MARCH 2024

BUILDING REPAIR COST REVIEW

Quarterly update: based on data from October 2023 to December 2023

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The review

Each quarter, the quantity surveyors from Sedgwick's repair solutions team review the building and construction market to understand the primary drivers of cost and ensure that our rates remain fair and competitive. This report provides an overview of the current situation and looks at factors that could affect insurers' building repair costs in the months ahead.

In Q4 of 2023 we recorded further market increases in contractor costs, but our inflation index shows a slowing down. This is due to falling material prices, although labour costs have risen.

Our basket of materials shows how individual categories of materials have fluctuated in costs and this shows some have recorded double digit increases over the year. Our model repair projects, however, reflect how the different material categories are used in practice, and this shows the limited impact of these increases. Our repair rates remain competitive, and will be held at the current rates until they are reviewed at the end of Q2 2024.

To gain insight and understanding around contractors key concerns we have once again carried out our annual survey. This takes opinion on the main expected challenges and the percieved outlook for the year ahead. Based on the results, contractors consistently believe that labour issues will be the key challenge for 2024, but there is optimism that the year will be successful for busineses.

Headlines

- We've recorded total contractor cost increases in Q4 2023 of 1.07%.
- Total contractor cost increases in 2023 were 2.96%. This is lower than expected as labour costs haven't yet increased as much as forecast – however it is anticipated that this will still likely follow and will be the main driver for market cost increases in 2024.
- Whilst material price inflation reduced across 2023, manufacturers have announced increases ranging between 2%-11% and it is anticipated that some materials prices may see some further but limited increases.
- Based on the current outlook we expect total inflation in 2024 will be c.3.5%.
- The availability of labour remains a major concern and how this develops across the year could impact the current forecast.
- Contractors working in insurance repair have started the year with optimism that 2024 will be a successful year for their companies.

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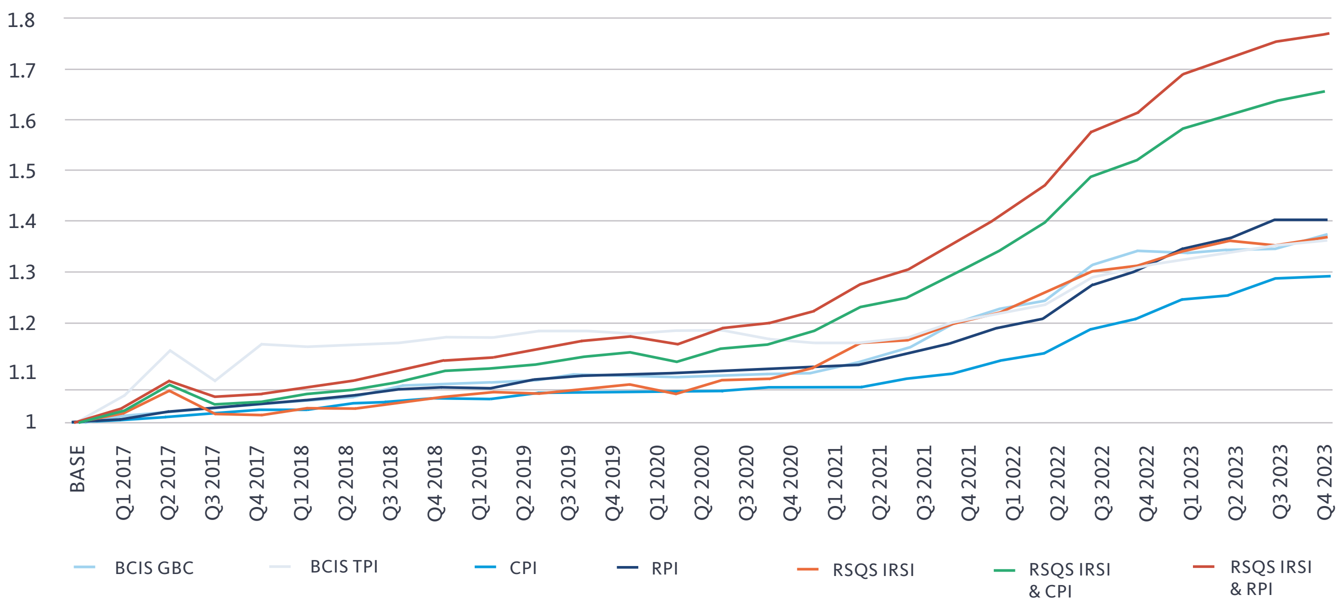
Building cost inflation

To track the impact of inflation on insurance repair work within the building industry, we use our own index that focuses specifically on this market. The Insurance Repair Specific Index (IRSI) monitors the four main cost components typically found in insurance repairs — labour, plant, materials, and waste disposal — and takes account of the frequency of use of different materials, so that the importance of specific increases is reflected. The IRSI is calculated quarterly. We also track each month the prices of 144 of the most frequently used materials.

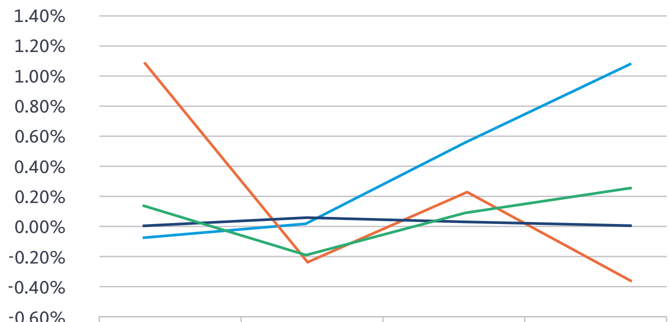
This highlights how contractor repair costs are changing. In quarter four, an increase of 1.07% in labour, plant, materials and waste costs has been recorded with a provisional total increase in contractor costs of 2.96% over the full twelve months, this compares with the CPI of 3.9%. The trend of contractor cost increases is shown in Chart 1 below.

Chart 1 – IRSI Q4 2023



Based on our basket of materials, this year we've seen a total small increase in materials of 0.78%, due to merchant increases in quarter one, but an overall trend of decreasing material prices, as can be seen in chart 2 below which illustrates the price change trends of the different components of labour, materials, plant and waste.

Chart 2 – IRSI Cost trends of elements



	Q1	Q2	Q3	Q4
Labour	-0.08%	0.02%	0.64%	1.21%
Material	1.21%	-0.27%	0.25%	-0.41%
Plant	0.15%	-0.22%	0.10%	0.28%
Waste	0.00%	0.06%	0.03%	0.00%

We have however recorded a wide range in fluctuations in different material categories, from sanitaryware with increases of 24.52% across the year compared to heating components with cost decreases of -11.89%. The fluctuations in the different categories are shown in table 1.

Table 1 – IRSI Cost trends of material categories

Material category	Jan-23	FEB-23	MAR-23	APR-23	MAY-23	JUN-23	JUL-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	YE 2023
Adhesive/ sealants	0.00%	-2.84%	0.00%	-2.60%	-1.90%	-1.75%	-5.59%	3.17%	0.00%	0.19%	12.22%	0.00%	0.90%
Aggregates	1.25%	4.58%	0.00%	0.00%	0.00%	-0.74%	0.00%	0.12%	0.00%	4.35%	0.00%	0.00%	9.57%
Cement	0.66%	0.53%	0.00%	0.12%	0.00%	2.09%	0.82%	3.46%	1.58%	0.06%	-0.61%	-14.10%	-5.38%
Decorations	2.97%	1.44%	1.14%	0.00%	-4.69%	3.68%	2.28%	1.30%	0.00%	2.15%	-0.65%	0.00%	9.62%
Drainage	0.00%	-0.20%	0.00%	0.00%	0.00%	0.00%	0.49%	0.00%	0.00%	0.00%	0.00%	0.00%	0.30%
Electrical	-2.39%	0.00%	0.00%	-0.38%	0.67%	0.00%	0.46%	1.18%	0.00%	1.84%	-0.71%	0.29%	0.97%
Enablings	4.45%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.59%	0.00%	0.00%	0.00%	3.86%
Floor covering	6.35%	0.83%	0.00%	-3.36%	-1.60%	0.00%	-3.35%	1.07%	4.06%	0.69%	0.00%	0.00%	4.69%
Gypsum	12.86%	0.70%	0.12%	-0.51%	-0.93%	0.99%	-0.49%	0.07%	0.02%	-0.91%	0.83%	-0.14%	12.59%
Heating	0.74%	-3.09%	-5.66%	-0.55%	-1.84%	-1.32%	1.33%	-0.04%	-0.28%	-0.20%	0.26%	-1.24%	-11.89%
Insulation	1.65%	0.00%	0.00%	8.39%	-0.28%	-3.70%	0.00%	-8.40%	-1.93%	1.97%	-3.16%	0.50%	-4.97%
Ironmongery	1.06%	-0.89%	0.84%	2.12%	-2.85%	0.00%	2.51%	-0.01%	0.00%	0.66%	0.82%	-1.22%	3.04%
Kitchens	9.19%	-2.31%	0.00%	-2.97%	3.06%	-1.60%	-0.26%	0.00%	0.00%	-2.05%	1.10%	0.00%	4.17%
Lead	4.44%	-2.67%	0.53%	0.37%	-15.86%	11.32%	4.21%	0.60%	0.00%	2.35%	-1.33%	0.00%	3.95%
Masonry	0.02%	-3.96%	0.00%	3.96%	-1.55%	0.40%	0.00%	1.89%	0.00%	0.00%	0.00%	0.00%	0.76%
Pavings	9.30%	0.00%	0.00%	0.00%	-1.86%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	7.43%
Plumbing	-0.04%	-4.59%	0.00%	0.03%	0.00%	0.00%	0.00%	-1.77%	0.00%	0.45%	0.00%	0.00%	-5.93%
Roofing	0.06%	-0.48%	0.39%	-0.03%	-0.97%	0.97%	1.47%	0.44%	0.03%	0.03%	-0.85%	0.00%	1.07%
Sanitaryware	4.28%	-0.63%	-1.57%	15.24%	-5.49%	2.65%	4.89%	-0.03%	-3.75%	7.01%	1.93%	0.00%	24.52%
Screws/nails	-0.76%	0.95%	0.00%	0.38%	-5.83%	0.00%	0.00%	0.10%	0.00%	3.49%	-3.47%	0.00%	-5.14%
Taps	0.00%	1.75%	0.00%	-1.86%	0.00%	0.00%	0.00%	-2.85%	0.00%	0.26%	0.00%	0.00%	-2.69%
Tiles	9.72%	3.40%	-0.87%	-1.33%	0.00%	-2.30%	0.42%	-1.27%	0.00%	-1.22%	0.47%	0.00%	7.02%
Timber	-1.58%	-2.25%	-3.84%	0.32%	0.34%	-1.07%	-0.75%	4.49%	-0.05%	1.36%	4.53%	-3.11%	-1.63%
uPVC window	0.00%	0.00%	0.00%	0.00%	0.00%	-4.27%	0.00%	7.50%	0.00%	-5.60%	0.00%	0.00%	-2.36%

Whilst 2024 has started with some manufacturers announcing material price increases, e.g. British Gypsum (plasterboard) 3.4%, all Saint Gobain products 2-5%, Hanson cement 11% and Rockwall insulation 4.8%, we don't expect to see large material price increases overall in the next twelve months which will impact the IRSI.

However, in the latter part of 2023 tensions in the Red Sea have developed which has resulted in military action being taken by the US, UK and other countries since 11 January this year.

Due to the threat to shipping that use the Suez Canal, this has caused some vessels to change their normal route to Europe by sailing around the Cape of Good Hope in South Africa, a journey which is around 10 days longer.

This has prompted concerns that this re-routing of shipping may increase inflationary pressures affecting the cost, for example, of building materials in the UK and a knock-on effect of increasing insurance claim costs. However, many of the materials used for insurance repairs are sourced from Europe so costs and lead times will generally be unaffected. At this stage, we believe the impact on costs in the UK will be limited and, at most, will only slow down the decrease in inflation levels we've reported. We continue to monitor the situation and how this is impacting the costs of building materials.

The cost of employing tradesmen has continued to rise, see again Chart 2 and this is driven by the availability of labour. The Federation of Master Builders Q4 survey has reported that particular problems are being seen in the hiring of labourers, carpenters and bricklayers with 45% of the respondents explaining that projects had been delayed due to labour shortages. Whilst the problem is most acute in the South East, all regions of the UK are experiencing the hiring and retention problems.

Rates benchmarking

To ensure that the costs of Sedgwick's repair solutions are competitive, our quantity surveying team undertakes a quarterly rate review. Known as the universal rate set (URS), the review compares our rates with other market repair costs.

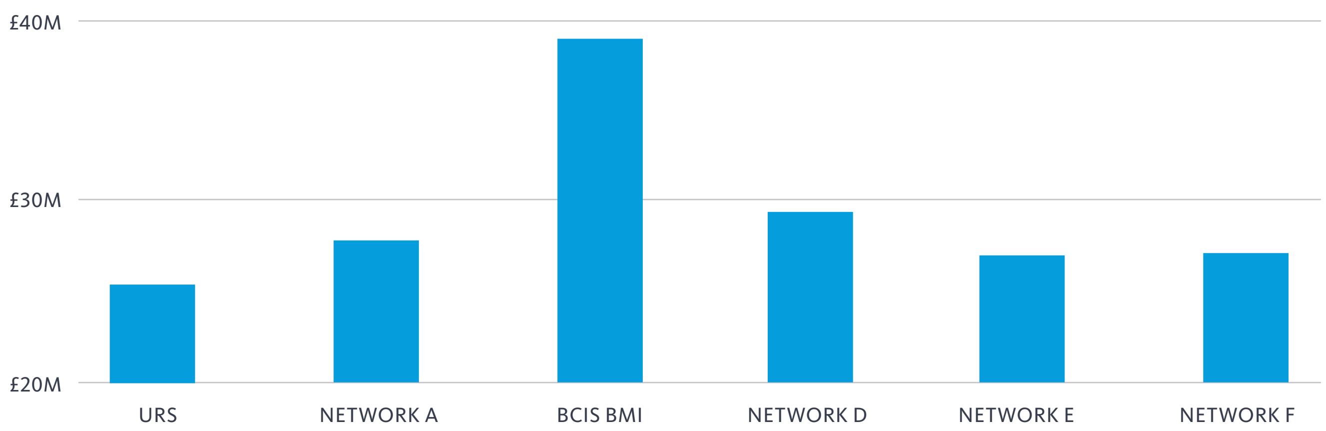
This benchmarking exercise includes:

- A cost review of 25 of the most frequently used repair rates
- A review of the output costs of repairs on typical escape of water, fire, flood and subsidence claims

The results of this review are shown in chart 3 below. The results include the recent increase in the URS rates and amendments made to other pricing. It's important to note that Sedgwick's repair solutions rates include all network management costs or fees. To allow comparison, our management costs has been included with the net rates of other networks.

Benchmarking confirms the URS remains competitive. We advised in our Q3 report that we will be reviewing rates again at the end of Q2 2024 and we currently anticipate that any rate increase would be less than 3%.

Chart 3 – Rate benchmarking



Contractor survey

To gain valuable insight and understanding of how our network contractors view the current financial outlook and their thoughts about working in the insurance repair sector overall, we carry out an annual survey. Using this we have asked them about the challenges faced in the last twelve months, and their views on what they believe likely to be main ones this year. As part of this we also take temperature check on optimism in the market. Overall, 72 contractors have provided their opinions and thoughts.

Question 1

We asked contractors to look back and tell us what they considered were the most important challenges their businesses faced in 2023. Almost identical responses were presented with the key themes being rising costs, payment issues and labour recruitment and retention problems. We've included some of the typical responses below.

"The availability of trades has been a big challenge during 2023 and continues into 2024, as trades retire it is becoming ever more difficult to replace them with suitably qualified and experienced now trades people. This has been an issue in the construction industry for several years and there is no indication of improvement. The incentives to attract new young people into the construction industry is low which is impacted by project cost restrictions and unclear long-term prospects."

"Lack of available skilled labour and staff, overhead costs increasing, staff wages, fuel, services, insurance, and materials. Payment terms – length of time to receive funds even for interims."

"Debt/payment issues when undertaking insurance related works, labour availability (England in early 2023 and currently in Scotland), material cost increase (early to mid-2023)"

"I don't know if out of frustration or how busy the whole industry is but the abuse both field/office staff are receiving has increased and the lack of support from insurers is disappointing and discouraging, as it feels like it is just part of the job. We report this on the claim but feel the insurers don't take this seriously enough and never get an apology or the PH behaviour changes. It's hard enough getting and keeping good staff, so we all have a duty that when this happens and reported, we are proactive and supported, to help [tradesmen]."

"Shortages of good quality labour/lack of young people wanting to invest in building works. It has been difficult to find suitable apprentices and we would really like to support an apprentice. We had three who left before they completed their apprenticeship as they wanted to do something different/didn't want to complete their training."

Question 2

We asked contractors to look forward and explain their opinions on the likely challenges their business will face in 2024. Again, there were common responses centered on the difficulties in retaining and recruiting labour, which highlights the cost issues noted in section one of this report. Typical responses are shown below.

"Trying to retain existing tradesmen and recruit new tradesmen whilst competing against other sectors paying higher rates of pay. Increasing overheads, such as wages, fuel, gas & electricity costs whilst running two offices. Getting good, reliable, and skilled specialist subcontractors on board to help reduce lead times. We are finding that the hourly rates or prices we offer are nowhere near what they are looking for."

"Retaining existing staff in our sector as other sectors paying more/continuing to invest in new vehicles/staff uniforms/staff training to keep the insurance presentation high and keep customers confidence high day 1."

"1. Sourcing appropriate direct and indirect tradesmen

2. Filling the skills gap left by educational and the apprenticeship regime

3. Maintaining a managerial structure

4. Managing/balancing the costs v income equation

5. Trading in a litigious environment"

"Trade resources, rising cost of materials, managing customer expectations."

"We are finding mental health and staff welfare increasingly difficult to manage due to customer expectations being higher than ever".

"Whilst the housing market may have slowed slightly, it is picking back up so demand on skilled labour is great. There appears to be a great shortage of insurance sector contractors that can deliver quality reinstatement works as most trades persons are not interested. There is no shortage of this kind of work for the right companies. The challenges are resourcing good contracts managers, paying skilled persons the going rate and making a reasonable return."

Question 3

In the final question, we asked contractors how optimistic they are that 2024 will be a successful year for their company.

The results from this question were:

VERY OPTIMISTIC	41.7%
OPTIMISTIC	56.9%
NOT VERY OPTIMISTIC	1.4%

It is positive that the general outlook is positive, however it is clear that they see a number of challenges, some of which will not be fixed overnight.

One emerging concern which has started to be referenced by a handful of contractors is the changing environment where their tradespeople are suffering abuse while completing projects. Much like the rise in abuse with retail workers, there appears to more incidents where customers behavior is of an unacceptable level and there is a growing welfare concern. We are working with our contractor network to develop better support mechanisms to help tackle mental health and welfare concerns. This is something we strongly believe will make a difference to their people and how they are able to deliver the best possible service for our insurer clients and their customers.

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