TENDER PRICE INDICATOR
4TH QUARTER 2017

Forecast for construction demand continues to weaken as investment in buildings and infrastructure is paused or delayed.

Our forecast for 2018 remains at average 1% tender price inflation across the UK, with northern regions experiencing stronger growth than London and the South East. Into 2019 we forecast London and the South East to be broadly flat, with the rest of the UK at 1% average.

Forecasts remain fluid as Brexit negotiations remain unclear. However, downside pricing is becoming more prevalent amongst Tier 2 contractors whilst Tier 1 continue to experience positive pricing on the tail end of major project demand.

Into 2020 and 2021 with the impact of a new international market post Brexit, we can only forecast our long term growth averages, as the overall economic picture remains unclear.

INPUT COSTS

Imported cladding and curtain walling experienced the largest material cost rises during 2017 at 15 to 20% over 2016 levels. The continued fall of Sterling against the Euro may further compound these rises, albeit installation rates have stabilised.

M&E component inputs have increased 7.5 to 12% as they are largely imported from Europe. Whilst material input costs have risen 2.5 to 3.2%, suppliers are concerned over future demand, adjusting their forward pricing with efficiencies and review of margins to remain competitive.

Fuel oils strengthened in the quarter to average US$53 bbl, with increases being passed onto pump prices.

Construction industry labour rates continue to rise but the rate of growth has slowed. National wage agreements by the Construction Industry Joint Council were effected in June at 2.75%, in line with other industry bodies. Rates of pay increases softened over the quarter as future pipeline work appears more tentative.

The construction industry still benefits from a large proportion of non-UK labour, with ONS figures indicating more labour currently entering than leaving the UK.

UNEMPLOYMENT

The UK unemployment rate fell to 4.3% in August 2017, with 380,000 more jobs created in the last year. Non-UK nationals employed in the UK workforce continued to increase, rising 109,000 to 3.56million year-on-year.

Productivity rates measured in output per hour as contribution to GDP are low and marginally below their pre-2008 financial crisis trend, indicating that whilst jobs have been created, they are largely low skilled, low output and not reflective of a significant boost to economic growth.

CONSTRUCTION OUTPUT

The Autumn Construction Products Association (CPA) forecast for 2017 output decreased to 0.7% due to slowing economy and rising input costs.

Forecasts for 2018 output remain flat, and may reduce if large infrastructure projects are delayed. The CPA is only confident to publish its output forecasts up to 2019 due to the current lack of certainty.

Growth was anticipated in private house building as private commercial declines whilst, industrial warehousing output remained solid.

STRUCTURAL STEEL 2Q 2017
2% Up ▲

REINFORCEMENT 2Q 2017
2% Up ▲

CONCRETE 2Q 2017
2% Down ▼

OIL PRICES
US$53 bbl Up ▲

CONSTRUCTION INDUSTRY
Weekly Earnings 2.1% Down ▼

CONSTRUCTION OUTPUT
0.7% Down ▼

MACRO ECONOMICS

The Consumer Price Index (CPI) measure of inflation rose to 3% in September, up from 2.9% in August.

The rise was attributed to the fall in the value of Sterling, with the prices of most goods increasing and a rebound in oil prices.

Interest rates remain at the historical low of 0.25%. Forward guidance from the Bank of England hinted at potential increases in rates over the coming months. However, several economists have speculated whether the mechanism of balancing inflation with interest rates is working, citing Japan's near 20 years of low interest rates as a precedent.

The Retail Price Index (RPI) alternative measure increased to 3.9%, up from 3.6% in July, the highest level since 2011, when it was 5%. This measure illustrates the potential reduction in consumer spending as average weekly earnings remain below inflation at 2.2%, with price rises outstripping wage growth. The potential slowdown in consumer spending will inevitably reduce domestic demand and have a knock on effect to construction output.

LONDON AND SOUTH EAST – TWO SPEED MARKET

Contractors with capability to complete large complex projects, often referred to as Tier 1s, are still experiencing busy workloads on the tail of demand from the last boom. Also due to their nature, there are a limited number of Tier 1 contractors who have tended to favour two-stage negotiation to secure work. Pricing levels for Tier 1 contractors on large complex projects have therefore remained buoyant.

By contrast those contractors who operate on projects below £100million value, referred to as Tier 2 and Tier 3 contractors, are facing more competition for a slowing market workload.

We have recorded a shift in attitude to single-stage competitive tenders and lump sum bidding as order books for both Tier 2 and 3 contractors look to be filled.

Hotspots remain in the high end residential sector and busy locations such as Cambridge.

Our Tender Price Forecast for 2018 and 2019 reflects a slowing of demand in the market as experienced by the majority of the supply chain outside mega value projects. We see the reduced demand in 2019 forcing a reduction in tender pricing to secure workload.

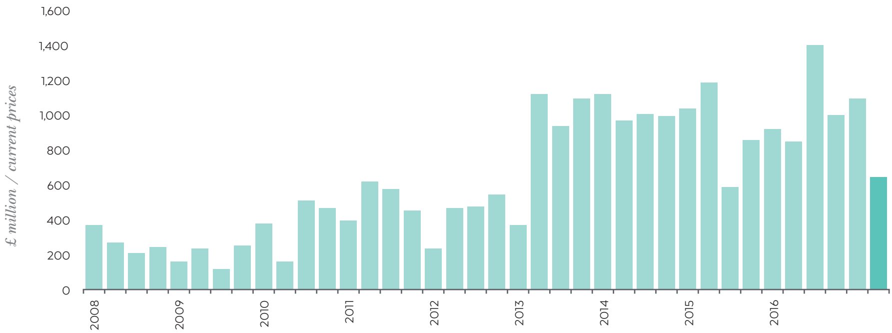
CPI SEPTEMBER 2017
3.0% Up ▲

GDP OUTPUT
1.5% Up ▲

ECONOMY
Weekly Earnings 2.2% Up ▲

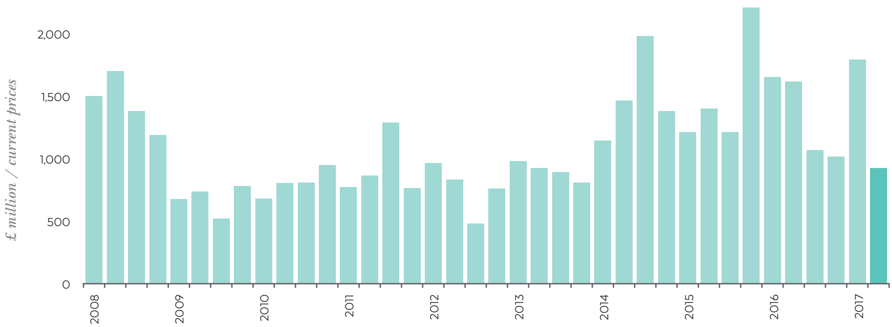
NEW ORDERS (CONTRACTS) LONDON

RESIDENTIAL



- *Orders for private residential remained buoyant for the first three quarters post Brexit, followed by a 30% fall quarter on quarter at 2Q17.*
- *The loss of momentum in housebuilding amid weaker demand and softening property prices looks to be filtering through to reduced new contract orders.*

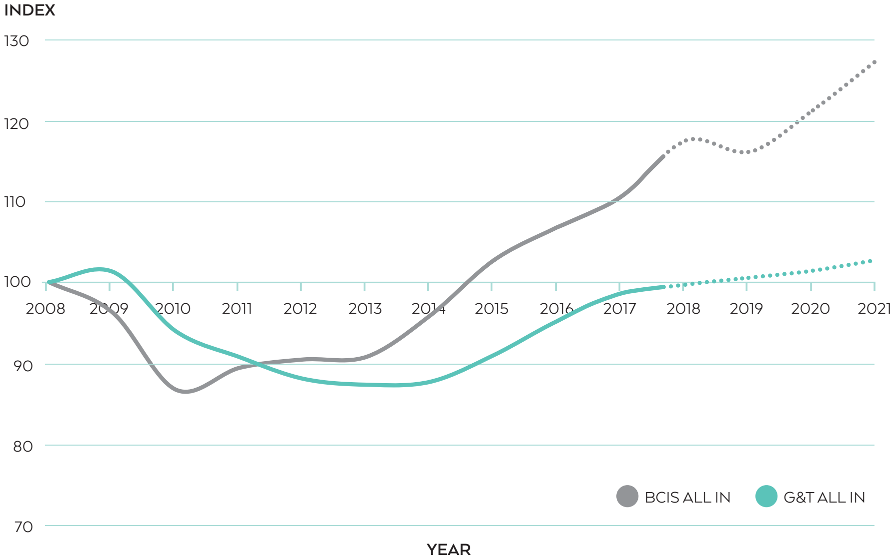
COMMERCIAL



- *Commercial new orders fell sharply (49%) from 1Q17, the lowest level in three years.*
- *Demand for office space has weakened although remains well above long term averages.*
- *Vacancy rates continue to creep up as newly completed space enters the market while uncertainty dampens demand.*
- *Technology Media & Telecoms (TMT) continues to be the biggest driver of letting transactions, with serviced office providers taking the second largest portion of available space.*

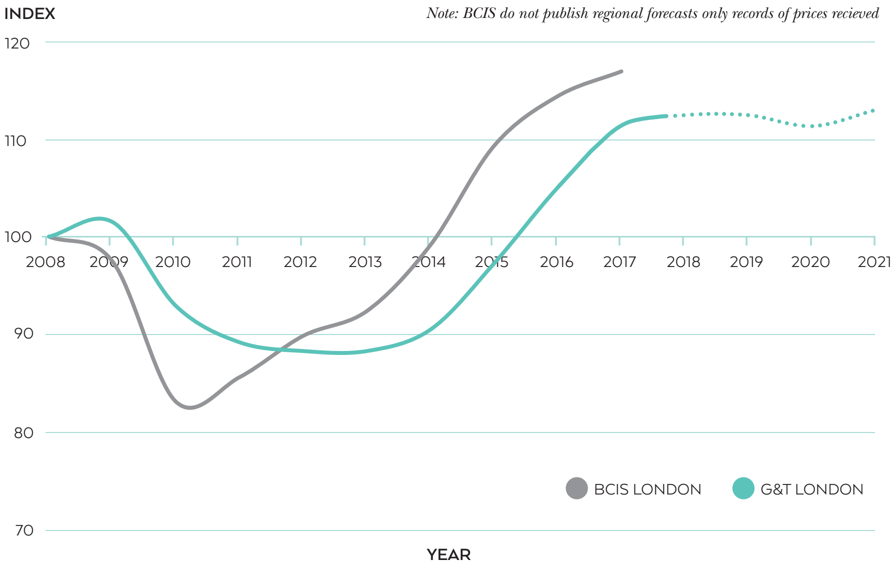
TENDER PRICE TREND

TENDER PRICE TREND **“ALL UK TPI”** 4Q 2017



TENDER PRICE TREND **“LONDON TPI”** 4Q 2017

Note: BCIS do not publish regional forecasts only records of prices recieved



TENDER PRICE CHANGE

TENDER PRICE ANNUAL PERCENTAGE CHANGE 3Q 2017

%	2018		2019		2020		2021		2022
Regional forecasts	Now	Last	Now	Last	Now	Last	Now	Last	Now
Greater London	0.00	0.00	0.00	1.00	1.50	1.50	2.50	2.50	2.50
South East	0.00	0.00	0.00	1.00	1.50	1.50	2.50	2.50	2.50
South West	1.00	1.50	1.25	2.00	1.25	1.50	2.50	2.50	2.50
East Anglia	1.00	1.50	1.50	1.50	1.50	1.50	2.50	2.50	2.50
Midlands	1.00	1.50	2.00	2.00	1.50	1.50	2.50	2.50	2.50
Wales	1.00	1.00	1.00	1.00	1.50	1.50	2.00	2.00	2.00
Yorks & Humber	1.25	1.50	1.25	1.50	1.25	2.00	2.50	2.50	2.50
North West	2.50	2.00	2.00	2.50	2.00	1.50	2.50	2.50	2.50
North	1.00	1.50	1.00	1.00	2.00	2.00	2.00	2.00	2.00
Scotland	1.50	1.25	2.00	1.75	2.50	1.75	3.00	3.00	2.50
Northern Ireland	2.00	2.00	250	2.50	2.00	2.00	2.00	2.00	2.00
UK Average	**1.00**	**1.00**	**1.00**	**1.50**	**1.50**	**1.50**	**2.50**	**2.50**	**2.50**

Note: 2021 is long term average market forecast

COMPARISON OF PUBLISHED FORECASTS FOR TENDER PRICE CHANGE

	G&T UK AVER.	BCIS UK AVER.	G&T LONDON	AECOM LONDON	ARCADIS LONDON
	4Q TO 4Q	OCT 17	4Q TO 4Q	3Q	Mid range 3Q17
	% CHANGE				
2018	1.00	-1.30	0.00	2.70	-1.00
2019	1.00	5.00	0.00	1.90	3.00
2020	1.50	5.80	1.50	N/A	4.00
2021	2.50	5.70	2.50	N/A	4.00

Note: All figures relate to year on year quarterly changes

FURTHER INFORMATION

For further information please speak with your Gardiner & Theobald expert,
or contact **Gavin Murgatroyd** (Partner, London) or **Owen Weatherley** (Market Analyst)

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Remember *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.*