

TENDER PRICE FORECAST

for 2nd Quarter 2024 is...

2.00%

Annual UK Average

◀ compared to 2.00% Annual UK Avg. for Q1 2024

Construction costs are still high but stabilising, reflecting overall inflation trends in the economy. Contractor pricing has become more consistent since 2023, overcoming material cost peaks. However, inflationary pressures persist due to a tight labour market, pressures in certain key trades, and geopolitical factors posing an upside risk on imported materials.

KEY CONTACTS

GAVIN MURGATROYD Partner
+44 (0)20 7209 3000 | g.murgatroyd@gardiner.com

MICHAEL URIE Senior Market Analyst
+44 (0)20 7209 4362 | m.urie@gardiner.com

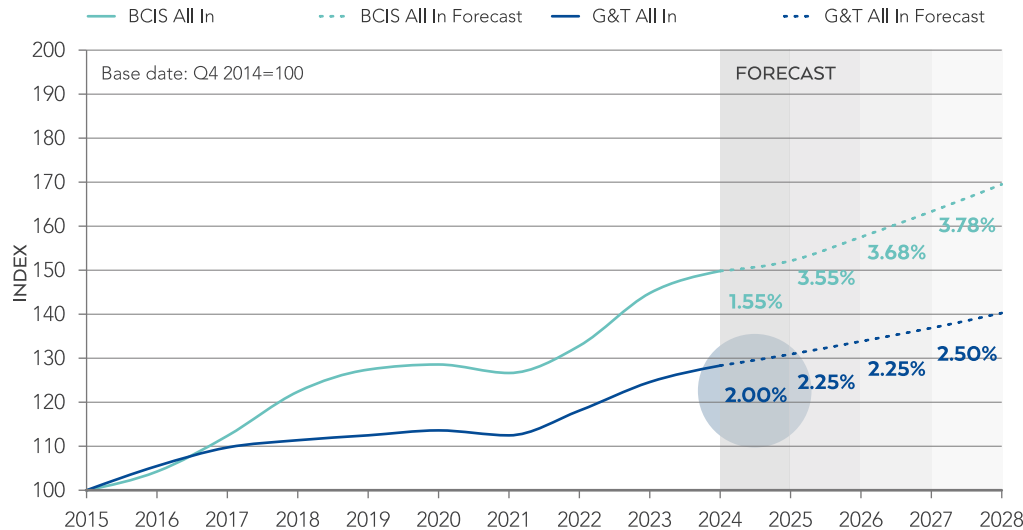
TENDER PRICE ANNUAL PERCENTAGE CHANGE Q2 2024

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

Last* 1Q 2024

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

TENDER PRICE TREND 'ALL UK TPI'



HOW DO WE REACH OUR TENDER PRICE FORECAST?

We conduct a detailed industry survey and consider factors including...

INPUT COSTS

- ▲ 8.1% BCIS Labour Cost Index Mar 23 – Mar 24
- ▲ 6.6% BCIS Plant Cost Index Mar 23 – Mar 24
- ▲ 3.3% BCIS M&E Cost Index Mar 23 – Mar 24
- ▼ -19.5% Fabricated Structural Steel Mar 23 – Mar 24
- ▼ -18.7% Concrete Reinforcing Bars (Steel) Mar 23 – Mar 24
- ▼ -5.6% Imported Sawn or Planed Wood Mar 23 – Mar 24
- ▲ 12.4% Ready Mixed Concrete Mar 23 – Mar 24
- ▲ 9.5% Oil Prices (Brent Crude) Mar 23 – Mar 24

KEY

Input to tender price movement of a typical project has a range of contributory impacts from:

- High Cost Driver
- Medium Cost Driver
- Low Cost Driver

MACRO ECONOMICS

Unless otherwise indicated, figures show annual growth rates. Arrows indicate the direction of change compared to our previous TPI.

- ▲ 0.2% UK GDP Annual Growth Rate Q1 2023 – Q1 2024
- ▼ 3.2% CPI Mar 2024 12-month rate
- ▼ 4.3% RPI Mar 2024 12-month rate
- ◀ 5.25% UK Base Interest Rate May 2024
- ▲ 4.3% UK Unemployment Rate Dec 2023 – Feb 2024
- ▼ 5.7% UK Wage Growth Average Weekly Earnings (Total Pay) Y-on-Y three-month average to Mar 2024
- ▼ 2.1% UK Construction Wage Growth Average Weekly Earnings (Total Pay) Y-on-Y three-month average to Mar 2024

Our Tender Price Inflation report looks at the movement of prices in tenders for construction contracts in the UK. The report examines a number of contributing factors and is further informed by our market survey and supply chain consultations. This forward forecast illustrates our view of annual tender price inflation from January to December 2024 and beyond.

OUR FORECASTS

Many in UK construction continue to wait with bated breath for a much hoped for fall in interest rates. With development viability considerations still front and centre, a reduction in financing costs may be the key to unleash demand and move projects out of their current holding pattern.

High interest rates and elevated construction costs have made it difficult for development appraisals to stack up. This is reflected in subpar new order growth and slowing output levels on site. With construction input price inflation softening and a steadier economic outlook emerging, borrowing conditions are, for some, the last remaining barrier. The lag between Bank of England rate cuts and the availability of debt finance in the market suggests the construction industry's problems won't be resolved overnight. However, the initial rate cut could serve as an early indicator of a nascent recovery.

Election-related uncertainty and poor weather have stalled construction activity in recent months. Ongoing geopolitical tensions, with the potential to stoke further price pressures, have also caused some hesitation. However, sentiment in the industry appears to be improving. After lingering in negative territory for six months, the latest PMI reading consolidated its recent return to growth. Improved demand prospects stemmed from increased workloads and stronger business optimism.

While a recovery is not yet guaranteed, there have been some positive developments. Softer construction cost inflation, improving contractor capacity and a growing focus on and investment in improving the carbon/energy credentials of buildings are all encouraging. The Bank of England has also signaled that it is "edging closer" to cutting

borrowing costs, contingent upon sustained low inflation. This sets the stage for a prospective recovery, possibly emerging later this year or in early 2025.

Against this backdrop, we forecast UK tender price inflation will remain below the long-term average this year, standing at 2% across all regions. However, there are several upside risks. Spiking costs in MEP and concrete packages are being closely monitored, along with ongoing labour rate pressures, although these are lessening as capacity improves. Heading into 2025, with the election concluded and project funding facilitated by lower interest rates, we may see upward pressure on tender prices as contractors contend with higher demand. Consequently, we anticipate tender prices rising to 2.25% in 2025, as they gradually edge closer toward the longer-term average.

All forecasts in this report take account of all sectors and project sizes as a statistical weighted average, indicating an overall trend in pricing levels. It should be remembered that individual projects may experience tender pricing above or below the published average rate, reflecting the project specific components and conditions.

THE ECONOMY

Having emerged from a shallow, technical recession at the end of 2023, underlying momentum in the economy is gradually building.

Prospects for 2024 appear a little brighter but according to some, growth will remain sluggish by historical standards. The OECD, for example, forecasts GDP will grow by just 0.4% this year. This was blamed on the after-effects of a succession of interest rate rises in the UK. The policy uncertainty inherent to elections and the possibility of leadership change could pose a

modest headwind to investment and growth. CPI – the headline measure of UK inflation fell to 3.2% in March – the lowest since 2021. A big drop in energy bills in April will drag inflation noticeably lower, but the volatile situation in the Middle East could throw a spanner in the works, potentially pushing fuel, transport and the cost of some imported goods higher.

The Bank of England (**BoE**) held the base rate at 5.25% in May but signaled it is edging closer to cutting borrowing costs. Economic indicators (ie inflation and jobs data) remain consistent with the BoE being able to cut interest rates soon, with the first cut expected in the summer, but the bank wants to see more that evidence inflation will stay low on a sustainable basis. Nonetheless, Governor Andrew Bailey said he is "optimistic that things are moving in the right direction".

After a tough couple of years, the economy appears to have turned a corner. It has managed to navigate the energy crisis and period of rapid monetary tightening without experiencing a protracted downturn. Consumer and business confidence is rising (according to the latest set of sentiment-based PMI surveys) and the hope is that if momentum can be sustained, the economy will return to a more normal rate of growth.

CONSTRUCTION OUTPUT AND NEW ORDERS

Construction output – a measure of the value of work being completed on site – fell 0.9% in Q1. This was the second consecutive quarter of contraction. The drop in Q1 came solely from a decrease in new work (-1.8%), as repair and maintenance output increased by 0.3%.

The ongoing impacts of high interest rates, elevated construction costs and election-related uncertainty all weighed on output growth. Anecdotal evidence also suggested that heavy rainfall decreased output and delayed work in the quarter, according to the ONS.

The latest set of growth forecasts from the Construction Products Association (CPA) suggest construction output will fall from its peak in 2023, with a projected 2.2% decrease this year. Output levels in all but three sectors are expected to fall away this year. Housing – the largest sector – will continue to act as a major drag on overall growth.

However, there is optimism for a U-shaped recovery, with total output forecast to grow 2.1% in 2025 and 3.6% in 2026 – largely driven by the impact of falling interest rates and improving economic prospects. Only the industrial sector is forecast to contract in 2025. All other sectors are expected to see single digit (YoY) growth.

Meanwhile, new order growth – a measure of the value and volume of new orders received by main contractors – bounced back in Q1 2024, increasing by 16% to £10.4bn. This quarterly increase came mainly from private commercial new work and public other new work, which increased 28% (£700m) and 44% (£536m), respectively. New housing continued to be a drag on growth, but this was solely from a 54% drop in public housing new orders. Private new work rose by 5.3% on the previous quarter.

With new orders falling below the five-year average in Q1, it's clear that clients are adopting a cautious stance. Despite a softening in on-site cost pressures, tougher borrowing conditions and reduced access to credit continue to affect project commitments. Although the partial rebound in new order growth in Q1 was encouraging, several ongoing variables may constrain further growth.

G&T TPI SURVEY FEEDBACK

Workload

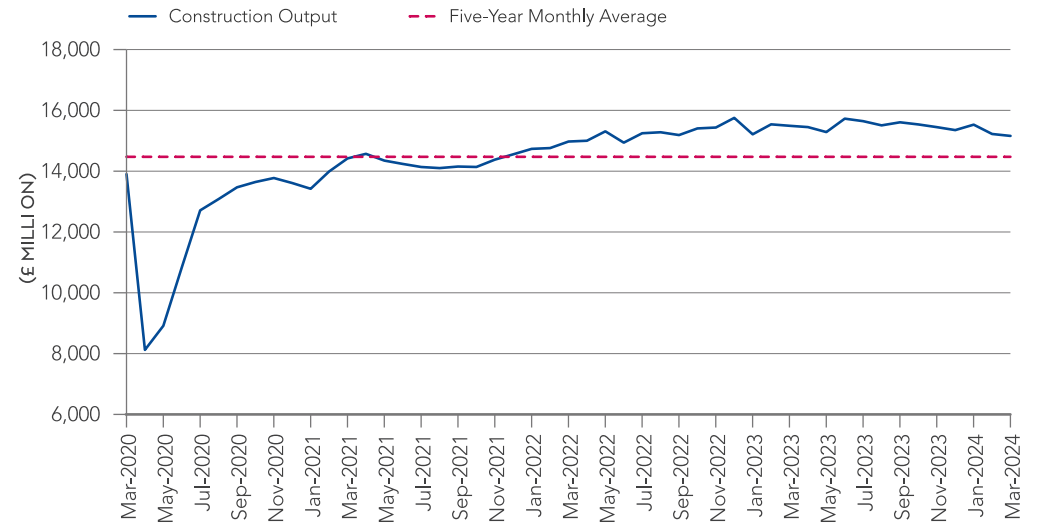
Based on our latest TPI survey, improving client confidence signals the potential for forward pipeline growth. But unless this renewed confidence translates into the procurement of actual work on site soon, construction faces the prospect of a workload slump.

Currently, workloads are heavily concentrated in a handful of active sectors, notably data centres, life sciences, commercial office refurbishment and fit-out. These sectors are poised to provide an outsized stream of workload for the foreseeable future. Other sectors, such as residential and industrial, are increasingly feeling the impact of weaker forward pipelines. This lull in activity has prompted greater keenness from contractors tendering on projects in these sectors.

Despite some projects in pre-construction being paused, clients are showing increased optimism toward potential new schemes. Appetite for new work is improving and more opportunities are re-circulating the market. While new enquiries are steady, they remain below the levels of growth seen during the post-pandemic bounce back. Nonetheless, G&T continues to receive numerous requests of early budget and feasibility estimates.

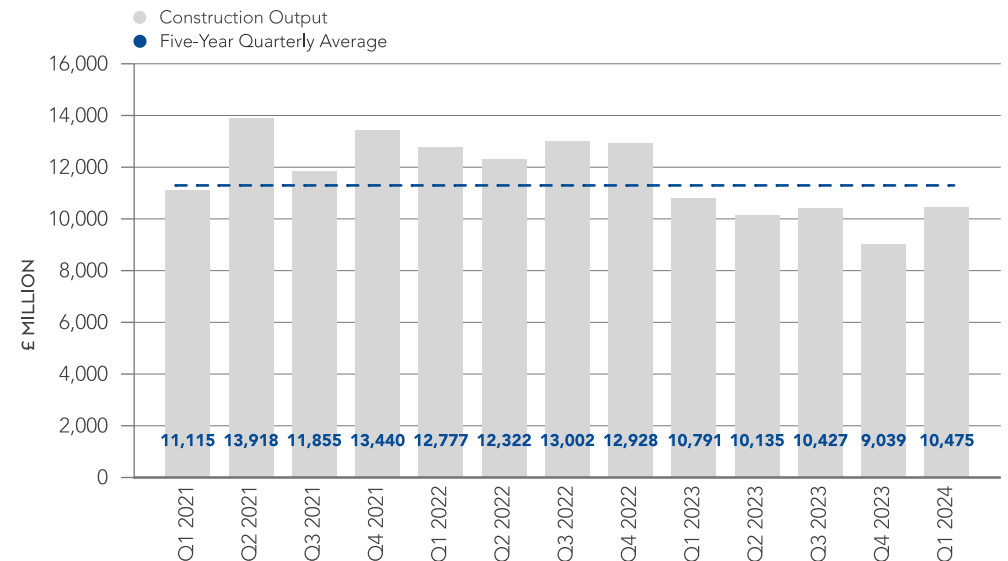
CONSTRUCTION OUTPUT: ALL WORK

Seasonally adjusted



Source: [ONS](#)

UK CONSTRUCTION: NEW ORDERS (ALL NEW WORK)



Source: [ONS](#)

Undoubtedly, a significant long-term catalyst for workload growth is the net zero carbon agenda, spurring demand for new sustainable construction and refurbished space. Developers are keen to keep up with this trend, which is expected to further propel workload expansion across the industry.

Market Conditions

Perceptions of market conditions experienced a subtle shift in Q2 2024, as indicated by our survey. Most remained neutral or had a slight lean towards the negative in their assessment of market activity and the competitive landscape – a trend perhaps influenced by the significant variation in market activity across different sectors. However, there was an uptick in the proportion of respondents (from 14% to 22%) noting increased market activity (and tendering passivity) since Q1 2024.

Whether this suggests momentum is building towards a recovery and market conditions are normalising remains to be seen. Much depends on the interest rate cutting cycle and how risk averse the industry remains in light of several market pressures.

The recent rise in activity in the market is not yet translating into substantial development and construction commitments. Many projects have embraced a 'wait-and-see' approach or a 'pause-and-continue' strategy, waiting for market and financial conditions to improve.

While showing signs of improvement, a general lack of capacity persists, maintaining the view that it's a suppliers' market. Contractors, while eager to secure projects for 2025 and beyond, continue to exercise caution and selectivity in their bidding decisions. Concerns about the prevalence of insolvencies within the supply chain loom large, prompting many contractors to proceed with extreme caution.

Against a backdrop of weaker new order growth, some clients anticipate greater hunger to secure work. The hope is that fewer tendering opportunities should lead to more competitive pricing. However, the picture is more nuanced than this. Many contractors have chosen to diversify, shifting their focus to where demand is high (ie data centres and life sciences) to spread their risk and open themselves up to more potential opportunities. Bid lists are therefore healthier in these sectors but this has made it more challenging to secure tenderers on projects in the more traditional, but presently less active, sectors (ie residential and new build commercial office).

Ultimately, until interest rates begin to fall, financing for new developments across all sectors will likely remain constrained. Nevertheless, market sentiment is slowly improving and hopes of a turnaround in the construction industry are gaining traction.

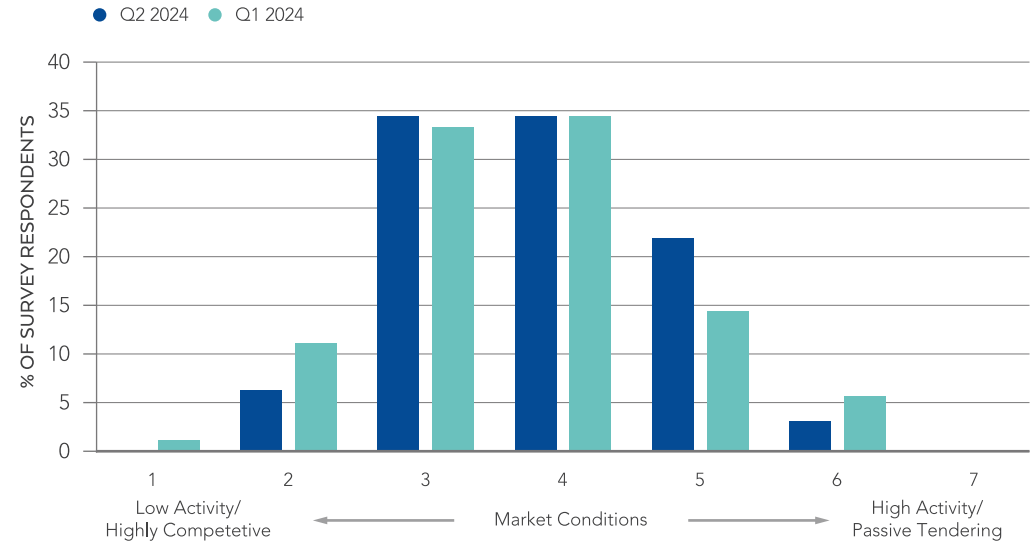
INPUT COSTS

Key Inflationary Drivers

A comparison of various BCIS input cost indices indicates that labour will once again be the main driver of construction costs in 2024. While materials and plant costs have stabilised, returning to long-term annual average inflationary trends, the projected 6% rise in the BCIS' labour cost index this year is above trend.

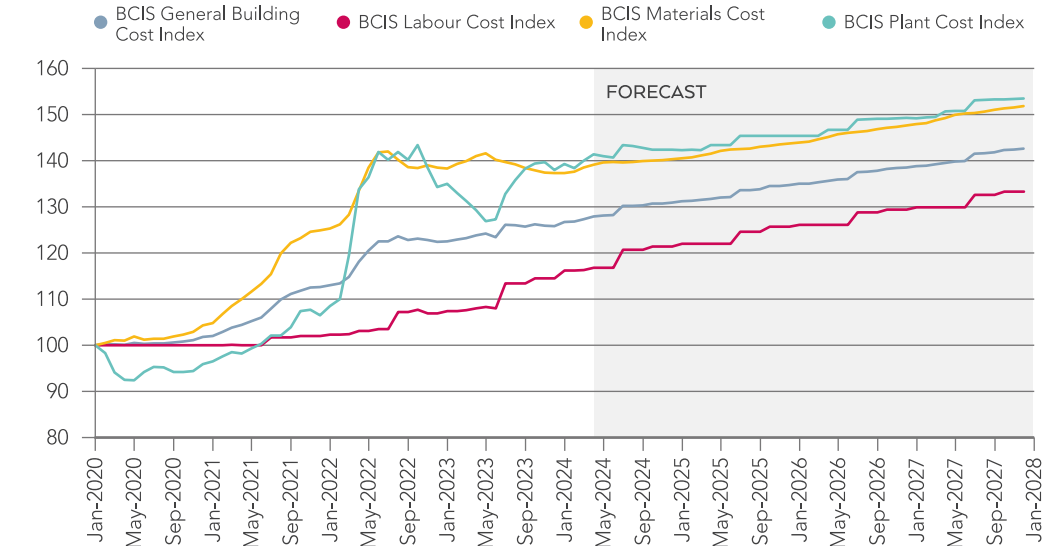
Although construction costs remain elevated input pressures are easing, mirroring the headline measure of inflation in the UK economy. Contractor pricing has become more consistent compared to 2023 and tenders are being held subject to lower inflationary allowances.

PERCEPTION OF MARKET CONDITIONS OVER THE NEXT SIX MONTHS (LONDON)



Source: G&T Q2 2024 TPI Survey

BCIS INPUT COSTS



Source: BCIS

Nonetheless, certain inflationary pressures (ie global conflict, supply chain consolidation, MEP cost pressures and capacity issues as well as strong workloads in key sectors driving demand for specific resources) will continue to outweigh any deflationary drivers (ie softer material pricing, a slowdown in new work growth, high borrowing costs and a desire to fill order books).

Generally, fit-out has seen greater pressure than base build as the packages experiencing the least inflationary pressure (eg demolition and groundworks) aren't applicable. Equally, MEP, which accounts for a higher proportion of fit-out cost, has been one of the most heavily inflated packages of late.

Of course, the inflationary outlook remains vulnerable to geopolitical developments, with the situation in the Middle East posing a potential risk of increased price volatility. Lead times, shipping costs and energy are all susceptible to escalation of conflict in the region. Certain imported items (eg MEP components) are also exposed. However, so far, the net impact on UK construction has been relatively muted, thanks to the preparedness of critical supply chains and robust distributor inventories.

Material Trends

Material prices have been on a general downward trajectory since the second half of 2022, but the latest data suggests the deflationary trend is easing and prices for several key materials are starting to bottom out.

The BEIS All-Work index – a basket of goods that tracks price movements for construction materials – has fallen **2.2%** over the past year. However, February marked the end of the deflationary trend. Supply and demand have now rebalanced and there has been little

aggregate movement over the past three months.

While inflationary pressures have become more balanced and material price movements less volatile, G&T is still seeing increases on some materials and product categories. M&E component costs continue to rise, as do concrete and concrete-based products. Sprinklers, fire alarms, and ventilation continue to experience strong inflation levels. Strong demand for these items is being driven by a rise in the number of MEP intensive projects in highly active sectors, such as Data Centres, Health and Life Sciences. Such schemes also require more complex MEP installations that are driving specification change and increasing cost. Supply side pressure is also driving MEP costs, with copper and aluminium being affected by trade embargoes/sanctions with Russia and China, limiting supply and increasing prices. Meanwhile, concrete price pressures arise from greater demand for low-carbon variants and some shortages of materials in mix (ie sand and gravel), driving up manufacturing costs. Additionally, localised supplier market power contributes to higher prices.

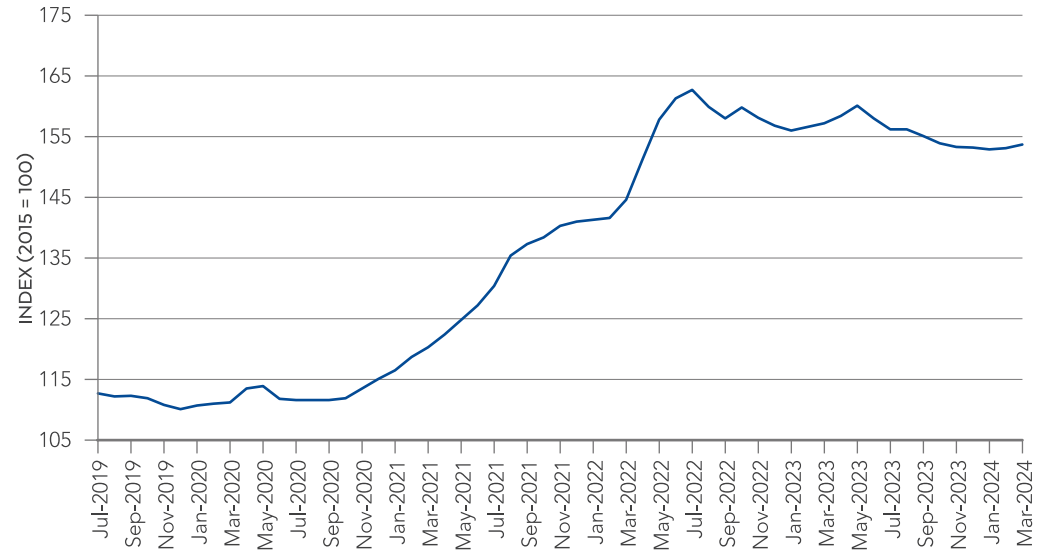
With supply and demand now more evenly balanced, materials are likely to see a period of relative stability with more predictable price increases. However, geopolitical developments pose an upside risk to the status quo.

Labour Trends

Skilled labour shortages continue to exert some upward pressure on earnings growth, but with growing spare capacity in the market, demand for labour has softened.

Vacancies have fallen nearly 27% since their 2022 peak – a consequence of weaker new order growth and lingering uncertainty over the short-term business outlook. Expectations

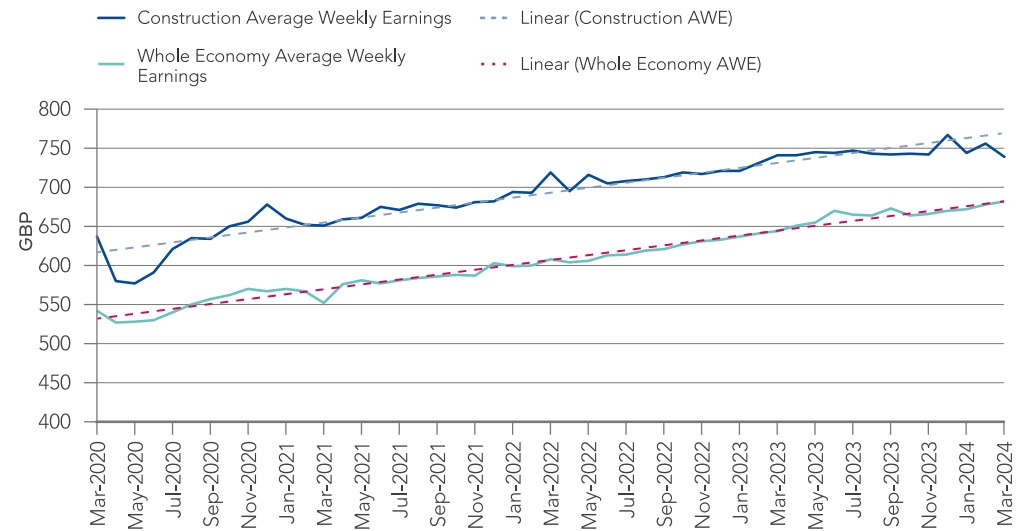
BEIS: 'ALL WORK' CONSTRUCTION MATERIAL PRICES INDEX, UK



Source: **BEIS**

AVERAGE WEEKLY EARNINGS (UK CONSTRUCTION)

Seasonally adjusted



Source: **ONS**

of softer demand have limited appetite for additional hiring, dampening employment and recruitment activity over the past year.

Against this backdrop, the tight labour market is experiencing temporary relief. In March 2024, average weekly construction earnings rose just 2.1% compared to the previous year. It marked the lowest period-on-period growth rate observed in three years, falling below the industry’s long-term average annual rate of 3.1%. Construction earnings growth also lagged significantly behind the broader economy, which saw a growth rate of 5.7% over the same period.

The latest earnings data from the ONS offers some reassurance that construction earnings growth has passed its short-term peak and is beginning to normalise, but structural shortages and constraints remain. The industry is contending with a shrinking labour pool and reduced access to skilled migrant labour from the EU. Furthermore, the recently implemented Building Safety Act is expected to introduce further labour cost pressure through additional training/qualification requirements, as well as new practices and safety measures. These structural pressures are likely to maintain some upward pressure on earnings growth.

Domestic policy decisions will also contribute to inflationary pressures. Starting from April, the minimum salary threshold for the Skilled Worker visa route rose from £26,200 to either £38,700 p/a, or the going rate for that type of role, whichever is higher. These increases, along with changes to the shortage occupation list, aim to reduce reliance on overseas workers. However, this will make recruiting overseas more difficult and, in some cases, unviable. Curtailing this key source of labour risks adding further pressure on wages.

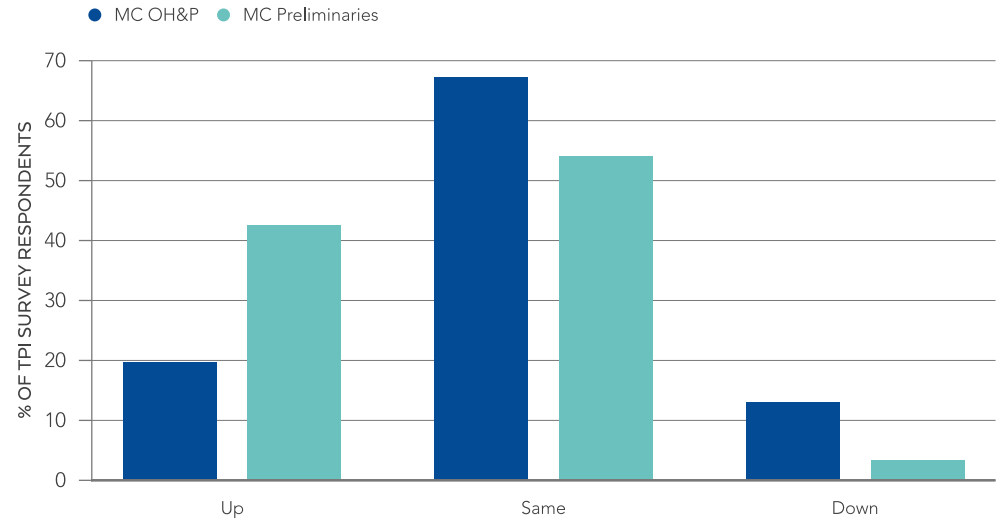
On-costs

Preliminaries costs continue to see upward pressure from higher staff, insurance and utilities costs. The Building Safety Act, as mentioned previously, is also adding inflationary pressure to compliance costs within preliminaries.

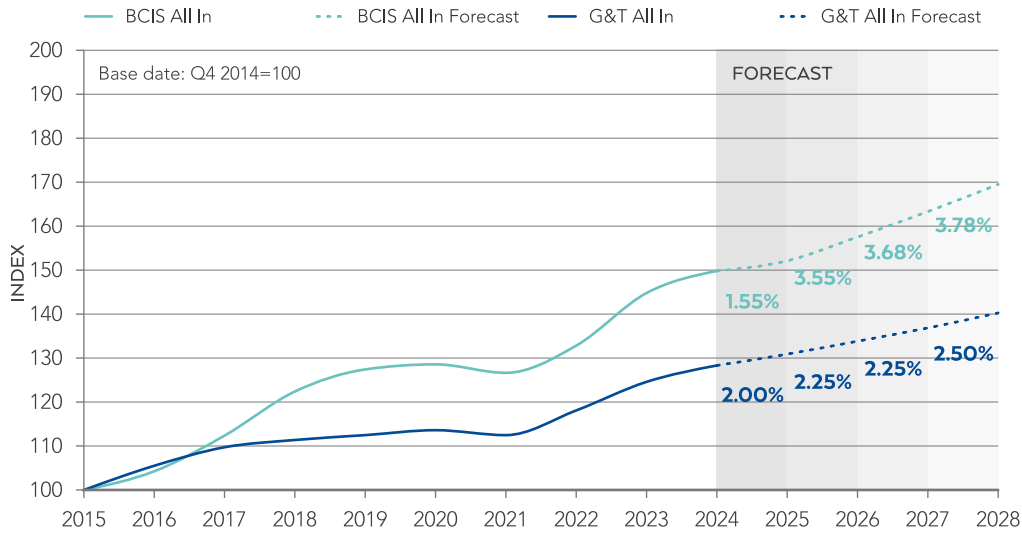
Looking ahead to the next 12 months, views were split between those expecting preliminaries costs (as a percentage of total project cost) to stay the same and those anticipating further rises. Those expecting no further movement said staffing costs and other inflationary pressures should be balanced out by any “sharpening of pencils” due to reduced workloads. The more bullish respondents envision that sustained labour cost inflation, combined with other drivers (such as new regulatory requirements and carbon counting), will win out.

To a large degree, OH&P is influenced by demand conditions in the market and the pipeline of work, with contractors pricing more competitively where these are less certain. Declared OH&P has been relatively stable over the past 12 months (although some seek to augment their margins within trade package pricing). If new work growth remains subdued over an extended period, contractors may opt to reduce their mark up in a bid to secure work. However, this is not the current expectation. The vast majority of those surveyed anticipate no further change to OH&P over the next 12 months.

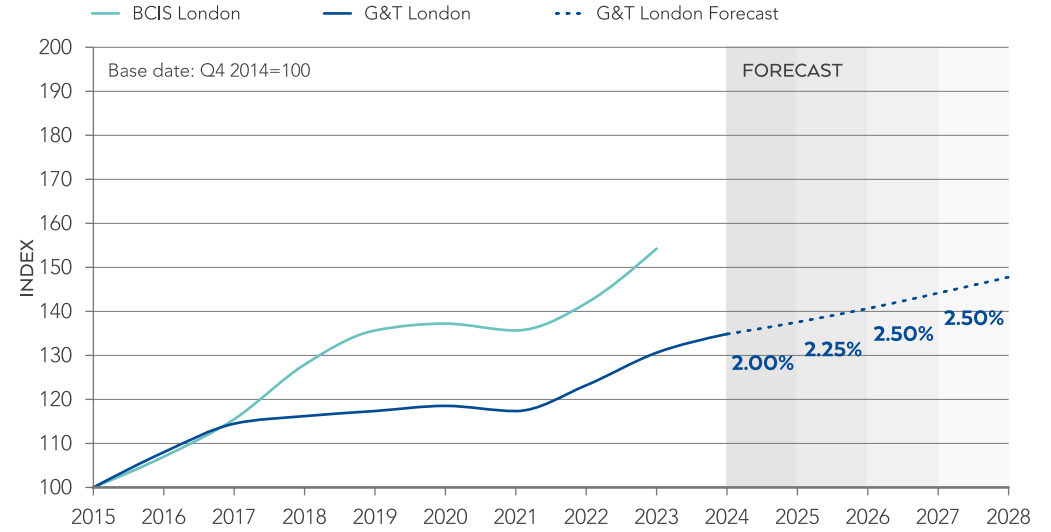
INFLATIONARY PREDICTION FOR MAIN CONTRACTOR OH&P AND PRELIMINARIES OVER THE NEXT 12 MONTHS



TENDER PRICE TREND 'ALL UK TPI'



TENDER PRICE TREND 'LONDON TPI'



Note: BCIS do not publish regional TPI forecasts.

TENDER PRICE ANNUAL PERCENTAGE CHANGE Q2 2024

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

Last* 1Q 2024

COMPARISON OF PUBLISHED FORECASTS FOR TENDER PRICE CHANGE

| G&T UK AVER. | BCIS UK AVER. | G&T LONDON | AECOM UK | ARCADIS LONDON | |
|-----------------|---------------|------------|----------|----------------|-------------|
| | | | | | |
| % CHANGE | | | | | |
| 2.00 | 1.55 | 2.00 | 2.00 | 1.00 - 2.00 | 2024 |
| 2.25 | 3.55 | 2.25 | 3.00 | 3.00 - 4.00 | 2025 |
| 2.25 | 3.68 | 2.50 | N/A | 4.00 | 2026 |
| 2.50 | 3.78 | 2.50 | N/A | 4.00 | 2027 |
| N/A | 3.19 | N/A | N/A | 4.00 | 2028 |

Note: Arcadis' TPI figures are for its 'London Building Construction TPI' series. Aecom's baseline forecasts are from Q4 2023 to Q4 2024 and Q4 2024 to Q4 2025.

Our advice is to review each project on its own merits. This forecast publication must be treated as a guide only, being that it is based on averages of various types and sizes of projects across a region, ascertained through our latest market research. The quality, both of design and desired end product, procurement route (particularly ownership and transfer risk), delivery timescales, complexity of design and desire of contractors to tender should be carefully considered in project specific estimates and their outturn cost. Suitable allowances should be made for project specific designs, site conditions and local market conditions, which should be reviewed regularly with your Gardiner & Theobald team to determine the appropriate base cost.