TPF

RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q2 2021

2021 Q2

RLB Rider Levett Bucknall

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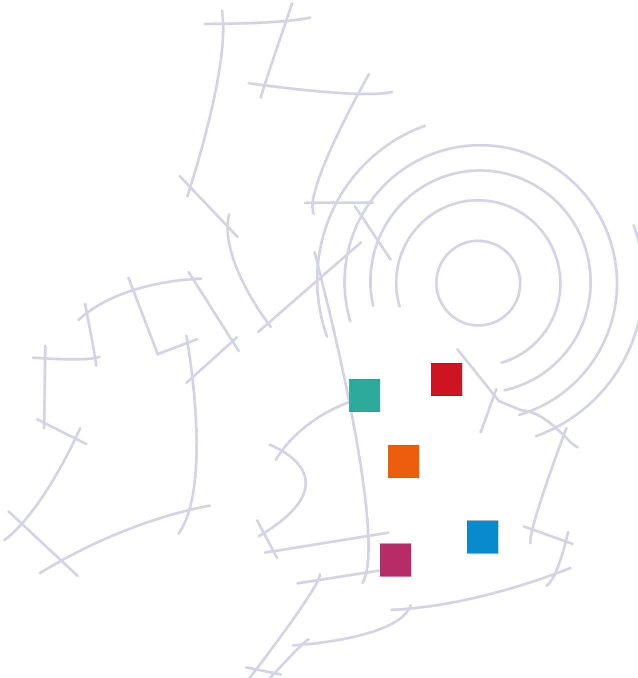

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INTRODUCTION

The second quarter of 2021 is showing the continuation of workload trends identified in the first quarter, namely high levels of activity, running in parallel with the mass COVID-19 inoculation exercise nationwide and the downstream effects of materials importation delays and labour availability questions.

General Market Overview

Although Covid inoculation is proceeding rapidly, the complexity of the issues in construction remain a mixture of pandemic-related issues and wider economic and market considerations. Phased re-opening of the economy remains in progress. Other issues affecting the economy revolve around the end of the stamp duty holiday in July and the end of furlough in September. On top of all of that, government is committing to “Build Back Better”, with their publicised significant investment in infrastructure and skills being met with concerns that immigration policy may now stifle retention, let alone the expansion, of the skilled workforce. Workplace constraints are set to remain for the foreseeable future, and although construction has dealt with them better than most other industries, they remain obstacles to normal operations and levels of profitability.

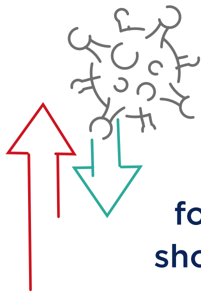
INTRODUCTION

UK Construction

As noted above, the construction industry has carried on to a great extent, with safety measures in place, but remains dependent on ongoing pipeline of work going forward.

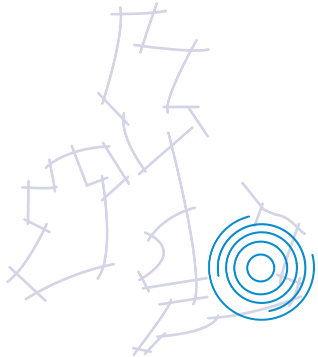
In the first quarter of the year, Office for National Statistics (ONS) data shows that, while volumes of new starts in construction are heading in the right direction, they are still some 10% down on the same quarter in 2019. ONS construction output figures appear very similarly structured, with a shortfall of 9% on Q1 2019 figures. Closer analysis of the quarterly figures reveals lockdown-related effects, from which the subsequent quarters' levels of activity and new orders were much higher, so the prospects for the future appear linked to avoidance of further lockdowns.

The wider economy is the source of construction industry workload, and it faces imminent change as the UK makes its way out of its various models of lockdown. Timings and effects of ends of stamp duty holidays and furlough will test markets' resilience, and issues surrounding availability of labour and free flow of materials may affect input costs, despite the existence of high levels of workload. The effects of Brexit have been damped somewhat by the more salient Covid concerns but remain in the form of labour and materials shortages and delayed works. Each has cost effects, though may not yet be capable of being passed-through, either because of pre-existing contract conditions or the risk of loss of replacement size-appropriate workload in a competitive market.



The effects of Brexit have been damped somewhat by the more salient Covid concerns but remain in the form of labour and materials shortages and delayed works.

LONDON & SOUTH EAST



Client confidence is returning across all sectors, with several projects coming off hold and progressing through the design stages.

There is increased tendering activity as more projects are coming to market, although tender returns remain very competitive as contractors look to secure workload for the rest of 2021 and on into 2022.

Company	Reported	2020	2021	2022	2023
London	**Q2 2021**	**0.00**	**1.50**	**1.75**	**2.50**
London	**Q1 2021**	**0.00**	**0.50**	**1.75**	**2.50**
Others - Upper Range (London)	Q2 2021	2.50	3.50	4.00	4.30
Others - Lower Range (London)	Q2 2021	-4.00	-0.50	0.50	1.00
BCIS (National)	Q2 2021	-1.50	2.40	3.60	4.00

OVERVIEW

Throughout London and the South East, the property and construction market has proved to be resilient over the last year, with a reasonably strong and positive outlook for the remainder of 2021 and beyond, across numerous sectors.

Sectors such as logistics and data centres remain extremely active as the trends created by the pandemic appear to be here to stay for the longer term. Conversely, the hospitality, retail and aviation sectors are still feeling the effects of the impact of the pandemic and their recovery is unlikely to materialise in the short-to-medium term. Plans for Heathrow Airport extension have been impacted by legal challenges and ongoing sustainability concerns, as well as the commercial viability considerations arising around Covid.

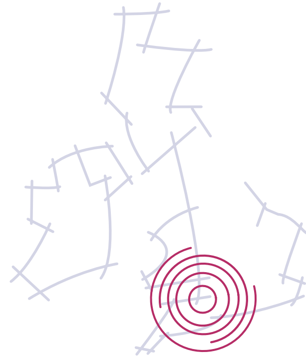
In a reflection of the shift in the commercial and residential sectors, owners and investors are looking to re-purpose outdated vacant office space to residential as demand for lesser-quality commercial space falls and businesses look to reduce their footprint for the foreseeable future. This has given rise to significant activity with regard to regional town centre regeneration and mixed use schemes, Reading's Station Hill scheme being one such example.

Corresponding with the re-evaluations on commercial projects noted above, regional business parks remain in a reasonable position, with high occupancy rates and ongoing interest for new space. That said, the parks themselves are only now starting to see people come back into the offices after the various lockdowns. It remains to be seen the extent to which this could impact on future demand for out-of-town commercial space as a result of hybrid working arrangements.

The strong residential market throughout the region continues to display a robust appetite for residential developments of varying shapes and sizes including regional house builders, affordable housing providers and town centre apartments.

Understandably, health sector activity remains strong from both the regional and broader south east perspectives. However, in higher education, expenditure on capital projects has been significantly restricted over the last year, for a number of reasons, including Covid and overseas student numbers concerns, but more promising signs of activity have been evident recently. Alongside this, science and research-led construction activity has remained reasonably strong, certainly at a regional level.

SOUTH WEST



Generally speaking, the market in Bristol and the South West remains buoyant right across the board.

The carry-forward of existing workload levels, the advent of significant amounts of new work and an influx of people and investment from elsewhere in the country are set against the backdrop of increases in input costs and the continued draw of skilled trades and managerial labour to Hinckley.

Company	Reported	2020	2021	2022	2023
Bristol	**Q2 2021**	**0.50**	**2.00**	**4.50**	**5.00**
Bristol	**Q1 2021**	**0.50**	**2.00**	**4.50**	**5.00**
Others - Upper Range (Bristol)	Q2 2021	2.50	3.20	3.70	4.00
Others - Lower Range (Bristol)	Q2 2021	-3.60	0.50	1.25	1.50
BCIS (National)	Q2 2021	-1.50	2.40	3.60	4.00

OVERVIEW

The continuing Hinckley work provides a stable take-up of both labour and contracting services, so the region has to some extent been sheltered from more adverse effects of last year's pull-back in activity levels.

The commercial offices sector, while remaining active, has seen a change of emphasis arising from a move from new-build development toward refurbishment and re-purposing. That has led to maintenance of overall levels of workload, while likely protecting the market from overheating in groundworks and structural trades works packages against the background of Hinckley. At the user-end of the market, existing owners and tenants are choosing re-fit and re-model over new tenancies or even new-build, trying to deal with the as yet unresolved uncertainty as to the effects of the final conclusion of furlough later this year.

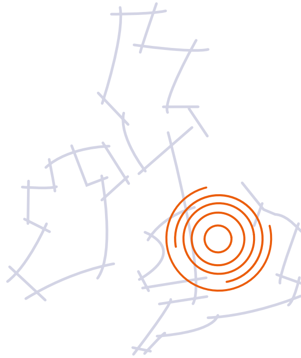
In residential, the stamp duty holiday and local authorities' social housing targets have both helped to ensure a relatively stable workload throughput, and that is expected to continue this year. Developments in the Private Rented Sector (PRS) are continuing, with also a major new project having recently passed planning.

The sectors which have been most obviously affected over the last 18 months have been industrial and retail. In industrial, the local market is highly active, particularly with new work having come to market in Avonmouth, along with associated industrial park infrastructure works. Retail new-build has become fairly static over the last year, and the emphasis for the moment is on re-fit, as well as development of distribution facilities, part of the industrial sector.

Though the leisure sector appears to have taken a major hit, the South West is still seeing hotel development, which is suggestive of positive views on upcoming viability of finished projects.

Overall, contractors are busy, although some have had to delve into more varied sources of workload as some markets have appeared to have paused to reflect.

MIDLANDS



Key issues in and around Birmingham have revolved around materials availability and associated price volatility, increased demand in the market and contractors' strong appetite for replacement workload.

These factors in combination, and set in context of Covid constraints, have created a complex cocktail of influences on bid-pricing.

Company	Reported	2020	2021	2022	2023
Birmingham	**Q2 2021**	**0.00**	**3.50**	**3.50**	**4.00**
Birmingham	**Q1 2021**	**0.00**	**1.00**	**3.00**	**4.00**
Others - Upper Range (Birmingham)	Q2 2021	2.90	3.40	3.50	4.00
Others - Lower Range (Birmingham)	Q2 2021	-3.60	1.00	1.25	1.50
BCIS (National)	Q2 2021	-1.50	2.40	3.60	4.00

OVERVIEW

Market conditions have generally improved in many sectors, with greater pipeline prospects.

Private sector projects may be taking longer to reach site, often due to a combination of funding challenges and movement in contractor-pricing arising from delays to commencement. Particularly strong regional sectors include industrial (big and small box), and city apartments (for sale and build to rent). Likewise, whilst the infrastructure sector may be dominated by High Speed 2, there is strong pipeline across most infrastructure sub-sectors.

Previously weaker sectors are beginning to show some signs of life, but it is evident that there has likely been a structural shift affecting some property asset classes. Hotels and hospitality clients are closely watching the return of trade, with some considering investment to entice returning customers and others seeking opportunistic acquisitions.

Regionally, a number of public sector clients are expected to come to market, with overlay works for the 2022 Commonwealth Games expected to ramp-up. There has been some growth in higher education, and developer-led purpose built student accommodation appears largely undented by the pandemic, as quality of accommodation becomes increasingly important.

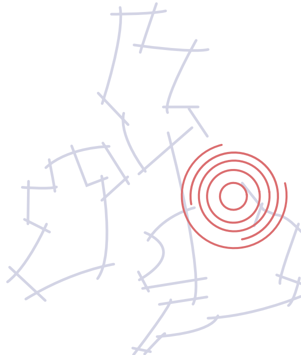
Office schemes appear a mixed bag, with some high profile starts in the period, and a number of refurbishment and vertical extension schemes in a state of flux. There are early signs of city-centre retail re-purposing, but no significant projects have yet been brought to market. These are likely to feature heavily as, nationally, city cores evolve.

Moving from Q1 to Q2 2021 has generally seen increased materials pricing coming to the fore in tender pricing. Steel prices have been most volatile, affecting not only hot rolled, but all types of steel-based products. Aggregates and timber are also affected by demand issues and supply side shortfall.

Generally improved workload pipelines have seen supply chain willingness to absorb cost increases reduced. Not only are materials prices now feeding through to tenders, but contractors' willingness to offer extended fixed price periods is reducing and price risk is now a feature again in tender submissions, particularly for longer-term projects. Consequently, tender prices are moving, but there has not yet been a significant or sustained rebound.

Contractors' bid capacity is showing some strain, with a focus back on suitability, scale and bid-resource need. The speed of turnaround from bid to appointment is therefore a real selling point as contractors look to use their bid-resource efficiently.

YORKSHIRE & HUMBER



Principal issues in the region revolve around significant shortage of supplies of key materials such as steel, cladding and plastic pipework.

Since the first quarter of the year, price increases on materials have fed through into the tendering market and increasingly are driving tender prices forward, regardless of contractors' and sub-contractors' focus on replacement workload.

Company	Reported	2020	2021	2022	2023
Sheffield	**Q2 2021**	**2.60**	**3.00**	**3.60**	**3.60**
Leeds	**Q2 2021**	**2.80**	**3.20**	**3.80**	**3.80**
Sheffield	**Q1 2021**	**2.60**	**3.00**	**3.60**	**3.60**
Leeds	**Q1 2021**	**2.80**	**3.20**	**3.80**	**3.80**
Others - Upper Range (Yorkshire & Humber)	Q1 2021	2.70	3.20	3.40	3.70
Others - Lower Range (Yorkshire & Humber)	Q1 2021	-3.30	0.50	1.00	1.50
BCIS (National)	Q2 2021	-1.50	2.40	3.60	4.00

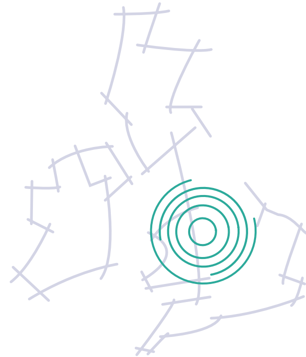
OVERVIEW

Steel price volatility has become a particular concern recently, in both Sheffield and Leeds, drawing concerns as to their effects on project viability from developers' perspectives.

Last year's significant fall in Chinese steel output placed the emphasis firmly on local production and resulted in multiple steel price rises, with subsequent early order-placement as a risk avoidance approach. Developments on already fine margins are being disproportionately affected and viability is threatened.

However, overall, the market remains active, with sectors experiencing very different conditions, depending on effects of Covid, Brexit and the knock-on effects of both. The new-build commercial sector is relatively quiet, whereas the refurbishment and fit-out sub-sectors are active, reflecting preference for refurbishment rather than new buildings or leases. Interestingly, something similar applies in supermarket retail, where larger providers are experiencing high levels of sales, yet on lesser footfall, and also vastly increased on-line and delivered sales requiring warehousing and logistics services. In the care sector, the advent of Covid has had the sad effect of reducing occupancy levels at a non-usual rate, and cutting intake, so providers' development models are challenged not only by the state of the current economy and health situation, but by the more specific localised effects on demography. A further related effect has seen focus move in this sector toward deferral of new-cost into maintenance of existing property, effectively deferring decisions on new premises. The Universities sector appears to be re-bounding, as student intake levels are forecast to be more normal at the start of the next academic year. Given the hiatus last year, there is a backlog of campus development in multiple Universities, that had been pushed back in time as the pandemic unfolded. Some of this is now beginning to come through to the market and appears to signal a strong pipeline of work over the next 5-10 years. Schools developments may benefit from the Government's proposed levelling-up, but that will take time to procure and will be unlikely to affect the market this year. Both the private and social housing sectors across the region appear to be very buoyant. Local authorities are still looking to develop large numbers of social housing units over the next few years, although there are issues surrounding viability of sites and transport infrastructure provision. Much of this is upcoming, so does not affect the tendering market at present, but is foreshadowed as potential workload. Likewise, in the private sector, levels of activity and therefore resource utilisation are high, with continued maintenance of activity across the broad swathe of trades skills. Overall, despite the issues of the early part of last year, the Yorkshire and Humber construction environment is in a strong position to recover and move forward over the next time period.

NORTH WEST



Market activity in the North West, including Manchester and Liverpool, remains strong, but is affected by issues regarding availability of materials and underlying input concerns, clarity about which may not become available until much later in the year.

Company	Reported	2020	2021	2022	2023
Manchester	**Q2 2021**	**2.50**	**3.50**	**3.50**	**3.50**
Liverpool	**Q2 2021**	**2.00**	**3.50**	**3.50**	**3.50**
Manchester	**Q1 2021**	**2.50**	**3.50**	**3.50**	**3.50**
Liverpool	**Q1 2021**	**2.00**	**3.50**	**3.50**	**3.50**
Others - Upper Range (North West)	Q2 2021	2.50	3.30	3.70	3.50
Others - Lower Range (North West)	Q2 2021	-3.80	1.00	1.50	1.75
BCIS (National)	Q2 2021	-1.50	2.40	3.60	4.00

OVERVIEW

Although labour costs are reasonably stable, there are concerns over increases in costs of steel, timber, brickwork and mechanical and electrical components.

Recent and upcoming increases in steel costs, as well as the availability issues, have created an atmosphere of uncertainty. Mechanical and electrical is also a key example of problematic supply, as imported materials are affected not only by Covid-related, but Brexit-related delays and cost imposts.

Combined, these considerations are posing issues for contractors and sub-contractors, as preferred supply chains are being called into question, and flexibility is becoming a requirement in order to fulfil contractual obligations. This gives rise to additional risk, as estimators and Directors stand outside of their comfort zone of pre-approved suppliers and can result in the application of risk premiums to prices.

From consultants' standpoint, the pressure on contractors has to be reflected in added risk contingency being applied to cost estimates for clients' projects, but whether these costs will be realised is as yet a matter for conjecture.

While the outcome may yet be that these additional costs become embedded in the costs fabric of the region because they are input cost increases, the pass-through to tender prices is dependent on the continued availability of replacement and pipeline workload. That availability seems solid at present with, as an example, investors moving from providing student accommodation into BTR projects as the most profitable vehicle for now.

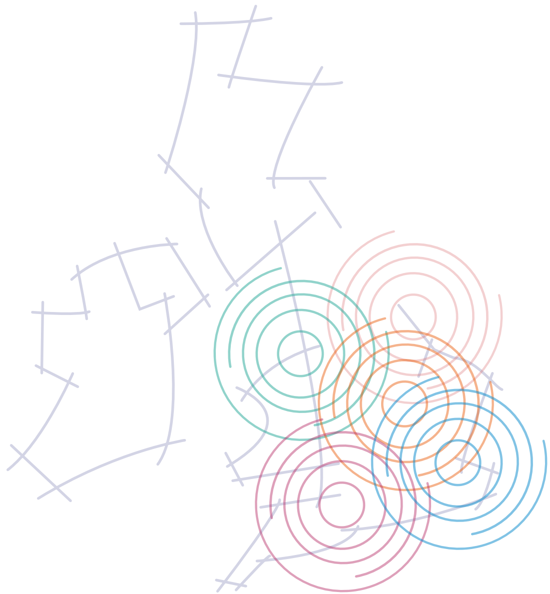
The buoyancy of the market in general stands to be further supported by government spending on the way out of the Covid-19 crisis, as a means toward re-invigorating the economy and also as part of the heralded levelling-up process.

SUMMARY

Analyses from RLB offices around the country refer to reasonably high levels of activity, with strong pipeline of workload, which indicates a rapid rapid rebound from the combined effects of Brexit and Covid.

The vaccination programme has certainly created the environment wherein it has been possible to move towards the return to normality that we foreshadowed in our last TPF. However, the advent of new variants and the actual effects of relaxation of measures have yet to be proved.

As the worst-affected sectors swing back into action and what had previously been thought of as normal behaviour returns, so the full effect of the now 15-18 month impact will become clearer. Some sectors may have been permanently damaged, while others may have had to change quite drastically and may never operate in the same way as previously, while yet others have emerged as focal points in future urban development. The construction sector deals with all of these facets, as it has to respond to changed requirements, changed products and changed sectoral structures. The challenge to the wider economy is also reflected in the construction industry, as certain government supports are withdrawn, yet there are still commitments to “build-back-better” and “levelling-up”. How that is achieved is a policy and distributional issue, as well as a fiscal and borrowing concern, but can be viewed as a necessity, if only to sustain fragile recovery in uncertain times.



ABOUT RIDER LEVETT BUCKNALL

RLB 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, health & safety and advisory services. We work from conception, through design, 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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