The East Midlands market
A contractor's view

East Midlands EXPO 2021

Broadmarsh MSCP, Nottingham

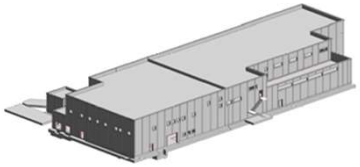
GallifordTry

Building East Midlands

A brief introduction

Part of Galliford Try PLC, a FTSE-250 national contractor

- We operate across the wider East Midlands, from Lincolnshire to Bedfordshire
- Around 100 strong, we are based in Leicester
- We deliver circa £85m of projects yearly for both public and private clients across sectors like education, health, defence, commercial, urban living and many others
- You would have seen our work in Nottingham, where we've recently delivered the new Broadmarsh MSCP for Nottingham City Council
- Our national presence and local footprint gives us a unique insight into current market dynamics



Recently secured projects in
Milton Keynes, Nottingham, Derby, Leicester, Lincolnshire and Derby

2021 in review

How was it for you?

Lower Parliament Street PBSA, Nottingham

2021 in review

How was it for you?

Entering into 2021, the factors were:

- Covid-19
- Brexit

As we exit 2021, the factors are:

- Demand:
  - Brakes released on multibillion-pound pipelines
- Supply:
  - Shortages of both of materials and manpower
  - Inflation
  - Energy price increases

Key 2021 Trends:

Demand

Public & Private Spending

Billions of pounds entering the construction pipeline

- Brakes released on UK Government pipeline:
  - Education - £2.3bn
  - Defence - £5.1bn
  - Health - £6bn
  - Custodial – £5.9bn
  - Highways - £15.3bn
- UK and International investor appetite
  - PRS/BTR and PBSA
  - American investment in schemes and M&A market
- Global picture influencing local conditions

Key 2021 Trends: Supply

Material shortages

- Increased demand for supplies
- Interruption of production due to Covid-19 lockdowns
- Shipping issues: Suez Canal and China port closures
- Unavailability of shipping containers
- UK ports backlog
- HGV crisis affecting site deliveries

More than 8 in 10 SME builders had to delay work*

*Federation of Master Builders (FMB)

Key 2021 Trends: Supply

Material shortages

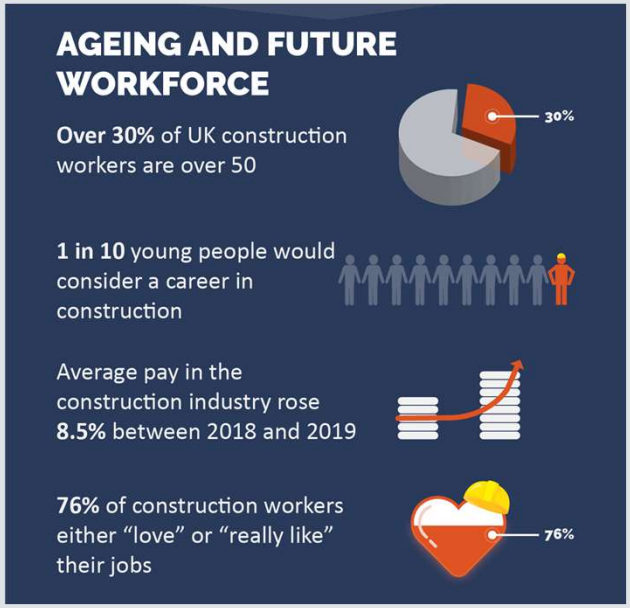
Extended delivery periods and allocations imposed on supply

- Concrete and aggregates – larger orders on increased delivery periods
- Bricks – lead in periods extended, occasional book closures to allow for production to catch up with demand
- Plasterboard/plaster – on allocation for most of 2021, metal stud partitioning extended from 1-2 weeks to 4-6 weeks
- Glass – additional 3-4 weeks added to delivery periods
- Containment & Fixings – No longer available ‘off the shelf’

Key 2021 Trends: Supply

Skills shortages

- Brexit exodus exacerbated by Covid-19
- Construction trades not added to protected occupations lists by Government
- 40% of SMEs finding availability of workers a “significant challenge”
- Rising wages starting to become an issue
- Ageing workforce in an industry with an image problem



Construction vacancies top 40,000 for the first time*

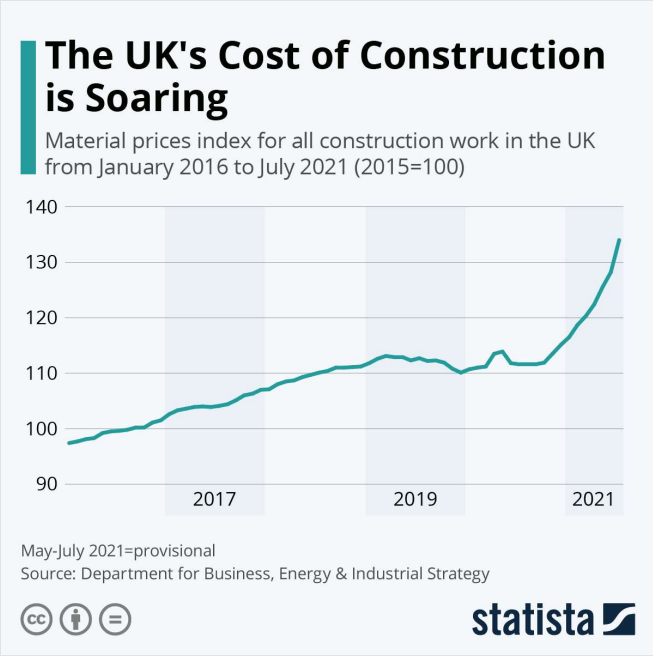
***Office for National Statistics (ONS)**

Key 2021 Trends: Inflation

Inflation

20.1% year on year (July 2021)

- Affecting timber, fabricated structural steel, bricks, concrete, etc.
- 58% of UK construction subcontractors struggling with cost and lack of availability of raw materials*



***Subcontracting Growth Report* from Bibby Financial Services (BFS)**

Key 2021 Trends: Inflation

Structural steelwork

- Increases in past 12 months approx. 90-100% on an incremental basis:
  - November 2020 - £40/t
  - December 2020 - £80/t
  - January 2021 - £50/t
  - March 2021 - £30/t
  - May 2021 - £50/t
  - May 2021 - £100/t
  - June 2021 - £80/t
  - October 2021 - £30/t
  - November 2021 - £30/t
- Since July 2020, increase seen in structural steelwork sections of £490/t

Key 2021 Trends: Inflation

Ready Mixed Concrete

- Increases in past 12 months on an incremental basis:
  - January 2021 – £6.25-£7.50/m³
  - June/July 2021 - £1.60-£2.60/m³ for carbon tax
  - November 2021 - £9.00-£12.25m³
- Carbon surcharge being increased, had been uplift on concrete rates since 1st July 2021
- Red Diesel Levy also being added by suppliers from 1st April 2022

Reinforcement

- Fluctuating prices based on global demand, significant increases over the last 12 months:
  - November 2020 – June 2021 - £180/t
  - July – November 2021 - £170/t

Key 2021 Trends: Inflation

Timber

- Average costs going up in excess of 50% this year so far

Aluminum Windows/Curtain Walling

- January 2021 – 6-12%
- July 2021 – 6-12%
- October 2021 – 12%

Bricks

- January 2021 – 2-4.25%
- April 2021 – 3-5%
- October 2021 – 10.5%

Plasterboard/Dry Lining

- January 2021 – 4-7%
- April 2021 – 5%
- August 2021 – 2.9%
- November 2021 – 9.5-23%

Key 2021 Trends: Inflation

Commodity	Increase	Percentage (%)	Impact on notional new build Primary School
Structural Steel	£480/t	90%	£150k
Reinforcement	£350/t	60%	£25k
Concrete	£22/m^3	15%	£10k
Dry Lining	£30/m^2	30%	£40k
Bricks	£20/m^2	20%	£30k
Windows/Curtain Walling	£100/m^2	30%	£75k
M&E (various)		8%	£150k

The Market as we exit 2021

Construction industry faces key challenges

- Correction in the market seen since early 2020:
  - A clear danger zone was created
  - Already seeing increased levels of corporate failure
- Local casualties include nmcm and Wildgoose – 23 construction firms entered administration in October 2021 in the UK
- Businesses caught in fixed priced contracts with escalating prices:
  - Losses
  - Liquidity issues for smaller businesses

Looking to 2022

A main contractor's perspective

MATERIALS SHORTAGES

Procurement in an inflationary market

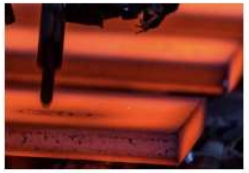
By Simon Rawlinson

You can't build, build, build if you don't have the materials

By Tom Lowe

Market forecast: Bouncing back

By Michael Hubbard



Steel prices jump for seventh time this year

British Steel to curb output at section mills as production costs soar — 1 day ago

Industry to be hit with 16% cement price hike

Producers set out plan for big price jump taking 12 month rise to over 30% — 1 week ago

Material suppliers expect prices to rise over next 12 months

01 NOV 2021 | LEAVE A COMMENT

Nine out of 10 material suppliers expect costs to increase further over the next 12 months, according to the Construction Products Association. In its latest State of Trade Survey, 87 per cent of heavy side manufacturers – producing items such as cement, blocks and concrete – and 90 per cent...

Material costs 'set to rise further' due to higher energy prices

28 OCT 2021 | 1 COMMENT

The recent rise in energy prices is expected to push up the cost of some construction materials, the Construction Leadership Council (CLC) has warned. Heavy-side materials, including ceramic products, glass, steel and bricks could "soon" see significant price rises. The CLC said: "Cement supply, though struggling for example, is holding...

Slide 15

NG(T3 Neus Garriock (Galliford Try), 10/11/2021

What does it mean to us?

- Understand the financial stability of your delivery partners
- Rising tender prices with increased variation between tenderers, different assumptions
- Reduced willingness to hold tender prices for extended periods
- Tenders with good design information more desirable: ability to place early orders
- Programme periods revised to reflect resource availability
- More dynamic programmes, responsive to resources availability at short notice

All we need for 2022 is…

A construction industry wish list

- Collaborative working relationships – decisions made in the best interest of the project, especially when goods become economically unavailable
- Sensible T&Cs that consider market supply issues
- Highly developed designs to enable swift placing of orders
- Careful specification pre-planning to minimise supply shortages impacts
- Creativity on materials specification and alternative products
- Schemes that are affordable, quick and planning-friendly
- Attractive projects – buildable buildings where people want to work, live, learn and play

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