
# Façade market report

In a market which has experienced high levels of cost fluctuation and uncertainty over the past year, our Façade Specialist Group considers the sentiment of façade contractors over the year ahead, focusing on their operations in London and the UK.

As developers continue to wrestle with high interest rates and low rental growth, the group considers some of the key issues the commercial cladding market is facing as it is asked to respond to the challenges of achieving affordability and sustainability against the backdrop of increasing labour costs, changing regulatory requirements and cashflow pressures.

**Façade contractor market sentiment highlights for 2024**

+ Protecting and enabling cashflow and securing access to credit are the single biggest concerns for the year ahead
+ Nervousness concerning the impacts of the implementation of the Building Safety Act, particularly around approval processes and their impact on installation programs
+ Reluctancy to engage unless project designs and budgets match build complexity from the outset
+ Financial stability of clients and main contractors imperative to obtain best tender prices
+ Key to winning projects, aside from price, seen as being able to offer the best technical solution to the design

**A slowing pipeline with increasing uncertainty that projects will advance to the construction stage is the sentiment echoed amongst specialist façade contractors as the single biggest risk to their business through 2024.**

Hesitation from developers, who are continuing to grapple with a squeeze on the viability of their commercial projects, is hampering the ability of these businesses to plan ahead to limit gaps in their production lines. This, combined with the yet uncertain effects of the implementation of the Building Safety Act in the UK and the ongoing and real risk of main contractor insolvency, is causing many façade contractors to play the conservative hand when deciding which opportunities to bid for.

Investing in optimising their in-house processes or restructuring in 2024 to increase resilience for 2025/2026 is the measured approach being taken by most façade contractors, as opposed to seeking out any tendering opportunity available in a knee-jerk attempt to protect profitability in the current financial year. Most façade contractors expect their turnover and profitability to stabilise in 2024. Current levels of tender enquiries are steady, with the expectation that this will increase over the next one to two years.

There is no doubt that we are still in the recovery phase from the hyperinflation of 2022/2023. For this reason, façade contractors are generally opting not to bid for projects which have insufficiently developed designs or involve main contractors with 'shakier' credit ratings – too many have been caught out taking these risks before. Project teams, therefore, need to give serious consideration as to when projects are to be brought to the market and who they choose as supply chain partners for construction and pre-construction services. Suppliers have little appetite for projects perceived as 'riskier' or likely to go on pause due to funding or planning complications.

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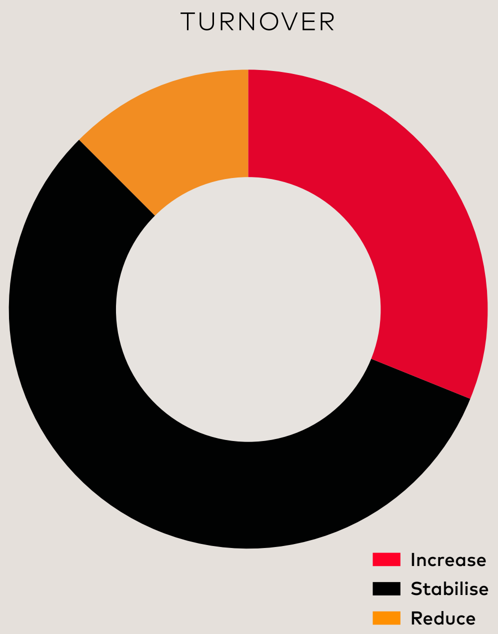


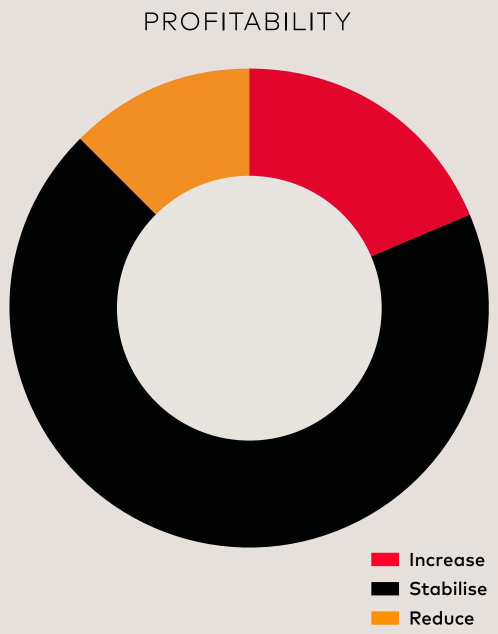

# Materials, energy, transport and labour

1. Hill House ©WAX

**Most suppliers expect the raw cost of aluminium, glass and insulation to stabilise this year, though it remains to be seen if any softening will be passed on to the client.**

Given the smaller pool of suppliers for terracotta and glass reinforced concrete, these materials are seen by the supply chain as riskier and much more difficult to accurately forecast cost fluctuations on. Project teams who work on projects which include these materials need to keep even closer to the supply chain through the design phase to avoid cost surprises during procurement.

There has been a recent shift towards precast concrete façades, where suitable, as opposed to traditional aluminium-based unitised façades. This is in response to the need to balance cost with reducing embodied carbon (in isolation of any structural implications). The increasing demand for these products will likely affect prices for concrete-based façade systems in 2024. Watch this space - higher recycled aluminium content and emerging carbon estimating tools may yet alter this trend back towards aluminium-based products.

Most suppliers are expecting a continuation of the stabilisation in energy prices we have seen recently, but a periphery of more doubtful façade contractors are predicting another spike in volatility caused by further escalation in Eastern Europe and the Middle East.

One thing almost all suppliers agree on is the expectation that labour costs will increase between 3% and 5% through 2024. Securing labour resource and predicting availability against the constant fear of projects being put on hold or cancelled is also a major concern for suppliers. Transportation costs are also expected to rise through 2024.

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# The UK market

**The impact of the above-mentioned cost drivers will be felt with varying degrees of intensity across the globe. The market sentiment in Q2 2024 is that the UK is viewed by most (not all) façade contractors as a better place than continental Europe to – win work, be competitive and deliver projects successfully – given the greater volume of schemes currently coming to the market in comparison.**

As discussed in our Q2 2024 Market Update, though domestic policy decisions continue to make development more challenging and complex in the UK, it remains a strong place for investment globally with London, in particular, being a key market for the commercial cladding industry. This sentiment, however, is by no means felt across the board.

As development viability remains a challenge, some businesses are starting to see this as the thin-end-of-the-wedge and are starting to look to continental Europe as a better place to focus to avoid getting caught up in a race to the bottom. As in any market, there will be winners and losers in these conflicting sentiments. Façade contractors will likely find success in adding some diversity to the markets in which they operate, particularly as the demand for laboratory space in the UK is expected to increase further over the coming year.

As the development pipeline steadies through 2024, most façade contractors will engage on a single stage tender basis but only if the level of complexity and stage of the design is suitable for such an approach. Businesses who currently have a more moderate approach to opportunities in the UK market and who are already looking ahead to potentially more profitable projects in 2025, are highly unlikely to engage on a single stage basis.

It is as imperative as ever that project teams think carefully about aligning those to whom they involve for early supply chain engagement with the overall project procurement strategy to ensure budgets and tender lists are realistic.

Further, with contractor insolvencies on the rise, it is just as important now as it ever has been to conduct a thorough analysis of a company's financial health before any engagements are made. This would include undertaking due diligence at an early stage to ensure adequate insurance and bonding arrangements can be procured at commercially reasonable rates. Clients should exercise caution if considering contracting with businesses who are unable to provide adequate security.

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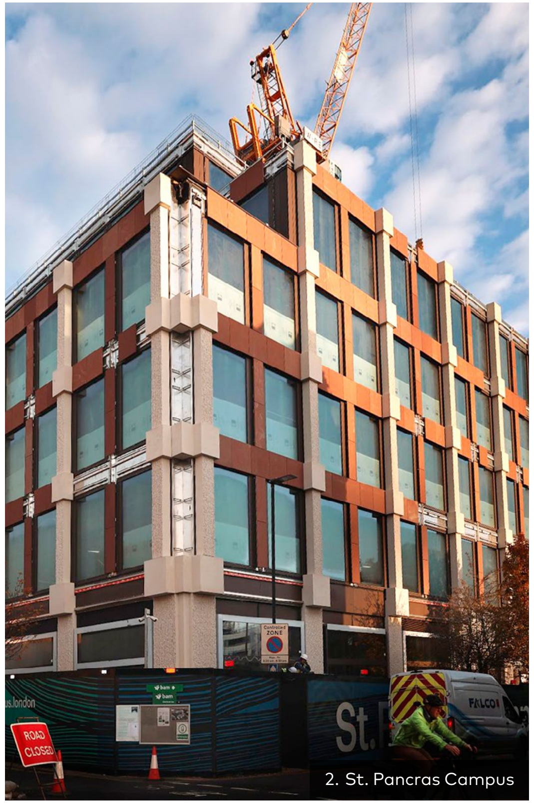
Arrangements for making payment for façade materials ahead of their delivery to site is still commonplace in the UK construction market to facilitate the overall programme and support cashflows through the supply chain. It is crucial that any such arrangements are robust, not only in the legal drafting of the vesting agreements themselves through the supply chain, but also in the due diligence undertaken at the time payment is made by the client. Of course, healthy cashflows through the supply chain are critical to the success of projects and the manufacturing and contracting businesses involved in them, but not at the expense of exposing clients to undue risk.



2. St. Pancras Campus

# Emerging trends and sentiments

**It certainly isn't news to highlight the trend towards repurposing and refurbishing existing curtain wall façades (where feasible to do so), nor is it novel to emphasise the growing shift towards precast units with windows over aluminium and glass façades to lowering embodied carbon where reuse is not an option. However, developers are facing dilemmas when the cost of implementing some methods of meeting aspirational carbon targets may not yet be cost effective enough to be viable.**

Early-stage technological advances in producing recycled aluminium are likely to be more prone to price volatility until they become commonplace in the market. Low carbon and cement-free products still have a way to go until an equilibrium is met between supply and demand.

Designers are also grappling with the need to strike a fine balance between achieving more stringent g-values in the latest BCO 2023 guidance and the demands of tenants for increased levels of natural light within their demises. Solutions to this will vary considerably across schemes, but there is a general trend towards an increased proportion of solid to glazed cladding as a percentage of the overall façade area, primarily in response to recent changes to building regulations.

More radical ideas in the market include developing façades with 'heavier' façade buildups to increase longevity and reduce planned and preventative maintenance costs over the lifecycle of a building. Though this will likely result in higher embodied carbon values initially, operational carbon is likely to be lower over the life of a building.

Developers need to decide where the value lies in developing such concepts, particularly if there is a possibility that the development is to be sold before the benefit of operational cost savings are realised.

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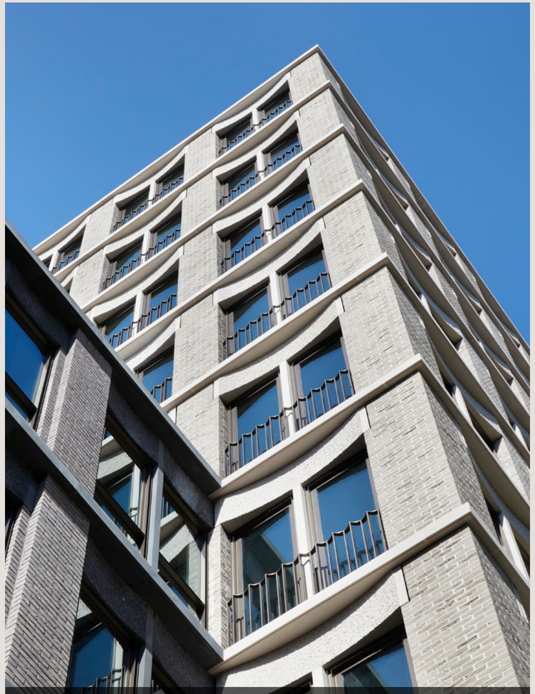
3. The Featherstone Building ©Jack Hobhouse

Our market survey also highlighted a slight softening in lead times as many companies in the wider supply chain used by specialist façade contractors are yet to completely fill order books for 2024. This is unlikely to be noticeable on most projects as programme float is retained through the supply chain against a more positive market sentiment for 2025 as the volume of tender enquiries is expected to increase.

## FEATURED PROJECTS

**Front cover: Arding & Hobbs** W.RE
1. **Hill House** Landsec
2. **St. Pancras Campus** W.RE
3. **The Featherstone Building** Derwent London
4. **Castle & Fitzroy** Capreon

# The year ahead

**Cautious optimism from the façade supply chain for 2025/2026 with a conservative mentality leaning towards increasing business resilience in 2024 is the prevailing market sentiment of façade contractors for the year ahead.**

As is always the case, best value will be achieved on projects by ensuring the design matches the level of complexity in pricing and building the project, careful selection of materials and incorporating sensible degrees of repetition to increase manufacturing efficiency. Early engagement with suppliers is vital to increasing cost certainty through the design phase and securing commitment through the procurement process. As developers continue to grapple with the various issues affecting project viability, it will be especially important in 2024 that contractors, developers and project teams collaborate to find the best ways of reaching cost certainty on their projects as early as possible. Investing more time in developing the optimum design solution for the façade ahead of inviting tenders will be key to ensuring this is achievable.

4. Castle & Fitzroy ©SecchiSmith

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exigere

+making projects happen

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