter-term, when relatively little can be done instantly to alleviate a sharp decline in worker-availability.

UK GDP 2018 (ONS)

Q1	+0.1%
Q2	+0.4%
Q3	+0.6%

UK VS EUROPEAN GROWTH (IMF)



OBR 2018 UK growth forecast **+1.3%**

UK

10% of the UK construction workforce is from the EU

LONDON

30% of the London construction workforce is from the EU

ONS: Office for National Statistics | IMF: International Monetary Fund | OBR: Office for Budget Responsibility

Construction Costs

Meanwhile, economic life goes on. Construction input costs, namely materials and labour, saw sizeable increases in the year to August 2018. The ONS reports headline uplifts of 13% to 24% for imported timber and plywood, with 7 to 9% for reinforcing and structural steel. Insulating materials show over 6% increase, and plastic pipework 4% to 5%. Experimental ONS economy-wide statistics show labour costs increased by 3.2% in the year to June, whereas in construction the uplift was 8.3%. Against this back drop, construction output volume remains strong, up almost 2% overall for the year to August, with new work up 1.75%. However, the volume of new orders has fallen by 7.5%.

Inflation

The interest rate remains stable, which is indicative of few overall inflationary concerns, but also of course indicative of a relatively flat wider economy. Concerns will come to the fore if general inflation increases due to greater import costs within a low-growth economy.

Conclusion

Although workloads remain high, input costs are rising and margins are tight across the country at both main contractor and sub-contractor levels. This, in part, reflects the uncertainty that needs to be dealt with in national political outcomes.

HEADLINE UPLIFTS

Imported timber and plywood	**+13-24%**	▲
Reinforcing and structural steel	**+7-9%**	▲
Insulating materials	**+6%**	▲
Plastic pipework	**+4-5%**	▲
Labour costs	**+3.2%**	▲
Construction output volume	**+2%**	▲
New order volume	**+7.5%**	▼

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RLB PROVIDED PROJECT MANAGEMENT, QUANTITY SURVEYING AND CONTRACT ADMINISTRATION SERVICES

LONDON

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%					
SOURCE	REPORTED	2017	2018	2019	2020	2021	2022
RLB (London)	**4Q 2018**	**2.00**	**1.25**	**1.00**	**1.50**	**2.00**	**2.75**
Others - Upper range (London)	Q1 2018 - Q3 2018	2.75	2.50	4.00	4.00	4.00	4.50
Others - Lower range (London)	Q1 2018 - Q3 2018	2.75	1.00	1.00	1.00	1.50	2.00
BCIS (National)	Q4 2018	14.50	-2.20	3.80	4.00	5.80	5.80

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REGION OVERVIEW

The highly-charged issues surrounding Brexit were briefly set aside on 29 October for the 2018 Budget. With the London market alone accounting for well over 20% of national workload, the effects of cash injections and inducements into the London construction economy can be particularly prominent. Despite high levels of ongoing workload, replacement projects continue to tender competitively, as the industry prepares to accommodate whatever is the outcome after March 2019.

Sectors

In the housing sector, the recent Budget revealed £292m of a total national £500m housing infrastructure funding to go to London, as part of the overall plan to unlock 650,000 new homes. However, the cap of £600,000 on Help to Buy Equity Loans in London, may yet limit the efficacy of that scheme, before it concludes in 2023. The government's response to Sir Oliver Letwin's independent review of the gap between housing completions and the amount of land allocated or permissioned is to be made public in February, although Mr Hammond commented in the Budget that there was no indication of significant developers' landbanking. Through all of this, and despite ongoing Brexit uncertainty, new homes' registrations in London in Q3 2018 increased by over 140% over last year's total.

Some downstream effects of increased housing numbers may benefit the retail sector somewhat, damping the ongoing process of retail stores' decline due to on-line competition, which has been particularly evident in London.

Supply Chain

For the larger contractors and sub-contractors in the Tier 1 market, the fact that there are still some 500 tall buildings underway or in London's pipeline, suggests that the city's reliance on its 30% overseas labour contingent may have consequences in the event of anything other than a soft Brexit.

Overall, contractors have been put on notice for The London Construction Programme (LCP) Works Contractor Framework 2018-19, which equates to £7bn of work, covering public sector projects ranging from £1m to over £20m, across 33 London boroughs. This stream of work will greatly assist the small to medium sized builders and sub-contractors.

Conclusion

The major contribution of the highly labour-intensive housing sector, in tandem with the capacity-strained larger commercial sector and the capital's continuing reliance on overseas labour, creates a framework of interlocked capacity and labour availability concerns, which is clothed in risk and uncertainty as we move toward the Brexit deadline.

BIRMINGHAM

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%					
SOURCE	REPORTED	2017	2018	2019	2020	2021	2022
RLB (Birmingham)	**Q4 2018**	**2.80**	**2.50**	**2.25**	**3.25**	**4.00**	**4.00**
Others - Upper range (Birmingham)	Q2 2018 - Q3 2018	2.50	2.50	3.50	4.00	4.50	3.90
Others - Lower range (Birmingham)	Q2 2018 - Q3 2018	2.50	1.00	1.50	1.50	2.00	2.00
BCIS (National)	Q4 2018	14.50	-2.20	3.80	4.00	5.80	5.80

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REGION OVERVIEW

City centre construction in Birmingham remains buoyant, with projects on site or post-consent and moving towards construction starts.

Sectors

Major committed schemes include new build commercial and residential projects, with several new residential starts expected in the next two quarters. The level of activity on Build-to-Rent projects is gathering pace around the city.

Infrastructure prospects are also looking positive, with the Metro extension to Centenary Square on-site and the HS2 London to Birmingham route moving forward rapidly.

Recent government policy looks positive for short and mid-term prospects in the city. The announcement in the Budget of the extension of Help to Buy and smaller announcements for potholes, mental health and education all could have positive impacts on the construction sector. The additional education funding, though comparatively small in terms of amount per school, could free-up at least some additional funding for maintenance works.

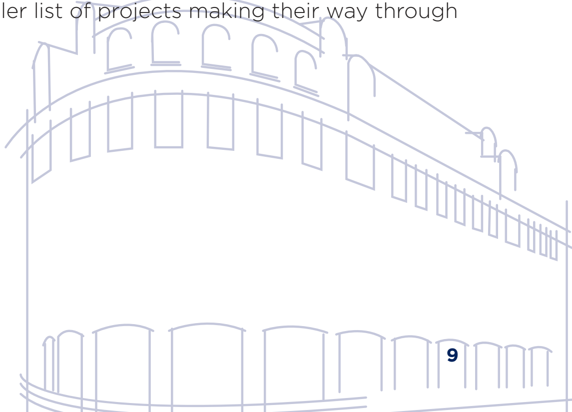
Supply Chain

With committed construction activity on site resulting in many instances of supply chain activity levels being stretched in places, main contractors' ability to deliver is now being influenced not only by the quality of their supply chain but also by its flexibility and remaining un-utilised capacity.

In other regional cities such as Coventry and Wolverhampton, education and student residential projects continue to provide a good pipeline of activity at both main contractor and sub-contractor level.

Conclusion

Tender activity by sector and size of project remains variable. Inevitable short-term uncertainty resulting from Brexit is causing some deferral of starts, with the prospect and potential impacts of a no-deal scenario being considered by some. Smaller and medium sized projects are seeing a more competitive tender environment, perhaps due to the perceived lesser risks of the Brexit outcomes in relation to smaller projects, and partly too in respect of increased competition for the overall smaller list of projects making their way through to tender.



BRISTOL

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%					
SOURCE	REPORTED	2017	2018	2019	2020	2021	2022
RLB (Bristol)	**Q4 2018**	**2.50**	**3.00**	**3.00**	**3.00**	**3.00**	**NP**
Others - Upper range (Bristol)	Q2 2018 - Q3 2018	2.60	2.80	3.50	4.00	4.00	2.50
Others - Lower range (Bristol)	Q2 2018 - Q3 2018	2.60	0.50	1.00	1.00	1.50	1.50
BCIS (National)	Q4 2018	14.50	-2.20	3.80	4.00	5.80	5.80

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REGION OVERVIEW

The Bristol market continues to operate at a high level of capacity utilisation, with completing projects giving way to new work flowing through from a solid pipeline.

Sectors

Sectors experiencing particularly high levels of activity are residential (across different building types) and University works on infrastructure.

The new University campus at Temple Quarter boasts the full spread of building types, impacting significantly on local labour resources, together with the civils-orientated infrastructure and external works, which though less labour-intensive, are tendered by a smaller subset of more specialist civil works contractors.

Whilst we are seeing continuing demand for student residences, the University sector is shrouded in uncertainty relating to the future of student fees pending the conclusion of the reviews by the ONS and Philip Augar's "Post 18 Review", which could well impact on future investment plans.

Nonetheless, the Bristol market is vibrant, which is reflected in other areas of the South West, mirroring the increasing relevance of the M5 as a key distribution route.

Supply Chain

Across the spectrum of building professionals, tradespeople and general labour, there is a growing under-supply of qualified and experienced personnel. Hinckley, though not visibly affecting tender prices, may be affecting labour availability.

Main contractors and sub-contractors are similarly busy across the range of large to small projects, which has provided the opportunity, on the part of tenderers, to be wary of pricing risk-bearing works. This risk aversion is in part due to the excess of work, but may also reflect the shortages of labour, and the uncertainty of wider political and economic concerns. Whatever the mix, the effect is that obtaining competitive tenderers at this time involves an even more than usual rigorous process of careful pre-qualification to identify contractors willing, able and prepared to bid, and from whom competitive bids will be provided.

Conclusion

In summary, the construction industry in Bristol and the South West is now active to the point of touching the edge of its capacity levels. There may be scope for significant movement in tender prices, or that potential may be removed by general economic uncertainty going forward.

MANCHESTER

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%					
SOURCE	REPORTED	2017	2018	2019	2020	2021	2022
RLB (Manchester)	**Q4 2018**	**2.00**	**1.00**	**1.00**	**2.50**	**3.50**	**NP**
Others - Upper range (Manchester)	Q4 2017 - Q3 2018	2.50	2.50	3.00	3.60	4.10	4.20
Others - Lower range (Manchester)	Q4 2017 - Q3 2018	2.50	2.00	1.50	1.50	1.75	1.75
BCIS (National)	Q4 2018	14.50	-2.20	3.80	4.00	5.80	5.80

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REGION OVERVIEW

The Manchester construction market continues to thrive on its strong pipeline of investment and development work.

Sectors

Large numbers of residential projects are either on site now, or are coming on-site in the very near future. However, while these additional units may address at least some of the existing and historic shortfall in accommodation, there may still be an underlying backlog both in maintenance of existing stock and in catering for the projected population growth in Manchester and its surrounds. What this all will mean for buyers' and renters' housing costs remains to be seen in an uncertain economic environment. For the building industry it means the potential for a large amount of work, especially as other sectors are equally buoyant.

The University sector is a particular source of major project work at present, with the continuing development of the Universities in and around Manchester. We will continue to monitor as we see the outcomes of the ONS and Augar's "Post 18 Review" on student fees, which we expect in the next quarter.

Supply Chain

This work features projects sufficiently large to fill main contractors' order books and will likely soak-up sub-contractor resources.

Regardless of whether the workload derives from the private sector or the quasi-public sector, the effect on pricing in the market is that the advent of additional new work in an already saturated market could result in price-spikes for particular trades. However, the more likely outcome is that professional advisors will counsel clients to time their projects' moves to market to best avoid bottlenecks and consequent cost blow-outs.

Conclusion

In summary, although we are seeing high levels of market activity, we are not currently projecting high levels of overall tender price growth. The uncertainty that exists nationwide is acting as a buffer to excess workloads and increasing input costs such that tender price growth is muted, in historical terms.

YORKSHIRE AND HUMBER

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%					
SOURCE	REPORTED	2017	2018	2019	2020	2021	2022
RLB (Sheffield)	**Q4 2018**	**2.00**	**-1.50**	**3.75**	**4.25**	**5.60**	**5.60**
RLB (Leeds)	**Q4 2018**	**2.00**	**-1.00**	**4.15**	**4.70**	**6.15**	**6.05**
Others - Upper range (Sheffield)	Q1 2018 - Q3 2018	2.40	3.00	4.00	4.00	5.00	3.90
Others - Lower range (Sheffield)	Q1 2018 - Q3 2018	2.40	1.00	0.50	1.00	1.00	1.50
BCIS (National)	Q4 2018	14.50	-2.20	3.80	4.00	5.80	5.80

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REGION OVERVIEW

Levels of construction activity in Yorkshire and Humber continue to pressurise available resources, particularly labour resources.

Supply Chain

While new orders are continuing to arise, main contractors' profitability levels are under significant pressure, despite the strong pipeline of workload.

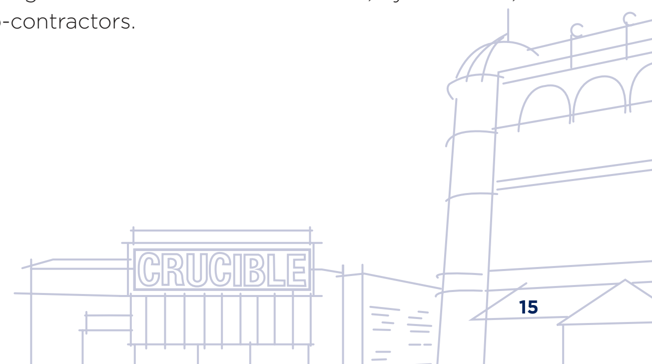
Our forecast in the last edition of the TPF, of material costs rising 3-4% this year still applies, although in respect of steel and timber that figure looks to be in danger of being significantly outstripped. Further, labour costs continue to be an issue, as there is, at the time of writing, no outcome known for the labour availability question relating to Brexit. In the event of a hard-edge Brexit, supplies of labour in the region could be affected by a draw from other major cities, giving rise to shortages and associated price hikes. We have seen the spikes in some trade prices continue, due partly to sheer workload volume and partly to rising input costs.

Although the uncertainty in this region is no greater than elsewhere around the country, any adverse Brexit effects may be felt more acutely here. Rising input costs and falling availability of labour could cause further increases in Tender Prices and a reduction in the number of Construction projects retaining financial viability.

Given that the sales/rental values of end-product are not at the levels of other major cities, and the fact that construction cost differentials do not reflect the full extent of the difference, there are signs of challenges for developers around CIL and Section 106 contributions, resulting in projects being tied up in planning. A lack of cash in the market will only increase these challenges.

Conclusion

In summary, contractors need to fill their order books, whilst the workload is currently there to be gathered. There may be emergent project funding concerns and doubt in the minds of contracting organisations' executives as to the continued flow of work next year, beyond the March threshold. The current effect is competitive bidding at prices that do not correspond with the change in cost to the contractors and, by extension, to their sub-contractors.



THAMES VALLEY

TENDER PRICE FORECAST UPLIFT PERCENTAGES

		%					
SOURCE	REPORTED	2017	2018	2019	2020	2021	2022
RLB (Thames Valley)	**Q4 2018**	**NP**	**2.00**	**1.50**	**2.50**	**2.50**	**3.00**
Others - Upper range (Thames Valley)	Q1 2018 - Q3 2018	2.50	2.10	3.50	3.50	4.00	4.30
Others - Lower range (Thames Valley)	Q1 2018 - Q3 2018	2.50	0.50	0.50	0.50	1.00	1.50
BCIS (National)	Q4 2018	14.50	-2.20	3.80	4.00	5.80	5.80

NP: Not Published

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REGION OVERVIEW

Investment in the Thames Valley region continues apace, with large-scale projects moving into the development stage. Infrastructure investment is a key contributing factor in the region, given the recent and planned rail, road and air development works programmes including Crossrail, Heathrow and various rail and road link upgrades.

Sectors

The construction and property market in the Thames Valley region continues to be resilient and strong, with significant development and regeneration plans continuing to come through the pipeline across a diverse range of sectors.

The residential sector remains strong on a number of fronts, including large-scale regional housebuilding, mixed use, as well as town centre, multi-storey apartment developments with good commuter links. The recent Budget emphasis on delivery of new homes may further stimulate this already active sector.

Demand for commercial space remains strong, with significant development plans under consideration, as business park owners seek to update their stock and expand their estate to reflect current requirements and expected demand.

Sub-regional development and regeneration schemes are also key, with cities and towns, specifically Slough, Windsor, Maidenhead and Oxford having ambitious aspirations, the impact of which will be felt across multiple sectors.

Supply Chain

Some main contracting organisations have established local regional offices over the last eighteen months, to capitalise on the buoyancy of the regional market overall and perhaps balance their reliance on other markets. Despite increased levels of competition, there are still significant volumes of work upcoming and we have yet to see any significant evidence of tender price levels falling. However, we have observed heightened levels of interest in, and flexibility toward, participating in competitive tendering.

Conclusion

In overview, the market perception is that the region is performing well, with continued activity giving rise to an optimistic outlook.

For the time-being and until there is a clearer view on the eventual Brexit outcome, we expect tender price inflation in the region to remain tempered, though positive rather than negative for the immediate future. This expectation is underpinned by a range of factors, not least the general diversity of development projects in the region as well as considerations such as labour supply, sub-contract chain supply and a weakened pound. However, this opinion will be closely monitored in the coming months in the context of wider political and economic influencing factors.

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, 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
- Contract Advisory

Independent, privately owned and managed

£260 Million
Global turnover

4,500
staff worldwide

£70 Million
UK turnover

123
Offices worldwide

650
UK Staff