Glenigan

UK Construction Industry Forecast 2022-2024

Featuring expert commentary from:

BMF Builders Merchants Federation

BCIS

July 2022

About the authors

Allan Wilen BSc (Hons),
Glenigan Economics Director

Rhys Gadsby Bsc Econ,
Glenigan Senior Economist

Allan heads up Glenigan's Economics Unit and has over 30 years' experience in providing insightful market analysis and forecasts on UK construction and the built environment. Following 20 successful years as Economics Director at the Construction Products Association, Allan joined Glenigan 12 years ago. During this time Allan and his team have helped hundreds of businesses confidently develop their market strategies.

Allan sits on the Consulting Committee on Construction Industry Statistics for the Dept for Business, Energy & Industrial Strategy (BEIS), is member of a Construction Leadership Council working group and is a guest lecturer in construction at the University of Reading.

Rhys provides research and analysis for Glenigan's suite of monthly industry reports, and regularly supports customers with their strategic decision-making by offering industry insights and expertise.

Contents

Tables

Charts

Give your sales team **the edge**

Do you want to grow your business and give your sales team the edge against your competitors?

Glenigan provides all the information your sales team needs to:

Identify opportunities your competitors don't even know about

Quickly identify exactly the right projects for your business

Prequalify opportunities in minutes not hours

Quickly research the requirements

Identify the right prospects

Target the key decision makers

Economic Background

The construction industry will face challenging economic conditions over the next three years. The UK and world economies have already been buffeted by a series of political and economic shocks over the last four years. War in Ukraine and China's Zero Covid strategy are now set to hamper the pace of the post-pandemic recovery.

Both the UK economy and construction activity rebounded strongly during the first half of 2021 following the lifting of Covid-19 restrictions. The pace of recovery in both the economy and construction subsequently lost momentum during the second half of last year, in part due to material and labour supply issues. Recent months have seen economic growth stall as the war in Ukraine increased energy costs and exacerbated the squeeze on households' budgets.

The outlook for UK construction activity has been reshaped by the pandemic, as it has for the UK and world economies. The Glenigan forecasts take stock of the direct impact of the pandemic upon the industry, as well as assessing the expected influence of UK economic conditions and Government policy on the industry's performance over the forecast period.

These forecasts are built upon the analysis of Glenigan's database of current and planned construction projects which have been examined alongside other market and economic variables. The data has then been further reviewed to take account of the potential change in historic trends and relationships in light of the pandemic.

The key assumptions around which the forecasts are based include:

> **Stalled UK economic growth, the disruption to UK business revenues and declining confidence curb private sector investment growth for most non-residential sectors**

> **Weak real earnings growth, together with tax and interest rate rises, check housing market turnover and dampen private housebuilding activity over the next two years**

> **Increased public sector investment is forecast to support the recovery in construction activity in areas such as health and education**

> **Funding commitments in the Spending Review for major programmes such as HS2 are expected to lift overall civil engineering activity**

> **The war in Ukraine and lockdowns in China are increasing the pressure on supply chains both in the construction industry and across the wider UK economy that have already been disrupted by the pandemic and Brexit regulations**

> **The strength of the initial recovery in construction activity threw a spotlight on the impact of supply-side constraints on the pace of growth. Supply-side issues are expected to temper the pace of growth over the forecast period. Availability and the cost of materials are currently the greatest constraint on industry growth, but these are anticipated to ease over the forecast period**

> **Brexit and the pandemic have intensified labour shortages both in construction and supporting industries such as logistics. Labour availability and wages are expected to be a growing supply-side constraint over the forecast period**

Executive Summary

2022 -2% 2023 +8% 2024 +2%

Construction faces a challenging economic environment near term as the war in Ukraine disrupts the UK's post-Covid recovery. The value of project starts rises in 2023 as the UK economy stabilises, although the upturn includes the impact of higher construction costs.

After an initial surge of delayed projects during the first quarter of 2021, the flow of work moderated during the remainder of the year, in part due to material supply disruptions. Nevertheless, at £67.8 billion, the value of underlying starts (projects with a construction value of less than £100 million) was 23% up on 2020.

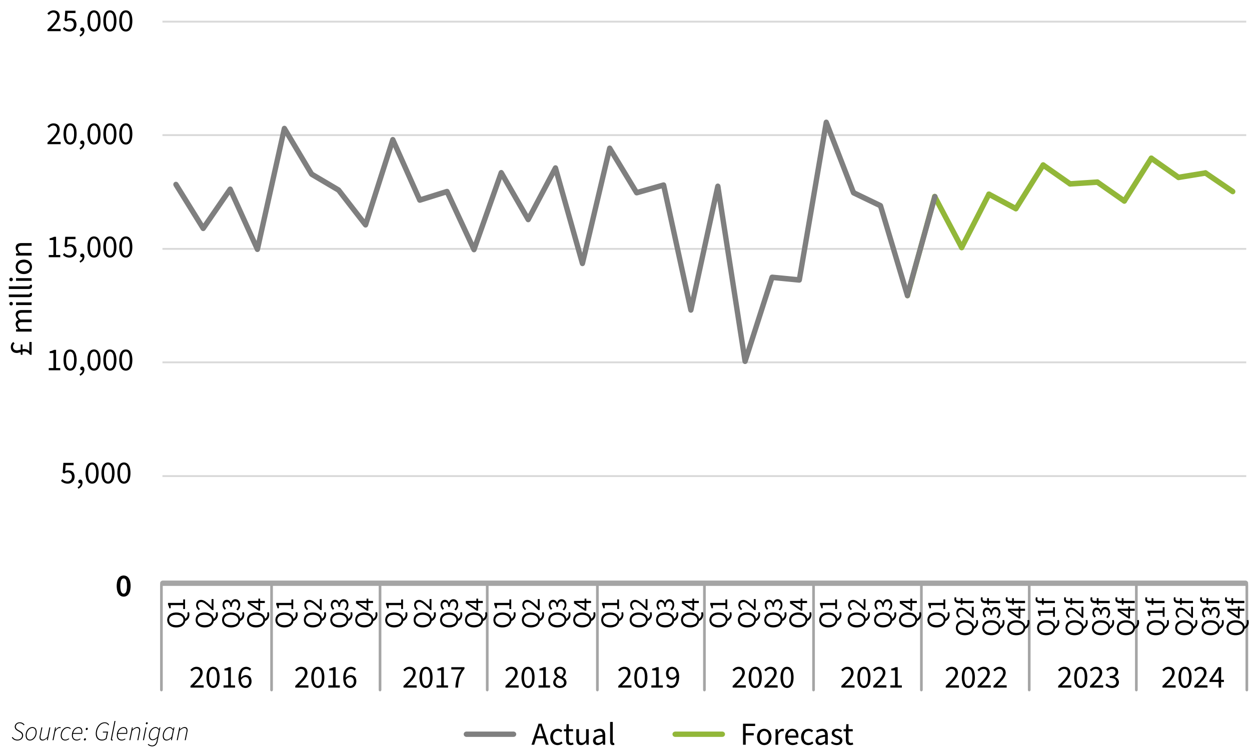
The weakening in underlying starts as 2021 progressed, and during the first quarter of this year, reflects in part the disruption of projects' development programmes. Firstly, Covid restrictions, and latterly material and labour supply issues, have delayed work on-site, prompting contractors to reschedule their development programmes. Material cost and availability issues may also be prompting contractors and clients to reappraise the design and costing of planned projects. Glenigan analysis has highlighted a 23% increase in the time typically taken for a project to progress from detailed planning consent to start on-site to 21 weeks, from 16 weeks in 2019.

Glenigan has seen a stabilisation in project starts in recent months and material availability issues for many products are expected to ease over the remainder of this year. However, the sharp rise in energy costs is set to increase material price inflation and is likely to prompt some clients, especially those with constrained budgets, to reappraise planned projects.

Overall, project starts are forecast to slip back by 2% this year. The current spike in inflation, higher taxes and rising mortgage costs are expected to constrain activity in consumer-related areas, such as private housing, retail and hotel & leisure. In contrast, firm development pipelines are forecast to lift industrial and office starts this year, as well as government funded areas such as education and community & amenity.

- **Private housing starts slip back near term as weak real earnings growth, higher taxes and interest rates debilitate housing market activity**
- **Public sector investment supports education, health and community & amenity starts**
- **Rise in office refurbishment work as premises are remodelled to accommodate a shift in post-pandemic working practices**
- **A decline in consumer spending moderates recovery in Hotel & Leisure sector**
- **Online retailing is a catalyst for increased investment in logistics facilities**
- **Major projects will boost civil engineering workloads**

Chart 1: Value of Underlying Project starts



Source: Glenigan
f = forecast

Table 1: Value of Underlying Project starts by Sector

£ million	2021	2022f	2023f	2024f
PRIVATE HOUSING	27,752	26,239	29,839	30,161
SOCIAL HOUSING	8,031	7,279	7,378	7,381
INDUSTRIAL	5,555	6,182	5,651	5,331
OFFICES	5,232	5,749	6,157	7,149
RETAIL	1,937	2,027	2,214	2,302
HOTEL & LEISURE	3,233	3,412	3,789	3,804
EDUCATION	4,828	5,153	5,873	6,076
HEALTH	3,075	2,927	2,766	2,801
COMMUNITY & AMENITY	967	1,198	1,249	1,308
CIVIL ENGINEERING	7,266	6,371	6,671	6,677
TOTAL	**67,874**	**66,536**	**71,587**	**72,991**

Source: Glenigan

Table 2: Growth in the Value of Underlying Project starts by Sector

Change on previous year	2021	2022f	2023f	2024f
PRIVATE HOUSING	26%	-5%	14%	1%
SOCIAL HOUSING	15%	-9%	1%	0%
INDUSTRIAL	55%	11%	-9%	-6%
OFFICES	27%	10%	7%	16%
RETAIL	40%	5%	9%	4%
HOTEL & LEISURE	31%	6%	11%	0%
EDUCATION	13%	7%	14%	3%
HEALTH	2%	-5%	-6%	1%
COMMUNITY & AMENITY	5%	24%	4%	5%
CIVIL ENGINEERING	13%	-12%	5%	0%
TOTAL	**23%**	**-2%**	**8%**	**2%**

Source: Glenigan

PRIVATE NON-RESIDENTIAL WORK

The successful roll-out of the vaccination programme and the lifting of Covid-restrictions fuelled a sharp upturn in the wider economy during the second quarter of 2021. Whilst the initial recovery boosted UK manufacturing activity, manufacturers face sluggish domestic sales growth and weak overseas demand. Against this background we anticipate a reduction in manufacturing investment over the forecast period.

In contrast, warehousing and logistics premises are forecast to remain a growth area. The long-term growth in online retailing was accelerated during the pandemic. Although online retailers have lost some of their market share post pandemic, e-commerce is expected to return to growth and increase its share of all retail sales over the forecast.

Whilst the pandemic boosted the demand for logistics space, it exacerbated the woes faced by more traditional retailing. Whilst consumers have returned to the high streets and retail parks, footfall and retail sales volumes remain below pre-pandemic levels. Near term, retail sales volumes are expected to remain low as households' budgets and confidence are squeezed by higher inflation, tax increases and rising mortgage rates. An overhang of empty retail premises, weak consumer spending and the growth in online sales market share is forecast to temper the growth in retail starts over the forecast period, with increased investment by the deep discount supermarkets, Aldi and Lidl, being the primary driver for growth.

The leisure and hospitality industries have been especially hard hit by the pandemic. The collapse in the number of overseas visitors to the UK, and Covid regulatory restrictions on facilities' operations, damaged the financial viability of many operating in the sector. Pressure on household budgets is set to curb consumers' discretionary spending in areas such as hospitality and leisure activities. This is expected to moderate the recovery in sector starts over the forecast.

Office starts bounced back sharply last year, increasing by 27%. The sector will benefit over the forecast period from a rise in refurbishment projects as tenants and landlords adapt premises to accommodate changing working practices. In contrast, new build office projects are likely to be slower to recover as tenants and developers assess the potential impact of structural shifts towards remote and hybrid working on the long-term demand for office accommodation.

PRIVATE RESIDENTIAL

House prices rose sharply following the first national lockdown as the market was buoyed by the temporary reduction in stamp duty. Demand has been strongest for larger properties, especially in market towns and semi-rural locations, driven by market changes due to the increase in remote and hybrid working. In contrast, the rise in apartment prices has lagged behind the national average reflecting their predominantly urban location and continued post-Grenfell safety and financial concerns.

The buoyant housing market helped to lift new housing activity with the value of starts rising by 26% last year.

The recent surge in housing market activity is now fading following the removal of the temporary stamp duty reduction and as homebuyers' confidence is dented by a lack of real earnings growth allied to higher taxes and mortgage costs. Housebuilders are forecast to moderate building project starts this year and to increase their focus on building out projects already on-site.

However, a renewed recovery in build for sale starts is anticipated to occur during the second half of the forecast period as households' financial positions and UK economic prospects improve.

The last 12 months have seen a marked upturn in build for rent activity. A strong development pipeline is expected to support further growth in build for rent projects starts over the next couple of years. The vast majority of projects are high-density apartment schemes in urban areas; locations out of favour with many potential homeowners.

INCREASED GOVERNMENT INVESTMENT

Public sector investment is set to be an important driver for construction activity over the forecast period. However, after the sharp increases seen over the last two years, the Spending Review unveiled only modest growth in capital funding for some key central government departments over the next three years.

Last year saw a sharp 15% recovery in social housing starts as housing associations pressed on with schemes delayed earlier during the pandemic. After this initial surge of work, project starts are forecast to settle back this year. Whilst the value of project approvals has also weakened during the first five months of 2022, a strong pipeline of already approved projects is expected to help support sector activity over the forecast period.

There is a shortage of secondary school places, especially in major conurbations, and in addition, the government is committed to rebuilding 500 schools over the next decade. The Spending Review included additional capital funding for the Department of Education. This is expected to bolster the resources available to local authorities for new school facilities and the growth in school building projects over the forecast. The Spending Review also highlighted plans for increased investment in further education. A modest rise in universities' capital spending is also anticipated during the second half of the forecast period.

The outlook for the health sector is brightening, with promised increases in NHS capital funding expected to support project starts over the forecast period. Sector activity was boosted at the start of the pandemic by the Nightingale temporary hospital programme and starts remained high last year. The increase in capital funding and a growing development pipeline are forecast to sustain starts close to the high levels seen over the last two years.

The Government has pledged to significantly increase investment in the UK's infrastructure and additional public sector funding is available in areas such as roads. Resources have been initially directed at starting smaller improvement schemes and areas such as tackling the maintenance backlog on the nation's local roads. This helped lift the value of underlying project starts last year. Investment in rail projects and by the regulated utilities are also set to support sector activity over the forecast period.

Larger road projects are gradually progressing to start on site under the Government's strategic roads programme and should boost sector activity during 2023 -24. Existing major infrastructure schemes, including Thames Tideway, HS2 and Hinckley Point, are also forecast to lift civil engineering output over the forecast period.

Building prices and costs: A two-year view

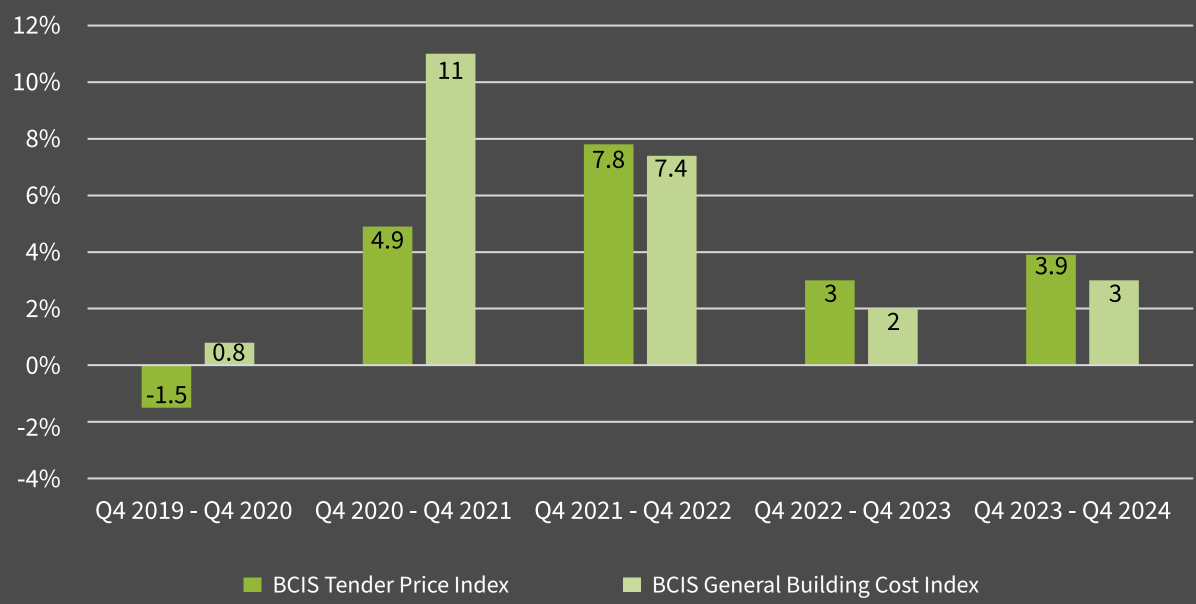
Joe Martin
Executive Director
BCIS

The past year has seen unprecedented increases in materials costs[1] and next year may see the cost pressures coming from labour.

There is still competition for work, which may well increase as the economy stagnates, but contractors are being more selective in the contracts they tender for as the inflation and supply risks continue. Contractors are having to balance their desire for work and their appetite for risk.

The Covid-19 lock downs in 2020 saw tender prices fall and costs[2] stagnate. 2021 revealed the materials and commodities shortages brought about by the disruption to the world's supply chains. This led to steep rises in building materials costs (currently 20% 2Q21 -2Q22) and pushed annual building cost inflation to 12% and tender prices to 9%.

Chart 2: Tender Prices and Building Costs



Source: BCIS
N.B. percentage change Q4 on Q4 of previous year

[1]Based on the BCIS forecasts published in BCIS online. For further details see Products | BCIS

[2]Note the BCIS General Building Cost Index is based on factory gate prices for materials and nationally agreed wage awards and statutory payments for labour.

Over the next two years materials supply will still be problematic as supply constraints wash through the system, but we expect material prices to stabilise. The war in Ukraine has exacerbated the rise in oil and gas prices, and while oil prices may start to fall, gas prices are likely to remain high, but this situation remains very volatile.

Site rates have already risen sharply, the Hays/BCIS Site Wage Cost Index[3] shows all-in site rates rose by 11% in 1st quarter 2022 compared with a year earlier. By comparison, promulgated wages where they were awarded in 2021 were in the order of 2.0% to 2.5%. While rising inflation will see wage awards rising significantly, the rising site rates will already be reflected in tender prices.

As a result, building costs are expected to rise 7% in 2022 (4Q21 to 4Q22), 2% in 2023 and 3% in 2024.

Tender price inflation may have may peaked in 2Q2022 as demand falls. While contractors will be keen to fill their order books, as a recession seems inevitable, labour supply problems and a degree of caution will see tenders rise ahead of costs - 8% in 2022 (4Q21 to 4Q22), 3% in 2023 and 4% in 2024.

[3]The Hays/BCIS Site Wage Cost Indices are the result of collaboration between BCIS and Hays Recruitment to provide direct measurement of movement in the cost of UK construction site labour.

The Building Cost Information Service (BCIS) is the leading provider of cost and price information to the construction industry. For more information, visit www.bcis.co.uk.

Building material supply and costs: A two-year view

John Newcomb
Chief Executive Officer
BMF

While many factors continue to affect the supply of building products and materials, in general, product availability is improving. Some products, including bricks, aircrete blocks, some roof tiles, and gas boilers remain on allocation or subject to longer lead times, but manufacturers are mostly keeping up with demand and the market has become more adept at managing supply with planned delivery times.

A closer look at underlying factors affecting availability indicates the long-term nature of these issues for certain products.

A global shortage means that semi-conductors are on allocation for manufacturers of gas boilers, lighting systems and other building services products. Semi-conductors are used extensively in the automotive and electronics industries and due to the size of their orders, there is a natural bias in the system towards supplying them first. Availability issues for building services products using semi-conductors may continue for many months as new capacity is not due to come on stream until late 2023/2024, with expansion in existing capacity feeding into the market over the same timescale.

In other areas, such as bricks, aircrete blocks and roof tiles, UK production is at full capacity and the current shortages are down to the extremely high levels of demand we have seen over the past two years. Three new brickmaking plants will come on stream in 2023 and 2024 boosting UK annual capacity by about 150m. Until then, we are reliant on imports, largely from the EU, to make up the shortfall. Both roof tile and aircrete block production were adversely affected during the worst of the coronavirus pandemic but manufacturers are now catching up with a backlog of orders and lead times are now falling.

There is also some good news from parts of China. With Shanghai gradually removing covid restrictions, production should normalise in that major industrial region by mid-June. Shipping analysts warn, however, that this may exacerbate the current bottlenecks in deliveries to the West during Q3.

Generally, demand is expected to remain positive into the second half of 2022, though some sectors such as private housing RM&I appear to be coming off their highest levels. Market participants suggest that a slight slowdown in demand may in fact serve to allow stocks to be rebuilt and improve availability.

Across the board, managing price volatility and labour are now the biggest issues, with the cost of energy and fuel being major drivers for price volatility.

EXECUTIVE SUMMARY
PRIVATE HOUSING
SOCIAL HOUSING
INDUSTRIAL
OFFICES
RETAIL
HOTEL & LEISURE
EDUCATION
HEALTH
CIVIL ENGINEERING
REPUBLIC OF IRELAND
KEY RECOMMENDATIONS
GLOBAL CONSTRUCTION

Average inflation for products and materials in the first six months of the year has been around 23%; with more significant price increases in energy intensive products such as insulation, cement, concrete and many steel products. Further price increases for those products are anticipated in the second half of the year owing to rising energy prices and input costs, and some have already been telegraphed to customers.

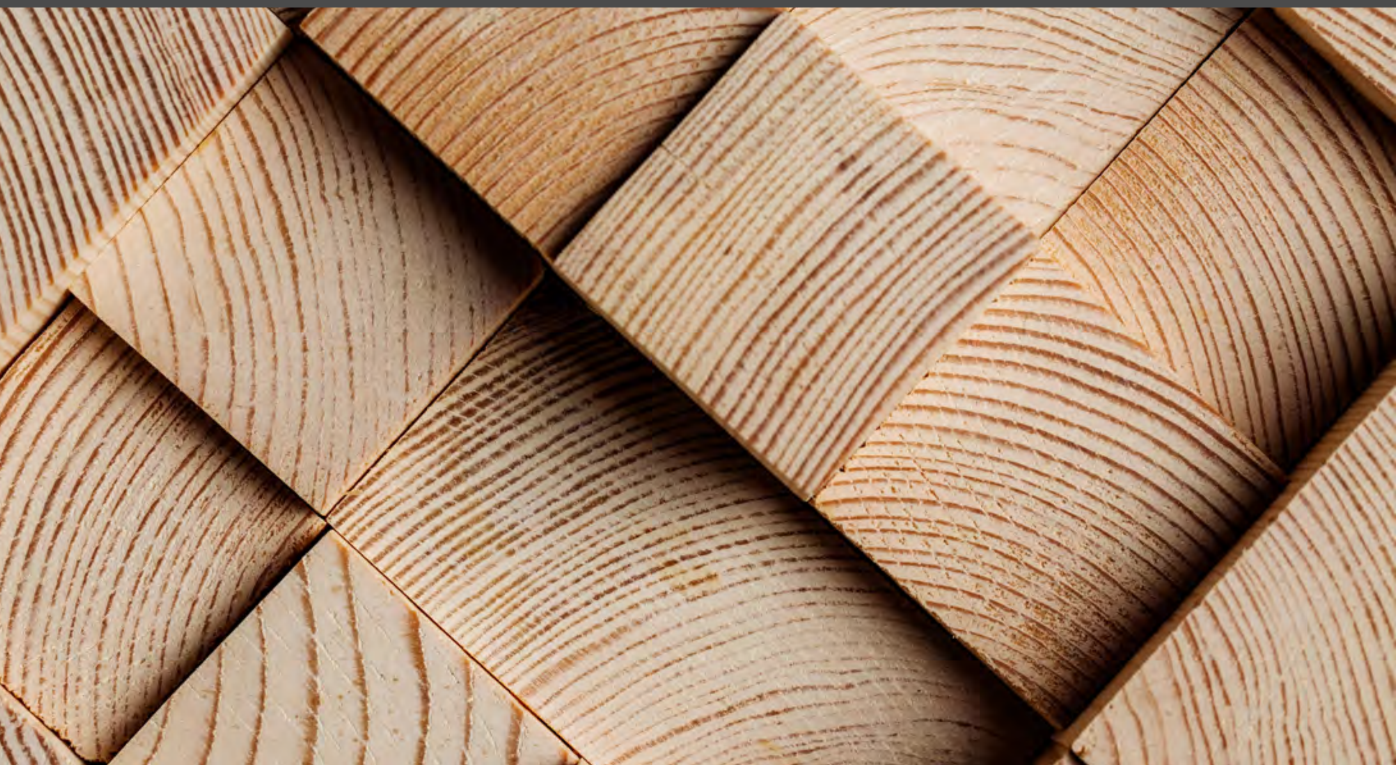
Although steel prices have come down slightly, since initial disruption following the outbreak of war in Ukraine, energy prices remain a major issue and price volatility will continue. Market prices will also be affected by the Indian Government's unexpected increase to export duties on iron ore and steel, effective from 22 May.

Timber prices, however, have largely stabilised and even fallen for panel products. This is largely due to easing demand and may be temporary as the price of timber in Europe and America is keeping up well. Nonetheless, supplies are currently more readily available at lower prices.

Recruitment, retention and related wage inflation continue to present serious concerns across UK construction and may supplant product availability issues in 2023 among the key risks facing the industry. Although labour shortages are affecting manufacturers, the greatest concern is expressed by housebuilders and SME builders, as it takes at least three years to train a skilled tradesperson.

The Builders Merchant Federation Ltd (BMF) is the only trade association that represents and protects the interests of builders' merchants and supplies to the building materials industry in the UK and Ireland.

For more information, visit <u>www.bmf.org.uk</u>



Private Housing

2022 -5% 2023 +14% 2024 +1%

- **High value of contract awards anticipated to feed through to sector activity from 2023**
- **Weak household earnings, tax increases and higher interest rates to combat inflation to overshadow housing market**
- **Material inflation to impact private housing project starts in 2022**

Private housing activity has benefited from a 'mini-boom' created since the lifting of the first national lockdown. Property transactions and house prices rose sharply as pandemic restrictions and remote working fuelled the demand for larger, more-rural properties away from city centres. A reduction in stamp duty rates also boosted transaction levels and house prices.

However, conditions began to cool following the withdrawal of the temporary reduction in stamp duty rates last autumn and homebuyers' confidence is likely to be impacted further by weakening household incomes, higher taxes and a rise in interest rates. The Bank of England raised interest rates to 1.25% in June 2022, the fifth increase since December 2021. Inflation shows little signs of easing, as a result the Bank of England is likely to further increase interest rates in August 2022. This is likely to cool the housing market further in 2022.

PRIVATE HOUSING STARTS

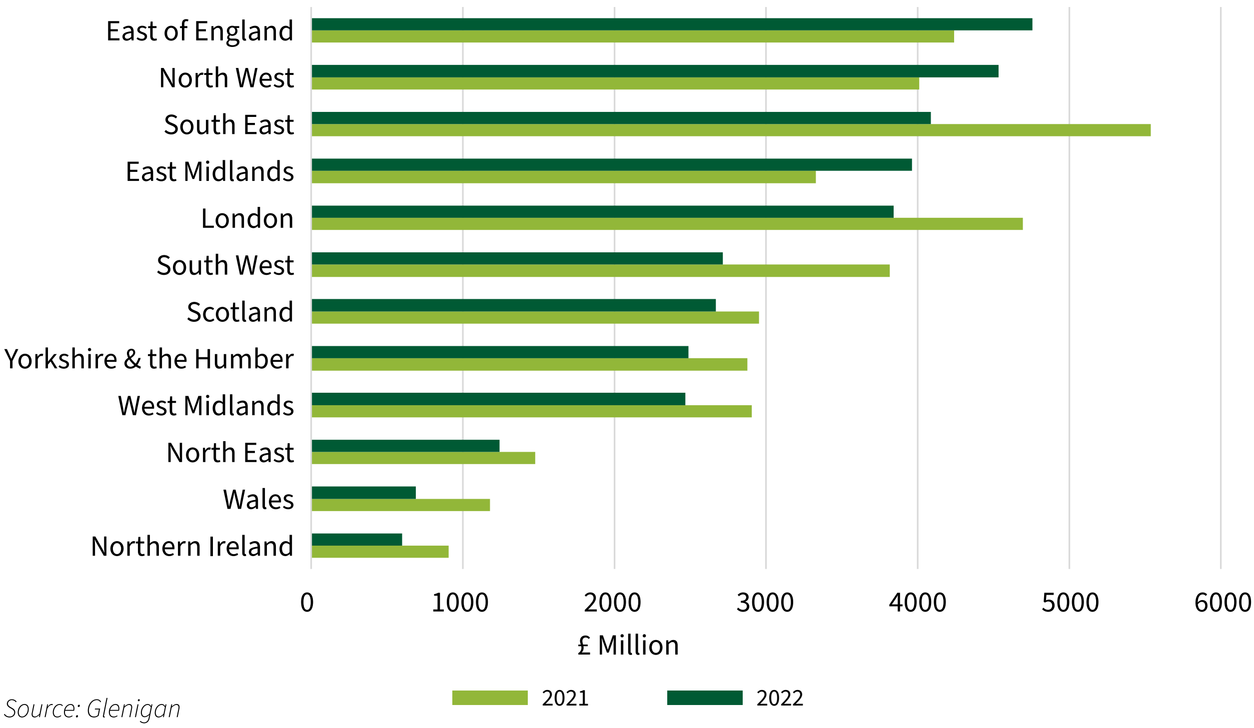
	2021	2022f	2023f	2024f
£ million	27,752	26,239	29,839	30,161
Growth	+26%	-5%	+14%	+1%

f = forecast

During the pandemic, many housebuilders initially focussed their attention to site completions. In 2021, it was clear that the focus switched back to new developments with the value of project starts advancing by more than a quarter compared with the previous year. Further growth was held back by persistent supply and labour issues caused by both the pandemic and Brexit.

Throughout 2022, many housebuilders are facing intense pressure from rising material and energy prices exacerbated by the War in Ukraine. The latest data from the Department for Business, Energy and Industrial Strategy (BEIS) showed new housing material prices in April being 22% higher than a year ago, with all new work prices increasing by a quarter.

Chart 3: Value of Underlying Private Housing Project Approvals in 2021 and 2022



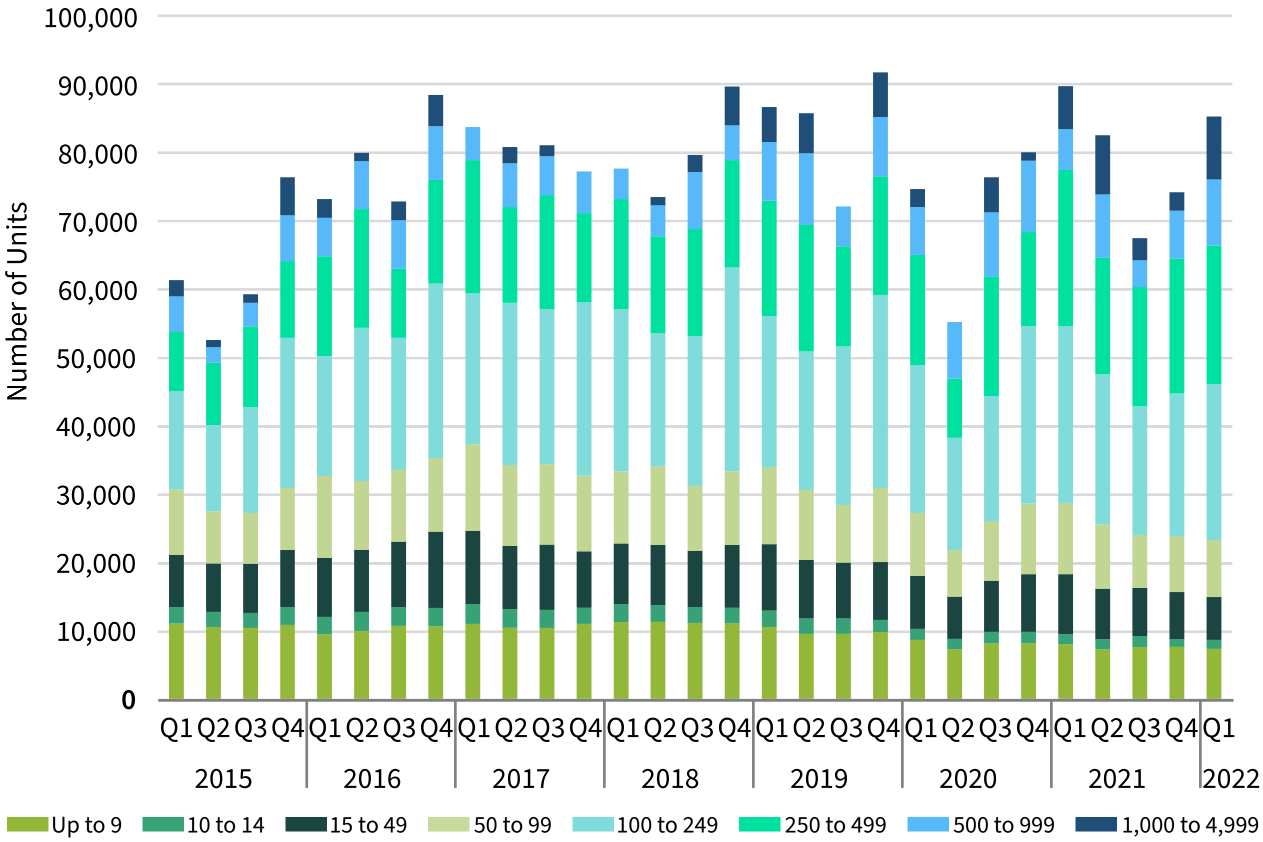
Source: Glenigan
N.B. 2022 data is based on January to May pro rata

However, accelerated house prices has largely offset the rising costs of building materials and energy for developers to date. Nationwide recently reported that annual house price growth in May 2022 was at 11.2% and increased 0.9% month-on-month – the tenth successive monthly increase.

There is evidence, however, that the housing market is beginning to cool. Halifax reported that the annual growth rate of house prices in May 2022 was at its slowest rate since the start of the year and there are signs that mortgage activity is starting to come down. Furthermore, high inflation and weakening household incomes is likely to cool the housing market further in 2022 H2.

High inflation, weakening household incomes and rising interest rates are expected to dissipate the recent surge in housing market activity. We anticipate project starts to fall 5% in 2022 however, when conditions become more favourable for housebuilders, the sector is poised to take advantage. Private housing detailed planning approvals increased 14% in 2021 and contract awards have consistently strengthened since mid-2020. We therefore expect a renewed recovery in the housing market towards the second half of the forecast period, helping project starts to bounce back 14% in 2023 and further strengthening in 2024.

Chart 4: Value of Underlying Private Residential Project Approvals by Project Size



Source: Glenigan

Social Housing

2022 -9% 2023 +1% 2024 0%

> **Strong development pipeline of social housing projects built up through 2021**
> **Student accommodation forecasted to bounce back in 2022**
> **Increased support for shared homeownership**

As with most sectors, the pandemic caused a short-term break in social housing starts during the first half of 2020 but sector activity subsequently stabilised. Student accommodation, a previous bright spot within the sector, had been in decline during 2019 and performed poorly in 2020. However, we anticipate student accommodation to begin to partially recover over the forecast period.

SOCIAL HOUSING STARTS

	2021	2022f	2023f	2024f
£ million	8,031	7,279	7,378	7,381
Growth	15%	-9%	1%	0%

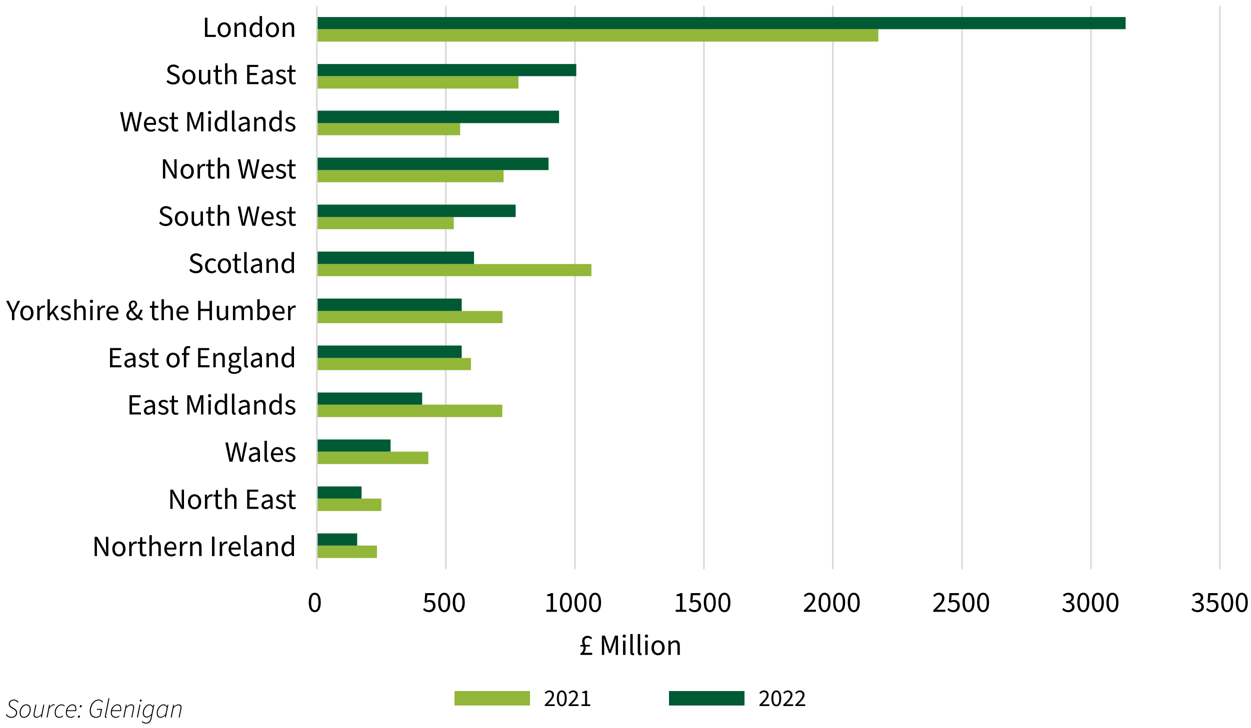
f = forecast

Housing associations are better placed to finance and take forward new developments, more so than in previous years. Associations now have greater flexibility to increase their borrowing to fund new developments following the easing of government restrictions that had capped association's rent increases to 1% below the rate of inflation.

2020 saw a sharp rise in capital funding for the Department for Levelling Up, Housing & Communities (DLUHC). Capital funding for 2022-23 is set to match 2020 levels at £9 billion as outlined in the latest Spending Review. Average annual real term growth from 2021-22 to 2024-25 is set to reach 5.1% and should filter through to sector activity throughout the forecast period.

Last year saw a sharp 15% recovery in social housing starts as housing associations pressed on with schemes delayed during the pandemic. After this initial surge of work, project starts are forecast to settle back this year. Whilst the value of project approvals has also weakened during the first five months of 2022, a strong pipeline of already approved projects is expected to help support sector activity over the forecast period.

Chart 5: Value of Underlying Social Housing Project Approvals in 2021 and 2022



Source: Glenigan
N.B. 2022 data is based on January to May pro rata

Student accommodation was a bright spot for the social housing sector for much of the past decade, with the value of work starting on-site between 2014-2018 increasing by 74%. The sector then entered a period of consolidation, falling sharply in 2019 with a further decline in 2020 as lockdowns disrupted planned starts. Project starts partially recovered last year as restrictions eased, and further growth is anticipated during 2022 as investors press ahead with delayed projects. However, Brexit and the pandemic also caused great uncertainty within the purpose-built student accommodation market, with the pandemic causing a sharp decline in overseas students and an increase in deferrals for domestic students. This is expected to temper the pace of development activity once the initial pandemic-related backlog of projects is cleared, with the value of starts slipping back 12% in 2023.

More positively, student numbers are on the rise, with university application numbers up 5% this year, partly fuelled by a return of applications put off by the pandemic, but also higher numbers of 18-year-olds according to official figures. This is only set to increase over the next decade.

Furthermore, applications to UK universities are set to rise by nearly 50% within five years from higher fee-paying international students, according to UCAS figures. This should provide a boost to the purpose-built student accommodation market over the medium term.

Industrial

2022 +11% 2023 -9% 2024 -6%

> **Pandemic accelerated demand for warehouse and logistics space**
> **Project approvals remain at record highs**
> **Weakened consumer confidence and rising costs for manufacturers to impact project starts in the short term**

Industrial starts bounced back sharply from the pandemic lockdowns, increasing 55% in 2021. Manufacturing work starting on-site in 2021 advanced 61% against the previous year while warehousing & logistics work increased 43%. Project starts in 2021 for both segments increased on pre-pandemic levels and a strong development pipeline that built up during 2021 should help to further improve project starts in 2022. While still being above pre-Covid levels, weakened consumer confidence and spiralling manufacturing costs are projected to hold back project starts towards the end of the forecast period.

INDUSTRIAL STARTS

	2021	2022f	2023f	2024f
£ million	5,555	6,182	5,651	5,331
Growth	55%	11%	-9%	-6%

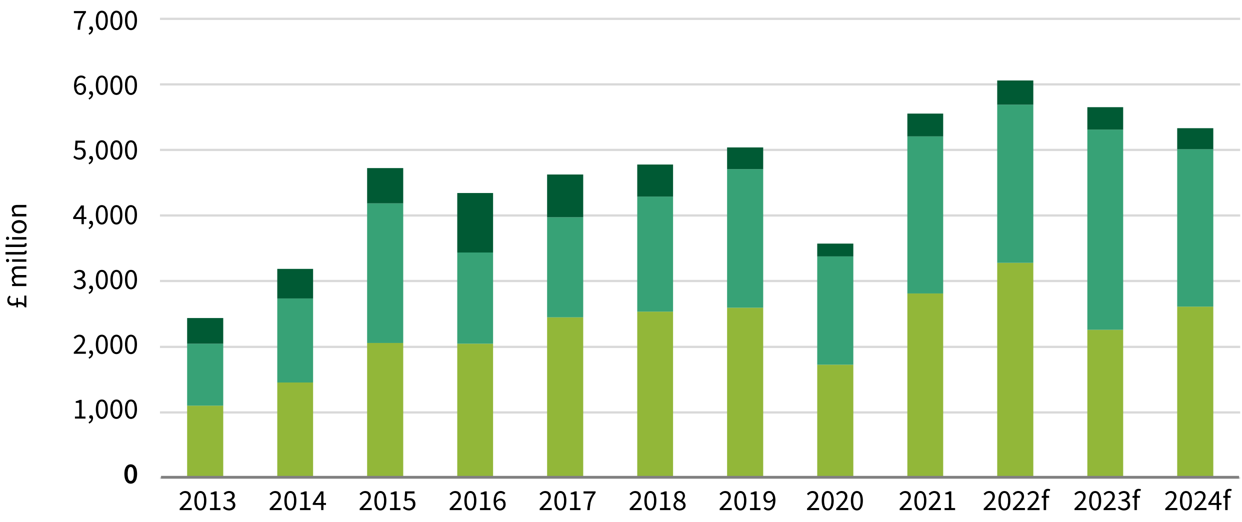
f = forecast

The warehousing & logistics segment was one of the few areas which was boosted by the pandemic, with forced closures of shops forcing consumers to change their shopping habits.

According to the Office of National Statistics, internet sales as a percentage of total retail sales in April 2022 stood at 26.4%, up from 19.1% in February 2020. Although this was still down from a peak of 37.8% in January 2021, it is still a large increase on the pre-pandemic trend. As a result, many retailers rushed to add capacity to accommodate for rising demand. By the end of the forecast period, internet sales as a percentage of total retail sales are expected to be above 35%.

However, changing consumer spending habits as a result of rising costs of living, as well as ongoing supply issues caused by the pandemic, could reduce demand for warehousing space in the short-term. Online retailers have struggled in recent times, with consumers having to prioritise spending. Boohoo posted its first ever drop in UK sales during the three months to May 2022 and ASOS announced that profits had been hit substantially by inflationary pressures on consumers. Although online retailers could lose some market share, e-commerce is expected to return to growth and increase its share of all retail sales over the forecast.

Chart 6: Value of Underlying Industrial Project Starts



Source: Glenigan
f = forecast

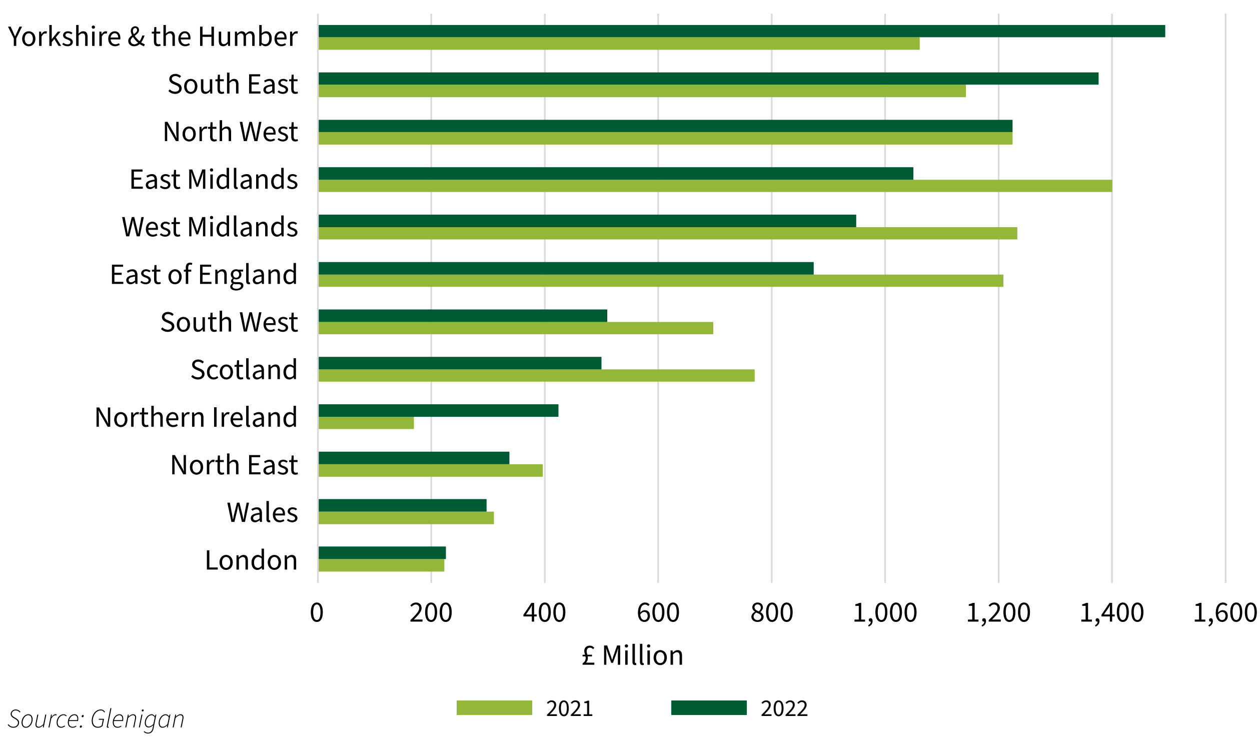
Manufacturers have faced tough market conditions since 2018, with the manufacturing sector achieving very small growth in project starts in 2018 and 2019 before falling by a third in 2020.

According to a survey by Made UK and consultancy firm BDO, two-thirds of companies said rising energy costs were causing catastrophic or major disruption. In addition, 71.9% said increased raw material costs posed a similar threat and 66.8% had been plagued by rising transport costs.

Disruption to supply chains has also disrupted manufacturing. China's Zero Covid policy has led to its industrial output declining to its lowest level since the pandemic began, exacerbating difficulties surrounding availability of materials and components further.

While manufacturing starts are forecast to increase substantially against a poor performance in 2021, the value is anticipated to drop by almost a third in 2023.

Chart 7: Value of Underlying Industrial Project Approvals in 2021 and 2022



Source: Glenigan
N.B. 2022 data is based on January to May pro rata

INDUSTRIAL
OFFICES
RETAIL
HOTEL & LEISURE
EDUCATION
HEALTH
CIVIL ENGINEERING
REPUBLIC OF IRELAND
KEY RECOMMENDATIONS
GLOBAL CONSTRUCTION

Offices

2022 +10% 2023 +7% 2024 +16%

> **Largely driven by conversion and refurbishment schemes, underlying activity was strong during 2021 and has strengthened in 2022**
>
> **Hybrid working here to stay, but crucially demand for offices remains**
>
> **Strong development pipeline anticipated to feed through to sector activity over the forecast period**

While major project starts have been low, an increase in conversion and refurbishment schemes has boosted project starts in both 2021 and 2022 as tenants and landlords adapt premises to accommodate changing working practices. Office work starting on-site is anticipated to increase strongly throughout the forecast period following several years of uncertainty.

OFFICE STARTS

	2021	2022f	2023f	2024f
£ million	5,232	5,749	6,157	7,149
Growth	27%	10%	7%	16%

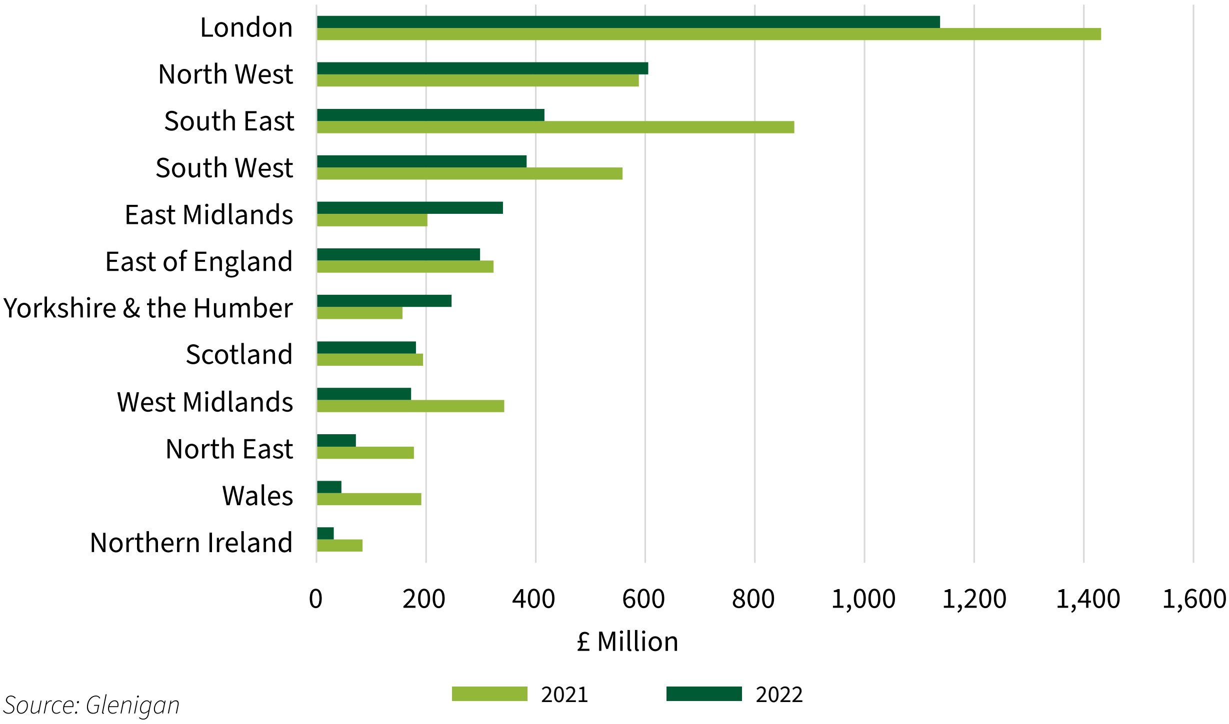
f = forecast

The pandemic radically changed working trends and has seen a sharp rise in hybrid working, with official figures from the Office for National Statistics in February 2022 showing 84% of workers who had to work from home due to the pandemic said they planned to carry out a mix of working from home and their usual office. Research from King's College London's Policy Institute and Business School also showed that three-quarters of Londoners had worked from home at least one day a week in Spring 2022, with only 12% of those planning to work from home five days per week.

While this is likely to lead to firms requiring less office space in the short term, it is acting as a catalyst for refurbishment works as firms remodel existing premises to create more collaborative spaces for employees. These refurbishments are currently driving underlying activity in the office sector, accounting for a record share of new starts in the Capital according to the latest Deloitte London Office Crane Survey.

Project starts in the Capital and its financial quarters were significantly affected by political uncertainty leading up to Brexit but recovered strongly in 2019. Subsequently, the pandemic suppressed project starts and on-site working throughout 2020. However, project starts in the Capital improved significantly in 2021 as delayed projects moved to site, climbing a further 4% during the five months to May 2022.

Chart 8: Value of Underlying Office Project Approvals in 2020 and 2021



Source: Glenigan
N.B. 2022 data is based on January to May pro rata

The development pipeline in London was strong throughout the pandemic. Project approvals in the Capital in 2020 increased 58% following 46% growth in 2019. However, the value of approvals in London dropped by 37% last year and have fallen further during the first five months of 2022 as developers have assessed the impact of hybrid working on the overall demand for office space and become more cautious of bringing forward new build projects.

Office project starts have performed strongly in UK regions outside of London in recent years, largely due to activity in 'core' cities such as Manchester, Birmingham and Leeds. Detailed planning approvals in these regions have also performed strongly, increasing every year since 2018. However, firms considering their need for office space, plus developments already on-site boosting current supply levels, may hold back new office developments in the short-term. It is anticipated that a high number of refurbishment schemes will boost sector activity over the forecast period. Overall, we anticipate project starts to increase 10% in 2022, before increasing 7% in 2023 and 16% in 2024.

Retail

2022	2023	2024
+5%	+9%	+4%

> **High inflation and weakening household earnings likely to impact the sector**

> **Budget supermarket activity a bright spot within the sector**

The retail sector struggled during the pandemic with many traditional retailers being closed for much of 2020 and early-2021. Retailing now faces continued pressure over the next year from weak consumer spending growth and continued erosion of market share to online retailing.

Retail development activity is anticipated to remain low during the forecast period as retailers rationalise their stores in the face of high inflation and weakening consumer confidence.

RETAIL STARTS

	2021	2022f	2023f	2024f
£ million	1,937	2,027	2,214	2,302
Growth	40%	5%	9%	4%

f = forecast

Retailers continue to face very challenging conditions with a marked shift in consumer shopping habits. Internet sales as a percentage of all retail sales increased from 19.1% in February 2020 to 37.8% in January 2021. This has since declined to 26.4% in April 2022 but remained much higher than the pre-pandemic trend. By the end of the forecast period, that number is projected to stand above 35%.

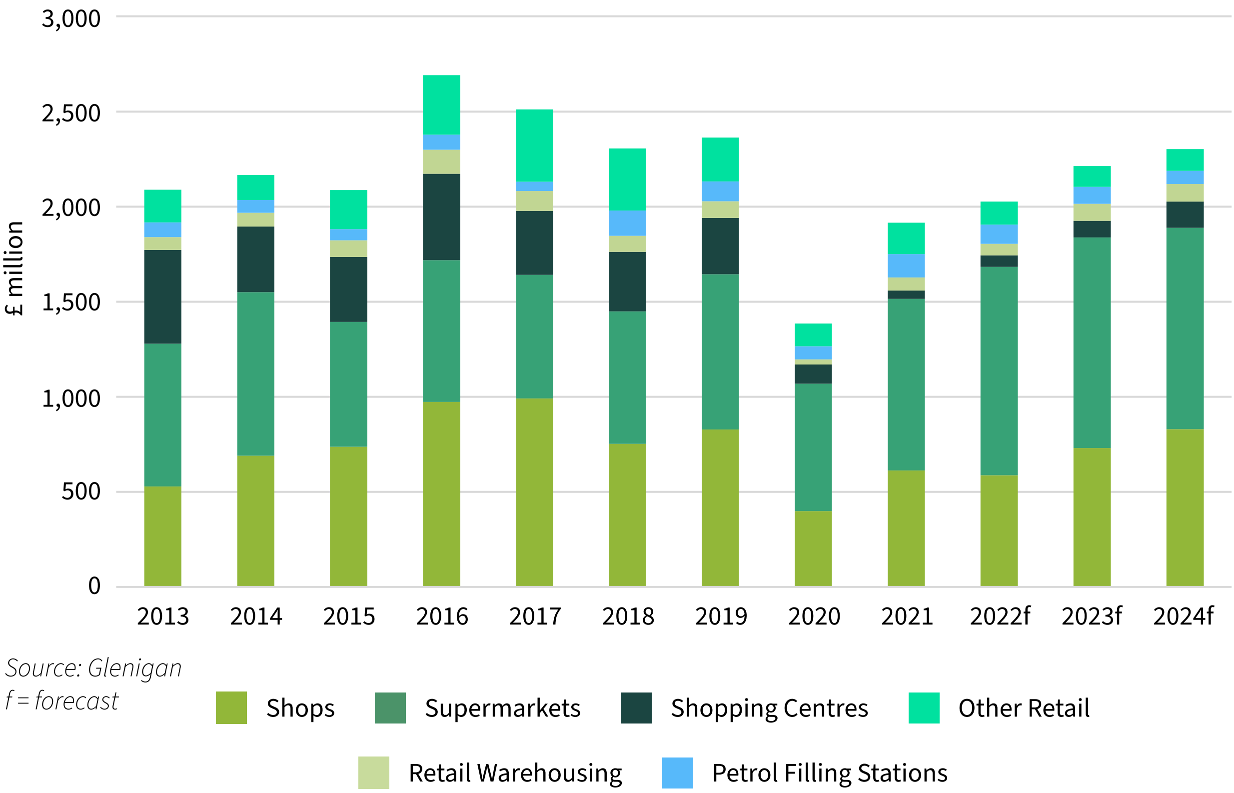
This has had a direct impact on overall retail footfall which in May 2022 was 12.5% lower than pre-pandemic levels according to the latest data from the British Retail Consortium. Visits to shopping centres were down by more than a quarter on 2019 levels while high streets had 14% fewer visitors.

Rising inflation is hurting the retail sector further as disposable income declines. Retail sales volumes fell 0.3% during the three months to April 2022 compared with the preceding three months, continuing the downward trend since Summer 2021 according to the Office for National Statistics.

Grocery stores performed well during the pandemic, but unprecedented inflationary pressures continue to mount, putting pressure on the major supermarket chains. According to a new survey by Kantar, supermarket sales fell by 4.4% during the three months to mid-May 2022. Official results also showed that Tesco, Sainsbury's, Asda and Morrisons all saw a decline in sales during the first quarter. We anticipate this to subdue supermarket project starts towards the end of the forecast period.

However, budget supermarkets provide a bright spot within the retail sectors as consumers seek ways to reduce their spending. Lidl sales increased 6% and Aldi sales increased 5.8% during the same period, handing both new record shares of the grocery market. Lidl announced previously it had set a target of having 1,100 UK stores by the end of 2025, while Aldi is pushing ahead with plans to add a further 100 stores by 2023.

Chart 9: Value of Underlying Retail Project starts



Source: Glenigan
f = forecast

Non-food sales have been slow to recover and have been hit particularly hard by changing consumer habits, falling by 0.6% in April 2022 according to the Office for National Statistics. Household goods sales volumes fell by 0.5% driven largely by falls in furniture and lighting sales (-2.4%) and DIY sales (-0.8%). Department and clothing stores have performed better in recent months, reporting a 1.3% increase in sales volumes in April, but remained behind pre-pandemic levels.

The retail property market continues to face weakening demand for retail space, with retailers seeking to rationalise their existing estate and re-model their stores to lure back customers. We therefore anticipate growth to be slow initially, with 5% in 2022, before rising 9% in 2023.

Hotel & Leisure

2022 +6% 2023 +11% 2024 +0%

- **Project starts not predicted to reach pre-2020 levels during the forecast period**
- **Overseas visitors numbers remain very low creating unease among investors**
- **Rising costs of living damaging the sector further**

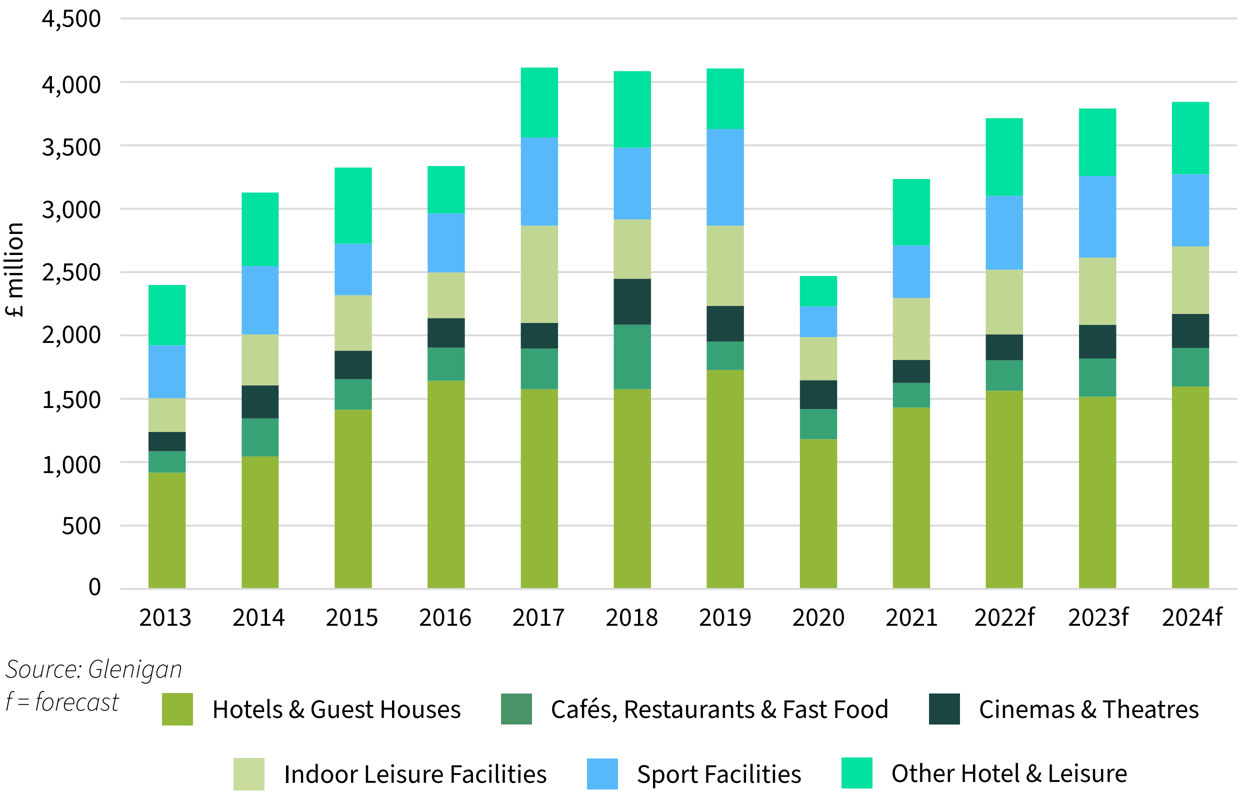
The hotel and leisure sector was hit particularly hard by the pandemic, with restrictions on daily life and a total collapse of overseas visitors to the UK for much of 2020 and 2021 damaging the financial viability of many operating in the sector. Problems caused by the pandemic remain in 2022, with overseas visitor numbers still much lower than pre-pandemic, exacerbated by airline capacity issues, high inflation and weakening household incomes. These factors will affect profitability within the hospitality industry and therefore create unease among investors in the short term. As a result, we do not anticipate project starts to reach pre-pandemic levels until beyond the forecast period.

HOTEL & LEISURE STARTS

	2021	2022f	2023f	2024f
£ million	3,233	3,412	3,789	3,804
Growth	31%	6%	11%	0%

f = forecast

Chart 10: Value of Underlying Hotel & Leisure Project Starts



Source: Glenigan
f = forecast

The value of hotel & leisure work starting on-site increased strongly in 2021 but remained way behind 2019 levels despite a strong development pipeline throughout.

Overseas visitor numbers are not likely to recover until the end of the forecast period. The latest forecast from Visit Britain anticipated 2022 inbound visits to the UK to total 21.1 million; just 52% of the visits seen in 2019. Furthermore, domestic tourism is likely to reduce too, with more Brits opting for overseas holidays now travel restrictions have ceased in many countries in Europe and, more recently, the United States. This will hold back the sector from making a significant recovery during the forecast period, especially in cities such as London.

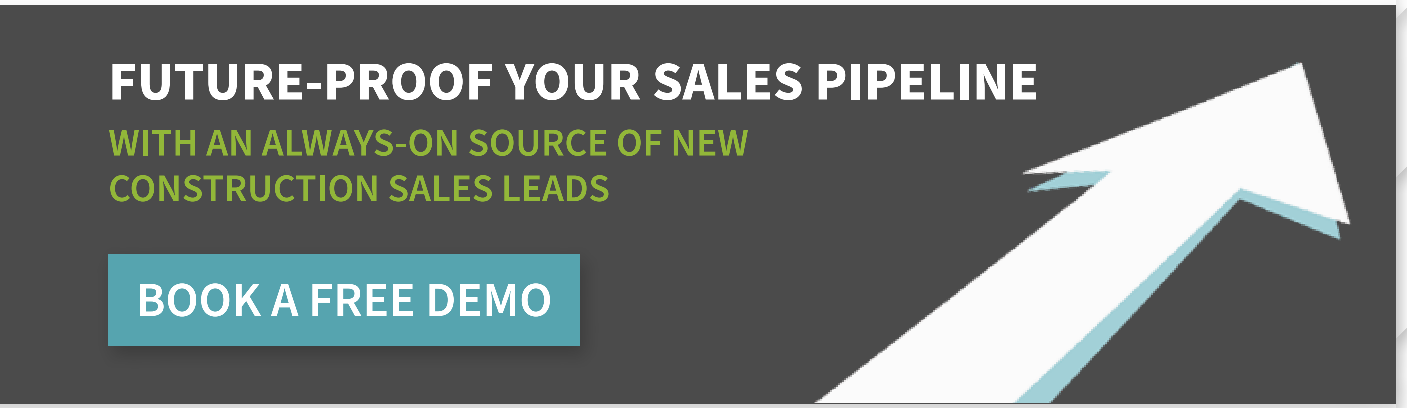
As with all areas within the sector, hotels faced continued restrictions throughout the pandemic and investors remained cautious. Hotel project starts fell by a third in 2020 and bounced back only 21% in 2021. A low number of overseas visitors and weakening household incomes domestically is anticipated to ensure hotel project starts growth remains slow throughout the forecast period, only reaching pre-pandemic levels after the forecast period.

Like hotels, the hospitality sectors were boosted in the summer of last year following a complete easing of lockdown restrictions, being able to take a greater share of discretionary spending by UK households. However, high inflation is now impacting the profitability of firms within the hospitality sector, with year-on-year inflation in the foodservice sector hitting 13.6% in March 2022 according to the CGA Prestige Foodservice Price Index. Operating costs, coupled with weakening household incomes, is anticipated to hold back any further recovery in project starts in the short term at least.

A firm development pipeline will give the sector some encouragement that when issues resolve the sector will be poised to take advantage but, crucially, project starts are forecast to remain below pre-pandemic levels until beyond the forecast period.

Chart 11: Value of Underlying Hotel & Leisure Project Approvals in 2021 and 2022

Source: Glenigan
N.B. 2022 data is based on January to May pro rata



Education

2022 +7% 2023 +14% 2024 +3%

> **Gradual increase in activity, reaching pre-pandemic levels in 2023**
> **Pandemic and high inflation to restrict higher education activity over the forecast period**

Project starts bounced back 13% last year compared with 2020, but remained 13% lower than in 2019. Detailed planning approvals also fell compared with both years.

The latest Spending Review in October 2021 revealed that the Department of Education annual capital budget is to grow firmly over the next two years, before falling back during 2024/25. This is expected to sustain the recovery in sector activity during 2022 and 2023, with the sector reaching pre-pandemic levels next year.

EDUCATION STARTS

	2021	2022f	2023f	2024f
£ million	4,828	5,153	5,873	6,076
Growth	13%	7%	14%	3%

f = forecast

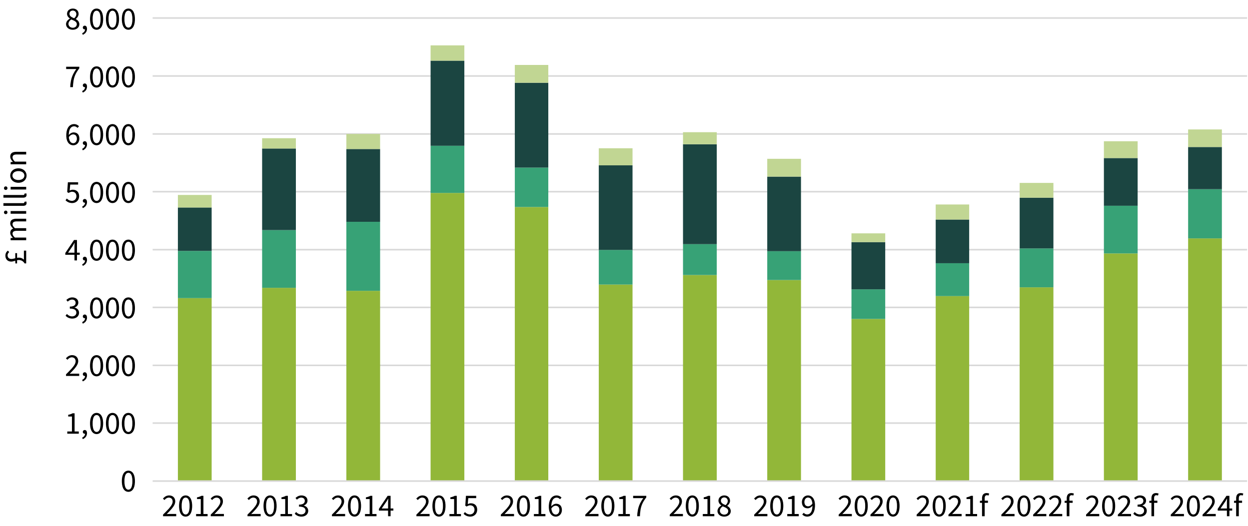
The number of secondary school pupils is predicted to rise by 213,000 between 2020 and 2026, according to the Department of Education, with the peak expected at the end of the forecast period in 2024. However, investment in additional capacity to accommodate the rise has been slow. School project starts picked-up last year but were weak during the Spring of 2022 and growth is forecast to moderate this year.

The pandemic exacerbated local authorities' tight financial positions and councils have sought to accommodate the initial increases in student numbers through the expansion of existing schools.

The Government is committed to rebuilding 500 schools over the next decade, but progress is slow. The first 100 schools as part of this programme were announced in 2021, which is starting to feed through to sector activity. In 2022 to 2023, the Government programme expects to prioritise up to 300 schools, which is anticipated to boost sector activity throughout the forecast period.

While we anticipate school project starts to progressively rise throughout the forecast period, we expect the value to remain far behind levels seen in 2015 and 2016.

Chart 12: Value of Underlying Education Project starts



Source: Glenigan
f = forecast

Universities were a bright spot within the education sector between 2013 and 2018. However, universities have faced increasing funding pressures from weakening student numbers as a result of both Brexit and the pandemic.

The pandemic exacerbated financial issues already faced by universities, with the number of higher fee-paying overseas students falling and increasing numbers of students deferring their applications due to the pandemic. This had a direct impact both on fee income and also revenue generated from retail and leisure spaces on campus. Furthermore, high inflation is eroding tuition fees which is making it difficult for universities to invest in additional capacity. While we anticipate 17% growth in university project starts this year against a poor performance in 2021, they are forecast to fall back 6% in 2023 and 11% in 2024.

The longer-term prospects for higher education may be brighter. University application numbers rose 5% this year and the number of 18 to 25 years is set to grow over the next decade. UCAS also anticipates that universities will also seek to attract more overseas students. This may generate a fresh wave of university capital investment in due course.

Health

2022 -5%   2023 -6%   2024 +1%

- **Project starts forecast to remain above pre-pandemic levels despite declines in 2022 and 2023**
- **Increase in NHS capital funding over the forecast period**
- **Health Infrastructure Plan progress slow, likely to benefit sector activity from 2023 at the earliest**

Unsurprisingly, the health sector was the best performing sector during the pandemic and project starts remained high in 2021. Furthermore, a 3.8% real-term growth rate in NHS capital funding is set to boost project starts throughout the forecast period.

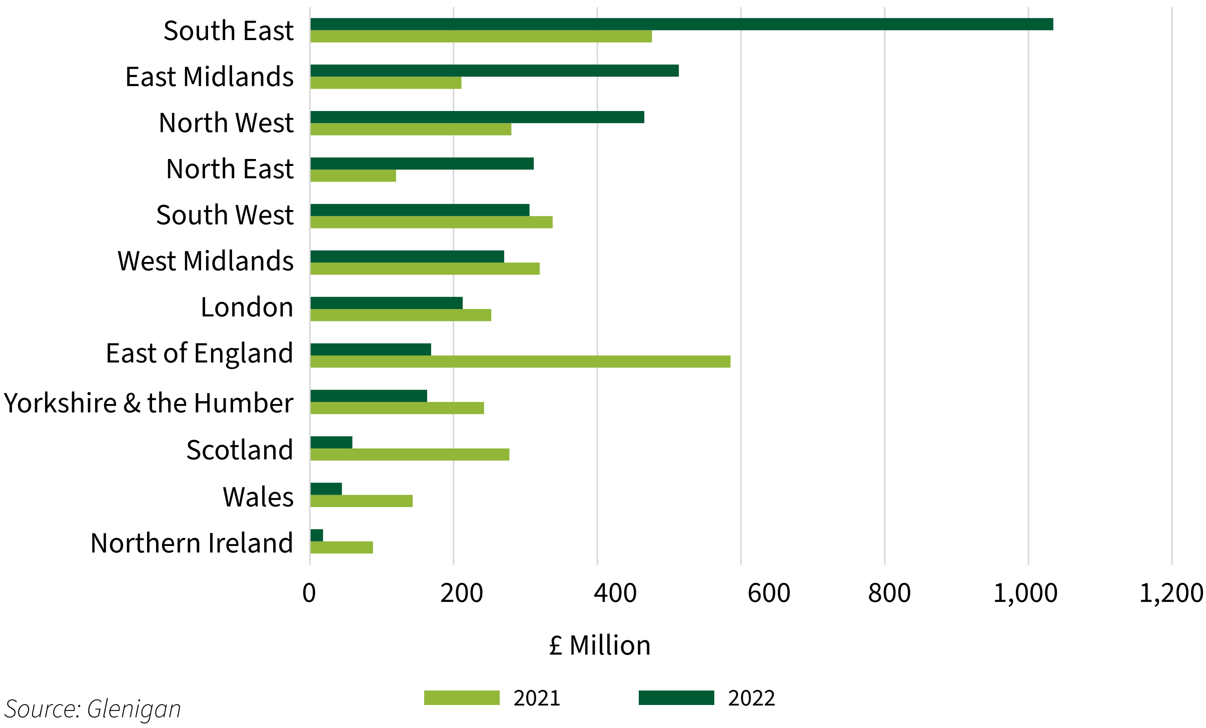
HEALTH STARTS

	2021	2022f	2023f	2024f
£ million	3,075	2,927	2,766	2,801
Growth	2%	-5%	-6%	1%

f = forecast

The Spending Review in October 2021 announced that the department of Health will see a £4.2 billion increase in capital spending over the Parliament. The Government also previously announced plans to build 40 new hospitals by 2030 and upgrade more than 70 hospitals during the same period. While progress to date has been slow with new developments moving to site, smaller schemes as part of the Health Infrastructure Plan should benefit the sector during the forecast period.

Chart 13: Value of Underlying Health Project Approvals in 2021 and 2022



Source: Glenigan
N.B. 2022 data is based on January to May pro rata

Encouragingly, the value of underlying health detailed planning approvals has improved progressively over the last four years with growth of 3% in 2019, 36% in 2020 and 9% in 2021. Approvals have also been strong in 2022 to May, rising 7% against the previous year on a pro-rata basis. Much of this will feed through to sector activity over the forecast period.

Additional government funding promised in the Spending Review will boost sector activity towards the end of the forecast period and will help to keep the value of project starts above pre-pandemic levels. It is forecast for project starts to slip back 5% in 2022 and 6% in 2023 but ultimately remain high as new projects come forward and NHS trusts implement their investment plans.

HEALTH
CIVIL ENGINEERING
REPUBLIC OF IRELAND
KEY RECOMMENDATIONS
GLOBAL CONSTRUCTION

Civil Engineering

2022 -12% 2023 +5% 2024 +0%

- **Project starts in 2024 anticipated to remain lower than pre-pandemic levels**
- **Major projects lifting overall sector work**
- **Renewable energy projects to play vital role in sector activity**

Whilst underlying project starts are set to weaken this year before improving in 2023, existing and planned major will support lift sector activity over the next three years.

The commencement of the £3 billion Sofia Wind Farm expansion and various HS2-related schemes will be continue to be important drivers for sector activity over the forecast period. Wind farm developments such Dogger Bank B/C and Hornsea Project Three/Four could provide a further boost to the sector during the forecast period, should they commence on-site as planned.

However, underlying contract awards and detailed planning approvals have been falling for much of 2021 and 2022 which is anticipated to hold back project starts over the forecast period.

CIVIL ENGINEERING STARTS

	2021	2022f	2023f	2024f
£ million	7,266	6,371	6,671	6,677
Growth	13%	-12%	5%	0%

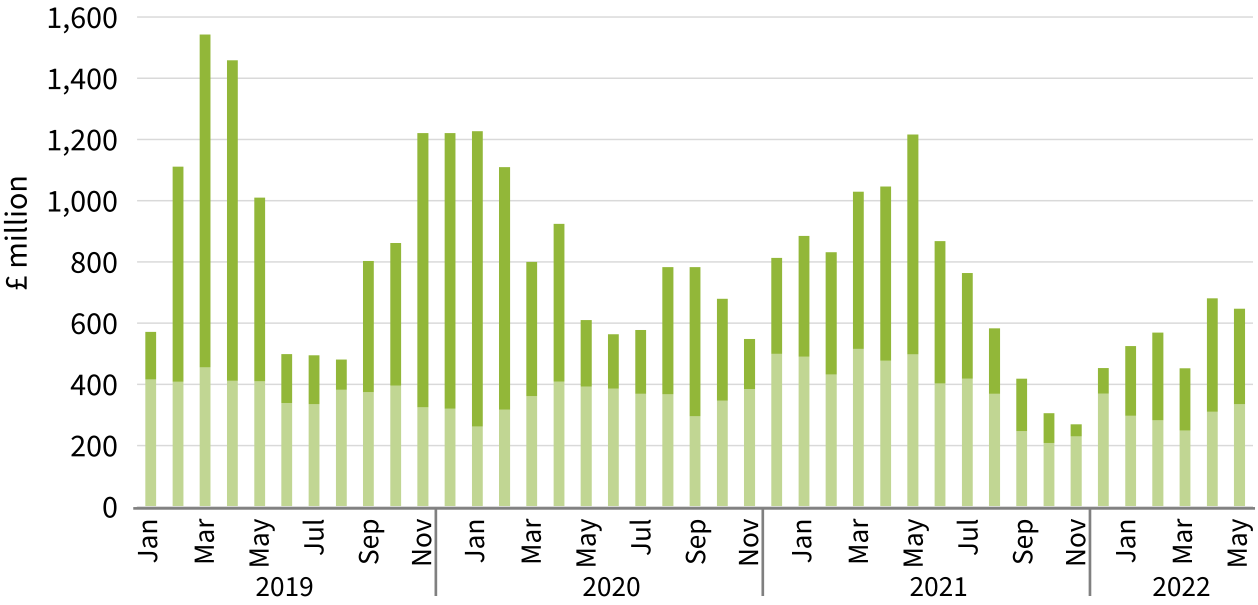
f = forecast

Underlying civil engineering starts performed relatively well during the pandemic, with a smaller proportion of civils sites suspended during the first lockdown than in other sectors. Starts also rose sharply in 2021 but are forecast to fall back this year following a decline in main contract awards and detailed planning approvals.

The second Road Investment Strategy (RIS2) was unveiled in March 2020 and set out plans for a £24 billion investment programme for enhancements to the national road network. However, progress has been slow, with many road schemes requiring planning decisions being delayed. It is hoped that both the Lower Thames Crossing development and Stonehenge Tunnel schemes will boost sector activity during the forecast period, but important planning hurdles are yet to be cleared for both.

The government also promised £2.7 billion over the next three years for local roads maintenance and £2.6 billion to deliver a long-term pipeline of over 50 local road upgrades, some of which have already commenced on-site such as improvements to the A259 in Brighton. This should continue to support sector activity during the forecast period.

Chart 14: Value of Civil Engineering Main Contract Awards



Source: Glenigan
f = forecast

HS2 continues to make a vital contribution to sector activity as work on Phase 1 continues. Work has already started on several HS2-schemes including the Euston HS2 station and various tunnels such as the Northolt Tunnels, Chiltern & Colne Valley scheme, and North Portal Chiltern Tunnel. In the past six months, work has also commenced on the Long Itchington Wood Green and the Brackley to South Portal tunnel which will further boost sector activity over the forecast period.

Network Rail's five-year investment programme (CP6) is at the halfway stage. Over the five-year period Network Rail is scheduled to invest £19.2 billion in renewals and £8.9 billion in enhancement works. The latest Spending Review also pledged to spend £5.7 billion over five years for City Region Sustainable Transport Settlements which will fund projects such as the Sheffield Supertram renewal and the Wednesbury to Brierley Hill metro extension in the West Midlands, the latter being due to complete by April 2024.

Renewable energy could not be higher on the political agenda, particularly given the need to boost Britain's energy security following rising global energy prices and volatility in international markets. The government's British Energy Security Strategy, announced in April 2022, set out an ambition to increase offshore wind capacity to 50GW by 2030; enough to power every home in the UK. The sector was already boosted by the commencement of the Sofia Wind Farm expansion in 2021, but other major projects such as Dogger Bank B/C and Hornsea Three/Four could also boost sector activity over the forecast period should they commence on-site as hoped.

With the value of both underlying contract awards and detailed planning approvals falling over the past year, we anticipate project starts to fall 12% in 2022 but increase by 5% in 2023. We do not expect underlying project starts to reach pre-pandemic levels by the end of the forecast period.

Republic of Ireland

CIS is Ireland's leading provider of business intelligence to the Northern Ireland and Republic of Ireland construction industry and was acquired by Glenigan in 2021.

2022 -2%   2023 +4%   2024 +11%

Post-pandemic, construction activity in the Republic of Ireland rebounded strongly from the second quarter of 2021 year with the value of project starts growing by 35% during the year as a whole. Further, albeit more modest growth is anticipated over the forecast period.

The Irish economy grew by 13.4% last year and the OECD is projecting further growth of 4.8% and 2.7% for 2022 and 2023. Industrial production and consumer spending are currently well above pre-pandemic levels. However, higher energy costs and rising inflation are set to dent consumer confidence and slow consumer spending growth.

Table 3: Value of Underlying Project Starts by Sector

£Million	2021	2022f	2023f	2024f
AGRICULTURE	93	72	58	75
CIVIL AND UTILITIES	558	413	434	447
COMMERCIAL	576	484	508	584
COMMUNITY AND SPORT	131	226	170	176
EDUCATION	311	473	402	434
HOSPITALITY	172	146	139	160
INDUSTRIAL	1,007	1,410	1,551	1,784
MEDICAL	392	353	477	548
RESIDENTIAL	4,905	4,415	4,591	5,050
ALL	**8,146**	**7,992**	**8,329**	**9,258**

Source: CIS & Glenigan

Table 4: Growth in the value of Underlying Project Starts by Sector

Annual Change	2021	2022f	2023f	2024f
AGRICULTURE	-28%	-22%	-20%	30%
CIVIL AND UTILITIES	73%	-26%	5%	3%
COMMERCIAL	-23%	-16%	5%	15%
COMMUNITY AND SPORT	-25%	73%	-25%	4%
EDUCATION	-1%	52%	-15%	8%
HOSPITALITY	142%	-15%	-5%	15%
INDUSTRIAL	68%	40%	10%	15%
MEDICAL	6%	-10%	35%	15%
RESIDENTIAL	48%	-10%	4%	10%
ALL	**35%**	**-2%**	**4%**	**11%**

Source: CIS & Glenigan

PRIVATE RESIDENTIAL

Residential is the dominant construction sector, accounting for over half of projects started by value last year. Increasing housing supply is a major political priority. The Government introduced its 'fast track' initiative in 2017 to accelerate the progress of larger sites (100 units plus) through the planning system. This has subsequently helped boost the overall value of residential projects starting on-site, although the completion of individual units on these larger sites tends to be phased over a longer time period than for smaller sites. Strong demand from purchasers helped to boost the recovery in residential starts last year. After disruption during the first quarter of 2021, project starts rebounded sharply during the subsequent quarters as developers pressed ahead with delayed projects. Subsequently, the value of residential starts rose by 48% last year.

Residential starts are forecast to slip back slightly this year and consolidate during 2023 as rising inflation slows households' income growth and increases consumer caution. The flow of residential projects securing planning consent has plateaued over the last 18 months, after a number of years of strong growth. A slowing in housing market activity together with the sharp rise in construction material prices and labour shortages is expected to prompt developers to increase their focus on building out existing sites rather than starting new projects. A renewed strengthening in project starts is anticipated from 2024 as the wider economic picture brightens.

PRIVATE NON-RESIDENTIAL

The value of industrial project starts grew sharply last year rising by 68%. A shift in consumers retail habits during the pandemic towards on-line retailing has fuelled increased investment in distribution and warehousing projects. Ireland has also emerged as a favoured data centre location for global tech companies. The development pipeline has also grown sharply over the last 18 months and is expected to underpin a further sharp rise in starts during 2022. Amid slower economic growth and increased inflationary pressures including the impact of rising material costs and labour shortages on some projects' viability, sector growth is forecast to moderate during 2023 and 2024.

Commercial sector starts peaked in 2019 and have fallen back progressively over the last two years. A weakening in planning consents during 2021 and the first half of this year points to a further decline in starts during 2022. However, CBRE has reported a pick-up in interest from office occupiers for accommodation and in recent months have seen a tentative upturn in planning applications. Commercial project starts are forecast to strengthen during 2023 and 2024, rising by 5% and 15% respectively.

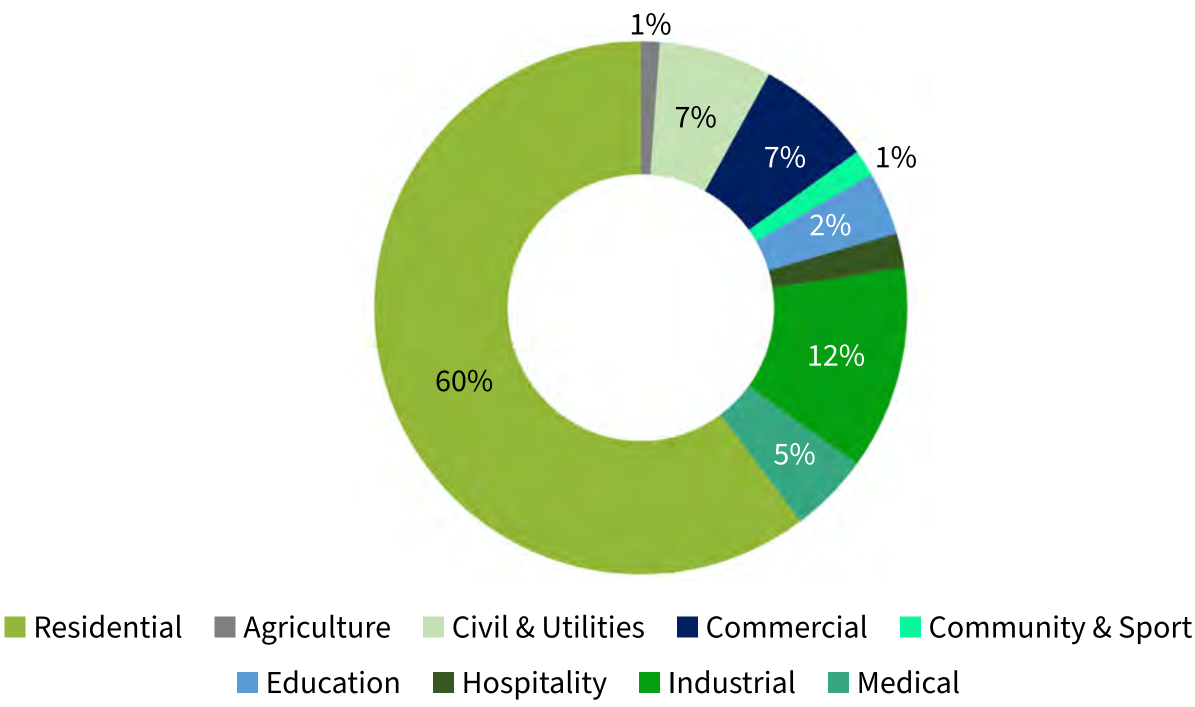
GOVERNMENT INVESTMENT

Education starts increased sharply during the first half of 2022 and the sector is expected to remain a growth area over the forecast period. The Government's National Development Plan (NDP) sets out plans for substantial investment in new school buildings through its Large Scale Projects Programme. The Government anticipates that an average of 150 to 200 school building projects will be delivered annually over the period 2021 to 2025.

The NDP also addresses the need to increase capacity in the Health Service to address increased demand for healthcare services, with capital funding growing by 12% per annum over the forecast period. Whilst the value of projects starts fell back sharply during the first half of 2022, the development pipeline is growing. This is expected to support renewed sector growth from 2023 onwards.

The value of civil and utilities projects fell back during the first half of this year after a sharp 73% jump in starts during 2021. Whilst starts are forecast to decline by 26% this year, they will remain at historically high levels. A firm development pipeline is expected to support further modest growth over the forecast period.

Chart 15: Value of Construction Starts in 2021



Key Recommendations

Construction faces a challenging trading environment. The war in Ukraine is interrupting the UK's post-Covid recovery and exacerbates the disruption of supply chains and material costs. Firms will have to be responsive and adaptable in order to mitigate risks in the current marketplace and exploit the new opportunities emerging over the next three years.

IDENTIFY AND EXPLOIT NEW GROWTH AREAS

The pattern of UK construction activity is changing post-pandemic. As construction workloads are rebuilt over the next three years, the best performing sectors will differ from those prior to the outbreak. The nature of these growth areas are also likely to evolve. Structural changes are expected to create new opportunities in warehousing & logistics, office and retail refurbishment and fit-out and the repurposing of redundant commercial premises. The residential homeownership sector is also likely to see a trend towards low-rise family housing, with high-rise city centre residential projects increasingly brought forward by "Build for Rent" developers.

Increased Government funding will drive the Education, Health, Civil Engineering and Community & Amenity sectors. Regionally, construction markets in the northern half of the England are set to outperform London and southern England over the forecast period reflecting a shift in Government funding and policy towards "levelling up".

Firms will need to target these new emerging opportunities, ensuring that they have the expertise and resources to increase their exposure to growing markets & locations.

FACTOR-IN SUPPLY SIDE CONSTRAINTS

A wide range of construction products are currently subject to extended delivery times and regular sharp price hikes. Contractors and sub-contractors should seek to identify and mitigate any potential interruption to product supply, including those from overseas sources.

Material and labour shortages are set likely to increase cost pressures. Contractors and sub-contractors should factor-in their impact on their costs and development schedule when bidding for work.

MITIGATE RISK

Supply-side constraints are disrupting project schedules and extending construction times, with implications for workload, turnover and cashflow. Delays also increase potential exposure to unanticipated increases in material costs. The slow pace of site development will delay stage payments from clients and push back the timing of when late trades are required on-site. Contractors and sub-contractors may wish to offset the lower monthly revenues generated per site by spreading their workforce across a greater number of projects.

Order books may also be vulnerable to rescheduling or reappraisal of projects by clients revisiting their cost and viability.

A diversified client base will reduce exposure to any one client with a work pipeline spread more evenly over a larger number of customers. This can help reduce the business threat from any financial crisis or adverse change of payment terms by any one firm. Supply chains should also be reviewed to ensure that firms are not over-exposed to a few clients.

ON-SITE EFFICIENCY AND COLLABORATIVE WORKING

Whilst current product supply disruption should subside over the forecast period, the supply of skilled labour is likely to remain as a significant constraint.

Brexit and the pandemic have shrunk the industry's available workforce, with reduced access to skilled EU labour and loss of UK workers post-pandemic to other industries and early retirement. This threatens to increase construction costs and disrupt the timely delivery of projects and will intensify the need for the firms to use on-site labour more sparingly and effectively in order to accommodate rising workloads.

Companies should invest in design solutions, site operating practices and offsite manufacturing options that reduce the reliance on site labour to safeguard the timely and profitable delivery of projects. In many cases this will involve a more collaborative approach and the use of digital solutions to cut waste and accelerate design and construction processes.

ADOPT DIGITAL SOLUTIONS AND PROCESSES

The pandemic has accelerated the adoption of digital systems, both pre-construction and on-site, as more traditional ways of working have been disrupted. Investment in an effective customer relationship management (CRM) system, digital marketing channels, a modernised salesforce, and implementation of a robust sales process will help firms to rapidly identify and target emerging opportunities, sustain their workload, cut the cost of winning work, improve efficiency and enhance profitability.

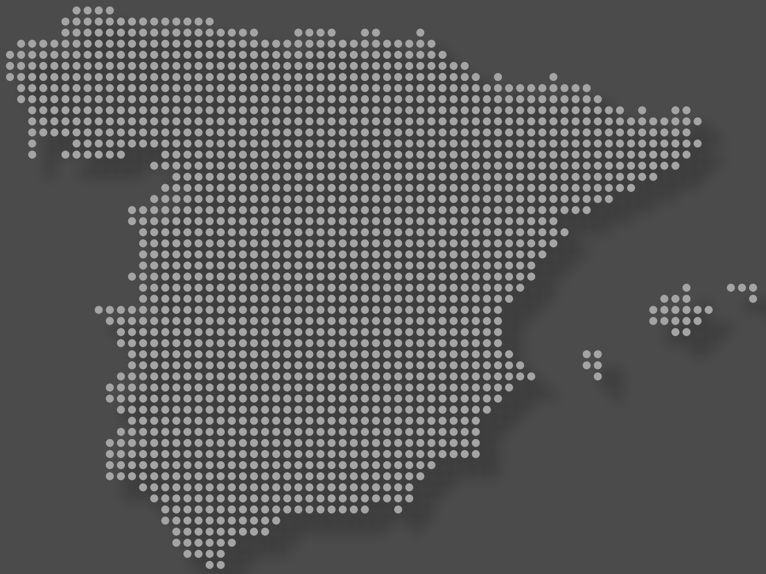
Byggfakta Group: Global Construction Insights

Glengian is a part of the Byggfakta Group - a global leader in providing construction intelligence - with offices in the UK, Sweden, Norway, Denmark, Finland, the Czech Republic, Slovakia, Switzerland, Austria, Portugal, Spain, Australia, New Zealand, Hong Kong, South East Asia, the USA and Canada.

To offer a view on industry performance in markets across the world, we have collated commentary from a selection of our sister-companies.

If you require a view of activity in other markets outside of the UK and Ireland, please visit https://www.byggfaktagroup.com.

Spain



CURRENT MARKET PERFORMANCE

By the end of 2021, the construction sector was recovering, and the predictions for 2022 were positive.

We started the year with a growth over 20%, but things have changed since February with the start of the war in Ukraine. This, added to the last vestiges of the Covid crisis, resulted in a further increase in energy prices, ending up in a shortage of raw materials and supplies, making it difficult to start or continue many construction projects.

In addition to price volatility and inflation rising to 10%, many projects were abandoned because companies could not afford the cost of materials. Many tenders have been declared void, and regulations have been put in place to revise the prices of public contracts.

Another key factor that is affecting the Spanish construction market is the excessive workload of companies and the lack of workforce. There are currently more than 35,000 unfilled positions in the sector. Companies are not able to find qualified personnel, so they cannot take on new projects.

In summary, both the uncertainty and the labour situation in the sector are causing buying decisions to be postponed.

FORECAST

The problems currently facing the market are temporary. Investment continues to grow, with forecasts showing increases of 15.5% in 2022 and 18% in 2023. And the number of registered companies related is increasing every day.

Finally, one of the most important opportunities for the sector and its growth are the granting of European funds, such as the Next Generation European Funds that will play a great role in the acceleration of the sector. They focus on promoting PPP to develop large public projects, and housing rehabilitation, which is one of the main objectives in Spain, given that it has a very aged housing stock, and needs to make a major ecological transition.

Roberto Fernández
Chief Executive Officer
CONSTRUDATA 21

Norway

CURRENT MARKET PERFORMANCE

Construction starts continued to increase during the first five months of this year. 2022 is on a higher level than 2020 and 2021, but after the start of the war in Ukraine our construction start index has shown a decline of 15% and will give us an uncertain outlook this year. Price increases are up 6-7% this year. It is difficult to determine how much of the increase is due to increased construction activity and how much can be attributed to rising building material prices and other cost increases.

Housing construction plans continues to increase, however more than 60% of existing plans are postponed due to the market situation. Given the sharp rise in building material prices, and increase of bank interest, the market situation is slightly on hold right now.

Construction outside the housing sector has slowed down in 2022. Both industrial and warehouse construction have slowed down, as has the construction of office and community properties. On the other hand, construction in trade appears to be rising slightly from depressed levels.

The lack of skilled and unskilled labour is a strong contributing factor to delayed construction starts. This is a major uncertainty factor and risk that affects the market.

FORECAST

Increases in interest rates, war in Ukraine and higher prices for material and transportation affects the construction industry. There is a nervousness and hesitation in the market.

It has become much more expensive and more difficult to obtain materials. It's more difficult with financing.

Norway has for many years been strongly dependent on imported labor in the construction industry, especially from Eastern Europe. The situation in Europe makes it difficult for the Norwegian market to recruit guest workers which contributes to continued uncertainty about future years' investments and construction starts.

Quotations are difficult and there are more issues and questions in the tender procedure than before, and procurements are canceled due to no/few tenders or too high prices. Municipal procurements are moved forward, and more and more projects are postponed. Public builders often demand fixed prizes in their contracts, and that is almost impossible right now.

Despite all the challenges, investments are still at a high level, and we have not seen the major effects yet, except our construction start index.

Lars Schön
Chief Executive Officer
BYGGFAKTA GROUP

Denmark

CURRENT MARKET PERFORMANCE

2022 started out in the middle of a historic economic boom for the Danish construction industry, mainly driven by the private sector. With an unprecedented large project pipeline and growth expectations of 9 percent, 2022 looked like another record year for the construction industry.

The year started out well, and in the first quarter, more projects were launched than ever before. However, the high pace is not expected to last the rest of the year, as market challenges threaten.

As early as the end of 2021, we saw significant challenges with increased prices , labour shortage and supply problems. The first two are still an issue, and after the war in Ukraine began on February 24th, the latter has taken on completely different dimensions.

The challenges have meant that a lot, especially publicly funded projects, have been postponed.

As a consequence, the forecast for 2022 has been downgraded. The total amount of initiated construction projects in 2022 is now expected to be on par with 2021. Ongoing construction are at a historically high level, and construction activity will therefore remain high for the rest of 2022.

FORECAST

The biggest challenge in the construction industry right now is not postponed projects. It is rather the rising material prices that are pressuring the ongoing construction projects. The bill for the increased material prices may end up with the contractors, and a few medium-sized contractors have already gone bankrupt.

Despite all the challenges, investments are still at a high level, and the pipeline of planned projects, especially within the private sector, is still very big - both in 2022 and 2023.

On the other hand, public investments are expected to remain low in 2023. The government estimate that general activity in the construction industry is still so high, that public construction should be limited. Only in the energy field does the government have plans for increased investment, to reduce dependency on Russian gas.

Thomas Bejer-Andersen
Chief Executive Officer
BYGGFAKTA GROUP

Sweden

CURRENT MARKET PERFORMANCE

Construction starts continued to increase during May. So far this year, increases have been stable at current levels of just under 1 percent per month. However, it is difficult to determine how much of the increase is due to increased construction activity and how much can be attributed to rising building material prices and other cost increases.

Housing construction continues to increase. In recent months, even the rate of increase has been slightly higher than it was at the end of 2021. Given the sharp rise in building material prices, however, there is reason to suspect that a large proportion of the increases are due to increased costs rather than increased construction volume.

The number of housing projects in the early stages increased rapidly in 2021 and so far in 2022, which speaks in favour of continued high housing construction. However, negative prospects for future housing demand, financing opportunities and construction costs mean that it is highly uncertain whether schedules and calculations will hold.

Construction outside the housing sector has slowed down in 2022. Both industrial and warehouse construction have slowed down, as has the construction of office and community properties. On the other hand, construction in trade appears to be rising slightly from depressed levels.

FORECAST

Increases in interest rates, war in Ukraine and higher prices for material and transportation affects the construction industry. There is a nervousness and hesitation in the market.

It has become much more expensive and more difficult to obtain materials. It's more difficult with financing. Some contractors offer money to "avoid building", prices for materials change all the time and prices sometimes only apply for one day.

Quotations are difficult and there are more issues and questions in the tender procedure than before, procurements are cancelled due to no/few tenders or too high prices. Municipal procurements are moved forward, and more and more projects are postponed.

Despite all the challenges, investments are still at a high level, and we have not seen the major effects yet. The autumn will be tougher, and it will hit many players in the industry hard, of course, the extent will depend on whether the unrest in the outside world continues or not.

Lars Johansson
Chief Executive Officer
BYGGFAKTA GROUP

Do you need reliable insight and statistics to help you budget, forecast, realise size of market or penetration?

Do you need a better understanding of your competitor's activities, or would you like to see the trends shaping the future of construction?

Contact us today to discuss your strategic business requirements:

Call **0800 060 8698**
Email **info@glenigan.com**
Visit **www.glenigan.com**
80 Holdenhurst Road,
Bournemouth BH8 8AQ