TPF

RIDER LEVETT BUCKNALL TENDER PRICE FORECAST UK

Q1 2021

2021 Q1

RLB Rider Levett Bucknall

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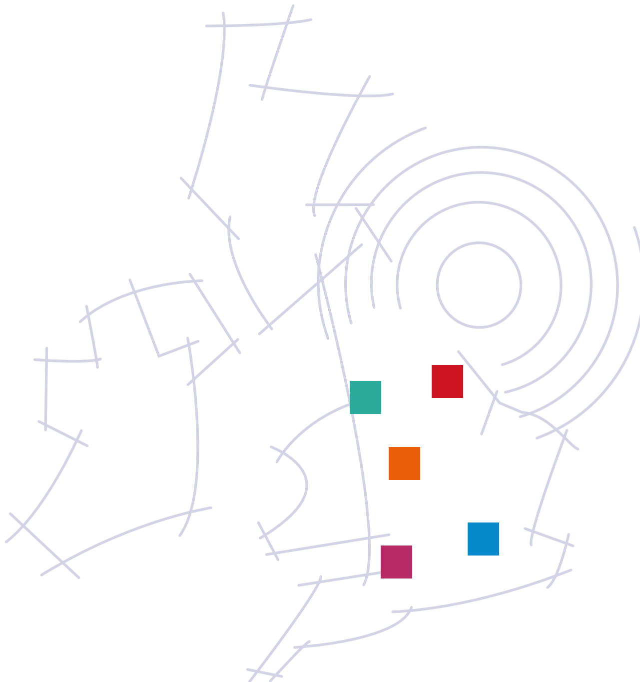

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INTRODUCTION

In the first quarter of the UK having left the EU single market and the customs union, any effects of that process have largely been over-ridden by the ongoing fight against the Covid-19 virus.

UK Economy

The recent publication from the Office of Budget Responsibility (OBR) acknowledges the 9.9% fall in UK GDP in 2020, but now forecasts growth of 4% in 2021, with a return to pre-Covid levels by second quarter 2022. The OBR's view is that although the general economy is weaker in the short term, it is now expected to rebound faster than had been expected in November of last year. The key to returning to a normally-functioning economy is of course mass-vaccination. As at 10 March, the UK had issued 23.5 million vaccinations, as against 68.6 million globally.

Construction industry

In construction, 2020 saw new work volumes falling over 15% on 2019. Volumes of work output, as published by the Office for National Statistics (ONS) recorded falls in all sectors, with the most heavily affected being new private housing and new private commercial works, both down over 18%.

Despite the anticipated recovery for construction projects, some downside risks remain. In January, the Construction Products Association (CPA) reported that 28% of the EU workforce that had been in the UK in January 2020, had returned home (a number that exceeded the overall drop in UK construction employment of 7%), decreasing over the year from 2.31 million to 2.14 million. Aside from immigration and residence rights, there are apparently fears over double taxation. Also of concern is the Construction Leadership Council (CLC) view that as 60% of imported construction materials are EU-sourced there is potential for trade friction at the end of the EU-UK grace-periods.

These labour and materials issues may develop a focus with the expected upturn in construction in the next quarter. Glenigan has forecast a 17% uplift in project starts for 2021, although that must be construed in the context of the 15% fall last year.

New starts and re-established momentum will come, but it will be very sector-specific, a view which is further developed in the following sector and regional commentaries.

SECTOR OVERVIEW

The forecast K-shaped or split recovery is continuing in its development, with sectors experiencing significantly varied conditions and expected outcomes:

- Furlough scheme extended through to end of September.
- Sterling remains low against other world currencies, which has promoted overseas investment.
- Subject to a successful vaccination programme, GDP growth is expected but at the end of 2022 will not quite have reached the pre-Covid level.
- Many UK key cities have significant shortfalls in Grade A office space, such that demand still remains.
- New opportunities are emerging to redress the damage caused to asset values resulting from declining high street footfall.
- Major food retailers continue to develop their estates to solidify shopping habits developed during COVID-19.
- Government is still targeting to build 300,000 homes per annum by the mid-2020s.
- The transformation and rationalisation of the whole Education sector will continue taking place, to reflect post-Covid circumstances and teaching arrangements.

HIGHLIGHTS

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180,000

build-to-rent homes in the UK

(complete, under construction and in planning)

£11.5bn

Government spend on affordable homes

(2021 – 2026)

50 projects

in 2021 School Rebuild Programme

Take up of office space across UK regional cities down

10% - 50%

on the 10 year average

Vaccination programme

22,377,255

completed

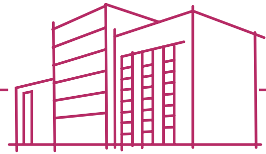
(08.03.21)

Project Trends

MMC construction methodology in particular on residential projects

More carbon reduction / zero carbon projects with enhanced sustainability

SECTOR HIGHLIGHTS



COMMERCIAL

Corporate decisions to move to new space are being deferred while the potential changes in working arrangements, densities and frequency become more clearly understood.

There is speculation on what the future of office occupation will look like. As a consequence, the responding design, occupation and performance standards will need time to settle as office working resumes and patterns and actual requirements are established. Only once this occurs can office design adapt to a new way of working. There is no doubt that change will be required, to meet the need to create space that supports the wellbeing and safety of its occupiers as well as addressing the needs for collaborative and social flexible spaces.

The COVID-19 Pandemic, and to a lesser extent Brexit, has had an effect on the Commercial sector across the entire UK, with “take up” of space across our regional cities ranging between 10% and 50% down on the 10-year average. Going forward, more lettable offices will focus on the provision of better sustainability, wellness and tech, as ‘real estate costs are now considered to be less of a factor than the required investment in attraction and retention of staff’, according to a CBRE survey. All this aside, there remains a lack of supply of good quality Grade A space in all of our Regional Cities.

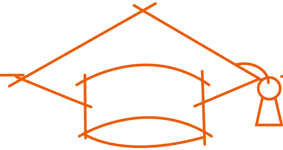
DATA CENTRES

The data centres sector continues to grow with the FLAP market (Frankfurt, London, Amsterdam and Paris) looking at doubling its demand for data centre space from previous forecasts.

London alone is looking at a deployment of around 237 MW by 2022 so the UK is predicted to remain one of the major hubs in Europe. This demand is being driven by the major hyperscale companies fuelled, in some part, by the major shift in all our lives to ‘on-line’ both for work and social/domestic needs due to the global pandemic. It is also being driven by the increased use, both professional and personal, as we continue to switch to a digital world and the acceleration of the Internet of Things (IOT).

The pull towards net-zero is a major focus and it’s coming mainly from providers, investors with 75% of investment executives agreeing that a company’s sustainability performance is crucial when making investment decisions. The push is also driven by the supply chain and regulators propelling the industry towards green datacentres requirements. The sector, far from being a niche marketplace, has become one at the forefront of our industry and one that will continue to grow both in size and percentage of resources, skills and the land it takes within the built environment.

SECTOR HIGHLIGHTS



EDUCATION

In Further Education, the first £200m of money targeted at improving the overall estate landed in September 2020 and has started to make its way through to work on site.

The announcement in January of the Further Education Capital Transformation Fund promises more investment, although bid timescales mean this is unlikely to impact tender prices in the medium term.

The Department for Education continues to push ahead with its plans to improve the overall condition of the school estate, with the School Rebuild Programme targeting 50 projects this year. These are likely to be smaller-scale schemes rather than complete new-build schools.

University estate departments continue to be primarily focused on the challenges of delivering socially distanced learning while maintaining the student experience. However, attention is turning to how the estate needs to respond to COVID in the long term, with exploration of agile working methods enabling estates to become smaller, more affordable to run and assisting in delivering Net Zero Carbon Targets.

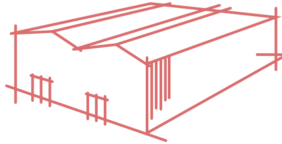
HEALTHCARE

Acute Trusts continue to develop Business cases for the Health Improvement Projects in the HIP 1 and HIP 2 programmes.

The Department of Health has assembled a central team looking at contractor procurement, modern methods of construction and zero carbon in the emerging designs. Delivery of social value off the back of the major investment programme is also a key deliverable.

The Nightingale hospitals are starting to be decommissioned and returned to former uses, whilst post Covid-19 influences on ventilation design are being explored by engineers and clinicians. The NHS has adopted a multi-year plan to become net zero carbon by 2045.

SECTOR HIGHLIGHTS



LOGISTICS

Online retail has grown exponentially in the UK with increased demand for fast on-line deliveries.

The Covid-19 pandemic has accelerated the UK's on-line sales growth, and this is expected to continue. The trend has underpinned a continued growth in this sector in terms of investor activity, demand for good quality space in the right locations with available labour/workforce. According to the Office of National Statistics (ONS) on-line sales reached just over 30% of total sales in 2020, which is a huge step change; it took more than 10 years to grow from 7.3% to 19.2% in 2019, which demonstrates the huge recent upturn in customer demand and e-sales.

Developers are delivering more quality new space to respond to end user demand – a mix of new large logistics parks, bespoke build-to-suit units and smaller sites / repurposing existing space

End Users are meeting changing customer expectations e.g. faster deliveries and more product choice; Increased investment in automation and robotics systems and artificial intelligence applications to remain competitive and grow market share

Manufacturing is seeing increased activity and investment to be resilient vs. the effects of Brexit and the Pandemic vs. less reliance on imported goods. Key growth areas include food production and related packaging processes and home improvement related businesses

Post & Parcels needs to keep pace with increased customer home delivery demand – Parcel Delivery service with Post and increased investment in automation systems.

RESIDENTIAL

Despite Covid, attractive housing market fundamentals remain unchanged and there is growing confidence regarding the resilience of the sector in the short and long term.

With strong house-builder order books and an attractive land market, demand continues to exceed supply, notwithstanding the Government 300,000 homes target. House prices had been forecast to be flat for the remainder of 2021, following the spike in the first quarter caused by stamp duty saving. However, given continued low interest rates and the Budget announcement of extensions to furlough and the stamp duty holiday, this may not now be the case.

Looking farther, growth in the rental market and the build-to-rent product is expected to accelerate significantly over the next few years, fuelled by strong institutional investment. Due to improved yield levels, Build-to-Rent (BTR) developers are focusing growth on regional high-performing cities. There are now 179,835 build-to-rent homes in the UK, including both London and the regions, of which 53,750 are complete, 37,050 under construction and 89,035 in planning. In London, there are a total of 80,721 units. Outside London, there are 99,114 units.

Around 180,000 new homes are to be built under the new affordable homes programme starting this year, and the government will spend £11.5bn on the five-year programme between 2021 and 2026. A large number of affordable housing providers have taken out funding bonds which, combined with Homes England and Welsh Government funding, means that there is current funding in place.

SECTOR HIGHLIGHTS

RETAIL

As government, local authorities and town planners find solutions to regenerate town centres and faltering regional economies, new opportunities are emerging to redress the damage caused to asset values as a result of significant store closures and declining footfall on the high street.

By re-purposing out of date assets in complementary and mutually supportive schemes, new value is being created both at an asset and a community level, creating exciting and vibrant places for people to eat, shop, work, live and play.

Opportunistic value driven asset purchases at this historically low point in the market, will also sow the seeds of public/private partnerships. With government funding via the Future High Street Fund, this will generate a unique opportunity to regenerate Town and City centres. COVID has driven grocery food trade volumes to heights not seen since 2007. All of the major food retailers will continue to develop their estates to solidify shopping habits developed during COVID and are investing significantly including expanding convenience, ultra-convenience and other new store-in-store formats. Space utilisation programmes and strategic partnerships are continuing apace, alongside the work to separate and automate where possible their internet grocery shopping trade from their store network. The emerging trend for cross back trade from online to physical will continue to grow as the cost of returns increases. Savvy retailers are developing or converting limited footprint for showcasing products, where returns can also be accommodated. We will see the resurgence of hospitality in the medium term, with eating out trends picking up pace in the second half of the year. Merger and acquisition activity will remain a feature in this important subsector as businesses look initially to consolidate then re-start cautious growth in their specialist fields.

LONDON & SOUTH EAST

In London, while there are more hopeful signs of life returning to the City after Covid, there is still a way to go yet before anything resembling the former normality can be achieved. However, for now, the commercial offices sector appears to be slowly improving.

Source	Reported	2020	2021	2022	2023
London & South East	**Q1 2021**	**0.00**	**0.50**	**1.75**	**2.50**
Others - Upper Range (London)	Q1 2021	2.50	3.50	5.00	5.00
Others - Lower Range (London)	Q1 2021	-3.60	-1.50	1.00	1.50
BCIS (National)	Q1 2021	-1.50	2.40	3.60	4.00

OVERVIEW

Tenants and developers are looking at their spaces in terms of Covid-safety, improved environmental factors plus the likely utilisation levels and functions when more of us return to the workplace.

Tenants are looking for the best-performing spaces and the focus appears to be tightening around accreditations such as BREEAM and WELL. Against this backdrop, most of the UK key cities continue to display significant shortfalls in Grade A office space, and this lack of supply has meant that pent-up demand remains unaddressed and is rendered more complex by the foregoing issues around standards and workplace environment.

As is the case virtually nationwide, the Industrial and Logistics sector is still buoyant, this point having been noted in the regular RLB Covid-19 surveys throughout the last year. Accelerated demand for on-line shopping, caused by repeated and prolonged lockdowns, has brought forward the need for increased distribution and fulfilment centre facilities, a change that is likely to become more embedded in the marketplace as we move beyond Covid.

Referring back to our Residential sectoral appraisal above, the sector is still strong and development in the region looks set to continue steadily for the time-being. Of all of the BTR homes in the UK, some 45% of the near 180,000 are in London, with over 37,000 currently in construction phases and a further 89,000 in planning. Almost half of that remaining work can be reasonably expected to run through to the London market.

In Education, the announcement of only 21 new schools out of the 89 applications under Wave 14 of the Free Schools programme is perhaps fewer than anticipated. It may be that the focus of spending will be on the North and Midlands, as is illustrated by the Free School allocations, where only 5 of the 21 are in the south east.

As a consequence of the relatively positive levels of activity, **we have slightly uplifted our TPI forecast for the year**, but all is subject to maintaining progress with our return to ‘a form of’ normality, upon successful completion of the vaccination programme.

BRISTOL

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The South West remains buoyant, with numerous enquiries post Q4 2020 and Christmas. Some clients are looking to take the opportunity to commence schemes, given the likelihood of easing of restrictions towards the end of this first quarter. However, planning continues to delay certain schemes, together with some underlying private sector uncertainty.

Source	Reported	2020	2021	2022	2023
Bristol	**Q1 2021**	**0.50**	**2.00**	**4.50**	**5.00**
Others - Upper Range (Bristol)	Q1 2021	2.50	3.20	3.70	4.00
Others - Lower Range (Bristol)	Q1 2021	-3.60	-1.00	0.00	1.00
BCIS (National)	Q1 2021	-1.50	2.40	3.60	4.00

OVERVIEW

Central Government investment in public sector works such as healthcare, education and infrastructure continues, with varied opportunities available for tenderers.

Overall, we are observing a focus on MMC construction methodology on projects, particularly residential, and this very much seems to be an increasing trend. Also being brought forward, particularly on public sector projects, are increasing numbers of carbon reduction / zero carbon projects with enhanced sustainability.

The social housing sector remains buoyant, with local authorities looking to push through schemes on both small and large-scale sites. The extended stamp duty holiday appears to continue to fuel private sector residential sales, although the impact upon conclusion is yet to be seen.

In higher education, entities continue to re-appraise their existing stock of property, although recent signs are that new capital works projects are starting to come on-line again.

Similarly, the commercial market sector is now seeing new-builds commence, and refurbishment continue, with the demand for grade A and Covid-secure offices coming to the fore, given potential phased easing of restrictions across the year. However, this may yet be tempered by the unknown effect of the end of temporary government support for businesses.

We've seen a developing and continuing rebound this side of the year-end, in respect of development opportunities, and when the shackles are removed from some delayed schemes, **we forecast a positive year for the region, by way of a bounce-back or V-shaped recovery.**

BIRMINGHAM

Following a roller-coaster year for new orders in 2020, 2021 seems to have started in reasonably strong fashion in terms of pipeline work. However, it is a nuanced and fragile pipeline.

Source	Reported	2020	2021	2022	2023
Birmingham	**Q1 2021**	**0.00**	**1.00**	**3.00**	**4.00**
Others - Upper Range (Birmingham)	Q1 2021	2.90	3.40	3.50	4.00
Others - Lower Range (Birmingham)	Q1 2021	-3.60	-0.50	2.00	2.00
BCIS (National)	Q1 2021	-1.50	2.40	3.60	4.00

OVERVIEW

Birmingham's pipeline of construction workload appears to be solid, but it varies by sector and may be expected to stutter and stall in places. Some government stimulus measures have played through to the market, and others are expected to impact as projects are bought forward.

There are some complex, supply-side input cost increases that are still working their way through the supply chain. This applies to the joint effects of Covid and Brexit. When combined with more general and immediate materials cost increases, contractors are facing an increasing (and riskier) cost base for the near term. For contractors in sectors that have not seen pipeline deterioration, these supply side cost pressures are being played out in tender returns, particularly on longer-term contracts where fixed price risk is a key factor.

Less buoyant sectors are experiencing increased competition, with contractors pricing more aggressively to satisfy their own order book needs.

These two sub-markets represent the represent the upper and lower aspects of the of the "K" shaped recovery, but the combined aggregate effect is that we are continuing to forecast tender price increases below input cost increases. In places, the resultant impact is to shrink contractors' and sub-contractors' margins and heap even more pressure on the need to find viable replacement workload further down the road.

In the current market, both main contractor margin and project attributed risk are key determining factors in tender price, with more heated sectors returning to normality and those facing more pipeline contraction seeing it compressed to maintain turnover. This applies equally to sectors and size of contract.

All of this exists in an environment in which some sub-contractor trades are reporting near-capacity workload, with building-envelope-related trades being particularly busy. A turbulent period of tender price levels is therefore expected.

The result is that "all in" tender price forecasts, even offered regionally, need to be considered carefully and in light of the specific project attributes.

YORKSHIRE & HUMBER

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Seemingly in contrast to other regions' experiences, Yorkshire and Humber saw an uplift of workload last year, due predominantly to the influence of major infrastructure works.

Source	Reported	2020	2021	2022	2023
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	3.80
Others - Lower Range (Yorkshire & Humber)	Q1 2021	-3.30	0.50	1.00	1.50
BCIS (National)	Q1 2021	-1.50	2.40	3.60	4.00

OVERVIEW

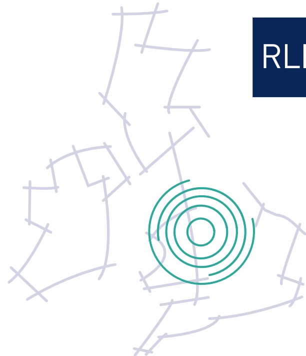
In sectors other than infrastructure, workload and new work was affected in common with elsewhere. We now anticipate the major portion of recovery from last year's pull-back to be seen this year, as the pipeline of workload remains in place.

Costs and delivery time are likely to increase as a result of lost productivity arising from implementing of social distancing measures. This will erode low margins further, and place additional cost pressures on firms, making it harder to invest for the future.

In its totality, the volume of construction contract awards in Yorks and Humber rose by 50% in 2020, over 2019 volumes, although the underlying sectoral picture is extremely varied. In the infrastructure sector, 2020 showed an enormous increase in new orders, being up by over 300% on the 2019 figure, but over 70% of the year's total volume of infrastructure workload was let in the first quarter of 2020. Taken overall, this infrastructure surge resulted in the total Yorks and Humber construction market appearing to have grown in size by over 50% as stated above, but whereas infrastructure was buoyant, several other sectors suffered. Understandably, new orders for private commercial work fell over the year, the fall being spread throughout the year, but Q2 being particularly badly affected. The commercial sector remains challenging, with many office workers continuing to operate remotely. However, as lockdown restrictions are relaxed and people return to workplaces there will be demand for refurbishment schemes to be undertaken to ensure that office layouts and employers achieve compliance with Covid-19 working requirements. For ONS purposes, retail is a sub-set of private commercial work, and therefore comprises some of the work-volume reduction. In customer-terms, non-essential retail slow-downs continue due to lockdown restrictions, although supermarkets remain buoyant, and are working on continued investment in their existing estates. Meanwhile, in the industrial sector, there has been significant activity in the warehousing sub-sector, with two major warehouse contract awards in January, together with sector new-order growth of 15% in 2020. Part of this can be ascribed to the move toward on-line retailing and delivery of goods, resulting in broadening demand for distribution facilities, particularly facilities with good access to motorway networks.

Volumes of new order work in private and public residential, together with student accommodation, were all significantly down in 2020, and although they are now returning to something approaching levels comparable with 2019, there remains both a backlog and an under-performance. In summary, **while the Yorkshire and Humber market appears from the statistics to be buoyant, there are significant sectoral distortions which are manifested as sectoral hot spots of activity.** This will carry on for some time after Covid inoculation and may be foundational in understanding how the post-Covid construction market looks in the region.

NORTH WEST



As may be expected, the effect of COVID-19 has dominated the thoughts of most contractors in the North West region.

Source	Reported	2020	2021	2022	2023
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)	Q1 2021	2.50	3.30	3.70	3.50
Others - Lower Range (North West)	Q1 2021	-3.80	0.50	1.00	1.50
BCIS (National)	Q1 2021	-1.50	2.40	3.60	4.00

OVERVIEW

It is not the prospect of too much or too little work that gives contractors in the North West most concern for the next 12 months, but rather supply chain capacity. Contractors are expressing ongoing concern in relation to materials and labour costs/availability, particularly Facade and Curtain Walling, Finishes and Joinery.

In relation to contractors' input costs, there is also fluctuation in the materials market and, in particular, in work packages. For example, increases in concrete pricing are becoming more prevalent, as is the prospect of Brexit-related higher tariffs relating to other products such as insulation materials. We are also currently recording significant increases within pricing of steel, and also in substructure and mechanical and electrical works packages pricing. Brexit-related labour issues seem to have settled in the region and are fairly stable, but there remains a shortage of skilled labour in some trades due to a legacy of under investment in apprenticeships and training, as mentioned in our report last quarter.

The industry has had to adjust to these collective constraints, as it has through many other downturns, but volatility in input costs, or disruption when margins are tightening, leaves little room for contractors to manoeuvre.

The overall result is that **tender prices continue to vary across work packages and sectors, with some seeing dramatic fluctuations and others demonstrating relative stability.** Contractors are seeing order book uncertainty that, in turn, is leading to a tightening of margins and associated expectation that this circumstance is likely to continue. Multiple layers of commercial risk are being catered-for by contractors, which necessitates extended time for bid-evaluation and scrutiny.

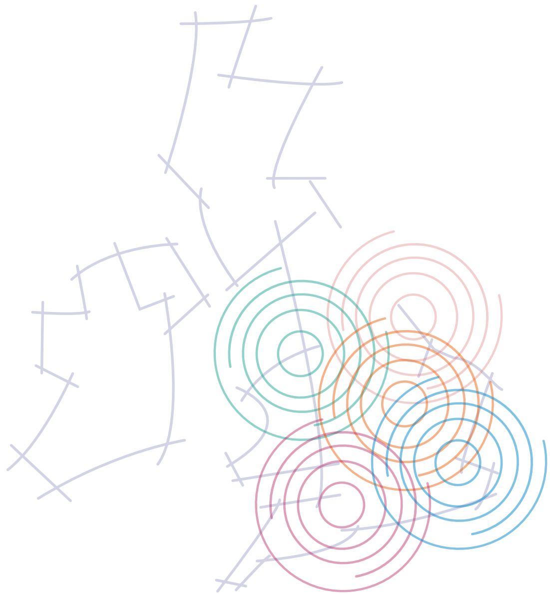
However, despite these concerns, activity levels across the North West continue at a steady rate, sites having built-in the ongoing Covid-related restrictions and constraints on working. In particular, in Manchester, the market remains reasonably buoyant with an expectation that residential social housing will once again pick up, while in Liverpool, the Everton stadium and legacy development and various Town Deal initiatives will bring some much-needed impetus and stimulus.

SUMMARY

The first quarter of 2021 is showing brighter prospects as we see the potential end to the COVID -19 restrictions and challenges.

However, the UK's regions are all still subject to varying forms of lockdown, which has had adverse effects on many businesses, large and small, nationwide. In addition, combining the COVID -19 events with the ongoing Brexit-related issues, has given rise to a unique mixture of risk and uncertainty. While several of our key UK locations report high levels of activity, the real outcome of the juxtaposition of these two key issues remains to be seen.

Separating the effects of these two considerations may be almost impossible. However, support by government to UK business and individuals has been substantial and is continuing, in ways and at levels never before contemplated. Going deeper into the year, the vaccination programme, and hopefully continuing falls in infection rates, will provide opportunity for life to return to the new normal. The subsequent withdrawal of aspects of governmental business support and the potential emergence of further Brexit effects, may then need to be accompanied by active business-stimulation measures. This combination could provide the backdrop for the next challenge in the process – how to rebalance and reorientate business, industry, work and life in a post-Brexit, post-pandemic world.



ABOUT RIDER LEVETT BUCKNALL

FRESH PERSPECTIVE

We are a global independent construction, property and management consultancy. We bring a fresh perspective combining technical expertise and technology to deliver service excellence.

FLAWLESS EXECUTION

We offer a range of complementary cost consultancy, project management, 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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