



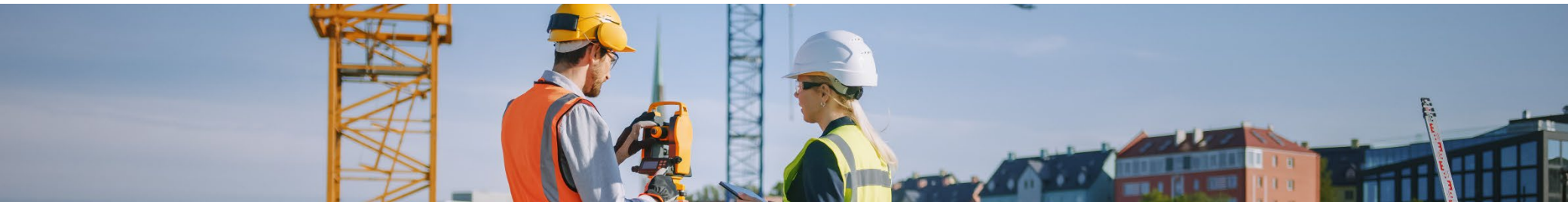
Gardiner & Theobald

MAIN CONTRACTOR SURVEY

July 2024

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G&T's latest Main Contractor Survey revealed a host of insights on the current state of the UK construction market. The contractors that responded to our survey are among the most time-served and financially secure construction companies trading.

Since our last survey in 2023, construction cost pressures have continued to soften. This has been accompanied by a period of relatively subdued construction growth and activity. Political uncertainty (both domestic and global), higher borrowing costs and elevated input prices have affected viability and slowed the progression of some schemes to site. However, surveyed contractors believe the industry has now returned to stability. Many expect a return to more typical levels of construction cost inflation and are hopeful that demand conditions will improve in the second half of 2024.

With a new government now in place, and greater certainty over future policy direction, construction schemes may move forward with renewed momentum

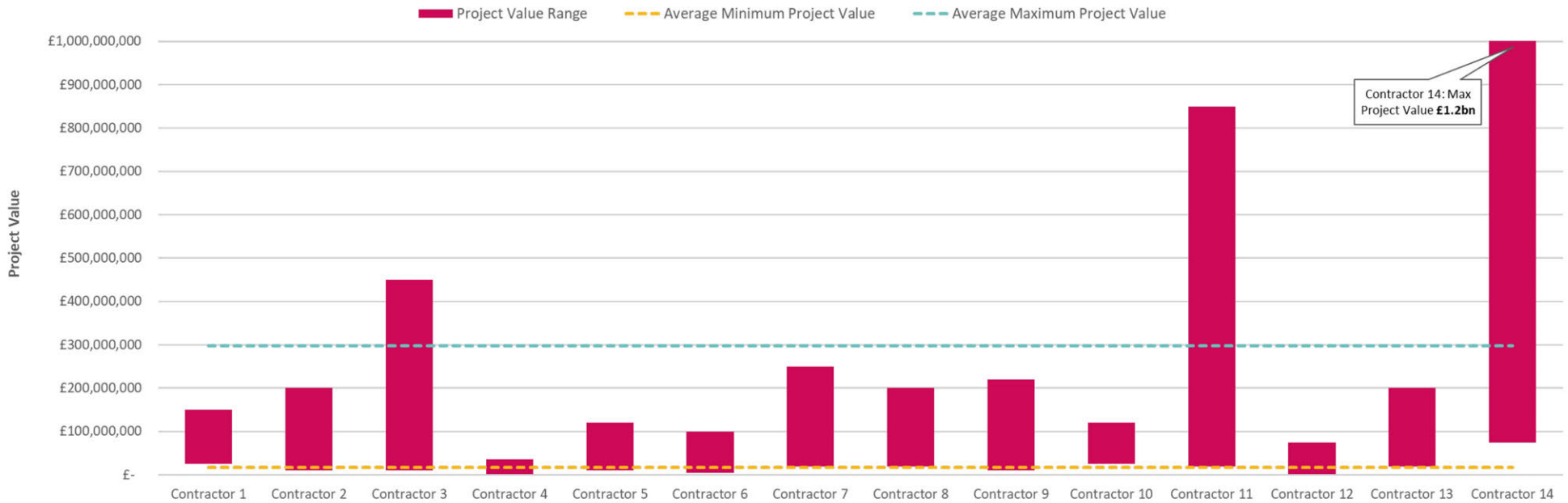
as clients gain the confidence to invest in long-term projects. The prospect of a cut in interest rates this year and lower borrowing costs for clients, the affordability and attractiveness of undertaking new construction projects will improve. Surveyed contractors believe this will be a key driver behind schemes moving from feasibility stages into design and construction.

KEY TAKEAWAYS FROM THE REPORT

- **Secured workload levels align closely with previous surveys.** On average, contractors have secured 89% of their workload for 2024, but there is greater disparity in secured workload levels for 2025 and 2026, indicating differing levels of future project confidence and divergent business development strategies among contractors.
- **Contractor on-costs rise marginally compared to our 2023 report.** With robust forward pipelines and confidence that new work volumes will recover, OH&P increased for every project value range. Higher preliminaries costs are being driven by staff wage pressures, higher insurance costs and legislative changes (ie the Building Safety Act).

- **Half of surveyed contractors continue to report labour availability issues.** Labour availability is not expected to improve significantly over the next year. The data suggests a near-term balance between demand and supply but some suggested that any increase in demand (ie a recovery in output/new orders) or unforeseen circumstances could exacerbate resource shortages.
- **Material price inflation and lead times have both stabilised.** Inflation has returned to more typical levels and materials are generally available within standard lead in periods. However, energy and fuel price volatility remains a concern, as does the price of copper due to soaring demand.
- **Main contractors' biggest concerns are regulatory and government red tape, supply chain insolvencies and cash flow issues and a lack of confidence in investing in new projects.** Conversely, lead times, shipping and logistics costs and site productivity are expected to have a relatively muted impact on contractors' business activities.

Main Contractor: Min/Max Project Value



Eight contractors can deliver schemes exceeding **£200m**. The same contractors had a minimum project value of at least **£10m**

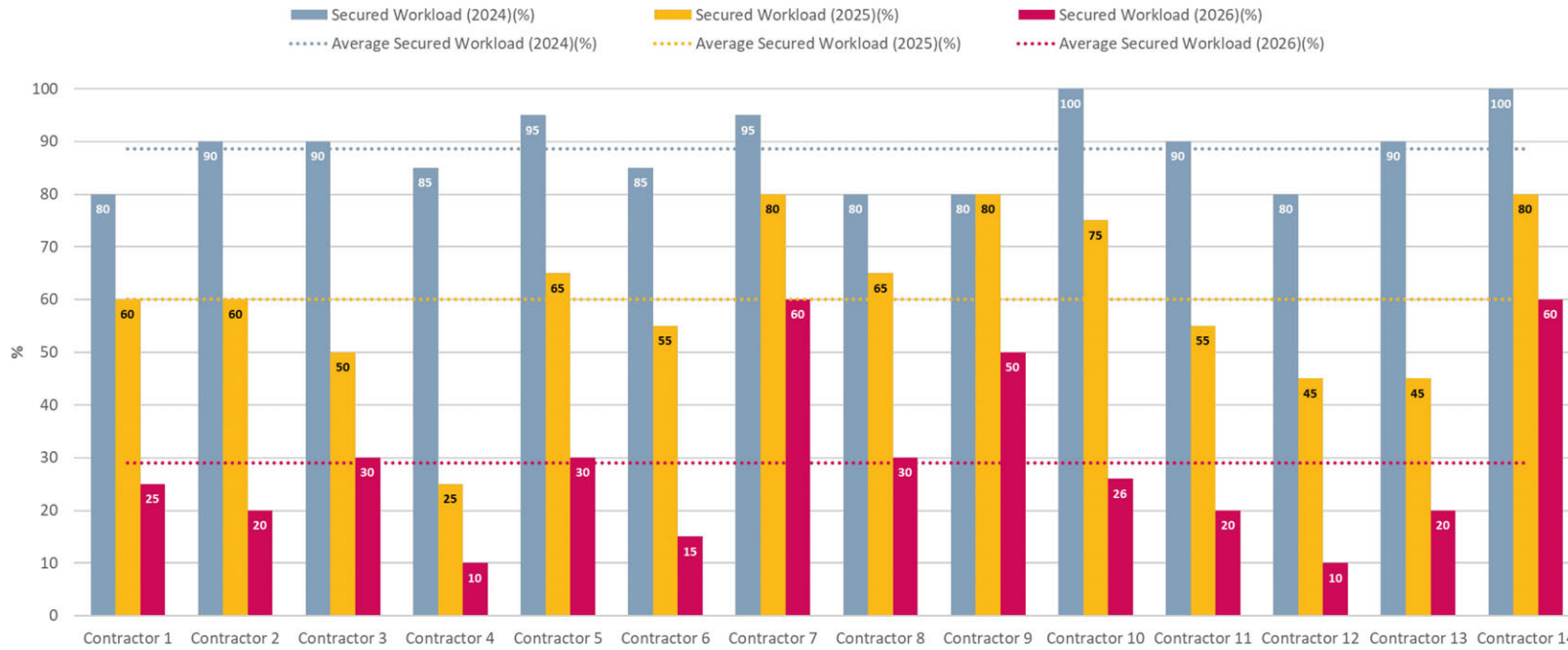
The average minimum project value in this survey was **£17.9** million, compared to **£6.2** million in our 2023 survey. This increase is largely attributed to a different sample of contractors participating in this year's survey

The range in project values among contractors is significant, indicating varying capabilities and market positioning. However, the high maximum average suggests most surveyed contractors are involved in high-value, large-scale projects

Average minimum project value
£17.9m

Average maximum project value
£297.9.2m

Secured Workload: 2024-2026



Average Secured Workload (2024)
89%

Average Secured Workload (2025)
60%

Average Secured Workload (2026)
29%

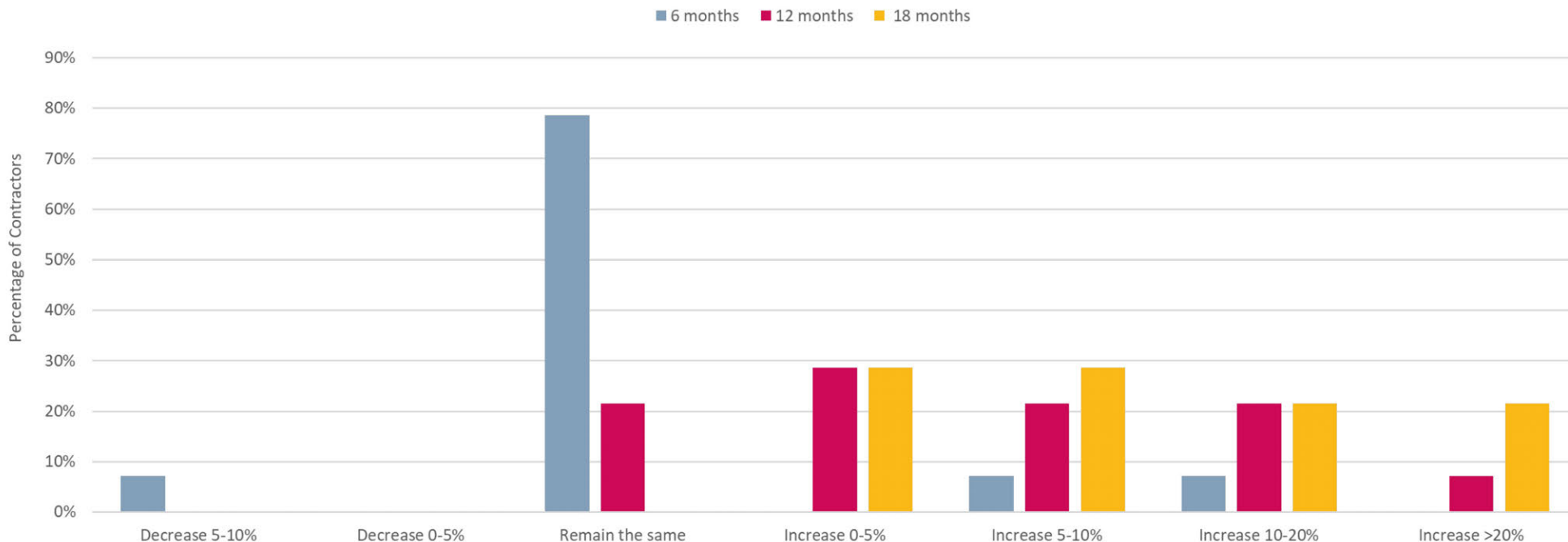
All contractors have secured at least **80%** of their 2024 workload while around half have secured more than **90%**

Greater disparity in secured workload levels for 2025 and 2026 indicates differing levels of future project confidence and divergent business development strategies among contractors

While short-term pipelines remain robust, the slowdown in new order growth has heightened contractors' eagerness to secure projects

*Secured workload figures align closely with previous Main Contractor surveys. As per G&T's June 2023 survey: **2023 (88%), 2024 (62%)**.

Workload Expectations: Next 6-18 Months



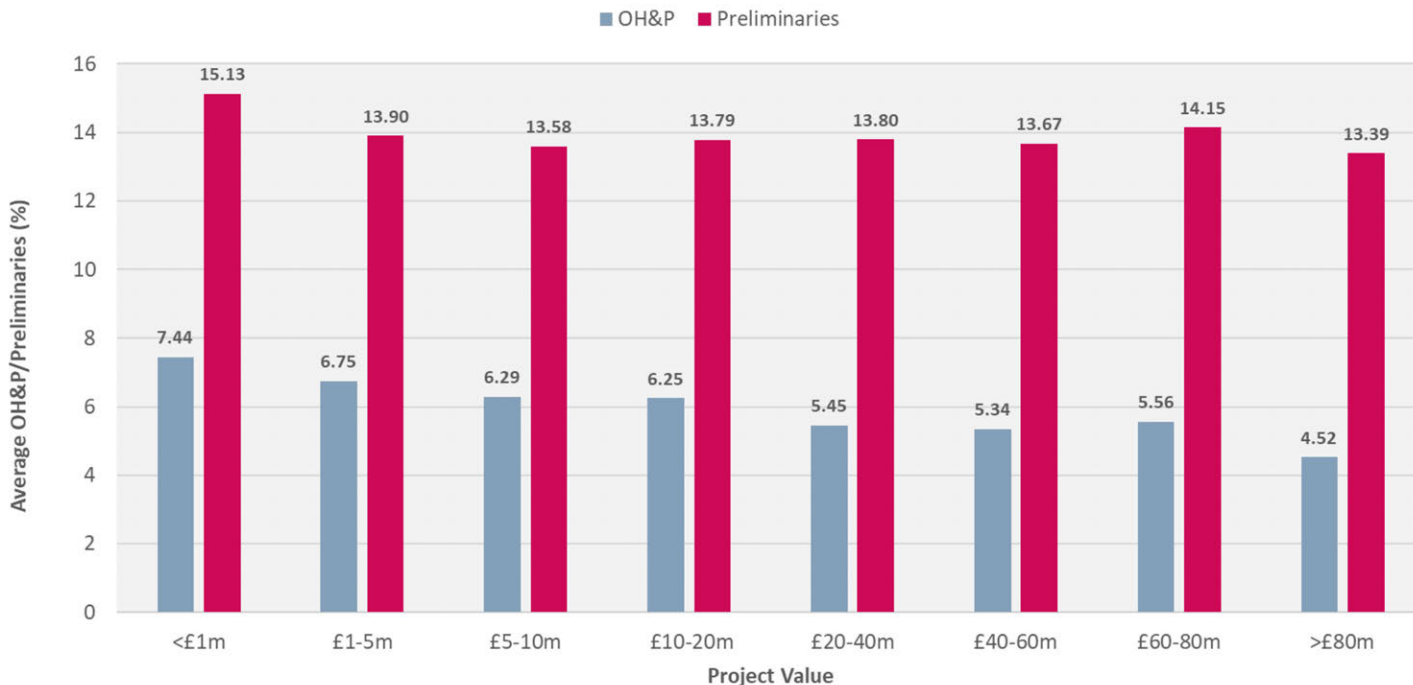
Most contractors (**79%**) expect workloads to remain the same over the next six months

Over the next 12-18 months, contractors were generally more optimistic. Nearly all surveyed contractors expect their workload to grow between **0 to >20%**

Greater political certainty and the prospect of lower interest rates have boosted workload growth sentiment. As market conditions improve, contractors are increasingly confident about securing more projects and expanding their workloads over the next 18 months.

“We are currently experiencing a very busy period in terms of new tender opportunities, particularly in the South East Commercial & Life Sciences sectors. This may lead to increased tender costs as it would appear that most contractors are being highly selective, leading to only 2 or 3 bidders for each project.”

Average/Typical Main Contractor OH&P and Preliminaries Costs by Project Value



“Golden Thread” requirements under the BSA, which mandates that accurate and up-to-date information about the building’s design, construction and maintenance be maintained throughout its lifecycle, has put pressure on preliminaries costs.

Note: OH&P and Preliminaries costs are expressed as a percentage (%) of the total cost of construction works. Figures provided do not necessarily align with the current data observed by G&T on projects.

For projects valued below £1m, overhead and profit (OH&P) averaged **7.4%**, with preliminaries costs averaging **15.1%**. Conversely, for projects exceeding £80m, these costs decreased to **4.5%** and **13.4%**, respectively

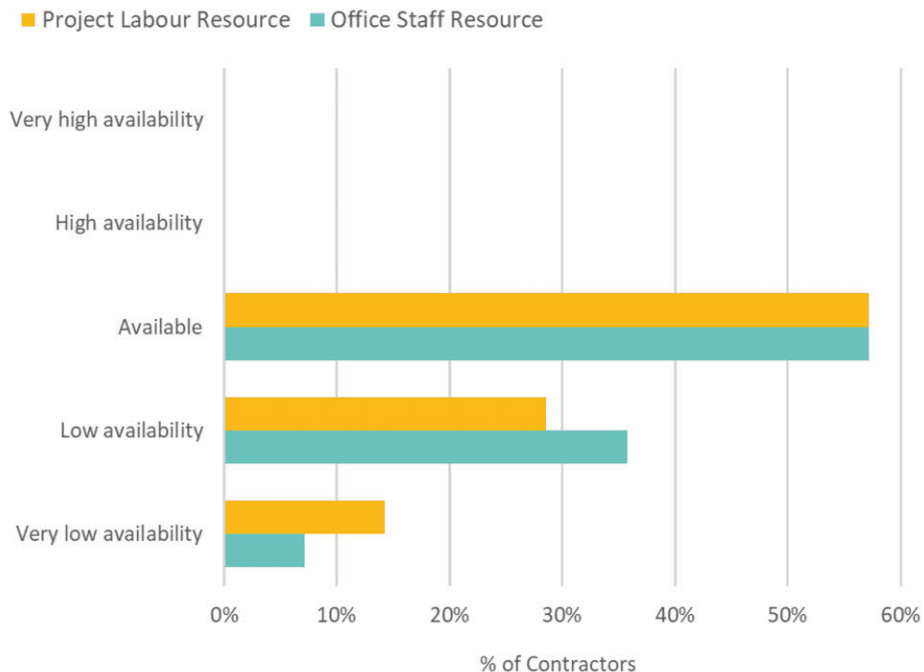
Compared to our June 2023 survey, average OH&P has increased for every project value range. However, lower value projects have seen the biggest increases. For example, projects valued between £1-5m saw average OH&P rise from **5.1%** in 2023 to **6.75%** in 2024

Preliminaries costs for the highest value projects have increased marginally since our last survey, driven by staff wage pressures, higher insurance costs and legislative changes (ie the Building Safety Act)

Conversely, preliminaries have been falling for lower value projects, primarily due to simpler compliance requirements (associated with documentation, inspections and safety measures). These schemes will also be below many of the respondents’ typical minimum project size. Contractors who are used to handling larger projects may not be as efficient with smaller ones

Note: Larger projects often benefit from economies of scale, where fixed costs (such as management and administrative overheads) and preliminary costs (such as site establishment and temporary facilities) are spread over a larger scope or base of work. Smaller projects have fewer units of work to spread these fixed costs across, resulting in a higher percentage allocation towards OH&P and prelims.

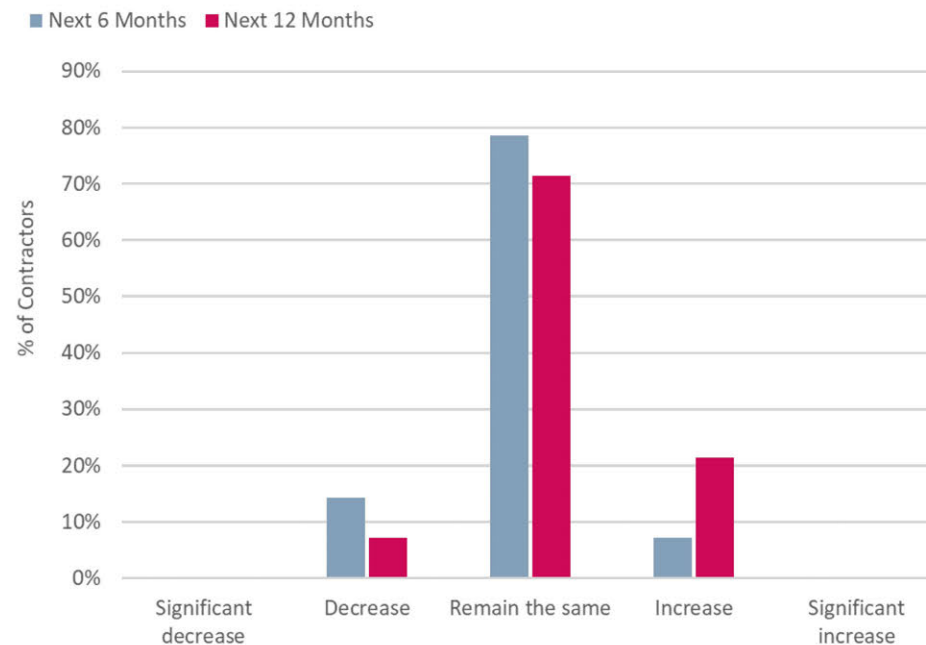
Staff v Project Labour Resource Availability



Half of Contractors Face Resource Strain, No Surplus in Staff or Project Labour

- Both office staff and project labour resources are predominantly reported as available by **57%** of respondents
- No respondents report high or very high availability for either category, indicating a lack of surplus in labour resources
- **43%** of respondents report low or very low availability for both categories, but project labour resource has a slightly higher percentage reporting very low availability
- This strain can lead to project delays, increased costs and difficulty in maintaining project schedules and quality

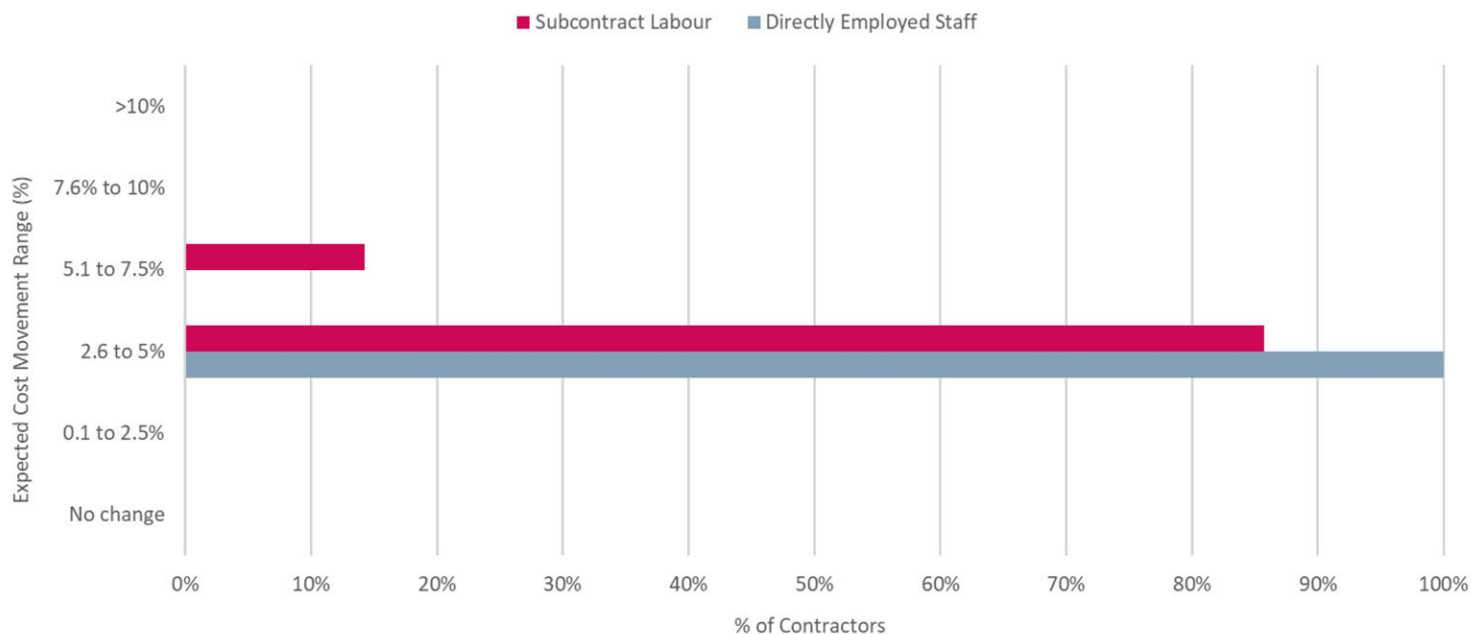
Expectations for Labour Availability



No Significant improvements in Labour Availability Expected

- Most contractors don't expect any change to the availability of labour over the next 6 and 12 months (**79%** and **71%** respectively)
- Data suggests a near-term balance between labour demand and supply. A larger percentage (**21%**) anticipate an increase in labour availability compared to the six-month outlook, suggesting a slight improvement in labour market conditions
- The data points to a balanced but precarious situation where any increase in demand (ie a recovery in new output/orders) or unforeseen circumstances could exacerbate resource shortages

Expectations for Directly Employed Staff & Subcontract Labour Cost Movements: Next 12 Months



“We are recruiting for some key roles to provide some head-room for future anticipated projects and to support our existing teams.”

“Availability of (subcontract) labour resource is good, with the exception of [certain] key trades, such as MEP and Façades...the key is obtaining the right quality of labour.”

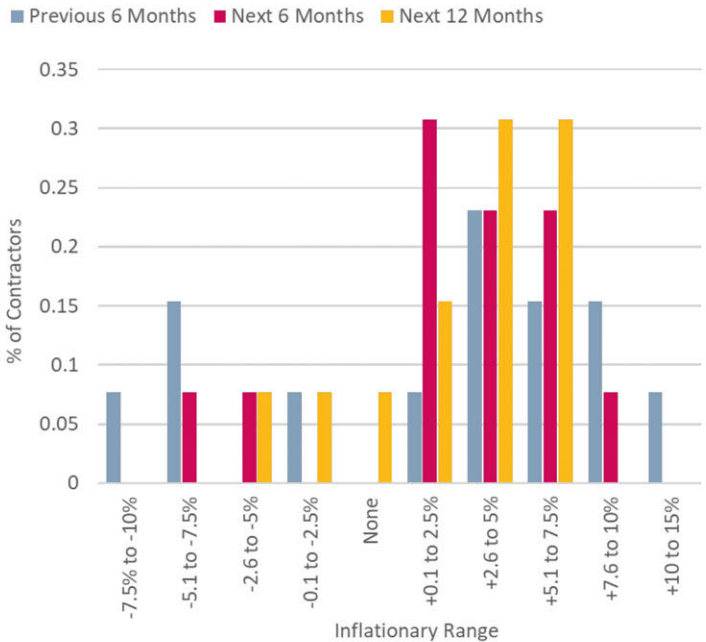
All respondents expect directly employed staff costs to rise by **‘2.6 to 5%’** over the next year

A small proportion (**14%**) expect sub-contract labour costs to rise by **‘5.1 to 7.5%’** with the remainder (**86%**) anticipating an increase of **‘2.6 to 5%’**

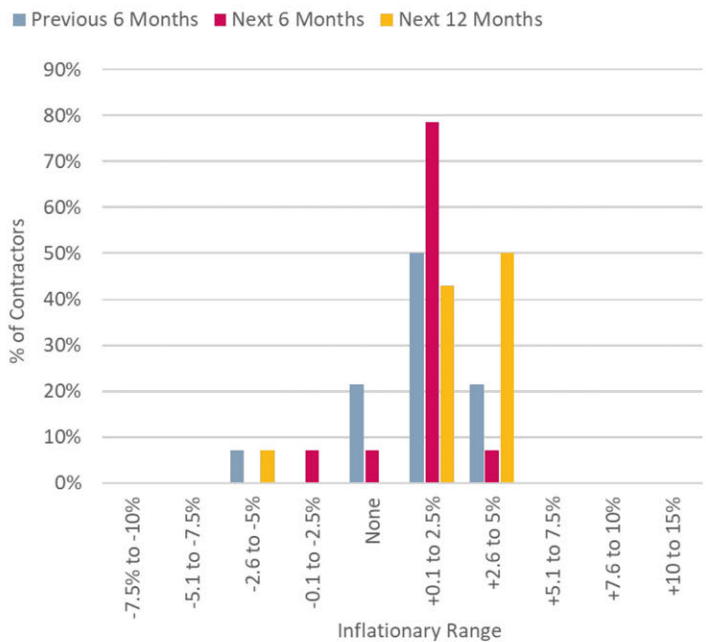
These latest forecasts align closely with the long-term annual average rise in UK construction earnings (**3.1%**)

Labour cost pressures have eased in tandem with a drop in new order growth and on-site activity, but elevated vacancies suggest firms continue to struggle to find skilled resource. Labour cost inflation could once again become an issue as construction output recovers

**June 2023 Survey: Construction
Products/Materials: Inflationary Forecast**



**June 2024 Survey: Construction
Products/Materials: Inflationary Forecast**



“Overall costs are steady, with both increases and reductions observed, indicating that last year’s turbulence has levelled off.”

“Specific materials such as insulation products have seen a 5% price increase, while timber prices are stable, rebar prices have reduced, concrete costs are rising at a normal 5% annually and the aggregate and muck markets remain stable. Copper prices, however, are expected to rise significantly above trend.”

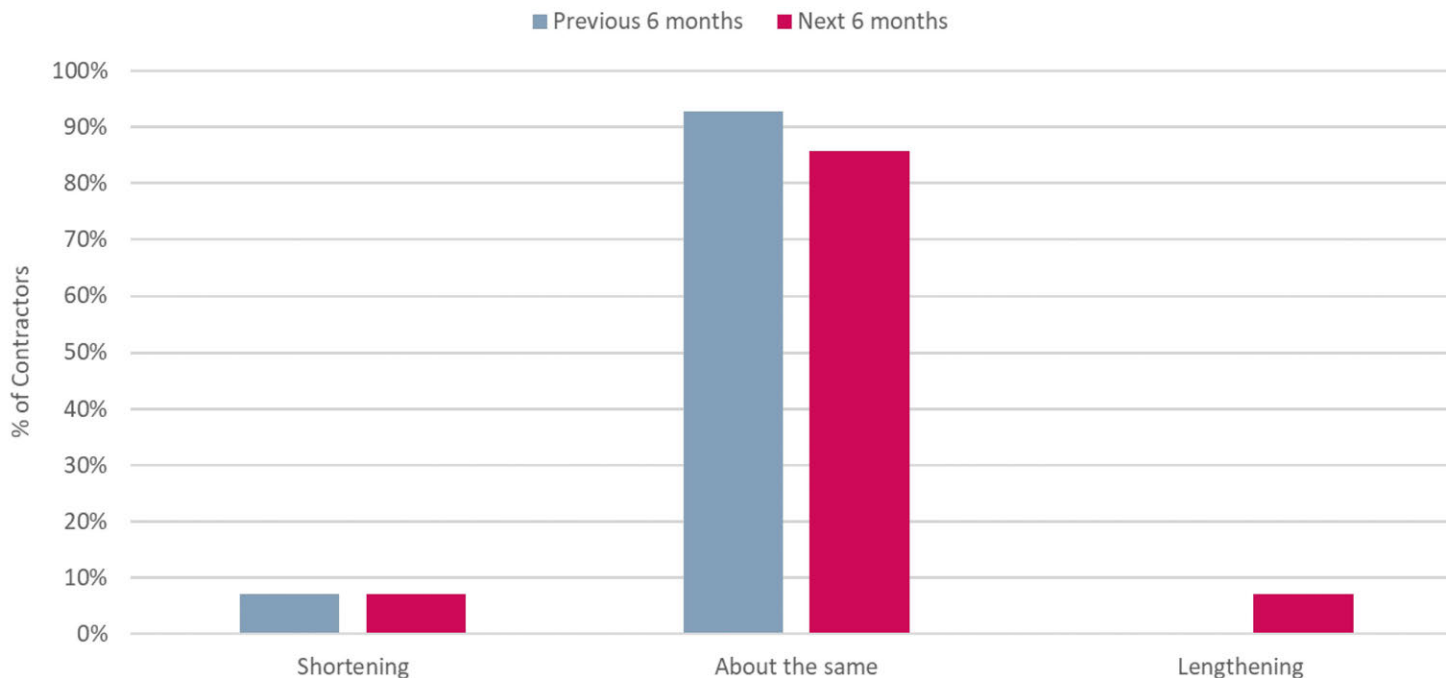
Compared to our 2023 survey, there is a narrower range of inflationary expectations, with most contractors reporting material price inflation between **0.1% and 2.5%** over the past six months

Expectations are that material price inflation will remain relatively stable, with most contractors anticipating an increase of **0.1% and 2.5%** over the next six months, and a slight majority anticipating a rise of **2.5 to 5%** over the next year

Construction costs are expected to remain stable in the short term, with marginal growth projected. However, flat inflation is unlikely to persist due to anticipated increases in work volume

Despite an initial spike due to disruption in the Middle East, shipping costs have dropped significantly, having a knock-on effect on product costs. However, energy and fuel price volatility remains a concern and could impact the cost of energy-intensive products and materials

Materials: Observed/Expected Movement of Lead Times



“Over the last 12 months materials lead times have stabilised and we anticipate these to remain consistent over the next 12 months.”

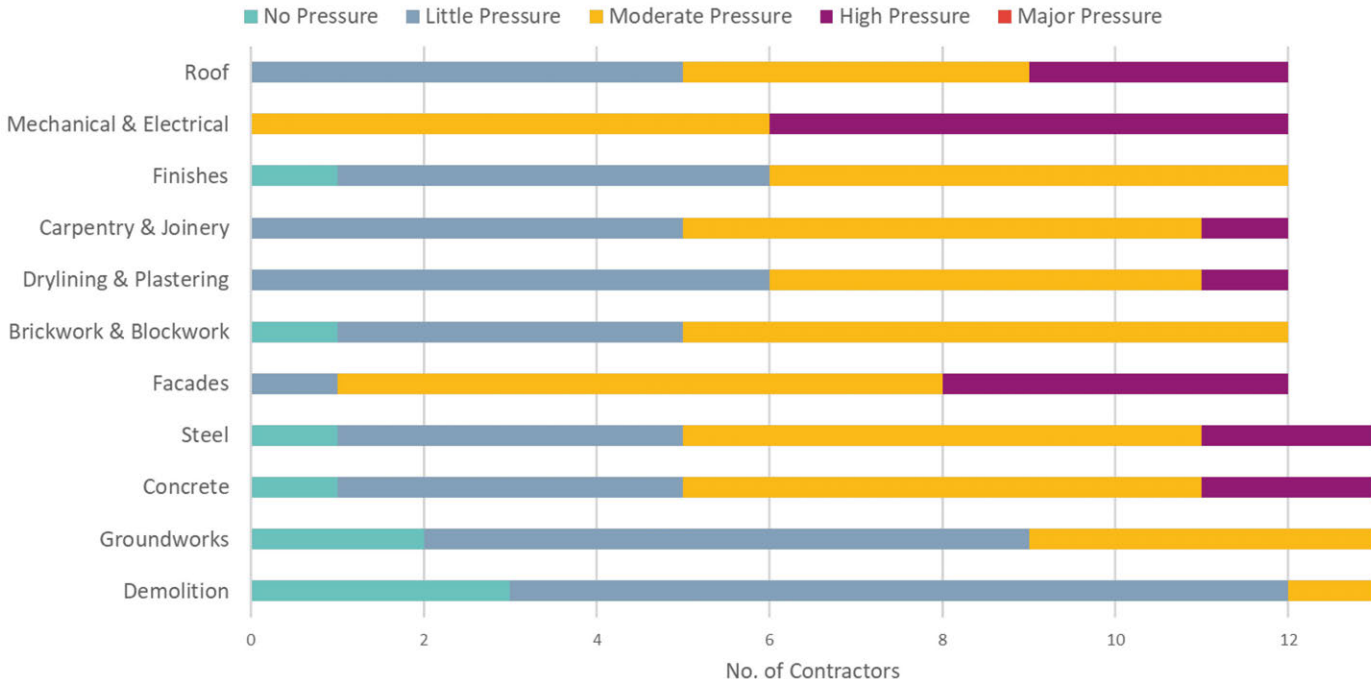
- Main Contractors (**96%**) noted increased stability in both observed and expected lead times over the past six months. Materials are generally available within standard lead in periods
- Over the next six months, most contractors (**86%**) do not envision lead times changing
- One contractor expected a slight decrease in lead times as market conditions soften, and supply is more readily available. Another expects a lengthening in lead times as the market warms towards the end of the year

Contractors reported good availability of products and materials in most areas, but strong demand has led to some exceptions, including:

- Rockwool
- Ground Granulated Blast-Furnace Slag (**GGBS**)
- Timber-based products
- Electrical components/MEP kit (eg ASHPs, generators, switchgear etc)
- Sprinklers

- Granite (from China)
- Asian plywood
- Sanitaryware
- Copper (for cable and busbar)

Level of Inflationary Pressure by Trade Package: Next 12 Months

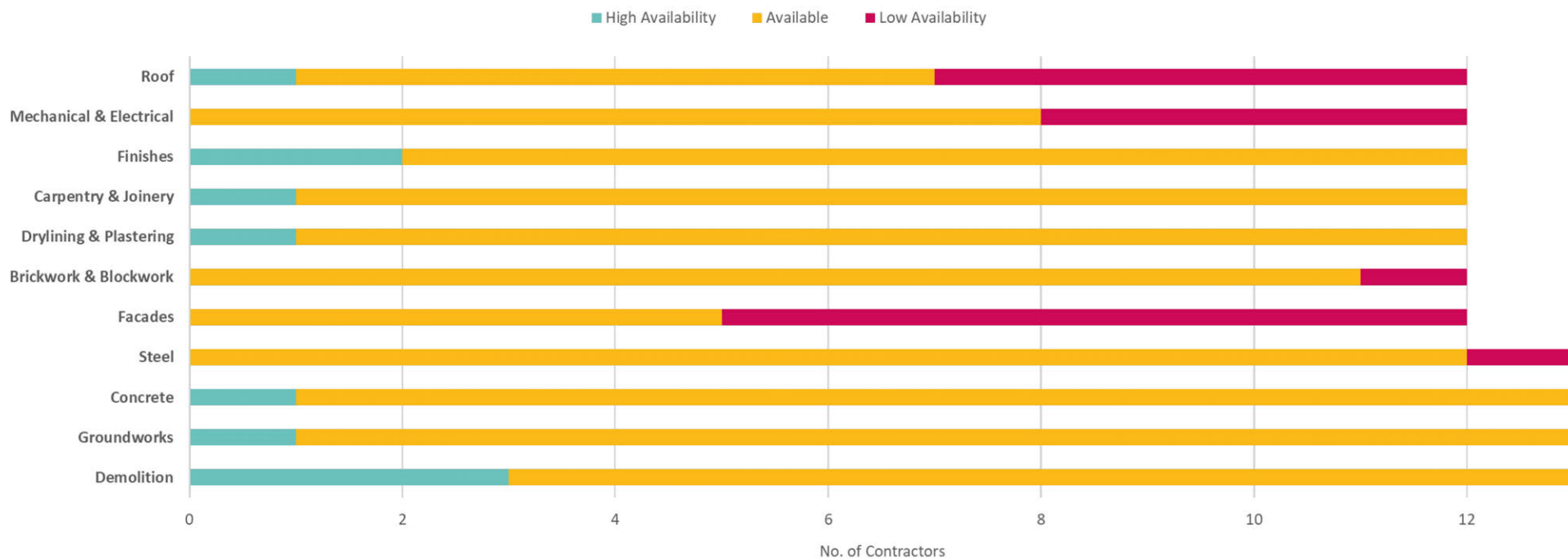


“The cladding market generally remains our greatest challenge with a number of companies going into administration and availability of production slots stretching further out.”

“We are partnering with certain supply chain members and tender stage, where appropriate (in particular for façades & MEP packages) to ensure a larger proportion of the supply chain cost has been properly worked through and risk mitigated.”

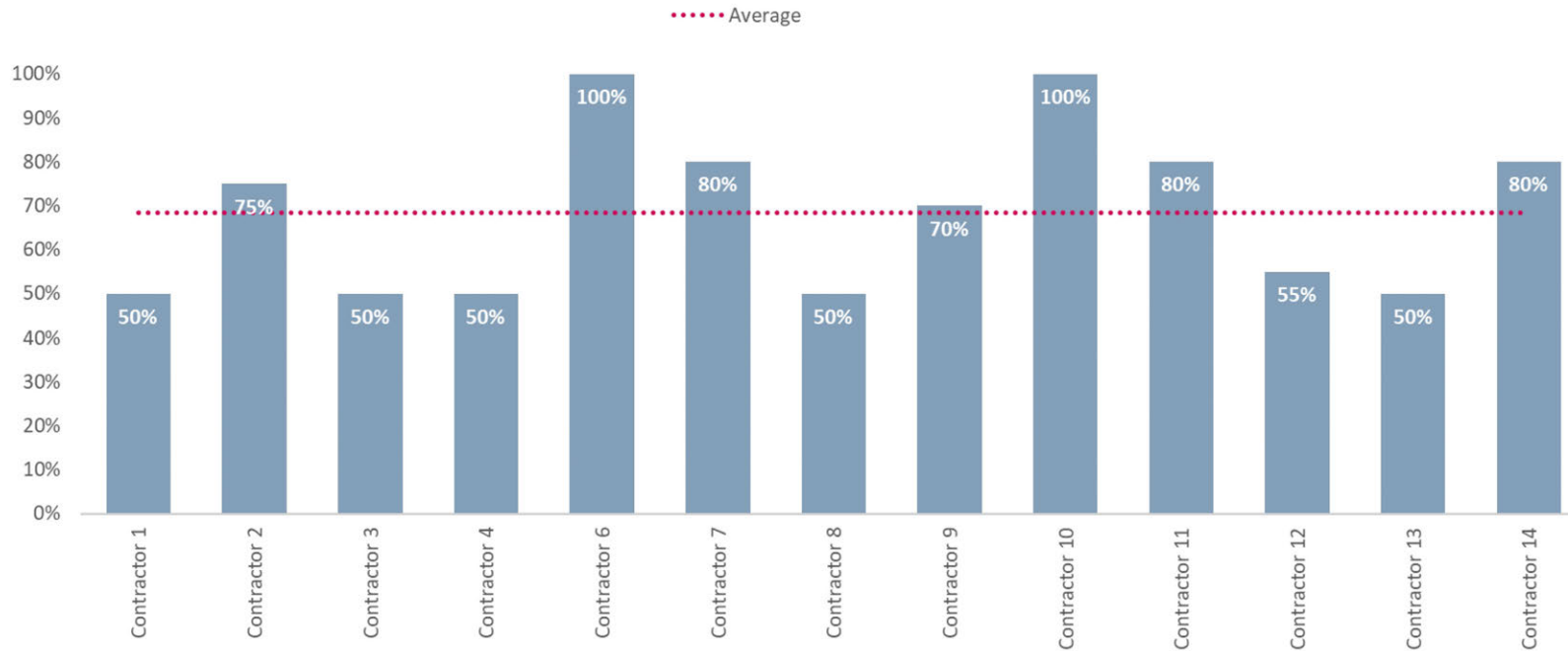
- MEP and façade packages continue to see the greatest inflationary pressure while early works trades (groundworks and demolition) experience less pressure due to a slowdown in new build activity
- MEP package inflation is being driven by sustained pressure on MEP items and labour, supply chain insolvencies and reduced capacity in the market, and strong demand from certain growth sectors
- MEP cost pressure has also been exacerbated by the decarbonisation agenda, which includes plant replacement, renewables and advancements in building technology
- Higher pricing for façade contracts is largely capacity driven. A spike in aluminium prices in early 2024 also contributed, as did higher labour and transport costs
- Some contractors expect the raw cost of aluminium, glass and insulation to stabilise this year, though it remains to be seen if any softening will be passed on to the client. A slowing pipeline with uncertainty that schemes will progress may also help relieve pressure on façade packages

Availability by Trade Package: Next 12 Months



- Those trades experiencing the greatest inflationary pressure are also the ones facing the most pronounced availability issues (ie façades, M&E, roof etc.)
- MEP intensive projects such as data centres, life sciences and plant replacement are all absorbing contractor capacity in the market, resulting in smaller tender lists and limiting bidding competition
- Façade packages must be secured well in advance of project start (and can often dictate contract requirements). A lack of façade sub-contractor capacity has resulted in extended lead times for large façade packages (50+ weeks). Procurement and integration needs to be carefully planned and programmed to ensure design, manufacture and delivery certainty
- Contractors advise early engagement due to limited estimating capacity and pre-construction resource (particularly for glazing)
- Despite a reduction in residential work, roofing contractor workloads continue to rise. Difficulties recruiting skilled labour are also limiting roofing contractor capacity

What proportion of tenders are you submitting bids for?



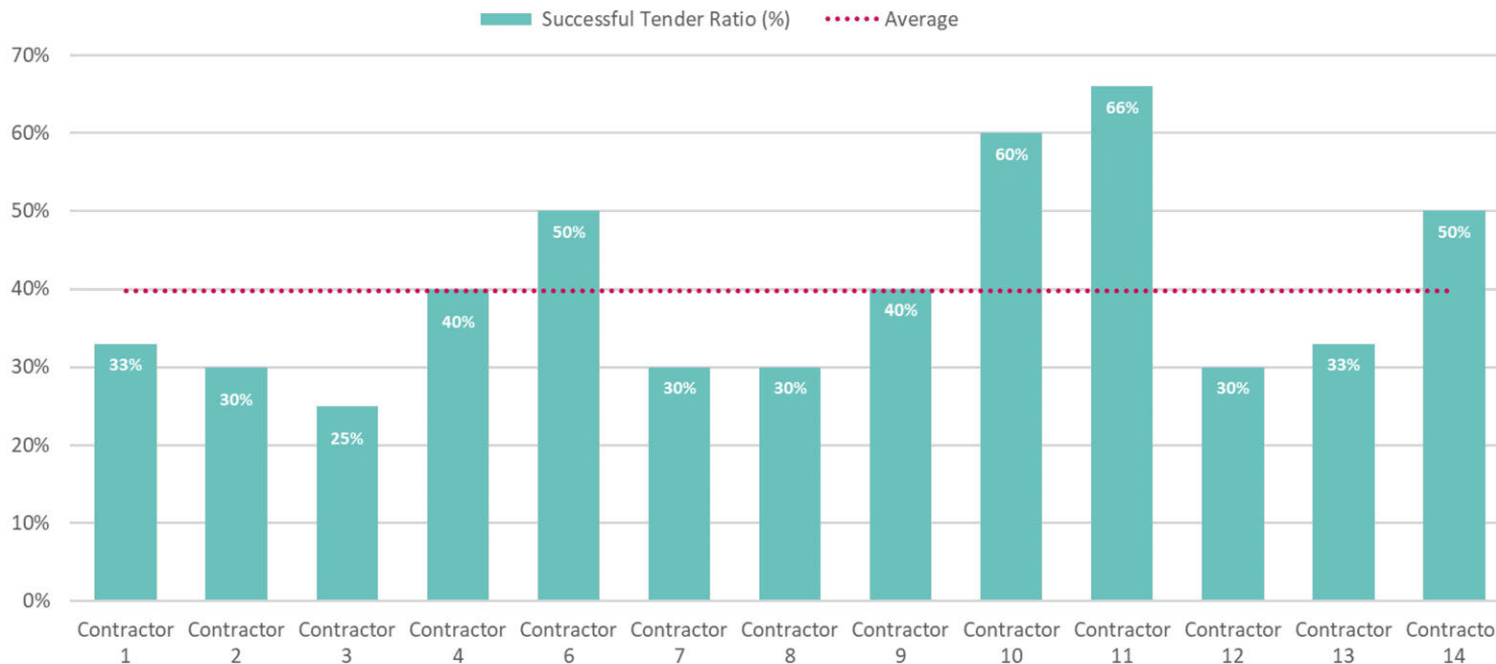
Surveyed Main Contractors are, on average, submitting bids for 68% of the tenders they are invited to.

- The most common response is submitting bids for about **50%** of tenders, indicating contractors remain risk-averse and are being selective about the opportunities they pursue. Selective bidding ensures that effort and resources are not diluted across too many bids
- Two respondents claim to submit bids for **100%** of tenders, with one specifying this is based on successful PQQ (Pre-Qualification Questionnaire). The other noted they track opportunities closely and only commit to projects they can fully resource and deliver

Main contractors noted the following reasons for choosing not to bid on an opportunity:

- Not having a pre-existing/strong relationship with the client
- Unrealistic cost plans
- Complex tenders with more than three bidders
- Onerous terms, conditions and significant risk transfers
- Clients with an uncertain financial standing
- Incompatible sector or location focus

Successful Tender Ratio



“Whilst high inflation and uncertainty around price-fixity have both eased slightly over the last period, they continue to be a concern.”

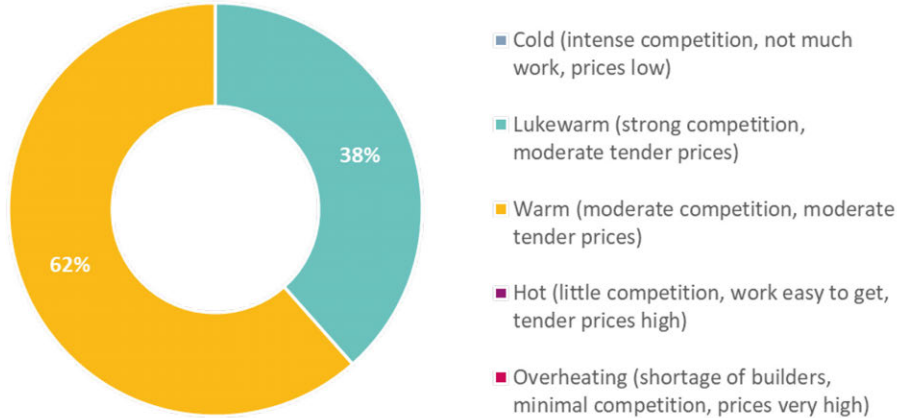
“For known clients we are taking a longer view on fixity and working in PCSA/early engagement to influence design and ensure best value.”

HOW LONG ARE YOU HOLDING TENDERED PRICES FOR?

- With only two exceptions, contractors are holding tendered prices for **12 weeks**. One contractor reported holding prices for just **4 weeks**, while another is holding for **13 weeks**
- The average duration contractors are holding prices is **11.4 weeks**, compared to **10.4 weeks** in our 2023 report
- Several contractors explained that while 12 weeks is the typical duration for holding tendered prices, it can be longer depending on the client and project. Many contractors are willing to fix tendered prices for a longer period if there is a fixed program and an early appointment is secured

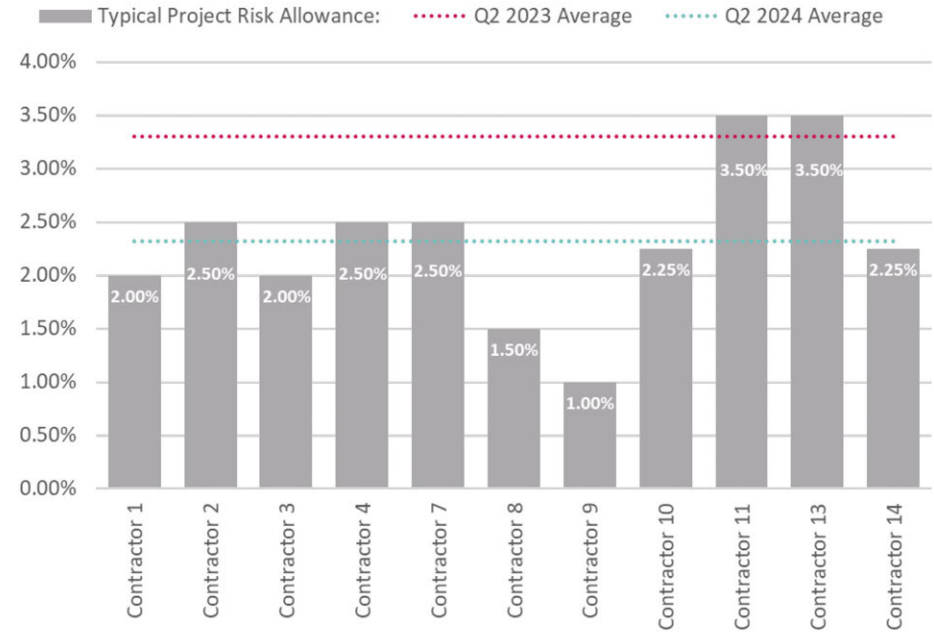
- The average 'Bid-Hit' ratio, indicating the proportion of successful tenders, was **40%**, with a range of **25% to 66%**
- This represents a slight increase from our 2023 Main Contractor Survey, where the average 'Bid-Hit' ratio was **37%**, ranging from **25% to 75%**
- The slight overall increase in the average success rate might suggest better alignment of bids with client expectations or improved bid strategies. However, the narrower range might indicate increasing market competitiveness, where achieving exceptionally high success rates is more difficult
- One contractor noted it has refined its bidding strategy, focusing more on projects where they have a higher chance of success, thus improving its average success rate

Market Tendering Conditions



- Most contractors described the current market tendering conditions as either 'Warm' (62%) or 'Lukewarm' (38%)
- This marks a shift from our 2023 report, where 19% described tendering conditions as 'Hot'
- Most now view market tendering conditions as being more balanced, with moderate competition and moderate pricing. The remainder are seeing more tepid demand and fairly competitive pricing

Typical Project Risk Allowance



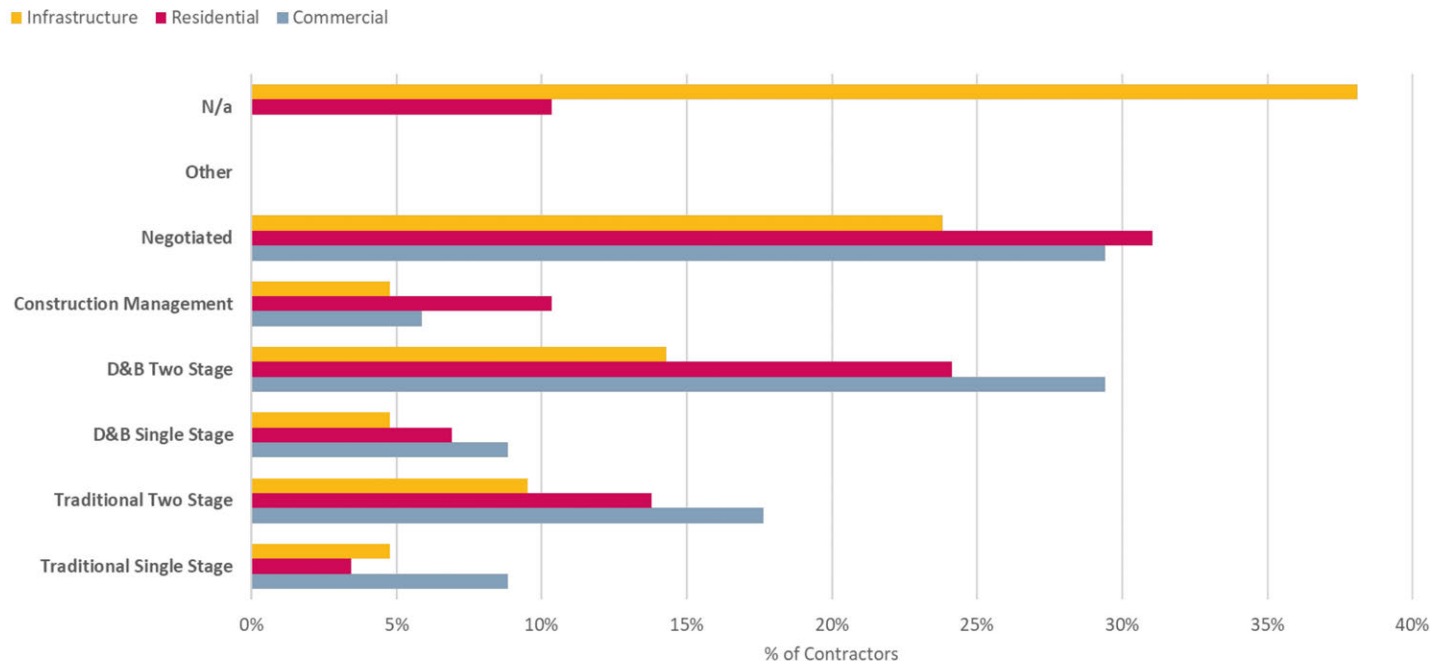
- Lower risk allowances could be due to:
- Perception of reduced inflationary risk in the market
 - Improving economic conditions
 - More competitive pressure to secure work
 - Enhanced risk assessment and mitigation strategies

Average Risk Allowance*
(Q2 2024)
↓ 2.3%

* Average project risk allowances at contract award have fallen from **3.3%** in G&T's 2023 survey to **2.3%** in this survey.

Note: Risk allowances are impacted by the procurement route (ie D&B, traditional, two-stage, single stage etc.) and project-specific circumstances (ie quality and completeness of design, location, complexity).

Preferred Procurement Route by Sector



“We are very client focused on delivery and early advice which is leading to early engagement, PCSA, negotiation, and smaller tender lists. We are now more focused on few projects and have moved away from a volume tendering.”

Contractors indicated that **Negotiated** and **Two Stage** continue to be most favored procurement routes for residential and commercial schemes

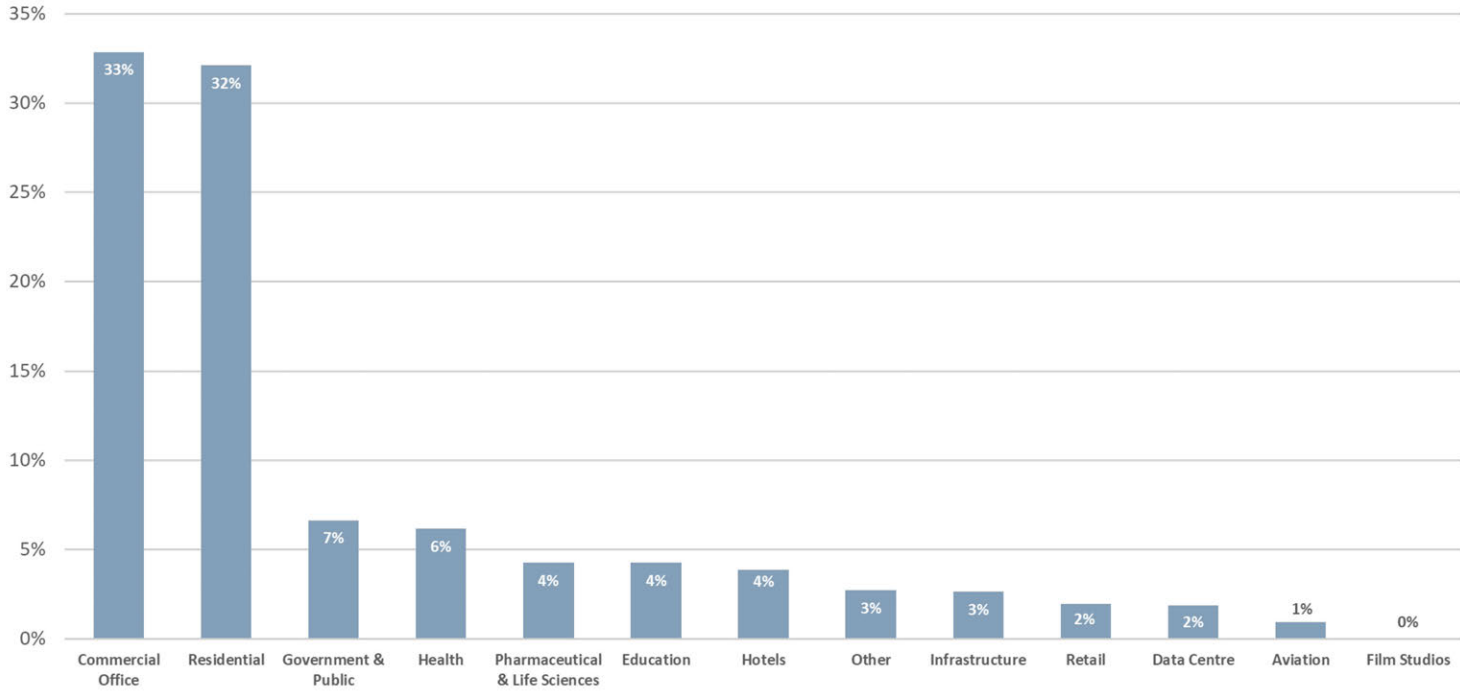
With a cooler market and fewer potential bidding opportunities compared to 2022/23, we may see more clients push for **Traditional Single Stage/D&B Single Stage**

Following recent weakness in new order growth and a softening in construction cost inflation, contractors may be more willing to accommodate **D&B Single Stage** to secure turnover in an uncertain market

Contractors continue to state a strong preference for involvement in the early stages of design development (via **two stage** or **negotiated** tendering). This allows them to contribute their expertise and insights into the design process. By understanding the project requirements and constraints from the outset, contractors can propose value engineering solutions, optimise construction methods and identify potential risks early on

Note: N/a indicates the proportion of contractors not procuring schemes in that sector.

CURRENT WORKLOAD SPLIT (% OF TURNOVER PER SECTOR): AVERAGE



“We are currently experiencing a very busy period in terms of new tender opportunities, particularly in Life Sciences, Data Centres and Health.”

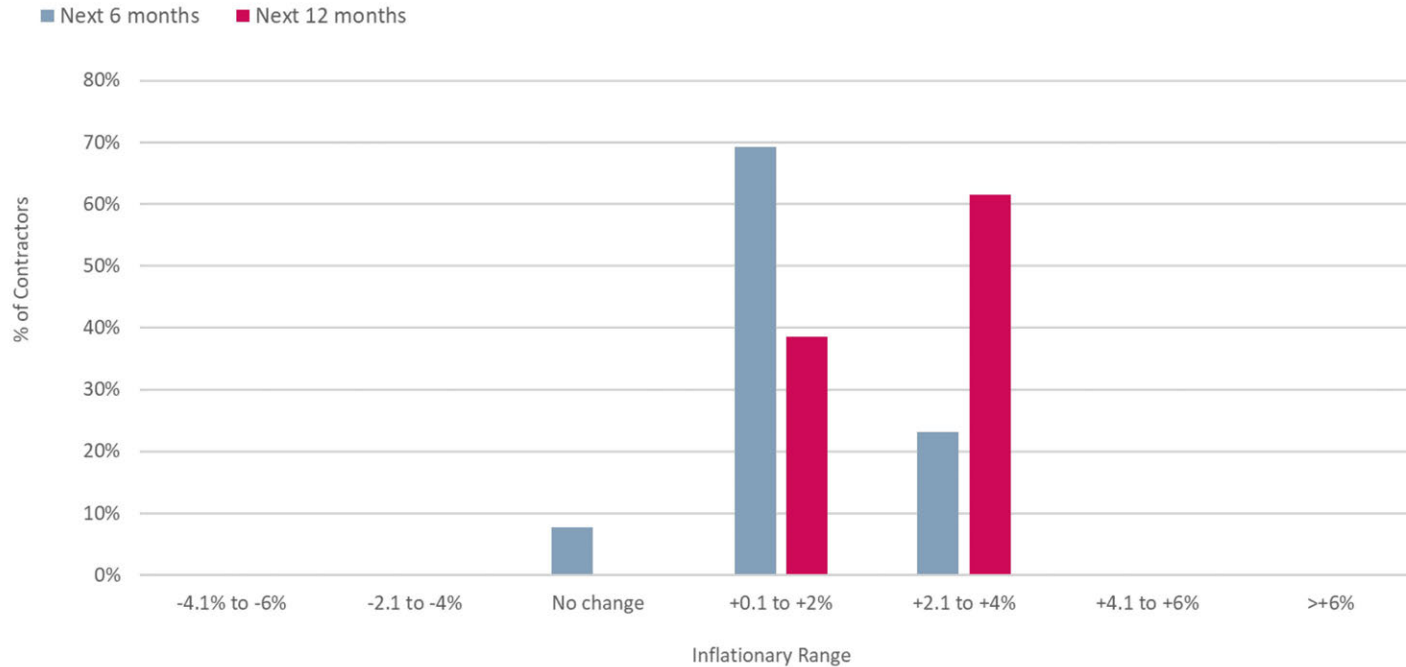
Commercial office and residential sectors accounted for the largest proportion of contractors’ turnover on average

Despite representing a small portion of main contractor turnover, pharmaceutical & life sciences, data centres and health sectors are being targeted by many contractors

The surge in Data Centre activity is affecting Tier 1 MEP sub-contractors, limiting their capacity to tender in other sectors (eg commercial and residential) and potentially hindering their short-term growth

Note: In this survey, 'Other' included private members' clubs and defence schemes.

Main Contractor Tender Price Inflation Forecast



“We anticipate construction costs to remain stable in the short-term with marginal growth to follow.”

69% of contractors expect tender price inflation (TPI) to increase by **‘+0.1 to +2%’** over the next six months. However, over the next year, the majority (62%) anticipate that TPI will rise by **‘+2.1 to +4%’**

There is greater consensus on the level of inflation for the year ahead compared to our 2023 survey, where nearly one-third of respondents anticipated a TPI increase of **4.1 to +6% TPI** over the following year

Lower forecasts for tender price inflation reflect softer input cost pressures and weaker new order growth. Most anticipate that construction costs will remain stable in the short term, with marginal growth to follow as construction activity gradually recovers



EARLY ENGAGEMENT

Engage contractors and suppliers early to mitigate risks from materials and supply chain costs



ADVANCE ORDERS

Place orders for key materials early to secure current prices and availability



UPFRONT PAYMENTS

Make upfront payments for high-risk materials to lock in prices and ensure supply



SUPPLY CHAIN PARTNERSHIPS

Partner with critical supply chain members during tender stages for better cost management



STORAGE SOLUTIONS

Store materials offsite after early procurement to manage supply chain disruptions



PROVISIONAL SUMS

Include provisional sums in contracts for volatile products based on risk profiles



MARKET REVIEWS

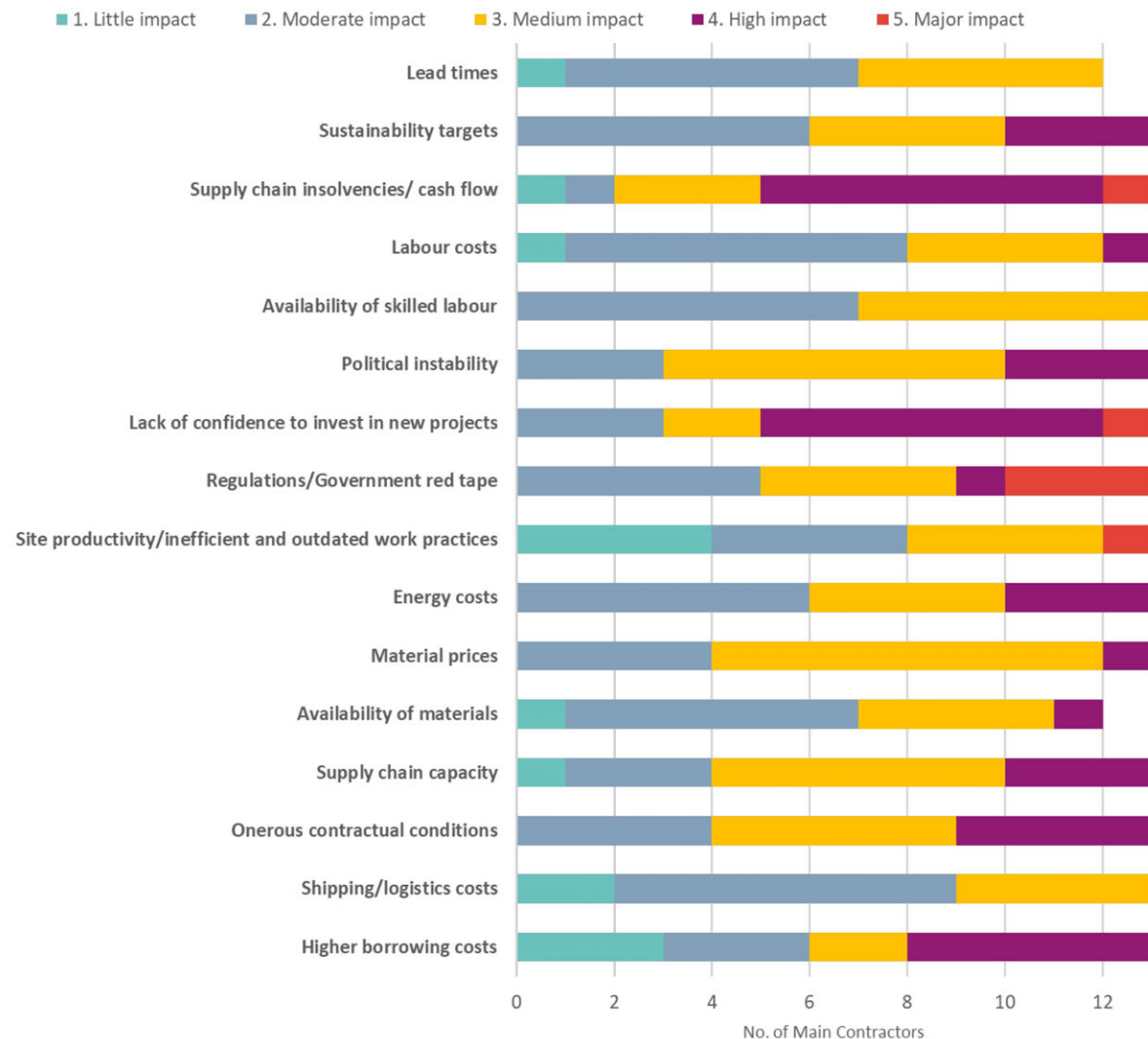
Continually review market conditions to understand trends and inform decisions



COST CERTAINTY

Secure cost certainty early in the project by placing key packages in advance

To What Extent are the Following Likely to Impact Your Business over the next 12 months?



In G&T's 2024 survey, main contractors said that **the biggest issues** faced by businesses over the next 12 months, were likely to be:



**Regulations/
Government red tape**



**Supply chain
insolvencies/cash flow**

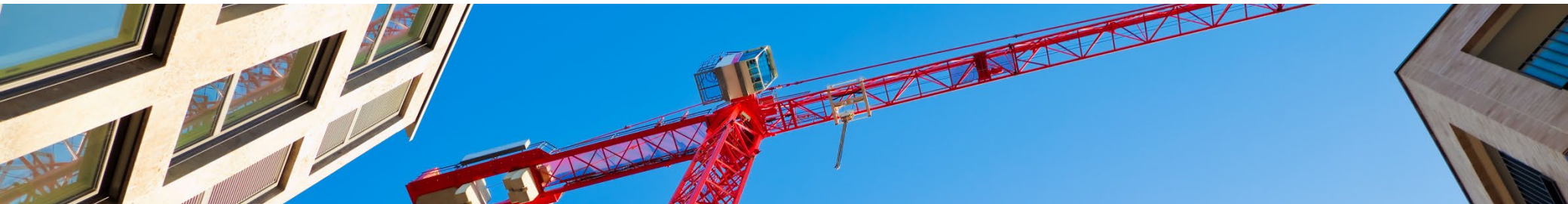


**Lack of confidence to
invest in new projects**

This was followed by:

- Higher borrowing costs
- Onerous contractual conditions

Lead times, shipping/logistics costs and site productivity are expected to have a relatively muted impact on contractors' business activities



WHAT MARKET PRESSURES ARE DRIVING CONSTRUCTION PRICES?

- **Global Uncertainties:** Wider global and geopolitical uncertainties and inflationary pressures.
- **Increased Selectivity:** most contractors are being highly selective leading to only 2-3 bidders for each project.
- **Building Safety Act:** New requirements (eg the Golden Thread) under the BSA are proving inflationary.
- **Supply Chain:** Reduction in supply chain and construction companies affecting prices. Filling MEP tender lists for large projects is becoming particularly problematic.
- **Development Finance:** Availability of development finance and current interest rates has squeezed client budgets and impacted project feasibility and progression.
- **Energy Prices:** Fluctuations in energy prices affecting fuel-intensive products like aggregates and concrete.
- **Sustainability Demands:** Demand for sustainable products and adherence to sustainability agendas driving costs.
- **Government policy uncertainty:** Lack of clarity on new policies from the incoming government.
- **Less Market Volatility:** high inflation and uncertainty around price-fixity have both eased but continue to be a concern.
- **Trade Shortages:** Labour shortages in specific trades and sub-contractor insolvency adding to cost pressures.
- **Data Centre Activity:** Spike in data centre activity impacting Tier 1 MEP sub-contractors and inflating costs in other sectors.
- **Copper:** Increased copper prices mainly impacting MEP packages
- **Insurance and Bond Costs:** Higher insurance premiums and bond costs and due to contractor vulnerabilities.
- **Circular Economy Costs:** Abnormal rises related to the circular economy, steel selection, grading and reuse.

“The availability of development finance and the current rate of interest remain a key driver behind schemes moving from feasibility stages into design and construction.”

“The spike in Data Centre activity is impacting Tier 1 MEP sub-contractors. It is having an inflationary impact on other sectors (commercial and residential). Filling MEP tender lists for large projects is becoming problematic.”



ARE YOU CURRENTLY EMBRACING ANY STRATEGIES TO SECURE WORK?

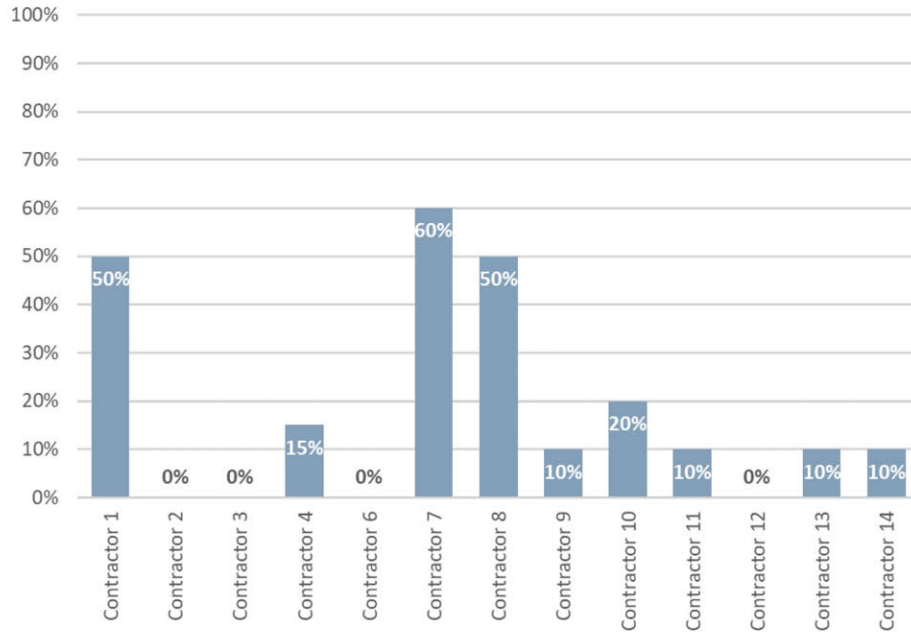
- **Repeat Business:** Focus on securing work from existing clients with established trust. Priority given to repeat customers and to those who share the contractors' values and fit their long-term strategy.
- **Client Collaboration:** Work with clients to meet their budget and scope, turning down competitive tenders where the client's cost plan is unrealistic.
- **Selective Tendering:** Avoid tenders with more than three bidders and unrealistic timelines. Some are also avoiding single stage tenders where the focus is on lowest price.
- **Strategic Sectors:** Target specific sectors such as commercial, life sciences, healthcare and defence.
- **Onerous Terms Avoidance:** Avoid projects with onerous terms and conditions, as well as significant risk transfer of unquantifiable risks.
- **Cross Group Offering:** Utilise in-house capabilities (eg MEP) to target sectors like life sciences and data centres.

“We have a focus on negotiated opportunities with existing clients as there are demonstrable benefits for all parties once a strong working relationship and mutual trust has been established.”

- **Volume tendering:** Move away from volume tendering and a greater focus on fewer projects that allow for early engagement, PCSA and negotiation.
- **Risk Management:** Embrace procurement routes that align with client expectations and manage risks, particularly with existing structures.

“We will not tender larger complex jobs if lists are too long or have lower tier tenderers.”

What Proportion Of Your Projects Involve More Than 25% Modular / DFMA Construction?



Proportion of projects involving more than 25% Modular/DFMA

18%

(average across all respondents)

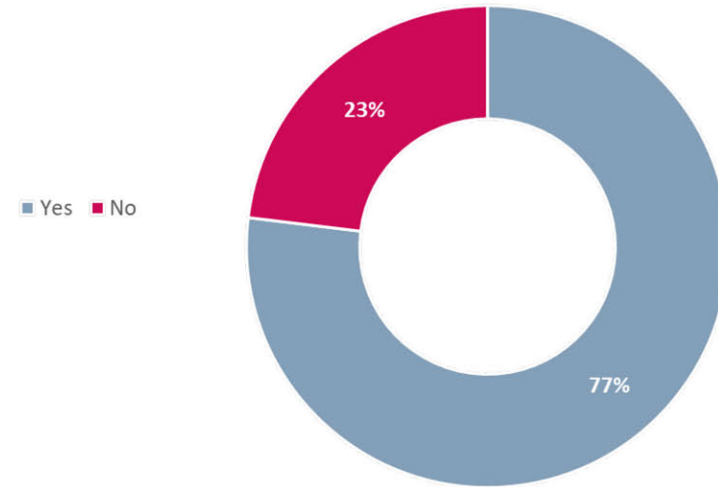
*On what percentage of your projects are clients driving social value requirements?**

74%

(average across all respondents)

*For example, through S.106 agreements, planning conditions or other specific client initiatives.

Are You Measuring Your Carbon Footprint On Each Project?



- **Sustainability Investments:** Invested in a carbon-specific design team to support clients with carbon reduction solutions
- **Net Zero Strategy:** Implemented an industry-leading Net Zero Strategy using One Click LCA software to measure and improve project carbon footprints
- **Client Awareness:** Noted increasing client awareness and implementation of carbon-neutral options early in project designs
- **Carbon Metrics:** Measuring embodied, operational, and whole life carbon with dedicated sustainability roles on project teams

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