TPF

RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q4 2021

2021 Q4

RLB Rider Levett Bucknall

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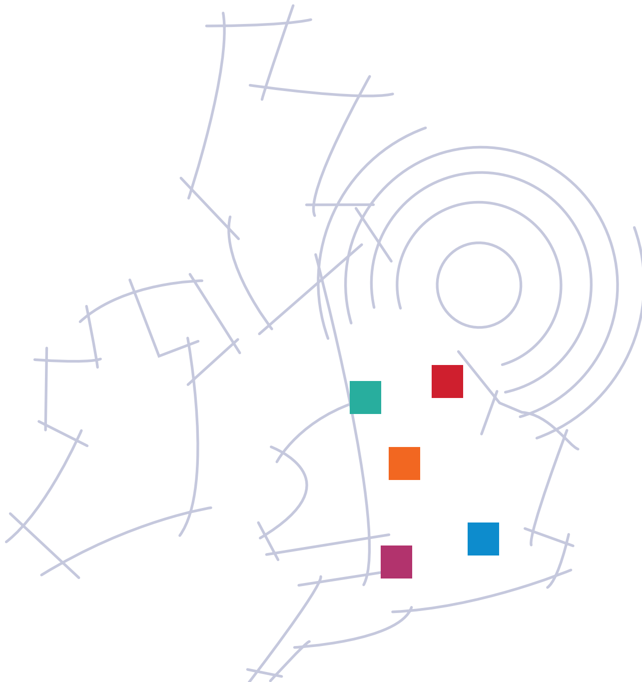

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INTRODUCTION

The end-of-year 2021 edition of the Tender Price Forecast summarises the dramatic experience of the last year and looks to how 2022 will be unwrapped. Much will depend on how the industry continues to deal with its resource-availability and cost concerns, as input costs remain the focus of attention, and contractors' cost responses are clothed in uncertainty.

While the year began with industry participants concerning themselves about want of workload, localised lockdowns and the direct effects of COVID, the year has opened a new chapter in how to manage and emerge from a pandemic. Overall, the construction industry has managed well, and output levels have been maintained, where materials and labour have been available. The RLB COVID Surveys have confirmed that output has been maintained, and this is supported by Office for National Statistics (ONS) data and local experiences of RLB offices.

However, as the year has worn on, the combined effects of COVID and Brexit have appeared and together have given rise to serious problems for the industry around the country. In both cases the issues are indirect, resulting from downstream, "Outturn effects". Commodities prices spiked in mid-year and have fallen this late in the year, but the effects then flowed through to prices and pricing. The availability of labour has also been highlighted, focusing attention on the ageing UK construction workforce at a time in which numbers of available workers are falling, yet workload is increasing.

More broadly, the economy as a whole is experiencing higher than usual levels of consumer price inflation. The November Bank of England interest rate declaration was held at 0.1%, yet was followed-up with the indication of a possible increase in the upcoming quarter.

Ordinarily, the combinations of inflationary events would give rise to repercussions in terms of rapid tender price inflation, but although input costs have risen, output prices, tender prices, have not risen commensurately. This may seem unusual, but this Q4 Tender Price Forecast explores the reasons behind it and whether the next year will be more of the same, or will unveil new levels of inflation after several years of modest uplifts.

LONDON & SOUTH EAST

Source	% Uplift reported	2020	2021	2022	2023	2024	2025
London & South East	**Q4 2021**	**0.00**	**3.75**	**3.25**	**3.25**	**3.00**	**3.00**
Others - Upper Range (London)	Q4 2021	2.40	4.50	3.50	4.10	5.00	5.00
Others - Lower Range (London)	Q4 2021	-4.00	0.00	2.00	2.00	2.00	2.00
Others - Upper Range (South East)	Q4 2021	3.00	3.00	3.25	4.00	4.50	4.50
Others - Lower Range (South East)	Q4 2021	-2.70	1.50	2.00	1.75	2.00	3.50
BCIS (National)	Q4 2021	-1.50	6.70	4.00	4.90	4.70	4.30

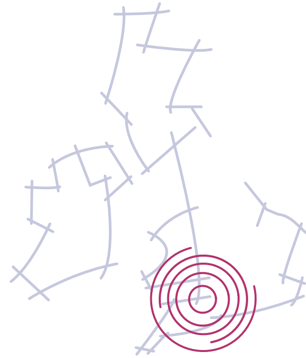
OVERVIEW

London's activity levels are improving, with people returning to the City and therefore offices and amenities back in use. Confidence is growing from those investing in the City and, consequently, some projects are progressing, and feasibilities are bubbling away. However, concerns exist as to fluctuating levels of input costs across all sectors of the market.

Steel prices have been soaring, with supply issues and even demand issues. Considerations include raw material availability, downstream effects of factory shutdowns, recovery from falling demand and slowing of construction, rapid demand bounce-back from China, and the UK, US and EU economic stimulus packages. The result is extreme pressure on the UK's imported materials, as well as the calling into question of the current and upcoming availability of labour. London and the South East are particularly affected, due to the Capital's former reliance on EU-based non-UK nationals. Overall, adding workload to the mix will not help, as training tradespeople cannot be achieved immediately, even if the personnel can be recruited. Moves to Modern Methods of Construction (MMC), being off-site production, can contribute, but cannot remove the immediate difficulty overnight. Furthermore, with big infrastructure plans about to be implemented, the UK government will undoubtedly be asking questions about value-for-money when industry support has been withdrawn, replaced by actual project demand.

All of this is happening at a time in which contractors have struggled to fix rates. Dips in turnover have led to suppliers needing to increase prices and, lead times are increasing. Sectors such as data centres are coping with sustained demand, despite the challenges. Order books are full for key mechanical and electrical equipment. This leads to moderate rate rises, and impacts programme, as the fabrication and delivery periods have, in some cases, doubled.

SOUTH WEST



Housing Sector growth is strong in the South West and Southern Wales region, driven primarily by the COVID effect, with people moving to Devon, Somerset, South Wales and Cornwall for more space and facilitated by more flexible geographical working policies.

This has resulted in strong sales values, which has brought land back into viability. However, this has been tempered to some extent by a shortage of labour and materials in the market, which has caused construction price inflation in the region, particularly in the house building sector. Interestingly, the combined effects of these factors have created minimal margin movements on developments.

Source	% Uplift reported	2020	2021	2022	2023	2024	2025
Bristol	**Q4 2021**	**0.50**	**3.50**	**4.00**	**4.00**	**3.50**	**3.50**
Others - Upper Range (Bristol)	Q4 2021	2.75	3.20	3.25	4.00	4.50	4.50
Others - Lower Range (Bristol)	Q4 2021	-2.60	1.50	2.00	1.75	2.00	3.50
BCIS (National)	Q4 2021	-1.50	6.70	4.00	4.90	4.70	4.30

OVERVIEW

Sectors where revenues are not able to mitigate the inflations seen over the past quarters are being stifled and put on hold. The Infrastructure, Retail and Leisure sectors have seen projects struggling to maintain viability in the face of escalating construction costs. However, the Education sector appears strong, particularly in Wales, with the Government investing significantly in new large schools.

Materials supply issues are affecting productivity on some sites, with transport issues particularly relevant to extremities of the country such as Cornwall, further compounding this issue.

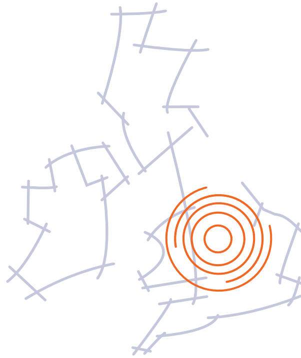
Increased costs for aggregates, steel, timber roof and floor coverings feature strongly in this equation, with roofing, carpentry and floor coverings trades all having been affected by supply issues in the past quarter. As a result, specifications are having to be amended to accommodate availability of materials.

Delivery of projects is also being affected by availability of Utilities services providers and Planning Officers, due to a backlog of work post COVID, as projects come back online alongside a reduction in staffing numbers. This issue appears to be particularly prevalent in the Southern Wales region.

Overall, lack of available site labour in the market as a whole continues to affect productivity on-site, and we are starting to see disputes arise due to contractors' inability to service contracts.

All of the above materials and labour issues have affected tendered prices, with Contractors now not willing to hold tender prices for even short durations. With full order books, demand on Surveyors and Estimators being high and the risk of further materials and labour input cost inflation, there are fewer Contractors willing to Tender work and they are being more selective about the projects they wish to work on.

MIDLANDS



Regional construction activity is buoyant across many sectors. With mandated COVID lockdowns completely removed, the 'new normal' challenges are predominantly strains resulting from various supply side pressures.

Particularly busy sectors include industrial, infrastructure and residential. Industrial demand is driven by the surge in logistics requirements resulting from online retail. Locally, the High Speed Rail link with London (HS2) has now translated to on-site activity. Residential projects include most sub sectors of that market and Build-to-Rent projects still represent a good portion of the planning consents and project starts.

Source	% Uplift reported	2020	2021	2022	2023	2024	2025
Birmingham	**Q4 2021**	**0.00**	**3.50**	**3.50**	**4.00**	**3.50**	**3.50**
Others - Upper Range (Birmingham)	Q4 2021	3.00	3.10	3.25	4.00	4.50	4.50
Others - Lower Range (Birmingham)	Q4 2021	-2.50	1.50	1.75	1.50	1.50	3.50
BCIS (National)	Q4 2021	-1.50	6.70	4.00	4.90	4.70	4.30

OVERVIEW

Commercial projects are slightly more subdued, with investment activity in existing stock slightly hesitant and many new-build projects already committed and in construction. Higher Education spending appears slightly restrained, pending clarity on post-pandemic normality returning to the sector. Health projects remain strong but tied to investment cycles.

A significant number of city centre retail repurposing projects are in the planning stages, but few have moved to construction as yet. The city core is likely to see some structural shift, which had already begun pre-pandemic, with a shrinking of the retail core and expansion of other uses into the consequent gap. The pull of the HS2 station is likely to draw the core in a different direction over time, with other significant regeneration such as Smithfields likely to shape the city's geography and hot spots. As the year ticks over into 2022, some final overlay activity in preparation for the Commonwealth games is expected to come to market.

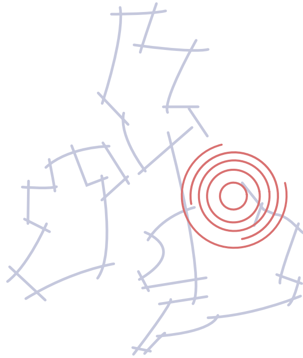
Supply chain fragility has been a key area of concern in the last quarter, and has driven escalation, with both raw materials input cost pressures and risk allocation to non-availability. Materials pressures are arising from a range of factors: First, the surge in demand from post-lockdown starts. Second, global disruption of trade for imported materials, which has seen delays in landing goods, surging container prices and the much-publicised shortage of lorry drivers providing some further causes of disruption. Finally, key local market spikes, such as the HS2 project, are causing increasing shortages of some civils materials.

Labour availability and cost is also a challenge, with some trades chasing better pay rates for less complex work. There is some anecdotal evidence of the lack of migrant labour affecting some trades, although the root causes are not clear; Brexit, non-returners after COVID and workers simply chasing more lucrative projects, have all been mooted.

The result of these factors has been marked in some places in the supply chain, and now tender pricing is beginning to reflect the pass-through price increases. Risk additions are likely to be an increasing feature for the next six months, along with increasing difficulty agreeing contract terms and risk allocation in contracts. In the medium-term, Government policy such as interest rate movement could impact upon demand; however, changes are expected to be gradual and modest.

The short-term prospects for tender price inflation look set to be dominated by regional activity, capacity and supply side disruption.

YORKSHIRE & HUMBER



The construction market across Yorkshire and Humber remains strong, with short to medium term expectation for demand continuing through the remainder of 2021 and on into 2022.

Investment in infrastructure in the region has supported continued growth throughout 2021 in the residential, industrial, health and education sectors. Leeds, in particular, is enjoying a period of growth across most construction sub sectors.

Source	% Uplift reported	2020	2021	2022	2023	2024	2025
Sheffield	**Q4 2021**	**0.00**	**3.20**	**3.60**	**3.60**	**3.80**	**4.00**
Leeds	**Q4 2021**	**0.00**	**3.20**	**3.60**	**3.60**	**3.80**	**4.00**
Others - Upper Range (Yorkshire & Humber)	Q4 2021	3.00	3.20	3.00	4.00	4.50	4.50
Others - Lower Range (Yorkshire & Humber)	Q4 2021	-2.30	1.50	1.75	1.50	1.25	3.25
BCIS (National)	Q4 2021	-1.50	6.70	4.00	4.90	4.70	4.30

OVERVIEW

This is partly due to continued pent-up demand, and not insignificantly related to investment by central government filtering into the region. Confidence continues to be underpinned through key investment, with Leeds being the location selected for the UK National Infrastructure Bank, and additionally the creation of a new northern hub for the Bank of England.

A relocation in workforce from the south, along with job creation in Leeds, is increasing demand for housing. Improvements in education infrastructure and demand for services across the region are further enhancing the city's recovery from the COVID pandemic.

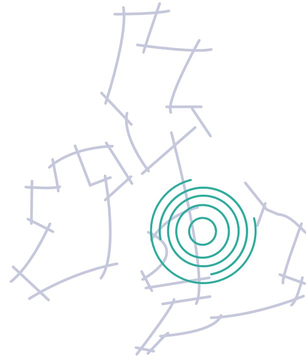
Materials price inflation has tempered construction output slightly. However, taking the region as a whole, the construction sector is showing resilience and the ability to adapt.

With labour shortages across the industry, this is being reflected in Yorkshire and Humber in the shape of many vacancies across all aspects of construction, and wage price inflation generally having to be factored-into construction prices.

Despite this challenging backdrop, we are also seeing a mixture of tender results across projects and frameworks, with some reduced tender price offers relating to framework renewals specifically. This perhaps highlights the medium-term uncertainty in some sectors linked to wider economic concerns and measures which may be required to curb inflation.

We have also seen the UK Project Managers Index ease in Q3 2021, which suggests confidence may be stalling slightly. This hiatus in confidence levels, together with inflationary pressures, is perhaps sufficient to shelter the Tender Price Index from rapid growth within the region, due to contractors' desire to secure longer-term workload. This of course follows-on from the extraordinarily high levels of confidence we saw in Q2 2021 and is founded on generally strong order books across the region. Inflationary pressures are however likely to present themselves disproportionately in sectors where workload is more buoyant, with supply chains and contractors less likely to continue to absorb input cost increases, going forward.

NORTH WEST



The market in the North West is characterised by very variable issues and concerns across the various sectors.

Although there are themes in common with other regions around the country, the North West has differing dynamics applying in the two major cities of Manchester and Liverpool. While the early-year downturn in the Commercial Offices sector has been followed by a resurgence, the manner of that rebound has been different as between the two cities.

Source	% Uplift reported	2020	2021	2022	2023	2024	2025
Manchester	**Q4 2021**	**2.50**	**4.50**	**3.50**	**3.50**	**3.50**	**3.50**
Liverpool	**Q4 2021**	**2.00**	**4.00**	**3.50**	**3.50**	**3.50**	**3.50**
Others - Upper Range (North West)	Q4 2021	3.00	3.20	3.25	4.00	4.50	4.60
Others - Lower Range (North West)	Q4 2021	-2.70	1.50	1.75	1.50	1.50	3.25
BCIS (National)	Q4 2021	-1.50	6.70	4.00	4.90	4.70	4.30

OVERVIEW

In Manchester, the offices market is currently working around clients downsizing, as they take account of tenants' desires to reduce their footprint.

However, this "collective" move has been accompanied by progression toward higher specification facilities, acknowledging employees' requirements for improved workplace conditions and environments. Given the much-publicised squeeze on the general employment market, this response may be to be expected, as capable individuals' stock rises in the personnel market. The forward-looking imperative is commendable on several levels, not least from an environmental and carbon-footprint perspective, but in the final analysis will have to be backed by appropriate commercial viability. At this time, the developer-response is focused upon refurbishment and renovation, supplying the market with a relatively lower overall cost solution, yet matching the need to "up-spec" the model and avoiding protracted planning processes and longer-term project-development. Nonetheless, bringing even refurbishments and re-purposed buildings to market at this time remains an act of faith as the market for the product recovers in the "new normal".

The commercial office market in Liverpool differs from Manchester in that, in Liverpool, while there is again an element of downsizing, the focus is less oriented toward higher specification and more toward renovation of facilities' standards levels.

Regardless of the differences across markets, developers are faced with the volatility in supply of the product by contractors. The contractors themselves have in turn been placed in a difficult spot, having to try to accommodate labour shortages and materials supply and delivery problems. As a result, they are now favouring negotiated contracts via which more of the supply, labour and delivery risks can be retained by the client-side. There are of course advantages and disadvantages to this as a solution to contract procurement but given that some of the key areas affected by recent market concerns are such as steel and cladding, mechanical and electrical, and the respective labour, contractors' estimating is clearly challenging.

SUMMARY

The foremost question for contractors and sub-contractors appears to be not how to obtain workload but, having won the work, how to carry it out to cost and timeframe, given the ongoing uncertainty as to out-turn cost set against fixed-price commitments.

Record levels of construction vacancies are unevenly distributed across trades and across geography, creating localised bubbles of shortages. Ongoing variability concerns in materials costs have been added-to by volatility in supply-chain mechanisms caused by the various effects of Brexit and COVID-related considerations.

Although some raw materials costs have eased somewhat, there remain concerns as to availability of manufactured goods, particularly imported from the EU. Consequently, “just-in-time” management is being replaced by early ordering and on-site and off-site stockpiling, as well as other buy-up mechanisms which can accentuate materials availability problems and concentrate access to products among the larger buyers and holders of stock.

Overlying all of this is the added layer of distribution issues, caused by the severe shortage of HGV drivers now seen around the country.

Talk earlier in the year of the “Pingdemic” has been replaced by conversations centred around whether “won-workload” can be converted into output in the contractual timeframe and, if not, how supportable contractual claims can be framed. Inevitably there is strain on procurement models, because this is a unique set of circumstances and requires unique adaptability to deal with it. Tendering, which once may have been viewed as a relatively straightforward exercise in compiling cost and adding overheads and profit, is now a complex balancing act sitting alongside risk management structures that are as fraught with risk as are the computations of the estimators themselves. The reaction is to respond to risk with premiums, but workload still needs to be won even though there is no immediate shortage. However, the question arises as to whether, having won the workload, it is at the right price, given the Westminster government’s stated aim of stimulating infrastructure spending and “levelling-up”.

Tender Price Forecasts have remained fairly consistent in this quarter, reflecting little real change in levels of concern regarding commodities costs and freight distribution. This still acknowledges possible expansion of out-turn prices in the event of further development of labour and materials shortages, which could become even more regionally problematic if the broadly static pool of labour is drawn to the larger cities over time. However, that is for the next quarter and the new year to develop and expose.

ABOUT RIDER LEVETT BUCKNALL

RLB Rider Levett Bucknall

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