

BRIEFING

Construction, Economic and Procurement Update

SUMMER 2014



REAPING WHAT WE SOW Steve Jones, Managing Director

As I forecast in the November issue of MDA's Briefing, we are now well into the "buoyant" phase of the economic cycle. I jokingly predicted last time this would happen before the 2014 Partridge Season, but I must confess I am staggered at the speed with which the "recovery" has moved in the last 6 months or so.

Whilst the economy has slowly gathered pace in the regions as confidence has returned, the mood in London and the South East is now very much of the "make hay while the sun shines" variety.

Memories once again have become very short.

London remains the safest of safe havens for all, the multi-nationals and sovereign wealth funds as well as the ordinary citizen, particularly if they hail from China, Hong Kong, Malaysia, Singapore and even, to a lesser extent, India - many of whom are desperate for their own little investment in the form of an apartment in the capital.

Hand in hand with this investment frenzy is a backdrop of rising values and increased tender and construction costs. Our old allies, lack of resource, the skills shortage and extended lead-in periods are with us again as the construction balance of power once again switches from seller to buyer. The recruitment agencies are once again the key players and enjoying their moment(s) in the sun.

Thankfully things are more sedate in the regions which overall is no bad thing. It would be very distressing if the London mood was to spread uncontrolled into the major regional population centres as it did in the years prior to 2007.

Overall then, the outlook is positive with prospects for the construction and property sectors remaining good for the next 3 years or so. Steps are already afoot though to "cool" the South East housing market with at least 2 major high street banks in the UK announcing measures to curb mortgage lending.

In addition, most of the dark clouds I mentioned last time (the Middle East, European unity, the debt pile) are still hovering in some shape or form. There is also the thorny issue of interest rates with many commentators still divided on the subject. Some (all the property boys) are urging restraint claiming an early rise will damage the recovery, whilst others are forecasting a rise by the end of the year. My own view is that the first rise will be early 2015.

Let's enjoy the Summer's festivities and wait and see!

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News

Awards





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TENDER PRICE FORECAST

Kevin Heaton, Director

Since the last edition of MDA's Briefing the UK economy has continued its recovery out of recession, growing by 0.8% in Q1 2014 and by 3.1% over the previous year according to the Office for National Statistics (ONS). This represents the fastest rate of annual GDP growth since the final quarter of 2007 and the first time there has been five quarters of consecutive economic growth since 2007. Furthermore, the very latest indications from the National Institute of Economic and Social Research (NIESR) is that the UK economy grew by 0.9% in the three months to May 2014 indicating that the UK GDP is now approximately 0.2% above the previous high point of January 2008. The current blend of strong growth and low inflation, however, may force the Bank of England to raise interest rates sooner than expected if the housing market continues to overheat or inflation starts to climb.

The improvement in the UK's general economic performance has been mirrored in the Construction Industry with the latest statistics issued by the ONS for April 2014 showing an increase of 1.2% in construction output between March and April 2014 and a year on year increase of 4.6% to April 2014. The ONS has also revised upwards their estimate of construction growth for Q1 2014 from 0.6% to 1.5%.

These marked improvements in construction activity have led to Contractors receiving increased levels of enquiries and estimating departments experiencing resource shortages in dealing with the increased workloads and difficulties in securing prices or resources from their supply chain. There is a growing concern over labour shortages across the trades with bricklayers in particular in short supply due to the high level of activity in the housing sector. Some material shortages are occurring, particularly in bricks and blocks, and lead-in times are increasing for certain products. Contractors are being far more selective in the projects they bid for and the risk allocation, and method of procurement, they are prepared to accept. Contractors are also showing little or no interest in single stage design and build contracts much preferring two stage tendering or negotiation.

Whilst the recovery in economic performance up until now has been London centric, and will continue to be so, construction sector growth and confidence is now apparent across most, if not all, UK regions.

As a consequence of the continuing upturn in the market, and in line with most commentators, we have increased our projections for tender price inflation for 2014 to 2017. Our forecast is for tender prices in London to increase by 4% in 2014 and by 4.5% to 5% in each of 2015, 2016 and 2017. Whilst the strength of the recovery in the regions varies, we anticipate that tender prices in the regions will increase by 2.5% to 3% in 2014; 3.5% to 4% in 2015 and 4% to 4.5% in both 2016 and 2017.

National Institute of Economic and Social Research (NIESR): June 2014 GDP Estimates

Building Cost Information Service (BCIS)





SECTOR BRIEFING - STUDENT ACCOMMODATION Rob McGuinn, Director

The student accommodation model in the UK has not changed substantially for the last 30 years or so.

Traditionally, students were housed in their first year by the institutions and in subsequent years, they lived in housing within the general population of the city or town in houses of multiple occupancy (HMO). The purpose built accommodation reflected this behaviour with most providers developing stock in conjunction with institutions (under a lease or nomination) to house first years.

However, this model is beginning to change.

With the increased financial pressure of student fees and the academic pressure of expected high grades by prospective employers, student behaviour is changing. Believe it or not, an increasing number of students no longer drink alcohol as studies have now become their main focus.

This is even more apparent in the postgraduate market, where a typical Masters degree in London could cost as much as £25,000 for an international student and similar fees can be charged by Universities in the regions.

These changing requirements, the increased competitiveness in the student lettings market and current investor appetite for well designed, prime located, successfully let schemes are driving changes in the design and standards of the accommodation being developed.

In a recent survey of students carried out by the University of Sussex * the following needs and wants were highlighted.

- 1. A preference for cluster flats of 6-8 persons, though larger could be attractive provided the design was sympathetic.
- 2. Closer integration of flats and houses carried through the design; students want to be able to move more freely between units and not be in "silos".
- 3. More social external space, including green areas that can be used.
- 4. More large social spaces, including designated informal work areas with computers etc. Separate spaces for postgraduates and undergraduates.
- 5. Space for more focused entertainment and organised events such as film nights.
- 6. Good dining and "chill out" space within the flats and houses.
- 7. Facilities to be clean, functional and well maintained.
- 8. Flats and houses to be "homely" with some opportunity for personalisation.
- 9. Lighting and good design critical.
- 10. Mobile connectivity needed to be robust with WiFi throughout.
- 11. Welcome sessions need to be reviewed with more student focus.

Whilst this is just a small sample, MDA's experience of working on numerous student schemes throughout the country, reflects this change in requirements.

As noted above, developments need to consider the type of students likely to be attracted to a scheme which is well managed, highly specified and represents strong value for money.



During their time at University, a student's requirements change. In their first year, they tend to require studio type bedroom accommodation with either a small kitchen within their room or a communal kitchen to be shared between a group of four to six rooms. A second year student may wish to live with a group of friends, though in final years this may change to smaller groups or even back to solitary studio accommodation.

Mature students and couples are also a growing clientele requiring more bespoke accommodation.



Student Life in the Eighties

The development of specification and design of student housing is a long way from the days of the late and sadly missed "Rik" and the Young Ones' student mates living in squalor and at the mercy of the dreaded Alexei Sayle Landlord.

The student letting sector is sophisticated and highly competitive – the offer to students has to contain many bolt on goodies including Gym memberships, free wi fi as well as the standard of high quality secure accommodation.

The question of whether the Market is saturated and over provided for is answered in the fact that we are currently looking at several thousand new bedrooms coming down the pipeline.

The private landlord operator model is most common with provision of accommodation to a number of different Universities in the same town. We have seen less and less directly developed University accommodation.

The contract procurement usually follows a JCT Design and Build route competitively tendered with specialist Contractors in the sector. Modular construction lends itself to this type of project, with rooms and bathroom pods manufactured offsite lending to the speed and quality levels required. Examples of the quality of accommodation provided can be demonstrated by one of MDA's clients, Code, who are an East Midlands based provider.



Apart from excellent rooms including kitchenettes and study areas other facilities include:

- On Site Gym
- Super fast Broadband and connectivity
- Games room and social spaces
- On site group study rooms
- Multi faith prayer rooms
- 24 hour security
- Student shuttle bus
- A private cinema



The total number of HE enrolments at UK higher education institutions (HEIs) stood at 2,340,275 in 2012/13, a decrease of 6.3% from 2011/12. This reflects a general decline across the sector in all modes and levels of study which coincides with changes to the tuition fee arrangements. Postgraduate enrolments decreased by 5.6% and undergraduate enrolments decreased by 6.4% between 2011/12 and 2012/13. Full-time enrolments decreased by 2.3% while part-time enrolments showed a sharper decline of 15.1% over the same period (Higher Education Statistics Agency, HESA).

Whilst the numbers above show a general decline across the sector this appears to be less than predictions prior to the fees increasing.

The RICS BCIS current cost data on student accommodation reflect the following;

Large Budget Scheme with en-suite accommodation £980 – 1225/Sq.m Smaller Scheme (40 – 100 Units) with mid Range Specifications £1175 – 1,500/Sq.m. Smaller high quality courtyard schemes, college style £1,625 – 2,025/Sq.m

To stay ahead of the game student accommodation providers will need to provide top quality facilities with an array of added extras which don't necessarily cost the earth.







PROCUREMENT BRIEFING THE OLD NEW RULES OF MEASUREMENT

Keith Warburton, Associate

The New Rules of Measurement (NRM) have been in place since it was first published in 2012 for adoption in 2013. I became aware of these dates as I thumbed through my trusty latest edition of "Spons" (Spons Architects and Builders Price Book 2014 published by Spons Press) and noted that the format had this year been restructured for NRM1 and NRM2 and that the old stalwart of Measurements, SMM7, was no longer relevant and had in fact been "retired" in July 2013.

I presume that as "ESSEMEM7" had been introduced in 1988 and had several reprints and amendments it was probably time, after 25 years, to rethink how buildings are quantified in the 21st century. Let's face it - modern methods of construction, renewables and sustainability were not even twinkles in the industry's eyes back in '88. I know the SMM7 authors issued amendments and revisions along the way but an overhaul was inevitable.

The NRM suite has not only revamped the measurement of building work (NRM2) but introduced, for the first time, an order of cost estimating and cost planning for capital building works (NRM1) and an order of cost estimating and cost planning for building maintenance works (NRM3) which will be effective from January 2015.

The NRM has been developed to provide a consistent approach to the measurement of all the cost centres impacting on a project costs to provide a "total cost management" approach and in particular an approach that analyses both capital and maintenance works giving the lift cycle of cost management.

A few interesting cost topics which have always been fundamental to the overall project costs are now eloquently dealt with in the NRM such as preliminaries, fees and risks.

This article will focus on NRM1 which deals with the cost estimating and cost planning side of things.

First things first, the NRM suite is free to download from the RICS for members (RICS. org.uk/publications) and NRM1 acknowledges from the outset that it is linked to the RIBA Plan of Work and Building Cost Information Services (BCIS) elemental formats for estimating and cost data.

The purpose of the documents clearly set out how order of costs estimates and elemental cost plans should be prepared, it does not explain estimating methods, cost planning techniques, procurement methods or contract strategies which are dealt with through a number of other publications.

The document is structured in the following parts:

Part 1 – placing cost estimating and elemental cost planning with the RIBA plan of work and Government gateway;

Part 2 – describes purpose and "order of cost estimate" and rules for measurement

Part 3 – describes the purpose and measurement rules for "cost planning"

Part 4 – comprises the tabulated rules of measurement for elemental cost planning

The appendices provide guidance on the rules of measurement of Gross Internal Area (GIA) and Net Internal Area (NIA) and a number of templates which form the BCIS estimate elemental structure.



The formal cost estimating and elemental cost planning stages are identified with cost plans identified at the following key stages.

The table below shows cost estimating, elemental cost planning and tender document preparation stages in context with the RIBA Work Stages and OGC Gateways.

RICS cost estimating,

OGC Gateways

RIBA Work Stages

(Applicable to projects) elemental cost planning and tender document preperation stages Order of cost estimates (as required to set authorised budget) B Formal cost plan 1 D Formal cost plan 2 E Formal cost plan 3 *3B* Pre-tender estimate Pre-construction Bills of quantities (Quantified) schedule of works (Quantified) work schedules H Post tender estimate K



Order of Cost Estimates are produced as an intrinsic part of the early cost advice with the key constituents estimated

- Building works
- Main contractor's preliminaries estimate
- OH&P
- Project design team fees
- Owner development costs
- Risk allowances
- VAT assessment

The measurement of building works at this early stage involve Gross Internal Floor Area (GIFA) or functional units method ie number of hospital beds or hotel rooms and a combination thereof cost per metre square or cost per functional unit can be applied from historic in-house cost data or from RICS.

If more detailed information is received on available preliminary drawings the elemental method can be adopted and structured as follows measured in accordance with the detailed rules and to level 1 and level 2 dependant on details available.

The NRM1 sets out guidance on updating rates to deal with information on historic costs or projecting a "forward look".

The NRM1 identifies almost as an aide memoir of estimate criteria for main contractor's preliminaries, overheads and profit, project/design team fees and other development/project costs.

The term "risk" allowance rather than contingency is used throughout and gives a structured method for dealing with calculating the allowance and categorising risk in design development, construction, Employer's changes and other risks.

NRM sets out a structure for reporting of Order of Cost Estimates and Formal Cost Plans – all of this could be considered basic stuff and may seem blindingly obvious but clearly sets out cost basis, assumptions and exclusions for clear communication to the Employer. Reports should include the following:

- Project title
- Project description
- Status of cost plan
- A statement of cost including cost unit
- Details of the information and specification on which the cost plan was prepared
- Statement of floor area
- The cost plan
- Assumptions
- Estimate base date and inflation adjustments
- Track changes if updated cost plan
- Option costs
- Cash flow forecasts if appropriate
- Inclusions and exclusions

All costs associated with elemental cost plans are expressed as cost/m2 GIFA.



The rules for measurement for elemental cost planning are set out in tabulated form and rules are applied to group elements and divided into four principal levels.

Prefabricated buildings are now recognised for the first time in a method of measurement. For repairs to existing buildings, a basis for measurement has been established. For facilitating works – demolition specialist groundworks are captured. The format for example of an elemental cost plan based on level 1 codes is as follows and can be typically used for an Order of Cost Estimate:

COST CENTRE	GROUP ELEMENT/ELEMENT	COST/M ² OF GIFA	TOTAL COST OF ELEMENT (TARGET COST)
		£	£
	FACILITATING WORKS AND BUILDING WORKS		
0	Facilitating works		
1	Substructure		
2	Superstructure		
3	Internal finishes		
4	Fittings, furnishings and equipment		
5	Services		
6	Prefabricated buildings and building units		
7	Work to existing buildings		
8	External works		
	SUB-TOTAL: FACILITATING WORKS AND BUILDING WORKS (A)		
9	Main contractor's preliminaries (B)		
	SUB-TOTAL: FACILITATING WORKS AND BUILDING WORKS (including main contractor's preliminaries) (C) [C = A + B]		
10	Main contractor's overheads and profit (D)		
	TOTAL: BUILDING WORKS ESTIMATE (E) [E = C + D]		
	PROJECT/DESIGN TEAM FEES AND OTHER DEVELOPMENT/PROJECT		
I E	Project/design team fees (F)		
12	Other development/project costs (G)		
	TOTAL: PROJECT/DESIGN TEAM FEES AND OTHER DEVELOPMENT/PROJECT COSTS ESTIMATE (H) [H = F + G]		
	BASE COST ESTIMATE (I) [I = E + H]		
13	TOTAL: RISK ALLOWANCE ESTIMATE (J)		
	COST LIMIT (excluding inflation) (K) [K = I + J]		
14	TOTAL: INFLATION ALLOWANCE (L)		
	COST LIMIT (excluding VAT assessment) (M) [M = K + L]		
16	VAT ASSESSMENT		excluded (See Note)

The format for an elementary cost plan based on level 2 codes follows BICS elemental conventions. For a full breakdown please visit www.rics.org

NRM1 has for the first time given a formalised structure to cost planning the techniques it embodies enabling early cost plans to be prepared and articulated to Clients. We have, as Quantity Surveyors and Cost Managers, prepared estimates and updated cost plans which are the life blood for projects but NRM1 gives a consistent structure and basis for estimates.





TRAINING UPDATE - GRADUATING TO COMPETENCE Rob Kennedy, Director

At MDA we support structured training programmes for graduates and like many employers are facing the challenges of recruiting good quality candidates, in competition, in a rising market. It's true, as an industry, we are completely at the rigours of market conditions and during the last 5/6 years many businesses have been in an unfortunate position of not being able to recruit graduates. We are a "reap what we sow" industry - in the bad times we can't and don't recruit, the industry becomes less attractive to good calibre grads and when the wheel turns we don't seem then to have the calibre of candidates to meet the demands of the upturn.

Surveys carried out by the RICS over the last 12 months showed that over 70% of firms were now recruiting grads compared to 57% back in 2011 and 2012. A massive 85% perceived the APC (Assessment of Professional Competence for the RICS) as the relevant qualification to their business success.

An interesting statistic is that of the grads being recruited 38% were female and 62% male. still low as a proportion, but generally on the rise.

You will read Alice Lee's article below about what it takes to be a graduate on the APC process and she sets out the challenges and attitude required to succeed.

At MDA we encourage graduate structure training with workshop days to enable grads from regional offices to meet up and share experiences. The days are packed with relevant subjects, including external speakers, such as updates on BIM and often conclude in mock APC interviews for a lucky candidate.

The graduates have a shared intranet zone to share information and tips on the APC process.

We also support the Supervisors and Counsellors in their roles as mentors. These people are key to the success of the candidate.

Attracting and keeping good graduates will be a challenge for all businesses, but investing time and support will undoubtedly reap benefits for both the graduate and the Employer.



TRAINING UPDATE - GRADUATE APC PROCESS

Alice Lee, Assistant Quantity Surveyor

Having completed my Masters degree back in 2012 I was keen to find the right company who would provide the support and guidance needed to successfully complete the APC process under the Quantity Surveying pathway, Graduate Route 1. At MDA we are fortunate to have a number of employees with a diverse range of experience; some have successfully completed the APC process recently whilst others have been Chartered for many years. MDA has a dedicated APC training programme which guides and mentors APC students through the process, step-by-step. We attend twice-yearly



training days held at one of our UK offices by Director Rob Kennedy, which include structured training, seminars from external consultants in the Construction Industry, group exercises, progress updates and Q&A sessions. I have also been supported and encouraged to attend training sessions, seminars and networking events outside of MDA to aid my progression and my desk is alongside my supervisor's, Director Martin Taylor, for day-to-day support. MDA has a great network of other professionals in the industry, and subscriptions to a wide array of online resources in addition to a dedicated in-house APC intranet page for students to share information and guidance.

Undertaking the Quantity Surveying pathway involves gaining experience at various levels of eighteen different competencies. When I began the APC I felt a little daunted by the number of competencies and the standards required for each. The competencies are split into mandatory and technical. The mandatory competencies tend to be covered by daily activities, for example team working, health and safety, conduct rules, ethics and professional practice (a vital competency to be aware of!) which do not need to be recorded in your APC diary. The technical competencies are those you must record and should be covered by your involvement in various projects, for example, contract administration; MDA are Contract Administrator / Employer's Agent for numerous projects. My involvement in Alexander Court and Jevington Gardens, East Sussex (both residential development schemes for housing associations) has given me excellent experience in this competency. MDA's role as Quantity Surveyor for City College Brighton and Hove's Pelham Tower development has provided me with the necessary experience in producing and updating cost reports and cost plans which meet the levels required for the Project Financial Control and Reporting competency.

A key part of the APC process is keeping a diary of your experience of competencies, and the levels achieved. I try to update my diary daily to prevent falling behind (and having to rely on memory). Dedicated time is required to carry out structure training; through seminars, your supervisor, articles or guidance notes, and to carry out regular progress meetings with your supervisor and counsellor. I tend to complete the forms relating to these straight after the event, again to avoid having to rely on memory. The Critical Analysis and Final Assessments are another vital aspect of the APC process; continually analysing your involvement in projects and seeking opportunities at key events to demonstrate your ability. Arrange for colleagues to proof read drafts of your Critical Analysis and to test you on your knowledge and ability to demonstrate evidence of competencies achieved.

My key advice to fellow APC students would be:

- Record experience; record everything you do in your diary and your personal development template; it can always be excluded when submitting your documents for the Final Assessment but it is much harder to try and remember something that happened two years ago!
- Be organised; create folders, spreadsheets, a programme, whatever is needed to make your life easier and the process simpler.
- Time management; something which is difficult when carrying out a full time job alongside the APC but try and create a routine and keep your diary up to date!
- Choose the best supervisor and counsellor; this is your APC, make sure you choose the best person who can help, encourage and motivate you when needed.
- Be assertive; ask for help, greater variety in your daily work, time to complete the forms, templates and your diary.
- Good luck!





NEWS



MDA Appointed to Dyson Masterplan in Malmesbury

MDA are delighted to announce that we have been appointed to provide QS and CDMC services on Phase 1 of the masterplan that will greatly expand the current Dyson site in Malmesbury. An extended article on this project will feature in the next MDA 'Briefing'.



MDA Appointed to Leicester City Football Club

We have been appointed to act as Project Manager and CDM Coordinator on the Premier League/Sky/Hospitality upgrade works over the summer in time for the start of the 2014/15 Premier League season in August.



Underfall Yard - "Ship Shape and Bristol Fashion"

Following confirmation of "Round Two" Heritage Lottery Funding, MDA's Bristol office has been appointed as Project Manager, Cost Consultant and CDM Co-ordinator on the delivery stage of this project.

The yard is a Scheduled Monument and the works include the renovation of a collection of historic, harbour-side and boat making buildings to form new leisure, office, education and café space.

Bath & North East Somerset Council

Bristol Office Reappointed to BANES Framework

MDA are pleased to announce their re-appointment onto the Bath and North East Somerset QS Framework. This continues our long association with BANES dating back over many years providing education, infrastructure and community projects.



MDA have been appointed as Advisor and Lead Monitor to the Heritage Lottery Fund (HLF) on two major grant projects awarded their first round pass at Canterbury Cathedral (£19.4m) and Plymouth History Centre (£16.3m).



The "Canterbury Journey" project will radically transform the accessibility of Canterbury Cathedral and provide a new Welcome Centre together with the repair and restoration of the Christ Church Gate, West Towers and Nave and enhancements to the South West Precinct, Signage and Interpretation.



Plymouth History Centre will bring together Plymouth City Museum and Art Gallery, the Plymouth and West Devon Record Office, the Central Library History Collection, the South West Film and Television Archive and the South West Image Bank into a single, integrated facility through the refurbishment and redevelopment of the existing Grade 2 listed Museum and Library and adjacent St Lukes Church including a new build extension creating a new main entrance allowing full disabled access throughout.





AWARDS



Derwenthorpe, York wins a Civic Trust Award

Embodying the ethos and legacy of the Joseph Rowntree Housing Trust, Derwenthorpe is a mixed tenure, exemplar community of energy efficient homes, designed to meet the demands of both current and future inhabitants. It delivers a sustainable residential development within a generous landscaped environment providing much needed housing on the periphery of York. The design draws on the rich architectural legacy of Joseph Rowntree's model village at nearby New Earswick, planned by Parker and Unwin over a century ago. Steeply pitched roofs, painted brickwork and striking dormer windows are combined to create a distinctive sense of place. At the heart of the scheme is a well-designed public square with benches and local area for play.

The movement infrastructure gives priority to pedestrians. 'Home zones' – single surface streets with no kerbs and limited car access and speeds – and landscaped courtyards provide further opportunities for play. All of the houses have private gardens and many have double-height sunspaces.



Sulgrave Gardens was shortlisted for a RICS Award in the Residential Category

The scheme comprised thirty flats, houses & maisonettes to Passivhaus standard using an ACA PPC 2000 Project Partnering Contract Form of Contract. High insulation standards result in homes being 90% cheaper for residents to heat. MDA's initial task was to quantify the financial risk of achieving the Passivhaus Standard so Octavia could understand what additional financial investment would be required on its part, over and above that which would be required for a scheme designed to meet Level 4 of the Code for Sustainable Homes.