Southern Construction Framework

Market Intelligence

Q4 2024

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"While we do have a better market understanding, we remain in a period of uncertainty. Although cost predictability from the supply chain has improved over the last 12 months, it may become increasingly challenging to predict costs for the next year due to insolvencies, Building Safety Act delays, and upcoming rises in national insurance and the minimum wage."

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Data Insights

As part of SCF's commitment to collaboration and transparency, every quarter, SCF main contractors gather market intelligence from the construction industry directly through their trade supply chains. Our intelligence analyses data across 11 key trade packages from across the south of the UK, identifying regional market trends and forecasts for the following year.

Professional consultants from the SCF Consult framework also share their valuable monitoring of the construction market and provide supporting commentary on the returned data.

Data for this report has been formed from over 150 subcontractors from across the south of the UK, providing a real-time indication of market trends from those directly involved with construction. We share this information with our clients to highlight key areas of risk that may impact on project delivery.

SCF main contractors, consultants, and clients can use this information to predict pressures and opportunities in the market, to make decisions about material specification, construction methodology, off-site or automated construction techniques and project planning and programming, ensuring the best possible decision making to deliver maximum value.

Tender Workload

When compared to last year, our data shows an average increase of 0.79% in tender workload. This is relatively minimal when compared with previous years, suggesting that confidence in public spending remains cautious. In their latest "Construction Review" Glenigans affirm this observing that development pipeline has weakened, and 'few major projects (over £100 million) broke ground in the three months to January'.

Table 1: Annual change in tender workload (%)

Q4 2021	Q4 2022	Q4 2023	Q4 2025
5.14%	5.87%	4.28%	0.79%

Given the inflationary pressures across the sector over the last four years, predicting tender workload remains challenging. In Q4 2024, the average tender workload decreased by 1.77% across all trades. Similarly, data from the ONS shows new orders to have fallen by 2.4% in Q4 when compared with the previous quarter.

The trades with the largest change this quarter were:

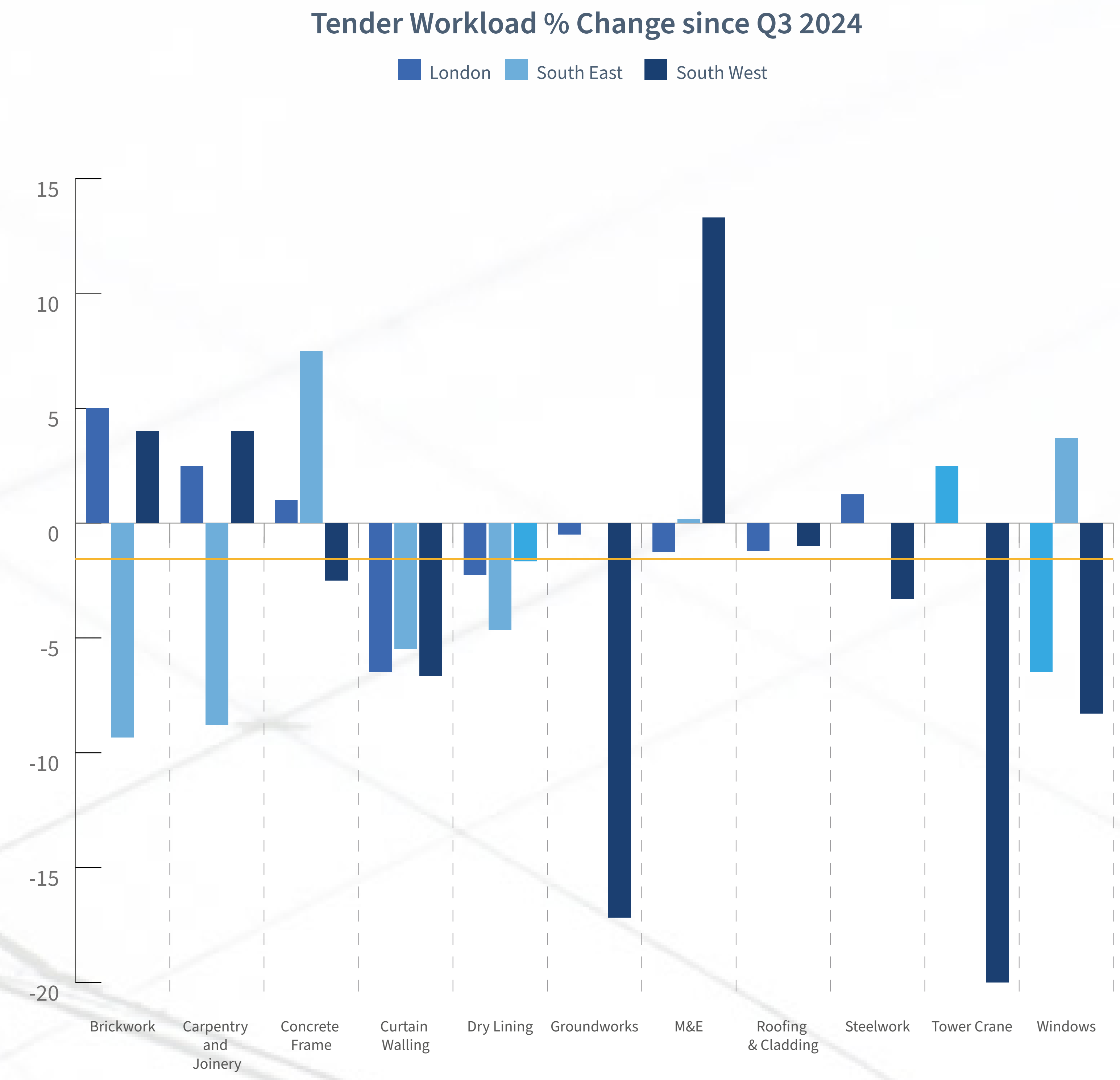
- Groundworks: -7.5%
- Curtain walling: -6.24%
- M&E: +5.40%

The most notable observation is the decrease in the tender workload for early trades, in contrast to packages required further along in construction. This decrease, particularly in groundworks, could be due to more building recycling, shifting the focus from new builds to re-purposing existing buildings. This is most evident through the rise in M&E, with our recent supply chain survey indicating a potential shift towards more energy efficient solutions. This is a trend we expect to continue to see, particularly in the residential sector, following the Labour government's "Warm Homes Plan". An investment of £6.6bn has been committed to support the decarbonisation of homes through energy efficient upgrades, including grants for heat pumps, insulation, and solar panels.

Construction Industry Challenges: Insolvencies and Legislative Impacts

Over the past few years, the construction industry has experienced a sustained high number of insolvencies, with the Insolvency Service reporting a 25.3% increase compared with pre-pandemic in 2019. Whilst the full impact of high-profile cases like the ISG collapse is still unfolding, it has been observed that some subcontractors are more cautious over their bid choices, opting to bid projects with a high likelihood of proceeding to site and strong main contractor solvency.

This cautious approach is further heightened by the recent Building Safety Act, which Construction Enquirer notes has resulted in over 800 high-rise projects being put on hold. Additionally, the recently announced delay in the previous Governments "New Hospital Programme" may also impact the supply chain, as many partners were relying on this work to come through. These combined challenges highlight the need for strategic planning and adaptability within the industry. Overall, the above factors continue to make managing cash flow a challenge.



SCF Top Tip

To mitigate this, SCF recommends a robust procurement strategy for subcontract packages. The formation of a joint procurement strategy forms an integral part of our governance; rigorous testing is essential to identify the best subcontractor, who can handle the project demands without being too small to manage the workload or too large to lack flexibility, for each package.

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Building Cost

In Q4 2024, we observe a 1.87% increase, when compared with Q3. This quarter's top trades are:

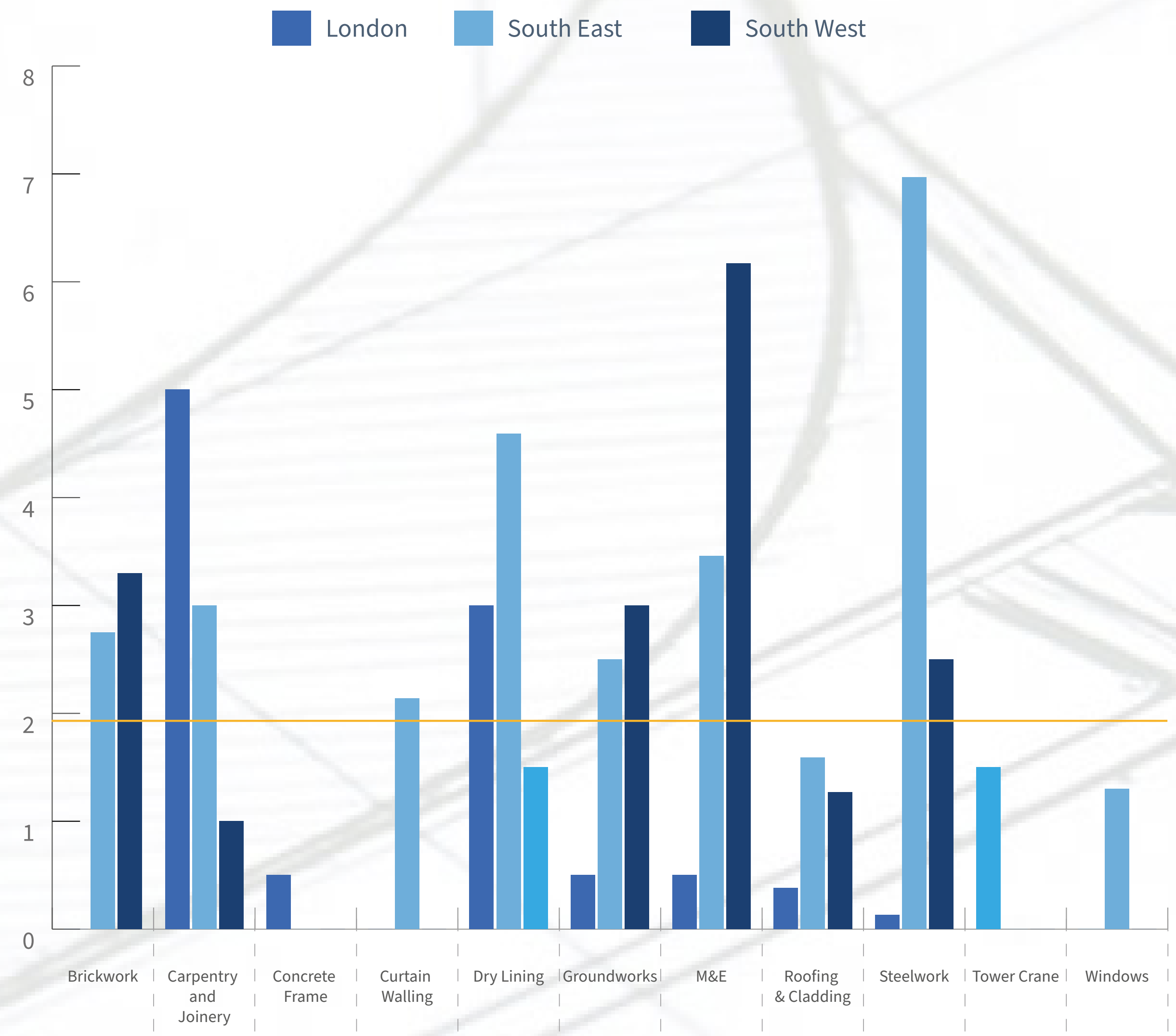
- M&E: 3.77%
- Steelwork: 3.10%
- Dry lining: 2.81%

With tender workload decreasing, this may imply a more competitive market. However, our building costs increased by 4.95% when compared with the same time last year, which currently sits above inflation for December24 at 3.5%.

To overcome weaker pipelines, one factor that may be influencing the rise in building costs is subcontractors migrating from saturated marketplaces into geographical areas which they would not typically service. This could lead to additional costs factored into pricing associated with travel and accommodation.

The rise in building costs may also be influenced by the increase in insolvencies. Although the full extent may not yet be evident, in some cases we may see higher costs as a strategy to recover lost income.

Building Cost % Change since Q2 2024



Employment

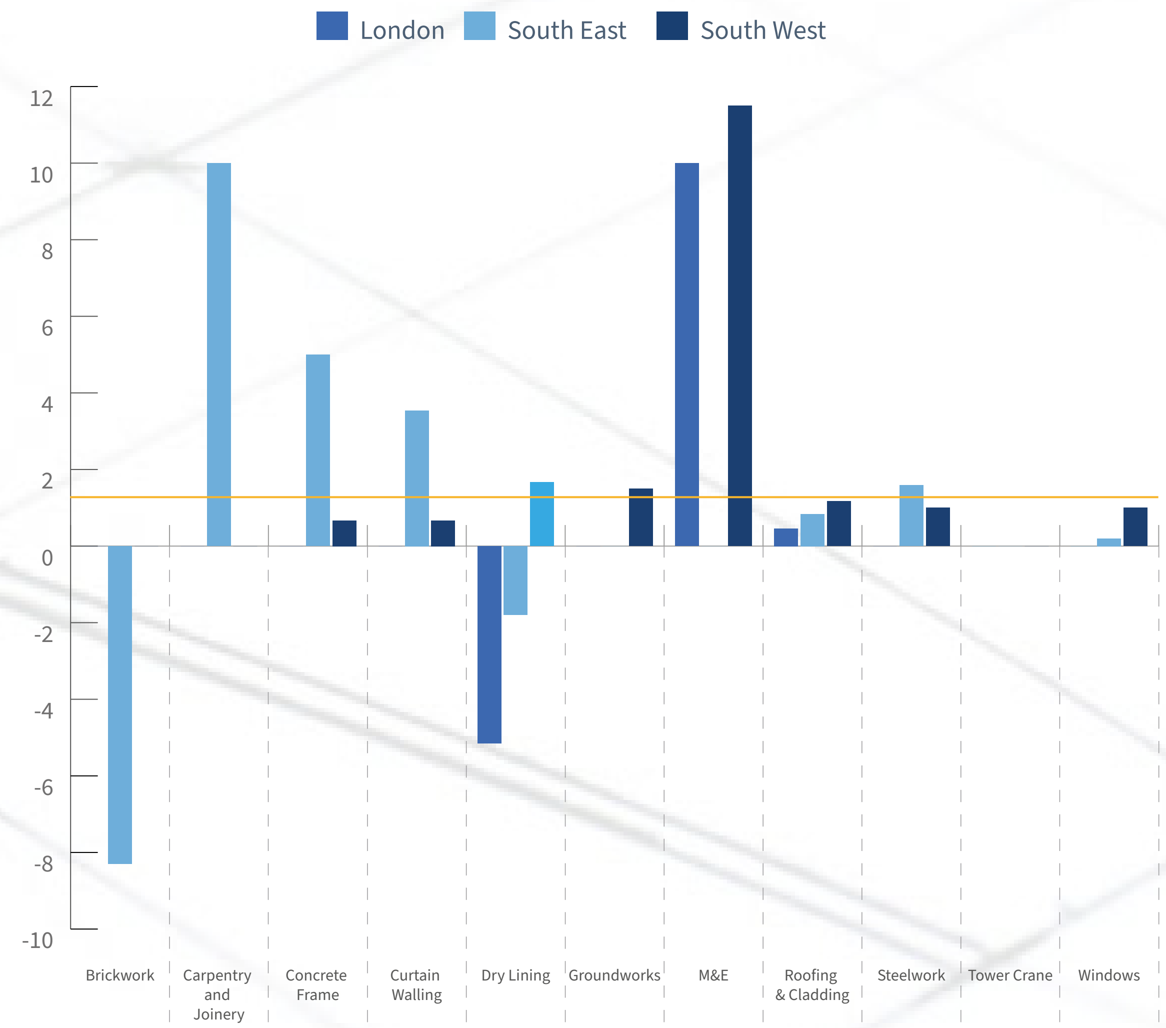
From April 2025, the national insurance rate is rising from 13.8% to 15%, set to further heighten building costs. According to projections by Arcadis, this increase is expected to raise construction costs by approximately 1%. This rise, coupled with the scheduled increase in the national minimum wage, could cause hesitancy among employers to undertake new recruits.

In addition to this hesitancy, long-term barriers to employment, including an ageing work force and a skills shortage remain prevalent. Additionally, as pre-construction periods are elongating and certainty of projects progressing to site has weakened, this is making it increasingly difficult to predict staffing needs. Further heightening the challenges in investing time and resources into recruiting, training, and retaining staff.

SCF Top Tip

As supported by the new Procurement Act, clients should look to publish pipeline early to the supply chain. Early visibility of workload can help support businesses with forming long-term workforce development plans and provide confidence to invest in apprentices and new entrants to the industry.

Employment % Change since Q3 2024



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Looking Ahead

Tender workload

Tender workload is forecast to increase by 4.72% by Q4 25. The trades with the largest expected increase include:

- **Brickwork 13.22%**
- **M&E 9.4%**
- **Groundworks 8%**

Employment

Trade suppliers forecast employment to increase by 3.90%, the trades with the largest anticipated increase are:

- **Brickwork 7.87%**
- **Dry Lining 7.33%**
- **Curtain Walling 6.64%**

Building Cost

Building cost is anticipated to increase by 4.95 %, the trades with the largest increase included:

- **Brickwork 6.08%**
- **Windows 5.86%**
- **Dry lining 5.67%**
- **Curtain Walling 5.46%**

Material Availability

Material lead times are expected to remain fairly constant over the next 12 months with an anticipated change of 0.82 weeks forecast for Q4 2025. The trades with the anticipated increase in lead time are Carpentry & Joinery (+ 2 weeks), M&E, Roofing and Cladding, and Windows (+ 1 week)

SCF Consult: Look Ahead

In addition to the issues raised by the supply chain, there are also a variety of other uncertainties pushing back projects and causing delays. Firstly, there is a lack of clarity about just what the future budget for local authorities and public sector clients will be. While the government made detailed promises about the capital expenditure budget for the 2025/26 fiscal year, there is no guarantee about what each department will receive in future years. This creates a risk of future funding cuts and given the length of time construction projects take, is likely to leave some on pause until the review is complete. Due to be ready in June, this should mean greater certainty in the second half of the year, with challenges only slowly dissipating.

In a similar vein, there are ongoing concerns around the government's fiscal position. Its lack of headroom came under particular scrutiny in January, following a large move in the gilts market. Last year's Autumn Budget gave the chancellor headroom of approximately a third of what previous chancellors had faced since 2010. When yields on gilts moved higher, it meant higher government borrowing costs and could have caused the government to break their fiscal rules. Bond prices have since eased back, but the relatively precarious nature of the government's finances, only adds to the uncertainty caused by the wait for the spending review.

Gilts usually move in-line with the Bank of England's base rate, and one reason for their recent shift up is an expectation that future interest rate cuts may not be as forthcoming as hoped. At their meeting at the start of February, the Monetary Policy Committee cut interest rates from 4.75% to 4.5%. This was widely expected and a desirable move for the construction industry. Less welcome was the change in their forecasts. The Bank now expects the economy will muster growth of just 0.75% this year, half of what it was previously forecasting. At the same time, they have revised up their forecast for inflation, suggesting it will now peak at 3.7%, noticeably higher than the previous forecast of 2.8%. While weaker growth would suggest lower interest rates, higher inflation may limit the number of future rate cuts. For construction, the risk

is that developers believing rates will stay higher for longer will find it harder to make their viability assessments stack up, and thus delay potential projects.