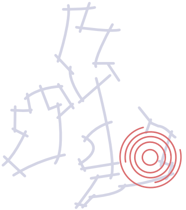
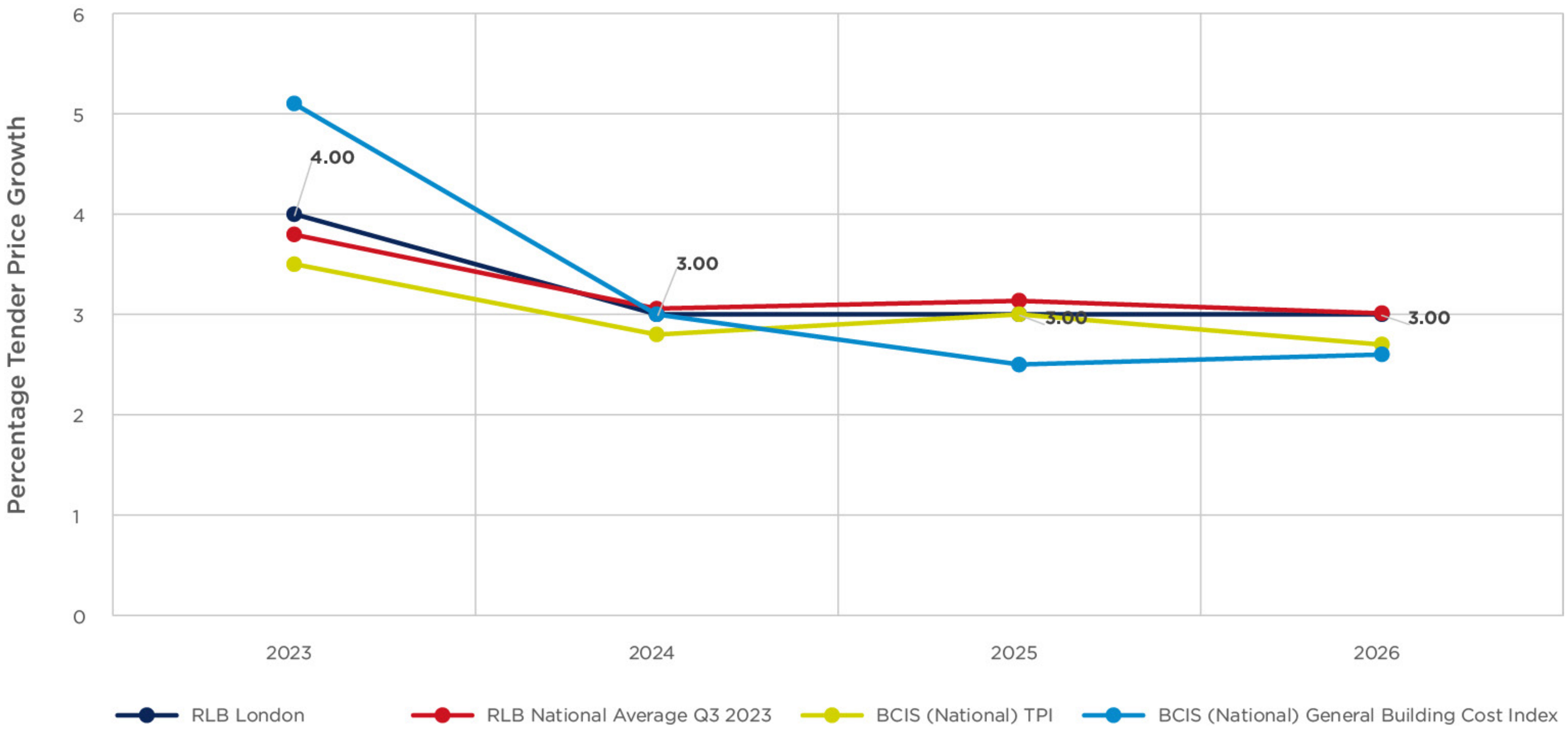


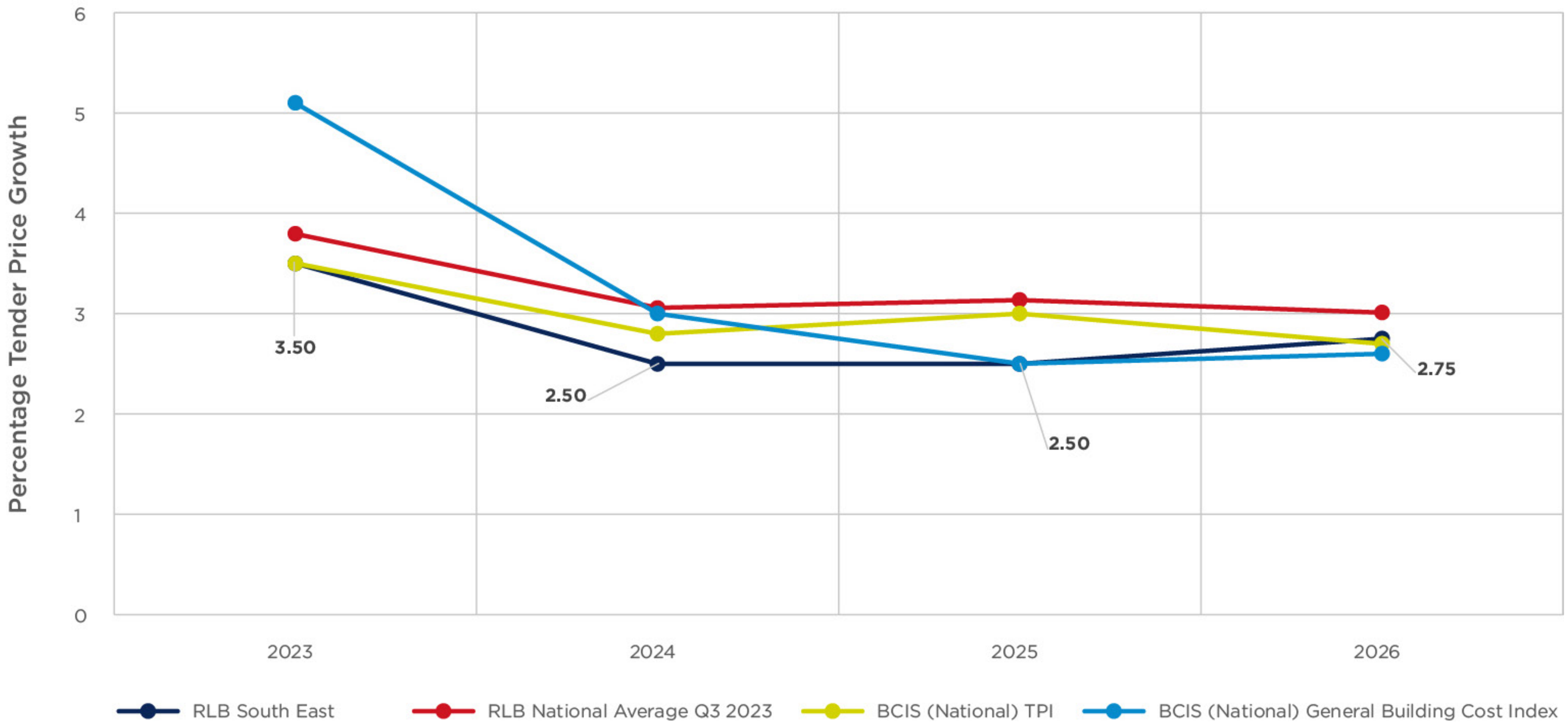
# LONDON & SOUTH EAST

| Source | % Uplift reported | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| London | | 4.00 | 3.00 | 3.00 | 3.00 |
| Thames Valley | | 3.50 | 2.50 | 2.50 | 2.75 |
| Competitors/Others - Upper Range (London) | | 5.00 | 4.00 | 4.00 | 5.00 |
| Competitors/Others - Lower Range (London) | | 2.00 | 2.00 | 2.50 | 2.50 |
| Competitors/Others - Upper Range (South East) | | 4.75 | 4.50 | 4.00 | 4.80 |
| Competitors/Others - Lower Range (South East) | | 3.25 | 2.25 | 2.50 | 2.50 |
| RLB National Average | | 3.80 | 3.06 | 3.14 | 3.01 |
| BCIS (National) TPI | | 3.50 | 2.80 | 3.00 | 2.70 |
| BCIS (National) General Building Cost Index | | 5.10 | 3.00 | 2.50 | 2.60 |

## Tender Price Change - London



## Tender Price Change - South East



# OVERVIEW - LONDON

London construction pipeline not only forms the largest proportion of UK regions, it currently epitomises market conditions: slowing, but not without resilience as clients cautiously navigate more difficult economic environments.

In the London construction market, the data centre sector has gone through a tremulous six-to-twelve-month period due to the unstable economy and lead-time issues with switchgear equipment, although that storm has passed now and data centre enquiries continue to appear, emphasising strong demand. Due to the significant investment made in London's fibre and power infrastructure, most data centres are being located in the tech hubs such as west London.

The healthcare sector appears to be going through a difficult period, due to strains caused by lack of funding availability despite declared government aims in respect of building-spend on new hospitals.

The London office market has experienced continued growth in the fit-out sector, driven by the push to refurbish rather than build new, coupled with a demand for high quality, inviting and collaborative workspace. Many businesses are now looking to upgrade their offices to give a hotel feel which provides a comfortable and exciting hybrid space. Some companies such as HSBC are now choosing to relocate their offices from Canary Wharf to central London where all the "buzz" is. In addition, moves to downsize accommodation requirements due to working-from-home initiatives are further driving the rapidly changing office landscape. The consequent high demand for work has seen packages being split between multiple sub-contractors to manage labour issues and ensure that the programme of works is not affected.

Overall, there are a number of factors continuing to affect London's construction prices. The significant cost increases, over a wide range of building materials over the past couple of years appear to have eased.

Of particular concern in London, is the fact that in comparison with three years ago, there are now fewer workers in the construction sector. The shortage of labour has driven contractors toward the use of prefabricated materials to ensure that programmes are protected. This suggests that the alternatives to shortage of labour will eventually result in prefabricated materials providing preferred solutions. However, elevated demand is likely to continue to impact the cost of materials going forward, even in respect of prefabricated outputs.

In the current environment, we continue to see the perfect storm—a combination of the pandemic, the global economy, and events in Eastern Europe. Covid disruptions had a significant impact on productivity and many manufacturers' profit levels were eroded during the period, which flowed onto long lead-times and price hikes for some materials. Lead times continue to be an issue, and this has resulted in some clients seeking to ensure timely delivery through early and direct purchasing of key items of materials and plant, to avoid programme delays. Lead times have now become the primary driver, and constraint, of project programmes.

# OVERVIEW - SOUTH EAST

In the South East, contractor pipelines remain robust, and ongoing projects are expected to continue. ONS figures show private new housing work down by around 7% in value for the last six months as against last year, but the real story lies in the rapid, near 60% rise in infrastructure spend value.

While most sectors have returned strong growth over the last six months, amounting to a near 22% additional value output, new orders levels paint a very different picture, showing several negative figures for the last six months and being down by 5% in comparison with last year. The most favourable sector is that of private industrial, up almost 39%, but still constituting only around 10% of the overall market.

The odd juxtaposition of ups and downs in the statistics can be best-understood in the context of wider-economy concerns giving rise to re-examination of some projects' viability and opportunities, and due to uncertainties especially around rising borrowing costs.

Despite the perceived relatively solid project pipelines, the general feel of market activity levels suggests that enquiries have slowed somewhat, with some schemes being paused after planning submission and unlikely to restart until economic conditions improve and borrowing costs ease.

The residential sector in particular is likely to face slowdown in the pace of construction due to rising interest rates and mortgage costs. In light of these pressures, decline in output for this sector is expected in the next few quarters.

In sectors such as commercial office fit-out, life sciences, higher education and healthcare, schemes continue to move ahead, with a range of decarbonisation and refurbishment projects. There is a strong forecast pipeline in particular for healthcare projects. A combination of these factors is sustaining formerly forecast tender price inflation levels through to the end of 2023.

Overall, projects with secured funding are pressing on, whereas those with viability reliant on prevailing economic conditions face uncertainties and consequent delays on their implementation phases. How this trickles through to affect activity levels in the tendering and subsequent contracting and subcontracting markets will become clearer as we move into the end of the year and the early part of 2024.