

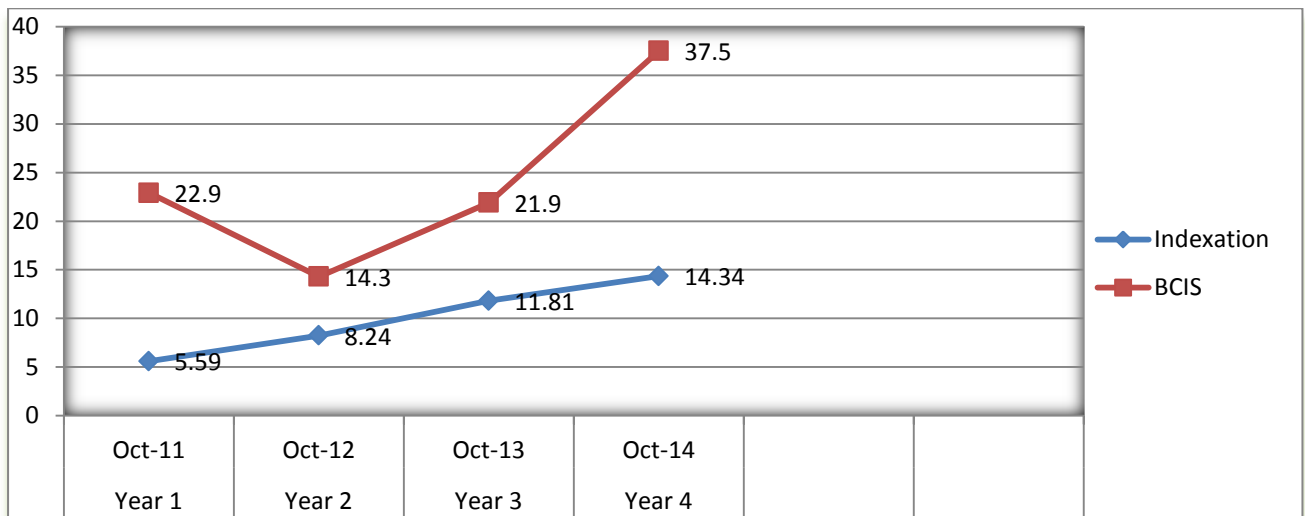
Housing Scrutiny Committee

16 November 2015

Capital Programming Witness Evidence

Building Inflation Data: Further Information

BCIS Cost Updates



Key Changes in Tender Price Inflation 2011

- Tender prices for the first half of 2011 increased as compared to the previous fourth quarter of 2010. The increase was mainly attributed to the increase in preliminaries costs driven by fuel price hike as well as increase in concrete prices.
- Material costs and wages were rising.
- Building costs throughout 2011 rose steadily.

Key Changes in Tender Price Inflation 2012

- The year showed little sign of tender price growth as economic weakness hit output and confidence.
- Forecasts for tender price increases across the UK were flat for 2012.
- The rates of increase in tender prices were subdued; slowing from previous quarter's forecast.
- The UK construction industry continued to feel the effect of global economic slowdown, the key during 2012 was to maintain business against declining output.

Key Changes in Tender Price Inflation 2013

- Major economic growth in Q2 and Q3.
- Prices edged up in the third quarter as a result of emerging increases in output, new orders and renewed optimism.
- Occupier demand as a result strengthened and positive rental growth spread beyond London for prime properties.
- Improved confidence in the economy and the property market , investment demand increased noticeably in Q3 and transaction levels in 2013 were the highest since the market peaked in 2007.
- Development activity in London strengthened and office and residential construction was at a high level reflecting strong occupier demand.

Keys Changes in Tender Price Inflation 2014

- An increase in the construction output.
- The All in TPI increased in 2014, with growth strong regionally as well as in London. Prices were driven by wage increases and the lack of capacity in the market as contractors respond to the increasing workload, tempered slightly by the reduced cost of European imported materials.
- Construction costs continued to rise, the speed of recovery was quick over the second and third quarter of 2014 representing a market shift, largely driven by growth in the residential market, responding to both local needs for new homes and continued overseas investment demand for UK residential.

Current Market Status

The construction market continues to be very busy across the UK particularly in Central London markets and generally in the South-East. Contractors are being project selective, basing decisions on their available resources, the likelihood of success (negotiated / long tender list) the client (if they are known / long term prospects) and the complexity of the work. Overall there is hesitancy to tender for works where they are expected to accept unnecessary risk.

“Construction tender prices are set to rise by 28% over the next five years, according to the Royal Institution of Chartered Surveyors (RICS).”