PUBLICATION

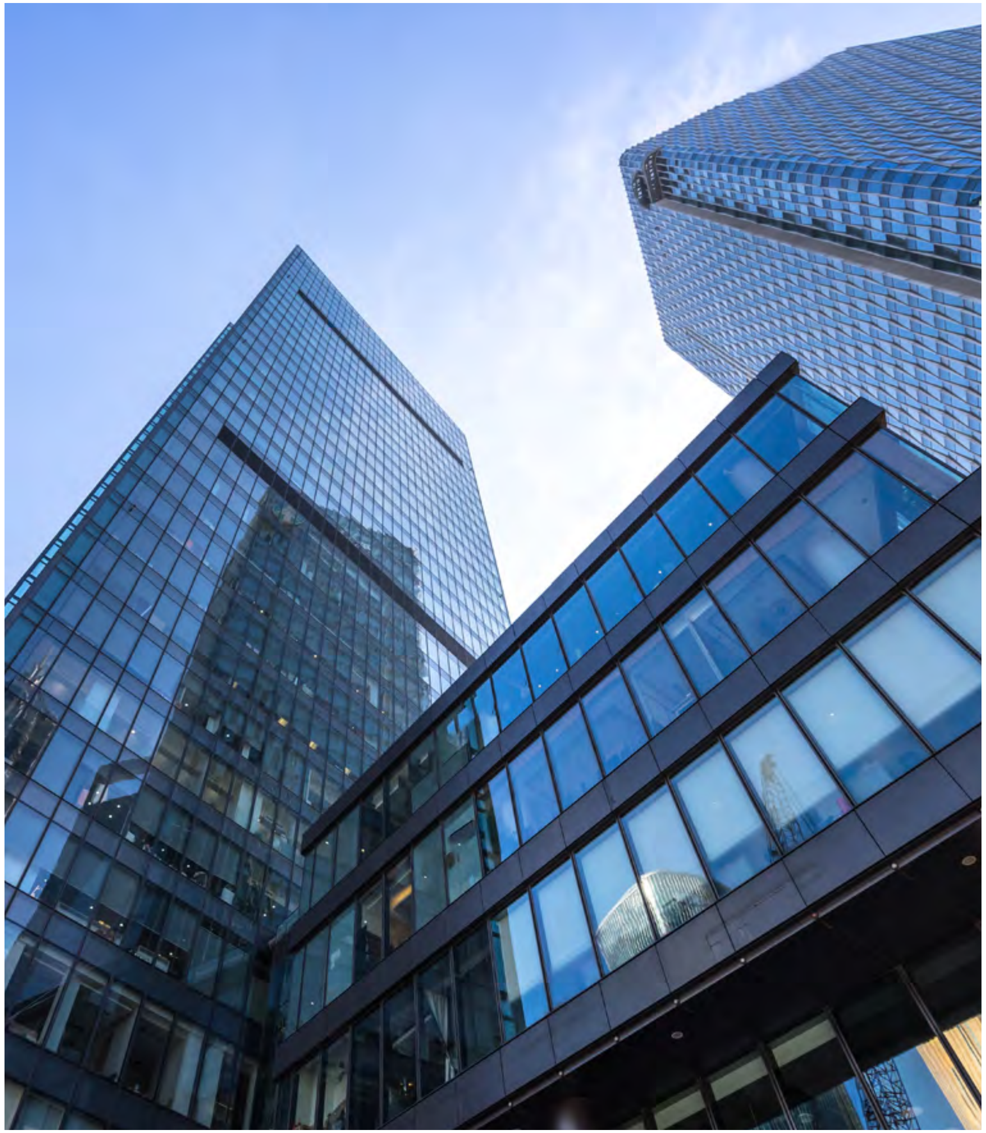
TENDER PRICE FORECAST

UNITED KINGDOM EDITION

Q2 2023

RLB Rider Levett Bucknall

CONTENTS



INTRODUCTION

With the arrival of the latest in the series of 12 successive interest rate rises taking the base rate to 4.5%, a rate not experienced since 2008, the Bank of England's Monetary Policy Report of May 11 provided only a modicum of comfort.

The declaration that a technical recession had been avoided helped, but the reality of baked-in inflation and significant uplifts in consumer costs suggests there is still improvement to be made. The Bank does not see general inflation falling to less than 5% this year, with employment levels remaining high, and a return to target inflation levels only in 2025.

The economy-wide difficulties are not specific to the UK, but growth levels are expected to be poor even when compared with those of other economies. For direct inward investment into the UK, the fact that figures have fallen significantly over the last two or three years masks a complex mix of effects. Some of these effects relate to politics, economics and sizes of projects and others to numbers of projects. They also hide the fact that, according to Ernst & Young, the UK still leads Europe in technology investment.

The more specific building input cost inflation continues, with BCIS indicating an uplift of a further 3% this year on top of almost 9% last year for the General Building Cost Index excluding M&E. BCIS forecasts input-cost-matching tender price movement this year. The overall picture is one of continuing stress in labour and materials markets, together with the prospect of possibly more upcoming public sector workload on HS2, schools and hospitals programmes. Set alongside challenging labour availability throughout Europe, timing and go/no-go decision-making expertise may be at a premium in the consequently dynamic market conditions.

RLB's TPF explores the local effects of the wider national economic situation, by focusing on regional perspectives and regional effects across the country. While there is no tangible "national" cost of construction work, the local markets are certainly interwoven in such a way as to be inter-dependent, so effects felt in one region are often closely aligned with others' situations.

Between the Q1 and Q2 2023 editions of the TPF, a review of 2022's year-end figures reveals a marginal softening of RLB's weighted average of tender price movements for the year, but a slight increase in the weighted forecast uplift for 2023. That slight uplift, while speculative at present, suggests reasonable confidence across markets around the regions of the UK.

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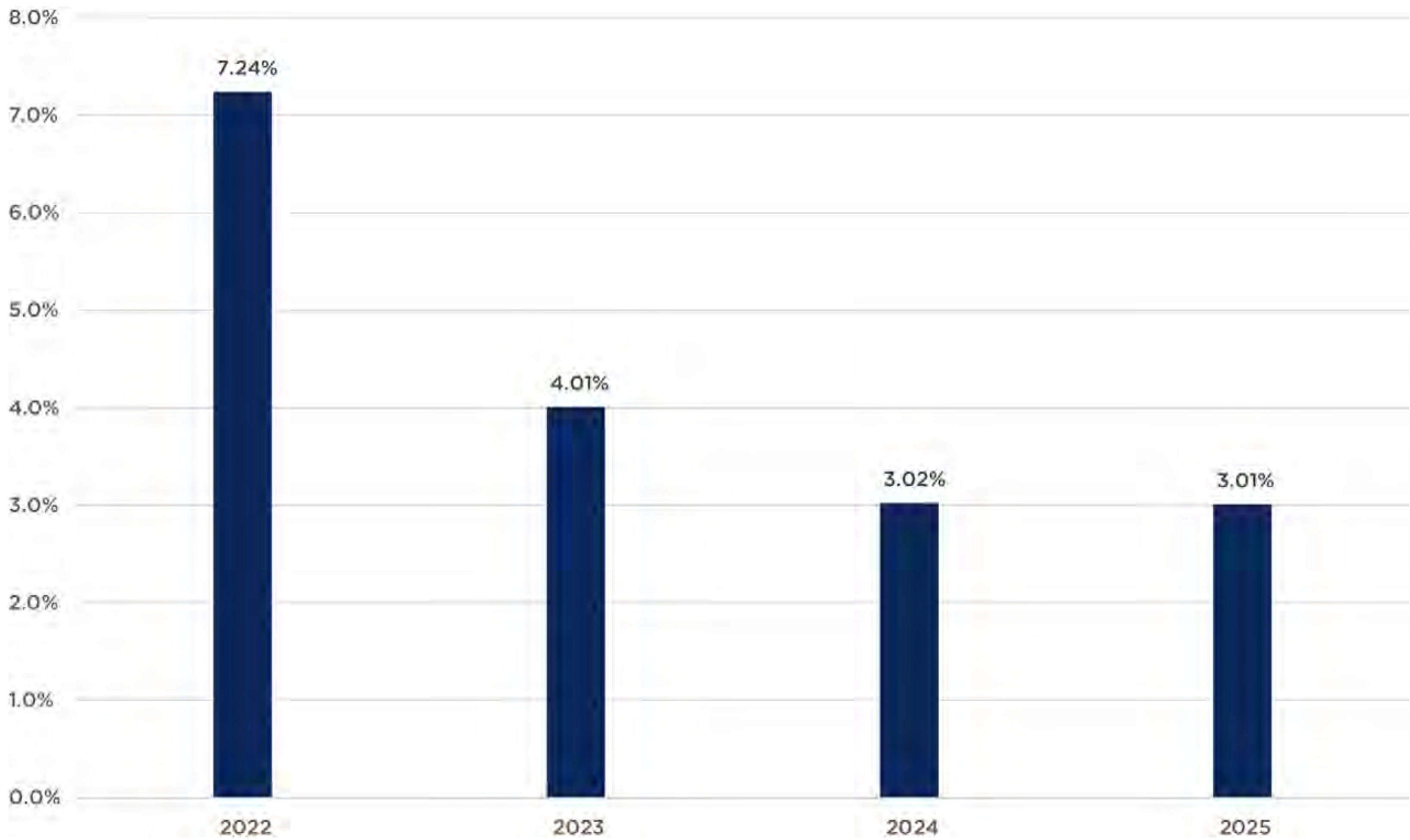
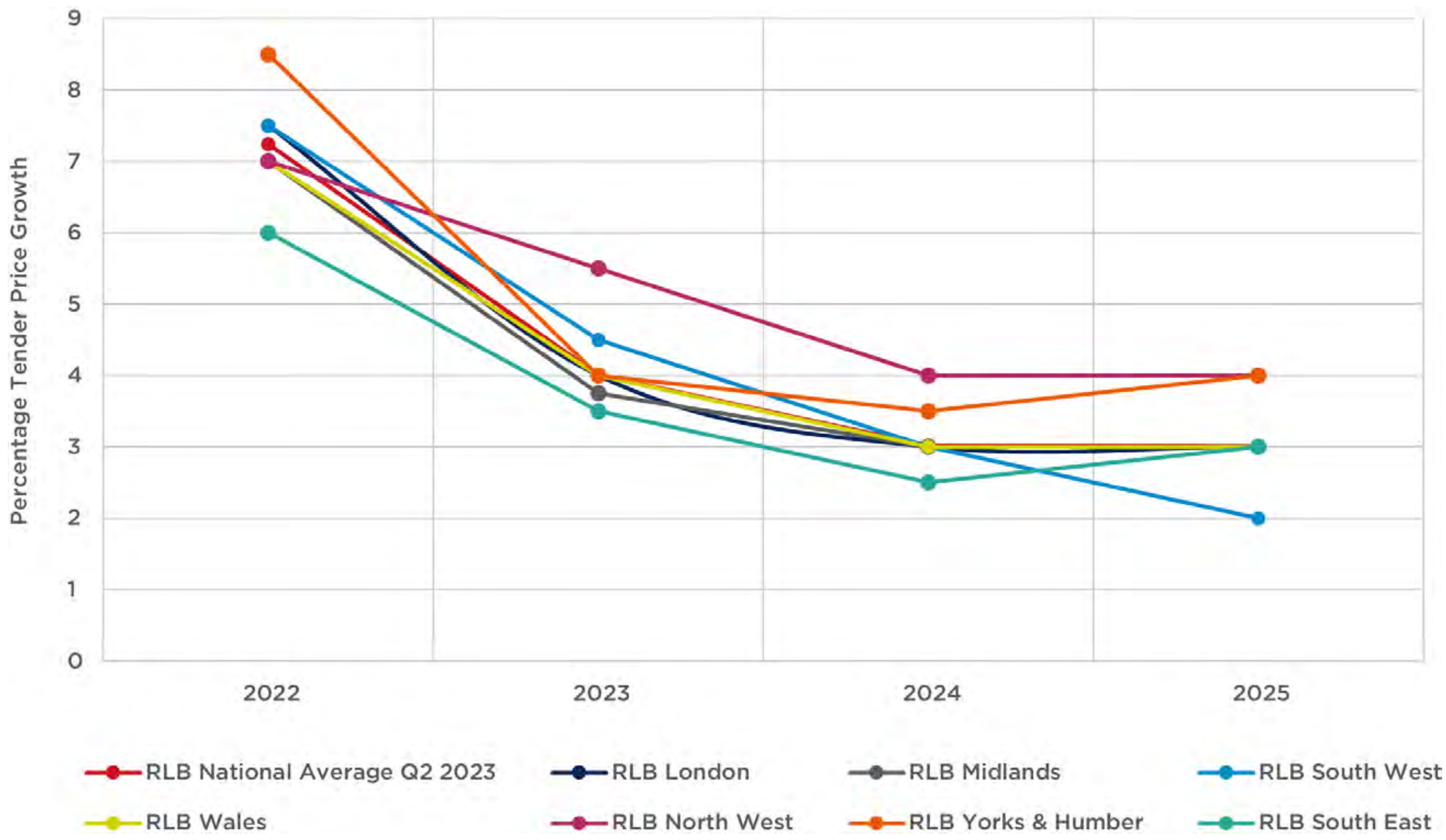
REGIONS

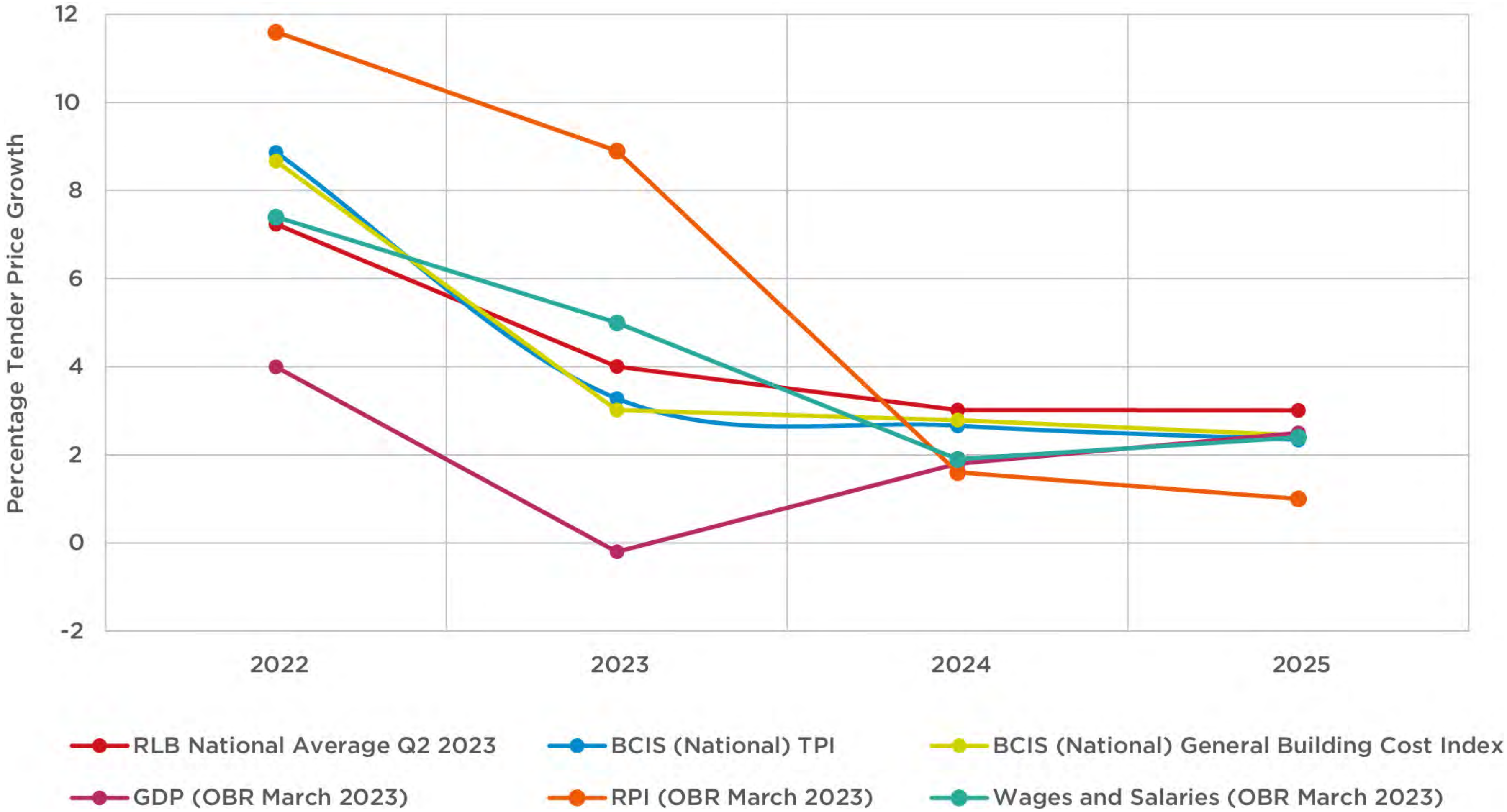
RLB Regions' Weighted Average TPI Uplifts



Consolidated Regional Tender Price Changes



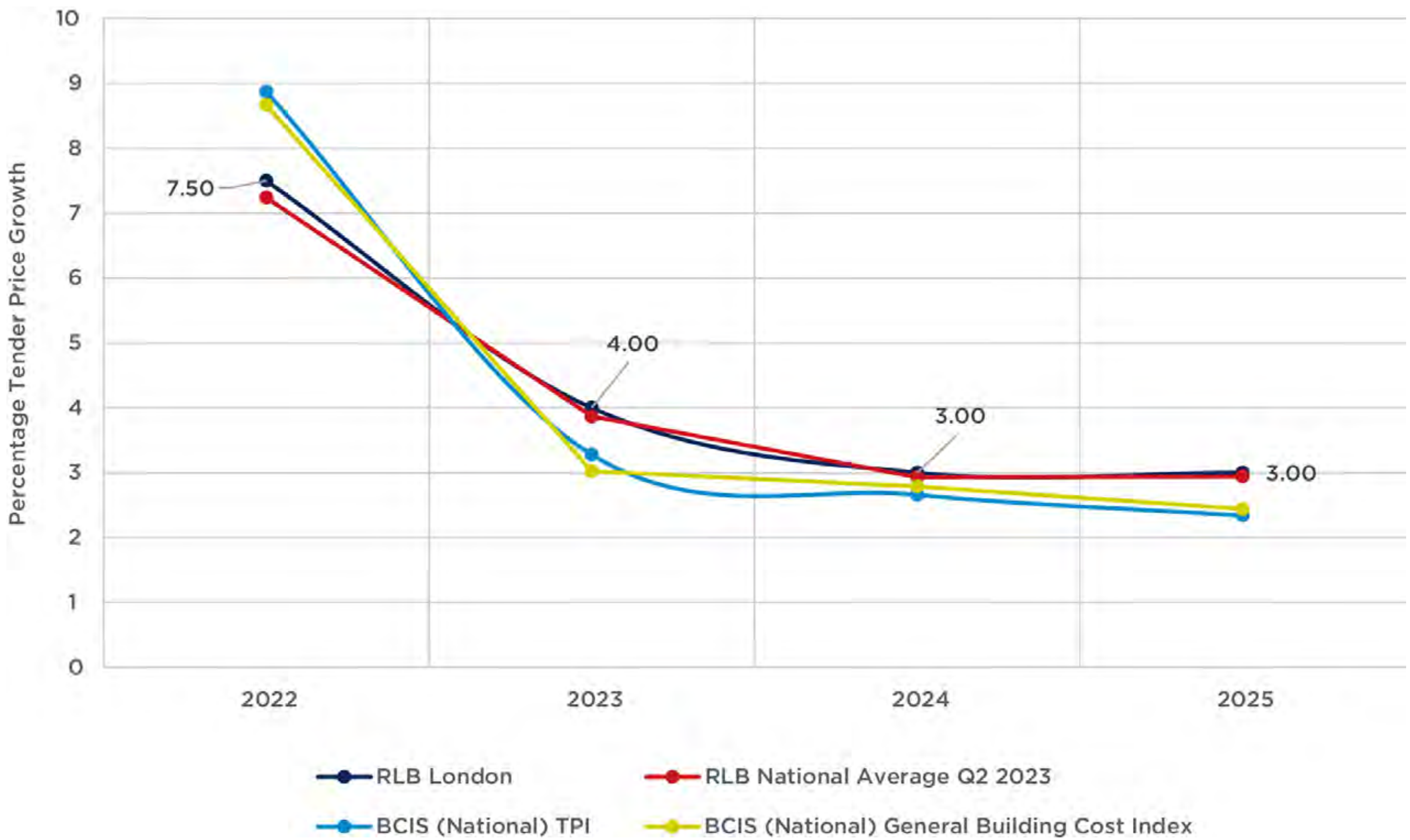
Key Data Series Uplift



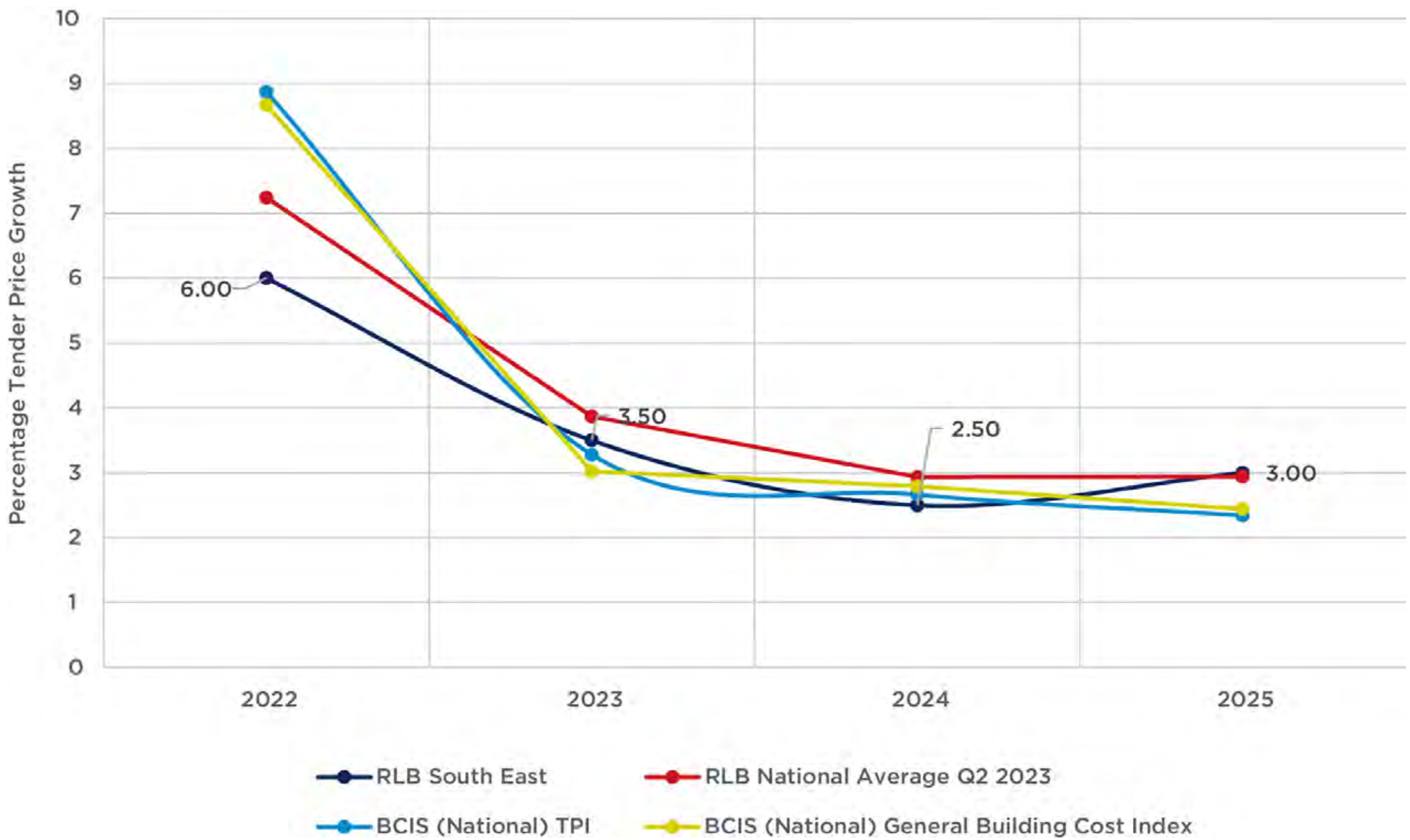
LONDON & SOUTH EAST

Source	% Uplift reported	2022	2023	2024	2025
London		7.50	4.00	3.00	3.00
Thames Valley		6.00	3.50	2.50	3.00
Competitors/Others - Upper Range (London)		10.00	5.00	5.00	4.30
Competitors/Others - Lower Range (London)		6.00	2.50	2.00	2.00
Competitors/Others - Upper Range (South East)		9.50	4.75	4.50	4.20
Competitors/Others - Lower Range (South East)		6.00	2.75	2.00	2.50
RLB National Average		7.24	4.01	3.02	3.01
BCIS (National) TPI		8.87	3.28	2.66	2.34
BCIS (National) General Building Cost Index		8.67	3.02	2.79	2.44

Tender Price Change - London



Tender Price Change - South East



OVERVIEW - LONDON & SOUTH EAST

Across the construction industry in London, people had braced themselves for a challenging period.

However, we have not seen the predicted wider-economy recession emerge and we are all left wondering whether we have avoided a downturn or whether a cooler market may yet emerge. For now, workloads feel busier than ever; enquiries are not slowing down and we have not seen projects' development grinding to a halt.

While short-term the market feels 'busy', longer-term prospects for contractors still seem less than ideal. However, we have not yet seen this translate into lower tenders, although historically contractors have had to bid low to win work to fill their order books. It may be that this need has yet to transpire fully and, as yet, the supply chain is holding-on to existing pricing levels rather than contemplating reductions.

We are mindful of the problems that can face contractors that bid overly competitively to win work. While part of the reality of competitive market pricing, such a situation can signal danger and concerns about financial stability. However, it is fair to say that, if the work becomes scarcer, we expect from past experience, that bidding and competitive tension would become keener.

We don't have to look too far into the past to review what caused contractors to cut prices to win work in past recessions, and unfortunately insolvency took some major players. However, now there is a sense of a more mature market where the undercutting of the past is exactly that – of the past. Contractors seem much more cautious, careful, and ready to talk about and seek to apportion risk, rather than to simply absorb it as part of standard contract conditions.

That said, the contractor market seems more complex now. Some materials are still scarce, material prices and labour costs are high and lead times for some items are considerably longer than has been experienced previously. In addition, there is a general labour and skills shortage. Supply chains are still refusing to fix prices on some items, despite the fact that we are hearing that the market is settling.

The sharp increases in materials costs and tenders over 2022 were unexpected and although inflationary pressures have not yet diminished, they are set to settle down over the next few years. Moderation in commodity prices, stabilisation of supply and global logistics balance all point toward a return to "less interesting times".

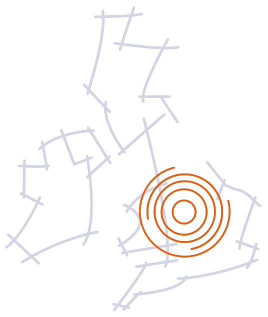
Tender prices are still more heated than could have been envisaged a few years ago, and for industry clients who budgeted before the inflationary spike from 2021, pricing remains challenging. In addition, activity levels over the last quarter seem to have been inflated due to a flood to the market of retrofitting and sustainability/net zero projects. With carbon targets of 2030 and 2050 closing fast, many clients are re-assessing their estate strategies.

From a funding perspective, green shoots of wider market confidence have seemed to be evident recently with the return of 100% mortgages. In tandem, funding regimes for construction projects had become problematic too, with market confidence faltering for some major projects. With things now feeling more stable, there should be more confidence in future project funding.

There remains, however, a conundrum: New projects (new build or retrofit) need to comply with new standards, and yet solutions are only now coming into view. Structure, fabric, services and finishes are reflected in the new environmental standards for building works.

Against that backdrop, the cost implications of new technologies are only now beginning to emerge, and for this reason, budgets can be strained. By way of evidence of this, the speculative office market seems damped. However fit-out is thriving, again largely driven by the push to refurbish rather than build new, and coupled with a demand for high quality, inviting and collaborative space in the London office market.

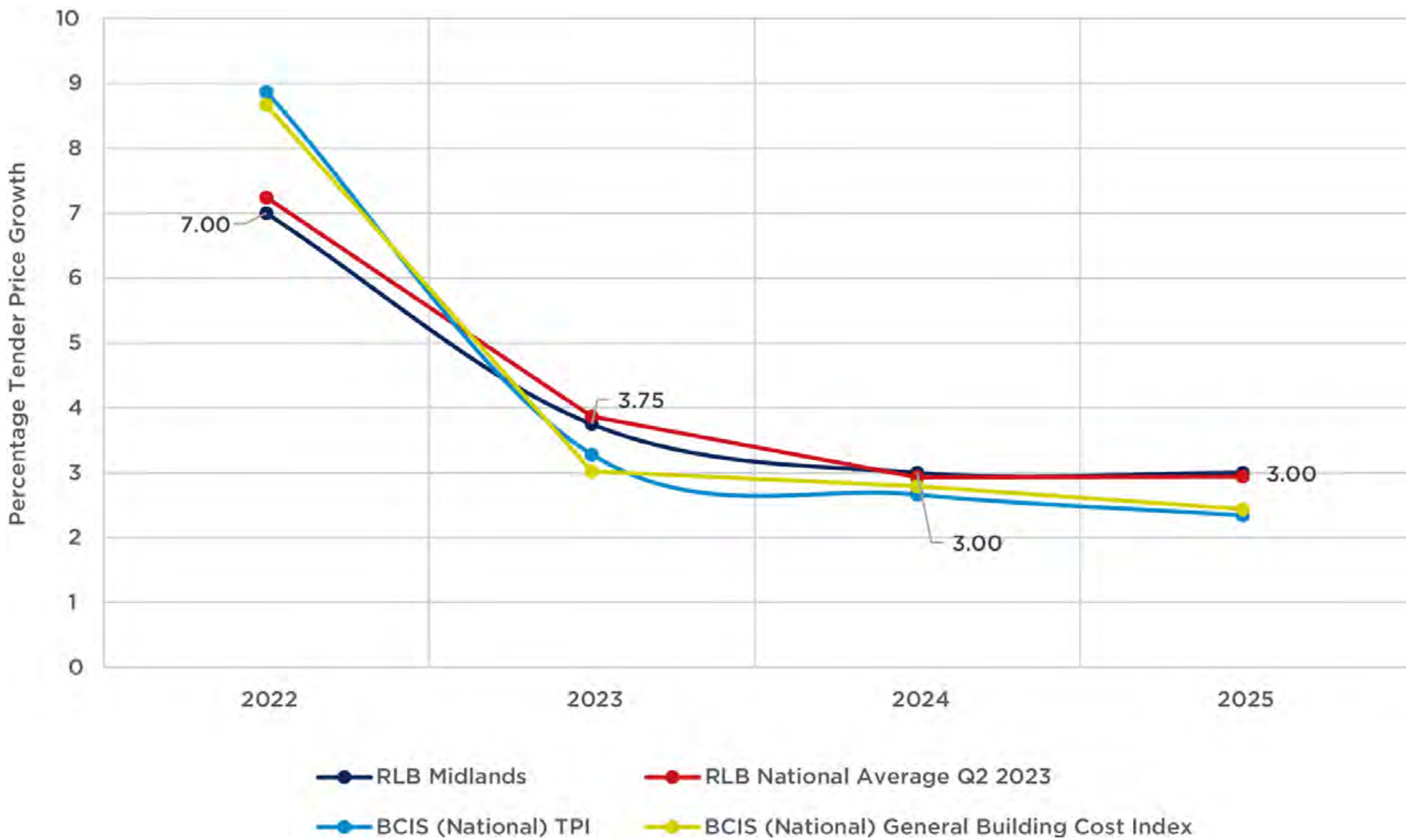
For retail, London's future depends on prospects for disposable income and specifically tourism. Although tourism is thriving, the Governor of the Bank of England recently stated that two thirds of the issue relating to high interest rates is still to come (i.e. mortgages yet to be renegotiated at higher rates). This will affect disposable income significantly, so retailers will plan for the reduced activity and possibly stall development and refurbishment plans where they can. However, development and/or upgrades cannot be delayed too long, lest the retailer falls behind competition, so there will remain a reasonable baseline of activity.



MIDLANDS

Source	% Uplift reported	2022	2023	2024	2025
Birmingham		7.00	3.75	3.00	3.00
Competitors/Others - Upper Range (West Midlands)		9.00	6.00	3.50	4.00
Competitors/Others - Lower Range (West Midlands)		5.00	3.00	2.50	2.00
RLB National Average		7.24	4.01	3.02	3.01
BCIS (National) TPI		8.87	3.28	2.66	2.34
BCIS (National) General Building Cost Index		8.67	3.02	2.79	2.44

Tender Price Change - Birmingham



OVERVIEW - MIDLANDS

As the UK moved through Q1 without entering recession, the Midlands region's construction sector remained strong, with activity levels slower but with a more optimistic outlook than when the year had started.

However, as successive interest rate rises impact borrowing costs, some sectors are faring better than others.

New house starts have declined in number, in some regional locations quite rapidly. Whilst there have been some high-profile project starts and forward fund deals signed, Build to Rent (BTR) projects are also generally proving more difficult to clear the starting blocks. The pipeline of new Purpose-Built Student Accommodation continues, with some key planning applications submitted in Birmingham and other regional cities showing similar activity.

Many tenants are taking advantage of lease-breaks, downsizing and focusing on quality rather than quantity of their spaces. Investment in existing stock is starting to be seen, with the principles of circular economy and net zero carbon being key aspirations of investors, developers and tenants. Industrial and logistics activity has been focused upon mid and small box deals.

Public sector activity remains balanced. Progress on the heavy infrastructure of HS2 is now apparent across much of the region, while in education, the higher education spending pipeline also looks promising in the medium term. A number of higher education projects are commencing their journey towards planning submission.

On the supply side, input costs have seen relatively persistent inflation. Despite some quite high-profile sub-contractor failures and production wind-down (particularly where exposed to volume house building), input costs are generally holding strong. This remains evident for energy-intensive materials, but has also been driven in the last two quarters by labour rates. Among the more heated trades are dry lining and MEP, but with many new BTR units currently under construction in the region, more capacity may open up as they reach completion.

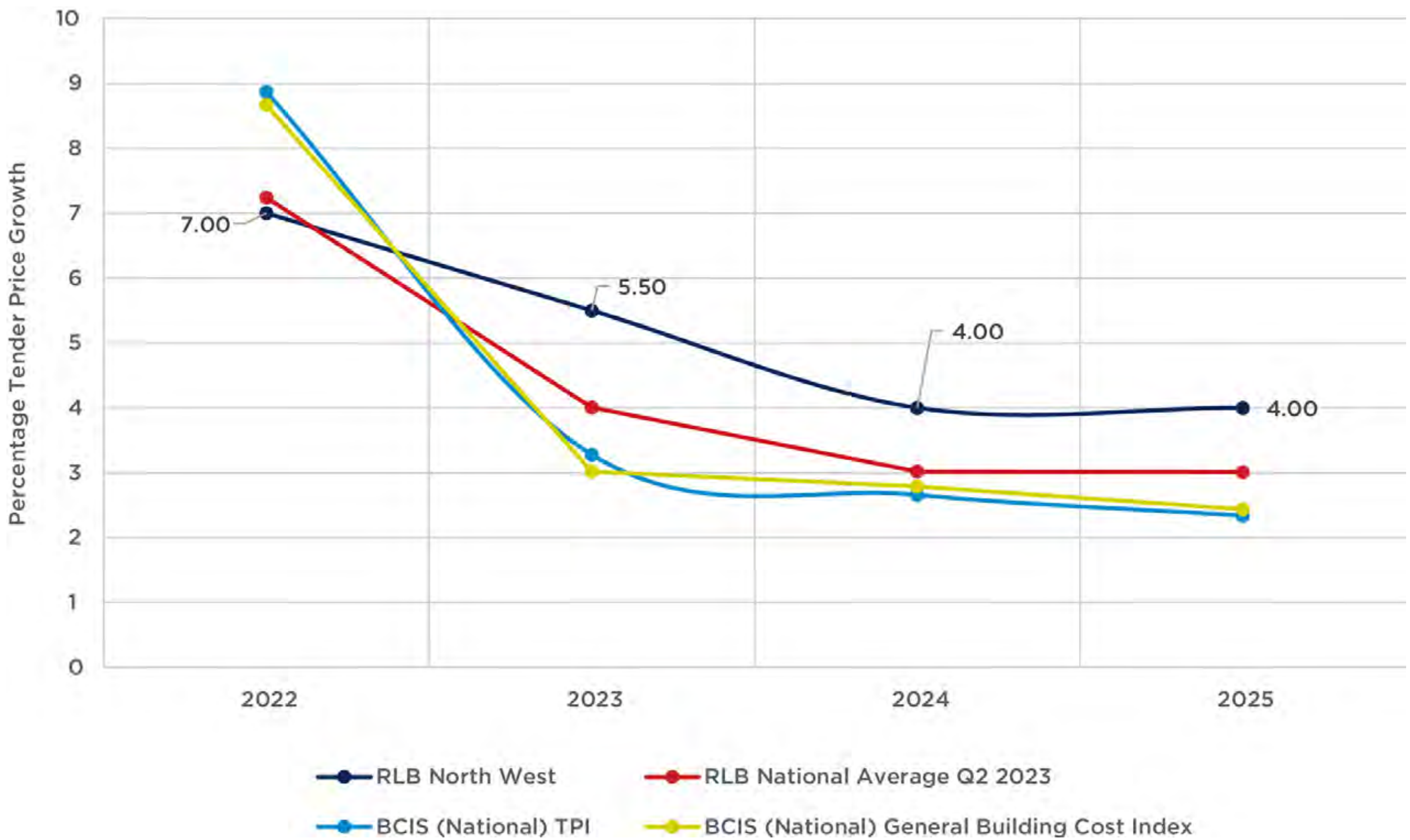
Despite some weakening client pipelines and deferred projects, contractors' bid teams have remained fairly busy. This is particularly true for tier one contractors where single-sector exposure is less apparent. We have seen some increased appetite for single-stage tenders, but most contractors remain highly vigilant and sensitive to risk exposure. Contractors are looking to de-risk supply side price volatility, but also understand client funding arrangements and realistic project start dates.

As a result of the persistent input cost inflation and more resilience in pipelines than had been expected, we have revised upwards our regional tender price forecast for 2023.

NORTH WEST & NORTHERN IRELAND

Source	% Uplift reported	2022	2023	2024	2025
North West		7.00	5.50	4.00	4.00
Competitors/Others - Upper Range (North West)		9.00	4.30	3.80	4.20
Competitors/Others - Lower Range (North West)		6.00	2.00	2.00	2.00
RLB National Average		7.24	4.01	3.02	3.01
BCIS (National) TPI		8.87	3.28	2.66	2.34
BCIS (National) General Building Cost Index		8.67	3.02	2.79	2.44

Tender Price Change - North West & Northern Ireland



OVERVIEW - NORTH WEST & NORTHERN IRELAND

Overall, the levels of work carried out in the year to March 2023 are approximately +23% on a base period of the year to March 2020.

Within that, repairs and maintenance were up almost 52% compared to an uplift of only 12% for new work. Similarly, private new housing work was up by over 28% and private industrial work was up almost 57%.

For new orders coming into the market, as a whole, new work was up only 15% over the timeframe. However, the underlying issue here is the diminution of new infrastructure work, which was down almost 60%, though up by 20% on the last year. New housing, private industrial and private commercial new orders were once again strong, providing a solid basis for workload continuity in these sectors across the region.

The North West & Northern Ireland continue to experience a challenging market as the wider economy cools, indicating that rising construction costs are now stabilising. In line with the ONS statistics reported above, the key cities of Manchester, Liverpool and Belfast continue to produce encouraging growth despite the wider economy's difficulties. Last year's number and value of new construction projects started compared favourably to that experienced the year before, being up by 10%.

The volume of office, residential and student housing construction appears to have increased on the year. Also, in Liverpool particularly, the hospitality sector is becoming more buoyant and there is an increase in conversion projects of commercial buildings into hotel accommodation, along with food and beverage provision.

Materials' price inflation remains high, but stabilising and we expect to hold tender price inflation to typical levels through 2023, tempered by the cooling general overall construction economy.

Manchester has experienced a cooling in the commercial sector although we are hopeful that confidence will return in the second half of 2023, with several schemes currently on hold and looking to be recommenced. We are also seeing growth in education buildings provision in Manchester and an expected growth in hotel developments in Liverpool, Belfast and Northern Ireland will see asset optimisation growth.

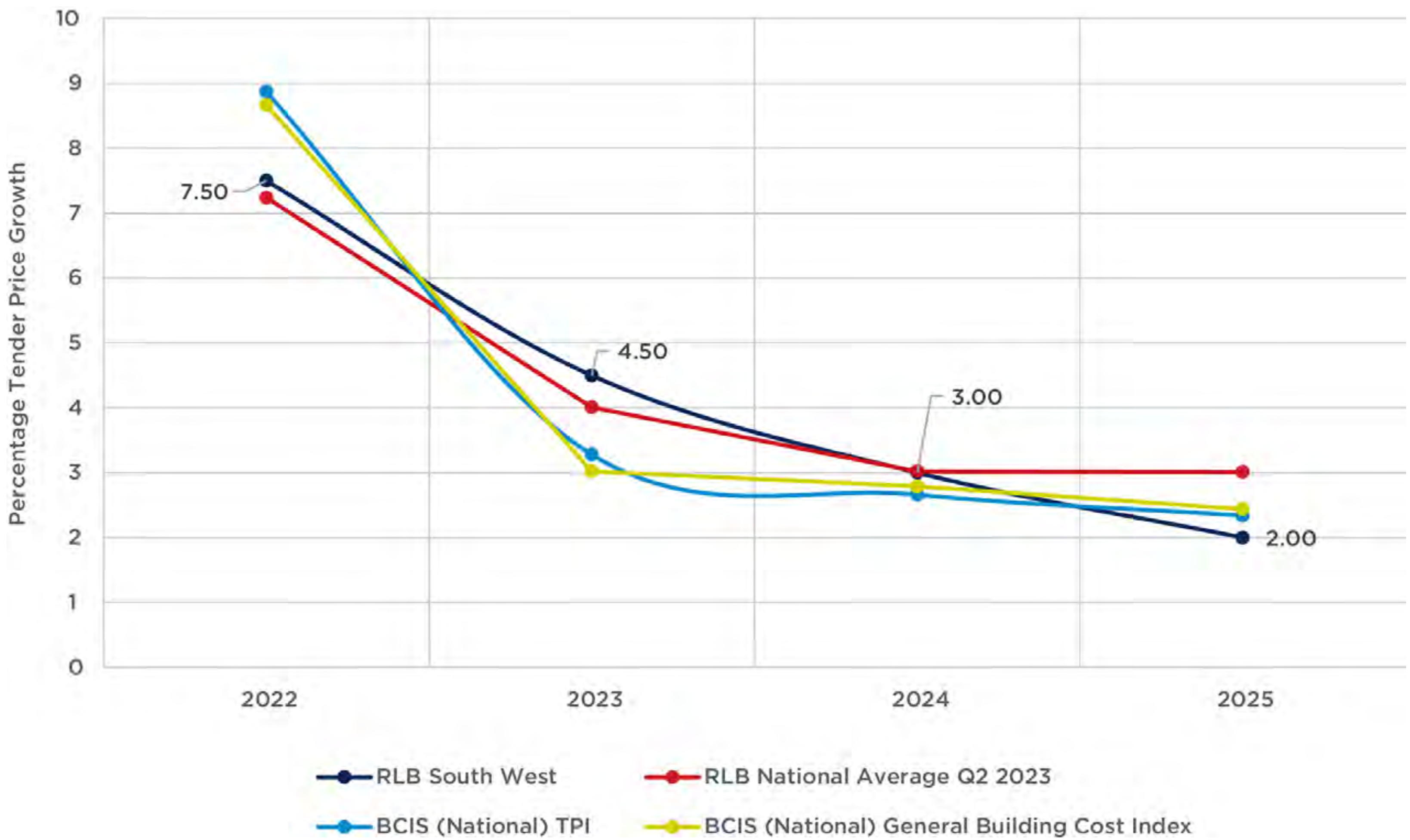
There remains a reluctance among the major contractors to compete in the current environment, which is causing clients to pause as they review already constrained budgets. We are however beginning to see signs that contractors will increasingly want to compete on schemes of a lower-risk nature.

In summary, 2023 will continue to present further challenges and the impact of the wider cooling of the economy remains difficult to judge at present but will feed through into developers' and construction clients' equations shortly.

SOUTH WEST

Source	% Uplift reported	2022	2023	2024	2025
Bristol		7.50	4.50	3.00	2.00
Competitors/Others - Upper Range (South West)		9.50	4.30	3.50	4.30
Competitors/Others - Lower Range (South Westl)		4.50	3.25	3.25	3.00
RLB National Average		7.24	4.01	3.02	3.01
BCIS (National) TPI		8.87	3.28	2.66	2.34
BCIS (National) General Building Cost Index		8.67	3.02	2.79	2.44

Tender Price Change - Bristol



OVERVIEW - SOUTH WEST

ONS statistics for work carried out in the region over the last year currently show an uplift in value of over 20% on the baseline year to March 2020.

However, that includes an uplift of almost 43% in repairs and maintenance, so the statistics are not completely clear. For new work, private industrial and infrastructure are the standouts, at +73% and +57% respectively.

New orders statistics for the South West show new workload is up by over 80% this year over the March 2020 baseline, with infrastructure and private industrial work more than doubling.

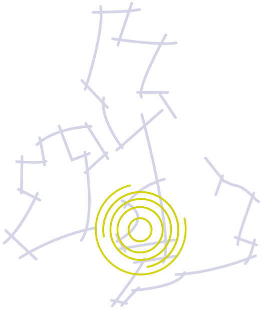
The rail, air and road infrastructure sector of the market is particularly strong across the region, with several new railway stations planned in Somerset over the next 24 months. Similarly, there is large-scale energy infrastructure interest in the region, with off-shore wind, nuclear, and new foreign power cable supplies programmes coming ashore in the South West. This is expected to dramatically increase energy capacity in the region, boosting commercial, data and energy storage and infrastructure sectors in the region over the next five years.

In the housing sector, residential demand remains strong across the South West, but lack of availability in the supply chain in the West of the region continues to be an issue. However, the student residential market is active and growing within the university cities of Exeter, Bristol and Bath. In public sector housing, the Housing Association work stream remains strong with several Associations expanding into the South West region.

As the quarter has progressed, several large multi-use schemes are now being brought forward and are increasing the number of large-scale projects across the region's cities. The region is also experiencing an increase in interest in new work in the commercial, office, and food retail sectors.

Although Main Contractors' order books remain strong, there is still spare capacity, and that fact is reflected in an uplift in Main Contractor interest in tender and bidding opportunities currently and prospectively over the next 12 months. In line with this, materials supply issues and inflationary effects appear to be easing and markedly levelling-off across the region.

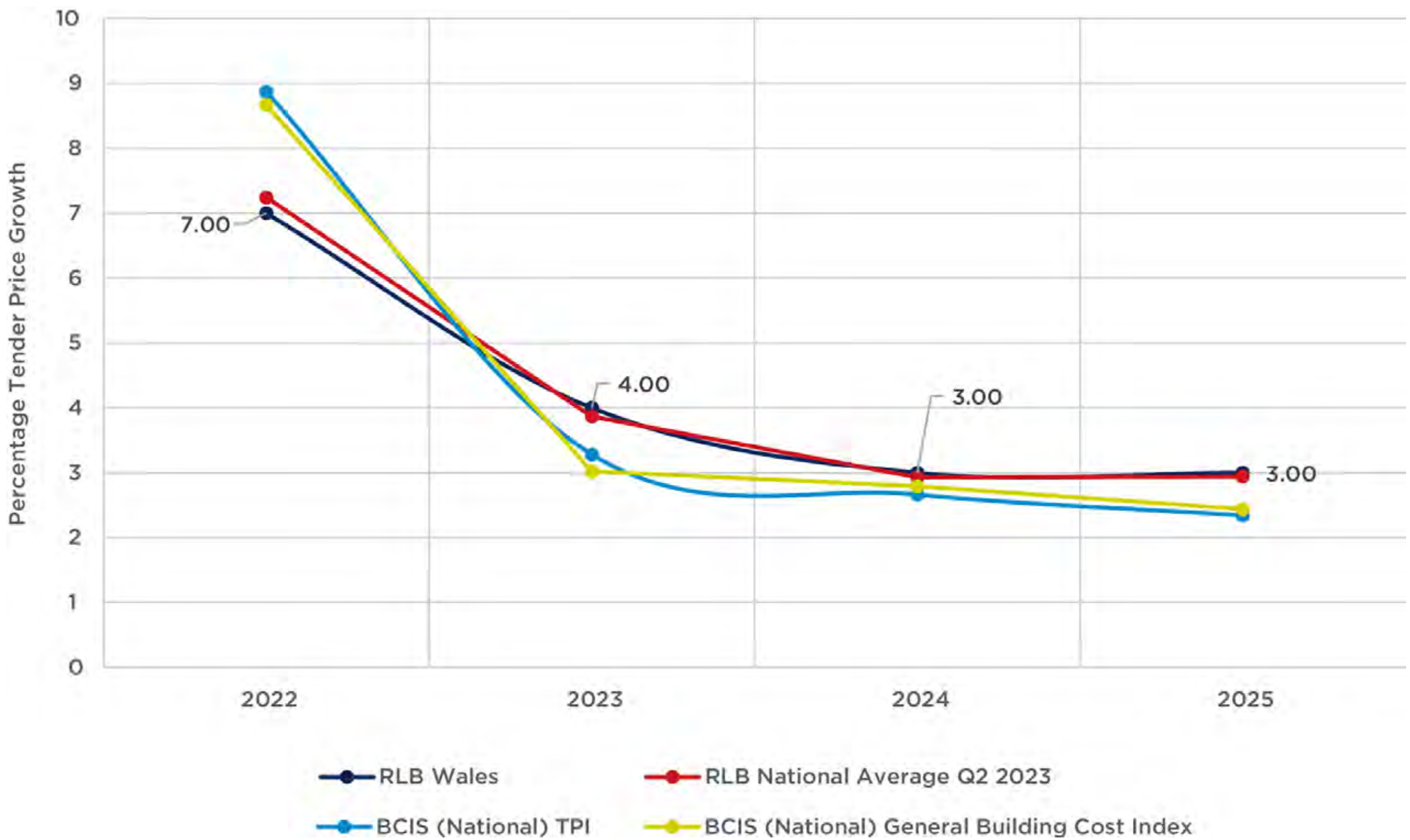
For construction as a whole, the outlook for the South West is one of growing levels of interest and investment, all of which is showing through in the ONS work done and new work orders figures, as well as in the general sentiment within the industry.



WALES

Source	% Uplift reported	2022	2023	2024	2025
Cardiff		7.00	4.00	3.00	3.00
Competitors/Others - Upper Range (Wales)		9.00	4.50	3.75	4.00
Competitors/Others - Lower Range (Wales)		4.50	2.50	2.50	2.50
RLB National Average		7.24	4.01	3.02	3.01
BCIS (National) TPI		8.87	3.28	2.66	2.34
BCIS (National) General Building Cost Index		8.67	3.02	2.79	2.44

Tender Price Change - Wales



OVERVIEW - WALES

Work levels for the year to March 2023 are up overall over 31% on the base year to March 2020.

This is dominated by infrastructure and industrial projects, and sits alongside repairs and maintenance which is also up nearly 31%, signifying a highly active market across the board.

Welsh new work orders for the year to March 2023 also continue to show strength, having increased by over 70% in value against the year to March 2020. Although private commercial work and housing have been more stable over the last year, other sectors such as industrial and infrastructure have more than doubled in value against the 2019/2020 baseline, demonstrating a highly active forward-facing market in Wales and leading to accompanying concerns about pricing.

Cardiff's workload remains solid, with completions being matched by new starts which are keeping the lid on the nationally sticky materials price inflation figures. Replacement workload, mentioned in the Q1 2023 TPF, remains a focal concern for contractors and sub-contractors.

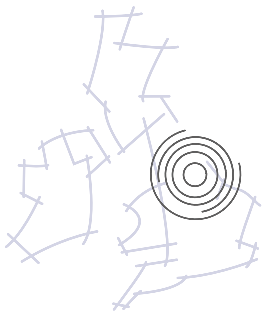
A broad swath of sub-contractors will benefit from the wave of residential project work passing through planning in Wales, although most of the major spend will not be in the immediate near future. In the meantime, with new work carried out significantly higher in volume than it was just four years ago, and similar increases in repair and maintenance work, resource availability remains an issue that may result in further tender price increases as access to these resources wanes.

The further push of large-scale residential development in Wales, especially in Cardiff, will bring its own wide-ranging bidding opportunities at sub-contract level, leading on to highly labour-intensive project work. However, one advantage of such residential work is that the particularly labour-intensive aspects can still be quite some way off in the overall timeframes, shielding clients from current market congestion to some extent. Looking forward, that protection may yet become fragile if similar workload levels are sustained over the next couple of years.

The schools and student accommodation projects mentioned in TPF Q1 2023 for Cardiff, Swansea and Newport are ongoing, and they will shortly be heading into peak labour demand, sitting as they do alongside other major schools' spending.

As of yet, this potential for market saturation has not led to any projects being put on hold or deferral, however, price fluctuations and budget schisms may yet result.

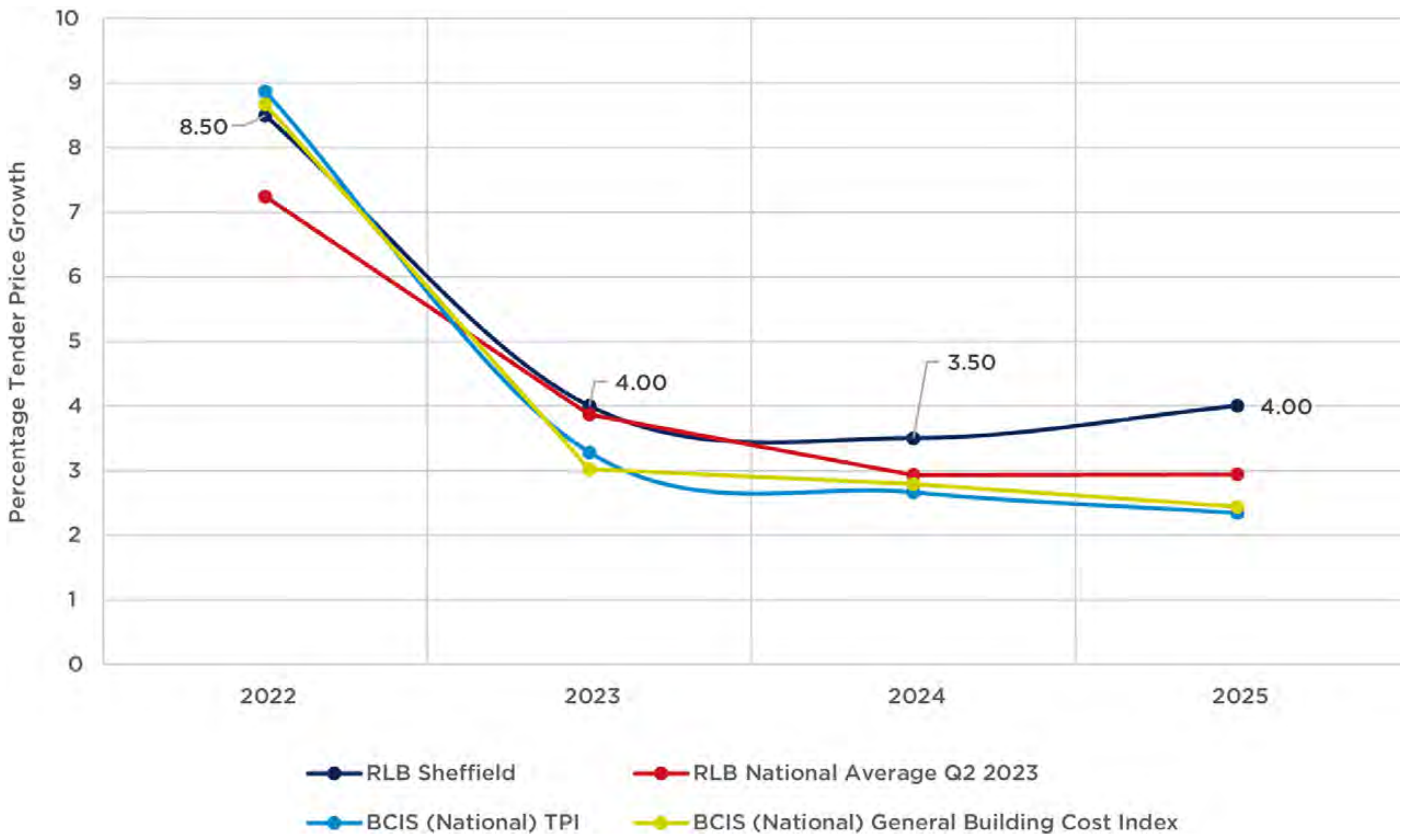
Once again, the overall Welsh picture is one of a busy market, with high input cost levels stubbornly persistent.



YORKSHIRE & HUMBER

Source	% Uplift reported	2022	2023	2024	2025
Sheffield		8.50	4.00	3.50	4.00
Leeds		8.50	4.00	3.50	3.50
Competitors/Others - Upper Range (Yorkshire & Humber)		8.70	4.50	4.00	4.30
Competitors/Others - Lower Range (Yorkshire & Humber)		6.00	2.50	2.50	2.50
RLB National Average		7.24	4.01	3.02	3.01
BCIS (National) TPI		8.87	3.28	2.66	2.34
BCIS (National) General Building Cost Index		8.67	3.02	2.79	2.44

Tender Price Change - Yorkshire & Humber



OVERVIEW - YORKSHIRE & HUMBER

According to ONS, work carried out in Yorkshire & Humber over the last year is up overall by over 35% compared to the 2020 baseline.

However, that statistic is coloured by the fact that repair and maintenance work is up by 50%. This means that the repair and maintenance portion is now significantly higher than it was a few years ago. Overall, new work carried out was up by over 28%, with infrastructure and public spending leading the way.

For new orders in the last year, overall values are down by over 11%. Although private industrial almost trebled in value and private commercial new orders more than doubled, new orders values for the infrastructure sector declined significantly last year to only 20% of their baseline value.

Consequently, and against a backdrop of uncertainty in the wider economy, inflationary pressure on materials has continued to temper the outlook for the Yorkshire & Humber region. However, despite that wider uncertainty, the region has shown high levels of resilience with continued confidence in the region's major cities.

The inflation rate of materials prices is easing now, following the significant rises experienced in 2022. However, the 2022 experience has affected appetite for new developments and has been impacting upon profit margins, which is causing challenges with developers and contractors bidding new opportunities. Equally, large-scale developments, such as the plans for Yorkshire's tallest building in Sheffield which have been scaled back from 38 to 26 storeys, stand to be curtailed due to rising construction costs.

The cooling of the economy generally has given rise to a mixture of approaches from the contractor market. Some are considering single-stage tender opportunities to fill order books and others are focused on securing frameworks and two-stage tender opportunities, the goal being to secure long-term workload pipeline.

Client teams in the region are now working harder than ever to generate support for project opportunities in advance of tender exercises. This has been a feature for the last several years in the region. However, it is now exacerbated by the post-pandemic pent-up demand as well as wider uncertainty about increasing supplier costs and reduced or stalling opportunities.

Despite the economic backdrop, confidence in Yorkshire's largest cities remains, with many new developments underway such as the continued expansion of Whitehall Riverside BTR schemes and the recent approval of the South Bank's £500m mixed-use development which includes BTR, leisure, commercial offices and a new public square.

The underlying confidence in the region is consistent and underpins substantial promise for the medium-term outlook, in particular in respect of large-scale mixed-use developments we are seeing across both Leeds and Sheffield.

SUMMARY

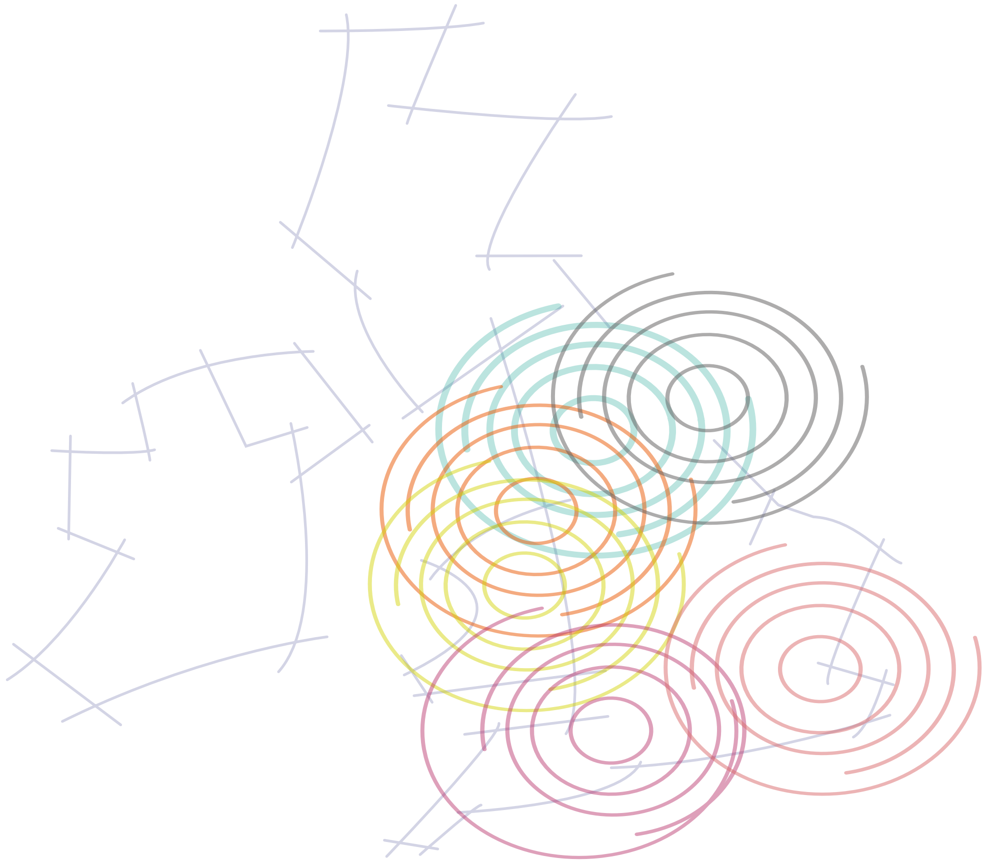
Although experiences vary around the country, the broad situation is one of activity levels being generally high.

This is despite as yet not fully resolved concerns about supply chains, delivery delays and deadlines, labour shortages and generally rapidly inflating costs. Regions have noted the stabilisation of commodities prices and downstream materials prices, but stabilisation is not necessarily reduction. As a result, the inflation that persists elsewhere in the economy applies to construction as well with, it would seem, little prospect of a fall in material costs. With input costs at a high, bidders at contract and sub-contract levels are locked into higher bidding than some clients' budgets may permit, yet still face the need for replacement workload. Such situations are problematic for both clients and builders of all sizes.

Recent examples of insolvency among some large contractors and sub-contractors provide ample evidence of the precariousness of the delicate balance between commercial continuity and workload weakness. Business critical decisions can be forced on both sides of the equation, with commercial correctness of response being discernible only in the fullness of time. However, the mechanics of the computation of commercial exposure have been likely permanently revised in the recent past, by the surge in input costs and also by consequent changes in previously settled ways of dealing with contractual obligations. Part of moving forward will be to re-examine these effects and to assess whether changes can or should become a feature of future-readiness.

A significant part of this readying process resides in the client and consultant camp, where procurement models and frameworks are selected. In project procurement, the last four years have provided a masterclass of multivariate circumstances within which to optimise clients' positions. Discussions revolve around and return to the idea of partnering or construction management frameworks, with greater supply chain engagement and transparency. However, this is offset by clients' needs for certainty as to outcome, the counter-offering.

Procurement fatigue aside, the learnings from the period can only benefit the industry's participants as we all progress to the 2030 and 2050 sustainability and carbon dates and targets, as they have been the result of focus on wider matters than basic risk allocation and price. With JCT Constructing Excellence (Partnering) and NEC designed to meet the need for the protagonists in the supply chain to work together, there is a framework for "future readiness", if not necessarily yet the real status of already being future-ready.



ABOUT RIDER LEVETT BUCKNALL

RLB Rider Levett Bucknall

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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 time, cost, quality, safety, environment and social value. 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
- Building Surveying
- Health & Safety
- Specification Consultancy
- Design Management
- Strategic Facility Management
- Sustainability Consultancy
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RLB's procurement trends report provides a snapshot of market sentiment on procurement issues within the UK market.

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Riders Digest

Riders Digest provides current technical information and insights on construction-related subjects, compiled by our industry experts across the UK.

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