TPF

RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q3 2022

2022 Q3

Rider Levett Bucknall

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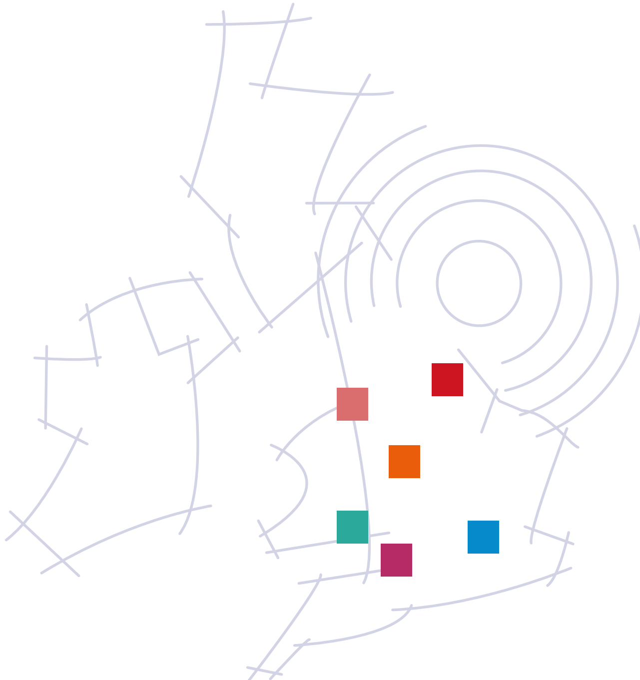

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INTRODUCTION

The third quarter of the year continued the motif of significant change in the UK, with the sad passing of Queen Elizabeth II, and the ascendance of the Prince of Wales to the title of King Charles III. The Queen died just two days after meeting with the new Prime Minister, Liz Truss, and asking her to form a government.

Politically and economically, Q3 has also seen the continuation of the conflict in Ukraine and the development of further and deeper understanding of its direct and indirect effects particularly across Europe and also through the UK.

In addition, the major needle-mover has of course been the resignation and replacement of the Prime Minister, resulting in a new Cabinet having been appointed, and new policies being explained to parliament and beginning to be implemented.

In the broad economy, effects of energy price explosion have been seen in sustained consumer price inflation, currently standing at over 10% per annum and forecast to increase even further, the raising of the interest rate to 2.25% and the presaging of new government borrowing of £130bn to protect households and businesses against enormous hikes in energy bills.

In the background, sanctions on Russia continue, and both Europe and the UK have to look ahead to what winter may hold, given the prospect of a closing of the gas valve from Russia.

Commodities prices have levelled-off and in some cases have fallen significantly, but access and distribution issues remain as a carry-over from Covid concerns and the current Ukraine conflict.

Despite 7.4% UK GDP growth in 2021, the first quarter of 2022 ended up by only a further 0.8%, followed by a dip of -0.1% in the second quarter accompanied by Bank of England forecasts of technical recession when the third quarter statistics appear. The Bank's expectation is then of a year of negative figures.

The Bank of England's forecast for general inflation currently stands at 13% for 2022, significantly higher than their previous forecast, but perhaps due for adjustment in light of the new government's plans for dealing with energy prices prior to the onset of winter.

For construction, the overall UK story of the first half of the year and now Q3 was one of rapid input cost inflation, with increasing volume of output, yet set alongside tapering new orders coming through.

Overall employment levels in the industry remain high, and vacancies were down by around 4% in the second quarter of the year.

Clearly that picture is more readily susceptible to analysis at regional level, and that detail can be seen in the local summaries in the body of this TPF document.

Contractors and sub-contractors are still facing the more variable and uncertain costing landscape that we described in the H1 TPF. Consequently, RLB has chosen once again to express forecasts of tender price inflation for upcoming periods in groupings of Lower, Most Likely and Higher percentages. The range of possible outcomes is helpful in the uncertain environment, and indicates the currently perceived most likely result. All figures will be reviewed and updated once again next quarter.

Below is the second edition of the weighted average of RLB's forecast tender price uplifts for the UK regions shown in this report. Weightings are again via volumes of New Orders reported by the Office for National Statistics (ONS). While the upper and lower bounds show a fairly wide spread of tender uplift expectation, the cumulative figures shown for the most likely outcomes remain approximately similar to those currently shown by BCIS for 2022-2025.

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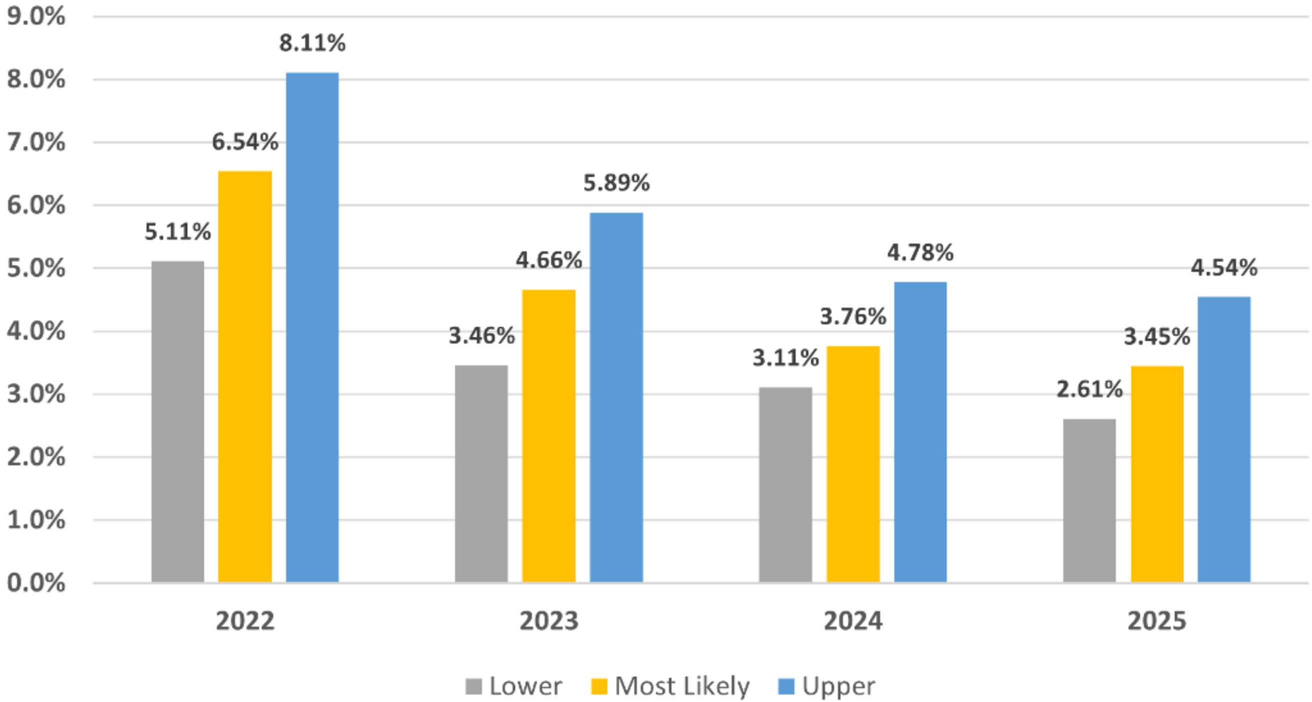
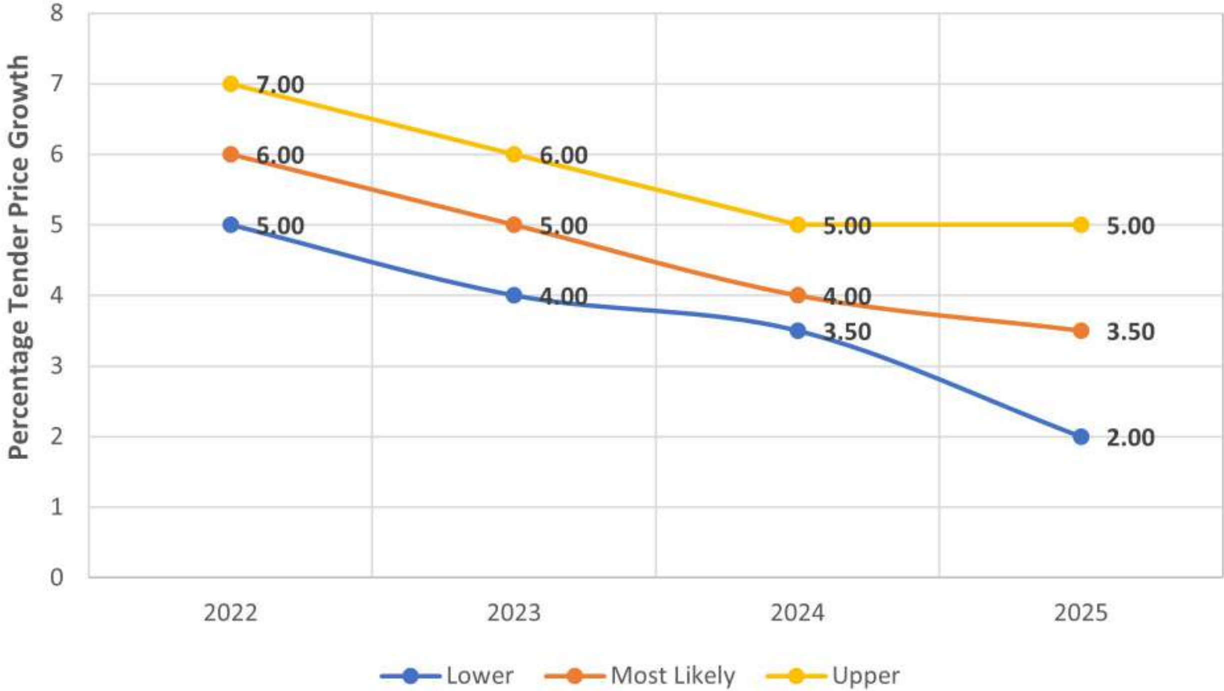
TPI Uplift - Weights: H1 2022 New Orders Proportions Data



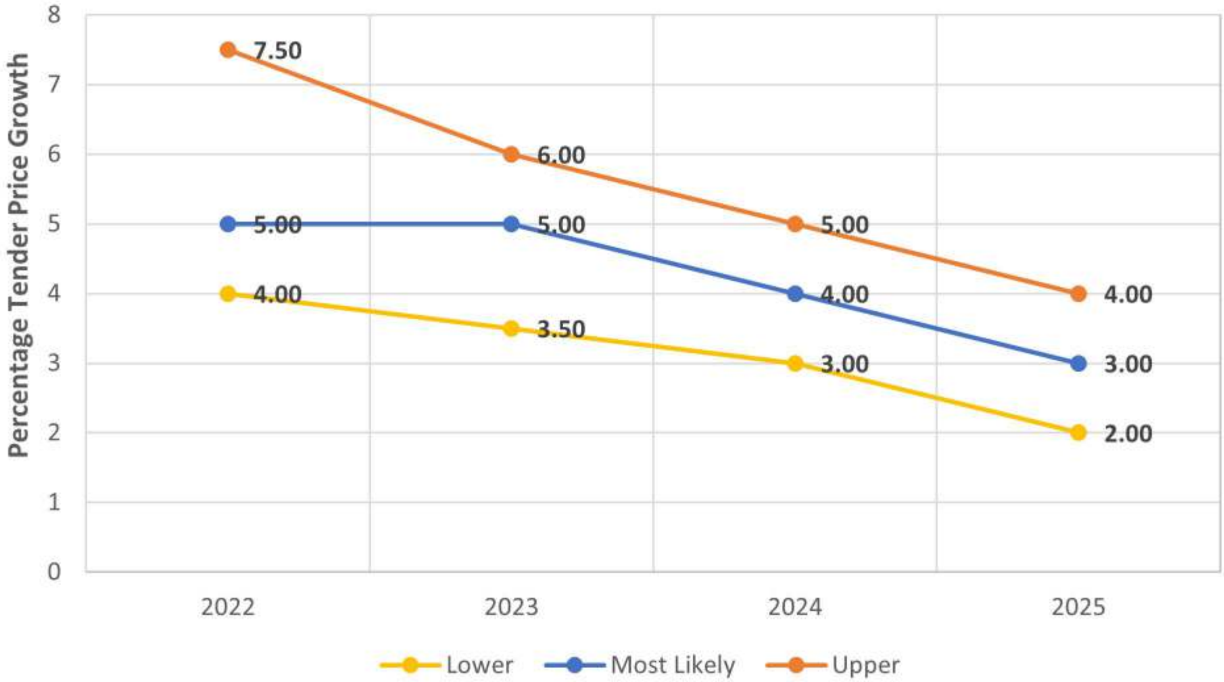
LONDON & SOUTH EAST

Source	% Uplift reported	2022	2023	2024	2025
London	Lower	5.00	4.00	3.50	2.00
London	Most Likely	6.00	5.00	4.00	3.50
London	Upper	7.00	6.00	5.00	5.00
Thames Valley	Lower	4.00	3.50	3.00	2.00
Thames Valley	Most Likely	5.00	5.00	4.00	3.00
Thames Valley	Upper	7.50	6.00	5.00	4.00
Competitors/Others - Upper Range (London)		8.00	5.80	4.50	4.50
Competitors/Others - Lower Range (London)		5.50	3.50	2.00	2.25
Competitors/Others - Upper Range (South East)		8.00	5.00	4.50	4.50
Competitors/Others - Lower Range (South East)		5.50	3.50	2.50	2.25
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		10.00	4.00	3.30	2.90

Tender Price Change - London



Tender Price Change - Thames Valley



OVERVIEW - London & South East

For London, overall workload has remained high, with over 21% uplift in ONS new work done figures for London for the last year versus the previous year, although less than 6% uplift for the South East.

After a major spike in London new orders in the first quarter of the year, driven by new infrastructure and private commercial work, there is a prospect of some tailing-off, with major projects nearing completion and their major spends having passed. At the same time, some commercial projects remain on-hold due to uncertainties surrounding the post-Covid recovery process and demand levels in the central city locations.

One sector that is not slowing is that of Data Centres, which are coming to market with regularity as the need expands. Ongoing cost planning of multiple data centres across a range of clients, points toward sustained upcoming activity as these projects progress, but that is set alongside awareness on the part of both clients and consultants, of the complex interrelationships of business growth and the wider economic situation. Although recession is forecast, all recessions lead to a recovery in some form, and that involves the release of pent-up demand, so the usual issue of timing of delivery of projects to market is further complicated by the current economic and geopolitical instabilities.

Underlying the procurement and delivery questions is the ongoing challenge of resource acquisition. Materials costs are rising rapidly together with, in some cases, very significant shortages of skilled labour on both the professional and trades parts of the equation. Consequently, lead-in times and programme durations for existing and also new work have had to be expanded to cope with delay and uncertainty as to delivery of goods and availability of labour. Even within existing fixed price contracts, that situation has given rise to contractors seeking revision of obligations due to inability to secure goods and/or meet deadlines due to matters beyond anyone's control.

Clearly cashflow is at the heart of construction contracting, and contractor insolvency is a poor outcome for all parties, so the response to reported difficulties has in many cases been a pragmatic approach involving parties discussing and creating innovative solutions.

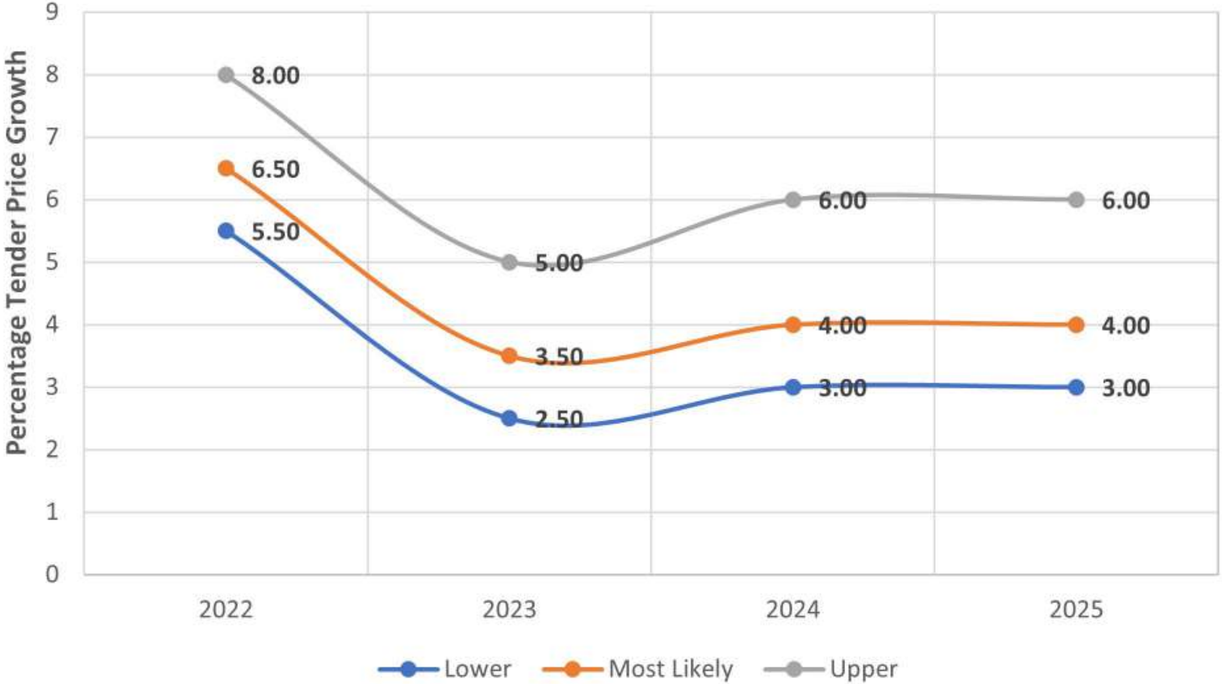
For new work, contractual relationships are having to take account of expanded lead-times and other resource issues, and require commitment to early ordering and flexibility in dealings with stretched sub-contract supply chains. Through all of this however, data centre and also life sciences laboratory projects seeking to take advantage of synergies with Universities, are still very active. The juxtaposition with a changing commercial office market, fewer new-builds and more "cut and carves", provides backcloth for the development of this space.

Notwithstanding these current problems, all of the above stands in the context of the journey to net zero carbon, which will yet impose further challenges to the market and will itself drive changes not only to buildings' contents, but also where and how they are constructed.

MIDLANDS

Source	% Uplift reported	2022	2023	2024	2025
Birmingham	Lower	5.50	2.50	3.00	3.00
Birmingham	Most Likely	6.50	3.50	4.00	4.00
Birmingham	Upper	8.00	5.00	6.00	6.00
Competitors/Others - Upper Range (Birmingham)		7.50	5.00	4.50	4.30
Competitors/Others - Lower Range (Birmingham)		5.00	3.00	2.50	2.25
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		10.00	4.00	3.30	2.90

Tender Price Change - Birmingham



OVERVIEW - Midlands

Tendering activity in the Midlands remains buoyant, although some sectors can be seen to have been impacted by slowing demand due to increased cost of borrowing, the general cost of living squeeze and increased cost of construction. The consequence is that the slowdown has given rise to considerably more contractor interest in maintenance of pipeline of workload, resulting in a softening of price increases, likely due to the trimming of risk allowances rather than cuts in margin.

Main Contractors remain concerned regarding volatility in pricing, offering tenders open for very limited periods and lining up key sub-contractors on back-to-back terms from contract award stage. This is leading to increased time periods to get contractors into a position to enter into contract, but also curtailing client approval times.

Looking by sector, Civils trades remain heated, with much activity around HS2, but conversely new starts for Civils projects in the East Midlands have declined. Industrial and Manufacturing activity remains busy across the region, including around West and East Midlands primary highway nodes.

BTR and PBSA projects can be seen to be making new starts across both the East and West Midlands, including particularly Birmingham, Coventry, Nottingham and Leicester.

Commercial projects are more stop-start, but with most activity in the secondary market of refurbished space.

There is some evidence of public sector project-spend stalling or not coming forward as planned as business cases take the strain of increased costs.

At a trades level, Contractors' ability to secure fixed price on such as steelwork or reinforcement remains challenging over longer project durations. For cladding and façade trades, workload remains busy and buoyant, whereas finishing trades now appear to have more capacity and are seeing less volatile tender price movements.

Overall, there is a general expectation that volatile conditions may ease in many trades through the last quarter of the year.

Overall construction new work done for the first half of the year is up by over 29% comparing Q2 of this year against last, and by 11% on Q1 2022. On their face these figures are large, but they are dominated by a trebling of industrial projects output, as steel and cladding availability eased and relatively short-programme works were able to progress rapidly.

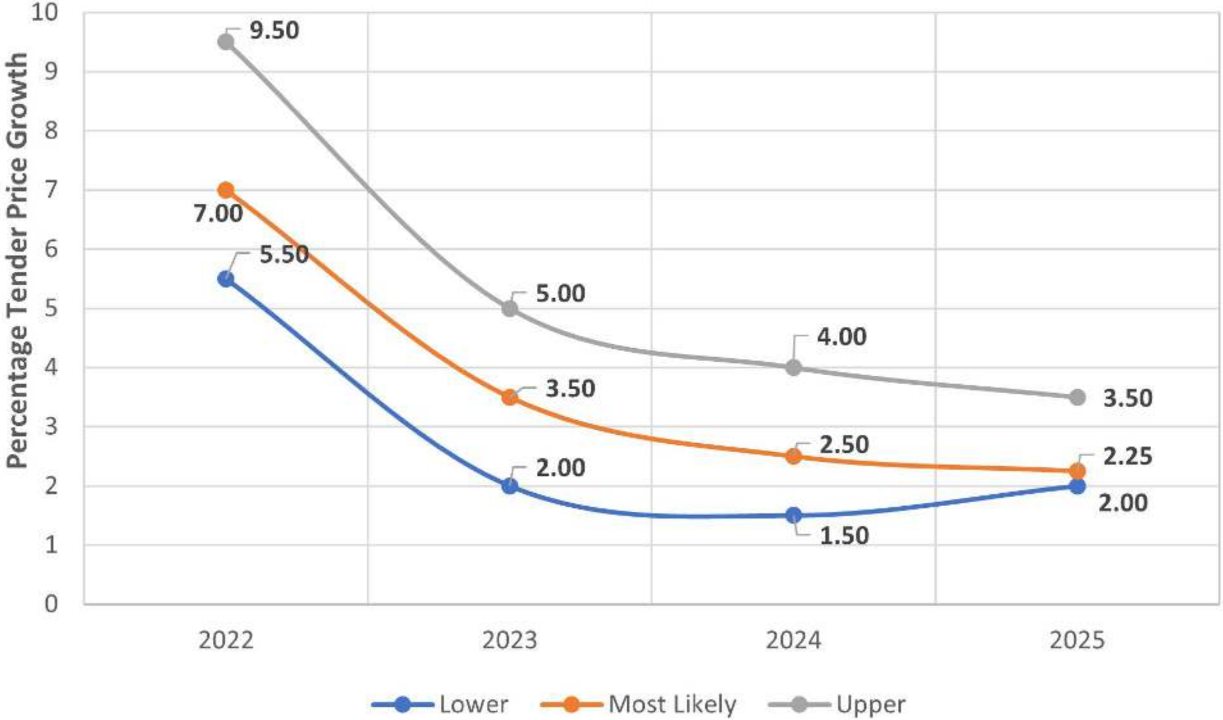
OVERVIEW - Midlands

New orders for the year to mid 2022 were down 21% on the previous four quarters, mainly due to relatively weak new order figures for the second quarter on 2022, so the jury is out on how Q3 will have fared in that respect. Some sectors are clearly being impacted by slowing demand, driven by increased cost of borrowing, cost of living squeeze and increased cost of construction. As a result, in some sectors and with some sizes of contractor, there is an increased focus on pipeline. This is gently flowing through to pricing levels, but only gently and slowly. It is likely that the risk additions are being trimmed, not margin. Main Contractors remain concerned on volatility in pricing, offering tenders open for very limited periods and lining up key sub-contractors on back-to-back terms from contract award stage. This is leading to increased time-frame for getting contractors into a position to enter into contract and is also curtailing client approval times.

BRISTOL

Source	% Uplift reported	2022	2023	2024	2025
Bristol	Lower	5.50	2.00	1.50	2.00
Bristol	Most Likely	7.00	3.50	2.50	2.25
Bristol	Upper	9.50	5.00	4.00	3.50
Competitors/Others - Upper Range (Bristol)		8.00	5.00	4.80	4.50
Competitors/Others - Lower Range (Bristol)		4.50	3.00	2.50	2.25
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		10.00	4.00	3.30	2.90

Tender Price Change - Bristol



OVERVIEW - Bristol

The market in Bristol and the South West remains generally buoyant, with construction demand outstripping supply. In particular, there is an upsurge of office and commercial inquiries giving rise to the prospect of significant new projects coming through the design stages toward market.

Several large multi-use developments are also coming through the design stages. Likewise, there is a strong pipeline of infrastructure works in the region, but a limited pool of contractors. This stress in the system means that tender prices are increasing. Although the residential market is still growing, house prices have seemed to plateau, and the expectation in the house-building sector is for a period of levelling-off in the coming year. Within the education and public sectors generally, there is evidence of stability, perhaps underpinned by awareness of the resource constraints in the wider private sector.

The continued demand in the market exists alongside ongoing materials price increases, particularly in relation to imported materials, which are having to be sourced from supply chains that have been under severe pressure for many months in the aftermath of what everyone hopes was the worst of the Covid period. It can still be difficult to fix prices on some elements such as steel or concrete for longer than a couple of weeks.

Mechanical & Electrical lead times and cost in particular seem at risk at present.

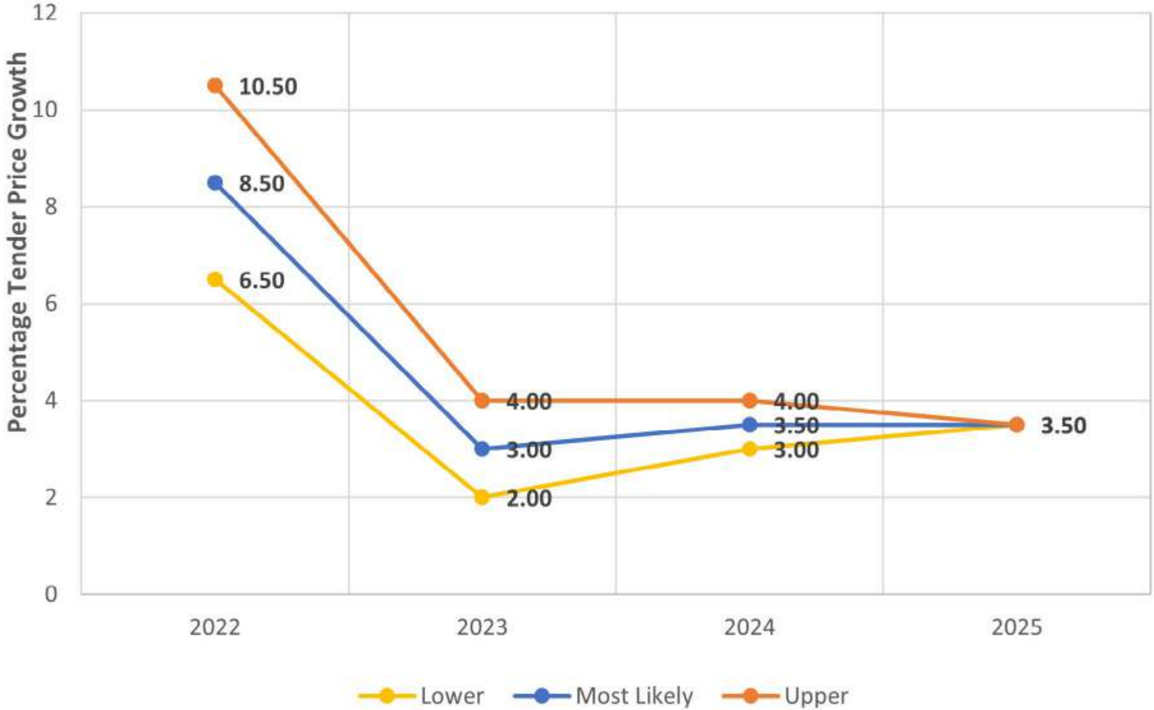
Although the total of new work is up in the South West by only around 4% year on year, repairs and maintenance work, which is highly labour intensive, is up by over 20% year on year. The stand-out in new work sectors are that of industrial, also up around 20% in value, and infrastructure, which is predominantly more plant-intensive and as such may provide some balance to the overall resource-demand figures.

Looking forward slightly, ONS statistics also confirm that new order volumes in the last year are up by almost 50% on the previous year's figures, signifying that the industry in the South West is not only active on-site, but will remain so for the short to medium term future.

YORKS AND HUMBER

Source	% Uplift reported	2022	2023	2024	2025
Sheffield	Lower	6.50	2.00	3.00	3.50
Sheffield	Most Likely	8.50	3.00	3.50	3.50
Sheffield	Upper	10.50	4.00	4.00	3.50
Leeds	Lower	6.50	2.00	3.00	3.50
Leeds	Most Likely	8.50	3.00	3.50	3.50
Leeds	Upper	10.50	4.00	4.00	3.50
Competitors/Others - Upper Range (Yorks and Humber)		7.20	5.00	4.50	4.00
Competitors/Others - Lower Range (Yorks and Humber)		4.00	2.50	2.00	2.00
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		10.00	4.00	3.30	2.90

Tender Price Change - Yorks and Humber



OVERVIEW - Yorks and Humber

Challenges continue, with material and labour prices affecting development opportunities across the region. These will no doubt continue to stifle growth in Yorkshire and Humber over the medium term. That situation is compounded further by the ongoing war in Ukraine, which has impacted significantly on energy prices and as a consequence has affected construction costs right across supply chains.

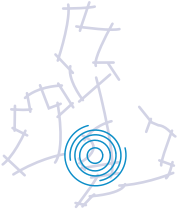
Price inflation as a result of the above issues is increasingly problematic for the region even though the post-Covid pent-up demand has subsided. There is increasing pressure on development costs and upon contracting organisations to reach acceptable terms with clients. A general trend of increasing risk on development projects in the region is another symptom of price inflation, as contractors seek to minimise their exposure. This trend is creating further difficulties in stalling project approvals and is damping the industry's performance.

This sharp price correction as a result inflationary pressures over the first half of 2022 will no doubt result in a settling effect on construction prices generally and see construction inflation levels fall somewhat over the coming 12 months. That is not to be misconstrued as a fall in costs, but as a reduction in level of ongoing increase.

Sectorally, Leeds' expansion and redevelopment of brownfield sites into housing and green spaces continues to sustain optimism in the local market, along with the education sector continuing to evolve post-Covid. With new challenges such as net-zero becoming increasingly vital due to energy price inflation, this is creating a positive shift across the industry which naturally can have an initial braking effect whilst clients and developers adjust. Infrastructure continues to offer reason for optimism across the region as does mixed-use development, however challenges within the commercial sector post-Covid remain whilst businesses adapt to new lower occupancy levels and new models of hybrid working.

Overall value of construction work done for the last four quarters as against the previous four, is up by over 23%, spread broadly proportionately between new work and repairs and maintenance. Infrastructure work was up over 41%, and new industrial project work by almost 56%. In respect of pipeline, overall volume of new work orders is up some 13% year on year, but the major statistic is that of private commercial work, which is up by over 60%. The picture flowing from these statistics suggests a still highly active market which is not only continuing to produce at high levels of capacity, but will yet be further stressed by additional labour and materials demand over and above the already existing workloads.

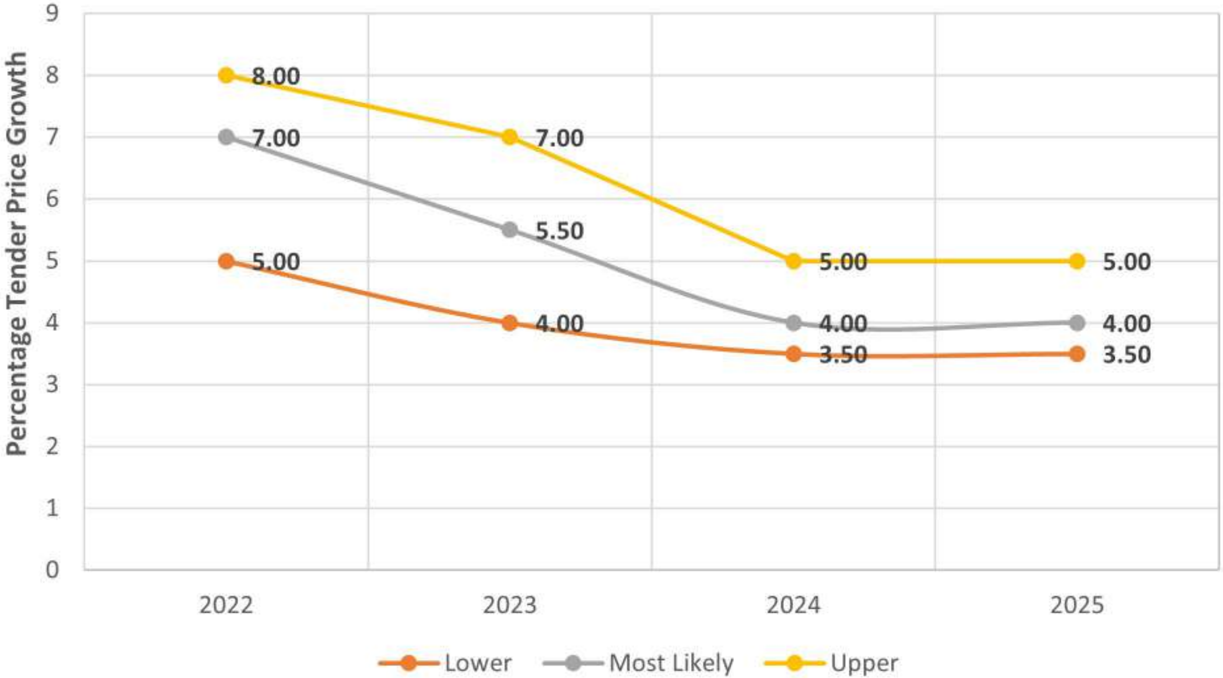
In summary, challenges continue across the region and whilst overall economic growth is expected to slow, inflation in supply costs will be constrained in respect of pass-through to clients, likely preventing a wholesale shift in tender prices in the short term.



CARDIFF

Source	% Uplift reported	2022	2023	2024	2025
Cardiff	Lower	5.00	4.00	3.50	3.50
Cardiff	Most Likely	7.00	5.50	4.00	4.00
Cardiff	Upper	8.00	7.00	5.00	5.00
Competitors/Others - Upper Range (Wales)		7.50	4.50	4.20	4.30
Competitors/Others - Lower Range (Wales)		4.50	2.00	2.00	2.00
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		10.00	4.00	3.30	2.90

Tender Price Change - Cardiff



OVERVIEW - Cardiff

According to ONS statistics, levels of output of the Welsh construction industry remain strong, each of the last four quarters having outrun the figures for the last full pre-Covid quarter, Q4 2019.

Output for the second quarter of the year was reported by ONS as being particularly solid, being up by almost 11% on the previous quarter and actually the fourth highest current value figure ever recorded. Notwithstanding that the figure includes a "changing value" component over and above volume, that strength in activity underscores just how active Wales' construction activity is at present. However, the major story for construction in Wales was the advent, in the second quarter, of new infrastructure work orders in the region of £2bn, far in excess of any previous figure recorded for a quarter-year.

This will tackle a range of facets including greener public transport and rail developments to the Wales and Western regions, and forms part of the £8.1bn investment which the Welsh Government is proposing for the next three years to support the development of green infrastructure. This is in response to both climate change and rising energy prices, with the ambition to support a zero carbon economy, provide added sustainable benefits across Wales, investments into outdoor and recreational facilities and increased flood defences to areas at risk.

As was the case in the first half of the year, construction activity in and around Cardiff continues to run at a high level. The several large projects still nearing completion in the city centre look to be replaced by further major projects, maintaining the generally high levels of activity. In particular, the new interchange bus station works are due for completion imminently.

There are further substantial infrastructure works including the South Wales Metro scheme valued in the region of £734m, in addition to the new Butetown rail station extension in Cardiff Bay, intended to result in a more modern, greener and smoother service into Cardiff.

In the residential sector, there are additional large developments planned for both the west and east side of the city, which will inevitably exert pressure on trades' availability, although offset somewhat by the period of time to take them to site and for the projects to come out of the ground.

Cardiff City Council announced £74m in capital spend for 2022-23 as part of a programme to tackle fire safety, repairs and homelessness. The proposal consists of circa 4,000 new homes and 2,800 new council homes. In general it is the Welsh government's ambition to decarbonise the residential industry with 20,000 zero carbon new homes to be constructed. We are seeing this across the market within South Wales, through several housing frameworks.

OVERVIEW - Cardiff

Contract awards have been made for several large school projects, involving Tier 1 contractors, while in Newport and Swansea, several large projects are completing.

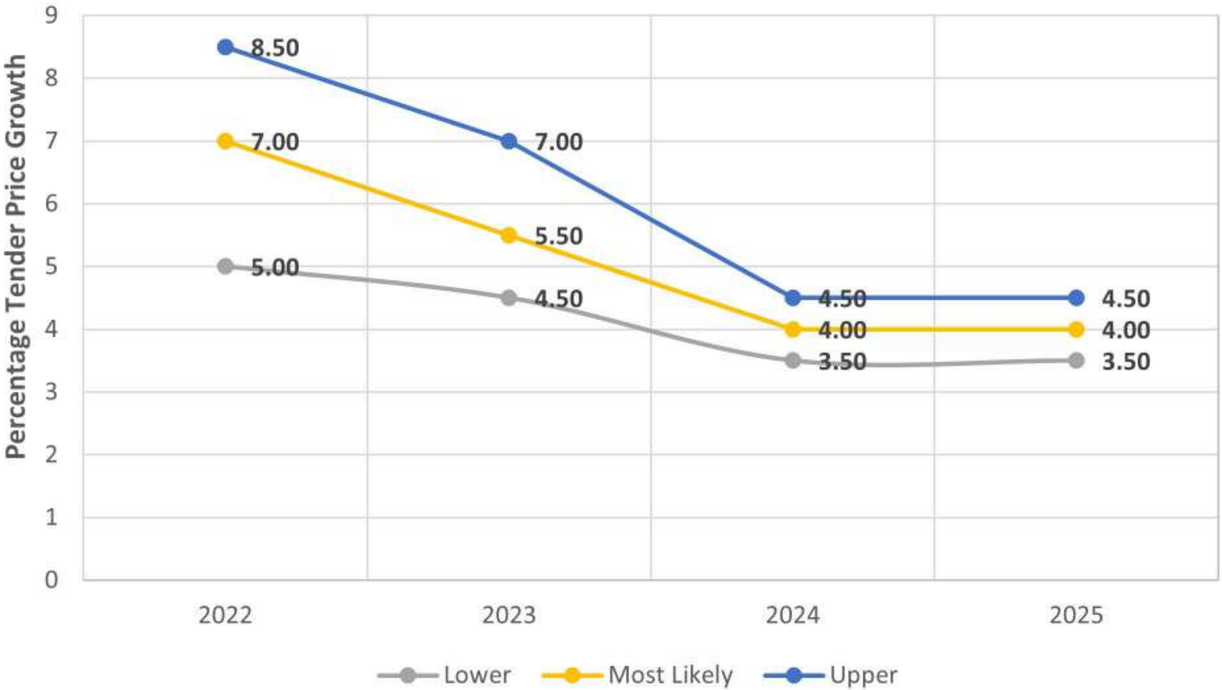
Overall value of construction work done for the second quarter of the year in Wales was up by almost 11% on the first quarter, and up in comparison with last year's second quarter by over 14%.

New orders volume figures for the second quarter of 2022 were up by over 300%, due to the rapid influx of major infrastructure works orders, a figure which is underscored by the uplift of 87% year on year for the last four quarters. The continuing completion of existing workload of course needs to be replaced by new work, but the mis-match between hitherto and current volumes in the market will stretch already stretched resources and will continue to drive tender prices upward.

NORTH WEST

Source	% Uplift reported	2022	2023	2024	2025
Manchester	Lower	5.00	4.50	3.50	3.50
Manchester	Most Likely	7.00	5.50	4.00	4.00
Manchester	Upper	8.50	7.00	4.50	4.50
Liverpool	Lower	5.00	4.50	3.50	3.50
Liverpool	Most Likely	7.00	5.50	4.00	4.00
Liverpool	Upper	8.50	7.00	4.50	4.50
Competitors/Others - Upper Range (North West)		7.50	5.00	4.80	4.50
Competitors/Others - Lower Range (North West)		5.00	3.50	2.50	2.50
BCIS (National) TPI		7.80	6.20	3.30	3.40
BCIS (National) General Building Cost Index		10.00	4.00	3.30	2.90

Tender Price Change - North West



OVERVIEW - North West

Ongoing workload in the region is continuing at a high level of activity, with infrastructure and Industrial works for the second quarter of 2022 up by 40% and 123% respectively as against the corresponding quarter in 2021. In Particular, the new Everton stadium is proceeding rapidly, but is not stressing the local trades or materials markets as much as might be expected. This is due to the project drawing sub-contractors on a national basis, with a lesser reliance at this stage on local trades and suppliers.

On the wider stage, there is an issue in Liverpool due to the city council being in "special measures", with the result that some projects are being stalled due to additional scrutiny over approvals and the like.

In the centre of Liverpool, it is clear that activity is relatively scant, a situation that is in common with the market in Manchester, where general business activity levels in the city centre have cooled since lockdown, even though we are now well beyond that lockdown experience.

ONS statistics support this overall impression of the construction market's performance, the high level of activity noted above being followed by a question mark over replacement workload entering the marketplace. In terms of new work, other than one, all sectors' new work done is up, although the total uplift is less than half of one percent year on year by value. That result is caused by the rapid diminution of work done on new infrastructure projects, which are down by some 44% in value. Notably, that drop-off does not necessarily flood the market with labour, due to the higher plant labour ratios involved in infrastructure work.

In relation to replacement workload, new orders incoming to the market, although total new work volumes are down only 2% year on year, closer analysis is revealing. Comparing the second quarter of 2022 with that of 2021, shows a more than 20% fall in the figures just in, foremost among which are the 67% fall in "Private Commercial" work and the 84% fall in "Other new Work excluding Infrastructure" (which also excludes Housing). While "All new housing" is up 35% and "Private Industrial" is up 4%, they cannot compensate for the falls elsewhere.

In summary, the construction market in the North West, while busy at present, appears to be undergoing a transition phase wherein new replacement workload is tapering as against existing workload completion. That nexus could place considerable pressure on contractors and sub-contractors as input costs incur inflationary effects, some local and some imported, and yet the need for replacement workload demands tighter tendering.

SUMMARY

With the commencement in office of the new Prime Minister, a battery of political and economic difficulties persists. The low growth and high inflation background brings with it a cost of living crisis which will affect spending decisions and choices, as well as threatening job security. The concept of "levelling up" across the United Kingdom is challenged by these basic parameters and related constraints.

For construction, the restructuring of supply chains has become a central focus of not only surviving Covid and its aftermath, but of introducing more flexibility to a previously relatively rigid supply system which has quite obviously been found wanting under the pressures of logistics and production challenges, particularly in the context of imported goods and materials. This effect also has potential to reach into design and procurement decisions, and provides an opportunity to take advantage of the recent years' experience to create a more flexible and responsive model.

Where politics and economics meet is at the ongoing debate regarding globalisation versus "de-globalisation", the juxtaposition of common standards and free trade, with re-shoring and on-shore production. The certainty of in-country production of materials is superficially attractive as it protects against external effects being internalised into UK markets, but re-industrialisation to facilitate this has myriad costs, not the least of which depend upon the very existence of the materials from which goods can be produced and the skilled and unskilled labour to extract and refine. In large, minerals-rich and diverse-geology countries, no doubt there is capability to on-shore, but the very move toward such a solution flies in the face of the economic concept of comparative advantage, which suggests that the answer to international risks exposure is more trade, not less.

For the UK construction industry, the focus in recent months has been on fuel and energy cost increases, and their feeding through to ongoing build-costs and bid-prices. Clearly, input-cost imposts cannot continue to rise without pass-through to clients. However, pressure will come also from the labour side of the equation, where personnel are experiencing personal inflation spikes of over 10% per annum. Contractor and subcontractor administrations continue, citing higher costs on fixed price contracts as being the key reason. While workload levels have been and arguably remain high, the issue of whether work being completed is being replaced in sufficient volume remains an open question.

ABOUT RIDER LEVETT BUCKNALL

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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.

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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.

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- Cost management
- Project management
- Programme management
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- Health & safety
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- Design management
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