

SCF- 2016 Market Intelligence Review

Overview

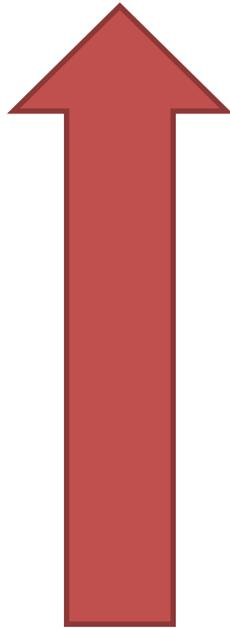
Over the last few years, the construction industry has been experiencing unpredictable market pricing, availability of materials and skilled labour. To monitor this, SCF have issued Market Intelligence Surveys, on a quarterly basis, to understand trends in the industry. This has become ever more important with the anticipated uncertainty related to Britain's decision to leave the European Union.

We now have two full years of data, high level conclusions can be drawn on the performance of the market. The survey has been carried out through the supply chain; the data is a moderated average of the returns.

The following report captures some key conclusions.

Note- The report is not intended to be used for specific cost indices or availability, but can be used to make informed decisions about future budgets or even design decisions.

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- Costs
- Employees
- Availability

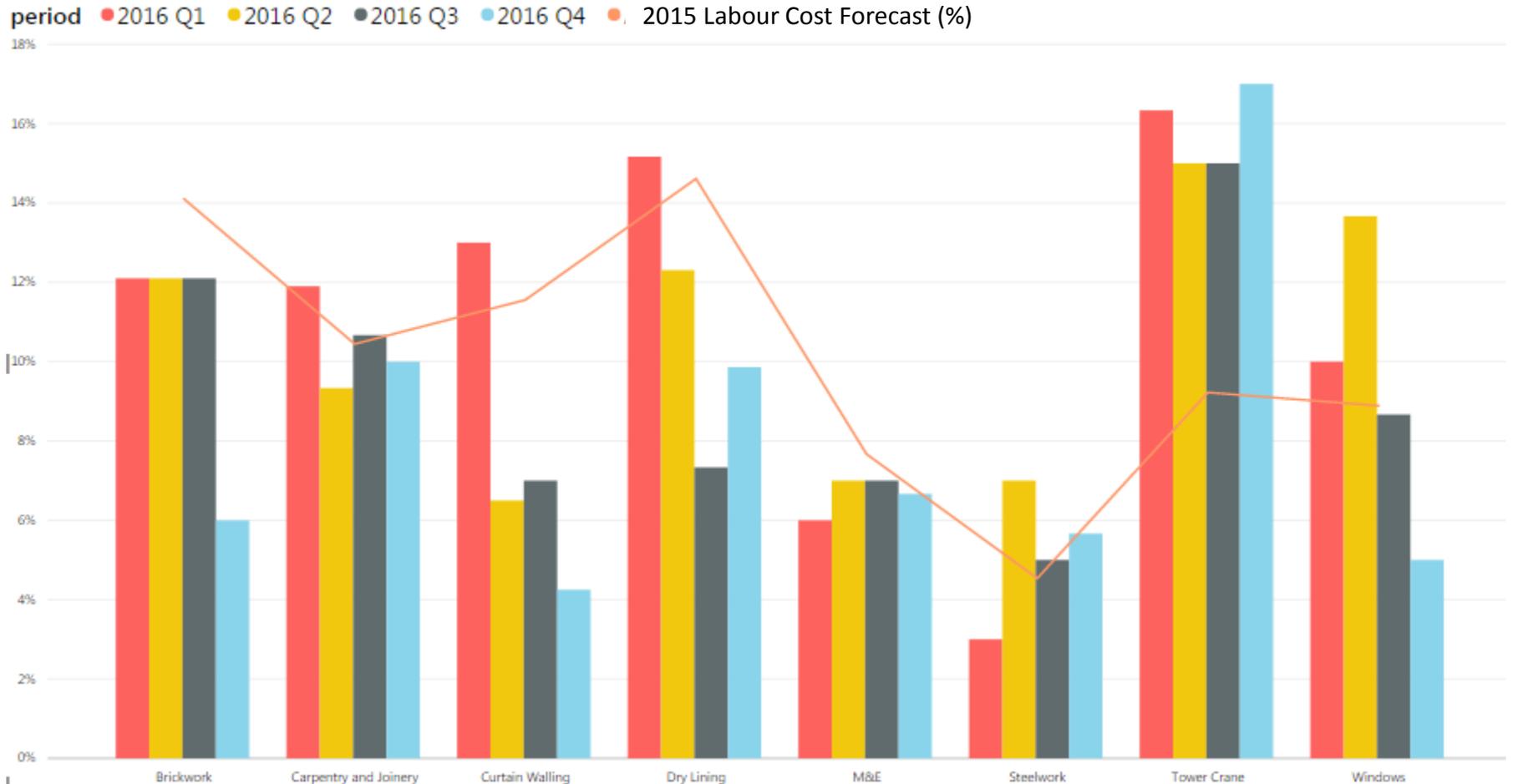
Looking Back

The previous review, completed in 2015 by SCF, has proven highly accurate when predicting costs across 2016. With the exception of the Tower Crane package, the cost increases were comfortably within the ranges predicted during 2015, lending authority to the validity of these studies.

Looking Forward

As in 2015, the results of the 2016 survey support a view that there is a relationship between costs and the number of employees per trade, with both showing 8% increases in 2016. Tower Cranes provide an area of concern in the market, predicting much higher costs and possible issues with availability going into 2017. The concern with brickwork from the previous review has not come to fruition as brick stocks have returned to normal levels. Research has shown the rises in brickwork costs during early 2015 were a result of panic buying during the final quarters of 2014.

Forecast % increase in labour costs compared to actual Costs



Costs

During 2016, costs rose on average by 10% against 2015. With Tower Cranes filtered, which recorded a 20% increase, the average drops to 8%. Since 2014, the most consistent trades have been M&E and Steelwork. Brickwork has fluctuated significantly, as discussed on the previous slide. The tower crane trade has become increasingly more expensive. It can be seen from the graph below, that there are definite trends in the cost increases year on year, with 2016 mirroring the kind of movements seen during 2015.

Brexit (Q2-Q3)

Against what could be reasonably expected in the aftermath of the vote, costs across many trades, as seen in the following graph, came back towards the lower levels seen in 2015.



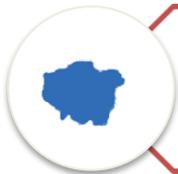
Lot 1 SW

- Carpentry and Joinery up 20% in Q4 against 2015.
- Curtain Walling 5% up on 2015.



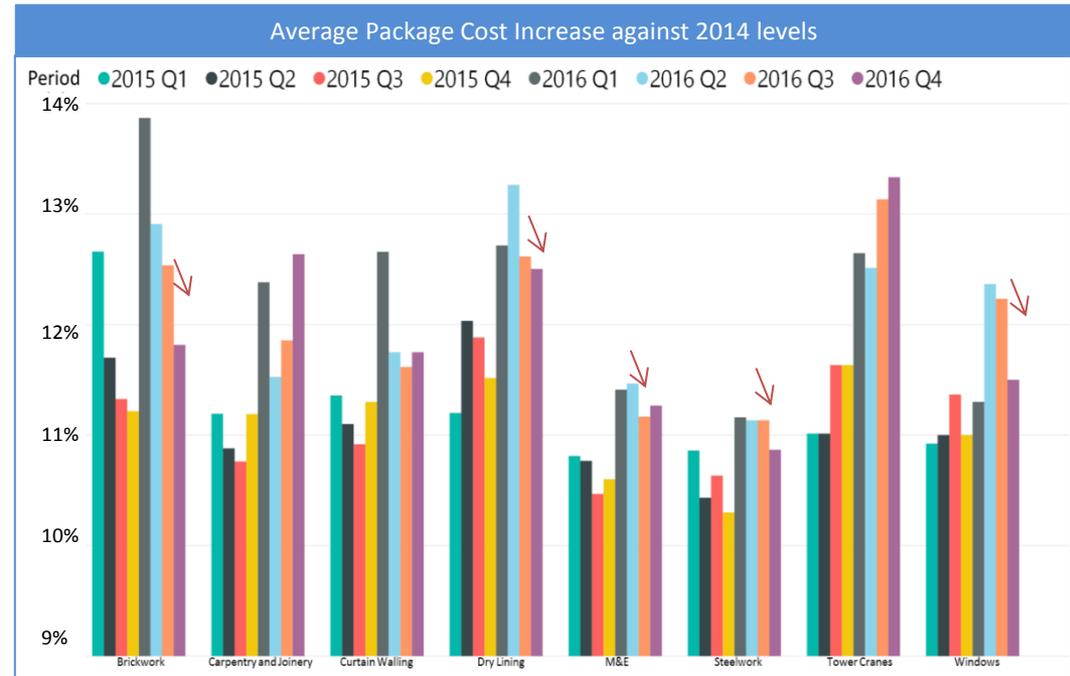
Lot 2 SE

- Carpentry and Joinery just 4% up during Q4.
- Curtain walling 15% up by Q4



Lot 3 London

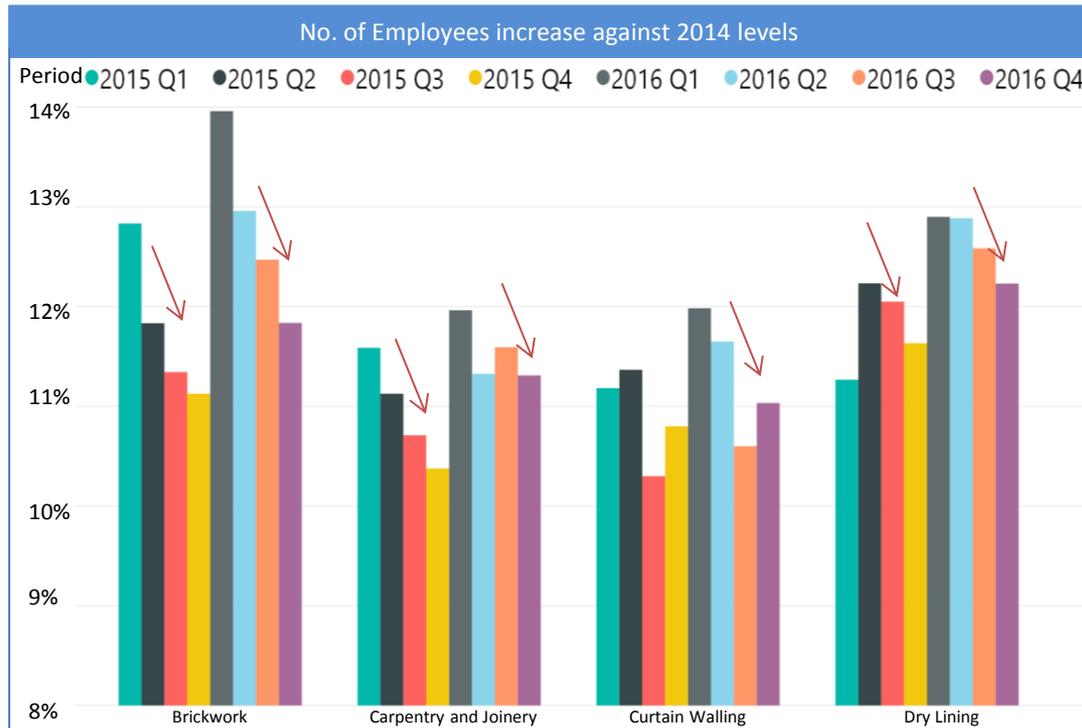
- Cost of Windows increased greatly during Q2/3 2016 when compared to 2015



Employees

Percentage of Employees increased on average 8% compared to 2015. The trends of this indicator closely matched the peaks and troughs seen with work package costs. In half the packages, there seemed to be a trend to higher numbers of employees at the start of the year, before trailing off towards Q4.

Tower Cranes showed the most dramatic increase in employees, increasing by 25% in Q4. This corresponds to the increase in costs and decrease in availability, showing greater demand. Furthermore, when we look at the forecast for this trade, we see costs are expected to increase greatly in 2017.



South West

- Largest increase in tower crane employees; going against the natural assumption that London would be the key hub the package.

South East

- Big Increases in M&E and Dry lining in Q1.
- Brickwork increase 20% across the year.

London

- Employees not increasing by same level as seen in 2015. This can be due to the increased performance of the construction industry during early 2015 which has since stabilised.

Predicted Labour Costs for 2017

In 2017 costs are expected to continue to increase, across all trades and regions, on average 8% compared to 2016. Increase could be related to a skills shortage seen in the construction industry causing an increase in wages. The effects of Brexit/depreciation may be felt, as the importation of skilled work may become more expensive. Despite this uncertainty, these levels of increase are relatively in line with those seen in 2016.

Tower Crane labour is expected to grow by a further 12%. Across SCF, Curtain Walling is expecting a dramatic increase in labour costs in Q1 2017. As with increase in number of employees, trends show labour costs reducing throughout the year.

South East

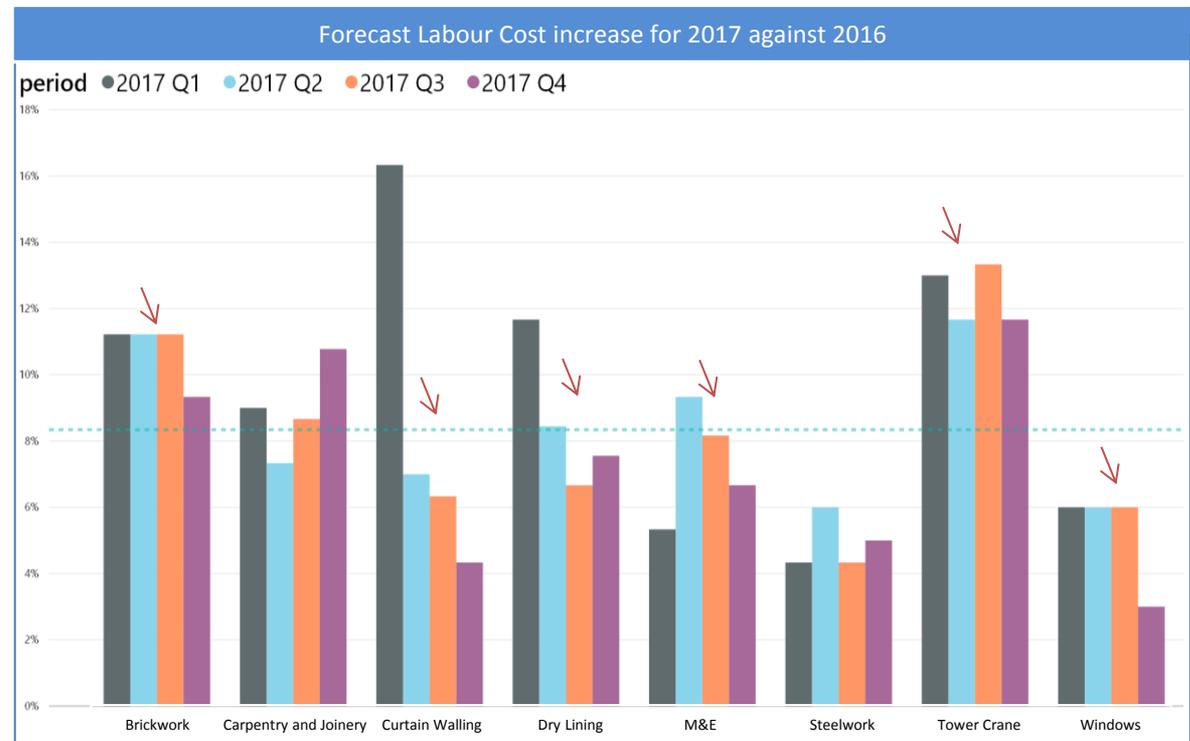
- Tower Crane showing greatest anticipated increase in 2017 at 15%

South West

- Curtain Walling expecting big increases in Q1, over 25%

London

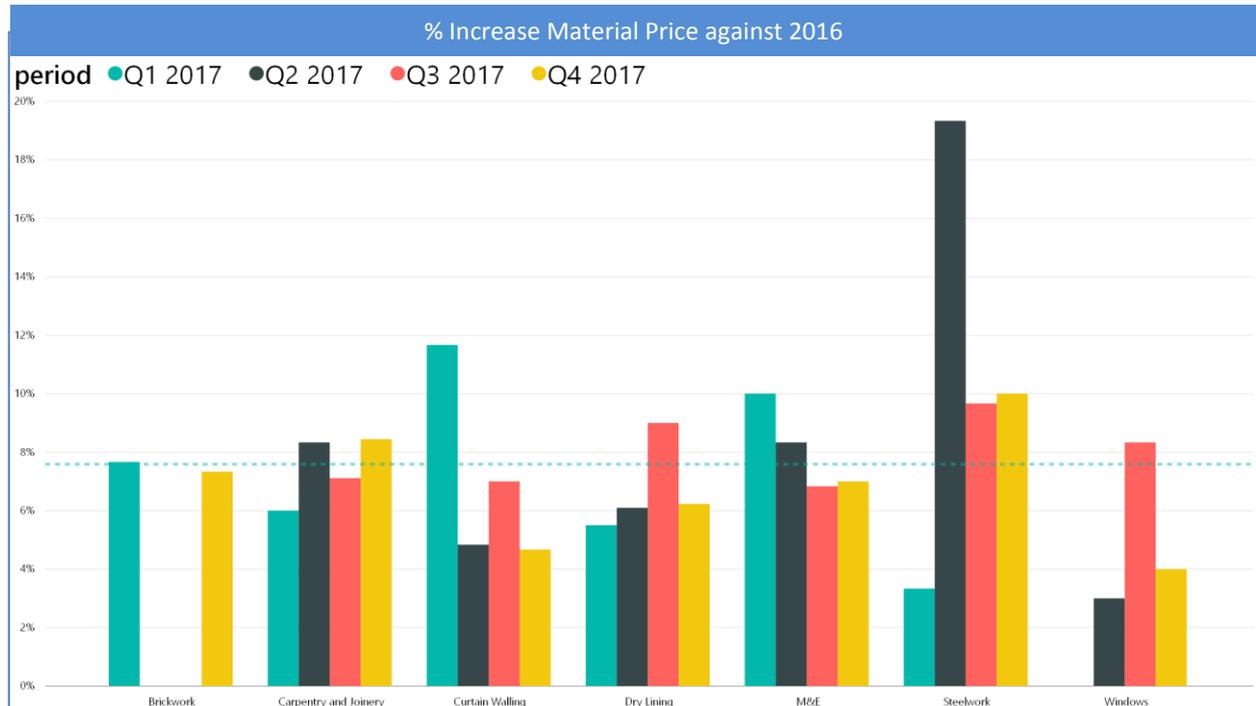
- Like South East, Tower Cranes predicting increases in the region of 17%



Predicted Material Costs for 2017

Material costs are expected to rise at a similar rate to labour costs, averaging at 8%. In connection with 2015/16 data, we can begin to identify a yearly cost increase in the construction industry as a whole of around 8% year on year.

Steelwork is an area for concern, with large increases expected in Q2, possibly identifying an availability issue in early 2017. Curtain Walling also expecting increase in early 2017 coinciding with increased labour costs during Q1. This follows an increase in overall costs that was witnessed at the end of 2016, costs are expected to recover from Q2.



South East

- Steel material cost 18% up in Q2
- M&E above the average throughout 2017

South West

- Steel cost up 25% in Q2
- Carpet and Joinery above average throughout 2017
- Curtain walling material cost up 15% in Q1

London

- Carpet and Joinery material cost rising toward end of 2017
- Steelwork up 15% in Q2