UK TILE MARKET REPORT

November 2023

Definitions and Abbreviations:

UK floor and wall tiles – includes ceramic tiles, porcelain tiles, natural stone and glass and metal tiles

Wood floorcoverings – includes solid wood, engineered wood and laminates

Vinyl floorcoverings – based on PVC, with additives including pigments, chips and protective coatings

ACM cladding – Aluminium composite material cladding

DIY – Do it yourself

GDP – Gross Domestic Product

GSI – Getting someone in

HGV – Heavy goods vehicle

LVT – Luxury vinyl tile

MSP – Manufacturer's selling price

POD – A prefabricated volumetric element, fully factory finished and internally complete with building services. Types of pod include bathrooms, shower rooms, office washrooms, plant rooms and kitchens.

RMI – Repair maintenance and improvement

SME – Small and medium-sized enterprises

List of references:

This report is predominantly based on secondary research. All data quoted and the main findings are based on the following list of references:

AMA Research Floor and Wall Tile Report 2022-2026

AMA Research Contract Flooring Report 2022-2026

ARCADIS – Market View Autumn 2022

Barbour ABI – Super Sector Regional Review May 2022

British Ceramic Confederation

<https://www.building.co.uk/> (Accessed November 2023)

Ceramic World Web (CWW)

Contract Flooring Journal

Construction Europe – Outlook for UK Construction 2022

Construction 2025

The Construction Index

CPA Construction Industry Forecasts Summer 2022 and 2023

Designing Buildings The Construction Wiki – UK construction

Department of Transport – UK Port Freight Statistics 2020

Executive Freight Services Ltd

Government Construction Strategy

Glenigan UK Construction Industry Forecast 2022-2023 and 2023-2024

IBISWorld – Floor and Wall Covering in the UK 2010-2028

KPMG – Global Economic Outlook 2022

Logistics UK Report Summary 2021, 2022 and 2023

Mordor Intelligence – UK Floor Covering Market 2022-2027

MRA Research – The UK Wetwall Panel Market 2019

Mintel UK Ceramic Tiles Report 2021 and 2022

Office for Budget Responsibility: Economic and Fiscal Outlook, November 2023

ONS – Office of National Statistics

OTS (Overseas Trade Statistics), HM Revenue and Customs

PWC – UK Economic Outlook 2022

Royal Institute of Chartered Surveyors UK Construction Index October 2023

Snap Account

S&P Global/CIPS UK Construction PMI <https://www.pmi.spglobal.com/Public/Home/PressRelease/6e05d9bf77d24e1482dd2a670939662c> (accessed November 2023)

Statista – UK Floor and Wall Tile Market

The Stocklists (Flooring News)

Topps tiles Half Year Results 2022

Introduction

This report analyses developments within the UK tile market, covering products manufactured from ceramics and porcelain, natural stone and other materials. The market is reviewed within the context of the wider economic environment and the construction sector based on independent research sources and interviews with industry professionals.

Current trends within the UK floor and wall tiles market are reviewed along with an analysis of key issues affecting the industry.

This is an update to the 2022 report, some sections remain unchanged. Limited manufacturing within the UK impacts the available data on the tiling market. We are currently awaiting publication of the delayed Ceramic Tiles UK 2023 report. Relevant updates will be included on the following pages once available.

1. UK Construction Overview

Construction is a very diverse industry that includes activities ranging from mining, quarrying and forestry to the construction of infrastructure and buildings, and the manufacture and supply of products, as well as maintenance, operation and disposal.

Construction output in the UK is more than £110 billion per annum and contributes 7% of GDP (*Source: Government Construction Strategy*). Approximately a quarter of Construction output is public sector and three-quarters is private sector.

There are three main sectors:

- Commercial and social (approximately 45%)
- Residential (approximately 40%)
- Infrastructure (approximately 15%)

Approximately 60% of construction output is new build, whilst 40% is refurbishment and maintenance.

The industry accounts for approximately 3 million jobs, 10% of total UK employment (*Source: Construction 2025*) and includes both manufacturing and services. According to the Department for Business Innovation and Skills, the industry is made up as follows:

- Contracting: 2,030,000 jobs, 234,000 businesses
- Services: 580,000 jobs, 30,000 businesses
- Products: 310,000 jobs, 18,000 businesses

Construction is a high-cost, high-risk, long-term activity, and so its performance is a good indicator of the health of the wider economy.

1.1 UK Economic Outlook

On 22nd November 2022, the UK Chancellor Jeremy Hunt announced that the economy has grown rather than falling into recession as previously predicted. He described the Autumn statement as an "Autumn Statement for Growth" and went on to say that businesses would be supported with 110 growth measures which included: removing planning red tape, speeding up access to the National Grid, supporting entrepreneurs raising capital, getting beyond fastest growing industries, unlocking foreign investment, boosting productivity, reforming welfare, levelling up opportunity to every corner of the country and cutting business taxes.

The Office for Budget Responsibilities (OBR) has published its latest forecast on the economic and fiscal outlook.

The OBR has revised up its UK GDP growth forecast for 2023 to 0.6% growth from the -0.6% previously estimated in the Spring Statement in March. However, the OBR has downgraded its expectations for economic growth in 2024 and 2025. This is due to forecast inflation and interest rates being higher than the OBR thought back in March. In turn, this is anticipated to lead to lower consumer spending and investment than previously thought. The new GDP growth forecast of 0.7% in 2024 is down from 1.8% forecasted in March, with GDP growth of 1.4% in 2025, lower than the 2.5% expected in March. The OBR says growth will pick up to 2.0% in both 2026 and 2027 as inflation falls. This is predicted to provide a boost to real (inflation-adjusted) wages and therefore consumer spending.

Since the OBR's last forecasts, the Office for National Statistics (ONS) has revised up past GDP data, most notably over the pandemic years of 2020 and 2021. The result is that the level of GDP is higher than the OBR previously thought. However, as noted, the OBR expects GDP growth to be slower than it did previously. GDP is now expected to grow a total of 6.7% from 2022 to 2027, compared with the previous forecast of 8.3%.

The OBR expects GDP per head to recover to its pre-pandemic level of late 2019 only in early 2025. The OBR estimates that the Chancellor's measures announced in the Autumn Statement provide "a modest boost" to GDP of just under 0.3% on average per year between 2024/25-2028/29.

The annual rate of inflation as measured by the Consumer Price Index (CPI) was higher during 2023 than the OBR expected in its March forecast. The OBR says that inflation was "more persistent and domestically fuelled" than anticipated. The OBR now forecasts inflation to remain higher for longer, in part due to higher-than-expected growth in earnings, though it still projects the inflation rate to fall in 2024 and 2025. From 6.7% in the third quarter (Q3) of 2023, inflation is forecast to decline to 2.8% in Q4 2024 and below the Bank of England's 2% target in Q2 2025 (1.8%).

Since the OBR's previous forecasts, the ONS has revised up past business investment data, with the OBR noting that investment had "recovered more completely from the pandemic" than was previously shown. Business investment has also been stronger in 2023 than the OBR expected. The OBR is forecasting a fall in business investment in 2024, as past increases in interest rates raise the cost of capital. A return to growth is seen in subsequent years. The Chancellor's decision to make "full expensing" (100% capital allowances) permanent is estimated by the OBR to boost business investment by a total of 0.3% of GDP between 2023 to 2027.

UK Economic Forecasts (OBR Autumn '23 – % change year on year	2022	2023	2024	2025	2026	2027	2028
GDP	4.3%	0.6%	0.7%	1.4%	2.0%	2.0%	1.7%
Inflation	9.1%	7.5%	2.8%	1.8%	1.4%	1.7%	2.0%
Business Investment	9.6%	5.4%	-5.6%	1.2%	3.4%	0.9%	0.5%

1.2 Construction Outlook

Surveys from across the construction supply chain show that the split in performance mirrors official ONS data on construction output and new orders, as well as other industry surveys that show strength in the infrastructure, public non-housing and repair, maintenance and improvement sectors, with a particular focus on energy efficiency work for the latter.

In contrast, workloads in new build housing, commercial and industrial have fallen back, with demand and confidence in these sectors the most affected by sluggish economic growth and the sharp rise in interest rates since the middle of 2022. Combined with the high rates of input cost inflation that construction has experienced since 2021, the additional pressure of notably higher borrowing costs has reined in demand from potential homebuyers and made the large up-front investments required for large offices, leisure, factories and warehouse projects less appealing. Whilst the cost of finance continues to rise, and the Bank of England's monetary policy tightening cycle is not expected to peak until the end of the year, there are, at least, signs that other cost pressures continue to subside. Headline cost balances continued to ease to the levels last seen in 2020 and 2021, prior to the Russian invasion of Ukraine that led to significant increases in global oil and commodity prices. *(Ref: CPA)*

The CPA reported that in 2023 Q2, sales performance for product manufacturers varied between the 40% of heavy side manufacturers (manufacturing projects typically used at the earlier stages of construction) that reported an annual decline in sales and the 21% of light side firms (products generally used in later stages of construction) that reported an increase in sales, suggesting a slowdown in the volume of new work, but ongoing work on projects already underway. A similarly mixed picture was presented in other areas of the construction supply chain, with a net balance of 22% of SME contractors reporting an increase in workloads in Q2, up from 9% in Q1. Nevertheless, RM&I was the sole sector to register an increase in workloads, with falls in house building and commercial/industrial.

Ahead of the Government's Autumn Statement, in its representation to the Chancellor of the Exchequer, the CPA "forecasts that the construction industry is expected to experience an acute recession this year driven by double-digit falls in the two largest construction sectors: private housing new build and private housing repair, maintenance, and improvement (RM&I). Private housing output is worth £41 billion per year to the UK economy and is forecast to be the worst-affected construction sector in 2023. Overall, private housing starts are forecast to fall by 25.0% in 2023. Completions and output are expected to fall by 19.0% this year and remain flat in 2024 with recovery only in 2025. With this in mind, we would like to see: New build housing: With housing demand having fallen sharply since the Mini Budget in 2022, sharp interest rate rises and the withdrawal of Help to Buy, buying a new home has become harder than at any point in over a decade – particularly for first-time buyers. We would advocate for a new 18 month scheme to enable buyers of new build housing, based upon a government equity loan, to boost house building and jobs at this critical time for the sector".

As expected, there was no extension of stamp duty cut announced in the Autumn Statement nor a new 'Help-to-Buy' scheme. There was an extension of the mortgage government guarantee scheme to June 2025, however this only accounts for 1% of mortgages.

The Autumn Statement included:

- £110 million of funding to unlocking planning permissions otherwise stalled by nutrient neutrality rules
- A new Permitted Development Right to enable one house to be converted into two homes, which will offer some help to home conversions
- £32m towards new homes to "bust the planning backlog" and develop housing quarters in Cambridge, London and Leeds
- £450m to the Local Authority Housing Fund (LAHF) to deliver 2,400 new homes

The CPA's response to the Autumn Statement was that it focused on short-term measures for working households and businesses instead of investment in construction for long-term growth, with little for the housing sector. It also commented that "planning departments in every council need sustained long-term funding to deal with funding cuts since 2010". It went on to state that, "A lack of stimulus to boost housing demand is particularly concerning given the Office for Budget Responsibility (OBR) forecasts published alongside the Autumn Statement, which expect UK house prices to fall 4.7% in 2024 and forecast property transactions hitting a low point in 2024/25 falling to 934,361, which is 3.4% lower than in 2023/24 and 32.2% lower than in 2021/22. Plus, it forecasts that transactions only recover to 2022/23 levels in 2027/28 and will not reach 2021/22 levels even in 2028/29.

The lack of policies aimed at boosting housing demand in the Autumn Statement was unsurprising given the messages from government this year but, given its own forecasts anticipate further falls in housing market next year and recovery only in the long-term with the two largest construction sectors (Private Housing and Private Housing RM&I) driven by property transactions, what remains to be seen is the full impact on skills and capacity in the industry."

In August 2023, the ONS reported that monthly construction was estimated to have decreased by 0.5% in volume terms in August; this follows an upwardly revised decrease of

0.4% in July 2023, with the monthly value in level terms in August 2023 at £15,584 million. They report that:

- The decrease in monthly output came solely from a decrease in new work (1.5% fall), partially offset by an increase in repair and maintenance (1.0%) on the month
- At the sector level, five out of the nine sectors saw a fall in August 2023, with the main contributors to the monthly decrease seen in private commercial and private new housing, which decreased 4.1% and 1.4%, respectively
- Alongside the monthly decrease, construction output saw an increase of 0.9% in the three months to August 2023; this came from increases in both new work (0.9%), and repair and maintenance (0.9%)

In contrast to this, August data from S&P Global/CIPS UK Construction PMI shows that construction activity rose marginally across the month, led by the commercial and civil engineering sectors helping to offset the continued slump in housebuilding. The Index decreased to 50.8 from the 51.7 seen in July, signalling a slight increase in overall construction output. However, business activity forecasts for the year ahead were reported as the weakest since January 2023, due to falling sales volumes across construction shown by the fastest decline in new orders for just over three years.

The September ONS report gave a slightly more positive result, stating that construction output was estimated to have increased by 0.4% in volume terms as a result of an increase in repair and maintenance of 2.1%, which was offset by a decrease in new work of 0.8% on the month.

The report also reported that at the sector level, there was a rise in September in three out of the nine sectors. Once again, the main contributor to this was housing repair and maintenance which increased 3.0%.

Overall in Quarter 3 (July to September) of 2023, quarterly construction output increased 0.1% compared with Quarter 2 (April to June). This was solely from growth in September 2023 after two months of falls and was as a result of a 0.7% increase in repair and maintenance with new work decreasing by 0.3%.

In a cabinet shuffle performed in November 2023, Lee Rowley was once again appointed as Minister of State for Housing (UK). The impact that this appointment will have on the housing construction market is yet to be seen.

The latest Builders Merchants' Merchant Index's findings for 2023 report that the total value sales in the year to date, January 2023 to August 2023, were -2.9% down on the previous period, January 2022 to August 2022. Volume sales were -13.5% lower with prices up +12.3%. With one more trading day this period, like-for-like sales were -3.5% lower. Nine of the twelve categories sold more. Renewables & Water Saving (+43.6%) grew the most, followed by Decorating (+12.9%) and Plumbing, Heating & Electrical (+11.4%). Services (-6.3%), Landscaping (-13.0%) and Timber & Joinery Products (-15.0%) sold less.

Sales in the current year to date, January 2023 to August 2023, were +20.4% higher compared to four years ago, January 2019 to August 2019, with volume down -15.9% but prices up +43.2%. With one less trading day in the most recent period, like-for-like sales were +21.1% higher. All categories sold more. Renewables & Water Saving (+80.6%) was well out in front. Tools (+9.3%) was weakest.

Total Merchants sales in the 12 months, September 2022 to August 2023, were -1.1% lower compared to September 2021 to August 2022, with volume down -12.8% and prices up +13.3%. With one less trading day in the most recent period, like-for-like sales were -0.7% lower. Nine of the twelve categories sold more. Renewables & Water Saving (+46.0%) did best, followed by Workwear & Safetywear (+14.2%), Plumbing, Heating & Electrical (+13.2%), and Decorating (+13.0%).

The DBT Construction Material Price Index for all work decreased 1.1% month-on-month in July and was 4.0% lower than a year earlier. Construction material prices for new housing, repair and maintenance and other new work fell by 1.5%, 4.3% and 5.0%, respectively, in the year to July 2023.

Economic forecasts suggest flatlining GDP growth throughout 2023, with only a modest recovery emerging in 2024. Furthermore, ONS data showed that new orders in construction in Q2 fell 17.7% compared to a year earlier, with falls across all major sectors of activity. Continuing the split in current fortunes, forward-looking indicators in industry trade surveys show little is likely to change in the coming quarters. Reflecting weaker pipelines of new work, heavy side product manufacturers anticipated a fall in sales over the next 12 months, contrasting a more upbeat view from those on the light side. Similarly, new enquiries for SME contractors recorded a modest positive net balance, but as with workloads, this was entirely driven by the RM&I sector, whereas enquiries fell for new build housing and commercial/industrial work. Both chartered surveyors and civil engineering contractors anticipated infrastructure providing some uplift to activity in the near-term. Despite the widespread evidence of slowing demand, there is positive news on the costs front, with a moderation in inflationary pressure recorded throughout the supply chain in Q2. Cost balances were the lowest since 2020 and 2021 (depending on survey) with a broad-based easing in input costs.

Construction output is forecast to fall by 6.8% in 2023, broadly unchanged since the 7.0% forecast three months ago, as activity has largely evolved over the Summer as expected and activity continues to fall away in the two largest construction sectors, private new housing and private housing repair, maintenance and improvement (RM&I). Looking to next year, construction output is now forecast to fall marginally, by 0.3%, which is a revision down from the 0.7% growth forecast in Summer as a slower UK economic growth forecast for next year and high interest rates for longer has led the recovery in private housing new build and RM&I to be pushed back to 2025.

The latest economic bulletin from the Royal Institute of Chartered Surveyors (RICS) was released at the end of October 2023 and reported that in the third quarter of 2023, UK construction workloads entered negative territory. The RICS UK Construction Monitor for

Q3 showed a net balance of -10% of respondents reported a decrease in activity in the quarter; these are the worst results since the early months of the Covid 19 pandemic. *(Source: The Construction Index)*

With annual inflation in the UK economy slowing as expected, more than a year on from the peaks in energy, oil and commodity prices in Summer 2022, interest rates appear to be peaking lower than expected in the Summer forecasts, which is positive for the UK economy near-term. However, inflation is likely to be stubborn over the course of the next 12-18 months, particularly after recent oil price rises. As a consequence, interest rates are likely to remain at peak for longer than previously expected and, as a result, this is likely to lead to slower growth in the UK economy next year and a slower recovery in the housing market. Total construction output is forecast to fall by 6.8% in 2023, which is a marginal upward revision compared with the 7.0% forecast back in July. Output is forecast to fall by 0.3% in 2024, downwardly revised from the 0.7% growth in the Summer forecasts. Within the overall forecast figures for next year, there are mixed fortunes across the different sectors but the key driver of changes to the 2024 forecast for total construction output is a downward revision to both private housing new build and RM&I from 2.0% to 0.0%.

Construction Industry Forecasts - Autumn 2023

% annual change	2021 Actual	2022 Actual	2023 Estimate	2024 Forecast	2025 Projection
Housing					
Private	37,134	40,795	33,044	33,044	34,035
	16.4%	9.9%	-19.0%	0.0%	3.0%
Public	5,120	5,359	4,555	4,464	4,687
	8.2%	4.7%	-15.0%	-2.0%	5.0%
Total	42,254	46,154	37,599	37,508	38,723
	15.4%	9.2%	-18.5%	-0.2%	3.2%
Other New Work					
Public Non-Housing	9,498	8,615	8,563	8,603	8,679
	-1.2%	-9.3%	-0.6%	0.5%	0.9%
Infrastructure	27,931	27,769	27,635	27,620	28,025
	28.1%	-0.6%	-0.5%	-0.1%	1.5%
Industrial	4,756	6,756	6,995	6,388	6,107
	1.2%	42.1%	3.5%	-8.7%	-4.4%
Commercial	21,939	21,775	21,025	20,719	21,005
	-7.3%	-0.7%	-3.4%	-1.5%	1.4%
Total other new work	64,124	64,915	64,218	63,330	63,816
	7.3%	1.2%	-1.1%	-1.4%	0.8%
Total new work	106,378	111,069	101,817	100,838	102,539
	10.3%	4.4%	-8.3%	-1.0%	1.7%
Repair and Maintenance					
Private Housing RM&I	25,432	28,717	25,558	25,558	26,325
	25.9%	12.9%	-11.0%	0.0%	3.0%
Public Housing RM&I	7,168	7,052	7,334	7,481	7,630
	5.8%	-1.6%	4.0%	2.0%	2.0%
Private Other R&M	14,537	16,384	16,220	16,545	16,875
	16.2%	12.7%	-1.0%	2.0%	2.0%
Public Other R&M	5,767	5,978	5,859	5,859	5,917
	10.9%	3.7%	-2.0%	0.0%	1.0%
Infrastructure R&M	11,330	12,046	12,046	12,046	12,046
	12.0%	6.3%	0.0%	0.0%	0.0%
Total R&M	64,234	70,177	67,017	67,488	68,794
	17.2%	9.3%	-4.5%	0.7%	1.9%
TOTAL ALL WORK	170,612	181,246	168,834	168,326	171,333
	12.8%	6.2%	-6.8%	-0.3%	1.8%

Source: ONS, Construction Products Association

The CPA reported in October that 4,263 construction firms in the UK went out of business in the year to August 2023, which is 8.3% higher than a year ago and 34.5% higher than in the year to January 2020, pre-pandemic. The number of construction firms that went under in the year to August has been higher than pre-pandemic for 18 consecutive months. UK construction insolvencies were also at their second highest level since the financial crisis, the only time it was higher was June 2023. The full impacts of the declines of the two largest construction sectors, new build and repair for private housing and maintenance and improvement, are yet to be seen.

In November it was reported that the number of UK construction companies thought to be in critical financial distress has jumped 46% in the past three months. *(Source: The Construction Index)*

In October, Bellway Homes, one of the UK's top house builders, reported that it was expecting to cut build volume by a third (from 10,949 in the previous year to 7,500 in 2023) and that its profit was expected to fall by nearly 50% in the current financial year as a result of weak demand for new homes prompted by high interest rates. This has resulted in 5% of its staff being laid off (equivalent to about 150 people) as part of a recent restructuring exercise designed to shape the business for the current market.

Also in October, Housebuilder Vistry warned that, following a restructuring, 200 jobs will be lost and expected profit hit by £40m due to a slowdown in private house sales. Earlier in the year, the company requested a 10% decrease in prices from subcontractors for existing and future contracts and overhauled its internal structure to reflect a strategic shift towards social housing projects.

In November, Vistry announced that it had signed a £819m deal to build thousands of homes for rent. Under the agreement, Leaf Living and Sage Homes will acquire 2,915 units from the housebuilder on plots across 70 developments.

In November, Persimmon reported a 37% fall in completions. In a trading update for the three months to 6 November, the housebuilder said it completed 1,439 homes in the period, down on the 2,270 for the same period last year, due to a "slower sales environment". The company expects to build around 9,500 homes in its full year, down 36% on the 14,868 built the previous year.

Persimmon reported an underlying operating margin of 14%, down from 27% year-on-year and its current "hiring freeze" will mean a reduction in staff numbers of around 700. The company has reported to be taking a "proactive approach" to secure price reductions on both materials and labour from suppliers and subcontractors over the past few months amid what they term "stubborn" build cost inflation. *(Source: building.co.uk)*

On average, approximately 15 sqm of tiling is installed in new build houses in the UK. The fall in new builds quoted by Persimmon and Bellway alone equates to a potential loss of 132,255 sqm tiles used.

Redrow announced its most recent full-year results in September, forecasting a halving of profit in 2023/24, with the figure expected to be in the range of £180m-£200m. A trading update shows the value of private reservations down 25%. The company expects its results for the current financial year to be at the lower end of its previous predictions because of a "subdued" autumn market. *(Source: building.co.uk)*

In comparison, in November 2023, Taylor Wimpey has reported that it is expected to post an operating profit of £470 million this year which is at the upper end of its forecast as a result of "optimising price and sharp cost discipline". The company expects to build 10,500 homes this year. *(Source: building.co.uk)*

Specialist contractors have been the worst affected (around 59%) however 36% of the insolvencies were main building contractors. Civil contractors accounted for 5% (220) of the construction insolvencies, due to infrastructure activity on major projects and frameworks being more stable and public sector clients tending to be more understanding of cost inflation and delays on site than private sector clients.

Private house building is likely to fall further in the second half of the year with a potential further fall in RM&I activity. This is in addition to the government's recent announcements of delays to road and rail projects as well as the continued delays in school and hospital programmes which will further affect mainly specialist contractors over the next 6 to 12 months.

The government's Spring Statement included the following:

- Energy Price Guarantee: Extend support rate at £2,500 until 30th June 2023
- Climate Change Agreement scheme: extended for two years, open to new entrants and buy-out price to be increased to £25/tCO2e
- New reformed HGV levy from August 2023 and vehicle excise duty for HGV's frozen for 2023-24
- Ensuring a sustainable and accessible housing market and driving infrastructure investment and delivery
- Levelling Up package announced which will include;
    - Two new trailblazer devolution deals will see money and powers handed directly to the Mayors of the West Midlands and Greater Manchester, including a direct funding settlement, devolution of post-19 skills funding and functions and greater control of the affordable homes programme
    - 12 Investment Zones across the UK to drive business investment and levelling up, each backed with £80 million over five years including generous tax incentives. Investment Zones will be based around research institutions such as universities and will be focused on driving growth in one of the UK's key sectors
    - Levelling Up Partnerships to provide bespoke place-based regeneration in an initial twenty of England's areas most in need of levelling up over 2023-24 and 2024-25

- A commitment to delivering high quality infrastructure to boost growth across the country

1.3 Private Housing

Private housing output is expected to fall by 19% in 2023. The demand for housing remained strong during 2022, however the jump in interest rates which followed the Autumn mini budget in September triggered a collapse in demand for new home loans.

Housebuilders remained hopeful that demand would increase in Q1 of 2023, which would allow them to start on new developments in advance of economic growth, but the consistent inflation in April and May led to the Bank of England increasing interest rates to 5% in June.

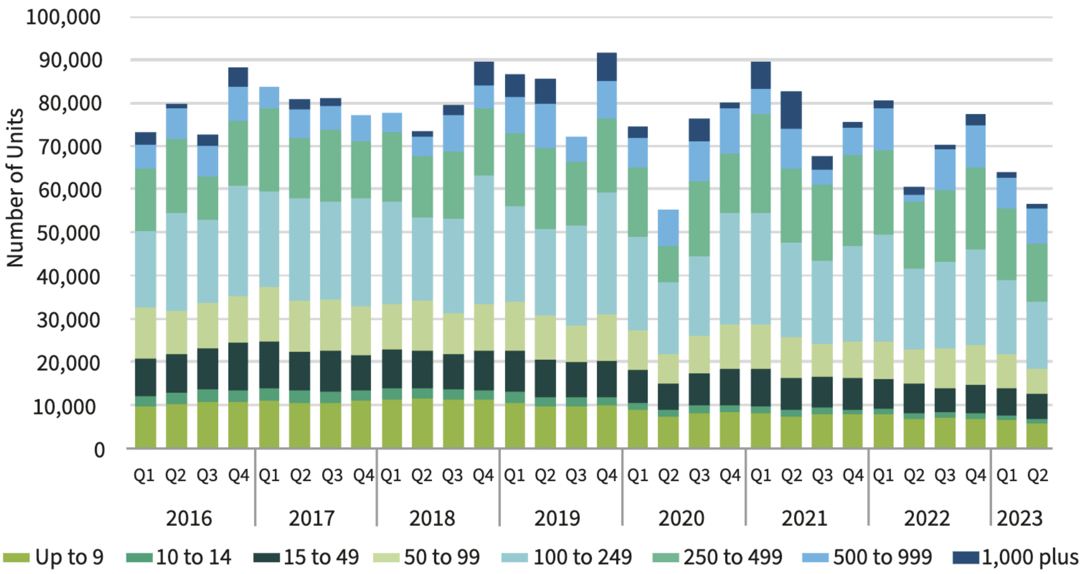
In October, the CPA reported that housebuilders in private housing remain focused on completions whilst starts and land purchasing are subdued, except in some very selected areas. Demand over the Summer was around 25-35% lower than a year earlier, which was a high base prior to the Mini Budget. Housebuilders are anticipating potentially seeing government stimulus to help first-time buyers in the Autumn Statement in November – like Help to Buy – but there are increasingly mixed messages from the UK government.

The latest economic statement released by RICS at the end of October 2023, the biggest fall in activity in Q3 in 2023 was in private house building where the net balance had fallen from -12% in Q2 to -26% in Q3 as a result of slower sales and tougher prices. *(Source: The Construction Index)*

Glenigan has reported that heightened economic uncertainty and rising interest rates accelerated the downturn in housing market activity and private housing starts. After sharp falls at the start of the year, market conditions continued to soften throughout the year.

The weakening house market, the termination of the Help to Buy schemes and the sharp rise in borrowing costs have resulted in a slow down in new build home sales. It was also reported that there were reduced sales of new-build homes to Buy-to-let investors as a result of higher borrowing costs and planned regulatory changes in the private rental market. In answer to this, some housebuilders have agreed bulk sales of properties to private rental businesses. Private housing starts are reported to have fallen by an estimated 23% in 2023.

Private Housing Detailed Planned Approvals by Project Size



Source: Glenigan

Private housing Repair, Maintenance & Improvement (RM&I) is now the second largest construction sector, worth £28.7 billion per year after reaching historic levels during the pandemic boom that peaked in March 2022 (*CPA*). However, according to data from Barbour ABI, planning applications for larger residential improvements work fell by 19.0% last year and this fall will feed through to sector output this year. Yet, falls in sector output will be partially offset by continued underlying strength in energy-related work on existing homes. There is currently buoyant activity on energy-efficiency retrofit activity, primarily insulation and solar photovoltaic work, which the CPA has been highlighting for over one year as homeowners with finance available have focused on improvements that reduce energy bills, particularly in the light of concern over energy prices and energy security. Furthermore, this activity shows no signs of abating over the next 12 months. On government programmes to stimulate energy-efficiency, there is little sign of effective delivery of both ECO4 and the Great British Insulation Scheme, formerly ECO+. Overall, private housing RM&I output is expected to fall by 11.0% in 2023 before rising by 2.0% in 2024.

The CPA reported in October that RM&I activity continues to fall after the declines last year but energy-efficiency retrofit and solar photovoltaic activity remains buoyant and growing. Overall, activity has been volatile so far this year but summer activity levels remained poor and there was little sign of an improvement in September.

Private Housing Sector % change (CPA)	2022	2023	2024
New work	3.0%	-19.0%	4.0%
Repair maintenance & improvement	-4.0%	-11.0%	2.0%

Source: CPA

1.4 Public Housing

Within public housing, housing associations still report that affordable housing demand remains strong but they continue to shift resources away to deal with the existing stock, basic living conditions, building safety and decarbonisation.

The sector has been facing headwinds with grant funding being sharply eroded over the last two years by rising costs and delays related to materials and labour, which have led to further delays for prolonged contract negotiations. In turn, this has had knock-on impacts for subsequent projects, including those being planned, with housing associations reducing development forecasts and pausing or removing uncommitted schemes that feature later in the pipeline. In addition, rising borrowing costs as interest rates have increased, combined with the below-inflation rent increases that were implemented in April 2023 across the nations and the rising costs local authorities are experiencing for operational services, will reduce finance for development, whilst a contraction in the private housing market is expected to adversely affect housing association demand for market-linked tenures, revenue and confidence going forward. Increased demand for affordable tenures provides a counter to this, however.

This picture of constrained finances for new build public housing, and a lack of additional funding from central government, means that developments may be pushed back into later years, especially as fire safety, basic repairs and maintenance, as well as decarbonisation and energy efficiency improvements, remain the priority for finance and resource. Declines in completions and output are expected in both 2023 and 2024, with growth returning in 2025.

Directly publicly-funded housing activity occurs through the Affordable Homes Programme (AHP), which covers starts until March 2026. Its predecessor, the Shared Ownership and Affordable Homes Programme (SOAHP), was extended to cover starts until March 2023 due to delays in activity during the pandemic. A government policy focus on increasing home ownership rather than directly raising the new public housing supply means that there has been a greater focus on the delivery of housing such as shared ownership and private sale by housing associations and private house builders rather than more traditional affordable homes, in particular social rent homes, which aligns demand more closely with private housing market drivers. Consequently, public housing demand will be susceptible to rising mortgage interest rates, decreasing household incomes and falling house prices that are affecting the general housing market, although demand for affordable tenures such as shared ownership may be cushioned given the lower deposits and mortgages required. One of the largest housing associations, L&Q, has noted that at the same time as market sales have decreased, reservation rates for shared ownership properties have risen. It also noted that the initial percentage shares purchased for shared ownership were higher than expected in Q1, which may reflect a redirection of demand to below-market price units now that Help to Buy has ended.

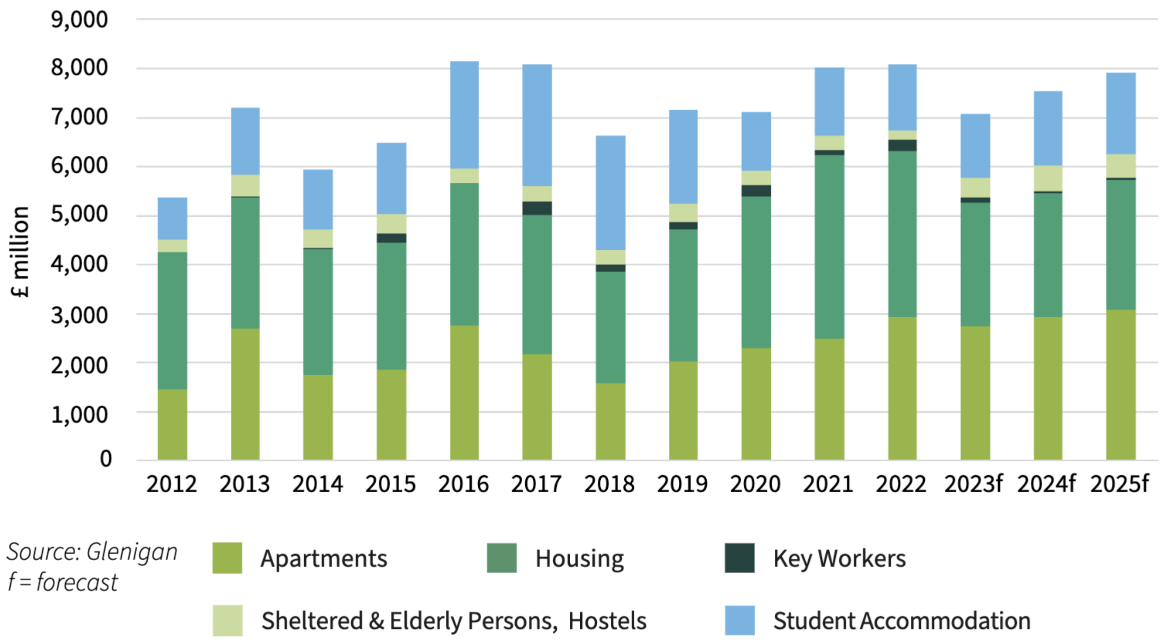
In October, the CPA reported that "Within public housing, housing associations still report affordable housing demand has not experienced a noticeable drop off but that they continue to have to move resources away to prioritise dealing with the existing stock; basic living conditions, building safety and decarbonisation. The G15 group of housing associations anticipates that its house building will fall by around 30.0% as a result although this is likely to be partially offset by the strength of the affordable housing demand and major house builders increasingly moving into the affordable housing space given the sustained demand".

In the latest economic bulletin from RICS released at the end of October 2023, it was reported that workloads in public housing were falling. *(Source: The Construction Index)*.

The 2024-2025 Glenigan report stated that the rise in construction costs constrained starts in 2023. The slowdown in the private housing market reduced the opportunities for mixed-tenure developments and housing associations were reassessing the viability of projects. This has resulted in an estimated 14% decline in housing association-funded starts in 2023.

2023 has also seen a 3% reduction in starts within the previously high performing sector of student accommodation. The pandemic severely affected this sector and experienced only a weak recovery post-pandemic. The higher interest rates within the last year have further affected the market.

Value of Underlying Social Housing Project Starts (Under £100 million) by Year



Public Housing Repair, Maintenance & Improvement (RM&I) output is dominated by three key areas: general maintenance of the social housing stock that provides the consistent levels of activity that tend to be stable on an ongoing basis, along with activity to address legacy issues related to fire safety and energy efficiency retrofit of social housing, which both tend to drive any significant growth in the sector. Despite the urgent need for cladding remediation post Grenfell, a drive for energy-efficient retrofit of existing social housing and ongoing general maintenance and improvements, this has not translated into double-digit growth rates that would have been expected for the sector in recent years. Instead, output in 2022 was 22.8% lower than in 2015.

The CPA have reported that “Firms in public housing RM&I reported in recent months that activity is rising significantly in value terms as housing associations and local authorities focus on basic living conditions, building safety issues and decarbonisation but, given budgetary constraints and cost inflation, the value of work is being eroded so that we may see the value spent but not providing the anticipated growth in volume of workloads”.

In the public housing repair and maintenance sector, growth is estimated to be stagnant according to the Constructions Products Association, i.e. 0% for 2023, which is expected to rise by 2.0% in 2024.

Public Housing Sector % change (CPA)	2022	2023	2024
New work	-2.0%	-15%	-2.0%
Repair maintenance & improvement	3.0%	0%	2.0%

Source: CPA

1.5 Other Influencing Factors

Not surprisingly, given the weak UK economy, the strength of demand remained the key concern for sales over the next 12 months. Demand was expected to be the primary constraint on sales for two-thirds of heavy side manufacturers and 64% of those on the light side. For heavy side firms, capacity, labour availability and materials supply were the other potential constraints cited by respondents. On the light side, manufacturers cited materials supply and capacity as other potential constraints on sales over the next 12 months.

<u>The Building Safety Act</u>

The Building Safety Act 2022 was introduced as a response to the tragic Grenfell Tower fire in 2017. This legislation aims to improve the safety and accountability of buildings in the UK, focusing primarily on high-rise residential buildings.

In 2023, further updates to the Building Safety Act were introduced to address the ongoing challenges and refine the legislation.

These updates include:

- Extension of regulations to cover lower-rise residential buildings: the scope of the act has been expanded to include buildings below 18 metres in height. This change aims to ensure that a wider range of residential buildings are subject to rigorous safety standards

- Higher-Risk Buildings (HRBs) regulations: the introduction of the HRBs regulations brings additional requirements for buildings with specific characteristics that pose higher safety risks. These regulations outline stringent safety measures, enhanced fire safety provisions, and a comprehensive system for risk assessment and management
- Enhanced leaseholder protections: to provide reassurance to leaseholders, the government has issued guidance for leaseholders on building safety. This guidance clarifies their rights and responsibilities and offers support in navigating the complexities of building safety issues

These 2023 updates to the Building Safety Act impose greater responsibilities on building owners. They are required to register their buildings with the Building Safety Regulator, undertake regular safety inspections, and demonstrate compliance with the prescribed safety measures.

Failure to meet these obligations can result in penalties, including fines or even criminal charges. Prospective buyers must also conduct thorough due diligence on any property they are considering purchasing. This includes obtaining comprehensive information about the building’s safety measures, compliance with regulations, and any ongoing remediation works that may be necessary.

As these changes come into effect, the term ‘Golden Thread’ has become a major topic in the construction industry. The ‘Golden Thread’ is defined by the Government as “both the information that allows you to understand a building and the steps needed to keep both the building and people safe, now and in the future”.

To comply with the Building Safety Act, building companies need to ensure full traceability of all products used in the building project from source throughout the supply chain. This makes digitalisation essential in the process in order to create a fully accountable trail. For merchants, distribution and wholesale businesses this is crucial in order to protect the business from the risk of litigation as well as protecting customers.

In October, the Building Safety Regulator published new guidance documents post-Grenfell. The focus for social housing providers has understandably shifted and now covers a broad undertaking of fire safety improvements. Work to remove and replace ACM cladding, which was among the first fire safety work to be undertaken, is nearing completion.

According to the Department for Levelling Up, Housing and Communities (DLUHC) Building Safety Programme statistics, there were 160 social housing buildings taller than 18 metres that had ACM cladding unlikely to meet current Building Regulations. At the end of May, cladding had been removed from all but one of these towers, with 18 awaiting building control sign-off and 21 at the replacement stage. The Building Safety Fund provided £400 million for the remediation of ACM cladding. However, other types of cladding are more prevalent and as the remit has shifted to wider cladding remediation, funding has been prioritised for the private sector, with social sector funding limited to social housing providers whose remediation costs are deemed unaffordable or a threat to financial viability.

Energy & Sustainability Drivers

The UK government announced a new 2022 Energy Strategy in April, which aims to accelerate the use of renewables such as new nuclear, hydrogen, and wind power to secure clean and affordable British energy for the long term.

The British energy security strategy has been long-anticipated, as Britain moves away from dependence on overseas sources and towards energy independence. The 2022 energy security strategy outlines a 10-point delivery plan, which spans across multiple renewable energy sectors – from offshore wind to green buildings. This was updated in March 2023 with a suite of publications under the policy paper ‘Powering Up Britain' that included ‘Powering Up Britain: Net Zero Growth Plan’.

With energy prices higher than ever, and the war in Ukraine causing turbulent energy security, the demand for clean and secure energy has never been more important.
As the construction industry works towards more energy-efficient practices and a net zero future, it has already seen a rise in investments in renewable energy infrastructure, and sustainability is expected to be one of the key drivers of the market in the next few years. There is likely to be more focus on sustainable manufacturing techniques and more initiatives to reduce the environmental impact. Tiles manufactured using sustainable processes may benefit from this.

Green Buildings

The Future Homes Standard, renamed the Future Homes and Buildings Standard in December 2021, will complement the Building Regulations to ensure that new homes built from 2025 onwards will produce 75-80% less carbon emissions than homes delivered under the old regulations. Existing homes and certain home improvements will also be subject to higher standards, although homeowners will only be affected if they are planning on making thermal upgrades or building an extension.

To lay the groundwork for the introduction of the Standard, the Government introduced major Building Regulation changes in June 2022, with new homes in England now needing to produce around 30% less carbon emissions. Additionally, new commercial buildings must cut emissions by 27%. Full details of Future Homes should be finalised in 2023. Long term, the changes should save money on consumer energy bills, contributing to more disposable income for home improvement work. Although not directly linked to worktops, these regulation changes may affect the newbuild and RM&I housing markets. *(AMA March 2023)*

Following consultation in 2023, the government intends to publish the Future Homes Standard (FHS) in 2024 and then bring it into force in 2025. All new homes will then be 'zero carbon-ready', meaning that they will be zero carbon once the electricity grid has been decarbonised.

Building professionals are increasingly conscious of using a number of assessment tools and standards available to help assess a building's environmental performance such as:

1. BREEAM
2. Passivhaus
3. SAP – the government's Standard Assessment Procedure for energy rating of dwellings
4. Leadership in Energy and Environmental Design (LEED)

These assessment techniques are beginning to allow whole-life costing to form a fundamental part of the design process as it becomes possible to demonstrate that higher initial costs can sometimes result in lower long-term impacts and greater long-term benefits. Demonstration of actual performance in use may be necessary through requirements for Energy Performance Certificates (EPCs) or Display Energy Certificates (DECs).

UKCA

In December 2022, the Department for Levelling Up, Housing and Communities (DLUHC), announced their intention to end recognition of the CE mark in GB on 30th June 2025. Current rules, which allowed for continued recognition of the CE mark, would remain in place until legislation is laid to end recognition of the CE mark.

On 1st August 2023, The Department for Business and Trade announced that British businesses can now use both the CE mark and the UKCA mark – and that the December 2024 deadline had been scrapped for 18 regulations that fall under the Department for Business and Trade.

It is understood that the decision was made following pressure from businesses who claimed that the shift to UKCA marking would lead to significant additional costs and create unnecessary burdens when trading with European countries. The Department for Business and Trade stated that the U-turn is "part of a wider package of smarter regulations designed to ease business burdens and help grow the economy by cutting barriers and red tape."

However, this does not include construction products (including tiles and adhesives) where the intention to move to UKCA marking by 30th June 2025 remains but no legislation has yet been passed for this. The current situation is that if products have been approved by an EU notified body they can affix the CE mark, and if approved by a UK notified body then the UKCA mark can be displayed.

A notified approved body might be able to gain a dual certificate. AVCP4 classed products are able to self-certify so no notified test body is required.

It is worthwhile noting that in June 2022, the government announced that UKCA could be affixed when testing had been completed by an EU notified body and that the OPSS would not take enforcement action "against any economic actor solely where the UKCA mark has been used on construction products tested only by an EU recognised notified body for the purpose of CE marking, where this testing was done before 31 December 2022".

Packaging Extended Producer Responsibility

Extended Producer Responsibility (EPR) is a system whereby obligated packaging producers will be required to fund the full net cost of the collection, sorting, treatment of packaging waste as well as the actual recycling of packaging. It is the principle that the direct cost of specific packaging recycling should be met by those placing the packaging onto the UK market, transferring the responsibility from the taxpayer and placing it onto brand owners and producers. EPR will fund the collection, treatment and sorting costs of packaging waste through direct payments from producers. Alongside this, producers and importers will still fund the actual recycling of their packaging waste through the purchasing of Packaging Recovery Notes (PRNs).

The EPR system is designed to incentivise certain members of the supply chain to use easy to recycle materials for their packaging by making obligated companies responsible for the full net cost of the collection and recycling of the packaging waste they place onto UK markets.

It was announced in July 2023 that the first EPR payment year will be deferred to 1st October 2025, a year later than the original date of 1st October 2024.

The CPA raised major concerns over the implementation of EPR on packaging waste earlier this year and called on the government to stretch out the implementation phase of the scheme. There has been a continuing lack of clarity from the government as to how the Scheme will operate, leaving businesses unable to plan or budget for the changes ahead.

CPA continues to challenge the government on its assertion that construction products sold through builders' merchants/distributors will result in all the packaging waste entering the household waste stream. It does not and therefore should not be subject to Waste Management Fees through the EPR.

2. UK Floor and Wall Tile Sector

The UK tile market analysis covers three main product categories:

- ceramic and porcelain tiles
- natural stone tiles
- others such as mosaics and glass tiles etc.

The floor and wall tile market is mature. It is dependent upon demand from both the residential and contract sectors, so is influenced by levels of consumer and business confidence and spending, construction output and overall trends in the underlying economy. Product developments impact the market, both in terms of competition between different materials within the tiles sub-sectors, as well as competition from other types of floor and wall coverings.

Consumer confidence is a key determinant of the market and the uncertainties surrounding the prolonged Brexit process proved detrimental to levels of non-essential spending by consumers. This adversely impacted the floor and wall tiles market with annual value growth slowing to around 1% in 2018 and 2019. This was followed by the Covid-19 pandemic which had a far more serious impact on the economy as a whole, affecting all sectors to a greater or lesser degree.

The ceramic tile recovery from the pandemic was very strong, emerging in H2 2020 and continuing through 2021 and H2 2022. However, as inflation and interest rates have risen, so the market is cooling and there are now major challenges emerging to important demand drivers, including a downturn in the housing market due to the rise in interest rates and the threat of recession hitting the contract market. *(Source: Mintel)*

As in any recessionary period, not all people are equally impacted and there will be a growing dichotomy within the housing RMI market. The mid and low-price element of the market will suffer from significantly reduced demand, while the higher income groups will remain comparatively less impacted, and top-range tile sales will be far less affected by the developments.

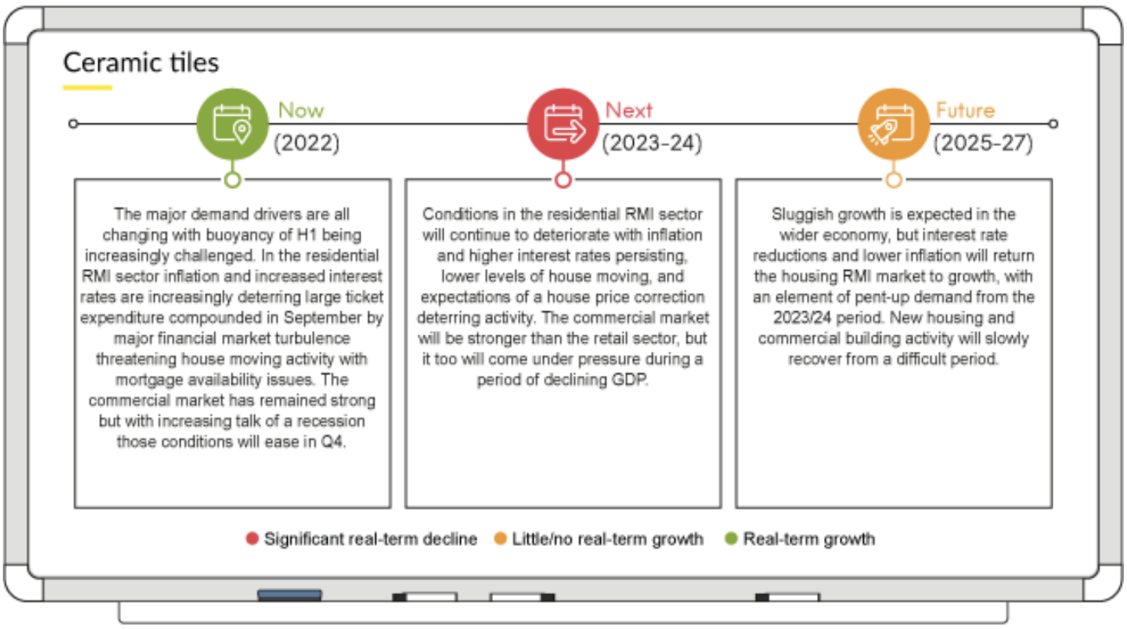
The pandemic had a serious impact on the total market for tiles resulting in a decline of 9% to a level of £463m in 2020, compared to £507m in 2019. However, as the economy opened up and firms adapted to a more digital approach in their sales efforts, the market returned to growth in 2021, reaching £500m, an increase of 8%.

Imports, accounting for some 90% of all supplies, fell by 31% in H1 2020 including an even more extreme reduction of 52% in Q2. Conditions were also impacted by changes in imports caused by Brexit, but the bigger impact was the closure of demand sites in the commercial market, the closure of factories and the closure of stores in the residential market as well as householders avoiding bringing tradespeople into their home.

The issues faced by the ceramic tile sector have not been purely based on the highly disruptive pandemic. Brexit too has introduced new challenges with some 90% of the market being satisfied by imported products. Now the Ukraine crisis has not only introduced inflationary pressures but Russia and Ukraine are major producers and exporters of raw materials including clay used for ceramic tiles.

Initially 2022 started strongly, with many of the favourable conditions seen in 2021 still featuring in Q1. Despite mounting inflation in Q2, the market remained surprisingly buoyant, but the conditions then deteriorated strongly in the housing RMI sector. Prospects have been further impacted by the financial turbulence that has followed the September mini-budget. MBD is expecting full-year growth to slow to 8%. However, the market will decline sharply in 2023, and continue to deteriorate in 2024 prior to growth that will be ahead of GDP development as market conditions improve, which will also release an element of the stifled demand of 2023/24.

The predicted outlook for ceramic tiles in the 2022 Mintel report shows a predicted fall in sales in the 2023-2024 period once inflation has been taken into account, followed by an expected growth in nominal sales during 2025-2027. However, this growth is anticipated to struggle to match the change in the Consumer Price Index over the relevant period.

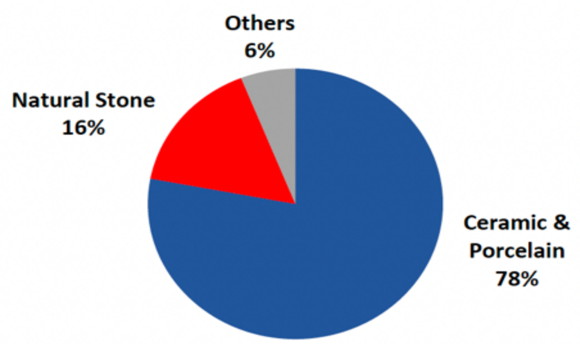


(Source: Mintel)

Ceramic and porcelain tiles continue to dominate the product mix, currently accounting for 78% of the market, with natural stone tiles responsible for a further 16% share. The product breakdown has been fairly stable in recent years.

Other materials, such as glass and metal, represent a much smaller proportion of the market. Although increasing in popularity with strong annual growth rates in recent years, they still account for only 6% of the market.

UK Tile & Stone Market, by product type % of value £



Source: AMA 2021 (No updates available)

Market Overview:

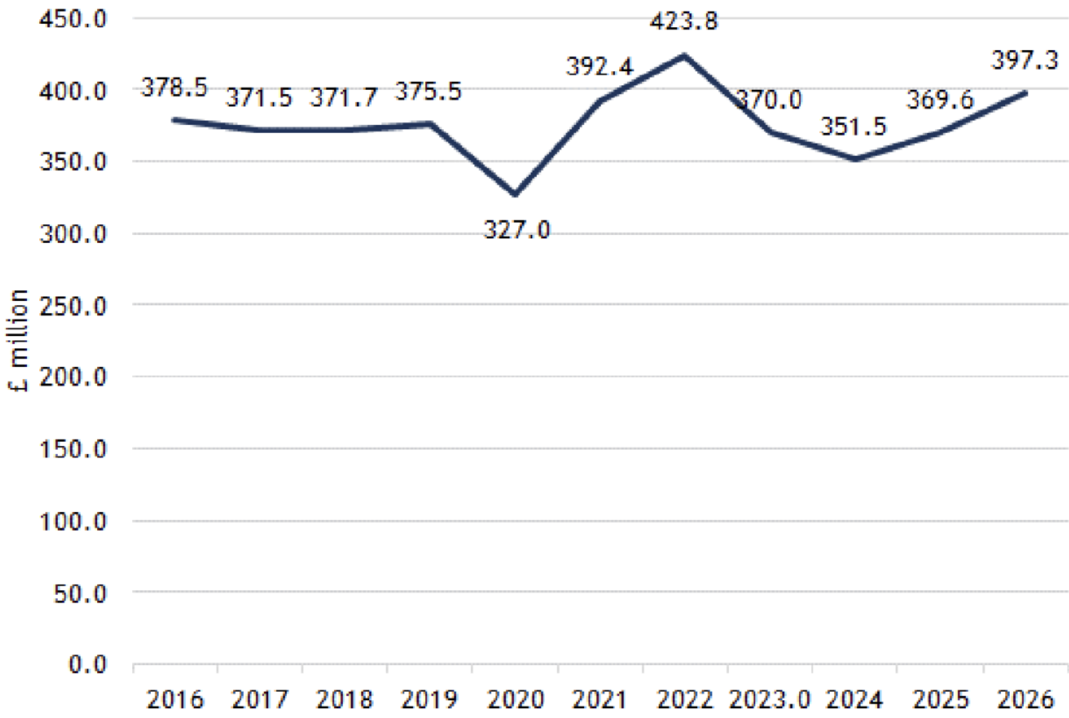
- January to September 2023 – value of projects securing detailed planning permission dropped by 10%, extending an 8% decline in 2022. Main contract awards fell back and were 11% lower in the third quarter of 2023 than one year ago. The mini budget of 2022 knocked investor and consumer confidence and construction starts fell back sharply. The weak economy and sharply higher interest rates prompted some clients and developers to pause or scale back on planned investments. Private sector starts continued to weaken in recent months of 2023 amid concerns that interest rates would remain at current high levels for longer than necessary.
- October 2023 – Government cancels Phase 2 of HS2 and changes to Net Zero commitments caused re-scheduling and delays to infrastructure projects.
- 2023 to 2025 Forecast – Gradual recovery in private housing starts from 2024 after the sharp falls seen this year, as housing affordability improves and economic outlook brightens. Improved consumer spending is predicted to lift the retail and hotel & leisure sector starting from next year and a rise in office refurbishment work is anticipated as premises are remodelled to accommodate a shift in post-pandemic working practices. Online retailing is a catalyst for renewed investment in logistics facilities from 2024 but it is predicted that public sector investment in education, health, and community & amenity will be vulnerable to post-election public spending review. The RMI market is predicted to decline sharply in 2023, and continue to deteriorate in 2024 prior to growth that will be ahead of GDP development as market conditions improve, which will also release an element of the stifled demand of 2023/24.

2.1 Ceramic and Porcelain Tile Sector

Ceramic and porcelain tiles are used for floor and wallcovering applications in both the domestic and contract end-use sectors.

Innovations in the manufacturing of ceramic and porcelain tiles continue to be developed, with a focus on printing images, including high-definition images, onto the tiles. Inkjet HD technology is transforming the design and manufacture of tiles, although firings and energy efficiency also remain important. Eco-friendly products tend to focus on low embodied carbon and high recycled content.

The UK Ceramic & Porcelain Tile Market, by value £m (Manufacturer's Selling Price) 2016-2026

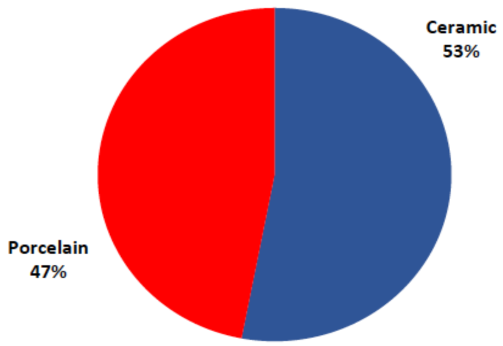


Source: MBD/ Mintel 2022 Report

The porcelain sector continues to take market share from the ceramic sector, accounting for an estimated 53% of the market in 2022. *(Source: Mintel)*

Despite the growth in porcelain, there is still a strong demand for ceramic tiling at the lower end of the market, particularly for white and other single colour tiles. For many consumers, ceramic tiling offers the most cost-effective solution; however, homeowners sometimes choose ceramic tiles for walls and porcelain tiles for floors. As a result, there are generally greater volumes of ceramic tiles sold, but at a lower cost.

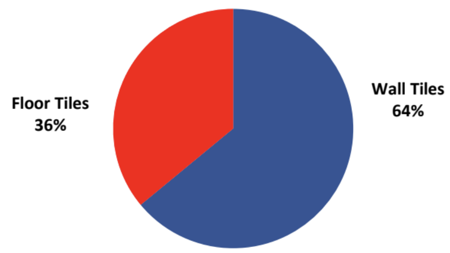
UK Ceramic and Porcelain Tile Market 2021, % by value £



Source: AMA (No updates available)

Wall tiles continue to dominate the mix, with an estimated 64% share in 2021 and, while wall tiles have been losing share since 2000 from 79%, the application mix between floor and wall tiles has been fairly stable in recent years.

Chart 14: UK Market for Ceramic and Porcelain Tiles End Use Application Mix 2021 - % by Value



Source: AMA Research / Trade Estimates

(No updates available)

Competition with other wall coverings, such as upstands, splashbacks and painted walls, has tended to restrict the growth of the wall tiles market. The UK flooring market was traditionally dominated by carpets, however hard flooring has been gaining significant popularity over the last 20 years. Increasing interest in porcelain tiles, particularly those featuring wood and stone effects, has benefited the floor tiles market.

Natural effect wall tiles remain popular, with stone and wood effects being particularly fashionable in recent years. White, black and grey have been the most prominent colours, with greige now becoming a popular colour of choice and texture has become increasingly important, as consumers seek a surface effect that not only looks like the natural material, but also feels like it.

Additional features of the wall tiles market include:

- Feature walls have been a constant aspect of interior design in recent years; this looks set to evolve into the use of statement prints in the future
- Large format tiles are becoming increasingly important, particularly for hotel or spa bathrooms
- Bevelled metro tiles remain a popular choice in bathrooms
- Colour in the bathroom is forecast to become more pronounced, with mint and pale blue high gloss finger tiles
- Shades forecast to be in demand, while deep black interiors are also gathering momentum
- Digital printing has vastly improved the range of effects available for wall tiles, with rubbed or smudged effects now achievable. The ability to recreate tactile surfaces has also been a significant driver of sales recently
- Digital printing marble effect bevelled tiles are forecast to become popular in bathrooms
- 3D printing has enabled effects which appear to give depth to walls, with tiles enhanced with scoring, ridging, waves and striations

Growth within the ceramic and porcelain floor tile market is affected by factors including new house building activity, levels of RMI and activity in the non-residential sectors.

Competition with alternative flooring products, such as luxury vinyl tile (LVT) and laminate, also affects the structure of the market in terms of the product mix.

One significant growth area has been the use of porcelain tiles, particularly 20mm thickness, in indoor areas to create a continual indoor/outdoor flow. This trend, which includes al fresco dining and outdoor entertainment, is currently very popular and has resulted in greater demand for porcelain tiles in kitchens, porch areas, entrance foyers, patios and terraces.

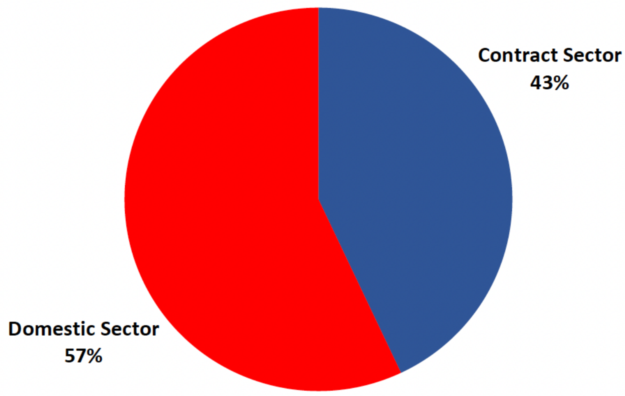
Trends within the floor tiles sector also include:

- Porcelain tiles continue to take share from the ceramic floor tiles
- Sustainability, with a focus on "circular design" that carefully considers the life cycle of materials used in the manufacturing process
- Wood-effect floor tiles are being used in other areas of the home, as well as in bathrooms and kitchens. The use of reclaimed wood effect tiles is becoming a popular trend.
- The trend for deep black has gathered momentum recently, although white, grey and greige are still popular
- Stone-effect porcelain continues to take share from natural stone
- Textured tiles have increased in popularity over the last few years
- There has been continued growth in the popularity of multi-format layouts, as well as larger format tiles and the emergence of "super large" formats
- Mediterranean design influences, such as terracotta effect floor tiles, have also become a recent trend
- Plank format tiles are growing in popularity, as are different floor laying patterns such as chevron and herringbone effects

2.2 End Use Sectors (*No updates available*)

The construction industry is a key driver of demand for the ceramic and porcelain tile market, both through new build and RMI, with the domestic sector currently accounting for around 57% of the total demand for ceramic and porcelain tiles and the contract sector the remaining 43%.

UK Ceramic and Porcelain tiles End Use Sectors 2021, % by value £



Source: AMA

Research suggests that the domestic sector increased its share to 57% in 2021 from 55% in 2020, benefiting from the trend towards 'improve not move', with consumers taking advantage of savings during the pandemic restrictions to improve their homes.

The contract sector benefits from new build and RMI (Repair, Maintenance & Improvement) in key sectors, such as offices, retail, education, entertainment and leisure, industrial and infrastructure. All these sectors provide various opportunities for tiling, primarily with washrooms, kitchen facilities, changing rooms, concourses (open areas inside or in front of a public building) and foyers. However, floor tiling in the contract sector continues to face increasing competition from alternative materials, including LVT, laminate, polished concrete and resin-based flooring systems. Additionally, other materials, such as decorative panels, have impacted on the growth of the wall tiles market.

Within the contract sector, safety standards are an increasingly important consideration. Manufacturers are using the PEI (Porcelain Enamel Institute) ratings to help define tile suitability for different traffic areas, and PTV (Pendulum Test Value) or RAMP value to indicate the slip potential of a tile. The PTV test is the test recognised by the Health & Safety Executive and therefore preferred.

2.3 Residential Development of Tile Use

In the UK, the use of floor and wall tiles has largely been restricted to kitchens, bathrooms and conservatories/glazed extensions in the domestic sector. However, the current range and popularity of natural effect tiles, and a greater demand for low maintenance products, means there is considerable potential in the medium-term for the expansion of tiles into additional areas of the home, as well as in key commercial sectors, for example:

- Domestic hallways and communal entrances – floor tiles combined with underfloor heating systems; extension of tiling schemes up walls as either skirting or half wall installations
- Entrances, foyers and reception areas in the commercial sector – particularly applicable to natural stones, such as slate and limestone, where floor tiles are complemented by either wall tiles or thin cladding in similar materials
- Shower rooms and wet rooms – both in the residential and commercial sectors, utilising similar floor and wall tiles to create fully tiled or half/three quarter tiled rooms
- Dining facilities – both residential and commercial, with the latter likely to select more bespoke design schemes
- Bedrooms and other living areas – flooring, including stone flooring, is now seen more frequently in other living areas
- Patios and other outdoor areas – most tile distributors now include in their ranges a 20mm external grade porcelain tile, which can be used both indoors and outdoors. The trend for seamless indoor/outdoor living is a key trend for porcelain tile
- Feature walls – this is a growing trend, particularly the use of mosaics and digitally printed tiles to create feature walls in rooms such as living/dining rooms, where more traditional wallcoverings tend to be used

- Hot tubs – the growing popularity of hot tubs in recent years may stimulate demand for slip-resistant tiles and the continuation of the inside/outside trend for patio areas containing hot tubs

Although the potential for the expansion of wall tiles into more areas of the home will largely depend on their acceptance by homeowners and UK specifiers, a number of recent trends indicate that there is scope for increased usage of tiles in living rooms, dining rooms and bedrooms. For instance, fabric effect tiles have been popular in recent years, which may suggest some homeowners are moving away from using carpet and wallpaper in certain rooms.

2.4 Non-Residential Development of Tile Use

The non-residential construction sector is a key end-user of both floor and wall tiles, with installations including:

- Entrance foyers and hallways
- Food preparation areas and commercial kitchens
- Washrooms and bathrooms
- Transport and shopping centres
- Changing rooms, swimming pools, gymnasia, health club and spa facilities

After a strong post-pandemic rebound, industrial starts have fallen back sharply this year. Recent growth in starts has primarily been driven by growth in logistics and light industrial projects, fuelled by increased demand from online retailers. However, sharply higher interest rates have dented the capital value of industrial property and have knocked investor confidence, while lower retail spending has dampened the demand for warehousing and logistics space starts this year. Weak domestic and overseas demand has similarly tempered manufacturing investment in new capacity and facilities this year.

The industrial sector is forecast to return to growth over the next two years. Whilst online retailers' market share slipped back post-pandemic as consumers returned to high streets and retail parks, online sales are still up on 2019 levels and a further longer-term shift towards online retailing is expected to support renewed demand for more logistics space. An overhang of empty retail premises, weak consumer spending, and the growth of online sales market share are predicted to constrain retail construction starts. Starts have been especially weak during 2023, dropping by an estimated 28%. A partial recovery in retail starts is anticipated during 2024 and 2025 supported by increased consumer spending. Investment by the deep discount supermarkets, Aldi and Lidl, are set to be a bright spot over the next two years, with both chains setting out long-term plans to substantially expand their estates.

Infrastructure is the largest of the non-residential sectors in terms of output value and includes transport (roads and railways) as well as utilities (energy, water and sewerage). The transport sub-sector is particularly important for tiles as they are utilised in various applications, such as concourses (open areas inside or in front of a public building), walkways and washrooms.

Output in infrastructure has also been revised down again due to government delays to roads and rail projects that will only add further cost to the projects when they return. It is forecast to fall by 0.5% in 2023 with a rise of 1.0% forecast in 2024.

The CPA reported that "Infrastructure activity remains strong on both major projects and large frameworks according to firms down on the ground despite all the negative noises and mixed messages from the government. There remains client hesitancy signing-off on projects plus a rising number of local authorities are switching finance away from projects due to serious financial concerns plus the rising costs of social and health care".

A positive risk to the infrastructure forecast is that water companies intend to accelerate delivery on 31 investment schemes between 2023 and 2025 worth £376 million within a total investment of around £1.6 billion between 2025 and 2030 given consumer concern regarding water quality. There remain questions, however, over whether the capacity is there to ramp up activity quickly given skills and product constraints and, as a result, this is not built into the main forecast for water & sewerage. Furthermore, financial issues at companies such as Thames Water increase the risk of significant changes to investment plans not occurring in the near-term.

According to the CPA, commercial activity is still strong for fit-out and refurbishment whilst conversions to residential in urban centres or industrial and logistics activity on the edge of cities remains high. In addition, activity on data centres and biotech facilities also remains strong but there are pauses for repricing on new commercial towers projects where main work is not already underway.

In the latest economic bulletin published by the Royal Institute of Chartered Surveyors (RICS) at the end of October 2023, Infrastructure was still growing in Q3 of 2023, albeit at a lower rate of 10% compared to 17% in the second quarter of the year. *(The Construction Index)*

However, the same RICS report stated that commercial output was falling. Overall, commercial output is forecast to fall by 3.4% in 2023 due to a lack of new towers activity but this fall has been upwardly revised from 5.2% in the last forecast due to the strength of new work on fit-out and refurbishment of existing commercial developments. Next year, however, output is likely to fall by 0.5% due to the impacts of rising interest rates on financing new offices and retail projects whilst projects down on the ground already prevent sector activity from falling further.

In the **public non-housing** sector, the CPA reported that “progress has been slow on the School Rebuilding Programme and the New Hospital Programme. Client decision-making is currently delaying new projects in both sub-sectors according to the supply chain although the concerns regarding Reinforced Autoclaved Aerated Concrete (RAAC), which became a high-profile issue at the end of Summer but was referenced 21 times in the CPA’s previous forecasts, may lead to an urgent stream of work despite no new, additional funding being available”.

Publicly-funded education work is currently being supported by activity on the remainder of the Priority School Building Programme, the Free Schools Programme and the current ten-year School Rebuilding Programme, alongside schemes to boost investment in further education facilities. Activity in this sub-sector has been declining since 2016 despite evidence to suggest the condition of schools' estates are deteriorating. A recent National Audit Office (NAO) review of the condition of schools in England concluded that years of underinvestment in rebuilding, maintenance and repair has resulted in 700,000 pupils learning in schools believed to require major rebuilding or refurbishment with negative impacts on learning outcomes and teacher retention. Between 2016/17 and 2022/23, the DfE spent £2.3 billion a year, on average, on rebuilding and maintaining schools, significantly lower than the £5.3 billion the department estimated was needed annually in 2020 to maintain school condition and mitigate the most serious risks of building failure. Around 38% of school buildings in England are beyond their estimated initial design life. To add to this, in August it was announced that reinforced autoclaved aerated concrete (RAAC), used in construction between the 1950s and mid 1990s had been used in the construction of schools and was at risk of cracking and spalling and of "shear failure". The Government reported that out of more than 22,000 schools and colleges, less than 1% were known to be affected and that not all affected schools would need to close.

Despite the decrease in activity in other areas reported in the RICS economic bulletin released at the end of October 2023, there was growth in the Public sector which was up by +8% although this was lower than the +14% growth in Q2 of the year. *(The Construction Index)*

The **entertainment and leisure sector**, the second largest commercial sub-sector, is being squeezed by rising costs and weak consumer spending, curbing hotel and leisure starts in 2023. A rise in consumer spending and an increase in overseas visitors are expected to boost hospitality investment starting from 2024.

The hotel & leisure sector has been slow to recover post-pandemic, with firms facing reduced revenues from fewer overseas visitors and a sharp rise over the last two years in energy, materials, and labour costs. As a result, the financial position of many hospitality businesses has been slow to improve post-pandemic.

Overseas visitor numbers to the UK are set to reach 37.5 million in 2023, up 20% from 2022 but still below pre-pandemic levels, with business travel lagging behind. With household budgets squeezed, consumers have cut back on discretionary spending on hospitality and leisure activities, leading to a decline in new project-starts. Hotel & leisure starts are down an estimated 14% this year. *(Source: Glenigan)*

The **health sector** provides opportunities for tiles due to the need for antimicrobial and antibacterial protection in clinical and other medical areas; however, resin and vinyl floors and waterproof wall panels are often viewed as more practical solutions, as they often reduce the use of grouting. The ageing population in the UK means that the **social and residential care sector** is likely to provide additional opportunities for tiled areas in the future.

Pipeline projects for new hospital schemes have begun to be approved but there are concerns about how quickly the New Hospital Programme will come through due to persistent delays and cost overruns on previous hospital projects.

The government has confirmed that investment through the NHP will now target schemes largely constructed using reinforced autoclaved aerated concrete (RAAC) in response to safety concerns uncovered since the programme was first announced.

Industrial factories and warehouses provide opportunities for clean rooms, changing rooms and kitchen facilities, with the **food processing and pharmaceuticals sectors** providing significant areas of demand for wall and floor tiles. Industrial demand is still strong for warehouses and logistics but new investment has peaked and output is likely to fall away towards the end of the year.

Value of Underlying Project-Starts (under £100 million) by sector

£ million	2021	2022	2023f	2024f	2025f
PRIVATE HOUSING	27,123	31,909	24,540	25,576	28,269
SOCIAL HOUSING	8,016	8,079	7,067	7,531	7,917
INDUSTRIAL	5,359	7,694	4,291	5,015	6,057
OFFICES	5,385	5,943	4,388	4,662	5,268
RETAIL	1,937	2,005	1,440	1,567	1,829
HOTEL & LEISURE	3,260	3,440	2,943	3,105	3,259
EDUCATION	4,656	4,218	5,153	5,817	5,088
HEALTH	2,898	3,699	3,158	3,493	3,559
COMMUNITY & AMENITY	965	1,551	1,414	1,531	1,373
CIVIL ENGINEERING	7,067	7,234	6,345	7,431	7,776
TOTAL	**66,667**	**75,772**	**60,739**	**65,729**	**70,394**

Source: Glenigan. f = forecast

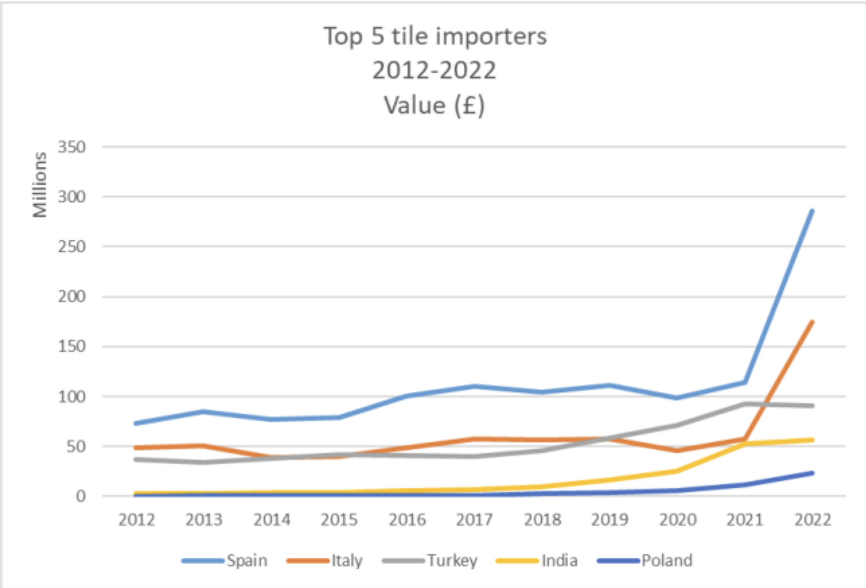
2.5 Manufacturing and Supply

The supply structure of the UK tiles market is highly fragmented and complex, with manufacturers, importers and distributors involved at different stages of the market. In addition, multiple international ceramics groups are active in the UK, supplying tiles, but also incorporating other products in their ranges, including baths, sanitaryware and tableware.

UK-based manufacturers are disadvantaged compared to other European countries by lower local demand for tiles, with a traditional emphasis on wall tiles more than floor tiles. UK-produced tiles previously accounted for roughly 20% of the UK market, but when British Ceramic Tiles went into administration in 2019, Johnson Tiles became the sole volume producer remaining in the UK, accounting for roughly 10% of the market when including exports.

Imports account for some 90% in this market. The EU is a major source of ceramic tiles to the UK. Traditional suppliers such as Spain and Italy are being challenged by growth in supply from further East, especially Turkey and India.

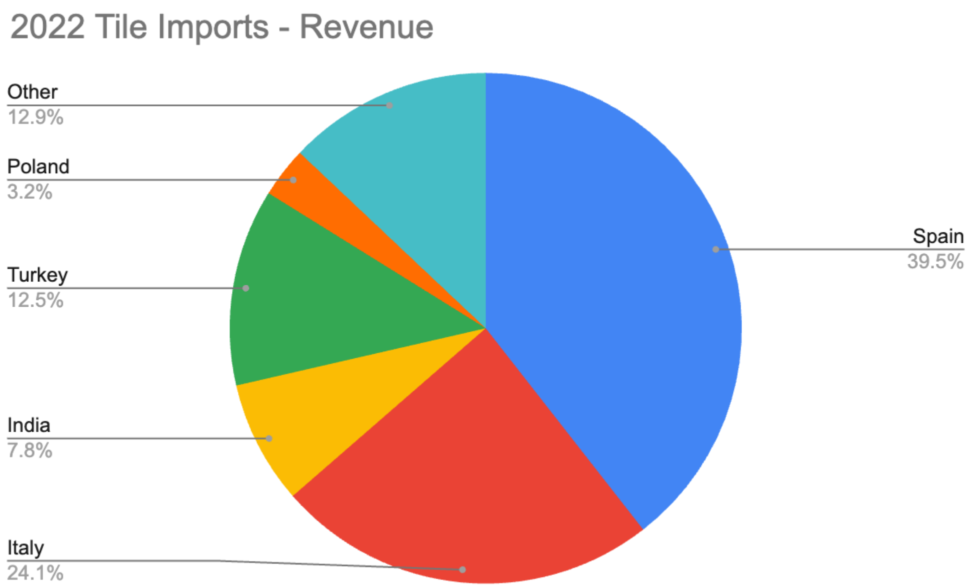
Internal trade estimates pulled together by the British Ceramic Confederation, who represent UK tile manufacturers such as Johnson Tiles, show that total tile imports in 2022 were worth £725m, and exports from the UK were worth around £15m. The five biggest tile importers into the UK are Spain, Italy, Turkey, India and Poland. *(Source: British Ceramic Confederation)*



Source: British Ceramic Confederation

Tile imports in 2022 weighed 1,300,497,740Kg. Spain is the dominant importer of tiles, accounting for 39.5% of the market's value, compared to Italy in second (24.2%) and Turkey in third (12.5%). (*Source: OTS)*

UK Tile Imports 2022, % by value £



Source: OTS (Overseas Trade Statistics)
https://www.uktradeinfo.com/trade-data/ots-custom-table/

Country	Value (£)	Net Mass (Kg)
Spain	286,275,705	507,723,604
Italy	175,059,475	234,419,866
Turkey	90,536,944	225,654,941
India	56,654,110	129,236,682
Poland	23,085,146	52,404,290
Other	93,395,476	151,058,357
Total	725,006,856	1,300,497,740

Source: OTS (Overseas Trade Statistics). Information taken from Customs Tariff No. Position 6907, accounting for ceramic flags and paving, hearth or wall tiles; ceramic mosaic cubes and the like, whether or not on a backing.

While import penetration remains high, it should also be remembered that import values are also affected by factors such as exchange rate volatility, as well as conditions in the market and the underlying economy.

The role of international trade in the ceramic and porcelain tiles sector has been significant for many years but was brought into sharper focus by the Brexit process. The small number of high-volume UK-based producers has meant that suppliers have increasingly looked to imported tiles to extend their ranges and to defend their market shares. The decline in UK production following the Administration of BCT in 2019 has led to suppliers looking for low-cost sources outside the EU to supplement their ranges of ceramic and porcelain tile products.

UK International Trade in Ceramic Tiles by Value (£m) (No updates available)

Year	Imports (£m)	Exports (£m)	Trade Balance (£m)
2015	229	19	- 210
2016	259	19	- 240
2017	282	19	- 263
2018	276	20	- 256
2019	305	15	- 290
2020	294	17	- 277
2021 Jan-Sep	297	17	- 280

Source: OTS (Overseas Trade Statistics) – no updates available.

In February 2023, the EU Commission imposed definitive anti-dumping measures on imports of ceramic tiles originating from India and Turkey for a period of five years. The anti-dumping duties imposed range from 6.7%-8.7% for ceramic tiles from India and from 4.8%-20.9% for ceramic tiles from Turkey, making the UK market more attractive where the anti-dumping measures have not been adopted. This means that UK importers will remain able to bring tiles from Turkey or India into the UK market without any restriction or requirement to pay tariffs.

The EU also has anti-dumping measures in place on imports of ceramic tiles from China, Chinese imports of tiles to the UK currently face duty rates ranging from 14%-70%. These measures are among those inherited from the EU system and have been in place for 11 years. The Trade Remedies Authority (TRA) is reviewing them to establish whether they are still suitable for the UK's needs.

India's production in 2022 returned to 2020 levels of 2,300 million sqm, down 9.8% from 2,550 million sqm in 2021; the fall in consumption was even more pronounced at around 1,750 million sqm (-15.4%). However, according to Indian customs data, in the first half of 2023, Indian exports grew by 31.1% in volume (+24.8% in value) to 272.6 million sqm and are projected to exceed 500 million sqm for the full year. *(Source: Ceramic World Web (CWW))*

India's exports to the main markets have grown strongly: UAE (+65%), USA (+57%), Iraq (+6%), Israel (+334%), Mexico (+84%), Kuwait (+20%) and Russia (+190%). The increase in the European Union was around 60%, from 14.5 to 23 million sqm. If this trend continues as expected in the second half of the year, India will again climb the rankings of the major exporting countries and further close the gap with China. *(Source: Ceramic World Web (CWW))*

In May 2023, the Tile and Stone Journal reported that "Turkey is, by volume, the eighth largest producer of tiles globally and the third largest in Europe, per data from SERKAP, the Turkish ceramic tile manufacturers association headquartered in Istanbul."

According to the SERKAP: "The installed capacity, which was 255.1 million sqm in 2002 in the ceramic tile industry, where 24 manufacturers operated, rose to 430 million sqm in 2013 with a total of 28 manufacturers. The production volume has risen from 162 million sqm to 330 million sqm, domestic sales from 89 million sqm to 200 million sqm, and exports have gone up from 72.37 million sqm to 88 million sqm."

However, Turkey has been affected by the same EU anti-dumping legislation as India and China – although, as mentioned earlier, this does not include the UK, which makes it an attractive market. These measures are designed to ensure fair competition with the EU's manufacturers, and are set to last for five years.

There has been a reduction in the shortage of HGV drivers. In an article on LinkedIn, it was reported that as a result of Government schemes and improved working conditions the driver shortage has reduced from 100,000 in January 2022 to 60,000 in March 2023. *(Source: Snap)*

Global supply chains remain very challenged. Key constraints are shortage of HGV drivers in the UK, global gas prices and the supply of clay being impacted by the war in Ukraine. Some European factories have reduced manufacturing due to challenging economics.

3. UK Tile Distribution

The UK tile market is characterised by significant levels of import penetration and, therefore, the role of intermediaries, such as agents, importers and distributors, is more important than for some other sectors of the home decoration market. The key elements of the supply structure in the UK tiles market include:

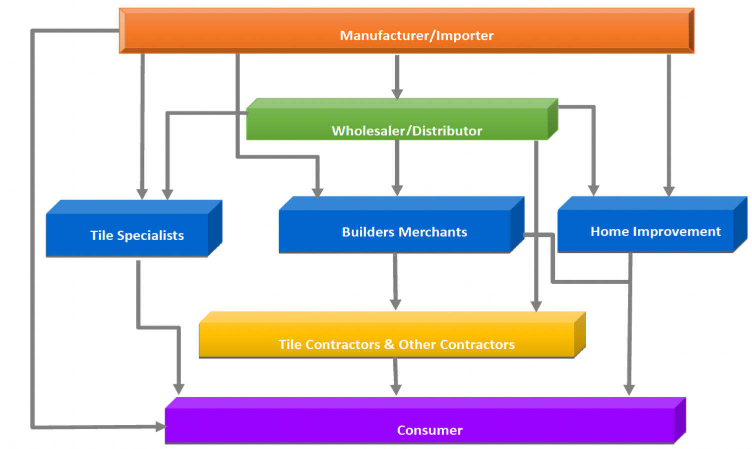
- UK Manufacturers – target the market in multiple ways, including direct supply on large contracts, via retail channels or via distributors. They are increasingly sourcing products from overseas suppliers to enhance their own ranges, effectively acting as distributors as well
- Overseas Manufacturers – access the market through direct supply, particularly to the construction sector, as well as via distributors, agents and retail channels
- Distributors – acting as intermediaries, but also sourcing products directly for “own brand” ranges

The high levels of penetration for ceramic, porcelain and natural stone tiles in both the domestic and contract sectors means that access to the market remains relatively open for specialist suppliers, while the importance of the role played by the distributors has also facilitated access to the UK market for smaller, more specialist non-UK based suppliers.

There are two distribution structures for the UK floor and wall tiles market:

- In the contract sector, distribution is generally direct from manufacturers or distributors
- In the domestic sector, the distribution structure is more complex. Independents & multiple tile specialists, home improvement multiples and builders’ merchants remain the dominant channels in the sector

Distribution channels in the domestic tile market



Source: AMA (No updates available)

The cross-over between the domestic and contract sector continues with many distributors setting up showrooms focusing on retail as well as trade customers. The trend drifting towards GSI (getting someone in) as opposed to DIY (do it yourself) is increasing, so distributors are expanding their offerings to trade customers in recent years. Some distributors also appear to be venturing further into the commercial market through the acquisition of more commercially focused companies. This is perhaps a reflection of the tough trading conditions that have faced the domestic retail sector in recent years, and an indication that the commercial tile sector may see significant gains over the next few years.

Distributors, tile specialists and independents accounted for circa 60% of the market prior to Covid. These channels are benefiting from the growth in GSI (getting someone in) vs DIY (do it yourself).

There is increased blurring of lines between retail, multiples and distribution as multiples target the trade sector. Some consolidation has occurred and is expected to continue. This includes between resilient and tiling channels.

Online sales has experienced booming, with click and collect sometimes the only avenue during lock down. Multiples and larger distributors are stronger in the digital channel.

3.1 Leading Specialist Tile Distributors

The UK tile sector is served by a professional, well-resourced and experienced set of distributors. Some of them are multi-depot national operations serving the whole country, and others are regional players working within a destined geographical area.

Leading tile distributors within the UK market include:

Ceramic Tile Distributors (CTD), based in Newcastle upon Tyne and recently purchased by Aurelius from Saint-Gobain Building Distribution Ltd. CTD is a UK-based specialist supplier of ceramic tiles operating across 95 branches and 4 trading distribution hubs. The company predominantly sells tiles, tile adhesives, grout as well as associated tools and consumables for the preparation, laying, cutting and drilling of tiles. CTD's leading B2B market position is supported by strong brand awareness of its Gemini product line and strong trading performance. In 2021, CTD generated revenues of approximately EUR 120 million. In February 2023, CTD acquired 13 branches across various regions in the UK from Tile Giant. However, in recent months a number of senior staff have left the business.

Bassetts, which was sold by **Saint-Gobain to Wolseley UK in January 2022,** is one of Northern Ireland's leading bathroom, heating and tile merchants, trading from 14 showrooms and offering a range of ceramic and porcelain tiles for wall and floor applications, as well as tiling accessories, bathroom, plumbing and heating products.

Nicholls & Clarke Group Ltd, with these divisions: N&C Nicobond, N&C Tiles & Bathrooms, N&C Phlexicare, N&C Glass, N&C Moderna.

Walls and Floors Ltd, acquired by **Tile Mountain**, is based in Kettering, where they operate their head office and main showroom**.**

Solus Ceramics Ltd is based in Birmingham, with showrooms in London and Manchester, and is a leading distributor and supplier of commercial tiles, offering a wide range of porcelain, ceramic, terrazzo, stone and mosaic products.

Domus Tiles Ltd was acquired by Europe's largest specialist floorcoverings distributor, **Headlam,** in December 2017. Domus supplies tile products for commercial and residential projects from its head office in West Molesey, Surrey and also operates showrooms across London, an outlet store in West Molesey and regional showrooms in Glasgow, Birmingham and Manchester.

Ceramica Impex Ltd is an independent distributor, based in Leeds and importing ceramic and natural stone tiles from sources including Turkey and Italy.

Distribution Supplies Ltd is a specialist importer and distributor of tiles from manufacturers worldwide, with its Peterborough warehouse stocking a wide range of ceramic and porcelain floor and wall tiles, as well as mosaic tiles.

Minoli & Company Ltd is an independent business, supplying wall, floor and mosaic tiles from its headquarters and distribution centre in Oxford and showroom in London.

Boyden & Co Ltd is part of **Boyden Investments Ltd** and is based in Croydon. The company offers a wide range of floor and wall tiles through 4 showrooms, supplying customers in London and the South East.

Craven Dunnill & Co Ltd is an importer and distributor of ceramic, porcelain and natural stone tiles and mosaics. The company has showrooms in Bridgnorth, Shropshire and Alderley Edge, Cheshire.

East Midlands Ceramics Ltd, trading as **EMC Tiles**, has its headquarters and showroom in Nottingham, with additional showrooms in Leicester, Derby and Loughborough.

Hampshire Tile Warehouse Ltd, a group of companies, is based in Hampshire and specialises in supplying ceramic and porcelain tiles, underfloor heating, wet room products and external paving. The company has 4 showrooms across South England.

House of Mosaics focused on the distribution of mosaic tiles when founded, yet more recently has broadened their product offer to larger format porcelain tiles. Known as trend-setters, they have been very successful in gaining share within the retail multiple market.

IntCeram is an independent ceramic tile distributor based in Leeds with two showrooms in Leeds and West London.

Waxman Ceramics Ltd is part of the **Waxman Group** and specialises in the distribution of ceramic and porcelain tiles, as well as mosaics and larger format floor and wall tiles.

RJ Stokes & Co Ltd is based in Sheffield and operates showrooms in Sheffield and Oldham.

Stone and Ceramic Warehouse has a head office and showroom in Chiswick and offers natural stone, porcelain, ceramic, mosaics and decorative products, while its sister company, **Walton Ceramics**, also offers a range of floor and wall tiles, with a showroom in Chelsea. Both companies are under the same ownership, **Graingers and Son (Newport) Ltd**.

Tiles (UK) Ltd is based in Manchester and is an independent distributor of ceramic tiles, operating from showrooms located in Manchester, Leeds and Warrington.

Verona, founded as The Mosaic Tile Company in 2001, based in Leeds has a 270,000 square foot distribution centre in Doncaster and has grown to be one of the largest national distributors.

Other distributors operating generally on a regional basis include: Ceramique Internationale Ltd, Bellegrove Ceramics plc & Studio Ceramics Ltd.

3.2 Retail Multiples

The retail sector continues to face challenging conditions, with many consumers preferring to look for professional assistance. Some tile multiples are expanding into the commercial tile market, such as **Topps Tiles**, serving trade fixers as well as the public. Some retailers have also extended their product ranges to include alternative floor and wall covering products such as wood and vinyl flooring.

<u>Leading tile retail multiples within the UK market include:</u>

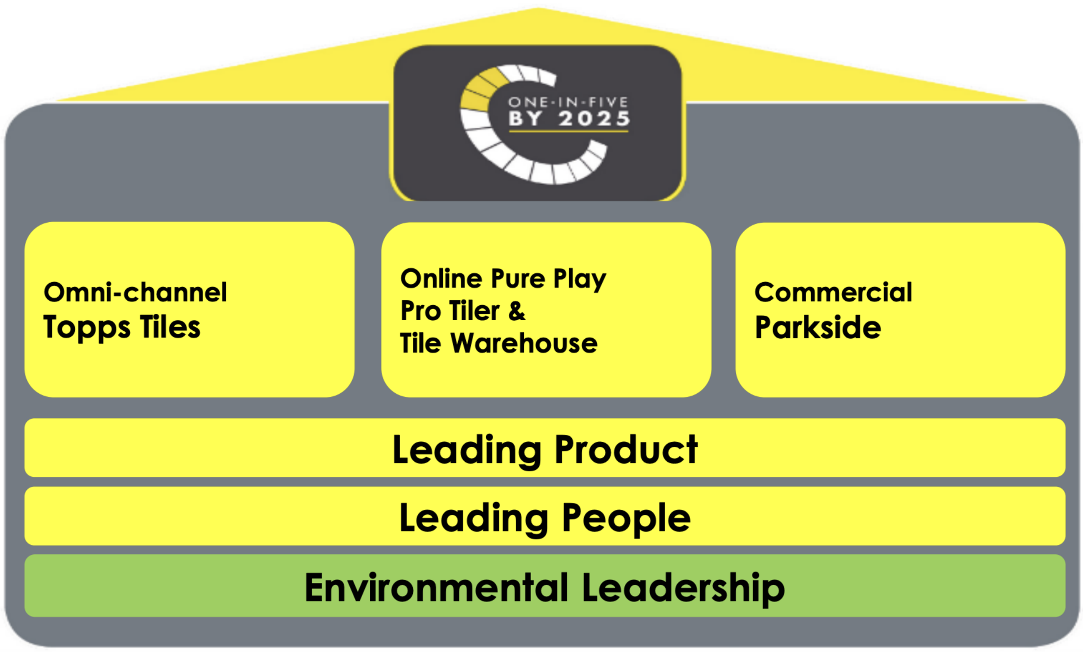
Topps Tiles plc is the UK's largest retail tile specialist operating from over 300 outlets nationwide. In 2022, they reported that the Group market share of the domestic sector increased to 19% from 17.6% in 2021, well on track to achieve their aim of 20% share by 2025. It reported that 60% of its business was from professional fixers and the remaining 40% were DIY customers.

The company has expanded into the commercial sector of the UK market, with the acquisition of **Parkside Ceramics** in 2017 and **Strata Tiles** in 2019 and sales in this sector reached £8.6m in the last year. In March 2022, Topps Tiles bought a 60% share worth £5.3 million in Pro Tiler, a family-owned online operation launched in 2010, specialising in tiling-related consumables and equipment to trade customers via three different brands: Pro Tiler Tools, Northants Tools and Premium Tile Trim. PTT has continued to grow quickly following acquisition, with revenue in the 12 months to March 2021 of £9.3m, and then to September 2022 of £14.7m. In H123 it delivered year-on-year growth of over 40%, and management upgraded its expectations for the medium-term opportunity from £25m to £30m.

In May 2022 Topps Tiles launched its on-line only business, Tile Warehouse, aimed at attracting "value-conscious" homeowners by offering competitive prices while complementing its core Topps Tiles brand and drawing on existing group infrastructure and expertise. Topps will be investing in digital marketing and expects it to be "modestly loss making" in the early years.

In September 2023, Topps posted group sales of £263m for the 52 weeks to 30 September 2023, an increase of 6.4% year on year, marking their third consecutive year of record turnover for the business.

Topps group strategy is to provide a seamless shopping experience across all channels by selling leading products, employing leading people and by having excellent environmental leadership.



(Source: Topps Tiles)

In their 2023 Investor presentation, Topps reported that supply chain challenges previously experienced were now abating and they now had a 98% product availability and movement of goods had normalised. They have a continued pipeline of new product developments and iterative change and have launched 32 new products in H1. There was growth in sales of outdoor tiles, LVT, shower panels and extra-large tiles. Their owned brand strategy was also continuing to develop.

Tile Giant, which had 56 showrooms, went into pre-pack administration in April 2023 leading to the closure of 13 stores. The remaining 43 stores have been saved by Stiled Holdings Limited and CTD Tiles, and the company has since grown back up to 49 showrooms.

Al-Murad D.I.Y. Ltd is an independent ceramic tiles and natural stone importer and retailer, based in Leeds and trading from over 40 outlets and 30 family-owned franchises throughout the UK.

Tile Choice Ltd is based in Wolverhampton and operates 18 outlets throughout the Midlands region, including an outlet at **Carvers** builders' merchants.

Fired Earth Ltd was part of **AGA Rangemaster Group**, but was then sold and entered a CVA, before being acquired by **Lousada Holdings Ltd.** The company is now trading from 26 stores and 4 stockists and has 1 franchise in the UK and 3 franchises in the EU.

Tileflair Ltd is based in Bristol and operates through 10 outlets in Southern England. It is part of The Association of British Ceramic Distributors (ABCD). The group is made up of 8 members with a combined total of 35 branches spanning the length and breadth of the UK.

BC Ceramics Ltd is based in St Albans and trades from five showrooms in the South East and Midlands. The company has expanded in recent years, following the acquisition of outlets from Capitol Tiles.

3.3 Home Improvement Multiples

The home improvement multiples primarily serve DIY enthusiasts. With the increase in competition from other outlets, the home improvement multiples have suffered a loss of market share (now accounting for 13%) in recent years in certain product areas including floor and wall tiles. However, major companies in this sector, such as **B&Q** and **Wickes**, are increasingly targeting tradesmen, offering trade formats online and instore.

The commitment of the home improvement multiples to wall and floor tile products has been in transition for several years and has changed, as the installation of tiles has moved from a higher skilled DIY basis towards professional tiling installations. The move towards larger tile sizes for both wall and floor tiles has been a key factor in this change, as homeowners increasingly sought more professional finishes for tiling installations and were unable, or possibly unwilling, to attempt these.

Home improvement multiples were previously centred on the high volume, lower value tile ranges but this began to change in the late 1990s, as designer ranges and different tile sizes began to enter the market. The move towards the middle sector of the market saw many home improvement multiples take on designer or exclusive own brand ranges, as well as encompassing natural stone tiles. However, the customer base for DIY tiling has continued to diminish and at the same time both tiling multiples and tile distributors were increasingly targeting the same customers as the home improvement multiples.

<u>This channel is dominated by 3 companies:</u>
B&Q Ltd is a subsidiary of **Kingfisher plc** (who also owns Screwfix), and is the UK's largest home improvement retailer, with around 300 stores selling a wide range of products in the UK and Ireland. B&Q has also launched a new online home improvement marketplace in March 2022, with 100,000 more home improvement products available to buy at diy.com from third-party sellers. Trade points are available in store for easy trade transactions. In 2023, Kingfisher announced that B&Q saw good performances in surfaces and decor amongst other sectors and that resilient retail trends had been outpaced by trade sales in the quarter with LFL sales of +3.1%, reaching a penetration of 23% of B&Q's total sales (Q3 22/23: 23%).

Wickes Building Supplies Ltd was previously part of **Travis Perkins plc**, but was demerged by the parent company to form an independent company under the **Wickes Group plc** name in April 2021. Wickes now has more than 230 stores nationwide, supported by its website and TradePro mobile app for trade members.

Homebase

Homebase has over 150 stores and 5,600 team members across the UK and Ireland. On 25 May 2018, it was announced that Homebase had been sold by Wesfarmers to turnaround specialists Hilco for a nominal one pound sterling. Hilco took ownership of the business on 12 June 2018. All 24 stores converted to the Bunnings format by Wesfarmers were rebranded back to Homebase and are now focusing on gardening, decorating and home furnishing as well as kitchens and bathrooms, having acquired bathroom specialist **Bathstore** from the Administrators.

3.4 Builders' Merchants

Builders' Merchants currently account for an estimated 6% share of the market. They are predominantly used by builders, plumbers and tile fixers etc. The merchant channel is dominated by a small number of large organisations, operating on a national level. The leading merchants are **Travis Perkins, Jewson** (sold by Saint Gobain to Denmark's STARK Group for £740 million in December 2022), **Wolseley UK**, **Grafton** and **Screwfix**, accounting for a combined share of around 75% of this channel's market size.

3.5 Direct Sales

The direct sales channel is more commonly associated with the contract and housebuilding sectors. However, some manufacturers will deal directly with customers for specialist and niche ranges, particularly where 'art style' tiles are involved, or the manufacturer is a specialist producer using more unusual materials. Direct sales tend to be concentrated in the upper sectors of the market, where bespoke or unusual products are often specified.

3.6 Bathroom and Kitchen Specialists

Specialists are increasingly offering tiles in their outlets, together with tile installation, as part of their aim to be a 'one-stop-solution' provider for bathroom and kitchen refurbishments. Dedicated and specialist ranges of tiles are increasingly available through these bathroom and kitchen specialists, with many manufacturers/distributors involved in exclusive supply contracts.

3.7 Bathroom and Kitchen Pods

In most new homes bathrooms are installed reasonably late in the construction process, following the completion of the main structure, internal walls and services. However, the installation of a bathroom is both expensive and labour intensive, making bathroom and shower room PODs a cheaper option, although they are mainly economical when larger numbers of units are involved, usually in the contract sector.

PODs are discrete volumetric units that are factory fitted with building services equipment, such as electrical circuitry, lighting and plumbing, sanitaryware and so on, but which do not form part of the building envelope. They are pre-assembled in a factory, transported as a complete unit to a site, craned into the building and connected to the main services. Bathroom and shower room PODs are widely used in the construction of hotels, hospitals, prisons, nursing homes and student accommodations, where standardised design and economies of scale are required. Whilst pods can provide opportunities for tiles, they face significant competition from the use of panels, particularly for wall coverings.

3.8 Online Distribution

Specialist online retailers, although being a relatively small segment of the market, are becoming an increasingly important supply route for tiles. Companies who focus on this sector include:

Tile Mountain, incorporated in 2013, was originally an online ceramic tile specialist, with its head office, warehouse and showroom in Stoke-on-Trent. However, the company has acquired Capitol Tile Group, Tons of Tiles and Walls and Floors (Kettering) in recent years and has also opened other showrooms in Stockton-on-Tees, Stockport, Nottingham, Birmingham, Liverpool and Basildon. More recently they have launched **Bathroom Mountain** and **Flooring Mountain**.

Victorian Plumbing Ltd is an online bathroom specialist, based in Merseyside, with a showroom in Formby, near Liverpool.

Direct Tile Warehouse is the trading name of Ceramiks Ltd and is based in Swansea, operating a showroom there and another in Cardiff.

Tiles-Direct.com, with a central-hub based in Leeds, offers a comprehensive range of floor and wall tiles, including ceramic, porcelain, natural stone and mosaic tiles, as well as tile accessories.

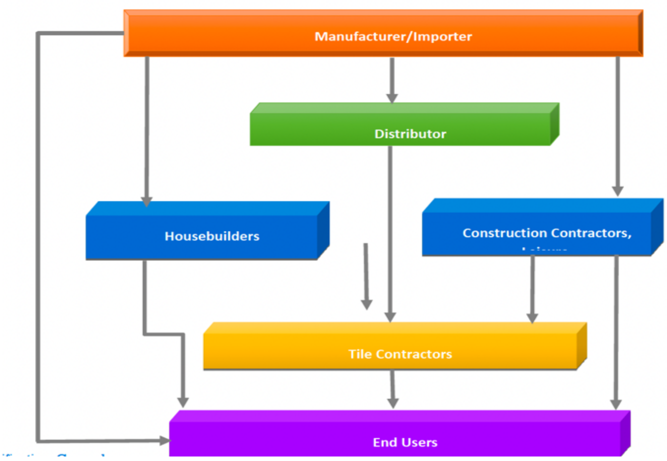
Total Tiles, named in The Sunday Times Virgin Atlantic Fast Track 100 list in 2020, is an online retailer based in Ipswich. It was acquired in 2021 by CMO Group.

3.9 Contract Sector Distribution

Distribution of tiles in the contract sector tends to be either direct supply to end-users or via major distributors, with the method of delivery influenced by the size of the project:

- Larger projects – tiles typically supplied by direct route or via distributors or builders' merchants
- Small projects – tend to have a wider distribution structure, such as through distributors, retail specialists, builders merchants, home improvement multiples

Main contract distribution channels for the UK tile market



Source: AMA (No updates available)

The housebuilding sector is a key end use sector for both floor and wall tiles, with contracts tending to be established with major tile manufacturers and/or importers, but typically supplied through distributors. Many manufacturers supply exclusive ranges for the new housebuilding sector, with larger housebuilders also likely to have differing ranges for individual house types.

4. Competitive Materials

Despite other opportunities, the tiles market is still likely to receive strong competition from other surfacing materials, such as waterproof panels (including thin porcelain panels); floorcoverings, such as LVT and laminate; together with the use of prefabricated bathrooms/wet room pods (prefabricated volumetric units) used in the contract sector. Some pods are fully manufactured when imported from abroad.

The UK domestic and commercial flooring markets are valued at approximately £2 billion, with contract flooring accounting for 49% share. Overall the UK flooring market is estimated at 320 million sqm.

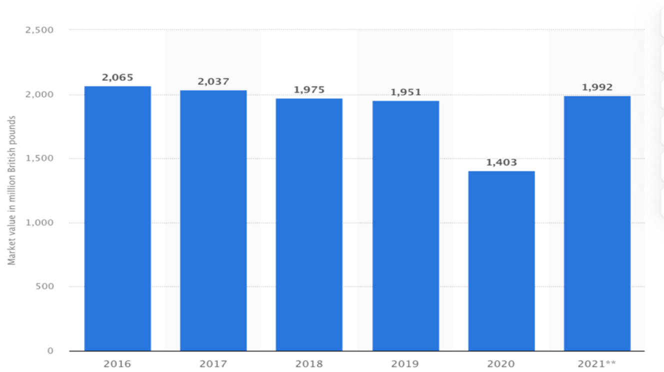
Despite ongoing supply chain issues following Brexit, the contract floorcoverings markets saw a small bounce back in 2021-2022 with a year-on-year growth of 6% & 4% respectively. However, the forecasted return of its pre-pandemic value is not anticipated until at least 2024, with a steady growth following this of 2-4% per annum until 2026. *(Source: AMA)*

According to the latest data from the Office for National Statistics, floor covering retail sales in September 2023 increased by 22% to £271.8m from £221.6m in August 2023. Compared to the same time last year, sales have increased by 6.9%. This increase can be partly attributed to inflation which is high in flooring at a rate of 8.4% but volumes have also increased. *(Source: The Stocklists – Flooring News)*

There are many end-use sectors for the floorcoverings market, with retail consistently being one of the largest. However, with internet shopping continuing to become the go-to route for consumers, forecasting the use of floorcoverings in retail has become unpredictable. We are looking at possible losses from this sector being offset by increased refurbishments, for example in the healthcare sectors.

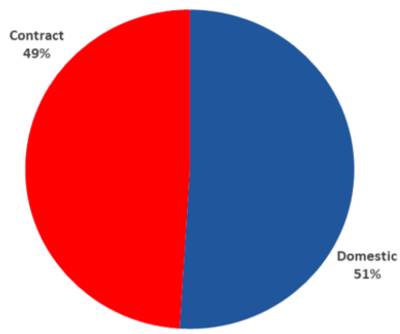
A decade ago, the contract floorcoverings market was worth 45% of the total floorcoverings market. It is now valued at 49% with the larger 51% being attributed to the domestic sector. Imports for this market continue to gain market share, driven by exchange rates and the performance of the pound (£). Around 70% of these imports are from the EU, most notably the Netherlands and Belgium. *(Source: AMA)*

UK Flooring Market £ - 2016 to 2021



Source: Statista (No updates available)

UK Floorcoverings Market Sector Mix 2021, % by value £

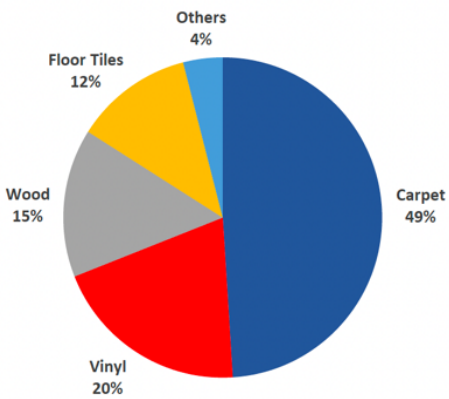


Source: AMA (no updates available)

Compared with other hard floor finishes, the cost and time of tile installation are becoming more of an issue and less competitive. Tiling could start becoming a premium priced consideration versus other floor finishes. Today most traditional tile-only outlets also stock hardwood, LVT and waterproof panels.

There has been some change in the product mix in the contract flooring sector in the last 2-3 years, although carpet still retains the largest share at around 49%, followed by vinyl with 20%, wood at 15% and floor tiles at 12%. Carpet has lost share marginally to both vinyl and wood in that time due to sustainability issues and design trends for smoother flooring. Carpet manufacturers are combatting this through an emphasis on reuse and recycling, and are increasing production of carpet tile systems which are easier to maintain and replace. Floor tiles have benefited from a recent trend for larger format decorative tiles, particularly in volume terms. However, their lower value relative to carpet and vinyl products has not led to any significant gain in market share. ‘Others’ include niche products such as linoleum, rubber and cork.

UK Contract Floorcoverings Market Product Mix 2022, % by value £



Source: AMA (No updates available)

4.1 Vinyl floor coverings *(No updates available)*

Prior to the Covid-19 pandemic the contract flooring market was seen to be growing at a steady pace. However, it saw a sharp decline of 14% in 2020 as the construction industry as a whole was stopped overnight, before certain industries were deemed essential, and work could continue. Poignantly, this decline in this market was not seen for all products, with vinyl sheeting being the exception. Vinyl outperformed all other products in the contract floor market in 2020 due to its usage in the emergency hospital facilities that were created.

In the UK, the vinyl floor covering market, including sheets and tiles, is one of the fast-growing markets. Technological improvements drove the rapid adoption of vinyl floors, replacing linoleum as the predominant resilient floor covering in residential and commercial applications. Vinyl floor coverings are marketed and positioned as modern materials, and became an appropriate choice for the emerging technologically sophisticated modern buildings.

Vinyl enjoyed good growth from 2017-19, reaching £199m by 2019 before an 8% decline in 2020. The sector was quick to recover, helped by the specification of vinyl flooring in temporary health facilities and achieved 8% growth in 2021 to reach a level of £195m, just 2% below its pre-pandemic size.

Key factors underpinning the market performance of vinyl flooring include:

- Speed of installation and bringing the room into service
- The versatile design of vinyl tile products, replicating wood and stone effects, has increased the potential for vinyl outside the more traditional end-use sectors
- Contract vinyl has been at the forefront of product innovation
- Manufacturers continue to improve sustainability criteria by recycling and reprocessing
- Potential for inclusive design in compliance with Legislations such as the Equality Act 2010 and Building Regulations Part M
- The ease with which bespoke and complex designs can be created
- The trend towards value added vinyl products such as anti-static and antibacterial coatings
- The trend for using combinations of flooring materials
- Growth in popularity of loose lay LVT products has stimulated demand, particularly in the retail sector due to warmth under feet compared to tiles

The commercial application segment accounts for the largest share of the vinyl floor market currently at approximately 50% in revenue and is expected to continue to grow. Commercial construction segments such as hotels and shopping centres are expected to be the key users as they offer cost-effectiveness along with superior aesthetics.

Technological improvements such as reduced curing times and loose lay tiles are also likely to underpin future growth in contract vinyl applications. The improved environmental and sustainability profile of vinyl should continue to raise the profile of vinyl flooring in the future.

Luxury vinyl tile is expected to remain the most popular category of vinyl flooring solutions and the segment is likely to carry on growing. The LVT segment has also caught the attention of consumers in the past few years owing to the availability of the product in numerous designs and textures. The introduction of digital printing technology to the flooring industry, which enables easy texture printing on these tiles, is likely to support the market growth over the next 5 years. LVT currently accounts for approximately 25% of the commercial flooring sector and 35% of the domestic flooring sector in revenue, according to estimates from sources at the UK's Tile & Stone Journal.

4.2 Wood flooring *(No updates available)*

The different methods of manufacture result in various wooden products such as Solid Wood, Engineered Wood and Laminates.

Wood flooring made significant gains in its share of the floorcoverings market from the late 1990s, stabilising at 16-17% since 2008 according to AMA Research. Growth was mainly due to the introduction of laminates into the UK market and their increasing popularity in the domestic sector, partly due to their ease of installation.

Previous growth in this sector was underpinned by:

- Strong performance in education, hospitality and leisure developments
- High demand for value added, non-standard products: acoustic, safety, anti-bacterial and matt flooring
- Increasing importance of sustainability
- Innovations in design and finish

This segment has also been affected by intense competition from competing floorcoverings. LVT and floor tiles in particular have benefited from printing, design and production innovations providing increasingly realistic wood effect designs. On the other hand, wood is benefiting from the trend for mixing floorcovering types, used as a key element in healthcare applications to provide a more welcoming environment.

Key contract end-use sectors for wood floorcoverings include leisure and entertainment, commercial offices, retail, education and healthcare. Specialist sports flooring is an important niche sector, supplied by a small number of companies.

Fluctuating prices of raw materials coupled with stringent regulations and the increasing cost of wooden floorings act as restraints for the wooden flooring industry growth.

Engineered wood demand is expected to remain high. Engineered wood products are widely used by designers, architects, builders and building officials who are aware of energy-efficient farming practices that conserve energy, speed-up construction, cut labour costs and reduce waste. One of the advantages of engineered wood products is that it can be designed as per the demand and custom specifications of the end-user. Easy maintenance and uniqueness of colourful design are among other features, pushing the growth of the segment. Solid wood and engineered wood account for about 8% of the contract flooring sector in revenue.

Rising investments in the real estate development, growth in renovation activities, and rapid urbanisation are documented as the major driving factors to the **laminate** flooring market. The cost-effective and low-maintenance flooring solution enjoys increasing usage in commercial, as well as residential sectors. Growing urbanisation and industrialisation will further boost various opportunities that will lead to the growth of the laminate flooring market. The rising population and improving standards of living have led to a rise in the demand for modern housing, which has also significantly contributed to the growth of the market. Laminate flooring currently is estimated at 4% share of the commercial flooring market and 14% of the domestic flooring market in revenue.

4.3 Waterproof wall panels

Prior to 2016, the market for waterproof so-called "wet wall" panels was relatively small. The main uses were in the commercial washrooms, social housing and leisure refurbishment segments, including prisons, care homes and hotels on a budget.

In the past few years, waterproof panels have also become more popular. The market for waterproof panels, including splashbacks, was estimated to be worth around £60-70m according to MRA Research.

Key factors contributing to the recent growth have been:

- A general trend towards wet rooms
- Cost effectiveness and speed of installation and use in service
- Increasing use of offsite manufacture in some fast-growing sectors
- A focus in the commercial and social housing sectors on cost savings and quick and easy installation
- Digital printing technology has developed, enabling a wider range of designs and colours on different materials, including textured products, and "photo wall" options where consumers can upload their own photo to be printed onto the wall
- A focus on the design aspects of the product, in particular in the upmarket kitchen splashbacks sector, where acrylic or metal panels have grown strongly. More products are also able to replicate the look of tiles or glass more closely
- Product development and wider promotion of quality features such as hygiene (no grout or gaps between tiles where bacteria can grow) and durability, in other than its traditional applications
- Increasing awareness of the product and its benefits compared to tiles, in the DIY sector, such as low cost, speed of installation and easy aftercare
- Store DIY stores and merchants "stocking" the product (usually in sample/brochure format – it needs to be ordered depending on size)

Shower panels are a popular choice in all the key construction sectors for modular and offsite manufacture/volumetric pods. These are:

- Student accommodation – a market that is growing strongly
- New housing – in particular affordable homes
- Hotels – in particular budget hotels
- Care homes
- Social housing/high-rise

While demand has grown in all end-use sectors, waterproof wall panels have now also become more popular as a substitute for tiles in the home and the residential refurbishment/DIY sector in the past few years.

5. Opportunities

Growth opportunities in the ceramic tile market can be approached by product type, application/sector, and region.

5.1 Product Trends

The product mix in the tile sector is still dominated by ceramic and porcelain tiles, with large format porcelain tiles in particular stimulating greater demand, as supported by the Topps Tiles Investor presentation. Some niche products, such as glass and metal tiles, are gaining popularity from consumer interest in the creative use for mosaics and feature walls but still remain a very small sector of the market.

The move away from tiling in kitchen areas has meant that the market is becoming more dependent on the bathroom sector, although continued interest in en-suites, wet rooms, fully tiled bathrooms and conservatories has sustained demand for tiles. However, large format slabs are becoming popular to create countertops, sinks and furniture.

There appears to be more demand for tiles in other areas of the home, such as living rooms and hallways, perhaps due to the popularity of underfloor heating.

There is an increased focus on sustainable manufacturing techniques and more initiatives to reduce environmental impact.

Natural stone faces increasing pressure from stone-effect porcelain. However, natural stone tiles still account for around one fifth value share of the market and remain a desirable and aspirational product.

There has recently been large growth in demand for the use of exterior 20mm porcelain tiles to create a seamless indoor and outdoor flow. Some retailers report up to 30-50% of sales increase in April and May in 2022. This is a new market replacing paving stones and mainly fitted by landscapers. As stated previously, Topps Tiles have reported growth in sales of external porcelain tiles.

There is growing awareness of porcelain facades as non-combustible cladding materials for buildings post-Grenfell and in line with the new Building Safety Bill.

Floor and wall tiles are facing increasing competition from other surface materials such as laminate and LVT, and in the wall sector, plastic/glass kitchen splashbacks and waterproof panels.

With regard to design trends, at the lower end of the market white and single colour tiles remain a core product for the industry, while in the mid-to-upper sectors natural effect tiles are continuing to gain in popularity.

Sustainability is key, with a real focus on “circular design” that carefully considers the life cycle of materials used in the manufacturing process.

Neutral colours have continued to dominate overall décor trends in recent years, with grey, white and black retaining their popularity. However, bolder, optimistic colours are forecast to become more popular in the future. Texture has also remained an important feature, with concrete-effect tiles in particular proving to be popular, while overall the use of extra-large porcelain tiles is expected to continue gathering momentum, with consumers preferring a more seamless, minimalist look in their homes.

Other product trends include:

- Natural effects and textures continue with a move towards more refined looks, advances in technology have assisted this
- Bold marbles in hues of blue, green, black and neutrals
- Wood effect planks, including reclaimed effects, continue to be popular.
- Warmer tones and Mediterranean design influences such as terracotta effect floor tiles
- High gloss finger tiles in strong colours as feature walls, especially in bathrooms
- Bevelled metro tiles remain a solid, popular choice

With the continuing trend towards larger formats, it is worth noting that the ceiling height in the UK averages 2.4 metres, lower than many other European countries. Large format tile panels can present logistical and practical issues onsite such as manoeuvring and handling.

Adequate training should be provided with new products as the UK tile industry experiences a lack of skilled workforce as a result of Brexit and lack of specialist training at colleges and training centres. The market sees more multi-trade installers rather than specialist tilers. There is also an ongoing ageing workforce issue as faced by the whole construction sector.

5.2 Project Sectors

The UK project sectors also feature a varied set of criteria for strategic targeting. The largest numbers in the residential sector may usually come from private developments, housing associations, and apartment blocks, but retirement homes, hostels, halls of residence, and barracks all factor into the numbers for this huge sector.

Glenigan forecast a return to growth for the industrial sector over the next two years following the fall in industrial project-starts in 2023 due to rising demand for warehousing and logistics space. It also states that although online retailers' market share has slipped back from its pandemic peak of 36% as consumers have returned to high streets and retail parks, it is still 25% higher than in 2019, a trend that is expected to continue to fulfil renewed demand for logistics space over the forecast period. However, weak domestic and overseas demand are expected to dampen manufacturing investment in new capacity and facilities over the forecast period.

Within the commercial and retail sector, offices and retail, although the growth in hybrid working reduces overall floorspace requirements for many businesses, it is also generating new fit-out opportunities as firms remodel premises to provide more modern and collaborative workspaces. The changes in floorspace requirements are also generating refurbishment opportunities as premises are sublet. This is expected to underpin sector growth in 2024 and 2025.

Other key end-use sectors, such as hotel and leisure, suffer damages due to the sharp rise in energy, material and labour costs together with falling real household incomes; however, an increase in overseas visitors is expected to boost investment and project stats in this sector.

In the infrastructure sector, the government's decision to scrap phase 2 of HS2 will have a major effect on the construction industry. The Prime Minister announced that £36 billion will be redirected into transport projects across the North and Midlands, however these projects may not happen for many years yet. The CPA stated that this decision will cause jobs, investments and resources amongst UK manufacturers and construction businesses large and small to go to waste. Furthermore, better local and national infrastructure is critical to enable economic activity, jobs and greater productivity in the wider economy, therefore both HS2 and the proposed investment in local transport links in the North are required.

However, overall sector activity remains firm with RICS reporting growth in Q3 of 2023 of +10%, although this is lower than with the +17% growth reported in the second quarter of the year. The government has voiced its intention to press on with infrastructure investment as a key part of its UK Growth Strategy. Energy projects will also play a vital role in sector activity. Hopefully, the forthcoming Autumn Statement will reiterate the government's commitment in this sector.

Glenigan reported that Education has been the only sector to grow in 2023, primarily due to a sharp increase in school and further education building work. Further project-start growth is forecast for 2024, but a drop in starts is anticipated in 2025 as public sector capital programs are reviewed post-election. Additional spending is also expected to address Reinforced Autoclaved Aerated Concrete risk at existing schools. Currently, 214 schools have been identified as being affected.

With regards to the future of the education sector, the Glenigan report states that a 13% rise in education starts is expected in 2024, however this is expected to fall by 17% in 2025 as government funding projects are reviewed and disrupted post-election.

With the effects of COVID-19 across the world, there has been a large focus on the healthcare sector in the past two years. Project-starts have remained high during 2021 and 2022. Government schemes to build or refurbish a number of hospitals before 2030 will have a major impact on the opportunities available in the sector. Glenigan reported that although the health sector outlook remains positive, project start values have fallen this year as NHS resources and management time have focused on tackling waiting lists and industrial unrest.

Glenigan has also reported increasing construction activity in the military sector as well as prison improvement programmes and predicted that work is likely to increase.

5.3 Exhibitions

There are a number of exhibitions for showcasing ceramic tile products and technologies:

- Clerkenwell Design Week – One of the UK's leading independent design festivals, annually attracting the international design community to the three days of exciting events
- The Tiling Show – Annual event organised by The Tile Association; free to attend
- Design London (formerly 100% Design) – The main event of the London Design Festival, usually held annually in September. The exhibition brings together an array

of established and emerging design brands from all over the world, covering sectors of consumer goods, home decoration, architecture and furnishings etc.

- Surface Design Show – Exhibiting materials for use in architecture and interiors over a three-day event in London
- Grand Designs – Grand Designs Live brings the UK self-build and renovation consumer enthusiasts to Birmingham and London each year, encompassing 4 project zones: Grand Build, Grand Kitchens & Bathrooms, Grand Interiors, and Grand Gardens.
- UK Construction Week – The UK's largest built environment event. Exhibitors meet and work with major projects, house builders, developers and local authorities
- The Flooring Show – The leading event dedicated to the flooring industry. Thousands of retailers, contractors, distributors, fitters, designers and developers attend every year
- Homebuilding & Renovating – Exhibition for self-builders, renovators and leading brands
- Ideal Home – An annual event in London to showcase everything associated with an "ideal home", from the latest inventions for the modern house to the latest housing designs
- KBB – The UK's leading kitchen, bedroom and bathroom show
- Spatex – The show for swimming pools, hot tubs, spas, steam rooms, saunas & much more, for both domestic & commercial sectors
- Architect@Work – Exclusive trade event for architects and interior designers
- London Build – The UK's leading construction show to meet and work with networking opportunities with leading architects, developers, housebuilders, contractors, government and more
- The Landscaping Show – The trade event for landscape designers, architects, architectural technologists, contractors, facilities managers and interior designers
- Hotel Interiors Experience (HIX) – Europe's only hotel design show, bringing the hotel interiors community together over a two-day event
- Independent Hotel Show – industry event dedicated entirely to the needs of luxury and boutique hoteliers

- Natural Stone Show/Hard Surfaces – The Natural Stone Show is the only UK event dedicated to the Natural Stone industry. Serving both the trade and specifiers, it features over 200 exhibitors and is co-located with Hard Surfaces Show
- FutureScape

6. Logistics Challenges

The MMR UK logistics Market Analysis 2023-2030 which was published in September 2023 stated that the UK logistics market had seen steady growth which had been as a result of factors such as e-commerce expansion, globalisation and technological advancements.

According to the analysis, the industry is poised for continued growth and evolution as a result of factors such as technological advancement, sustainable logistics, data-driven decision making, supply chain resilience, customer-centric solutions, collaboration and partnerships and regulation and trade changes.

As previously stated, there has been an improvement in the shortage of HGV drivers from 100,000 in January 2022 to 60,000 in March 2023 as a result of government schemes and improved working conditions. *(Source: Snap)*

Unfortunately, the cancellation of HS2 between Birmingham and Manchester has dealt a huge blow for trade and harms the development of the national logistics network that the UK needs to thrive. In a recent article, Logistics UK stated that by putting high speed trains on existing tracks between Birmingham and Manchester, current rail freight capacity issues will be increased. *(Source: Logistics UK)*

Diesel prices remain high since Russia's invasion of Ukraine and the industry welcomed the Chancellor's announcement in the Spring budget that the 5p/litre fuel duty cut introduced in March 2022 was to be extended for a further 12 months, however there was disappointment with the lack of support to help businesses with continued high energy costs or the industry's transition to low carbon economy.

The government reported that petrol and diesel prices fell steadily from their July 2022 highs to mid-summer 2023, other than a brief period in October. Summer 2023 prices were their lowest since autumn 2021. There was also a sharp fall in the gap between diesel and petrol prices in summer 2023. It had reached record levels in late 2022. The falling price trend has reversed since July 2023.

6.1 Tile Distribution Logistics

In 2023, supply chains will face old and new challenges from the growing importance and need for sustainability efforts to achieve economic goals. According to the Confederation of Business Industry (CBI) forecast, the UK economy is expected to shrink in 2023, which will further disrupt supply chains.

Following extensive disruption due to shipping container shortages and delays in processing in ports in the UK, businesses have already started making changes to their supply chains due to the end of the EU transition period. However, it is anticipated that customer demand will ensure that shipping costs level out in the coming year. Industry experts have also commented on the announcement of the government's 'Levelling Up' initiative, believing that it could be a major factor in driving growth and investment in the transport industry over the next few years.

The reduction in demand for freight services has led to a decrease in backlogs, providing an opportunity for shipping costs to level out. This follows extensive disruption to shipping due to container shortages and delays in processing at ports up and down the UK. The Logistics Managers' Index predicts that normalisation is on the horizon and business is set to return as usual.

Shipping costs have been a major issue for the UK freight industry in recent years, but there is hope that these costs may begin to level out in 2023. This is a welcome development, as Drewry's expectation of steep cuts in freight rates in 2023 is predicated on the view that port congestion will be reduced. Moreover, with demand now reduced to a more normal level and backlogs decreasing, there is an opportunity for shipping costs to level out. Logistics UK has commented on the government's levelling up announcement, noting that it could help to contribute to a cost-efficient and reliable freight and logistics sector.

However, despite this potential relief, the transport industry may still face issues such as labour shortages and the need for adequate customer demand. *(Source: Executive Freight Services)*

Tile distribution faces a very challenging environment in the UK. Brexit has added fresh layers of complexity and bureaucracy to the import of ceramic tiles. Covid has made the situation worse by adding further challenges – such as packaging hygiene, staff shortages, unplanned delays and different country-by-country restrictions. The war in Ukraine has added spiralling fuel costs to the mix.

The main logistic issues faced by the tile industry include:

- Chinese imports – The container prices increased from £2k pre-Covid to £14k post-Covid. The UK government has also imposed an anti-dumping duty on ceramic tiles from China. This can make the cost of goods in the container of less value than the cost to ship. Regional lockdowns continue in China, which leads to shortages. As ports such as Shanghai reopened an influx in demand for container space was seen
- Fuel surcharge – The current economic climate has witnessed volatile changes to fuel prices. Shipping companies started adjusting their fuel surcharge regularly based on the average of the previous month's costs. The majority of rate schedules are currently set on a base cost of pence per litre + VAT + a fuel surcharge typically between 15-25% in the UK. Major account customers would normally negotiate individual surcharges
- Demurrage cost – International freight and delays go hand in hand. The current situation is that delays are far more regular. Available haulage bookings can operate on a few weeks' lead times and customers have to pay storage charges and demurrage fees. The result is an increase in costs, estimated at up to £300 per container

- In addition, costs increased due to need for customs clearances adding an average of £100 to a movement for both the export and import customs entry and related processes into and out of Europe
- Tiles from Italy and Spain are faced with uncertainties leaving European ports and are often diverted before entering the UK due to logistic issues. Once arrived in the UK, they can wait to be docked and offloaded. For example, lead times from Spain were typically 2-3 weeks before Covid and are now averaging 4-6 weeks, whilst incurring additional costs
- European manufacturers are extending lead times on smaller quantity product lines to achieve production efficiencies. Smaller retailers may begin to form buying groups to try to pool demand and push for quicker lead times, then break the bulk once tiles are delivered in the UK
- As part of the 2021 UK budget, it was announced that eight new free ports would be created. They are East Midlands Airport, Felixstowe and Harwich, Humber region, Liverpool City Region, Plymouth, Solent, Thames and Teesside.
- Customs changes have triggered various implications for both British and European haulage companies, with new administration hurdles and mandatory border checks, which have previously resulted in delays at ports on the UK/EU border
- HGV driver shortage – Whilst still a factor in 2023 the UK shortage decreased from 100,000 HGV drivers in 2022 to 60,000 in March 2023 as a result of government schemes and improved working conditions
- 2023 has faced fewer problems with strikes at ports

6.2 Ports

Ports are essential to the UK economy, with around 95% of all import and export tonnage being transported by sea. Research studies have found that the transport cost, port charges, port efficiency, geographic location, infrastructure, inland and maritime transit time and frequency of maritime services as some of the main criteria for shippers' and freight-forwarders' port choice decisions.

Five major ports in the United Kingdom are:

Port of Felixstowe

This port is located in Suffolk and it’s also the busiest port, dealing with 48% of the country’s container trade. It happens to be Europe's eighth busiest port, handling container traffic of 3.8 million TEUs (twenty-foot equivalent units). The port lies in the South East coast of the UK, giving it access to the major ports within and around Continental Europe’s North West Coast.

The Port of Felixstowe is the United Kingdom’s first purposely built container handling port, providing service to the world’s largest container ships. It comfortably accommodates mega vessels because of its water depth, especially in the 8th and 9th berths which are dedicated to massive container ships. The port also has three rail lines which facilitate intermodal rail freight, making it the biggest facility of such in the UK. Enhancements to the rail connections into the port are set to allow 47 freight trains to run through the port daily.

Data from supply chain solutions provider FourKites shows a significant increase in shipment volume over the past 12 months: the 14-day average shipment volume increased by 15% from April to May 2023, and again by 14% from May to June.

Port of Southampton

The Port of Southampton is a popular passenger port but it also handles a massive amount of cargo. Located on the south coast of the country it’s very centrally placed within the region with direct links to both the rail and road systems. This means transportation of passengers coming through the port is efficient as is moving cargo to and from the port.

The port handles vehicle cargo traffic running up to 820,000 cars annually. It’s equipped to handle the storage of these vehicles with 80 hectares of the facility dedicated to vehicle storage and five multi storey car parks dedicated as car parks. The port is home to the second largest container terminal in the UK handling over 1.5 million TEUs annually. It clears 23 containers a day to be dispatched to and from primary cargo-generating regions like the Midlands, Scotland, East Coast and North West of the country.

As with Felixstowe, data from supply chain solutions provider FourKites shows a significant increase in shipment volume over the past 12 months, reporting a 60% rise in average shipment volume from July 2022 to June 2023.

<u>Port of London</u>

Partly on the River Thames and the North Sea, this port is the gateway to the UK's financial capital. It used to be the largest port in the world but now it holds the position of being the second largest port in the UK. In 2020, London handled the most tonnage: 47.4 million tonnes. By 2035, the port expects a flow of cargo from its river lane routes to grow to up to 80 million tons.

The port of London lays claim to some of the best rail, road and sea links to the rest of the UK. All the cargo facilities found within this port are privately owned and also privately operated. They handle every type of cargo imaginable from containers to hazardous cargoes and food, people and machinery.

According to data from supply chain solutions provider FourKites show, the average shipment volume in the Port of London has risen by 32% from July 2022. Statista reported that London was the leading port in the United Kingdom in the first quarter of 2023 with tonnage throughput of around 12.6 million metric tons.

<u>Port of Immingham</u>

The common name for this port is Immingham Docks and it's one of the major ports on the East coast. It held the number one spot as the largest port overall in the UK back in 2012. It remains the port with the largest tonnage capacity in the UK, handling 55 million tonnes of the country's cargo annually. This port plays a crucial role in facilitating the supply chain in the UK that guarantees the country sustainable electricity generation. This is because the port connects the Humber, which is largely considered the energy estuary of the UK, to the rest of the country.

Statista reported that Grimsby & Immingham in Yorkshire and the Humber was the second largest sea freight port, with roughly 11.7 million metric tons of cargo moved.

Port of Liverpool

This port is the most centrally placed port in all of the UK. That gives it diversity in handling various types of cargo ranging from agribulks, containers, automotives, dry bulk, forest products, energy products, metals, Ro-Ro (Roll-on Roll-off), liquid bulks and project cargo.

The port has a massive $400 million shipping terminal which welcomes mega vessels to the port.

Supply chain solutions provider FourKites reports that average shipment volume for the Port of Liverpool fell by around 30% from July 2022.

6.3 Road and Sea Freight

Road and sea freight are traditionally the reliable and affordable freight solutions for transporting ceramic goods and stone within Europe.

Road freight is a flexible and economical choice for pallet collection and delivery.

- Daily dispatch without waiting for scheduled departures
- Easy to change routes in the case of delays and disruptions
- Part and full load including cheaper groupage services available
- 5–7 days Spain to UK door to door under normal circumstances

Short sea shipping can help independent freight forwarders to counter the challenges in road freight, such as road congestion, and driver shortage in areas where it’s possible.

- More economical than road freight when it involves a large volume of the shipment.
- Scheduled departures, i.e. weekly
- Typical average transit time Spain - UK between 8-12 days door to door
- Containers sizes of 20ft, 40ft and 45ft with payloads of up to 26,000kg

With the right combination, independent freight forwarders can provide reliable door-to-door logistical services to tackle issues such as port congestion or driver shortage.

7. E-Commerce

Growth in the online market has continued, with some specialist online tile retailers acquiring large UK distributors recently. The influence of online retailers in the supply structure is likely to increase, as they can offer significant price reductions and offer a vast range of products.

Within the retail environment digital sales continue to increase as consumers become more accustomed to doing everything online. The majority of consumers research products online before making a purchase, and the widespread use of smartphones makes price comparison whilst in store very easy. "Click and collect" sales are increasing significantly, driven by more recent developments such as one hour click and collect services.

"Pure-play" online only distributors can offer a vast array of products and reach a wider number of prospective customers than branches and shops. However, some "pure-play" online retailers, such as Tile Mountain when it was formed, appear to be growing significantly with the acquisition of some leading UK distributors of tiles and the opening of physical branches. It is likely that e-retailers such as these will continue to gain market share with increased influence in the distribution sector.

Most channels, including distributors, home improvement multiples and retail multiples, also operate through an "omni-channel" approach. With the continued growth of digital sales, many of these channels are in the process of upgrading their processes to offer a more seamless experience for consumers between physical stores, online and phone sales. It is also likely that e-commerce platforms will be updated to include new mobile sites, new checkouts, and improved site searches etc.

The impact of digital retailing and marketing was accelerated by the unusual conditions created by COVID-19. There is no doubting the growing importance of digital media as a complementary activity to the tile retailer's national store portfolio.

The largest ceramic tile retailer, **Topps Tiles**, stated in its 2022 annual report that there were around 160,000 web visits. It identifies that this ranges from researching products through to utilising the payment facility and comparing prices.

Yet, Topps Tiles also identifies that 98% of its sales involve a store and around 6-8% of its sales are transacted online. Clearly the perception of "feeling" the tile, seeing the quality and examining the colour and thickness remains highly influential. Digital presence is not solely defined by ecommerce and website activity. Topps Tiles also spans its social media activities across Instagram, Pinterest and Facebook to increase market influence.

Topps Tiles revealed the launch of Tile Warehouse in May 2022, a new online-only business offering competitive prices to "value conscious" homeowners.

Kingfisher announced that in the B&Q results, total e-commerce sales had increased by 31.8% year on year, with an overall e-commerce sales penetration of 12.9% (Q3 22/23: 10.1%), driven by the further scaling of B&Q's e-commerce marketplace, which reached a participation of 35% in October (i.e., B&Q's marketplace gross sales divided by B&Q's total e-commerce sales).

Tile Mountain, formed in 2013, targeted an online approach to the market, with the company suggesting it could develop a 30-40 location store network to support this online offer. In December 2022, the company reported sales of £71.9 million, up from the £48.5 million reported in its 2021 end-of-year results.

In addition, the group, which comprises Tile Mountain, Bathroom Mountain and Walls & Floors, achieved pre-tax profits of £3.94m, up from £2.58m in the previous year. Alongside e-commerce platforms, the company now has nine showrooms and employs over 300 people.

While sample tiles can be distributed to potential customers, this can prove an expensive distribution method depending on the number of different options that each consumer chooses to examine. One of the features of the ceramic tile sector is that the supply sources are highly varied, and the import statistics indicate an increasing diversity of sources being used as each retailer seeks to find a distinctive and unique product range to offer customers. This, in turn, leads to a huge fragmentation of products available, giving the consumer a huge choice of products, colours and design effects. That fragmentation can make the choice more difficult for the customer.

Clearly one effective way to market such varied products is to utilise digital media. Moreover, the customer can be offered images of the tiles in-situ and so gain an insight into the potential impact their choice may have on the space they are looking at. Digital presentations have a strong potential, and retailers are all looking to utilise these facilities, but clearly the statistics surrounding digital activity identified by Topps Tiles suggest that this is a complementary activity to its store portfolio.