Ready, steady...

A construction industry waiting for the start gun

October 2024

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Cast

Contents

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Executive summary

Mark Farmer
Cast CEO
September 2024

Listen here

The Infrastructure Podcast: Episode 80

"Solving the housing crisis"

Mark Farmer discusses what needs to happen to ensure that the construction sector is set to meet the new government's ambitious target of building 1.5 million new homes over the next five years.

The timing of this report's publication coincides with what seems like a critical juncture for the UK's construction sector. After two years of pain following the fallout from the September 2022 mini-budget, the sector is now impatiently awaiting the first signs that, following a change of government, we are in recovery mode and that orders are increasing and output is heading upwards again.

With a synchronised downturn across both private and publicly funded housing, the impact on new construction starts could not be more stark. The latest ONS statistics indicate new starts in Q1 2024 were running at less than 30,000 units per quarter. When this feeds through to completions, at an effective annual rate of 120,000, this is a long way short of the newly confirmed government target of 300,000 per annum!

A private sector recovery still feels some way off as interest rates remain stubbornly elevated in response to core inflation risks while general economic confidence, pending an October budget, remains fragile. Allied to this, housing association development pipelines are at record lows as money is redirected to existing stock, addressing safety and other quality issues. This is despite the likelihood of a positive 10 year rent settlement being announced in the budget that will help create financial capacity to develop in the years ahead.

We have not yet had any indication from the new government of a major social housebuilding programme supported by a new funding model. There is however increasing speculation that the Chancellor will reset fiscal rules in the upcoming budget to allow greater borrowing for infrastructure assets, which may include affordable housing. The reality of current target numbers must be questioned if they rely on the private sale market nearly trebling in output or the existing housing association market filling the gap through its existing funding model.

The big stress point for the supply chain is low levels of new orders combined with the legacy of historic major schemes that continue to experience commercial tensions related to fixed price exposure and performance issues. This has created a heightened solvency risk that has been demonstrated most recently by the failure of ISG. The fact that, six years after Carillion, a £2bn contracting business can fail is confirmation the trading model that the industry is locked into is broken. Unfortunately, there is no clear way of navigating out of this and the imperative is robust risk management by all parties from clients and their advisors through to sub-contractors and suppliers.

The general feeling that things are about to improve is reflected in the latest PMI data with sentiment more positive, but it takes time for sentiment to translate into order books.

Trading and liquidity risk also has a direct bearing on construction prices. We continue to see a volatile market where boardroom appetite for risk transfer and fixed price contracting is highly variable as it is led by relationships, quality of design and procurement documentation, project complexity and contractors' own ability to manage their costs and delivery through having vertically integrated capability.

The febrile nature of the tender market has been further influenced by the new regulatory landscape, specifically the growing impact of the Building Safety Act in influencing procurement paths and indeed pricing. Added to this, the residential sector continues to move towards Building Regulations 2021 Fabric Energy Efficiency and the Future Homes Standard. All of this is putting pressure on the viability of residential development before considering background inflationary / deflationary conditions.

The tendering market is therefore very hard to generalise at the moment. Many contractors are seeking to fill order books, and there has been a general correction of some of the opportunistic pricing seen post Ukraine invasion.

The number of large contractors willing to take on the biggest residential led schemes however is limited, which creates a potential two tier market for some schemes. The recent failure of ISG raises a question about the reality of contracting covenant strength and the ability for anyone to own and assure a high value construction capex project. This suggests there is a need to increasingly think about maximum exposure and the sub-division of projects across masterplans. It certainly puts a question mark on delivery of any significant high-rise residential schemes through a single point contracted route.

The second tier of contractors that have become increasingly attractive to developers in the mid value residential market are all now going through various growing pains themselves. This means much more caution needs to be paid to watching out for over-trading risks, the ability to secure competent labour and the exposure to legacy problem projects.

In summary, we seem to be in a residential contracting market increasingly struggling with historic delivery challenges, now not sure where to pitch its next wave of project pricing as a mixed market outlook and new regulatory reforms mean their benchmarks have moved.

This all points to a need for deeper market intelligence, robust due diligence, a real focus on design and production efficiency, risk management and overall value for money to make schemes viable.

"Much more caution needs to be paid to watching out for over-trading risks, the ability to secure competent labour and the exposure to legacy problem projects."

Macro-economic overview

Since our last report in February 2024, equities have performed well with the FTSE reacting to a new government and some improving inflation data. However, the flatlining of GDP in the latest figures indicates the economy is still stuttering along the bottom.

The stubborn core inflation position has led to the Bank of England (BoE) maintaining rates at 5% in its September Monetary Policy Committee meeting. The BoE Governor is however signalling a downward trajectory which will have a major impact on opening up new residential developments through improved mortgage costs and reducing development project finance costs.

Sterling

Sterling has been one of the best performing major currencies so far this year, leading Goldman Sachs to recently state that Sterling "tops the list" in the G10 basket of major currency crosses.

FEB 2024	SEP 2024
£1:$1.26	£1:$1.28

Markets

The FTSE 100 has performed positively since the start of 2024, reaching an all time high of 8,478 in May. As of 19 September 2024, the FTSE currently sits at 8,329.

FTSE 100 FEB 2024	FTSE 100 SEP 2024
7,664	8,329

Consumer Price Index including owner occupier's housing costs (CPIH)

The CPIH index rose by 3.1% in the 12 months to July 2024. The largest upward effect came from housing and household services.

FEB 2024	JUL 2024
3.8%	3.1%

Gross Domestic Product (GDP)

The UK economy continued to flatline in July 2024 on a month-on-month basis. It has come in below the expectations of many economists who had forecast growth of 0.2%.

FEB 2024	JUL 2024
0.2%	0.0%

UK Bank rate

Following the base rate reduction in August, which was the first cut since the start of the pandemic in March 2020, the Bank of England decided in September to maintain the base at 5%.

FEB 2024	SEP 2024
5.25%	5.00%

Construction market overview

From a construction sector specific standpoint the macro data is conflicting. Output is still down, confirming an ongoing sector recession, new orders are however up and PMI purchaser sentiment is net positive.

The spectre of high insolvency rates continues to loom over the sector and the most recent news about ISG will only heighten concerns about industry business health and resilience.

One of the most concerning statistics which has longer-term ramifications for construction pricing and delivery certainty is the continued shrinkage of the construction workforce, down 5% since our last report in February. We are now potentially headed for a sub two million workforce for the first time since 1997, despite the total workforce and population now being much greater.

Output

Construction output in the UK shrank 1.6% year-on-year in July 2024. The decline was mainly driven by a drop in new work, particularly infrastructure and private commercial.

JUN 2023 - JUN 2024

-1.6%

DECLINE IN CONSTRUCTION OUTPUT

New orders

Total construction new orders increased by 28% from a year earlier in the second quarter of 2024, reflecting a depressed 2023 start point and some signs of improvement.

Q2 2023 - Q2 2024

28%

SURGE IN TOTAL VALUE OF CONSTRUCTION

UK Construction PMI

Despite a fall in the last month at 53.6 in August 2024, the UK Purchasing Managers Index registered above the 50 mark for the sixth month in a row.

SEP 2023 - SEP 2024

+5.5%

PMI INCREASE

Insolvencies

Construction experienced the highest number of insolvencies in the year to June 2024, with registered construction firms accounting for 17% of insolvencies across all sectors. Within the construction industry specialised construction activities are consistently the most affected. These figures are yet to pick up the fallout in the supply chain of the ISG failure.

JUN 2023 - JUN 2024

+4,303

RISE IN INSOLVENCIES

Materials

The material price index for 'All Work' decreased by 1.0% in July 2024 compared to the same month the previous year. There has however been a rise of 0.6% since the start of 2024.

JUL 2023 - JUL 2024

-1.0%

MATERIAL PRICE DECREASE

Labour

As of the second quarter of 2024, there were approximately 2.04m people employed in the construction sector in the UK, down 5.1% in the year and well below the high of 2.58m experienced in the third quarter of 2008.

Q2 2023 - Q2 2024

-5.1%

CONSTRUCTION LABOUR FORCE DECREASE

Market influencers in 2024

Global conflict continues to rumble in the background. Despite the threat of escalation at any point, the Ukraine conflict has partly been normalised as supply chains and energy costs have stabilised. The new concern on the horizon appears to be the growing risk of escalation in the Middle East with Israel launching a ground offensive into Lebanon, and at the time of writing, Iran launching airstrikes into Israel. The proximity of these events to global shipping routes into Europe gives cause for concern, as does disruption to oil and other commodity flows, and in turn, prices.

On a domestic level, a lingering economic malaise and the impact of new regulatory compliance factors make development more risk laden. We set out some of the key drivers here.

Geopolitics

Middle East conflict

The threat of further escalation in the Israel: Hezbollah: Iran crisis still has potential ramifications in terms of the Suez Canal transit routes for materials and commodities. At the moment however, supply chains are flowing albeit Houthi piracy eminating from Yemen is a growing risk to Red Sea / Suez Canal routing.

Ukraine-Russia conflict

The spiked effects on construction material and energy prices caused by the initial invasion have subsided but there are still long-term legacies in some material segments.

US election

The key upcoming political event which could have global economic consequences is the US Election in November 2024. A Trump election victory could impact global stock markets and trading relationships which construction is reliant on.

UK economic recovery

As has been set out in the previous pages, much is riding on an expected recovery in the UK's economic health. The implications on business confidence and investment of the October 2024 budget are not known at the time of writing but there is concern this could be a cause of reduced confidence or capacity to invest. Announcements which directly affect the housing market or government plans for a large scale affordable housing programme will be awaited with interest.

Regulatory impact

The full implications of the Building Safety Act are starting to manifest with resourcing challenges of the Building Safety Regulator causing delays to new build applications. There remains ongoing uncertainty as to the procurement implications of Gateway 2 requirements and whether a main contractor is required to be in place at that point. The homebuilding sector's move towards Building Regulation 2021 standards is ongoing as legacy schemes on old regulations are gradually built out.

The Bank of England base rate

The Bank of England (BoE) has maintained interest rates at five per cent after inflation remained steady in August, but indicated it may lower borrowing costs again as soon as November. According to the BoE Governor Andrew Bailey, inflationary pressures are easing and the economy is evolving broadly as expected.

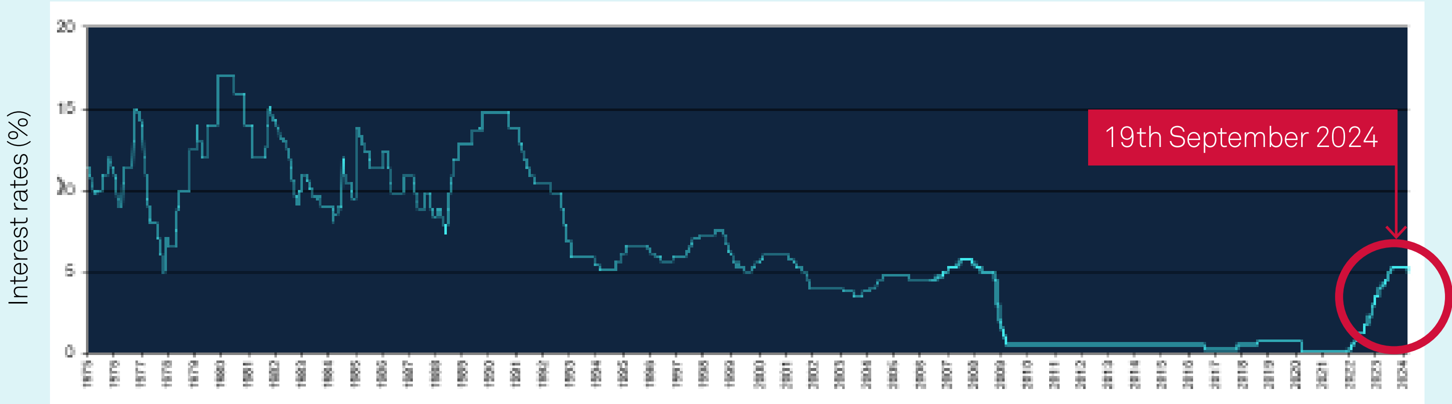
This announcement was followed by the US Federal Reserve cutting rates by half a point – its first cut in more than four years – and signalling that the era of easing has begun.

The BoE is being cautious over further rate reductions in the next quarter as core inflation remains relatively high.

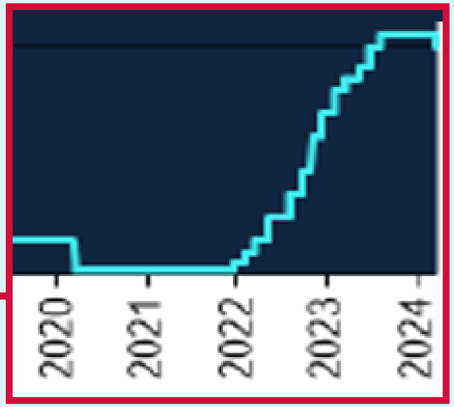
Current official bank rate:

5.00%

as of 19th September 2024



Source: Bank of England



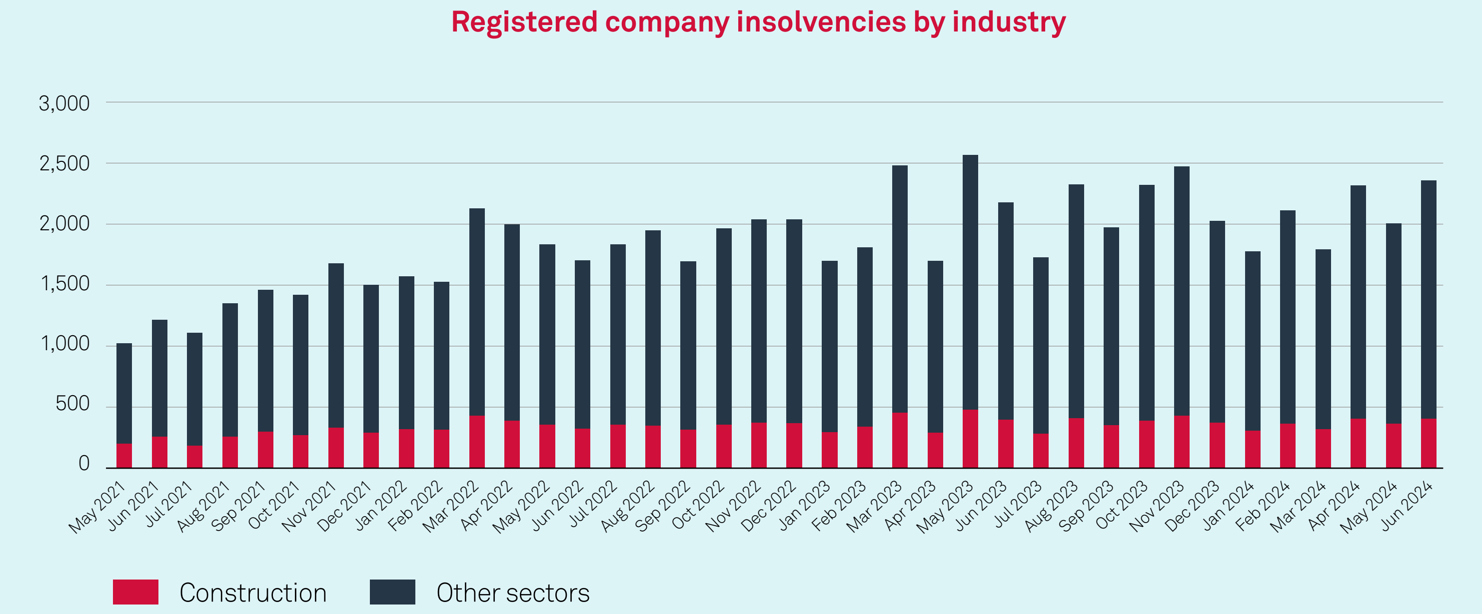
Source: Bank of England

Construction insolvencies

Construction was responsible for around one in five insolvencies in the year to July 2024. There has been a total of 4,303 businesses failing in the past year with high interest rates considered to be a significant contributory factor. The BoE did not implement a base rate cut until 01 August 2024.

Some of the notable firms that have recently gone into administration:

- ISG (Sep 2024)
- Hadden Construction (Sep 2024)
- Skonto Plan UK (Aug 2024)
- PWC Building Control Services (Aug 2024)
- Fourbay Structures (Aug 2024)
- Hodgskinson Builders Ltd (Aug 2024)
- Beck Interiors (Aug 2024)
- Fileturn (Aug 2024)
- Blenheim House (Jul 2024)
- Paramount D&B (Jul 2024)
- Charles Henshaw & Sons (Jul 2024)
- Osbourne (Apr 2024)
- Modulous (Apr 2024)
- Surgo Construction (Mar 2024)



Source: Insolvency Service

Data correct as of 13 September 2024

Building

Construction insolvencies rise again in 2024 but 'reason to be confident' as rate of increase slows

Published 21 August 2024

ROOFING TODAY

Construction Worst Hit as Company Insolvencies Rise Again

Published 22 July 2024

construction wave

Subbies still worst hit by latest insolvencies

Published 23 July 2024

Building

ISG's collapse: a huge blow to construction that raises urgent and difficult questions

Published 20 September 2024

Construction building materials and components tracker

Compared to where prices have been in the last couple of years, the latest set of data continues to show a softening in materials cost inflation. One outlier to this trend is 'pipes and fittings (rigid)' which experienced more than 17% annual growth.

	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Trailing Growth Rate 12 month	3 Month
Aggregates														
Bituminous Mixtures based on Natural & Artificial Stone	144	144	144	142	142	143	143	145	144	144	144	144	0%	0%
Gravel, Sand, Clays & Kaolin - incl Aggregate Levy	160	144	144	144	144	144	146	145	147	145	145	143	-11%	-2%
Cement & Concrete														
Cement	140	140	140	140	140	141	141	141	141	141	141	141	1%	0%
Concrete reinforcing bars (steel)	156	152	152	150	150	152	151	150	148	150	147	147	-6%	-2%
Pre-cast concrete products	179	178	178	178	178	178	187	189	189	188	186	187	4%	-1%
Ready-mixed concrete	150	148	153	154	154	152	153	153	156	156	156	156	4%	0%
Timber & Joinery														
Builders woodwork	160	157	156	156	156	157	159	158	157	157	157	157	-2%	0%
Builders woodwork (doors & windows)	136	136	130	130	130	130	133	133	133	135	135	135	-1%	0%
Imported plywood	130	131	133	128	127	128	128	129	132	132	129	129	-1%	-3%
Imported sawn or planed wood	157	158	157	152	150	151	151	155	161	162	161	160	2%	-1%
Metal Products														
Taps and Valves for sanitaryware	155	155	155	155	156	156	156	156	155	155	155	155	0%	0%
Central heating boilers	147	147	147	147	147	147	147	147	147	147	147	147	0%	0%
Fabricated structural steel	161	157	155	154	157	160	158	154	149	149	149	149	-7%	0%
Doors & windows (metal)	172	173	173	173	173	176	175	175	175	175	176	176	2%	0%
Metal Sanitaryware	124	124	124	124	124	125	125	125	125	125	125	125	1%	0%
Other builders' ironmongery	128	128	129	129	129	129	129	128	129	129	129	129	1%	0%
Screws etc	136	136	136	131	132	132	132	132	132	132	133	133	-2%	0%
Plastic Products														
Pipes and fittings (rigid)	143	142	143	172	172	172	172	170	170	168	167	167	17%	-1%
Pipes and fittings (flexible)	138	138	139	138	137	138	130	129	131	133	133	133	-3%	0%
Doors & windows (plastic)	164	164	165	165	164	163	161	161	161	162	162	162	-1%	0%
Sanitaryware	140	140	140	140	140	140	141	142	142	142	142	142	2%	0%
Other Building Materials														
Electric water heaters	116	117	117	117	116	117	119	117	116	117	118	117	1%	0%
Insulating materials (thermal or acoustic)	194	193	193	193	193	194	196	199	198	198	197	197	2%	0%
Kitchen furniture	157	160	160	160	160	161	161	161	161	161	162	162	3%	0%
Paint (aqueous)	137	137	137	137	137	137	131	131	131	131	131	136	0%	4%
Paint (non-aqueous)	135	131	129	130	131	136	136	135	131	132	132	132	-2%	0%

Historical data (2015=100) Source: Office of National Statistics

Reduction | Increase

Top 5 annual increases

- Pipes and fittings (rigid)
- Pre-cast concrete products
- Ready mix concrete
- Kitchen furniture
- Doors and windows (metal)

Holding steady

- Taps and valves (sanitaryware)
- Central heating boilers
- Paint (aqueous)

Top 5 annual decreases

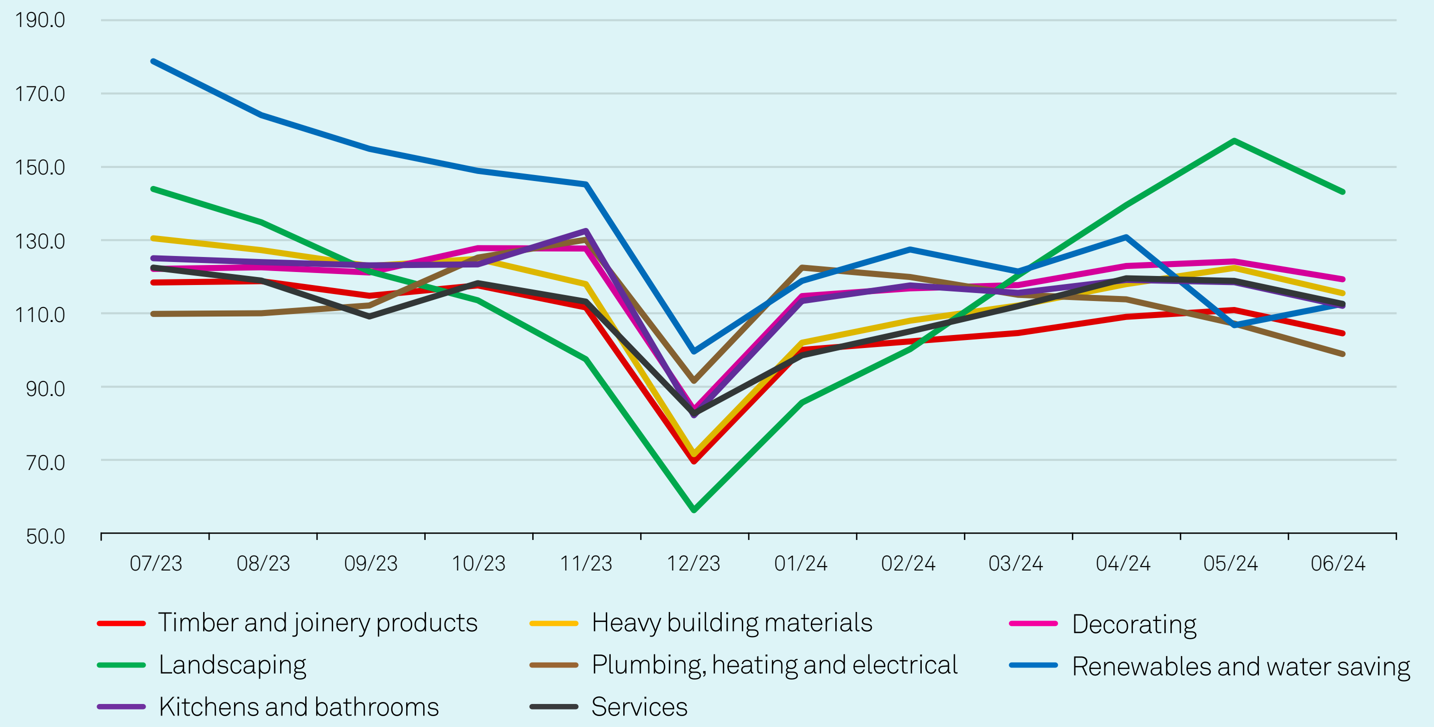
- Gravel, sand, clays
- Fabricated structural steel
- Concrete reinforcing bars
- Pipes and fittings (flexible)
- Screws etc

Data correct as of 13 September 2024

The Builders Merchant Building Index (BMBI)

"The second quarter builders' merchant sector is a continuation of wider market trends, seeing challenging economic conditions and a pessimistic short-term outlook."

Emile van der Ryst, Senior Client Insight Manager – Trade GfK



Source: GfK's Builders Merchants Total Category Report

Data correct as of 13 September 2024

Top 3 annual increases

- Workwear and safety wear
- Tools
- Decorating

Top 3 annual decreases

- Renewables and water saving
- Timber and joinery products
- Heavy building materials

Heavy building materials:

- Aggregates
- Blockwork
- Brickwork
- Cements
- Insulation plastering
- Lintels etc

Services:

- Tool hire/hire services
- Other services

Recent planning and regulatory changes

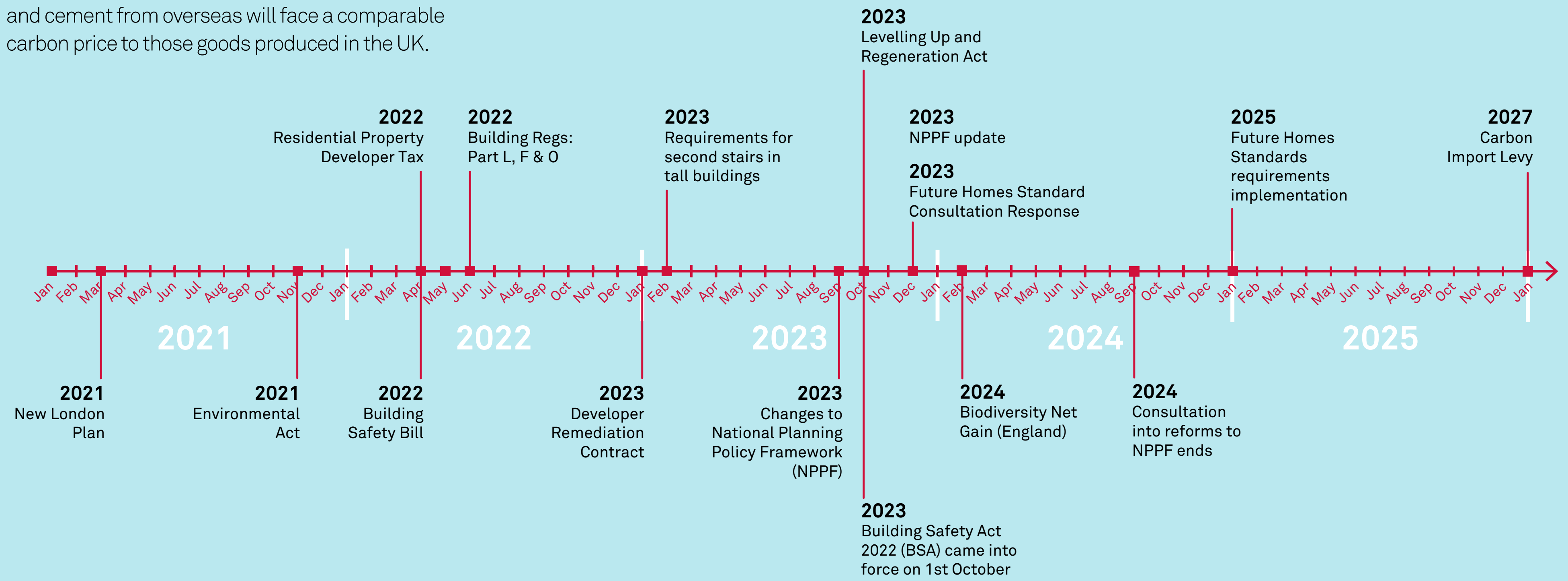
The rapidly shifting regulatory and policy environment over the last few years has had a substantial impact, affecting confidence and impacting decision making. Following a decade of relatively minimal regulatory changes impacting the construction sector, the advent of the Building Safety Act is probably the biggest single regulatory disruptor the industry has seen in a generation. It remains to be seen how the most recently announced planning reforms will benefit homebuilding and what the impact will be on output.

The Carbon Import Levy (January 2027)

A new levy on carbon intensive products such as iron, steel, glass, and cement is to be implemented from 2027 with the aim of protecting businesses against cheaper imports from countries with less strict climate policies.* Imports of iron, steel, aluminium, ceramics, and cement from overseas will face a comparable carbon price to those goods produced in the UK.

Biodiversity net gain (2024)

Amendments to the current policy are expected from the current government.



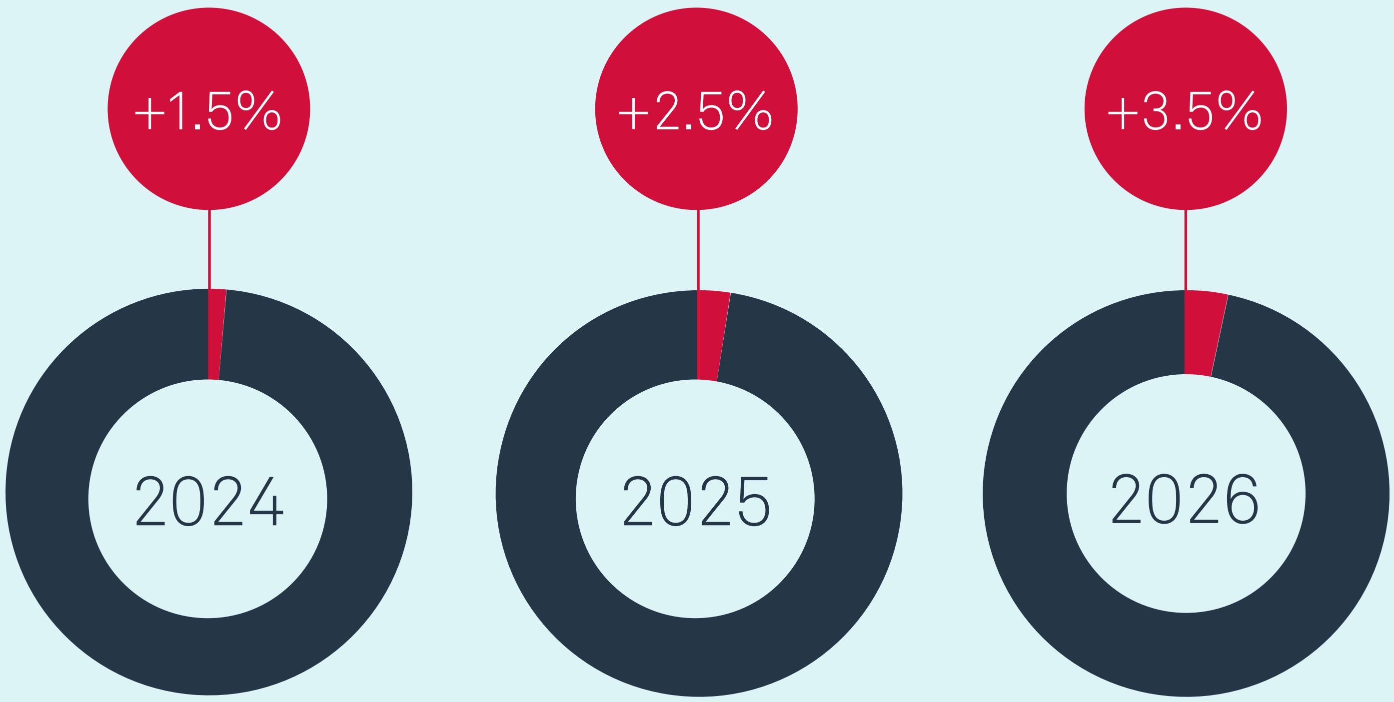
*The Government has yet to publish any proposals as to how it intends to implement the Carbon Border Adjustment Mechanism

Forecast movement in Tender Price Indices (TPIs)

We believe the averaged Tender Price Index forecast will be fairly moribund for the remainder of this year with a notional 1.5% total calendar year uplift as the market continues to secure order books and assess the outlook ahead.

Next year we see a ratchet up in growth to 2.5% per annum as the economy recovers, albeit with a time lag before confidence reflects in construction orders.

This will continue into 2026 with a further uplift in growth to 3.5%.



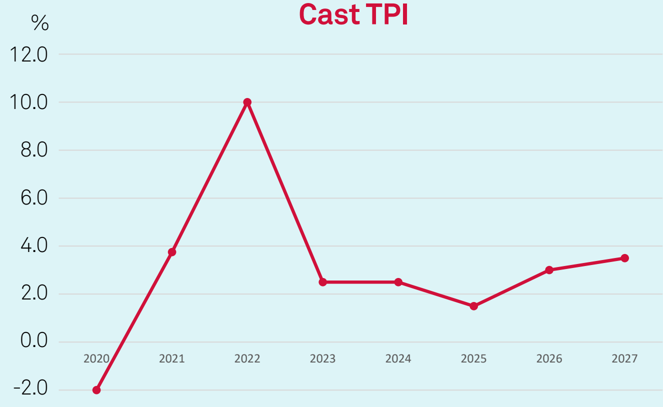
Cast and peer group views on TPIs

Cast's view is that all in TPI inflation for 2024, focusing on the residential and mixed-use sector, will be 1.5%. This does not include for the impact of the multiple regulatory changes set out on page 10.

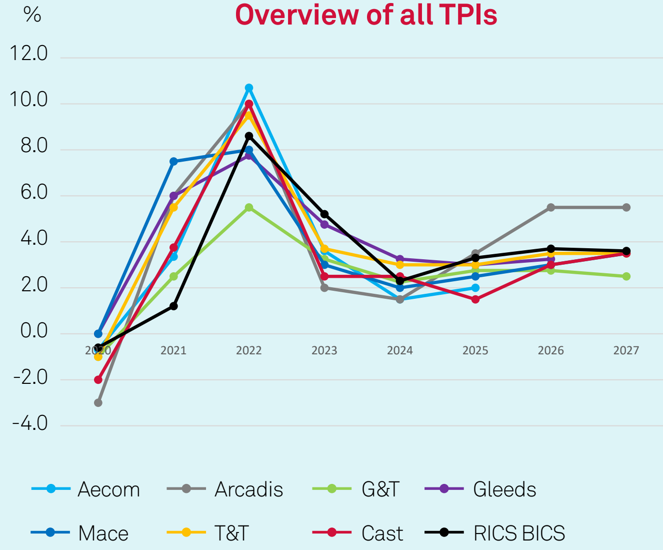
Tender Price Indices (TPI) – Status report (Q3 2024)

Year	Industry forecasts						Industry average (exc. BCIS)	Cast	RICS BCIS
	Aecom	Arcadis	G&T	Gleeds	Mace	T&T			
2019	1.9%	2.0%	1.0%	2.0%	1.5%	2.1%	1.8%	1.0%	2.1%
2020	-0.7%	-3.0%	-1.0%	0.0%	0.0%	-1.0%	-1.0%	-2.0%	-0.6%
2021	3.4%	6.0%	2.5%	6.0%	7.5%	5.5%	5.1%	3.8%	1.2%
2022	10.7%	10.0%	5.5%	7.8%	8.0%	9.5%	8.6%	10.0%	8.6%
2023	3.6%	2.0%	3.3%	4.8%	3.0%	3.7%	3.4%	2.5%	5.2%
2024	1.5%	1.5%	2.3%	3.3%	2.0%	3.0%	2.3%	1.5%	2.3%
2025	2.0%	3.5%	2.8%	3.0%	2.5%	3.0%	2.8%	2.5%	3.3%
2026	3.1%	5.5%	2.8%	3.3%	3.0%	3.5%	3.5%	3.5%	3.7%
2027		5.5%	*2.5%*		*3.5%*	3.5%	3.8%	3.5%	*3.6%*

Cast TPI



Overview of all TPIs

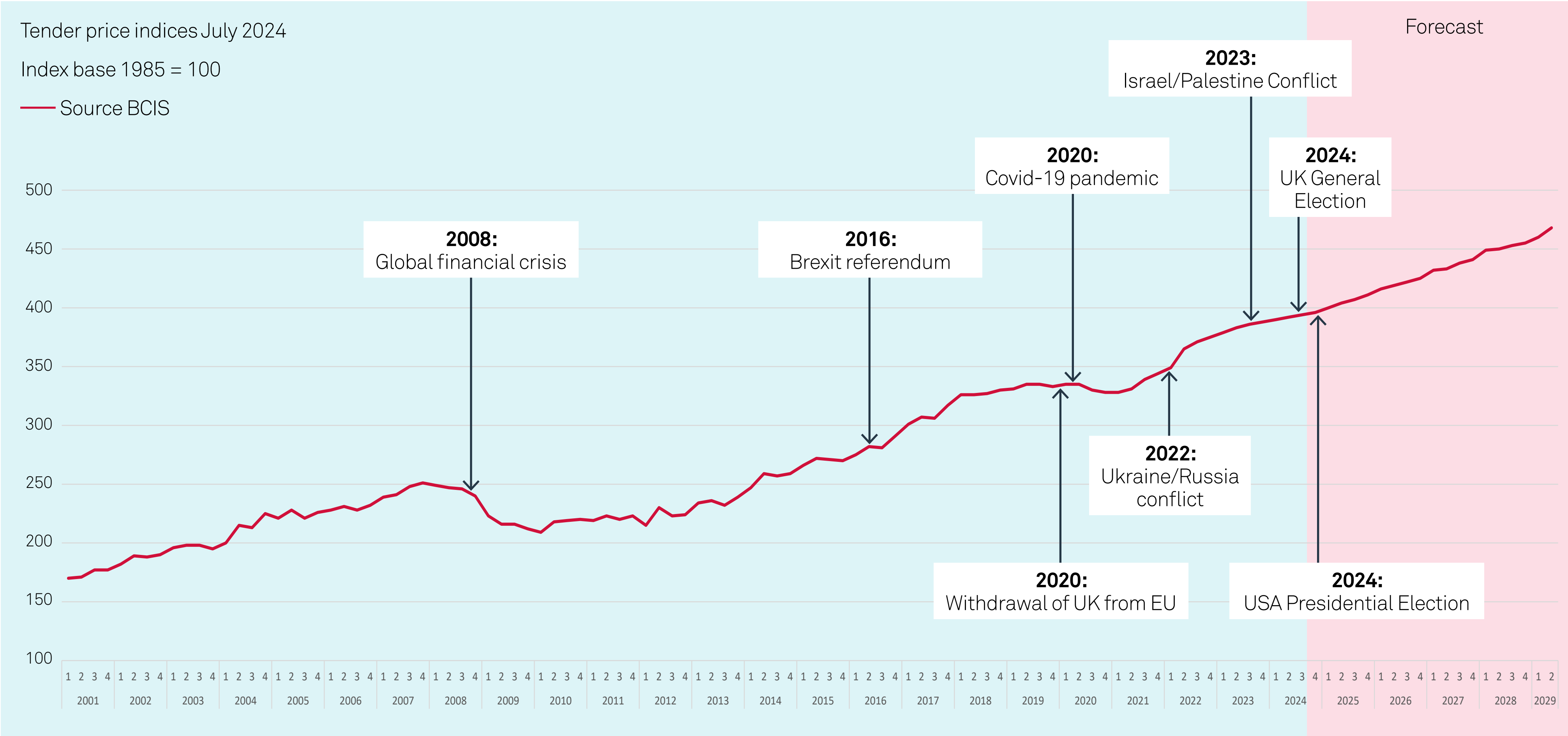


Sources

Aecom ....Market forecast:
Materials prices and margins are both set to come under pressure (July 2024)
Arcadis ....Market View Autumn 2024 – Reasons to be cheerful
Gardiner & Theobald........Tender Price Indicator (Q3 2024) – London TPI
Gleeds ....UK Construction Market Report Q3 2024
Mace.................................UK Market View Q2 2024
Turner & Townsend ....UK Market Intelligence Report – From contingency to continuity (June 2024)
BCIS..................................BCIS All-in TPIs (annual)

Long-term Building Cost Information Service (BCIS) TPIs

The below chart provides a snapshot of how key events have impacted inflation over the last 23 years.



Cast

What we are seeing

The following are some insights from our delivery teams as to how current market influences are impacting our projects. This commentary sets the scene for devising strategies to preserve viability and manage risk appropriately at a project level.

- Skilled labour
- Materials
- Insolvencies
- Building Safety Act (BSA)
- Environmental, social, and governance (ESG)
- General residential market
- Procurement

Skilled labour

Shortage of skilled labour is still a concern, despite a shrinkage in the housebuilder sector, mainly around the MEP, external envelope, and drylining packages. Main contractors are looking at ways to plug gaps and maintain programme, not always successfully. We are seeing some projects suffer delays, which has also impacted the quality of work. We expect this to continue into 2025, especially if the housebuilder sector grows. Changes to the CSCS cards and loss of "grandfather rights" in December 2024 will mean workers will need to requalify to get their card. It could also lead to some workers leaving the industry.

Materials

Generally we have seen material prices stabilise and, in some cases reduce, e.g. rebar, with levels approaching those last seen in 2021. Meeting carbon targets has placed pressure on supply of ground granulated blast-furnace slag (GGBS). Seeking sources further afield has negated some of the positive impact on carbon reduction. If this continues, prices may escalate. Copper prices have escalated this year and this will eventually impact MEP material prices. We are seeing pockets of delays of delivery of materials and goods, e.g. façade related materials, insulation products, and MEP products. This is mainly due to overseas manufacturing or transportation disruption.

Insolvencies

Supply chain insolvencies continue to be a concern. A number of our projects have been impacted with either suppliers or sub-contractors ceasing trading, in addition to main contractors. We are advising clients to undertake financial due diligence on contractors and in some cases major sub-contractors. This is particularly important for those that are struggling to meet performance bond provisions or requesting advance payments.

"The project is anticipated to be circa one month late due to façade/MEP subcontractor issues from material supplies and low labour force."

"There are challenges in getting the right level of MEP labour resource and competence on the project."

"The resource is well behind what is required which is delaying works and commissioning activities."

"The lack of designers and design managers will be a bigger issue in the next six months."

"Some materials due to pass through the Suez Canal were re-routed to pass around Africa due to the piracy threat in the Red Sea, adding approximately 2/3 weeks on delivery time."

"From the outset the contractor has struggled to adequately resource the project due to its size and geographical location, leading to a seven month delay."

"The cost of performance bonds continues to rise, which are a funder requirement on almost all projects. Concrete prices and brick labour continue to rise. Drylining has stabilised."

"Rebar has dropped significantly since 2020, buying now for as low as £1,320/tonne. In early 2020 this was as high as £1,700."

"Scaffolding and carpet installation sub-contractors have gone into administration on the project, resulting in a six week delay to the carpet installation."

Building Safety Act (BSA)

The BSA came into force in October 2023 and the transitional period closed on 6th April 2024. This now means that all higher-risk developments need to comply with the BSA requirements and provisions. The consequences of the BSA are still unknown. However, according to information submitted to the Building Safety Regulator for Gateway 2 approval, rather than taking the required 12 weeks, the decision is taking a lot longer. This obviously impacts development programmes as it places cost and delay risk onto the project. To mitigate such risks, it is vital that the right procurement strategy is developed from the outset for the specific scheme.

We may also see that some contractors will only accept a D&B route if they are appointed early in the design process. This is going to present opportunities and risks to both parties. It will be increasingly important that there is a commercial strategy with specification fully aligned to budget and supply chain pricing.

BSA requirements are a material factor in the consideration of procurement strategies. BSA gateways in particular place a premium on the administrative capability of the contractor, e.g. compiling submissions and maintaining change processes. We have seen examples of certain contractors not recognising how much this involves. This will become a key selection criteria, especially on higher-risk buildings (HRB).

Environmental, social, governance (ESG)

We are seeing that funder requirements for accreditations and the need to protect asset value are impacting design, costs and viability. It is therefore important from the project outset that such requirements are established and considered as value added, and not pure cost.

General residential market

The change of government has brought with it some stability and the early messages regarding the residential market have been positively received by the industry. With the commencement of interest rates falling, the cost of borrowing should improve which will improve viability and kick-start some of those projects that have been held dormant. We have seen some developers pre-empting interest rate movement and baking it into viability appraisals. These are encouraging signs of things moving forward. However, the BoE is still being cautious about cutting rates too quickly.

"The contractor has not been fully prepared for the requirements of the new Building Regulations. There is no increased scrutiny from funders on fire safety."

"A second staircase requirement resulted in a redesign and planning amendment (i.e. increased design costs, before works could commence on site)."

"The cost of debt has meant that the developer has paused all work."

"The Building Safety Act impacted the project. It now needs to go through GW2 and GW3."

"Carbon reduction has been ignored by the contractor and so that is likely to be an issue in the next six months."

"Currently we are still waiting for feedback from the Building Safety Regulator since the Gateway 2 submission 15 weeks ago."

"Insurance requirements are driving change (leak detection) and costs into the scheme."

"Loans based around sustainability targets seems to be a growing area and will impact project outcomes, together with requirements around BREEAM, HQM, and Fitwel targets (some of which are very onerous)."

Procurement

From a recent internal survey we are seeing that contractors are extremely engaged and keen to win work, but not at any cost. As several contractors have made changes at board level it will be interesting to see how this reflects itself over the next six months, especially as more work is expected to become available.

Two stage procurement is still favoured by the tier 1 contractors. Clients however still don't have confidence in two stage approaches. We are seeing that given the right level of design information made available, some contractors are willing to adopt a single stage approach.

Within the residential sector we think that the main contractor market could divide into two camps, based on size, complexity, and risk of development.

1. **Large/high rise schemes (more than £200m).** Contractor capability to deliver these is limited. Getting a contractor to agree to a fixed price will be challenging without impacting viability. The BSA limits the opportunity of breaking the works into smaller packages. Potentially for such schemes a construction management route may need to be considered, with the CM contractor picking up the role as principal contractor. However, a CM route will be frowned upon by funders and investors, unless they can get some surety on delivery. Some of the packages, due to size, will limit the choice of delivery sub-contractors. Achieving competitive prices will therefore be challenging and a premium may become applied to such schemes.

2. **Less complex and lower value schemes** means a greater choice of main contractors and sub-contractors. We would expect such projects to create a more competitive environment. We are currently seeing contractors are open to the single stage procurement route, especially those who are vertically integrated and we expect this to continue through into 2025 and 2026. A greater number of contractors operate in this project value band and competition to secure pipeline for the next year will be strong. Any developers with projects of this size looking to procure in the next six months may be in an advantageous position subject to the continued need for supply chain due diligence noted earlier.

"BSA will be used by contractors to try and scare clients to enter into even earlier PCSA agreements and/or push for CM type contracts. There is a need to have a compelling procurement proposition to counter this approach as it will just cost clients more for even less value. We may find a group of contractors generating a competitive advantage through single stage tendering and a value add approach to pre-contract advice. This experience also highlights the opportunity for a different approach to procurement/ commercial management under two stage D&B."

"Contractors are looking to fill order books but we have not seen a huge drop off in pricing yet. The regional cities seem to be busy but the contractor market in London seems to be looking for work. Vertically integrated contractors will always be busy and we need to be careful that the impacts of the last three years will not put pressure on contractor's cash flow."

"Negotiated single stage has worked well on a circa. £106m project. We've also tested the market recently for a smaller scheme (£27m) and there is appetite with tier 2 contractors for single stage. Many contractors are looking to fill their pipeline for 2025."

Contact us

Cast is an integrated residential-led consultancy focused on helping our clients deliver great homes and places viably whilst also addressing bigger economic, societal and environmental challenges.

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