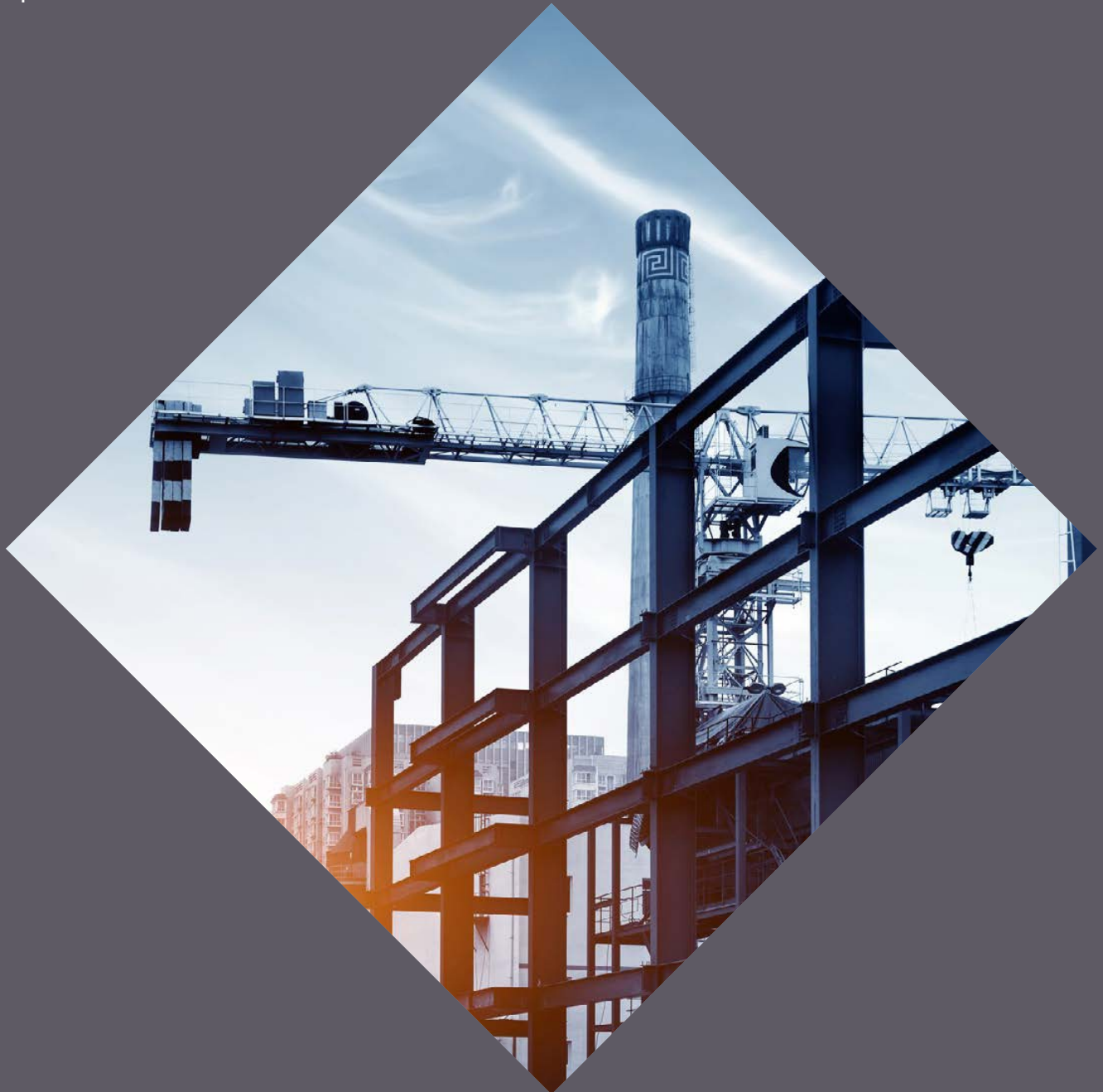


MARKET INSIGHT

Inflation on Construction Materials

Market update

April 2023



Foreword

What has happened so far in 2023?

Our cement, concrete and steel predictions have already been realised in Q1 of 2023. Inflation appears to be tracking at 3.5% in 2023 based on the current market sentiment for residential, student and office led sectors. Whilst it is too early in the period to advise on the outcome for 2023, the current outcomes and indicators suggest that 3.5% is acceptable.

With regards to driving pressures, procurement and contracting are key considerations for most clients. Main contractors are beginning to diversify their supply chain of sub-contractors and are exploring mixing across tiers to remain competitive, with some looking further afield to eastern and western Europe (cladding, glazing and MEP).

It is important to acknowledge that in the current market although inflation is a key driver of cost increases, there are changes to building regulations which are also impacting cost certainty and direction. Cumming Group is closely monitoring how these are affecting our clients, and advising on how we can pre-empt these.

This report will endeavour to look ahead into Q2 of 2023, and outline what we predict to be expected in terms of material impacts, driving pressures and more.

Material impacts

Concrete

Our predicted increase at £12/m³ in the year has been realised in the first quarter, which poses the question, will this now be further increased in the period? If so, further consideration to construction methodology and building technologies need to be reviewed and understood to ensure the construction market is not hampered. However, early indications imply that this element has reached its peak. The increase in concrete costs have also impacted cementitious and concrete products such as kerbs and slabs which have added a further 8.8% to existing costs.

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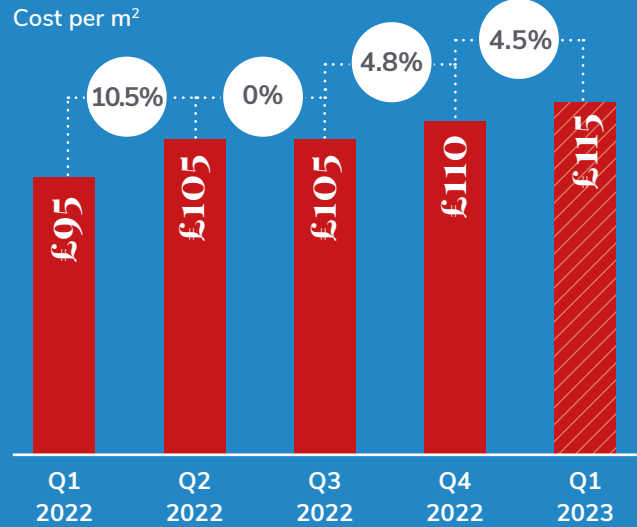


Plasterboard and Insulation

Plasterboard, metal stud and insulation products have seen a significant rise of between 15-20% driven by higher production costs, but also shortages within the market and the larger contractors buying up in bulk. This equates to a cost increase on an installed / laid plasterboard, inclusive of metal stud and plasterboard, of circa £17/m².

Other considerations need to be taken into account relating to insulation and the impact of Building Regulations and the Building Safety Act. For example, we have seen increased values on roof and wall build-ups along with the requirement for noncombustible insulation roof build-ups which can add significant costs to a project.

Plasterboard, Metal Stud and Insulation Increases



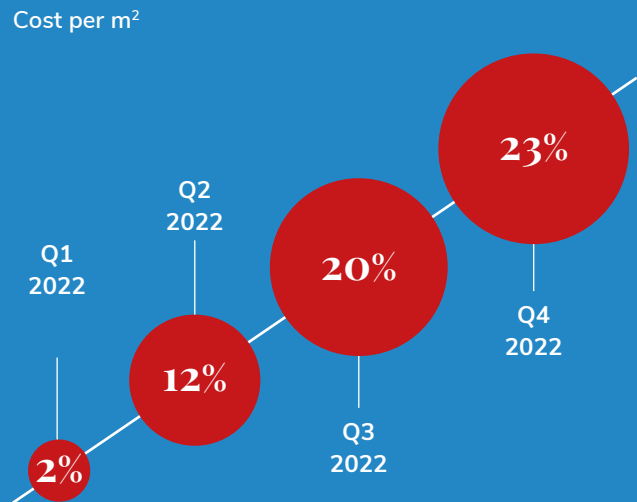
Source: Cumming Group

Mechanical, Electrical and Public Health

The current impact on a typical electric system inclusive of air source heat pumps (exclusive of lifts, bath pods and incoming services) within a North West Build to Rent scheme has seen an increase of £8,000 per unit, which based on a typical project equates to approximately 23%. Similar findings have been reported in London, with increases between £8-10k being seen on standalone blocks.

However, market indicators suggest that prices are now leveling out. Some elements are reducing in price, as manufacturing has increased back to pre-pandemic levels alongside commodities prices also steadying.

MEP % Increase Splits BTR Average



Source: Cumming Group

Steel

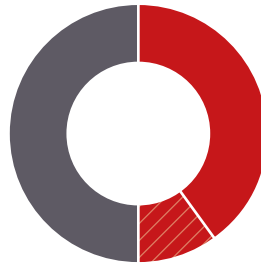
The steel market is in flux at the moment, the government is trying to gain support from China to provide funding and bail out British Steel whilst also seeking circa £600m from elsewhere. In a recent letter to current Prime Minister - Rishi Sunak, Unite's General Secretary Sharon Graham commented that whilst she welcomed the injection, even this sum fell short of the contributions France and Germany are offering their steelmakers.

It is thought if a deal could be agreed with the parent company, Chinese group 'Jingye', it would provide a £1.2bn boost which would include modernising facilities meaning increased production and reduced costs. In addition to this, British Steel has recently announced a major deal with Guinea for rail sleepers - therefore expanding business overseas.

Primary steel costs are typically running £3,000 per tonne on larger schemes and whilst we are seeing this drop to £2,800 it is still a large increase from 18 months ago, when we were sub £2,000 per tonne. Rebar unbent is fluctuating between £1,100 and £1,200 per tonne which equates to £1,600 to £1,750 per tonne laid in the current market.



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40-50%
increase in primary steel
cost per tonne over the
last 18 months

Source: Cumming Group



Driving pressures in Procurement & Contracting

1



Contractor capability and cash-flow

Contractor capability and financial standing are two important factors being considered by most clients and professional teams in the current market.

Understanding and transparency are key throughout the life cycle of a project.

2



Selective approach to tendering

The sentiment of the main contractors is that they are still busy, but more selective in their approach for a negotiation or two-stage tender, to ensure they target the projects which are further in the process to secure pipeline.

3



Risk-sharing mechanisms

The market is experiencing a period of slow down due to construction cost and borrowing rate rises. This market trend has resulted in some contractors actively looking for work.

On two-stage and negotiated projects, many contractors are still keen to propose risk sharing mechanisms on open book procurement.

4



New clients vs repeat business

High levels of selective tenders were experienced in Q4 2022, whereby contractors favoured repeat business and longer pipelines of works rather than one-off tenders with new clients.

There is a perceived view that this will change as the year progresses, as less projects go out to the market and contractors need to fill their order books.

5



Contracting Market

The volatility of the main contractor and sub-contractor market is variable depending on region, procurement route and contract form.

In Q4 2022 and Q1 2023, there have been clear signs in the market of the impact of the cost inflation pressures with main contractors unable to complete works, sub-contractors unable to survive the duration of projects and greater scrutiny on the market prior to contract payments.

6



Funding challenges

The funding market is also proving difficult at the moment with a number of projects being put on hold or seeking further rounds of investment for other funding sources.

In some cases, funders are employing 3rd party consultants to undertake detailed reviews of costs, programmes and risk profiles to assist the decision process to release funds.

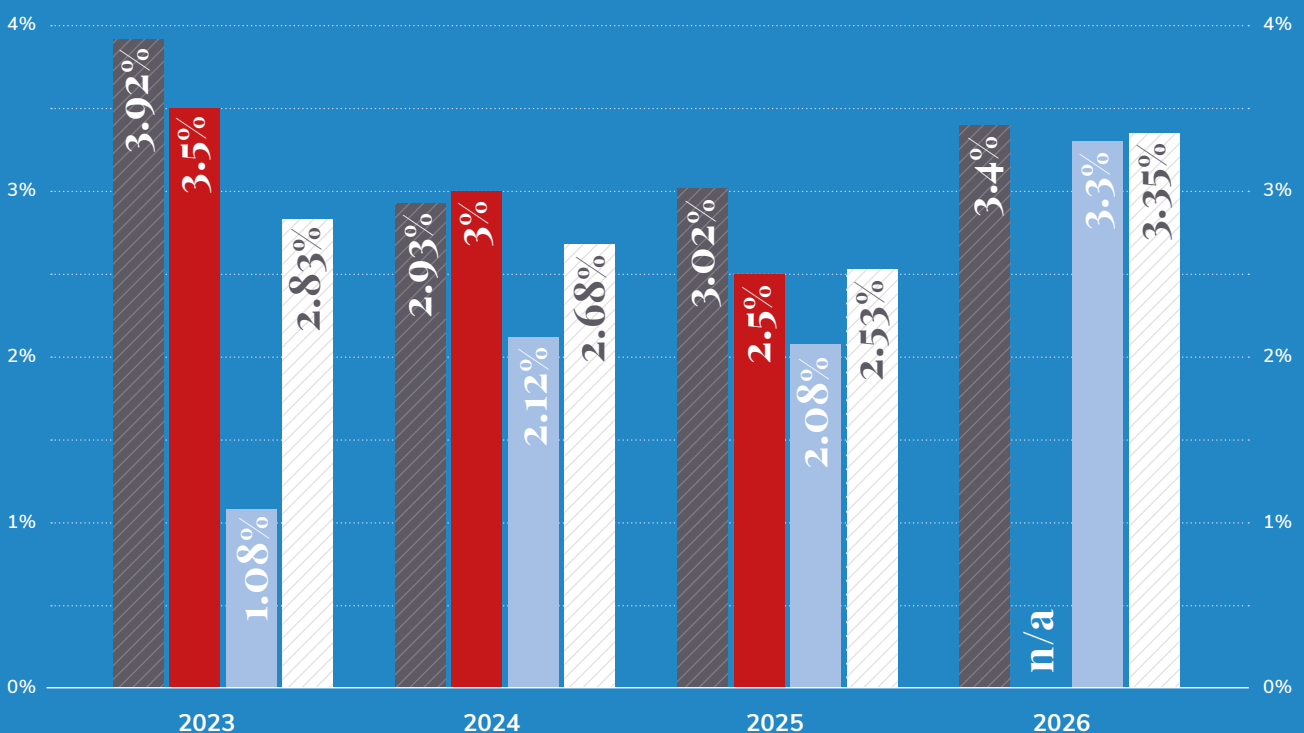
Inflation - Market predictions

In the last few months, our competitors and cost analysts have downcast their 2022 inflation reports from their initial predictions. As an average, 2023 has been downcast from circa 4.41% to 3.56%, which with a drop of just under 1% (0.85%) brings this average in line with Cumming Group's predictions of 3.5%. The 2024 average has been downcast from circa 3.2% to 2.85%, which again, with a drop of 0.35% is in line with Cumming Group's predictions of 3%.

Some of the drivers which have led to the downcast include difficulties within the funding market - meaning projects going temporarily on hold and contractors likely finding gaps in their workbooks towards the final quarters of the year in 2023 creating the potential for more competitive prices.

Year-on-Year

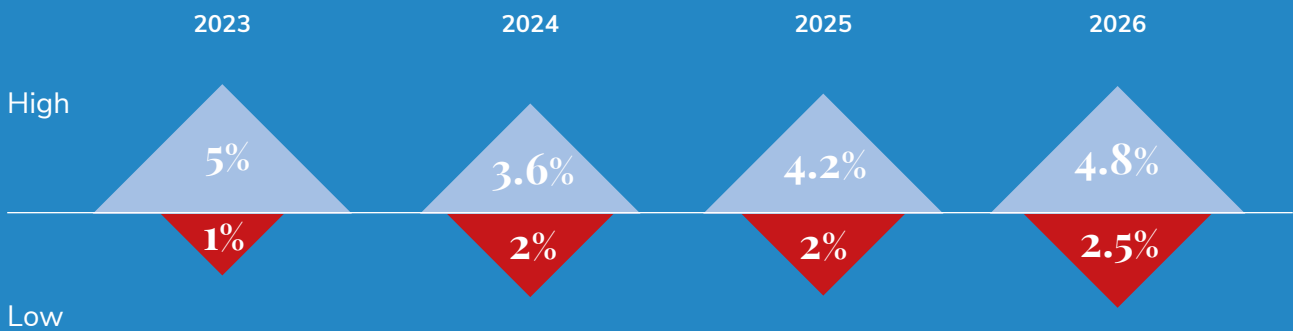
■ Consultant Average
 ■ Cumming Group
 ■ BCIS
 ■ Average



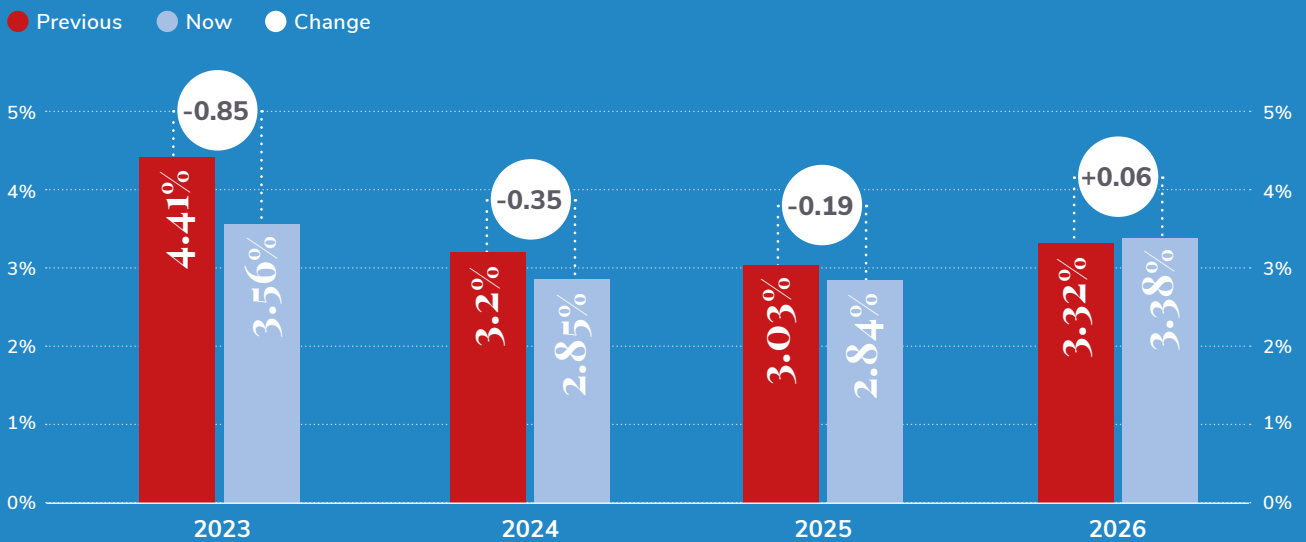


To ensure Cumming Group is on the cutting edge of market changes, we are engaging with a broad range of suppliers, sub-contractors and main contractors to test across all elements of construction. In addition, we are assessing efficiencies on all schemes to ensure the most robust level of service and cost certainty is provided to our clients.

Highlights



Average



Cumming Group is a leading international project management and cost consulting firm. A talented team of project managers, cost consultants and surveyors throughout the U.S. and the EMEA region, provide high quality service and creative solutions to ensure that projects within the hospitality, workplace, housing, logistics and education sectors are executed on time and within budget.

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Important Note

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