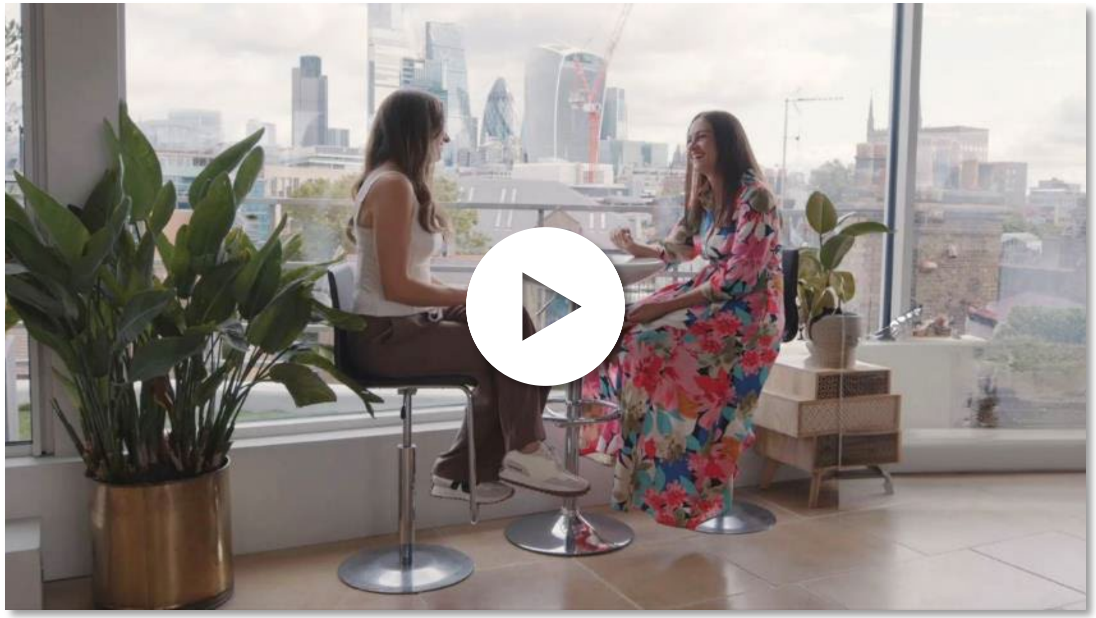
Gardiner & Theobald

MARKET UPDATE

Capacity constraints pose risks to pricing levels

G&T's Q3 2024 Update: As interest rate cuts and anticipated planning reforms spark hopes for a construction revival, will inflationary pressures resurface and how will contractor capacity constraints restrict future workload growth?



WATCH OUR FILM HERE

AGENDA

01

MACRO ECONOMICS & CONSTRUCTION OUTPUT

UK ECONOMIC OVERVIEW

Near-term economic outlook improves as stability returns and new Labour government targets growth

UK ECONOMY CONTINUES RECOVERY

UK GDP grows 0.6% in Q2, sustaining strong momentum from the previous quarter

INTEREST RATE CUTS

Bank of England lowers interest rates to 5% in first cut since 2020 but future rate path is unclear

CPI 2.2% (July 2024)

Headline inflation rises for first time in 2024 but undershoots expectations

4.2% UNEMPLOYMENT RATE

(Apr 24 – June 24)

Surprise fall in unemployment rate as more people drop out of the labour market

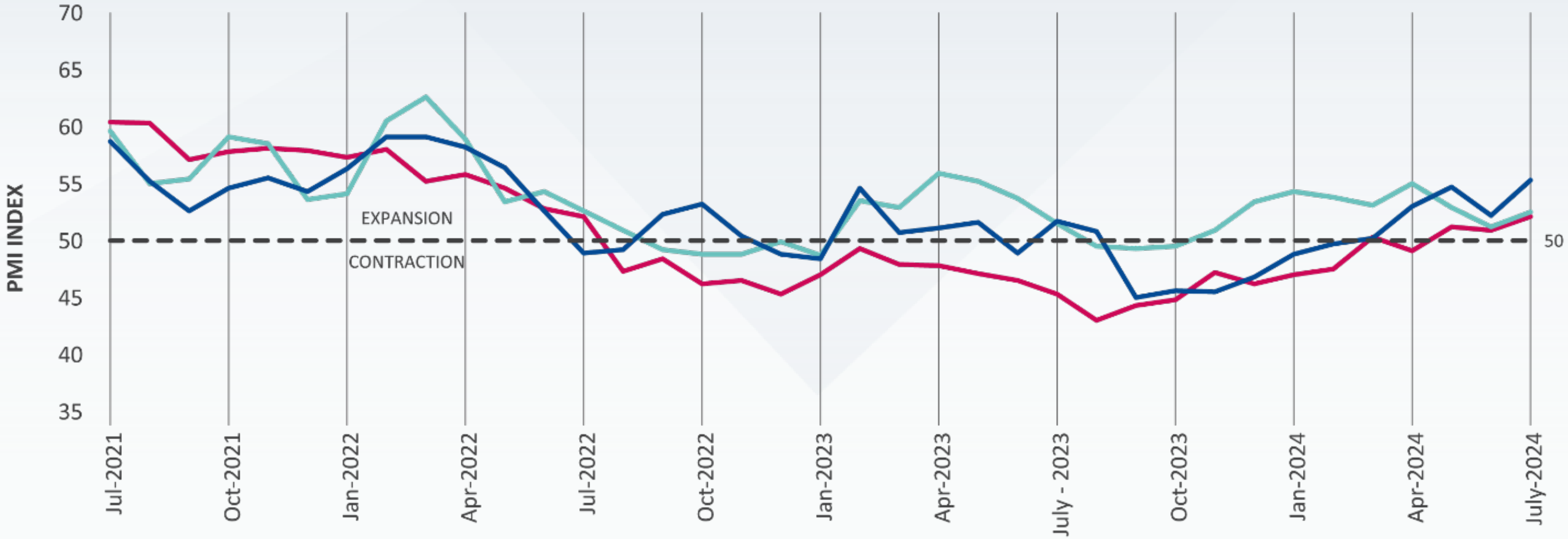
UK CONSTRUCTION PMI

(July 2024)

Construction growth accelerates amid optimism that Labour's shake-up of planning laws will increase activity

Source: *ONS, Bank of England, S&P Global*

UK CONSTRUCTION PMI



CONSTRUCTION
55.3

SERVICES
52.5

MANUFACTURING
52.1

UK Construction activity increases at fastest pace in 26 months, as election-related slowdown proves to be temporary…

Pace of **expansion races ahead** in July

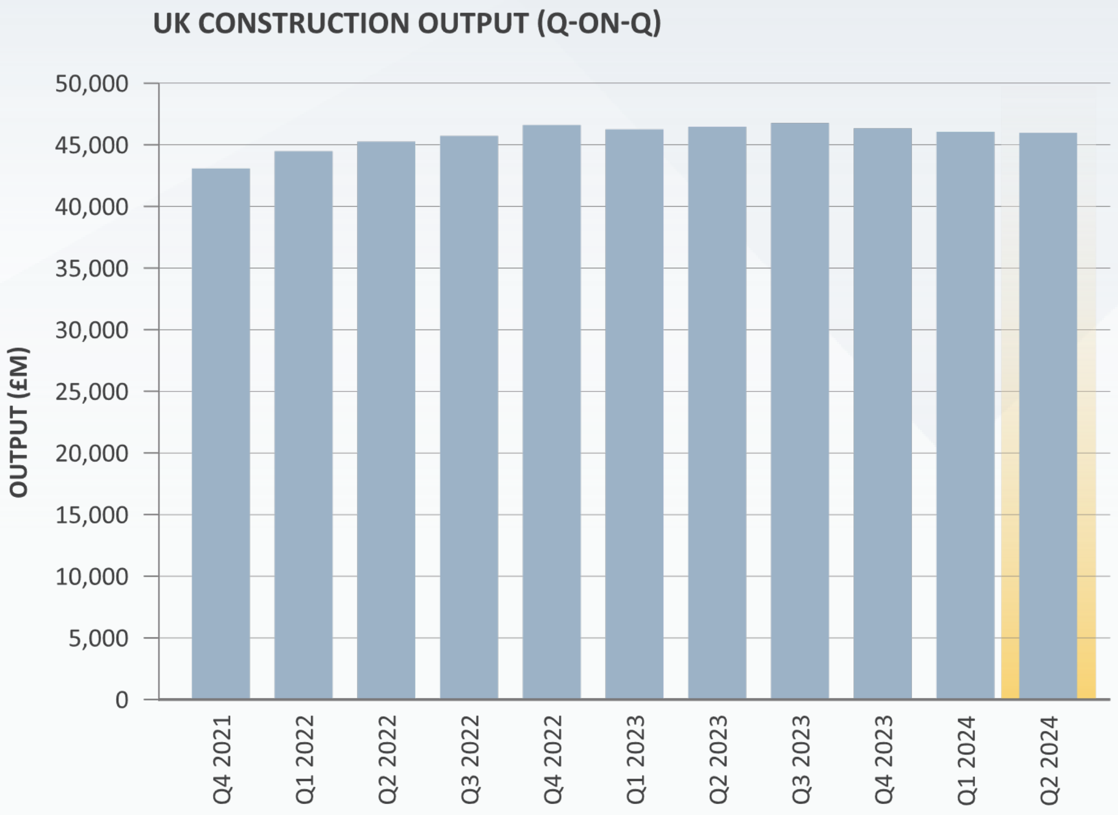
Strongest **increase in new orders** since 2022 as paused projects are released

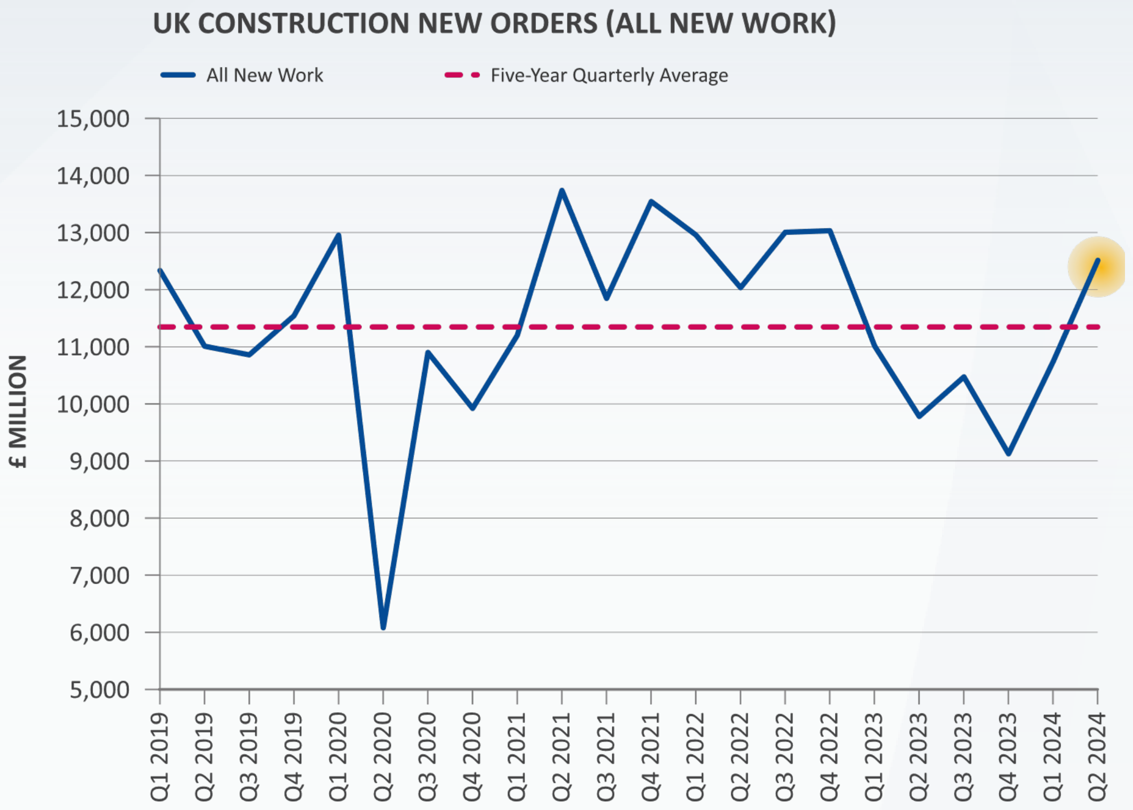
Signs of **inflationary pressures picking up**

Recovering demand may put further **pressure on capacity**

Source: *S&P Global*
Note*: The PMI is a subjective, sentiment-based index. Output and new order trends may therefore differ from official ONS' data trends, which are based on hard economic data.*

UK CONSTRUCTION OUTPUT AND NEW ORDERS (ONS)





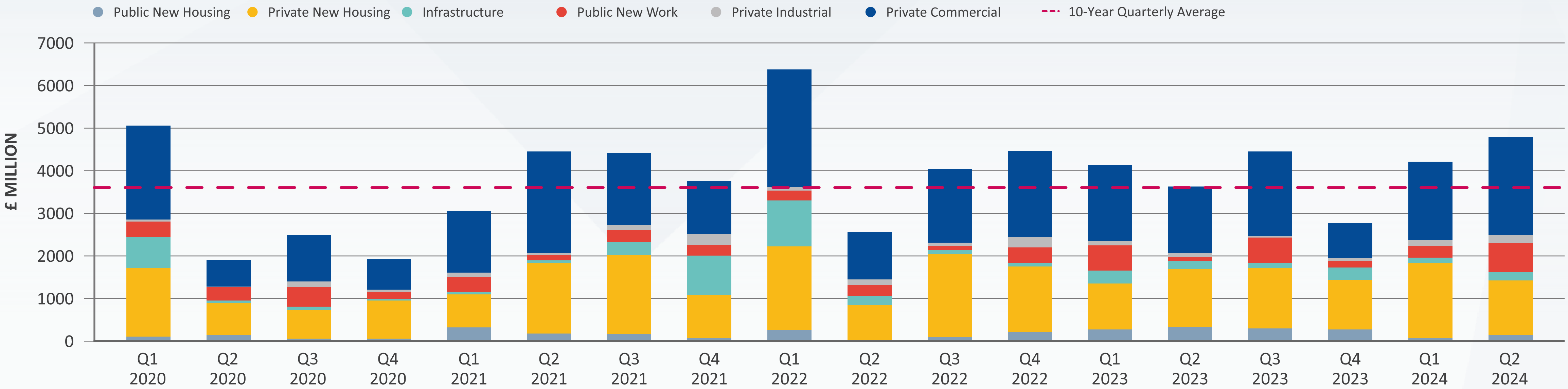
UK construction output dips by 0.1% in Q2 2024, but monthly data suggests output is now trending in the right direction

New orders surge 16.5%, with growth across all sectors as the industry braces for capacity challenges amid rising demand

Source: ONS

LONDON: NEW ORDERS (ONS)

LONDON CONSTRUCTION NEW ORDERS (Q-ON-Q) BY SECTOR



London new orders rose 14% in Q2 to £4.8bn, surpassing the 10-year average by a significant margin

Market confidence strengthens amid **stabilising costs** and **prospect of lower borrowing rates**

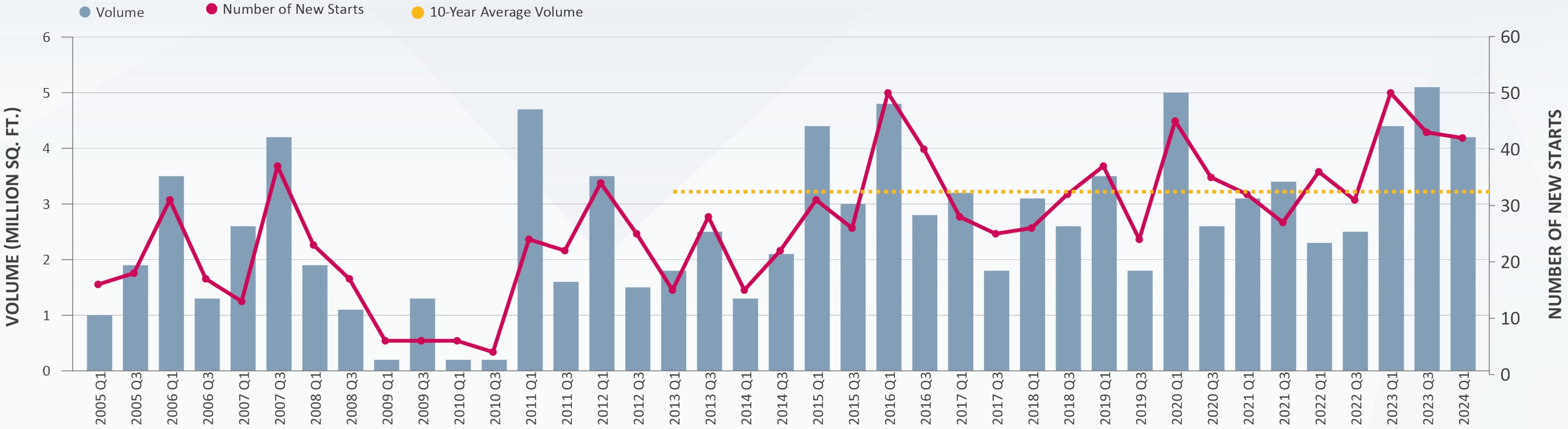
Private Industrial and **Housing** fuel Q2 growth while **Infrastructure lags** behind

Tightening energy standards support **commercial office refurbishment activity**

Source: *ONS*

DELOITTE LONDON OFFICE CRANE SURVEY: SUMMER 2024

CENTRAL LONDON: VOLUME AND NUMBER OF NEW STARTS PER SURVEY



Volume of **new starts dips 18%** but remains above 10-year average

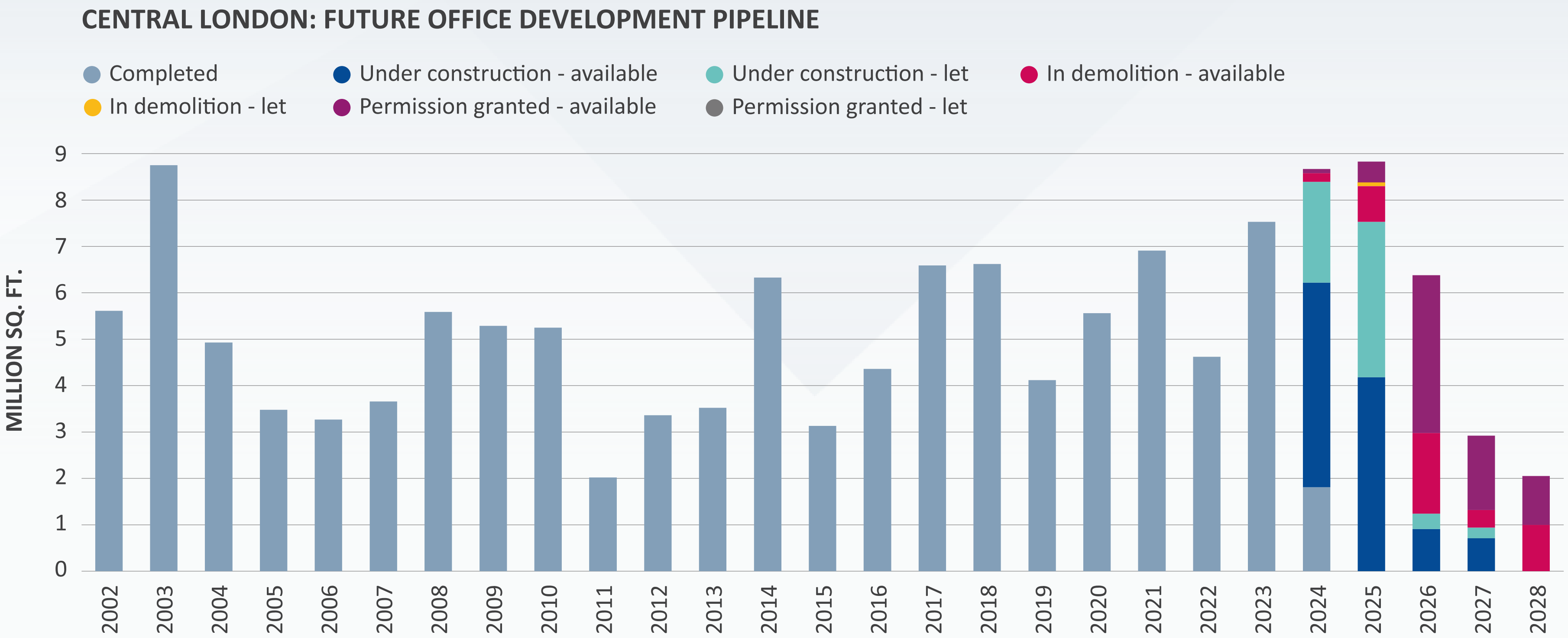
4.2 million sq ft starting across **42** schemes

Of the **4.2 million sq ft** of new starts, **3.2 million sq ft** is available, meaning **24%** was pre-let. The financial sector occupied **56%** of the pre-let space

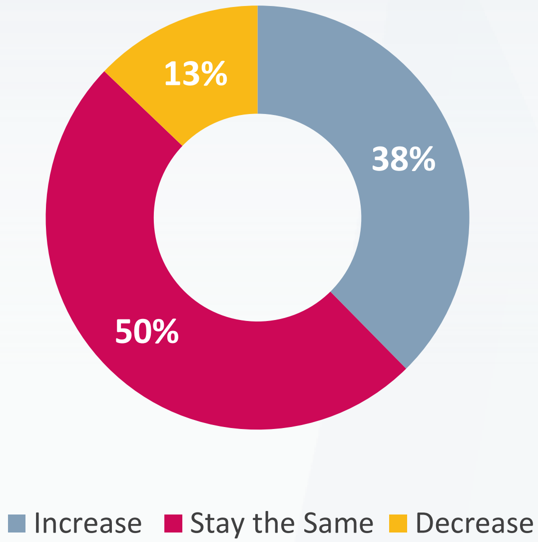
Tightening of **Minimum Energy Efficiency Standards (MEES)** and occupier **demand for premium space** drive activity

Source: *Deloitte*

DELOITTE LONDON OFFICE CRANE SURVEY: SUMMER 2024



Compared with the last six months, how do you expect your pipeline to change in the next six months?



7.5 million sq ft completed in **2023** – the **second highest annual completion volume** since 2002

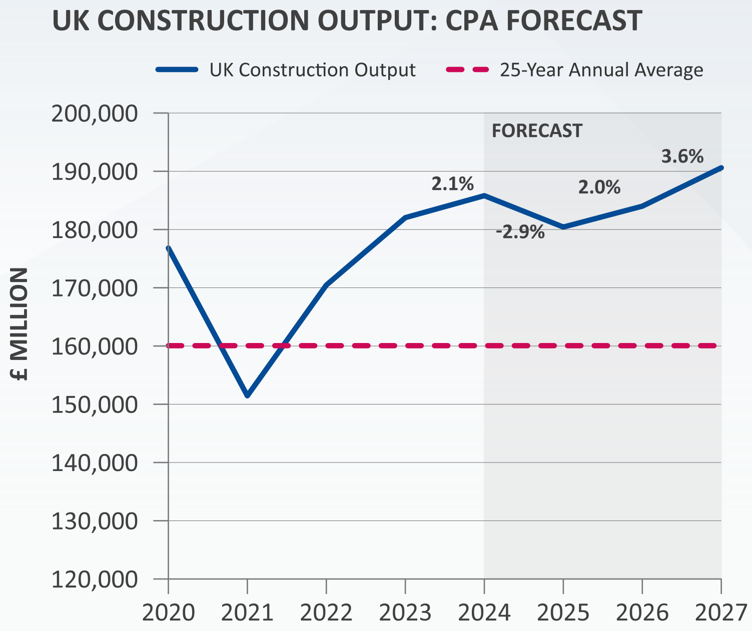
1.8 million sq ft of office space delivered so far in **2024**, with a further **6.9 million sq ft expected to complete**

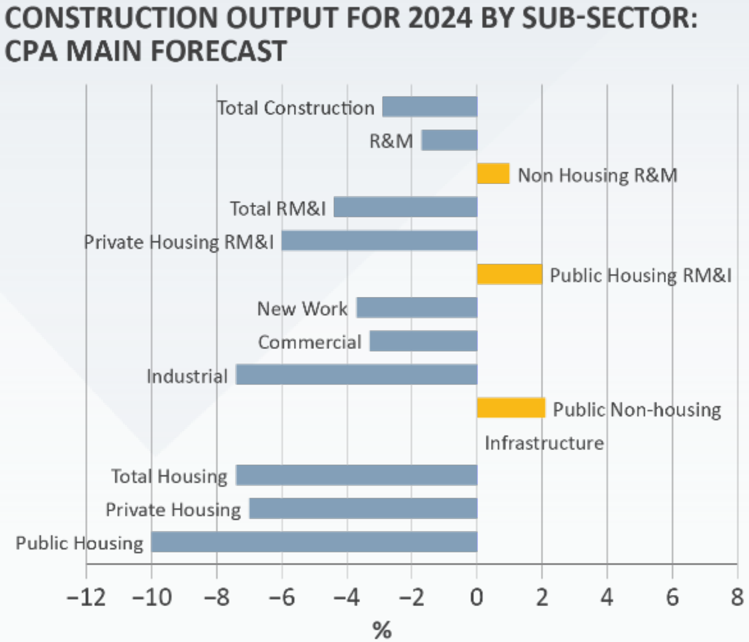
8.8 million sq ft expected to deliver in **2025**, but **delays will likely push back completion dates**

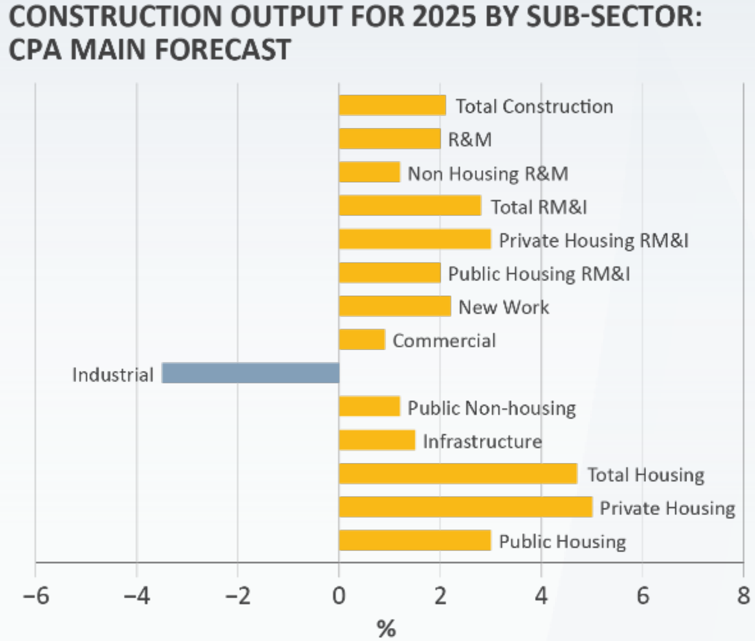
50% of developers expect **no change in their pipeline**, while over a **third anticipate growth**, indicating market confidence

Source: *Deloitte*

CPA CONSTRUCTION INDUSTRY FORECASTS 2024-2026







Construction output forecast to fall 2.9% in 2024 – a downgrade from the CPA's previous forecast

2024 Outlook

- Residential recovery pushed back
- Benefits of post election certainty
- Cautious stance on interest rates
- Building Safety Act uncertainty
- Planning constraints to be addressed
- Both positive and negative key risks to forecasts

Source: *Construction Products Association (CPA)*

02

INPUT COST TRENDS – MATERIALS, COMMODITIES & LABOUR

INPUT COST DRIVERS: SUMMARY

MATERIALS

Inflationary pressures building

- Potential risk of increases due to ongoing distribution challenges and an uplift in global demand.
- Manufacturers continue to push historical input cost inflation, passing on price increases, although some material costs have reduced

LABOUR

Wage Pressures moderate

- Softer demand sees earnings growth fall below long-term average
- Resource concerns rise amid workforce capacity decline and potential recovery

CONTRACTOR CAPACITY

Short-term pipelines remain robust

- Slower new order growth creates workload gaps, but insolvencies and business changes reduce overall capacity
- Political certainty and hope of lower interest rates boost contractor confidence in workload growth

INPUT COSTS: MATERIAL PRICES

DBT: 'ALL WORK' CONSTRUCTION MATERIAL PRICES INDEX, UK

DBT 'ALL WORK' INDEX

-2.2% ▼

(Jun 23 – Jun 24)

MATERIAL PRICES:

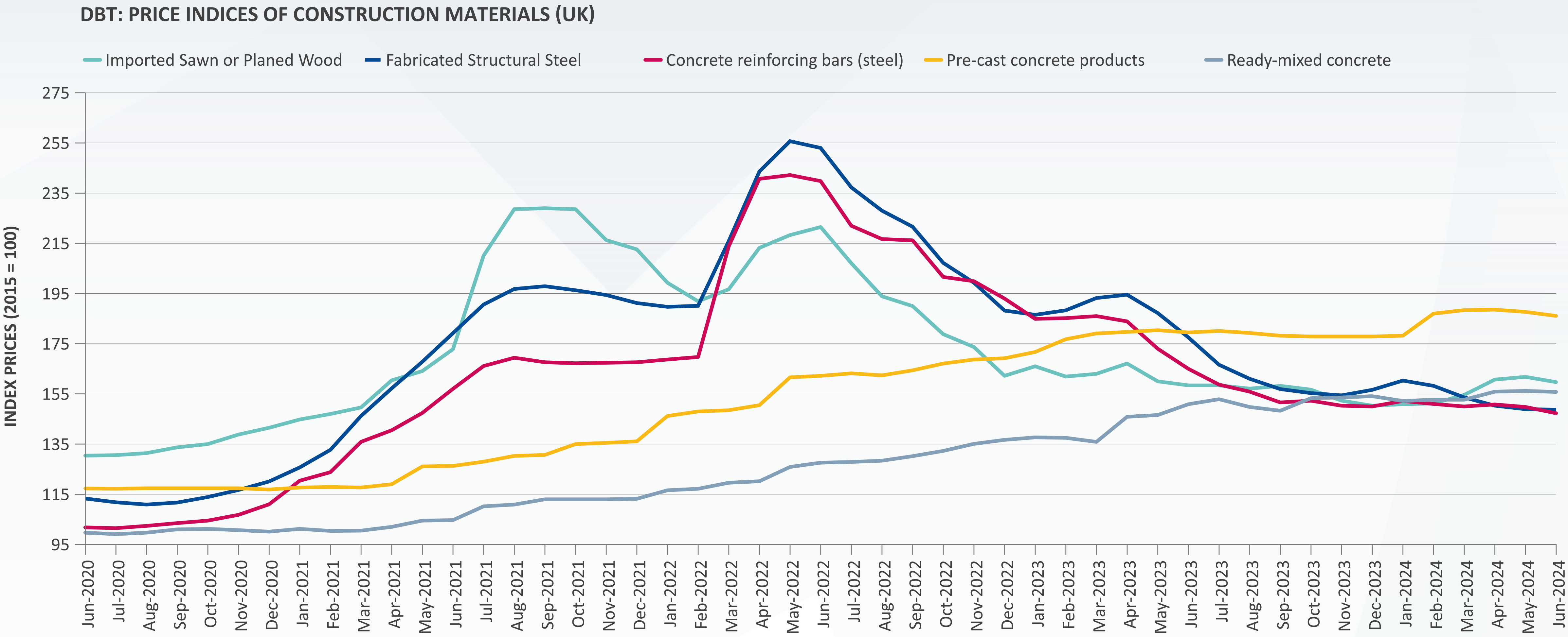
+39.2% ▲

Higher Relative to Early 2020 Levels (Pre-Pandemic)

Pressure builds on materials prices as upside price risks intensify...

Source: *Department for Business and Trade (DBT)*

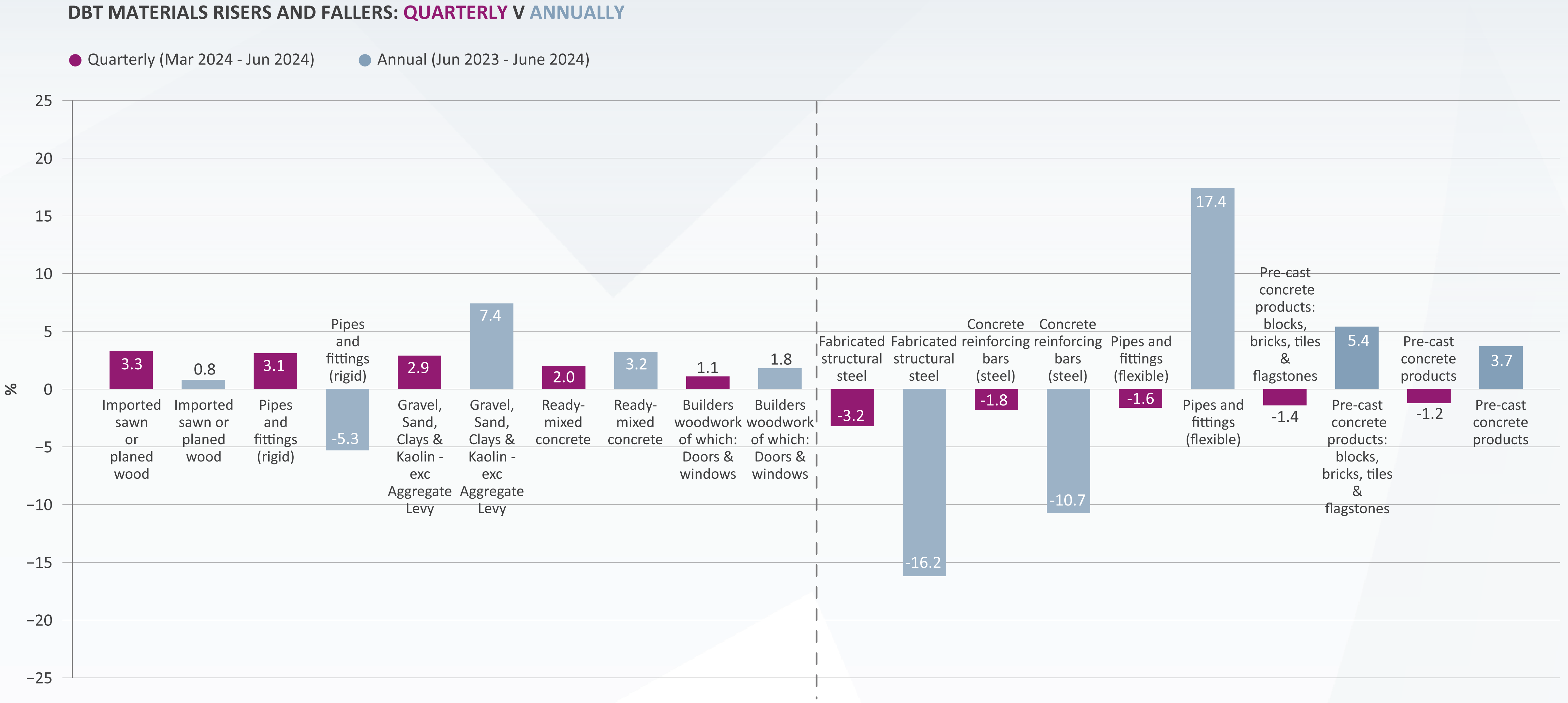
INPUT COSTS: MATERIAL PRICES



Pricing trends to vary widely across product categories as supply and demand fluctuates…

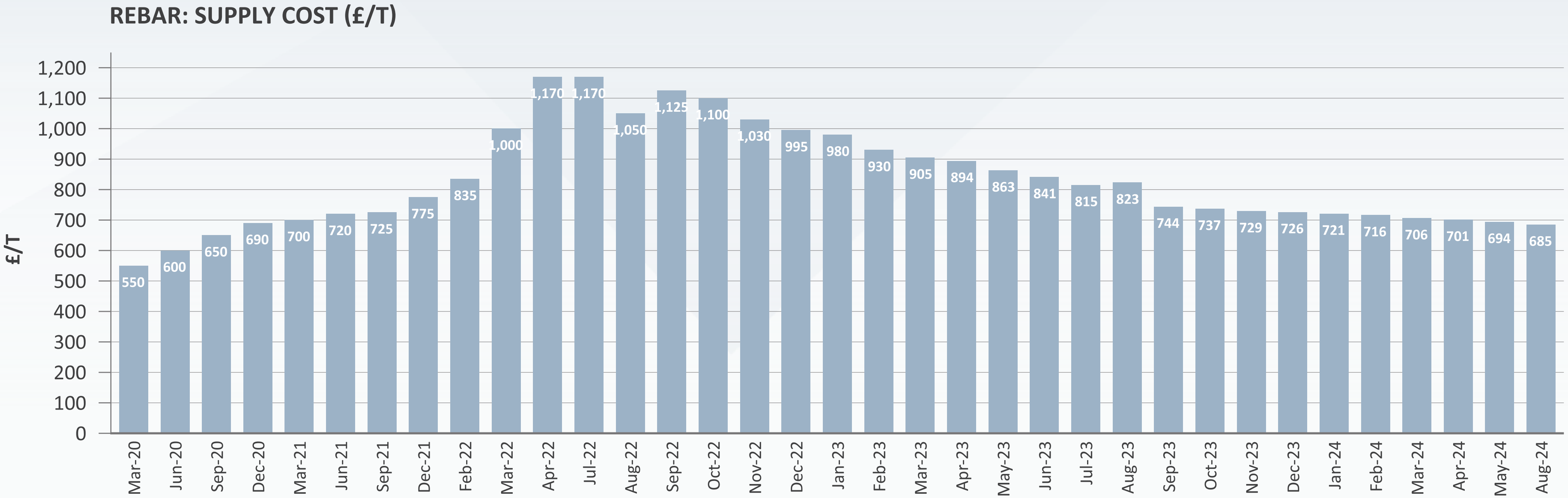
Source: *[Department for Business and Trade (DBT)]*

MATERIALS: RISERS & FALLERS



Source: Department for Business and Trade (DBT)

STEEL PRICE TRENDS



REBAR SUPPLY COST*

-1.3%

From **£694/t** *(in May 2024)*
to **£685/t** *(in Aug 2024)*

STRUCTURAL STEEL SUPPLY COST

+3.3%

from **£750-780/t** *(in May 2024)*
to **£780-800/t** *(in Aug 2024)*

Steel prices stabilising after two-year decline…

Weak short-term global **demand outlook**

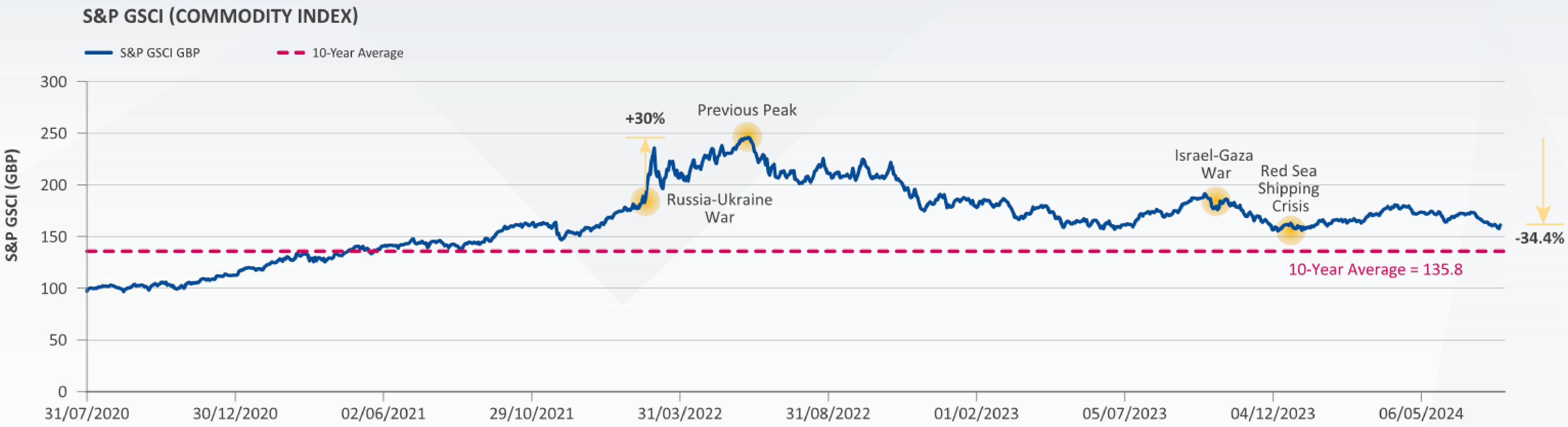
Falling iron ore prices partly **offset** by **rising coal** and **energy** costs

Manufacturer **price increases yet to fully reach stockists**

Blast furnace closures to **cut steelmaking capacity** and boost **reliance on imports**

**Data shows average supply cost of cut & bent rebar for a tonnage range 1-1,000 tonnes*

GLOBAL COMMODITY MARKET TRENDS



Global commodities stabilise but prices remain elevated above the 10-year average…

Balanced supply and demand leads to more **stable pricing**

Resilient **global economy** raises **demand outlook**

Copper prices tumble from record high following sell-off

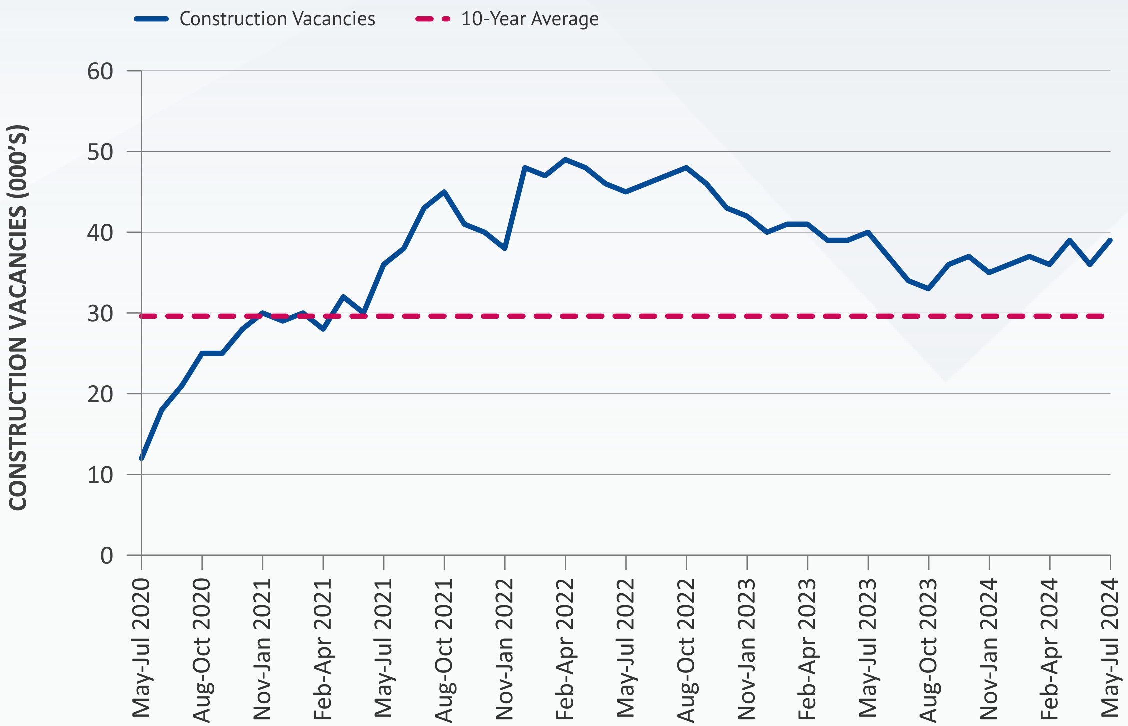
Geopolitical tensions remain a key risk to commodity price outlook

Tailwinds from **lower interest rates, solid demand** and ongoing **supply constraints**

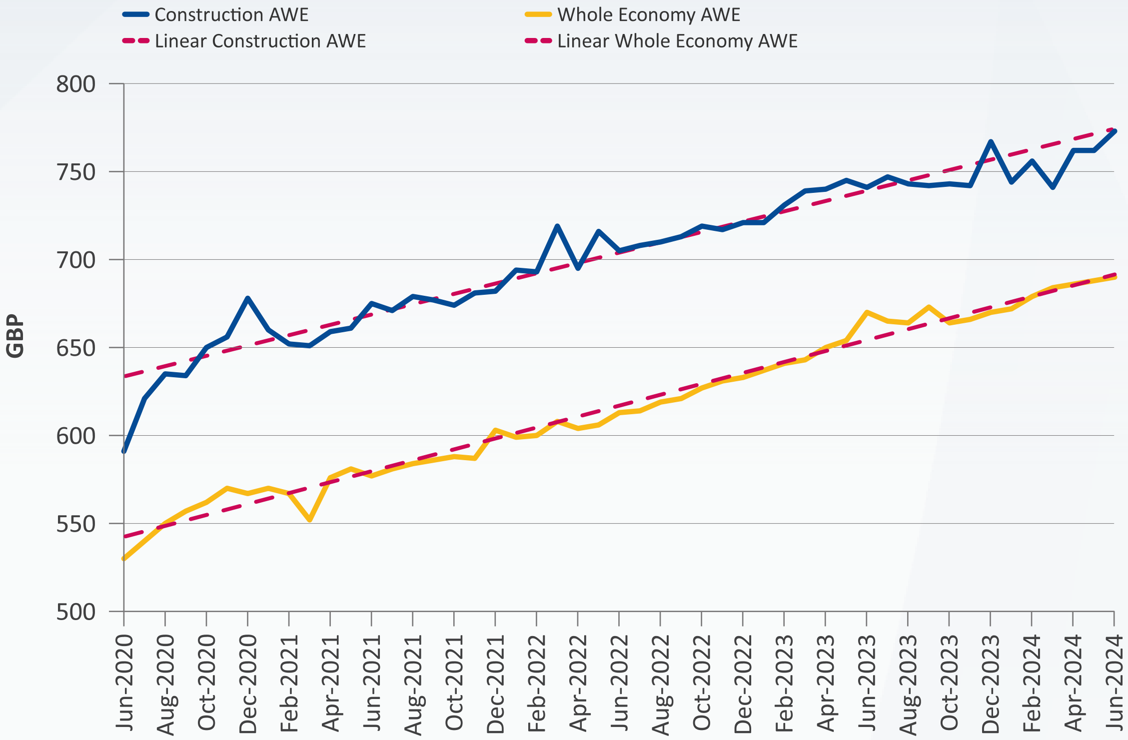
Source: *S&P Global*

LABOUR

VACANCIES IN CONSTRUCTION (SA)



AVERAGE WEEKLY EARNINGS (UK CONSTRUCTION) SEASONALLY ADJUSTED



Vacancies remain above 10-year average as firms plan staffing expansion on optimistic workload projections

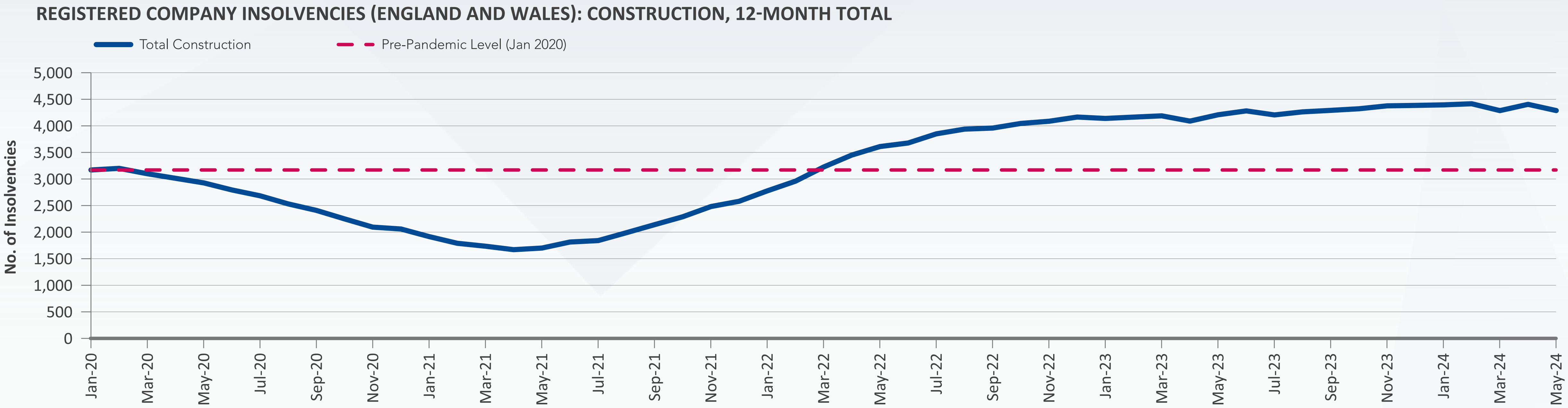
Construction wage growth picks up as demand for limited pool of labour puts upward pressure on costs

Source: ONS

03

MARKET TRENDS: INSOLVENCIES, MEP PRESSURES & NEW GOVERNMENT

RISK MANAGEMENT: CONSTRUCTION INSOLVENCIES



Insolvencies have surged since mid-2020, driven by historic cost inflation and slowing construction activity…

4,287 construction firms went out of business in the year to May 2024 – **1.9%** higher than a year ago

UK construction insolvencies in **May 2024** were **35.2% higher** than **January 2020,** pre-pandemic

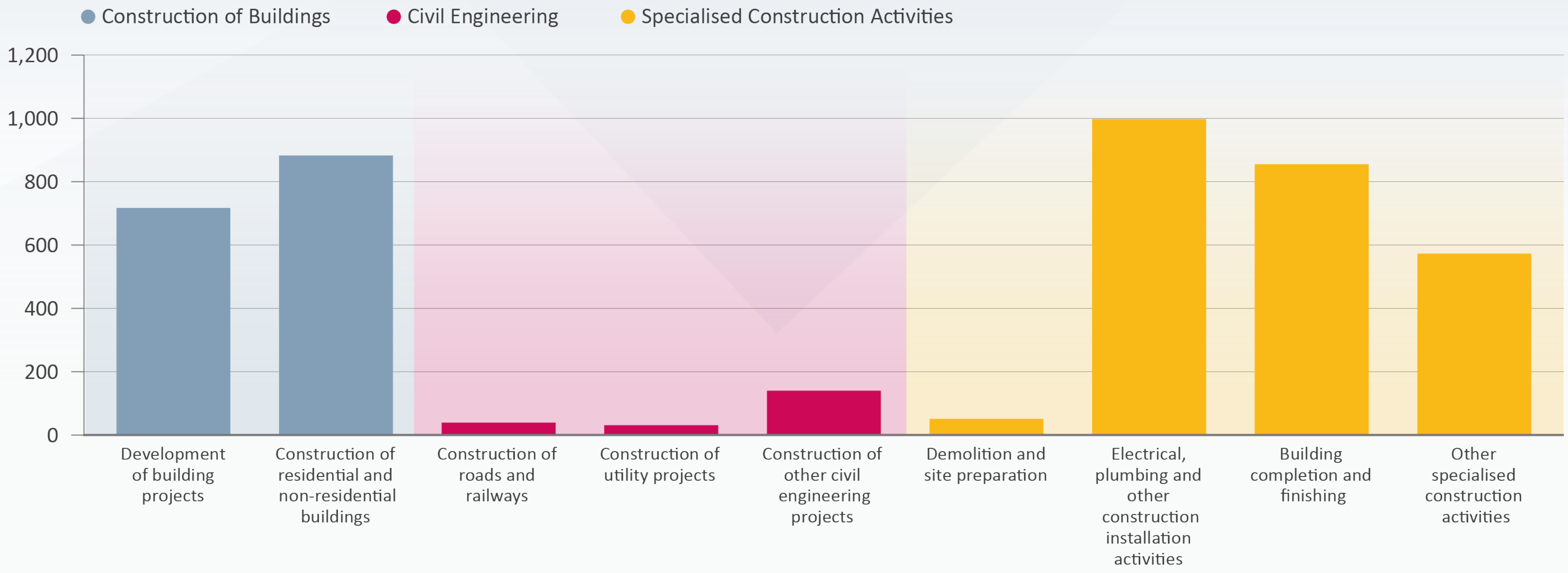
Q2 2024: **6,043 c**onstruction firms in **'critical financial distress' – highest across all sectors** (Begbies Traynor)

Signs of **insolvencies plateauing** amid potential relief

Source: *The Insolvency Service, Begbies Traynor Group*

RISK MANAGEMENT: CONSTRUCTION INSOLVENCIES

CONSTRUCTION INSOLVENCIES IN ENGLAND AND WALES BY TYPE: YEAR TO MAY 2024



INSOLVENCIES BY TYPE (YEAR TO MAY 2024)

Construction of Buildings

37%

Civil Engineering

5%

Specialised Construction Activities

58%

Smaller firms offering specialised construction activities **account for most insolvencies** over past year

Demolition and **groundworks** contractors **show resilience** amid high insolvency rates

Main Contractors also face **financial pressure** from **fixed-price contracts** and **delayed payments**

Publicly funded civil engineering projects offer **financial stability** and **lower insolvency risks**, ensuring steady revenue

Source: *The Insolvency Service, Begbies Traynor Group*
Note: Q1 2024 insolvency data is based on actual data from Jan and Feb 2024, with a March forecast based on 2023 figures

THE CHANGING LANDSCAPE OF THE M&E MARKET

M&E supply chain contending **with capacity issues** and **strong industry demand** from **certain buoyant sectors…**

DEMAND LED CHANGE

- More complex, integrated MEP installations - decarbonisation agenda driving requirements
- MEP intensive projects (ie Data Centres and Life Science) absorbing market capacity

SUPPLY LED CHANGE

- Loss of Tier 1 capacity and supplier consolidation impacting the market
- Red Sea conflict drives up shipping costs and transit times for MEP materials from Asia

PRICE IMPACT

- Ongoing pressure on specialist MEP packages
- Enhanced MEP preliminaries to de-risk projects and limited design deliverables
- Impact of copper price surge on MEP plant and materials becoming evident

MITIGATION

- Proactive planning and tender list selection to reflect the live market push and pull
- Early design stage involvement of selected MEP contractors, potential MEP PCSA

READ OUR LATEST M&E SURVEY

NEW GOVERNMENT:
WHAT DOES THIS MEAN FOR UK CONSTRUCTION?

Labour's Reforms and **Funding** to **Boost Private Sector Investment** in **Construction…**

HOUSING & PLANNING

- Update NPPF, restore housing targets
- 1.5 million homes over five years
- 300 new planning officers
- Brownfield first, release ‘grey belt’ land
- Raise quality, sustainability and design standards

CLEAN ENERGY

- £8.3bn investment into UK energy sector
- £6.6bn for home energy upgrades
- Complete Hinkley Point C, expand SMRs
- Ban fracking, no new coal licences, National Grid upgraded

INFRASTRUCTURE

- Establish NISTA for streamlined project delivery
- Nationally Significant Infrastructure Projects redefined
- Public ownership of railways
- New public charging infrastructure

SKILLS

- Upskilling resident workers
- Maintain points-based immigration
- Reform apprenticeship levy and launch ‘Skills England’
- Review impact of higher minimum salaries for sponsored overseas workers

04

TRENDS IN KEY TRADES

KEY TRADE ANALYSIS – OVERVIEW

Low Pressure → **High Pressure**

COMPETITIVE

- Demolition/Enabling Works
- Earthworks
- Substructure

BALANCED/STABLE

- Carpentry/Joinery
- Finishes
- Drylining
- Preliminaries
- OH&P
- Steelwork
- Concrete

HIGHER INFLATION TO COME

- MEP
- Lifts
- Façades

05

MARKET CONDITIONS

READ OUR LATEST TPI REPORT

MARKET CONDITIONS

In our latest TPI, we noted the following market conditions in the UK construction sector:

Interest rate cuts to **improve development feasibility** and **demand conditions**

Increased market activity **not yet translating** into substantial development commitments

Contractor capacity constraints pose risks to future workload expansion

Planning regime reform to kickstart **new development**

Contractors seek to **fill 2025 pipeline** but **stay selective**, anticipating **new opportunities**

Ongoing price pressures in the **Tier 1 MEP supply chain**

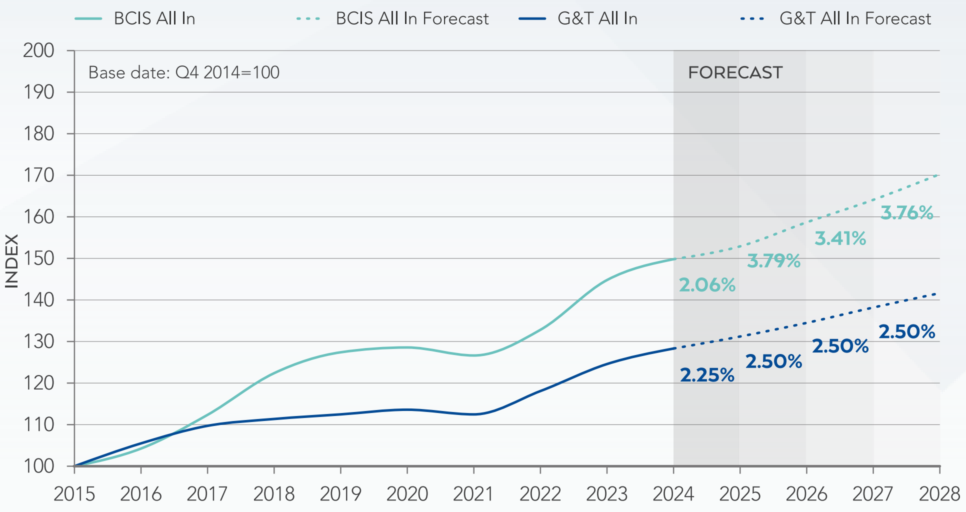
Sector-specific market conditions drive contractors to **high-demand opportunities**

Tightening of **energy efficiency standards** driving commercial refurb activity

Note*: See G&T's Q2 2024 TPI report for a more detailed analysis and insights into how market conditions are driving tender price inflation.*

TPI Q3 2024: OVERVIEW

TENDER PRICE TREND 'ALL UK TPI'



TENDER PRICE ANNUAL PERCENTAGE CHANGE Q3 2024

%	2024		2025		2026		2027	
Regional forecasts	**Now**	**Last***	**Now**	**Last***	**Now**	**Last***	**Now**	**Last***
Greater London	2.25	2.00	2.75	2.25	2.75	2.50	2.50	2.50
South East	2.25	2.00	2.75	2.25	2.75	2.50	2.50	2.50
South West	2.50	2.00	2.50	2.00	2.50	2.00	2.50	2.00
East (Anglia)	3.00	2.50	3.00	2.50	2.75	2.50	2.50	2.50
Midlands	2.25	2.00	2.50	2.00	2.75	2.50	3.00	2.50
Wales	2.00	2.00	2.00	2.00	2.25	2.25	2.50	2.50
Yorks & Humber	2.00	2.00	2.50	2.00	2.50	2.25	2.75	2.25
North West	2.50	2.00	2.50	2.00	2.50	2.00	2.25	2.25
North East	2.00	2.00	2.00	2.00	2.50	2.25	2.50	2.50
Scotland	2.75	2.75	2.50	2.50	2.50	2.25	2.50	2.25
Northern Ireland	2.25	2.25	2.00	2.00	2.50	2.50	2.50	2.50
UK Weighted Average	**2.25**	**2.00**	**2.50**	**2.25**	**2.50**	**2.25**	**2.50**	**2.50**

Our forward forecasts show annual tender price inflation (Jan-Dec)

Last* **2Q 2024**

UK AVERAGE

Tender Price Forecast (2024)

2.25%

LONDON

Tender Price Forecast (2024)

2.25%

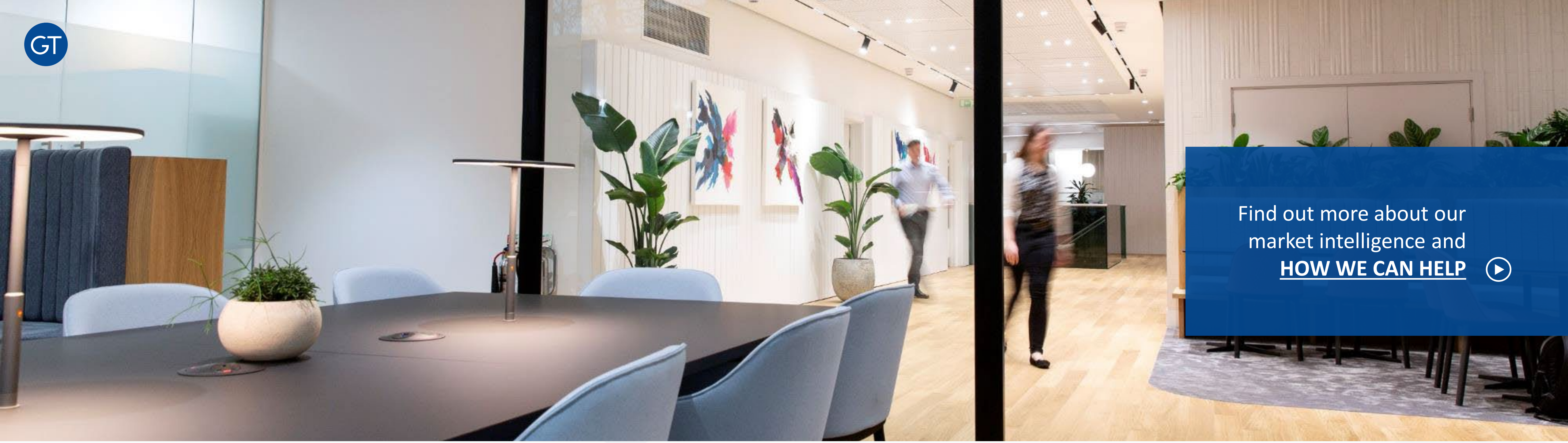
As interest rate cuts and anticipated planning reforms fuel hopes for a construction revival, inflationary pressures could reemerge…

If the brighter growth outlook leads to a surge in construction activity, a key concern is whether reduced contractor capacity – diminished by insolvencies – can keep pace with rising demand. With constrained resource and recovering demand, G&T has increased its tender price forecasts to reflect these pressures on costs.

***Please note**: G&T's TPI forecasts take account of all sectors and project sizes as a statistical average, indicating an overall trend in pricing levels. Individual projects may experience tender pricing above/below the published average rate, reflecting the project specific components and conditions.*

06

KEY TAKEAWAYS



Find out more about our market intelligence and **HOW WE CAN HELP**

KEY TAKEAWAYS

Interest rate cut hopes: a **catalyst** for **investment confidence** and **project viability**

Could a **recovery stoke** further **inflationary pressures?**

Reduced contractor capacity may **limit competition** and **hinder future workload** growth

Policy changes to **unlock development opportunities**

GT GARDINER &THEOBALD