

QUANTEM

MARKET UPDATE
FOURTH QUARTER – 2022





- ❏ Quantem assessment and projection of construction inflation through 1Q22 to end 4Q22 6.5%.
- ❏ CPI has risen from 5.5% at the start of 2022 to 11.1% in October.
- ❏ Base rate has risen a further 0.75% in period, now at 3.00%.
- ❏ Average house price up 7.57% year on year (down in month to September).
- ❏ GDP -0.10% in last reported quarter 2Q22 with last quarter 3Q22 outstanding publication.
- ❏ Sterling exchange in year -2% on € and -18% on \$ (ONS Sep-22) but strengthening since.
- ❏ Steel trading prices; up 12% on year and 3% decrease in period (ONS Sep-22).
- ❏ Construction output +5.7% on year in all work output.
- ❏ Unleaded fuel at pump down from summer high of £1.88/ltr down to £1.64/ltr.

RISKS

- ❏ Perception of instability in government and policy making.
- ❏ Further BoE base rate change inhibiting investment.
- ❏ Inflation pressure on labour not yet realised despite high RPI.

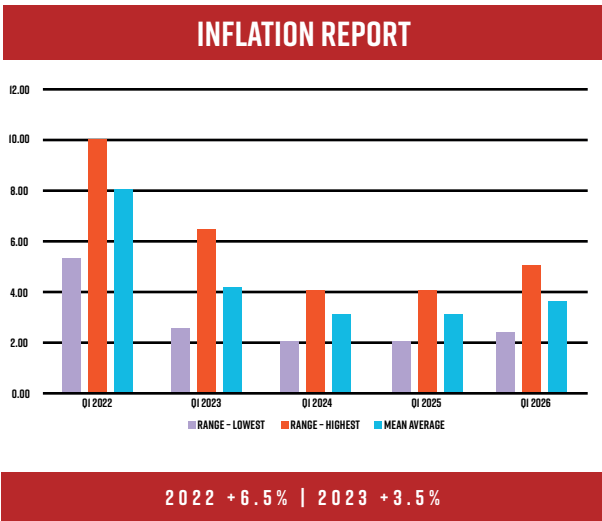
POSITIVE SIGNS

- ❏ Greater stability in materials pricing.
- ❏ Weakened sterling makes UK acquisitions from overseas attractive.
- ❏ ONS measure of UK growth back in the black.
- ❏ Signs of improving construction market competitiveness.
- ❏ Stability through continuing government infrastructure investment.

This report is a representation of an average trend across the UK and construction sectors, you should seek guidance from Quantem on specific questions or sectors of working as these may differ from the stated general opinion, noting that all projects have differing drivers.

OUR SNAPSHOT ON CONSTRUCTION

CONSTRUCTION INFLATION FORECAST	
YEAR	@1Q22
2022	6.50
2023	3.50
2024	3.00
2025	3.00



GOVERNANCE

Almost unprecedented change in UK parliamentary governance and subsequent change in policies has met with swift reaction in the markets. The following change in leadership and further change in policy has not fully unwound the previous effects, whilst leaving some less than confident in their long-term planning. Commerce typically looks for a steady predictive governance to provide the bedrock for activity. Time might provide this confidence if governance and policy stability can be brought and demonstrated.

CONSTRUCTION INFLATION

ONS UK construction output rose by 0.44% in the reporting period. The reason for this is perhaps due to the continuation of post-pandemic release of new work. However, real terms construction wages are down, currency exchange has softened and materials pricing, although slowed, in growth has not unwound. A reduction in construction inflation may come from a reduction in the demand for goods and services as a consequence of increasing interest rates, reduced transaction values and a slowing in the market; projected by some in specific construction sectors. A comparison of our own thoughts on inflation to our peers and BCIS can be found later in this report.

	2022	2023	2024
LABOUR	+	+	Neutral
CURRENCY	+	+	-
MATERIALS	+	+	+
MARGIN	Neutral	Neutral	+

KEY

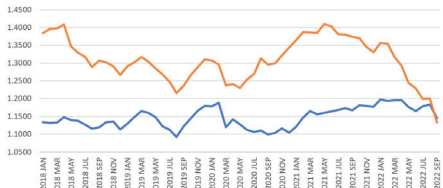
- DECREASING COST PRESSURE
- NEUTRAL
- + INCREASING COST PRESSURE

All projects have differing drivers and you should seek guidance rather than rely on this report alone.

DRIVERS AND METRICS

INFLATION IS A FUNCTION OF A NUMBER OF DRIVERS EACH RIPPLING AND IMPACTING ON ONE ANOTHER

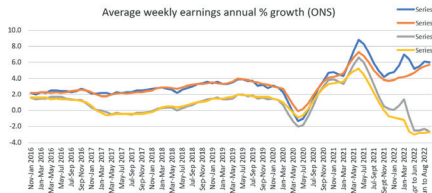
Average Sterling Exchange Rate



£:€ EXCHANGE EURO EXCHANGE DROPPED 3.27% ON MONTH DOLLAR EXCHANGE DROPPED 5.61% ON MONTH

	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	SEP 2021	AUG 2022	SEP 2022	MONTH	YEAR
£:€	1.1667	1.1834	1.1447	-3.27%	-1.89%
£:\$	1.3733	1.1989	1.1326	-5.61%	-17.53%

Average Weekly Earnings Annual % Growth (ONS)



REAL WEEKLY PAY DOWN IN REAL TERMS IN PERIOD AND YEAR - COULD BE CATALYST TO FURTHER INFLATION

	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	JUL-SEPT2021	JUN-AUG 2022	JUL-SEP 2022	MONTH	YEAR
TOTAL PAY (NOMINAL)	5.9	6.1	6	-0.1	0.1
REGULAR PAY (NOMINAL)	5	5.5	4.7	0.2	0.7
TOTAL PAY (REAL)	3.2	-2.3	-2.6	-0.3	-5.8
REGULAR PAY (REAL)	2.2	-2.8	-2.7	0.1	-4.9

Average Construction Weekly Earnings



AVERAGE EARNINGS CONTINUES TO INCREASE

	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	SEP 2021	AUG 2022	SEP 2022	MONTH	YEAR
AVERAGE WEEKLY EARNINGS	636.06	668.23	675.60	1.10%	6.21%
BONUSES	48.46	25.53	46.43	-81.88%	-4.18%
TOTAL AVERAGE WEEKLY EARNINGS	684.53	693.76	722.03	4.06%	5.48%

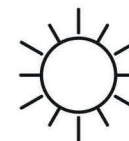
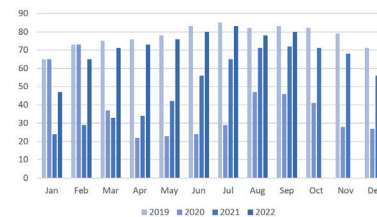
BoE Base Rate



BOE BASE RATE HAS RISEN A FURTHER 0.75% IN PERIOD WHICH IS SHOWING POTENTIAL IMPACT AFFECT ON INVESTMENT

LAST PERIOD	LAST PERIOD	CHANGE	CHANGE	LAST YEAR
NOV 2021	OCT 2022	NOV 2022	MONTH	YEAR
0.25	2.25	3	0.75	2.75

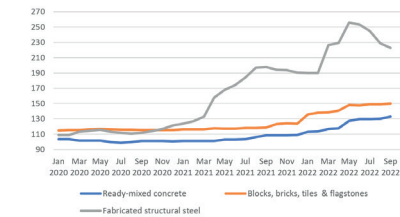
Hotel Occupancy



HOTEL OCCUPANCY RATES HAVE INCREASED POST PANDEMIC AND REMAIN STEADY

	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	SEP 2021	AUG 2022	SEP 2022	MONTH	YEAR
HOTEL OCCUPANCY (%)	80%	78%	80%	2%	0%

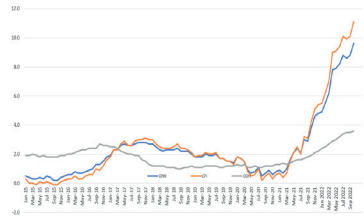
Concrete, Brick & Fabricated Steel Inflation Indices (ONS)



KEY MATERIALS CONCRETE AND BRICK MATERIALS CONTINUE TO INCREASE WHILST FABRICATED STEEL COSTS HAVE DECREASED IN PERIOD

	LAST YEAR	LAST PERIOD	CHANGE	THIS MONTH	CHANGE
	SEP 2021	AUG 2022	YEAR	MAY 2022	MONTH
READY-MIXED CONCRETE	108.6	130.4	22.19%	132.7	1.76%
BLOCKS, BRICKS, TILES & FLAGSTONES	118.9	148.9	26.07%	148.9	0.67%
FABRICATED STRUCTURAL STEEL	197.9	228.6	12.58%	222.8	-2.54%

CPIH, OOH and CPI 12 Month Inflation (ONS)

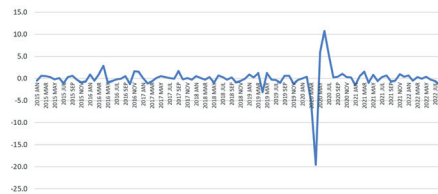


INFLATION
CPIH, OOH AND CPI

RECORD LEVELS
WITH RATE OF
INCREASE RISING

	CPIH	CPI	OOH
01 DEC 2021	4.8	5.4	2.2
01 JAN 2022	4.9	5.5	2.4
01 FEB 2022	5.5	6.2	2.5
01 MAR 2022	6.2	7.0	2.7
01 APR 2022	7.9	9.0	2.9
01 MAY 2022	7.9	9.1	3.0
01 JUNE 2022	8.2	9.4	3.2
01 JULY 2022	8.8	10.1	3.4
01 AUG 2022	8.8	9.9	3.5
01 SEP 2022	8.8	10.1	3.5
01 OCT 2022	9.6	11.1	3.8

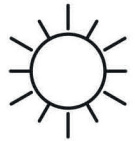
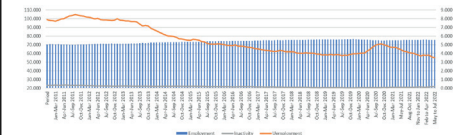
B-E Production: CVM: Annual & Monthly Growth (ONS)



UK GROWTH
FIGURES HAVE
MOVED INTO
POSITIVE NUMBERS
IN THE MONTH -
GROWING BY 1.6%

	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	SEP 2021	AUG 2022	SEP 2022	MONTH	YEAR
MONTHLY GROWTH	-0.70%	-1.00%	0.20%	1.60%	0.90%

Employment, Unemployment and Inactivity % (ONS)



UNEMPLOYMENT
CONTINUED
DECREASE IN
PERIOD

	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	JUN-AUG 2021	MAY-JUL 2022	JUN-AUG 2022	MONTH	YEAR
EMPLOYMENT	75%	76%	76%	0.12%	0.24%
UNEMPLOYMENT	5%	4%	4%	-0.10%	-0.95%
INACTIVITY	21%	21%	21%	-0.04%	0.54%

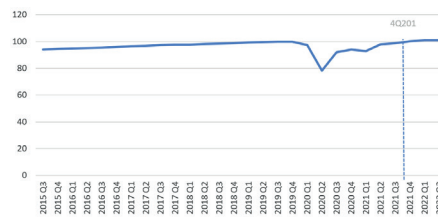
Europe Brent Oil Spot Price



EUROPE BRENT OIL PRICE
OIL PRICES APPEAR
TO HAVE STABILISED
FOLLOWING A
2022 PEAK, ALBEIT
HAVE RISEN 11.72%
ANNUALLY

	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	OCT 2021	SEP 2022	OCT 2022	MONTH	YEAR
EUROPE BRENT OIL SPOT PRICE	83.54	89.76	93.33	3.98%	11.72%

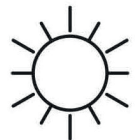
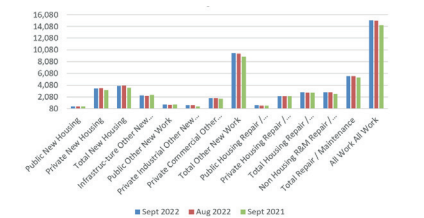
GDP Quarterly Index National Accounts (ONS)



GDP QUARTERLY INDEX
GDP HAS REDUCED
BETWEEN IQ AND 2Q.
3Q DATA RELEASE
HAS BEEN DELAYED
AND IS EXPECTED TO
SHOW FURTHER A
RETRACTION

	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	2021 Q2	2022 Q1	2022 Q2	MONTH	YEAR
GDP QUARTERLY INDEX	98	101	100.9	-0.10%	2.96%

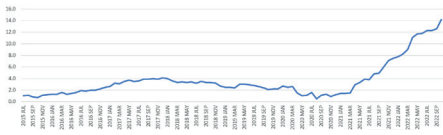
**Construction Output:
Volumes Seasonally Adjusted By Sector (ONS)**



CONSTRUCTION OUTPUT
A 5.7% ANNUAL
INCREASE IN ALL
WORK OUTPUT. NEW
BUILD RESIDENTIAL
AND COMMERCIAL
DEVELOPMENTS
BOTH UP 9% IN THE
ANNUM

	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	SEP 2021	AUG 2022	YEAR	SEP 2022	MONTH
PRIVATE NEW HOUSING	3,193	3,533	9.11%	3,484	-1.39%
PRIVATE COMMERCIAL	1,724	1,862	9.05%	1,880	0.97%
ALL WORK	14,306	15,059	5.72%	15,125	0.44%

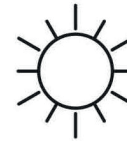
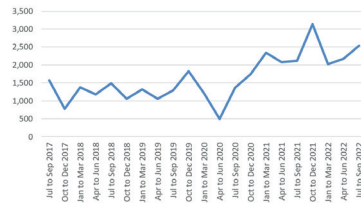
RPI All Items: Percentage Change Over 12 Months



	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	OCT 2021	SEP 2022	OCT 2022	MONTH	YEAR
RPI ALL ITEMS: % CHANGE OVER 12 MONTHS	6	12.6	14.2	1.60	8.2

12 MONTH RPI +1.6% IN THE MONTH AND +8.2% ON THE YEAR. RPI AT 14.2% CONTINUES TO ACCELERATE

New Orders - Industrial



	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	JUL-SEP 2021	APR-JUN 2022	JUL-SEP 2022	MONTH	YEAR
ORDER VOLUME (£M)	2,117	2,171	2,539.0	368.0	422.0

NEW ORDERS - INDUSTRIAL CONTINUED RISE IN NEW INDUSTRIAL BUILDING ORDERS, WITH ORDER VOLUMES DOUBLING FROM PRE-PANDEMIC LEVELS

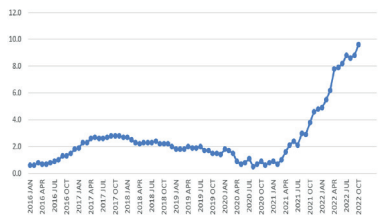
Average House Prices (Land Registry)



	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	2021-09	2022-08	2022-09	MONTH	YEAR
AVERAGE PRICE ALL PROPERTY TYPES	272,273	294,598	294,559	-0.01%	7.57%
AVERAGE PRICE DETACHED HOUSES	424,492	463,466	463,150	-0.07%	8.35%
AVERAGE PRICE SEMI-DETACHED HOUSES	261,910	285,098	286,654	0.54%	8.63%
AVERAGE PRICE TERRACED HOUSES	222,429	241,643	241,880	0.10%	8.04%
AVERAGE PRICE FLATS AND MAISONNETTES	224,225	235,417	232,987	-1.04%	3.76%

AVERAGE HOUSE PRICE +7.57% YOY INCREASE WITH ALL DWELLING TYPES SUBJECT TO SIGNIFICANT PRICE RISES. SMALLER PROPERTY PRICES DECREASED IN THE MONTH FOLLOWING MORTGAGE RATE RISES

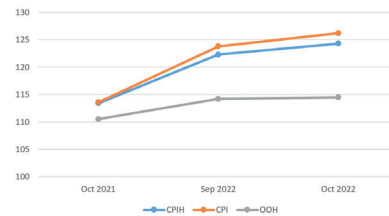
CIPH Annual Rate



	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	MAY 2021	APR 2022	MAY 2022	MONTH	YEAR
CIPH ANNUAL RATE	3.8	8.8	9.6	0.8	5.8

CIPH ANNUAL RATE +9.6% CURRENT ANNUAL RATE, REFLECTING THE HIGHEST LEVEL SINCE 1990

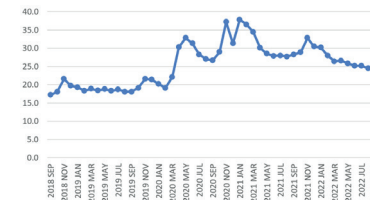
CIPH, OOH and CPI Index Values (ONS)



	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	OCT 2021	SEP 2022	OCT 2022	PERIOD	MONTH
CIPH	113.4	122.3	124.3	2	10.9
CPI	113.6	123.8	126.2	2.4	12.6
OOH	110.5	114.2	114.5	0.3	4

CIPH, OOH & CPI INDEX ALL INDICES CONTINUE TO RISE; PARTICULARLY THOSE REPRESENTING CONSUMER GOODS PRICES

eRetail £bn, ft2 Space Demand & % eRetail (Knight Frank, Statista, eMarketer & ONS)



	LAST YEAR	LAST PERIOD	THIS PERIOD	CHANGE	CHANGE
	SEP 2021	AUG 2022	SEP 2022	MONTH	YEAR
% RETAIL ONLINE	28.3	24.5	25.3	0.8	-3.0

E-RETAIL DOWN 3% IN THE ANNUM ALTHOUGH 8% INCREASE ON LEVELS OF THE SAME PERIOD PRIOR TO THE PANDEMIC

SOME FURTHER THOUGHTS

AUTUMN STATEMENT 2022 – INFRASTRUCTURE & NET ZERO:

Leading construction industry figures have urged the government to avoid heavy cuts to the infrastructure investment ahead of today’s autumn statement, which was recognised and promised by Government in the Statement.

MAKING EXISTING BUILDINGS EPC B:

The existing building stock in the UK will require significant refurbishment works to ensure an EPC B requirement can be met by 2030. How can this be done?

CARBON BASED PROCUREMENT:

Carbon emissions are coming to the forefront of the decision making process on construction projects. This is driven by client and tenant ESG wishes. The procurement process and key drivers of a project are put forward by the client.

CARBON REDUCTION IN CONCRETE AND STEEL PRODUCTION:

Globally, between 14-16% of all CO2 emissions come from the production of concrete and steel. In order for the UK to achieve net zero carbon by 2050, the emissions from these two industries must be addressed.

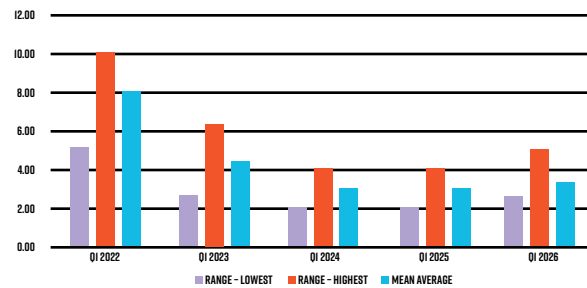
WHOLE LIFE CARBON ASSESSMENTS:

With climate change leading the drive to reduce the environmental impacts of the built environment, clients are pushing the drive for whole life carbon assessments for many materials and aspects of their projects.

CARBON MITIGATION SOLUTIONS:

Carbon reduction must be brought to the forefront of key project drivers and must be driven by implementing carbon mitigation solutions if we are to do better for our environment. These targets should reduce the amount of carbon released into the atmosphere and start to address the global crisis.

INFLATION REPORT



YEAR	QUANTEM	BCIS	G&T	MACE	RLB	ARCADIS	T&T	BUILDING MAGAZINE	RANGE		AVERAGE	PREVIOUS QUARTER AVERAGE
		Y	Y	Y	Y	Y	Y		L	H		
	%	%	%	%	%	%	%	%	%	%	%	%
2022	6.50	7.80	5.50	8.00	6.00	10.00	9.00	9.50	5.50	10.00	7.97	6.48
2023	3.50	6.20	3.00	3.50	5.00	2.50	3.50	5.00	2.50	6.20	4.10	3.71
2024	3.00	3.30	2.50	2.00	4.00	3.00	3.00	3.50	2.00	4.00	3.04	2.96
2025	3.00	3.40	2.25	2.00	3.50	3.00	4.00	N/A	2.00	4.00	3.03	3.41
2026	3.50	2.40	N/A	3.00	N/A	5.00	4.50	N/A	2.40	5.00	3.73	3.87

2022 + 6.5%

2023 + 3.5%

THE MINI-BUDGET AND IMPACT ON THE CURRENT ECONOMICS OF THE RESIDENTIAL SECTOR:

The residential sector has seen double-digit price growth in the last decade that is coming to an end and has been accelerated by the Mini-Budget, which has rose interest rates and halted new residential projects going ahead.

THE MINI-BUDGET AND EFFECTS ON THE BASE RATE AND PROPERTY VALUE:

2021 The Mini-Budget was announced by Kwasi Kwarteng, the Chancellor of the Exchequer, in the House of Commons on 23 September 2022. It was met with immediate resistance and Liz Truss became the shortest UK Prime Minister by tenure.

THE MINI-BUDGET AND CURRENCY DEVALUATION:

2021 The Mini-Budget led to the pound hitting the lowest ever level against the US dollar and left foreign investment reeling away from the UK economy.

IMPACT OF A PROLONGED EASTERN EUROPEAN CONFLICT:

Ukrainian forces have been defending against Russian activity for nearly 5 months and the conflict shows little sign of easing up without significant foreign intervention from other countries. In the UK, this had a significant affect on living costs, material prices and supply.

INFLATION FORECAST:

Data indicates resilient output figures and growing inflation, uplift which is continuing into 2024. All projects have differing drivers and you should seek guidance rather than rely on this report alone.



A BIT MORE DETAIL

AUTUMN STATEMENT 2022 - INFRASTRUCTURE & NET ZERO

Leading construction industry figures have urged the government to avoid heavy cuts to infrastructure investment ahead of the autumn statement.

Hunt is thought to be seeking to plug a £50bn black hole and the BBC has reported that the burden will likely fall more heavily upon spending cuts (~£35bn) than tax rises (~£20bn).

The heavy cuts expected have been the cause of much speculation within the media, with senior government ministers hinting that major government-backed construction projects could be reviewed.

The Institution of Civil Engineers' director of policy, Chris Richards, agreed that public infrastructure investment was "critical for economic growth and to meet our levelling up and net zero objectives".

He urged government to think about infrastructure as an investment rather than a cost and stressed the need for a "clear plan" across all parts of government to "coordinate our net-zero efforts", aligning infrastructure goals for net zero and levelling up.

"We need to focus more on reducing our energy demand and filling in the gaps in the Net Zero Strategy to decarbonise the power grid by 2035," he said. "The net zero transition is affordable – delays and inaction are not."



Source: <https://www.building.co.uk/news/autumn-statement-infrastructure-and-net-zero-must-not-be-sacrificed-says-industry/5120471>.article

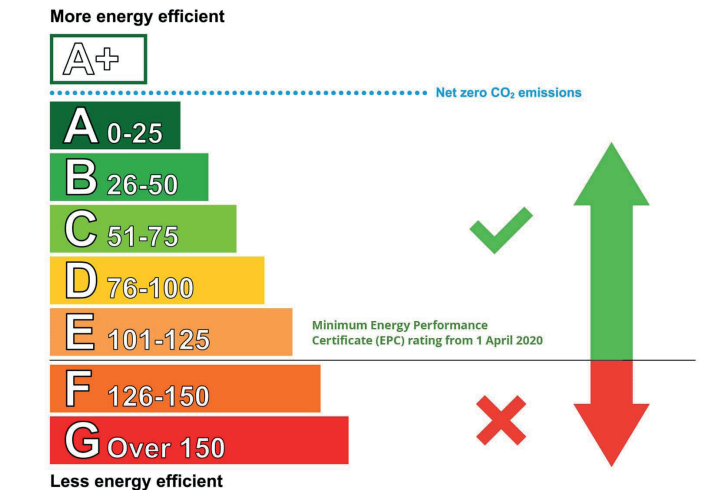
METHODS FOR EXISTING BUILDINGS TO MEET EPC B BY 2030

The existing building stock in the UK will require significant refurbishment works to ensure the EPC B requirement can be met by 2030. How can this be done?

The minimum energy efficiency standard (MEES) of EPC B for privately rented non-domestic buildings by 2030 showcases the government’s strong approach to reducing carbon emissions in the UK. In order to meet the rating, existing buildings will have to improve heat retention and reduce their energy usage, below are some approaches taken to achieve an improved EPC rating:

- Replacement of gas or electric hot water cylinders with more efficient air source heat pumps.
- Improving the performance of glazing, curtain wall and air permeability through the envelope of the building.
- Insulating walls and roofs.
- Upgrading lighting throughout buildings including installing more efficient LEDs, daylight dimming, passive infrared sensor lights (PIRs), and accurate metering ensure that energy is not wasted on inefficient or unused lights.

These are some of the more common approaches seen to help existing stock achieve improved EPC ratings, please contact a specialist to complete an assessment on your building if an improved EPC rating is required.



Source: www.urpltd.co.uk/landlords-meas/

Carbon emissions are coming to the forefront of the decision making process on construction projects. This is driven by the procurement process and how the key drivers of a project are put forward by the client, which at the moment are focused on financial costs.

The built environment accounts for 40% of the UK's carbon footprint and the government has set a target for the UK to have net zero carbon emissions by 2050. Concern remains that procurement decisions are often currently based solely on financial cost rather than environmental impact. Alleviating carbon emissions can be done through analysis of whole lifecycle carbon assessments and many Tier 1 contractors and the GLA believe that this should be mandatory for all new build and refurbishment projects.

Although considering carbon emissions in procurement decisions can mean higher upfront costs on projects, the operational savings from more sustainable buildings might well offset over the life cycle of the building whilst making less impact on our environment and provide building of better retained value.

The focus of clients must move towards carbon based procurement if we are to achieve net zero targets. Speak to our team at Quantem if you would like more information on making your project net zero carbon.

Understanding Carbon



SKANSKA

Source: www.architectmagazine.com/technology/carbon-leadership-forum-launches-embodied-carbon-in-construction-calculator-at-greenbuild_o

CARBON REDUCTION IN STEEL PRODUCTION

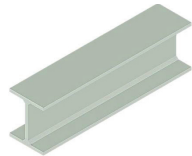
The steel industry accounts for up to 7% of all CO2 emissions globally. In order for the UK to achieve net zero carbon by 2050, the emissions from this industry must be addressed.

Up to 95% of the UK supply of newly rolled steel is sourced from just six steel producers. This places significant reliance on these suppliers to innovate and meet the increasing demand for 'low carbon' steels.

Stakeholders can influence the carbon impact of steel in buildings by carefully considering production methods available in the market, such as Electric Arc Furnaces (EAF) over Blast Oxygen Furnaces (BOF), or re-using steel.



Source: www.upstreamonline.com/focus/uk-puts-carbon-capture-and-storage-centre-stage/2-1-648311



BOF Steel: Recyclable content up to 20% (industry standard)



EAF Steel: Recyclable content 40% - 95% (5% - 10% uplift in cost)



Re-used Steel: 100% recycled and potential cost savings compared standard steel fabrication. Up to 10 times lower CO2e/t compared to EAF and 50 times lower than BOF.

WHOLE LIFE CARBON ASSESSMENT

With climate change leading the drive to reduce the environmental impacts of the built environment, clients are pushing the drive for whole life carbon assessments for many materials and aspects of their projects.

Whole Life Carbon (WLC) assessments consider both the operational emissions and embodied carbon emissions over the whole life of an asset. Clients are commissioning these assessments as part of project requirements to improve environmental and economic aspects of a project.

WLC assessments enable a greater understanding of: the sourcing and processing of materials/products, the long life aspects (durability and lifespan) of materials/products, the carbon value of retaining existing aspects of a building.

Furthermore, they avoid consequences of focusing on operational emissions alone which can lead to significant environmental and social impacts of a project and helping to comply with updated Part L of the Building Regulations.

Talk to us at Quantem about how we support whole life carbon assessments and what materials and products to consider.



CARBON MITIGATION SOLUTIONS

Carbon reduction must be brought to the forefront of key project drivers and that must be driven by implementing carbon mitigation solutions. These must reduce the amount of carbon released into the atmosphere and seek more long term solutions to this global crisis.

Carbon emissions must be reduced in the coming years to ensure the UK meets its target of net zero carbon emissions by 2050. To ensure this is done, the construction industry must integrate the financial, design and procurement processes to form a long-term sustainable development models. We should seek to reuse and recycle buildings, materials and infrastructure, and continue to improve the methods of construction to minimize carbon emissions.

There are a number of mitigation strategies such as:

- Glulam frame and cross laminated timber floor in lieu of steel frame and composite floor.
- Air source heat pumps in lieu of gas boilers.
- Exposed ceilings in lieu of suspended ceilings.

Quantem have a wide range of benchmarking information available to offer cost advice on carbon mitigating solutions for your future projects.



THE MINI-BUDGET AND IMPACT ON THE CURRENT ECONOMICS OF THE RESIDENTIAL SECTOR

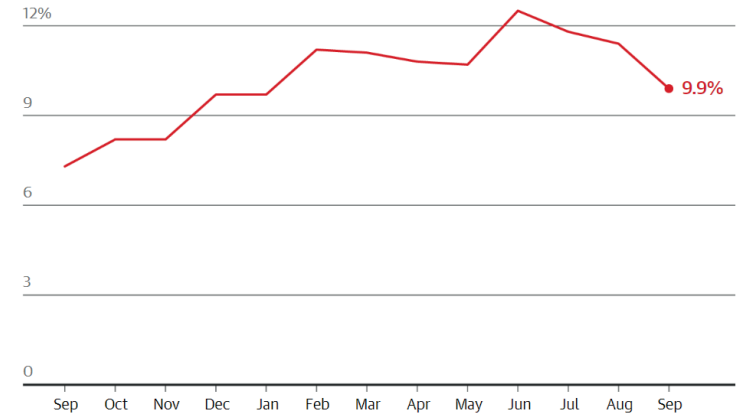
The residential sector has seen double-digit price growth in the last decade and that is coming to an end and has been accelerated by the Mini-Budget, which has rose interest rates and halted new residential projects going ahead.

The Mini-Budget caused interest rates to rapidly increase to 3% and less confidence in the UK economy across the world, which reduces foreign investment in the UK.

The residential sector in September saw five consecutive months of less inquiries from potential homebuyers, sales fell to the lowest level since May 2020 which was the start of the pandemic and around 1,000 mortgage deals were pulled from the UK market after the Mini-Budget announcement. This compiled with the UK having one of the lowest levels of housing stock as new instructions to sell continue to fall, with mortgage rates given by banks unable to be fixed for longer periods of time, the average 5 year fixed mortgage rate was 6.32% in October, the highest levels since the financial crisis of 2008. With unaffordable interest payments making refinancing property very difficult, office and retail property landlords will be forced into fire sales.

This is because prime yields will need to be at 6-7% to sustain new financing costs which is up from 3-4% and with the increase in living costs, landlords will struggle to hit this level of yield.

Annual house price inflation slowed for the third month in a row in September, from 11.4% to 9.9%



Guardian graphic. Source: Halifax

Source: www.theguardian.com/business/2022/oct/13/uks-13-year-housing-market-boom-to-end-in-2023-surveyors-predict
www.mortgagefinancegazette.com/market-news/house-price-growth-slows-third-month-9-9-halifax-07-10-2022/

THE MINI-BUDGET AND EFFECTS ON THE BASE RATE AND PROPERTY VALUE

The Mini-Budget was announced by Kwasi Kwarteng, the Chancellor of the Exchequer, in the House of Commons on 23 September 2022. It was met with immediate resistance and Liz Truss became the shortest UK Prime Minister by tenure.

The Mini-Budget outlined economics policies and tax cuts, such as the bringing forward the planned cut in the basic rate of income tax from 20% to 19% and abolishing the 45% higher rate of income tax in England, Wales and Northern Ireland. Immediately following the announcement, the value of the pound sharply fell against the US dollar, and hit an all time low, as the Mini-Budget would mean significantly increased government borrowing.

The International Monetary Fund (IMF) wrote a letter criticising the tax cuts and said it would lead to greater inequality in the UK. The already spiralling cost of living crisis, due to cost-push inflation and falling value of the pound, meant that interest rates have had to be drastically increased in the last year, from 0.1% in November 2021 to 3% in November 2022. This has meant UK real estate values fell as property is less appealing relative to the price of government bonds. The average value of UK real estate fell 5.1% in Q3 2022, with industrial falling the most at 4% across London and the South East of England in September alone and 3% across the rest of the UK. The average office value fell 1.8% and retail 2.3% in September too, outlining the impact of the Mini-Budget across sectors and the UK.



Source: <https://www.telegraph.co.uk/politics/2022/09/29/ken-clarke-no-to-ry-government-would-have-made-mini-budget-mistake/>

THE MINI-BUDGET AND CURRENCY DEVALUATION

The Mini-Budget led to the pound hitting the lowest ever level against the US dollar and left foreign investment reeling away from the UK economy.

The Mini-Budget sent shocks throughout the global economy, scaring off investors from the UK economy and forcing a mass sale of the pound internationally which has raised government borrowing costs.

Since the low point, the pound has recovered to US\$1.15 as of November and aspects of the Mini-Budget have been scrapped or pushed back to later dates. With the UK's current account deficit at record levels this year, compounded by rising imported energy costs and supply issues of so many goods and services, causing more inflation. However, this pushes the pound down further and this actually makes UK assets more attractive to foreign investors.

However, as the UK purchases so many goods and services from abroad, these being more expensive with the weak pound, it is difficult to see a good scenario coming of the Mini-Budget.

Pound hits a record low against the dollar



Source: Bloomberg, 26 Sept
Source: www.bbc.co.uk/news/business-63030208



Source: Trading Economics

IMPACT OF A PROLONGED EASTERN EUROPEAN CONFLICT

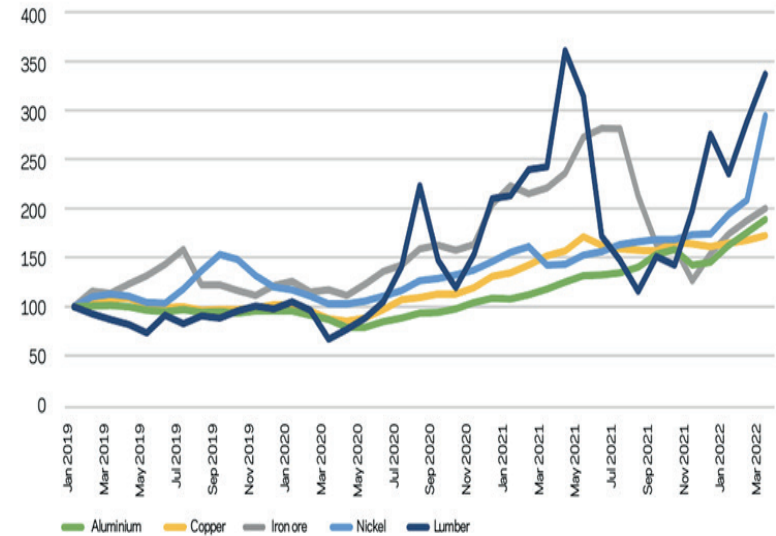
Ukrainian forces have been defending against Russian invasion for nearly 5 months and the conflict shows little sign of easing up without significant foreign intervention from other countries. In the UK, this had a significant affect on living costs, material prices and supplies.

Europe is the world's largest steel import market with over 10% of consumption supported by steel sourced from Russia, Ukraine and Turkey. Steel Availability is being squeezed by conflict, with steel from Mariupol no longer being produced and transport pressures in the Black Sea causing price hikes in haulage costs adding further to fuel cost impact to transport.

Gas and oil price increases are forcing energy-intensive building materials to sky rocket in price, such as glass, cement, steel and bricks. This is not likely to subside as the EU looks to move away from Russian oil and gas, meaning that unless alternative sources are found before Winter truly sets in, there will be a significant energy crisis in Europe.

Unfortunately, the conflict does not look like it will cease in the short term and therefore, further pressures will drive inflation on those oil, gas and energy-intensive building materials.

Talk to us at Quantem about the potential impact the conflict could have on your project and how this may be mitigated.



Source: www.building.co.uk/international-cost-comparison-2022/5117548.article

WE BELIEVE IN MAKING THINGS BETTER BY:

Q OUR PERSONAL APPROACH, COMMITMENT AND INTEGRITY

Q OUR DIVERSITY AND BREADTH OF EXPERIENCE

Q OUR PARTNER AND STAFF EXPERIENCE

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**EMPLOYERS
AGENT**



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RESIDENTIAL & PBSA

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EDUCATION

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HEALTHCARE

ASSISTED LIVING



"What sets Quantem apart is their expertise in delivering challenging projects"

Schrodgers

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