Q2 2018

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Economic and Regional Inflation Report

Economic

- Bank Rate held at 0.5%
- GDP grows 0.1% in Q1 2018
- Construction output down 2.7% in Q1 2018

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Q2 2018

Contents

Regions

Industry News & Updates

Carillion collapse could spur statutory audit market review

Findings from the investigation into the collapse of Carillion have brought about a number of recommendations to prevent a similar event occurring in the future. The MPs behind the inquiry summarise that Carillion's directors, as well as its auditors, regulators and advisors, all had a part to play in the company's eventual liquidation. Business committee chair Rachel Reeves, and work and pensions committee chair Frank Field, have concluded that there is the danger of a crisis of confidence in the audit profession. The report calls on the government to commission a review into the statutory audit market.

The Public Accounts Committee (PAC) has criticised the government for its failure to recognise and act on Carillion's difficulties at an earlier stage and questioned the government's management of its relationships with strategic suppliers, and the potential impact this could have on the delivery of public services. At present, the government runs a traffic light system of warnings rating suppliers as red, amber or green or black to categorise their financial health. The PAC has attacked the system as too slow and clunky.

Grenfell investigations and recladding challenge

In the immediate aftermath of the Grenfell Tower fire, many insurers were unsure how to respond. This culminated in numerous insurance companies pulling cover or increasing premiums. A year on, panic has subsided. Yet insurance – particularly professional indemnity – is still a major problem affecting construction businesses that work on cladding systems or high-rise buildings.

Dame Judith Hackitt's report into building safety was released in May and made 55 recommendations to government. Housing secretary James Brokenshire has subsequently announced a consultation on banning combustible cladding, which Dame Hackitt confirms she would support.

A £400m cladding removal programme will utilise cash diverted from the government's existing affordable housing programme, resulting in the initiative being pushed back by a year.

The second inquiry into the Grenfell Fire commenced hearings on 21st May 2018. It is expected that an interim report will be produced by late autumn and will give some indication of the direction that its recommendations will take.

New housing secretary

Following Sajid Javid's move to the Home Office after Amber Rudd's resignation, James Brokenshire has become the new housing secretary.

First T Level providers revealed

The education secretary, Damian Hinds, has announced the first 68 providers who will be responsible for teaching T Levels when they begin in September 2020. T Levels are designed as alternatives to A Levels for technically-minded students and will include courses in construction. The list of providers can be found on the government website.

overview
statistics
market
regions

New Projects in the Pipeline

A £50m mixed-use project in Tottenham Hale, north London, to create 87 homes and 12 live/work units through a JV between **Polyteck** and **Empyrean Developments**

BAM have been asked to complete the remaining work at One Chamberlain Square in Birmingham, worth £20m, which was being constructed by Carillion before its collapse

Skanska has landed a £141m deal to build the K1 commercial and residential development in Knightsbridge with Saudi-based investor **Olayan Group**

Plans for a new £250m bypass on the A27 in West Sussex have been unveiled by **Highways England**

British Land has submitted an outline planning application for its £3bn 53 acre Canada Water development to Southwark council. If approved, the first phase of the project (worth in excess of £700m) will deliver workspace, 650 homes, retail units, and a new leisure centre

Wates has been awarded the £500m contract to upgrade a number of buildings set to contain MPs' offices while renovation work is carried out on the Palace of Westminster, known as the Northern Estate Programme

London-based developer **Hub**, and landowner **Smedvig**, have submitted a planning application for the redevelopment of a site in Maidenhead town centre called The Landing, which if approved, will deliver 519 homes, plus 56,300ft^2 of office space and 36,600ft^2 of retail, leisure and workspace

Graham Construction has been selected by developer **U+I** to deliver a new commercial hub as part of its Preston Barracks redevelopment in Brighton. The first phase of the £200m project will include 369 new homes, 534 student beds, shops, cafes and workshops and is expected to be completed by the end of 2019

Economic Overview

Gleeds' Economic Report reviews factors affecting UK construction, taking into account inflation, construction output, orders and employment. It also assesses wider social, political and economic matters which could impact on the economic environment and general confidence in the market.

LOOKING BACK TO Q4 2017	Q1 2018 – THE LATEST FIGURES
Construction output	
According to revised data from the Office of National Statistics (ONS), construction output decreased by 0.1% in Q4 2017 compared to Q3 2017	Construction output decreased by 2.7% in Q1 2018 when compared to the previous quarter (Q4 2017)
Over the previous 12 month period construction output had decreased by 0.2%	Over the previous 12 month period (March 2017 to March 2018), construction output decreased by 4.9%
Pay and employment	
In Q4 2017, the unemployment rate increased slightly to 4.4%	Unemployment falls to 4.2%
ONS predicted that average weekly earnings (total pay) in the construction industry rose by 2.9% in Q4 2017	Average weekly earnings for construction workers rose by 0.3% in Q1 2018

"'Inflation in London remains positive despite a slowing in the residential market. Although uncertainty of Brexit continues there is still a lot of work in other sectors like hotels and commercial. The regions are buoyant with steady underlying inflation in all sectors."

PAUL SWEENEY, DIRECTOR, GLEEDS

Gleeds' regional inflation forecast

ANNUAL % CHANGE	2Q18 to 2Q19	2Q19 to 2Q20	2Q20 to 2Q21	2Q21 to 2Q22
EASTERN	3.00	4.00	4.50	5.00
GREATER LONDON	2.50	4.00	4.00	4.00
NORTH EAST	3.50	3.00	3.00	3.00
YORKSHIRE & HUMBERSIDE	3.00	4.00	4.00	5.00
NORTHERN IRELAND	2.00	4.00	5.00	6.00
MIDLANDS	2.50	3.50	4.00	4.50
NORTH WEST	2.50	3.00	3.00	3.00
SCOTLAND	1.50	2.00	3.00	3.00
SOUTH EAST (EXCLUDING LONDON)	2.00	3.50	3.50	4.00
SOUTH WEST	2.50	3.50	4.00	4.00
WALES	3.00	4.00	4.50	4.50
UK AVERAGE (ROUNDED)	2.6	3.5	3.9	4.2

Note: these are average regional forecasts based on activity and market awareness within Gleeds' regional offices. Actual inflation will be determined by a combination of macroeconomics and micro project situations. Consequently, forecast inflation at a project level needs to be carefully considered based on the project's characteristics and prevailing local conditions. All published statistics can be misleading and subject to later revision and should be used with caution.

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Background to Economic Outlook

UK Economics

In their May Inflation Report, the Bank of England's (BoE) Monetary Policy Committee (MPC) voted by a majority of 7-2 to maintain the Bank Rate at 0.50%. The Committee also voted unanimously to maintain the stock of non-financial investment-grade corporate bond purchases at £10bn and the stock of UK government bond purchases at £435bn.

UK economic growth was weaker than expected in Q1 2018. The poor weather conditions in February and March affected both the construction and services industries, but even without these conditions GDP would have been 0.2% – still below expectations.

The GDP forecast for 2018 has been revised to 1.4% but remains at an annual 1.7% for the remainder of the forecast period (until Q2 2021).

The MPC judges that the UK economy still has a limited degree of slack (the gap between demand and potential supply), a combination of low unemployment and poor productivity. Unemployment is expected to fall further in Q2 2018. This, coupled with the expectation that productivity will not immediately increase, leads the MPC to surmise that there is a speed limit to GDP growth of 1.5% at present.

Should the Bank Rate remain at 0.5%, the MPC projects that consumer prices inflation (CPI) will remain above the 2% target throughout the forecast period (CPI fell to 2.5% in March 2018). Market expectations imply a gradual tightening, with a cumulative bank rate rise of 0.75% by 2021 (three instances of 0.25%).

UK net trade continues to benefit from robust global demand and the past depreciation of sterling. A strong level of global activity is supporting business investment, although this may be restrained by Brexit related uncertainties.

Global Economics

GDP growth in the euro area slowed to 0.4% in Q1, 0.4% down on the BoE's February Inflation Report. GDP growth is expected to recover in Q2 to a little above 0.5% per quarter in the short term. US GDP growth was 0.6% in Q1 2018, also weaker than expected in February. Growth is projected to be robust in the near term, at close to 0.75% per quarter. GDP growth in China slowed in Q1 but is expected to pick back up in Q2.

Global growth has strengthened since 2016 and this has had eliminated spare capacity and increased inflationary pressures in some countries. This is particularly apparent in the US, where core inflation and wage growth have both risen in recent months. Wage growth has also increased in the euro area, albeit from subdued rates.

As a consequence of emerging signs of inflationary pressures, investors appear to be putting less weight on the possibility of very low levels of future inflation.

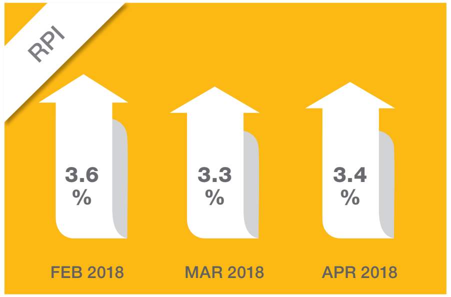
Source: Bank of England, Quarterly Inflation Report, May 2018

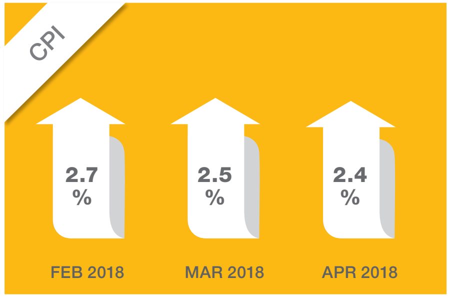
Summary

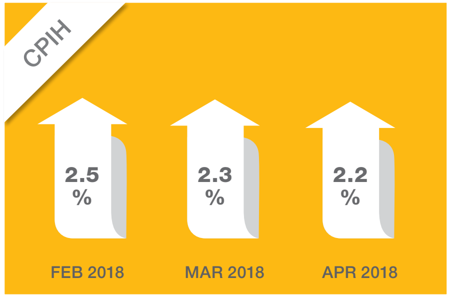
- The Bank Rate has been maintained at 0.5%
- CPI is expected to remain above target throughout the forecast period
- Global growth slows in Q1 2018 but is expected to increase in Q2

Statistics & Figures

Outlook for Gross Domestic Product (GDP) and Inflation







Sources:
Office for National Statistics,
Second estimate of GDP: January to March 2018
Office for National Statistics, UK
consumer price inflation: April 2018

Quarterly GDP is estimated to have increased by 0.1% in Q1 2018, unchanged from the preliminary estimate. This is a continuation of an emerging pattern of slowing growth in the economy, which is particularly evident in consumer facing industries (services growth slowed to 0.3%).

Positive growth was recorded within three of the four sub-sectors of the services industries; transport, storage and communications; business services and finance; and government and other services increased by 0.4%, 0.4% and 0.1% respectively. Distribution, hotels and restaurants decreased by 0.1%. Production output was estimated to have increased by 0.6% between Q4 2017 and Q1 2018. Within this, manufacturing increased by 0.2%. Electricity, gas, steam and air conditioning increased by 2.5% – which can be attributed to below average temperatures in February and March 2018.

Construction output was estimated to have decreased by 2.7% in Q1 2018, the weakest level of growth seen since Q2 2012. Although there is some evidence of an impact from the bad weather, this does not fully explain the decline, given that construction output fell across all three months of the quarter – not just the period of the bad weather. Agriculture output decreased by 1.4% in Q1 2018.

CPI in the year to April 2018 was 2.4%, down from 2.5% in March 2018.

The CPI (including owner occupiers' housing costs (CPIH)) inflation rate was 2.2% in April 2018, down from 2.3% in March 2018. Since reaching a recent high of 2.8% in the autumn of 2017, the rate has fallen back to its lowest since January 2017. According to ONS, CPIH is the most comprehensive measure of inflation.

Summary

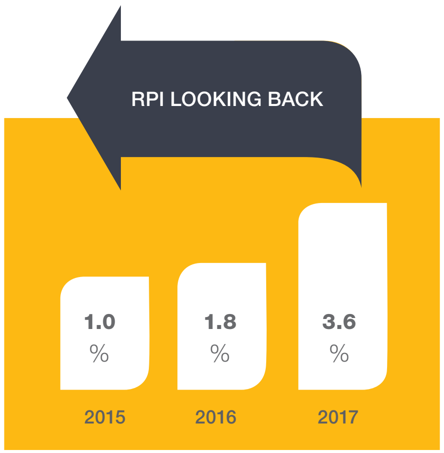
- GDP grows 0.1% in Q1 2018
- CPI falls to 2.4% in the year to April 2018

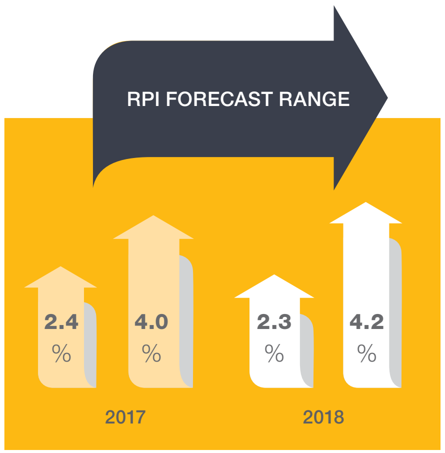
GDP, CPI & RPI Movement Predictions

	2018	MOVEMENT	2019	MOVEMENT	2020	MOVEMENT	2021	MOVEMENT	2022
GDP growth (%)	1.5	↑	1.6	↑	1.7	↑	1.8	↔	1.8
CPI (%)	2.5	↓	2.0	↔	2.0	↓	2.1	↔	2.1
RPI (%)	3.4	↓	3.0	↔	3.0	↑	3.2	↔	3.2

Source: HM Treasury Forecasts for the UK Economy, May 2018

Forecasts for the UK Economy is a summary of published material reflecting the views of a selection of forecasting organisations which are subject to review. This edition of contains 25 forecasts, all of which were received between May 1st and May 9th 2018. The table above summarises the average of May's forecasts.

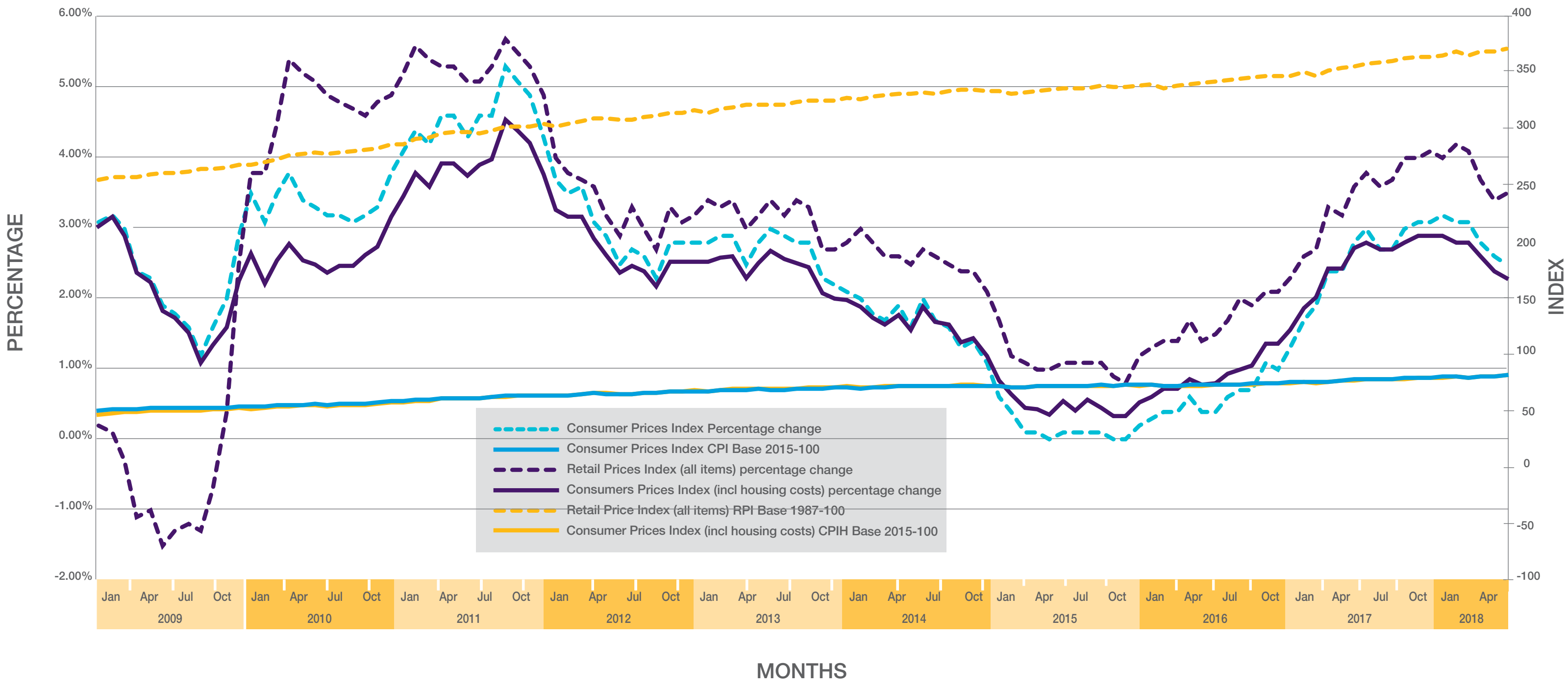




overview
statistics
market
regions

Annual Inflation Rates

ANNUAL INFLATION RATES OFFICE OF NATIONAL STATISTICS Q2 2018



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Tender Price Forecasts

Gleeds considers that tender prices grew on average by 1.9% between 2Q 2017 and 2Q 2018. For the same period, the Building Cost Information Service (BCIS) has forecasted a 1.6% fall in prices (the BCIS forecast however sees the first half of 2017 noting significant quarterly % increases).

BCIS predicts that tender prices will increase marginally over the coming 12 month period before gathering momentum for the remaining three years of the forecast period.

Forecasts of Tender Prices:

Year on Year	Current BCIS Forecast (25/05/2018)	Gleeds Average Forecasts
2Q2018 to 2Q2019	+1.9%	+2.6%
2Q2019 to 2Q2020	+4.3%	+3.5%
2Q2020 to 2Q2021	+4.5%	+3.9%
2Q2021 to 2Q2022	+6.0%	+4.2%

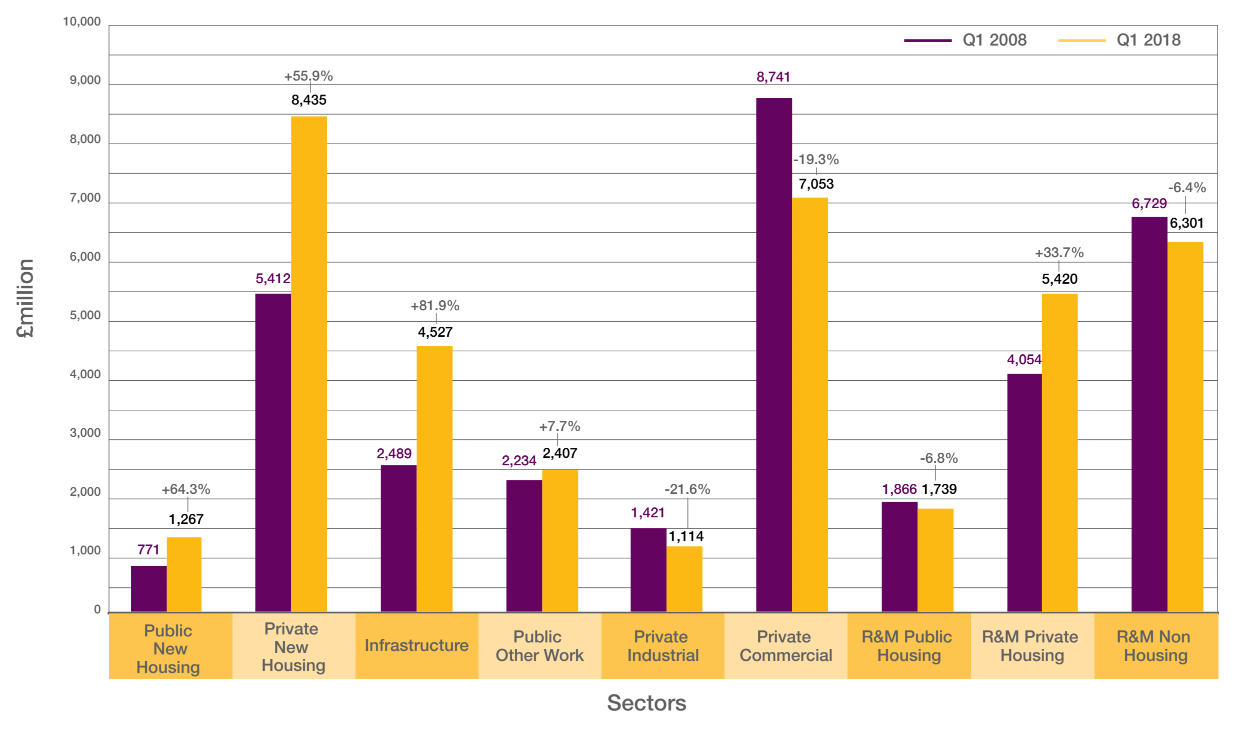
Volume of Construction Output

Looking at the volume of construction output, the ONS reports that:

- In Q1 2018, **total construction output** fell by 2.7% from Q4 2017. This represents the fifth consecutive three-month on three-month decline in output. Both new work and repair & maintenance (R&M) output followed a broadly similar path over the quarter.
- Following a period of strong and consistent growth, private housing output fell by 1.6% in Q1 2018, which contributed to an overall decline in **all new work** of 2.6%. The only positive growth came from the private industrial sector which grew by 1.9%.
- In Q1 2018, all **R&M** output declined by 2.8% compared to the previous quarter (Q4 2017) – with all sectors seeing a drop in output levels.

Anecdotal evidence suggests that the adverse weather in February and March 2018 may be a factor in the declining construction output, although this is difficult to quantify. However, construction output remains 22.7% above the lowest point of the last five years, which was seen in April 2013.

CONSTRUCTION OUTPUT – DIFFERENCE BETWEEN Q1 2008 (PEAK) AND Q1 2018



Value of Construction Output

Sector	Q4 2017 – Q1 2018	Q1 2008 – Q1 2018
All Work	2.3%	22.0%
All New Work	3.2%	27.9%
New Public Housing	0.2%	57.1%
New Private Housing	13.2%	89.3%
New Private Commercial	0.0%	-13.2%
New Private Industrial	6.1%	-13.9%
New Public Non-housing	-9.1%	7.7%
New Infrastructure	0.3%	91.3%

Sector	Q4 2017 – Q1 2018	Q1 2008 – Q1 2018
All R&M	0.6%	12.0%
Public Housing R&M	-7.0%	-8.5%
Private Housing R&M	4.0%	49.8%
Infrastructure R&M	4.0%	N/A
Public Non-housing R&M	-10.5%	-52.7%
Private Non-housing R&M	1.3%	-27.7%

Source: ONS, Construction output in Great Britain: March 2018

Employment

During Q1 2018, the UK wide unemployment rate fell to 4.2%, down from 4.4% in Q4 2017. The number of people classed as unemployed decreased by 46,000 and the number in employment increased by 197,000 to a rate of 75.6% over Q1 2018. This is the highest rate of employment since comparable records began in 1971. The proportion of people classed as economically inactive – those not seeking or available to work – has fallen to 21.0%, the lowest rate since comparable records began.

The employment rate for women aged 16 – 64 continues to rise, reaching a new high of 71.2%. This can be partially explained by ongoing changes to the State Pension age for women – resulting in fewer women are retiring before the age of 65.

Workers' earnings excluding bonuses (regular pay), rose 2.9% in Q1 2018 compared to a year earlier. In real terms, adjusted for consumer price inflation, regular pay increased by 0.4% while total pay remained unchanged.

In the construction industry, average weekly earnings (total pay) rose by 0.3% over Q1 2018 compared with the previous quarter, while regular pay (excluding bonuses) rose by 0.6% over the same timeframe.

Source: Office for National Statistics, UK labour market: May 2018

Market Reports

The results of the Q1 2018 RICS Construction & Infrastructure Market Survey show a steady but moderate pace of growth limited by capacity constraints. A net balance of 23% of respondents reported an increase in workloads, marginally up from 21% in Q4 2017.

Weather conditions were viewed as a limiting factor by 63% of respondents (although the snow in February did not actually impact on the pace of growth). RICS' quarterly series has indicated moderate but steady growth since early 2016.

In Q1 2018, the tone was positive across all subsectors with both new work and R&M activity rising steadily. The strongest rise in workloads was again reported in private housing, with 36% more respondents citing an increase rather than a decrease (compared to 27% in the previous quarter). Activity across the private commercial and industrial categories was broadly unchanged. Public sector workloads slowed to a net balance of +10% in housing and +8% in non-housing, down from 19% and 11%, respectively. In infrastructure, 21% more contributors reported a rise rather than a fall in workloads, up from 18% in the previous quarter. Consensus remains that the rail, energy and roads categories will see the biggest increases in construction output over the coming 12 months.

RICS

Construction Market Survey

23% REPORTING AN INCREASE IN WORKLOADS

Q1 2018

63% of respondents expect tender prices to increase over the next 12 months, up 1% from Q4 2017, and it is envisaged that price pressures will remain an issue. Financial constraints, labour shortages and planning delays are viewed as impeding growth by 76%, 66% and 60% of respondents respectively. In the Q1 2018 survey, an additional question was added to ascertain who are most impacted by constraints on financing. The majority of respondents suggested it would small and medium-sized firms who would likely suffer the most and believe this to be an impediment to growth.

The lack of sufficiently skilled workers remains a key obstacle for many, particularly with regard to professional services such as quantity surveying. Comments left by contributors continue to highlight Brexit-related uncertainties and the unpredictability provoked by recent events, such as the collapse of Carillion, as weighing on investment decisions. Such risk aversion is also likely to impact lender behaviour.

Workloads in all geographic regions are now reported to be increasing, with an acceleration in the pace of growth in the Midlands and South West. Activity is expected to improve looking forward, particularly in Scotland and the North.

63% EXPECT TENDER PRICES TO INCREASE

LABOUR SHORTAGES

PLANNING DELAYS

"The **Q1 2018 RICS Construction & Infrastructure Market Survey** show a steady but moderate pace of growth limited by capacity constraints... The strongest rise in workloads was again reported in private housing... Consensus remains that the rail, energy and roads categories will see the biggest increases in construction output over the coming 12 months."

Source: RICS, UK Construction and Infrastructure Survey, Q1 2018

Construction Output Summary of Forecasts

SECTOR	YEAR	EXPERIAN	CONSTRUCTION PRODUCTS ASSOCIATION
TOTAL CONSTRUCTION OUTPUT	2017	5.7%	5.1%
	2018	0.2%	0.1%
	2019	1.2%	2.7%
	2020	2.0%	1.9%
TOTAL NEW WORK	2017	6.0%	5.4%
	2018	-0.2%	0.3%
	2019	1.1%	3.4%
	2020	2.0%	2.3%
REPAIR AND MAINTENANCE	2017	5.2%	4.6%
	2018	1.0%	-0.2%
	2019	1.3%	1.4%
	2020	2.0%	1.3%
PUBLIC HOUSING	2017	14.0%	13.1%
	2018	1.0%	3.0%
	2019	3.0%	3.0%
	2020	6.0%	0.0%
PRIVATE HOUSING	2017	9.1%	8.3%
	2018	4.0%	5.0%
	2019	3.0%	2.0%
	2020	2.0%	1.0%
INFRASTRUCTURE	2017	6.1%	6.7%
	2018	4.0%	6.4%
	2019	10.0%	13.1%
	2020	4.0%	7.0%
PUBLIC NON-HOUSING	2017	-2.2%	-3.6%
	2018	-4.0%	-4.8%
	2019	-4.0%	0.9%
	2020	-2.0%	1.5%
PRIVATE INDUSTRIAL	2017	-1.6%	-3.0%
	2018	4.0%	2.3%
	2019	1.0%	1.4%
	2020	2.0%	2.5%
PRIVATE COMMERCIAL	2017	5.5%	4.9%
	2018	-7.0%	-7.8%
	2019	-6.0%	-0.8%
	2020	1.0%	0.7%

Source: BCIS Summary of Output Forecasts, April 2018

The Glenigan Index

Glenigan's May Index reflects the inhibitory effect of poor weather on project starts in Q1 2018. Starts in the three months to April 2018 were 4% down on a year ago and 25% down on the preceding three months – driven by falls in residential, commercial and civil engineering projects.

Residential starts were 6% lower than a year ago due to a weakening in the private housing market. Private residential starts during the three months to April fell 29% against the preceding three months and were 10% down on the same period a year ago. The social housing sector also declined 18% down on the previous three months (although up 8% on a year ago). Non-residential project starts were 2% higher than a year ago, but down 24% on the previous three month period. This was mainly due to a 58% decline in hotel & leisure starts between February and April 2018. Declines in office, retail, health and hotel & leisure were offset by increases in industrial and education projects. Civil engineering was 25% lower than a year ago due to decline in infrastructure projects and a sharp fall in utilities work.

North West England and the West Midlands were the strongest growth areas, with the value of construction starts in both parts of the country 46% higher during the three months to April than a year ago. There is also firm growth in the East Midlands (+17%), East of England (+9%) and Scotland (+8%). In contrast, the value of project starts declined sharply in London, the North East, South West, and Wales.

Source: The Glenigan Index, May 2018

Construction Output Summary of Forecasts

BCIS considers that there remains a great deal of uncertainty over the terms that will be agreed when the UK leaves the EU. On this basis, they continue to produce forecasts based on three different scenarios reflecting a range of potential outcomes from the EU exit negotiations. These are:

Upside scenario – the UK will remains a member of the EU (but with no voting rights) and retains access to European construction operatives after cessation of the two year transitional period

Downside scenario – the UK will experience a 'hard Brexit' (i.e. no transitional period) with less favourable trade agreements with the EU and restricted movement of labour

Central scenario – the UK will remains a member of the EU (but with no voting rights) but there will be some restrictions to the movement of labour and less favourable trade agreements

All scenarios are equally likely and assume that there will be no change of UK government over the forecast period and that there is political stability in the rest of the world.

Year on year	Upside Scenario	Central Scenario	Downside Scenario
2018	5.5%	-0.3%	-9.9%
2019	6.3%	1.6%	-5.9%
2020	6.4%	3.7%	6.3%
2021	5.5%	4.9%	9.7%
2022	5.3%	4.5%	6.2%

Source: BCIS Quarterly Briefing, March 2018

Regional Reports

Gleeds monitors construction activity and confidence in each UK region.

As well as activity analysis, Gleeds directly engage with local contractors and industry contacts to understand their experiences. As feedback contains a degree of opinion and anecdotal evidence, it is not completely scientific, but should provide a useful insight into the views of those at the core of industry.

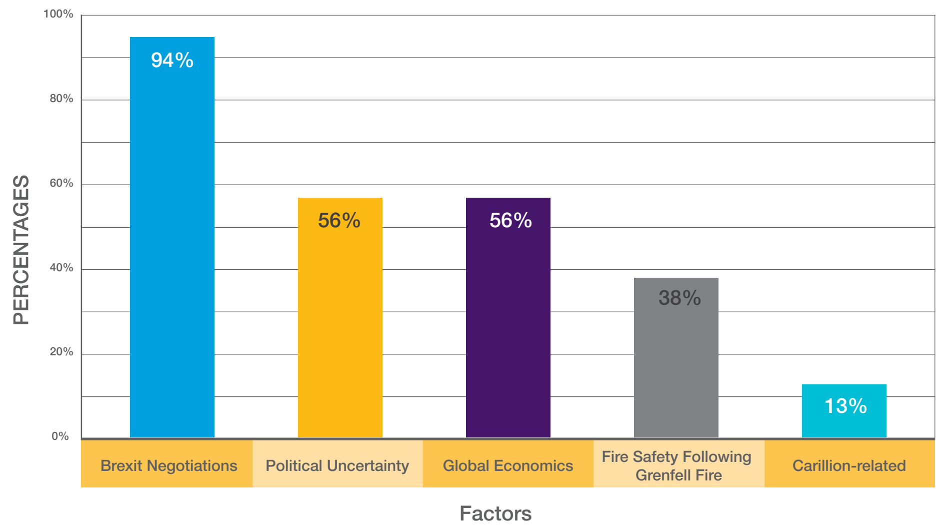
While it may not be possible to predict future trends or pre-empt potential stressors, careful monitoring of regional activity can provide us with the ability to adapt to adverse conditions more rapidly and effectively.

External factors

Brexit negotiations continue to be the dominant source of concern, with 94% of contacts expressing uncertainty in this regard. There are signs of slowing foreign investment in some regions, while the adverse weather in February and March is viewed by some as having had an effect on construction.

Political uncertainty in the UK and the potential impact of repercussions from the Grenfell Tower fire (and subsequent investigations) are increasingly viewed as potential pit falls for the industry (56%). There also remains some disquiet following the collapse of Carillion earlier in the year (13%).

GLEEDS' ANTICIPATION OF THE IMPACT OF EXTERNAL FACTORS ON REGIONAL CONSTRUCTION ACTIVITY Q2 2018



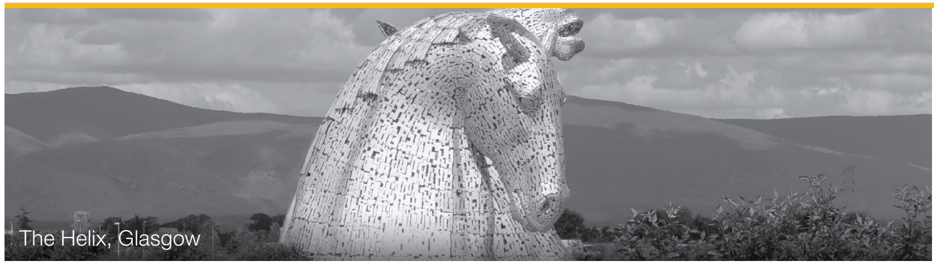
Each regional office is considering the impact of ongoing Brexit negotiations on their business.

Given the lack of detail about the final deal and the transitional period, the economy is braced for fluctuations in market confidence. EU labour market restrictions are widely anticipated, and this could contribute to ongoing upward pressures from rising labour and material costs.

Anecdotal evidence in London and the North West suggests that some migrant workers are returning home or moving out of the local area. This is thought to be as a direct result of the more hostile living and working environment following Brexit, as well as uncertainty over the security of their status in the UK after we leave the EU.

Feedback from contacts suggests that labour shortages continue to be a concern in the Midlands, North West, South West and Northern Ireland. 80% predict construction costs to increase over the coming quarter, while the majority (69%) expect workloads to remain stable in the same period.

Regional Reports



The Helix, Glasgow

Brian Stevenson

Reporting on Scotland

The busiest sectors across Scotland are retail, residential, and infrastructure. With retail, clients are generally opting to refurbish existing assets rather than build new facilities. New build student accommodation is desirable at present given the increased number of student applications for Scottish universities. Activity levels within the commercial sector remain fragile.

Local contractors and sub-contractors advise of stable workloads within the public sector and in (both private and public) housing sector enabling them to be more selective when competing for future work in the private sector. This is further reinforced with latest statistics from the Strategic Housing Investment Plans for Affordable Housing which show that the Scottish government affordable housing targets are within reach. These are encouraging signs for Scotland's economic growth and construction output going forward.

Material price increases are impacting tender prices, with insulation seeing the biggest hike (+20% on some products). The market has also indicated increases for steel, bricks, timber, windows and plasterboard. Scotland is beginning to experience difficulties with resourcing, particularly with bricklayers and joiners, as demand is exceeding supply.

Across Scotland, there are a number of high profile projects in development. These include:

– Fort Kinnaird Retail Park, Edinburgh
– New build and refurbished student accommodation, University of St Andrews

It is anticipated that the Scottish market will be disproportionally affected by the UK's departure from the single market and customs union. Clients will not readily invest in major commercial schemes when major uncertainty persists, and this sector will be hardest hit. We could also see a reduction in skilled labour as a result of migrant workers leaving the UK, which in turn could provide a market opportunity for off-site volumetric construction, leading to an increase in sustainable and lean construction.

Last quarter, we reported on a sharp contraction in construction activity and a very uncertain market across Scotland. Projects reaching or approaching completion were reducing demand and it was felt that there was insufficient work coming through to rectify this imbalance.

Nigel Watkins

Reporting on Wales

Discussions with local businesses in Wales confirm that current levels of activity in the region remain strong, with a healthy amount of new opportunities in the pipeline.

Student accommodation remains a strong sector locally, with commercial offices and education projects making up the remaining workload. The local supply chain can support this activity – although there are not enough specialists / large sub-contractors meaning that expertise has to be brought in from further afield.

A recent CITB report (Feb 2018) suggests that the construction industry in Wales has the potential to grow four times faster than the rest of the UK over the next few years, creating around 20,000 jobs by 2020. The jobs stimulus in Wales is expected to come from major new infrastructure projects such as; the M4 Relief Road, South Wales Metro in the South and Wylfa Newydd (New Nuclear Power Plant for Horizon Nuclear Power) in the North. However, the report also points to proposed large housing developments that are either in construction or in the pipeline, such as a 1,500 home scheme in Creigau. Cardiff alone expects to build 41,000 homes by 2026.

The development of Central Quay, a joint venture between SA Brain and Rightacres, on the former SA Brains Brewery site in Cardiff could see up to 3m ft^2 of new leisure, residential and office space built in the city centre over a 14 acre site South of Central Station. A public/private joint venture (Metro Delivery Partnership) has been established locally to deliver public transport projects within the capital.

The Interchange Project has also been given the green light to progress and a new planning application is expected to be submitted shortly.

Student accommodation projects and the education sector are also flourishing. The University of Wales Saint David has secured £50m of funding from HSBC to develop the first phase of its Swansea Waterfront Innovation Quarter in the SA1 region of the city, creating 130,000ft^2 of purpose built facilities.

Swansea Bay Tidal Lagoon is also firmly in the frame following the granting of planning permission in 2015. There is hope, as reported previously, that if successful this could kick-start similar projects at Newport, Cardiff and Colwyn Bay.

In our previous quarterly report, we reported that the Welsh construction market remained stable and competitive and that activity was being driven by student accommodation, commercial office and education projects.

Regional Reports

Anglia Ruskin Library, Chelmsford

Galvin Tarling

Reporting on the Eastern Region

The Eastern region remains relatively buoyant, however as a consequence of an uncertain economic outlook, competitive tenders do appear to be softening.

A number of main contractors are reporting capacity within their tender departments with a growing appetite to secure bidding opportunities. This said, many contractors continue to carefully evaluate the risk profile of tender opportunities and it is becoming increasingly difficult to attract contractors to tender complex projects.

The availability of labour is sufficient at present and the region is not suffering from any notable material shortages. Workloads are expected to remain stable moving forward.

In our previous report, the construction market in the Eastern region remained buoyant across a number of sectors. Business confidence was returning, meaning projects which were on hold following the EU Referendum are now beginning to progress.

Geoff Warke

Reporting on Northern Ireland

Taking into consideration the Brexit related uncertainty and political considerations going forward, the Northern Ireland economy is on target to grow by 1% during 2018 and 1.2% during 2019.

Northern Ireland's construction activity has experienced another year of growth most of which has come from infrastructure works, new Grade A offices, hotels and the residential market. Following the post-election deal between the Conservatives and the DUP, £1bn of new money is being spent on infrastructure projects, such as the Belfast Transport Hub and the York Street road interchange project. This is a timely boost to the local construction market during 2018/19.

The local political parties are currently meeting with the Secretary of State to agree a lasting deal. The alternative is the possibility of direct rule from Westminster, which will only lead to further political instability.

Labour availability remains insufficient, although this has stabilised over Q1 2018, with fewer reports of workers moving out of the area.

In last quarter's report, the construction market was generating its highest output, in terms of volume, in the past five years – driven by infrastructure, commercial, hotels, and residential activity. However, the potential movement of labour out of the region was a concern for the industry.

Regional Reports

St Pancras Renaissance, London

Paul Sweeney

Reporting on the Greater London Region

Uncertainty with Brexit continues and there is a noticeable slowing of foreign investment.

Cat A and B commercial office fit-outs up to a certain size (100,000ft²) remain buoyant. Cat A, in particular, is likely to grow as Minimum Energy Efficiency Standards takes effect. Major new build projects are less common, and have been so for some time.

There are signs of a slowing in the residential sector, with clients revisiting appraisals on major projects to enable them to react to swings in market drivers. Sales in the high-end residential sub-sector appear to be waning and clients are looking to react to the market demand. This is resulting in projects stalling whilst alternative cost modelling options are produced for differing unit uses and mixes. Fit-out specifications are also under scrutiny in order to react to the market demand for lower sales values.

Alternative uses are also being considered with clients investigating possibilities of incorporating proportions of PRS and hotels within schemes.

An increase in contractor availability is anticipated towards the end of the year, which in turn will lead to greater competition in the market place, and keener tender returns as a result.

In our previous quarterly report, we reported on a cautious London market, suffering from falling commercial sector workloads and a dearth of new build work in general. A potential further slowdown in construction activity was anticipated in the short term.

Phil Wright

Reporting on the Midlands Region

Construction activity in Birmingham remains strong and the tower crane count continues to rise. The key sectors moving the city forward are residential, commercial and infrastructure, with the addition of industrial and distribution accounting for workload within the wider region.

Large commercial schemes still continue with the likes of 3 Snowhill, Arena Central and Paradise in construction, all with additional phases coming through. Demand for multi-room residential schemes (including PRS projects) within the city and region are ongoing. Many future sites being reviewed for either new build or conversion of existing buildings in order to fulfil the demand that is being driven by the commencement of HS2 and the increasing commercial office developments.

Projects that had stalled due to the collapse of Carillion are now progressing, with new contractors picking up the work. Private commercial sector work is being balanced by public sector works.

The opportunity provided by HS2, the Big City Plan and the Commonwealth Gamesare balancing the effects of Brexit and ongoing political uncertainty. However, a number of public sector bodies are under financial stress; Northampton Councils recent woes could become more widespread. Universities are aware of the governments funding review but have limited understanding of what will change.

Land acquisition speculation and availability of good opportunity land is becoming a major issue, particularly with new entrants to the market driving up land prices above levels that development may not always be able to sustain or deliver a profit for investors. This will impact on developer appraisals and schemes with extant planning approvals.

The higher education sector is busy across much of the East Midlands, with many universities looking to expand their estate. The further education sector is less busy with the exception of Nottingham City hub building. Across the region, the public sector is still rationalising estates and seeking to expand housing provision.

In our previous quarterly report, the Midlands region was seeing strong levels of construction activity, particularly in the commercial and residential sectors, although material and labour price increases were becoming a concern.

Regional Reports

Hiscox Insurance Building, York

Peter Burns

Reporting on the North East Region

There is currently a high level of new build residential housing schemes being constructed throughout the North East region, as well as an ongoing demand for high quality new build city centre student accommodation units. There has also been a greater diversity of construction projects, with an increased volume of new bespoke commercial office projects, light industrial units and an increasing (but relatively low level) of investment into local road and rail infrastructure projects. Retail fit-out projects appear to have reduced over the past year, with city centre stores suffering from increased online sales.

Whilst there is enough interest from local contractors when competitively tendering for medium and small value projects, on the larger value high profile projects, there is still a tendency to favour of a negotiated procurement route. Contractors are willing to provide competitive tenders for large projects where the tender information is advanced and the number of tenderers limited.

Brexit and ongoing negotiations do not appear to have significantly affected any current or proposed local projects in the short term, but it may have an effect in the medium term, particularly once the new trading relationships with the European Union is known.

Carillion's liquidation has affected a number of the large-scale projects in the region. Some of these projects have stalled in the short term whilst alternative contractors are appointed. In addition, some local sub-contractors are also reporting to have been affected financially.

In the previous quarter, construction activity in the North East region was being driven by new build residential housing and student accommodation schemes.

Alex Halliday

Reporting on the North West Region

Construction opportunities for contractors working in the North West are reasonable. However, as a consequence of the continued flow of bankruptcies, their declining pool of sub-contractors is beginning to drive up costs.

Labour wise, whether it is the political effect of Brexit or the perception of reduced opportunities in the medium to long term, migrant labour from Eastern and Central Europe has begun to fall. The effect on costs (if any) is yet to be realised.

There are numerous schemes on the horizon but the volume of work site is limited. It is expected that this should pick up towards the end of the summer. Following Grenfell, contractors have reported projects stalled or cancelled – oppositely, we've seen a generation of new work in the region as a result.

In our previous quarterly report, the North West region was undergoing a surge in workloads, particularly in the residential sector. A number of large scale regeneration projects for the region were being discussed.

Steve Green

Reporting on the Yorkshire & Humberside Region

Construction activity in Yorkshire and Humber remains buoyant and steady. Activity levels in the education sector are healthy with a steady flow of projects and enquiries. Private and public sector healthcare schemes are slowly coming to fruition, with private healthcare taking the lead in live projects. Speculative work is still active with previously dormant projects being resurrected. Investor confidence in the UK is growing as political stability increases.

Difficulties remain with contractor pricing levels and sub-contractors being very selective. This is having a knock-on effect of skewed tender returns, particularly for M&E works.

In the previous quarter, the construction industry in the Yorkshire and Humberside region was reported as being buoyant, driven by residential, higher education and health sector works.

Regional Reports


30 Old Bailey & 60 Ludgate Hill, London

Richard Hine

Reporting on the South East Region

Construction activity within the South East appears to have bounced back from the adverse weather conditions suffered in Q1 2018 and is now seeing strong demand for housing, fuelled by good mortgage availability. The house building sector remains one of the busiest in this region. However, shortages of bricks and roof tiles are causing concerns amongst builders due to the subsequent price rises.

Having eased slightly at the beginning of the year, private commercial and infrastructure projects have experienced a continuing modest pace of growth.

The impact of the London market has a continuing effect on tender prices within the South East region. A lack of confidence is hindering the larger, long-term, projects which seem to stall easily and contractor pricing is not as competitive. Many relatively small projects are proceeding, and contractors pricing for these remains competitive.

Price rates for materials are difficult to predict with a recent tender for steelwork having a 48% price range.

In our previous quarterly report, the South East market was seen as resilient, with the housing sector the main driver of growth. However, labour shortages were impacting on the viability of some projects in the region.

Matthew Quirk

Reporting on the South West Region

Investment in infrastructure in the South West, notably in/around Bristol, continues with opportunities both in the projects themselves and the potential schemes they enable.

High yields on student accommodation (Bristol has 50,000 students, with Bath a further 25,000) has resulted in the development of central sites into high rise accommodation blocks. This is impacting upon other land uses being viable.

Over recent years Bristol International Airport has been investing heavily to expand and improve its facilities and business operations. Additional gates have been added, the departures lounge overhauled, additional parking provided, and a c.200 bedroom hotel has been opened recently. However, further significant investment will be required to meet the expected growth in passenger numbers and several future phases of work will be required in the coming years.

The first route (of three) of the £230m Bristol Metrobus commenced services at the end of May, making Bristol the first city outside London to have a 'buy before you board' – only service. Further routes are expected to open later in 2018.

Bristol and Bath have been chosen for the roll-out of a trial of a new public 5G network taking place across tourist spots. Funded by the government's Department for Digital, Culture Media and Sport, this scheme will revolutionise connectivity and promises super-fast, super-reliable seamless connectivity.

Over recent months, there has been a tendency for raw material prices to creep upwards. The cost increase of the base materials has led to, and will continue to lead to, price escalation in the supply chain. Notifications have been received from some suppliers that further price increases can be expected in late 2018.

In our previous quarterly report, sentiment in the South West region was positive with the number of tenders increasing. However, an increasing skills shortages was causing labour price hikes in the region.

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Acknowledgements

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Inflation Report, Bank of England
Labour Market Statistics, Office for National Statistics
Output in the Construction Industry, Office for National Statistics
RICS UK Construction & Infrastructure Market Survey
The Glenigan Index

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Key

ONS: Office for National Statistics

HM Treasury: Her Majesty's Treasury

BCIS: Building Cost Information Service

RICS: Royal Institution of Chartered Surveyors

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