Glenigan

Construction Industry Forecast 2023-2024

FOR THE UK AND REPUBLIC OF IRELAND

Featuring expert commentary from:

DeH OnTheMarket

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About the authors

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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.

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Republic of Ireland

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Economic Background

The construction industry faces significant economic headwinds over the next two years as UK economic growth stalls. 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 the resultant disruption in energy markets have intensified inflationary pressures during 2022. Higher inflation, rising interest rates, and stalled economic growth are expected to hold back construction activity over the forecast period.

The initial post-pandemic recovery in UK economic and construction activity has dissipated over the last 12 months. The slowdown has been, in part, due to material and labour cost and availability issues. These pressures have been aggravated by the sharp rise in energy prices following the invasion of Ukraine.

The Government's 'mini-Budget' provided welcome support that will cap the increase in households' and business's energy costs and will help curb the increase in inflation. Nevertheless, households face a marked drop in real incomes and spending power over the next twelve months. In addition, higher interest rates and mortgage costs are set to intensify the squeeze on household budgets, denting activity in consumer-facing construction sectors such as private housing, retail, and hotel & leisure.

The Government's growth strategy appears set to restrict public expenditure over the forecast period as it seeks to curb government borrowing. However, the Government has also pledged to accelerate the delivery of infrastructure projects as part of its growth strategy.

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 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 higher interest rates, check housing market turnover and dampen private housebuilding activity over the next two years.**
- **Public sector spending restraint limits public sector investment and curbs construction activity in areas such as health and education.**
- **Government seeks to accelerate the delivery of new infrastructure projects while existing major programmes such as HS2 are also expected to lift overall civil engineering activity.**

Executive Summary

2022 -2% 2023 -2% 2024 +6%

Construction faces a challenging economic environment. UK economic growth has stalled amid a global economic slowdown exacerbated by the war in Ukraine.

The post-pandemic recovery in project-starts has lost momentum during 2022. This has been due, in part, to projects taking longer to progress to site. Material and labour supply issues have delayed work on-site, prompting contractors to reschedule their development programmes. Material costs and availability issues have also prompted some contractors and clients to reappraise the design and costing of planned projects. These factors have contributed to 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.

In addition, the poorer economic outlook also appears to have prompted some clients and developers to pause or scale back on planned investments, with the value of projects securing detailed planning consent during the first nine months of 2022 dropping by 5%, and main contract awards falling by 8%, against the same period in 2021.

Overall, project-starts are forecast to slip back by 2% in both 2022 and 2023. 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.

> **Private housing starts to weaken as low real earnings growth, higher taxes, and mortgage rates cool housing market activity**

> **Public sector investment in education, health, and community & amenity vulnerable to public spending cuts**

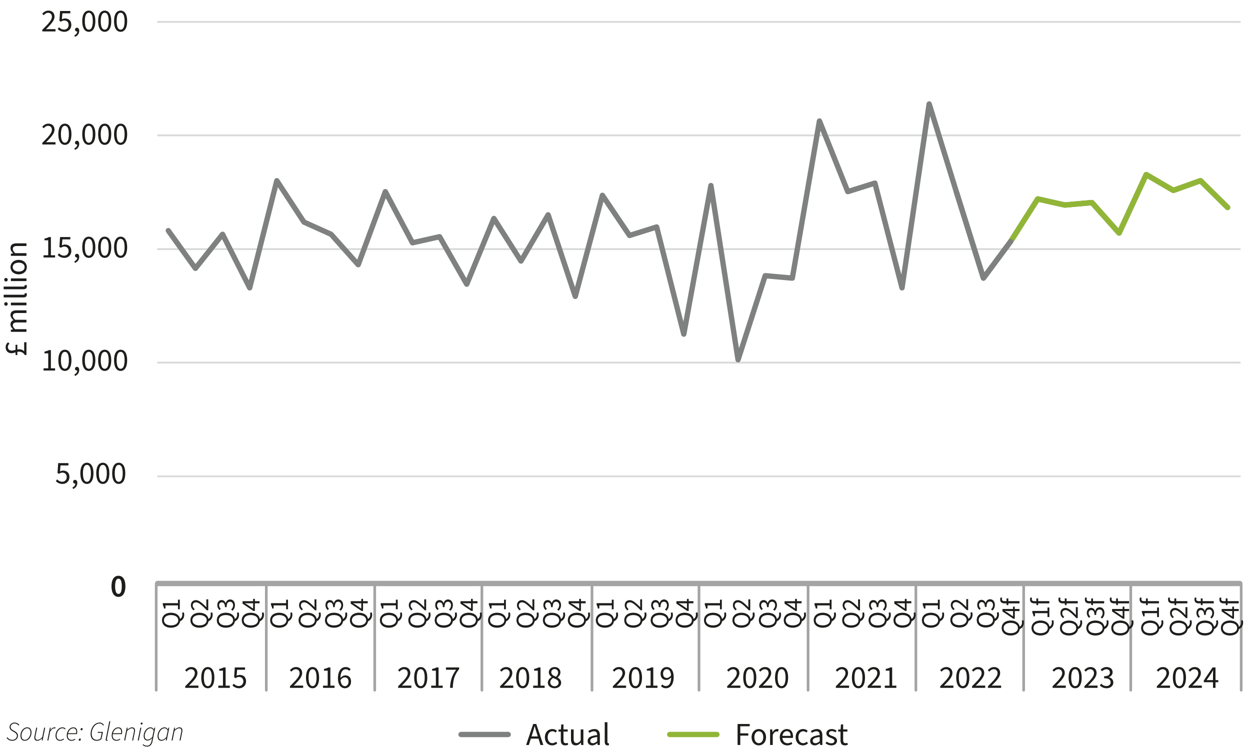
> **Rise in office refurbishment work as premises are remodelled to accommodate a shift in post-pandemic working practices**

> **Weak consumer spending tempers recovery in Hotel & Leisure sector**

> **Online retailing is a catalyst for increased investment in logistics facilities**

> **Major projects boost civil engineering workload as the Government prioritises infrastructure and energy investment**

Chart 1: Value of Underlying (under £100 million) Project-Starts



Source: Glenigan
f = forecast

Table 1: Value of Underlying Project-Starts (under £100 million) by Sector

£ million	2021	2022f	2023f	2024f
PRIVATE HOUSING	28,616	27,388	26,091	29,897
SOCIAL HOUSING	8,113	7,383	7,125	7,124
INDUSTRIAL	5,667	7,067	6,709	6,163
OFFICES	5,238	5,441	5,706	5,509
RETAIL	1,920	1,701	1,635	1,806
HOTEL & LEISURE	3,375	3,188	3,469	3,552
EDUCATION	4,884	4,149	4,680	4,931
HEALTH	3,084	3,157	2,957	2,986
COMMUNITY & AMENITY	949	1,286	1,282	1,313
CIVIL ENGINEERING	7,224	6,930	6,973	7,189
TOTAL	**69,070**	**67,690**	**66,626**	**70,470**

Source: Glenigan

Table 2: Growth in the value of Underlying Project-Starts (under £100 million) by Sector

Change on previous year	2021	2022f	2023f	2024f
PRIVATE HOUSING	30%	-4%	-5%	15%
SOCIAL HOUSING	16%	-9%	-3%	0%
INDUSTRIAL	59%	25%	-5%	-8%
OFFICES	27%	4%	5%	-3%
RETAIL	39%	-11%	-4%	10%
HOTEL & LEISURE	37%	-6%	9%	2%
EDUCATION	14%	-15%	13%	5%
HEALTH	3%	2%	-6%	1%
COMMUNITY & AMENITY	3%	36%	0%	2%
CIVIL ENGINEERING	12%	-4%	1%	3%
TOTAL	**25%**	**-2%**	**-2%**	**6%**

Source: Glenigan

PRIVATE NON-RESIDENTIAL WORK

Industrial starts have rebounded strongly from the pandemic over the last two years. The rise has been primarily driven by growth in logistics and light industrial projects. After this rapid rebound, the sector faces a period of consolidation during 2023 and 2024. Weak domestic and overseas demand is expected to temper manufacturing investment in new capacity and facilities. In contrast, warehousing and logistics premises are forecast to remain a growth area.

Although online retailers have lost some of the market share gained during the pandemic, as consumers have returned to high streets and retail parks, the longer-term shift towards online retailing is expected to support continued demand for more logistics space.

Near term the demand for both logistics and retail space will be damped by weak retail sales as households' budgets and confidence are squeezed by higher inflation, falling real earnings, and rising mortgage rates. An overhang of empty retail premises, weak consumer spending, and the growth in online sales' market share are predicted to constrain retail construction starts over the forecast period. Investment by the deep discount supermarkets, Aldi, and Lidl, are set to be a bright spot within the sector over the forecast period.

The squeeze on household budgets is set to curb consumers' discretionary spending in areas such as hospitality and leisure activities. The hospitality sector has already faced protracted restrictions on their operations during the pandemic, reduced revenues from fewer overseas visitors, and a sharp rise over the last 12 months in energy, materials, and labour costs. These pressures, combined with the anticipated weakening in consumer spending, will increase the pressure on the hospitality sector and is expected to moderate the recovery in sector starts over the forecast period.

Office starts bounced back sharply in 2021, increasing by 27%. The pandemic radically changed working trends and has seen a sharp rise in hybrid working. This change in work patterns is set to reduce the overall floorspace requirements for many businesses but is also generating new fit out opportunities. 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 long-term demand for office accommodation.

PRIVATE RESIDENTIAL

Private housing starts have weakened in 2022 as activity in the wider housing market has cooled. A further retrenchment in starts is forecast for 2023 as housebuilders respond to a weakening in market conditions.

The Bank of England has progressively raised the bank base rate to 2.25% from 0.25% at the start of 2022. Further sharp increases in rates are anticipated over the short term as the Bank seeks to contain inflation and responds to the Government's loosening in fiscal policy. Mortgage providers have already significantly raised their rates and are likely to become increasingly cautious of providing high loan to value (LTV) mortgages as rates rise further. This would particularly impact first time buyers, an important segment of the market for new house sales.

The reduction in stamp duty rates announced in the mini-Budget will provide some benefit to first time buyers, however, the ending of Help to Buy has removed direct government support for those looking to buy a new build property.

Against a backdrop of weak household incomes, higher mortgage rates, and a slowdown in the wider housing market, we anticipate project-starts to fall 4% in 2022 with a further 5% decline forecast for 2023. However, a brightening economic outlook and the prospect of improving consumer confidence are forecast to support a 15% rise in starts during 2024.

INCREASED GOVERNMENT INVESTMENT

Public sector investment is set to be an important driver for construction activity over the forecast period. However, the last Spending Review unveiled only modest growth in capital funding for some key central government departments over the next three years. Planned funding may also be vulnerable as the new administration looks to curb public sector expenditure and put the public finances on a more sustainable footing.

2021 saw a sharp 16% 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 slip back during 2022 and 2023. Despite improved funding, increased construction costs appear to be constraining development activity. Approvals have similarly fallen back sharply over the last year. The declines may reflect the reappraisal by associations of projects' viability following the sharp rise in construction costs last year, although planned investment may be vulnerable to cuts in the forthcoming Autumn Statement.

There is a shortage of secondary school places, especially in major conurbations, and in addition, the Government has previously 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 support growth in school building projects from 2023 after a weak performance in the last year. The Spending Review also highlighted plans for increased investment in further education.

The outlook for the health sector is positive, supported by an increase in NHS capital funding. This is expected to maintain project-starts at a high level over the forecast period. Sector activity was boosted at the start of the pandemic by the Nightingale temporary hospital programme. Project-starts have subsequently remained high during 2021 and 2022. Whilst starts are forecast to slip back 6% in 2023, the value of work started remains above pre-pandemic levels.

The Truss administration reiterated the Government's intention to press on with infrastructure investment as a key part of its UK Growth Strategy. The mini-Budget detailed numerous infrastructure projects, including 86 road schemes that the Government wants to progress to site by the end of 2023. Investment in rail projects and regulated utilities are also set to support sector activity over the forecast period. The forthcoming Autumn Statement will hopefully reiterate the Government's commitment to delivering infrastructure projects.

Energy security has become a high priority for the UK Government following the sharp rise in energy prices and the reduction in Russian gas supplies. The need for energy security should help drive investment in more offshore wind farms, alongside the development of nuclear and other generating capacity.

The political landscape: A two-year view

Harriet Ireland
Policy Consultant
DeH

Michael Cameron
Policy Executive
DeH

The UK sits politically fragile, with a new Prime Minister and new Cabinet appointed barely 50 days after the last one. Rishi Sunak has committed to upholding the Conservative's 2019 manifesto but faces continued pressure from some of his backbenches while the Opposition calls for a general election.

While the market outlook has improved since the mini-Budget last month, there remains ongoing concern about the strength of the UK economy. We examine how the new Administration's actions could affect the construction sector but also look at where the Labour Party fit into the landscape.

Where the Government is going

With Michael Gove back leading the Levelling Up Department many of the Johnson-era policy commitments are likely to make a return.

Mr Gove has indicated that cladding remediation will return as a priority and that the Government was still committed to build 300,000 homes every year.

As one of the architects of the levelling up White Paper, Mr Gove has re-committed time and resources towards the agenda, aimed at promoting regional economic growth and overcoming inequalities. The Levelling Up and Regeneration Bill has completed its Committee stage in the Commons and will return shortly for Report stage.

At the mini-Budget in September, former Chancellor Kwasi Kwarteng announced that the Truss Government would accelerate key infrastructure projects via new legislation. At the time, they listed over 100 projects to begin construction by the end of 2023. It's not clear if this policy will stay but given the tough financial constraints any update will likely be announced at the autumn statement on 17 November.

At the mini-Budget Dr Kwarteng also announced the creation of investment zones, with large tax incentives to encourage business investment, as well as liberalised planning rules to support development. Mr Gove has already indicated that the policy is under review and any aspect which might undermine the environment is "out".

The autumn statement is set to be a key event to understand the direction this new Government will take.

The changing political mood

With the current political environment, it looks like the next election – currently expected for 2024, will be the Labour Party's to lose; recent polling gives Labour their largest lead on the Conservatives since the 1990s.

This year's party conference season largely reflected this changing mood, with the Conservative conference plagued with U-turns and infighting, and Labour keen to present themselves as a party ready for Government. There might be still some way to go, but the consensus among DeHavilland's team who attended both conferences was that Labour are now the readiest for Government than they have been for a long time.

Starmer's reorganisation of the Labour Party has involved re-igniting conversations with business – conversations that it had neglected for most of the past decade – making it all the more important to consider what a Labour Government would mean for the construction sector.

Where Labour is going

A cornerstone of Labour policy is a £60 billion retrofitting programme – spread over 10 years – to make the UK's housing stock more energy efficient. Fringe events at Labour conference regularly discussed retrofitting and energy efficient homes. But more than that, it was repeatedly raised that retrofitting was the answer to many problems: net zero, housing, skills, levelling up, and growth.

Second, Shadow Housing Secretary Lisa Nandy's main stage speech declared that Labour's new housing mantra was "council housing, council housing, council housing" as the party intends to rebuild the country's social housing stock by bringing homes back into the ownership of local councils and communities. The exact scale, speed, or cost of this rebuilding programme has not been set out by Labour.

One thing that remains to be seen is how the party will support the development of skills that will be required to carry out the sizeable programmes of retrofitting and council house building. There is likely to be a focus on apprenticeships, but the Labour Party have not made a commitment on this.

Sentiment from within the industry at conference fringes supported the notion that retrofitting was the key issue facing the sector. Key voices said builders needed to be at the heart of the country's green revolution but expressed concern that there was an acute skills shortage that needed to be solved and neither party had a clear plan on how to achieve this.

DeHavilland is the leading political monitoring provider. They work with organisations across the construction and housing sectors such as Kier and the British Property Federation helping equip them with all the political information and intelligence, they need to influence policy, manage risk and form meaningful strategies.

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The UK housing market: A two-year view

John Doyle
Head of New Homes
OnTheMarket

Every day there are wildly conflicting reports about what may or may not happen in the UK housing market. Some commentators have speculated that a correction is around the corner, whilst others have predicted the complete opposite. The simple answer is no-one knows for sure. However, my personal view, having worked in the property industry for the last 15 years, is that the market is starting to re-balance itself following the strong double-digit growth we witnessed in 2021.

It is important to remember that recent market conditions have been unique, and the pace of house price increases was never going to be sustainable in the long-term. There were supply and demand fundamentals at play, with very few new instructions coming to the market and hundreds of active buyers competing over a limited pool of stock. To some extent, this has been the overriding reason behind the continued growth in the last two quarters. But in recent months there has been a marked increase in the number of properties coming onto the market, with our own data showing that there are more homes available for sale now (October 2022) than at any time since March 2021. With the cost of living rising and interest rate increases, this will naturally affect the buying power of those serious property seekers.

As mortgage affordability and rising living costs make things more challenging for buyers, there may well be a cooling of house price growth and in some areas, a reduction in average house prices. However, it's also worth noting that according to the Office for National Statistics, only 28% of all dwellings are owned with a mortgage, with 36% owned outright and the remainder in the private rented sector, or with housing associations and local authorities. Any future impact should be assessed with these numbers in mind.

Despite rising inflation, our latest OnTheMarket Property Sentiment Index showed that 75% of our active buyers were confident they would buy in the next three months and 79% of sellers were confident they would sell within the same timeframe. These strong indicators coincided with good transactional numbers, with 53% of all properties still going under offer within 30 days of first being listed in September. So, buyer sentiment is still high, and sentiment is one of the fundamental drivers of the UK housing market.

Ultimately, those serious about moving and who need to move, will continue to do so. People move for a variety of reasons – family, job, marriage, divorce, death, debt – which is why there is always a certain level of transactions, even in more challenging markets which we've seen evidence of historically when faced with tough conditions. Most recently, rather than the pandemic turning the UK property market into the disaster that some predicted, it showed remarkable resilience with strong growth across the country. Despite everything, there is an underlying positivity within the market and the aspiration to buy property is enduring.

OnTheMarket are one of the UK's leading property search websites displaying thousands of properties for sale or to rent. They regularly survey their extensive network of estate agents, enabling them to accurately monitor trends within the residential market.

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Private Housing

2022	2023	2024
-4%	-5%	+15%

> **Weak household earnings and higher mortgage rates dampen housing market activity and soften house prices during 2023**

> **Housebuilders adjust development activity in response to slowing market conditions next year**

> **Rebound in private housing starts from 2024 as economic outlook brightens**

Private housing starts have declined in 2022 as activity in the wider housing market has cooled. A further retrenchment in starts is forecast for 2023 as housebuilders respond to a weakening in market conditions.

The recovery in new housing activity in 2021 benefited from a 'mini-boom' in the housing market. The volume of 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 temporary reduction in stamp duty rates also boosted transaction levels and house prices.

However, conditions have cooled following the withdrawal of the temporary reduction in stamp duty rates last autumn, and homebuyers' confidence has been impacted by falling real household incomes, concerns over energy costs, and rising mortgage rates.

The Bank of England has progressively raised the bank base rate to 2.25% from 0.25% at the start of 2022. Further sharp increases in rates are anticipated in Q4 2022 and Q1 2023 as the Bank seeks to contain inflation and responds to the Government's loosening in fiscal policy. Mortgage providers have already significantly raised their rates and are likely to become increasingly cautious of providing high loan to value (LTV) mortgages as rates rise further. This would particularly impact upon first time buyers, an important segment of the market for new house sales.

In addition, whilst the reduction in stamp duty rates announced in the mini-Budget will provide some benefit to first time buyers, the ending of Help to Buy has removed direct government support for those looking to buy a new build property.

PRIVATE HOUSING STARTS

	2021	2022f	2023f	2024f
£ million	28,616	27,388	26,091	29,897
Growth	30%	-4%	-5%	15%

f = forecast

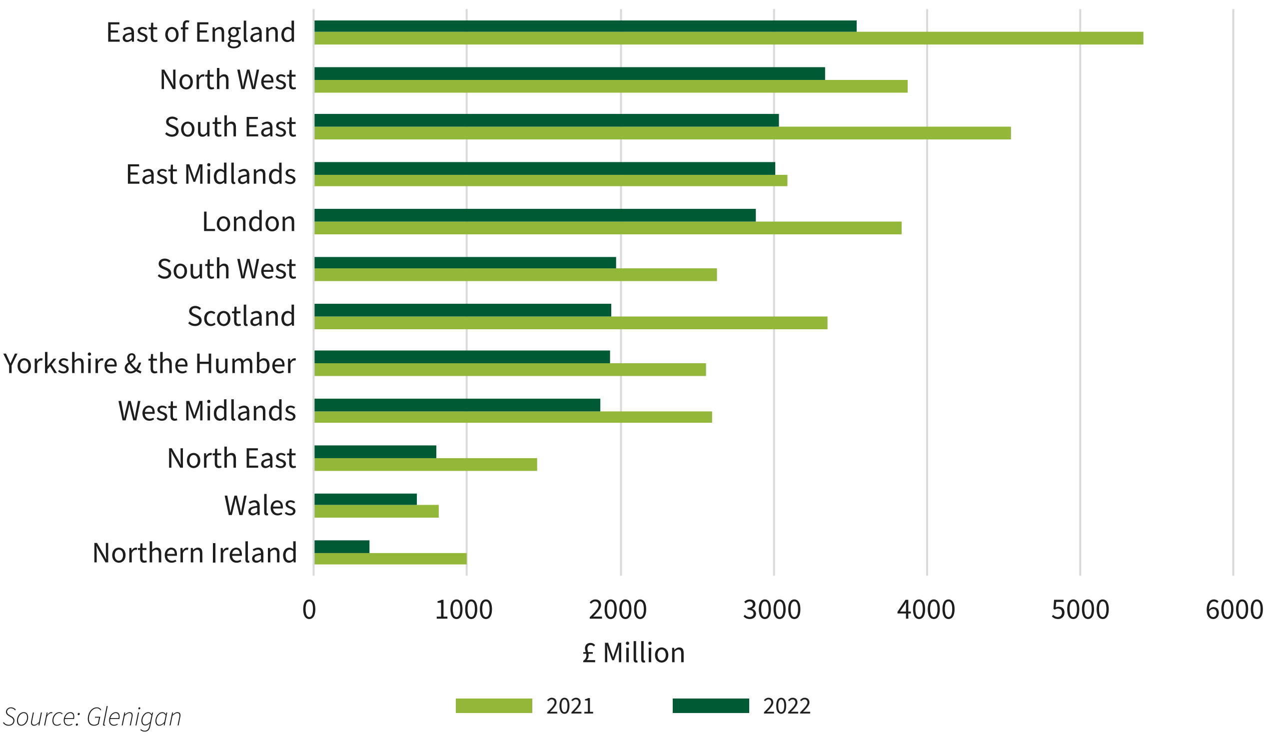
Many housebuilders are facing intense pressure from rising material and energy prices exacerbated by the war in Ukraine. The average cost of new housing materials rose by 23% over the year to June. according to the Department for Business, Energy & Industrial Strategy (BEIS).

Whilst the sharp rise in house prices has helped housebuilders absorb the rising costs of building materials and energy over 2022, weaker house prices are now likely to increase the pressure on margins.

Nationwide reports that annual house price growth in September 2022 slowed to 6.3% down from a peak of 10.2% at the turn of the year, with September prices unchanged on the previous month. Estate agents, responding to the August RICS UK Residential Survey, report a downward trend in both buyer enquiries and sales. Other forward market indicators also point to a decline in property transactions over the coming months, with the number of new mortgage approvals for house purchases falling by 14% over the year to July. The expected rise in mortgage costs and squeezed household incomes are set to dampen further housing transactions and house price inflation over the coming months.

The value of private housing planning approvals softened during the first half of this year, having increased 16% in 2021.

Chart 3: Value of Private Housing Projects Securing Planning Approval

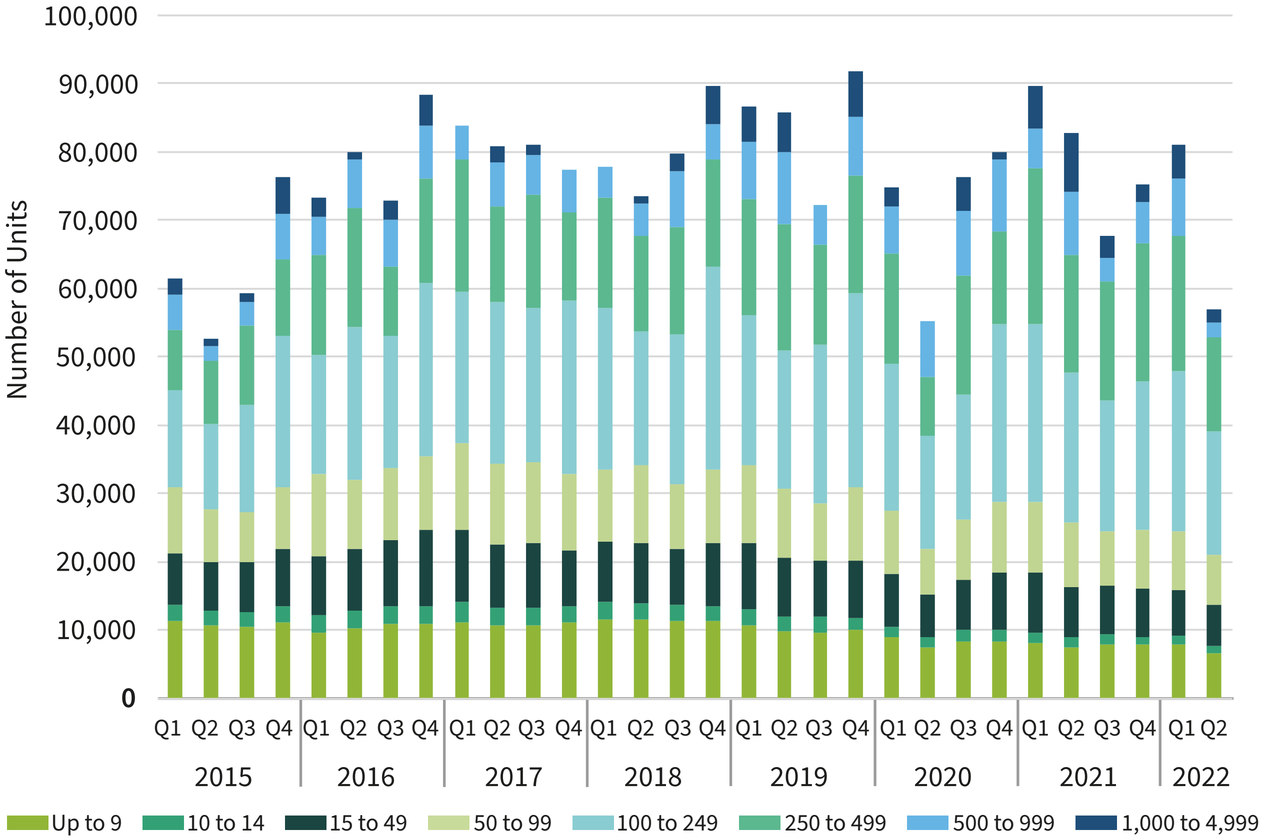


Source: Glenigan
N.B. 2022 data is based on January to September pro rata

The recent drop suggests that housebuilders are set to prioritise sites that are under construction, or have already secured planning consent, over the next 18 months. However, the decline may also, in part, reflect recent environmental restrictions on the approvals of new developments in some parts of the country. Once introduced, government proposals to ease planning restrictions could help to lift approvals.

Against a backdrop of weak household incomes, higher mortgage rates and a slowdown in the wider housing market we anticipate project-starts to fall 4% in 2022 with a further 5% decline forecast for 2023. However, a brightening economic outlook and the prospect of improving consumer confidence is forecast to support a 15% rise in starts during 2024.

Chart 4: Private Housing Detailed Planning Approvals by Project Size



Source: Glenigan

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

Social Housing

2022 -9% 2023 -3% 2024 0%

- > **Strong development pipeline of social housing projects built up through 2021**
- > **Increased support for shared homeownership**
- > **Student accommodation activity expected to grow through forecast period**

Potential funding for new social housing provision has improved since 2020, with housing associations and other social housing providers better placed to finance and take forward new developments. However, despite the improved funding, increased construction costs appear to be constraining development activity.

SOCIAL HOUSING STARTS

	2021	2022f	2023f	2024f
£ million	8,113	7,383	7,125	7,124
Growth	16%	-9%	-3%	0%

f = forecast

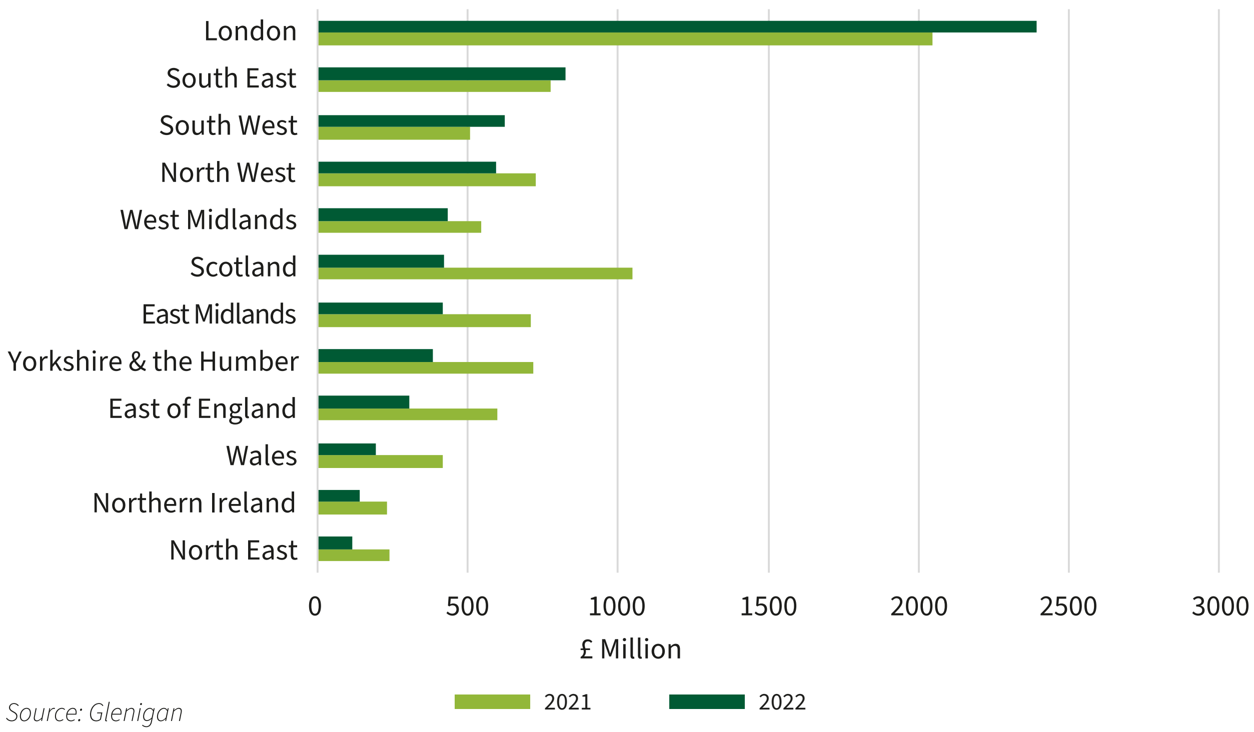
Associations now have greater flexibility to increase their borrowing to fund new developments following the easing of government restrictions that had capped association's rent increases to 1% below the rate of inflation. In addition, government capital funding has also increased. The Government aims to deliver 180,000 new homes in England over the 5 years to 2026 through its £11.5 billion Affordable Homes Programme (AFP).

Housing Associations have increasingly developed sites with mixed tenures and in partnership with other developers, providing the opportunity to cross-subsidise rented accommodation. Funding under the AFP will be similarly divided between discounted and affordable shared ownership properties.

Last year saw a sharp 16% recovery in affordable housing projects starting on-site as housing associations pressed on with schemes delayed during the pandemic. But, after this initial surge of work, project-starts have settled back during 2022. Approvals have similarly fallen back sharply this year. The declines may reflect the reappraisal by associations of projects' viability following the sharp rise in construction costs over the last 18 months.

A further weakening in affordable housing project-starts is anticipated over the forecast period as associations and other providers' development activity is constrained by higher construction costs.

Chart 5: Value of Underlying Social Housing (under £100 million) Detailed Planning Approvals



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

Student accommodation was a bright spot within 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. 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.

More positively, student numbers are on the rise, with university application numbers up 5% in 2022, partly fuelled by a return of applications deferred by the pandemic, but also higher numbers of 18-year-olds, according to official figures. This is set to increase progressively over the next decade.

Furthermore, universities are looking to increase the number of higher fee-paying international students, with UCAS research pointing to a potential 46% rise in overseas students over the next five years. If realised, this should provide a boost to the purpose-built student accommodation market over the medium term as halls of residence are especially popular with overseas students.

Project-starts partially recovered in 2021 as restrictions eased, and there has been a further strengthening in starts during 2022 as investors have pressed ahead with delayed projects.

Furthermore, investor confidence in the sector appears to be returning, with the value of student accommodation projects securing planning consent growing by a third during the first nine months of 2022. This is expected to support further growth in student accommodation starts during 2023 and 2024.

Industrial

2022 +25% 2023 -5% 2024 -8%

> **Project approvals at record highs**
> **Demand for warehouse and logistics space remains strong**
> **Weak manufacturing demand tempers starts**

Industrial starts have rebounded strongly from the pandemic over the last two years. Starts in the sector are set to grow by 25% this year, building on a 59% increase in 2021. The rise has been primarily driven by growth in logistics and light industrial projects. Project-starts in 2021 for both warehousing & logistics and manufacturing segments surpassed pre-pandemic levels and have grown strongly during 2022.

After the rapid growth in project starts over the last two years, the sector faces a period of consolidation during 2023 and 2024. Weak domestic and overseas demand is expected to temper manufacturing investment in new capacity and facilities. Nevertheless, project-starts are forecast to be 22% above pre-pandemic levels by the end of the forecast period.

INDUSTRIAL STARTS

	2021	2022f	2023f	2024f
£ million	5,667	7,067	6,709	6,163
Growth	59%	25%	-5%	-8%

f = forecast

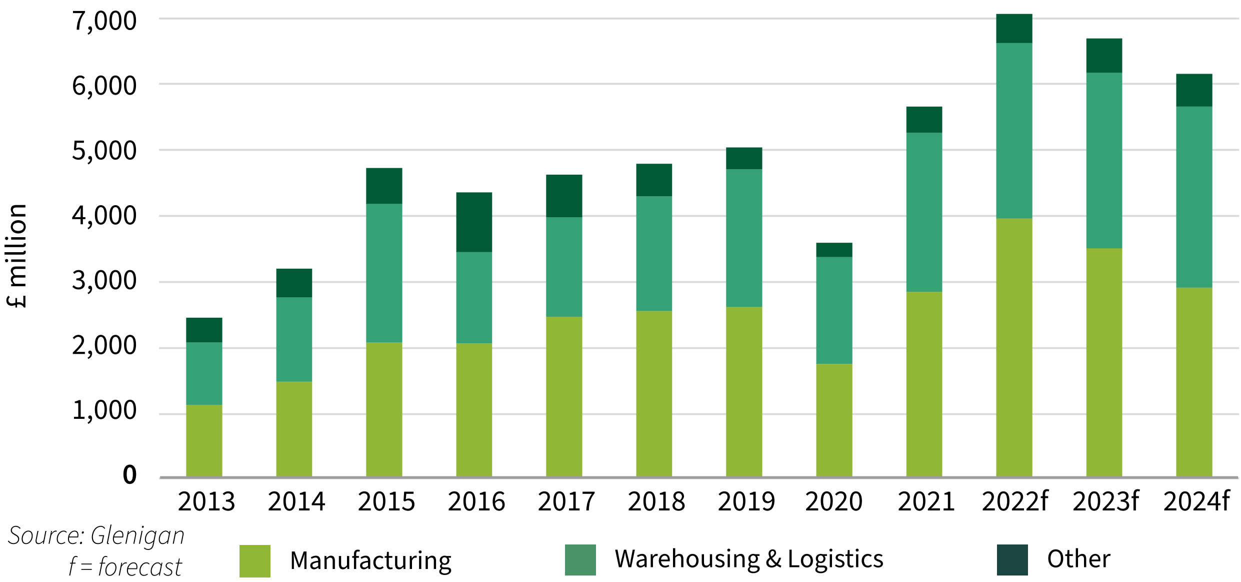
The warehousing & logistics segment was a rare bright spot during the pandemic, with shop closures prompting consumers to switch to online retailers, driving the demand for logistics space.

According to the Office for National Statistics, internet sales reached a peak of 37.8% of retail spending in January 2021. Online retailing's market share has subsequently fallen back, but at 24.2% in August it remains significantly-up on the pre-pandemic level of 19.1% in February 2020.

However, changing consumer spending habits as a result of rising costs of living could reduce demand for warehousing space in the short-term. Near term, consumers are reigning in discretionary spending which will impact upon many online retailers as well as high street operators. 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.

Similarly, the deep discounters, who have a limited online offering, are gaining market share in the supermarket sector as consumers become more price conscious. Although online retailers could lose some market share near term, e-commerce is expected to return to growth. Internet sales as a percentage of total retail sales are predicted to be above 30% by the end of the forecast period.

Chart 6: Value of Underlying Industrial Project-Starts (under £100 million) by Year

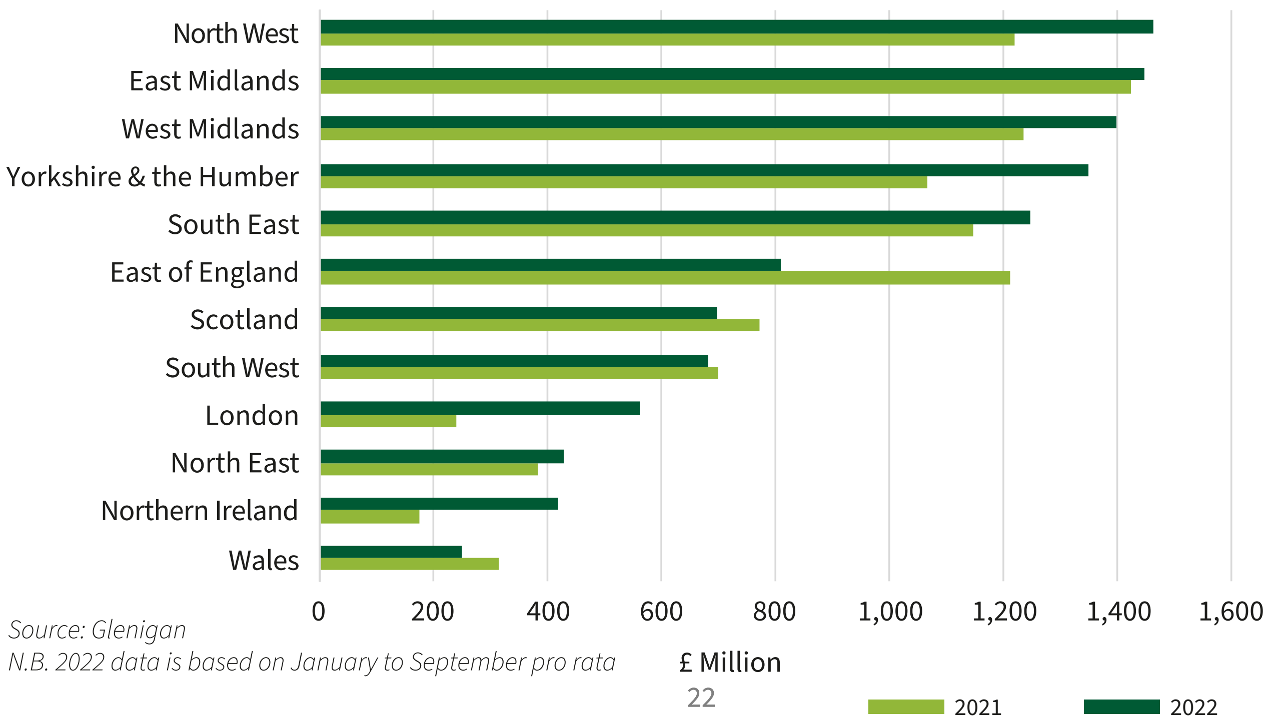


Source: Glenigan
f = forecast

The continued structural change in retailing is expected to support the demand for more logistics space, with warehousing & logistics projects remaining firm over the forecast period. The growth in online services may also have helped to buoy the demand for light industrial premises as such facilities can be used for distribution as well as manufacturing purposes. Manufacturing projects starting on-site in 2021 advanced 65% against the previous year and are set to grow by a further 39% this year.

UK Manufacturers' output rebounded sharply at the beginning of 2021 as the UK economy emerged from lockdown. However subsequent growth has been constrained by spiralling costs, shortages of labour and supply chain disruptions. The Ukraine war has exacerbated these pressures since February 2022, with manufacturers facing sharp increases in energy and raw material costs. Domestic and overseas demand for UK manufactures has also faltered as the UK and global economic growth has slowed. The September CIPS manufacturing survey found that UK manufacturing output declined for a third successive month as companies cut back production in response to declining new order intakes. Near term, manufacturers face weak demand, cost pressures and rising interest rates. Against this background, investment in new premises is expected to be weak over the forecast period as manufacturers prioritise efficiency and energy improvements over additional capacity and new premises.

Chart 7: Value of Underlying Industrial Project Approvals (under £100 million) in 2021 and 2022 Pro-Rata



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

Offices

2022	2023	2024
+4%	+5%	-3%

> **Recovery in project-starts sustained into 2022**

> **Hybrid working reshaping office demand and design**

> **Rise in extension and refurbishment opportunities**

The office sector was heavily impacted by the forced closure of sites during the pandemic. The value of project-starts fell 22% in 2020. However, the subsequent post-pandemic recovery has been strong as developers pressed on with new build projects delayed during the pandemic and landlords and occupiers refurbished accommodation to meet changing working practices.

After a 27% jump in starts during 2021, the sector is expected to grow by a further 4% in 2022. Office starts are forecast to edge higher in 2023 before slipping back slightly during 2024. Over the forecast period refurbishment and extension projects are expected to be an important driver for growth.

OFFICE STARTS

	2021	2022f	2023f	2024f
£ million	5,238	5,441	5,706	5,509
Growth	27%	4%	5%	-3%

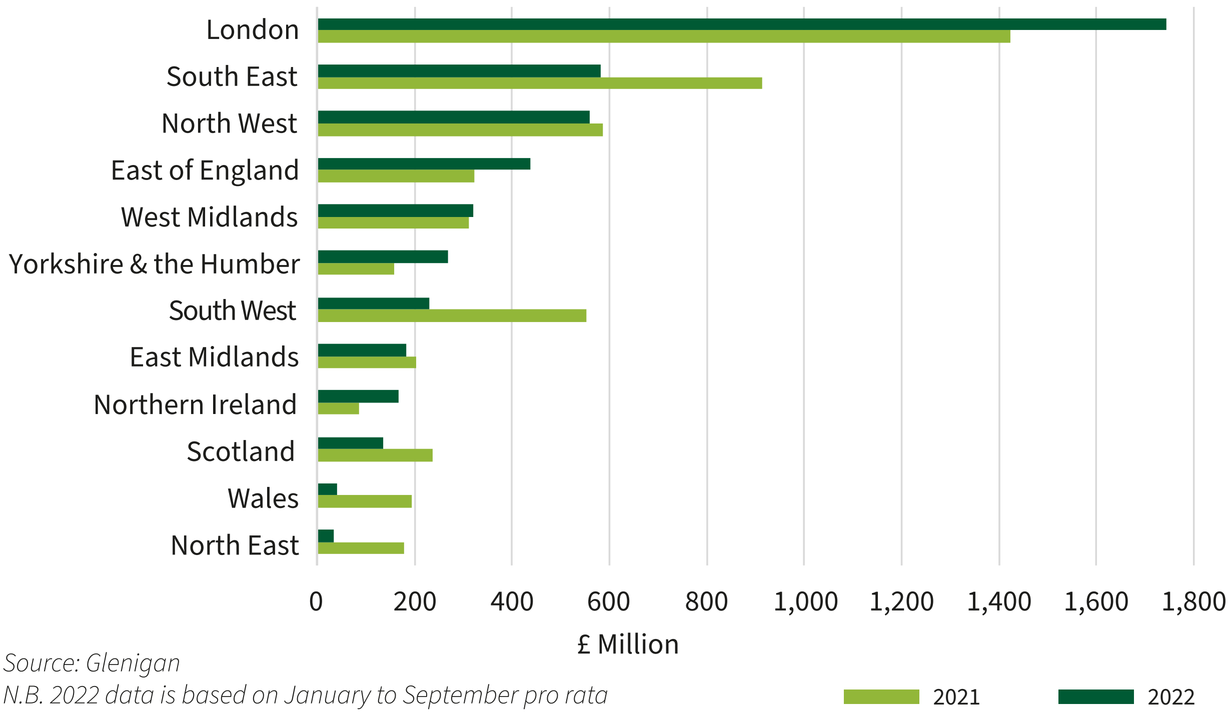
f = forecast

The pandemic radically changed working trends and has prompted 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 saying they planned to carry out a mix of working from home and their usual office.

This change in work patterns is set to reduce the overall floorspace requirements for many businesses but is also generating new fit out opportunities. Firms are remodelling premises to provide more modern and collaborative workspaces. The changes in floorspace requirements are also generating refurbishment opportunities as premises are sub-let. Alongside the changing demand from occupiers, some existing premises also require investment to meet energy efficiency standards. From April 2023, any let office accommodation, must reach a minimum EPC rating of band E. Legislation currently in Parliament will raise this threshold to band B by 2030.

The move to hybrid working has been especially prevalent in the Capital. Research by King's College London's Policy Institute and Business School showed that 75% of London-based staff had worked from home at least one day a week in Spring 2022, with 12% of those planning to work from home five days per week. The high level of hybrid working among London workers in part reflects the greater prevalence of office-based occupations and other factors such as longer and more expensive commuting times. The central London office market is accordingly most exposed to the potential change in design and overall demand for office accommodation.

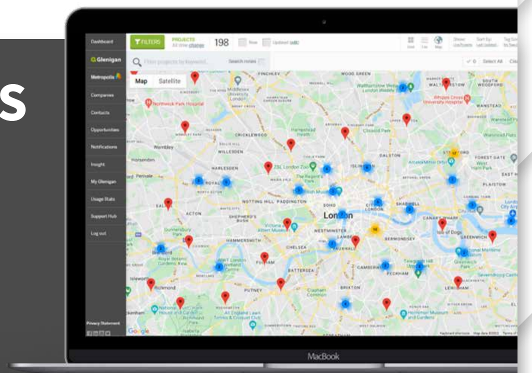
Chart 8: Value of Underlying Office Project Approvals (under £100 million) in 2021 and 2022 Pro-Rata



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

These refurbishments are currently driving underlying activity (under £100 million) in the office sector, accounting for a record share of 91% of all starts in the Capital according to the latest Deloitte London Office Crane Survey. Longer term they may also reduce the overall demand for central London floorspace. Nevertheless, central London continues to dominate the office sector with the Capital accounting for 45% of projects starting during the first nine months of 2022. The development pipeline has also improved, with detailed planning approvals growing by 26% during the same period against a weak performance during 2021.

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. However, firms reviewing their need for office space, together with floorspace from developments already on-site adding to current supply levels, may hold back new office development activity over the forecast period. Whilst the value of projects starting on site in the North West rose sharply during the first nine months of 2022, starts have fallen back in the West Midlands and Yorkshire & the Humber.



Retail

2022 -11% 2023 -4% 2024 +10%

> **Consumer squeeze will dampen retail sales and curb sector activity**

> **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 will face continued pressure during 2023 from weak consumer spending growth and renewed competition from online retailing.

After a firm rebound in retail starts in 2021, the sector has lost momentum during 2022. A further weakening in retail development activity is anticipated during 2023 and 2024 as retailers rationalise their stores in the face of high inflation and weakening consumer confidence.

RETAIL STARTS

	2021	2022f	2023f	2024f
£ million	1,920	1,701	1,635	1,806
Growth	39%	-11%	-4%	10%

f = forecast

Retailers face challenging conditions as high inflation and energy costs squeeze household budgets. Rising prices have depressed retail sales volumes since the start of the year. Whilst the value of retail sales during August 2022 was 5% up on a year ago, the volumes of sales purchased was 4.7% lower. In addition, GfK's Consumer Index reached a record low during September 2022 as consumers worried about their personal finances and the UK economic outlook.

The demand for retail premises and construction also faces the challenge of structural changes in retail spending habits. Whilst online sales have lost market share from their peak level of 37.8%, seen at the start of 2021, they remain above pre-pandemic levels.

Although near term online sales market share may be squeezed as households reign in discretionary spending, internet purchases are still expected to account for a growing share of retail spending over the forecast period.

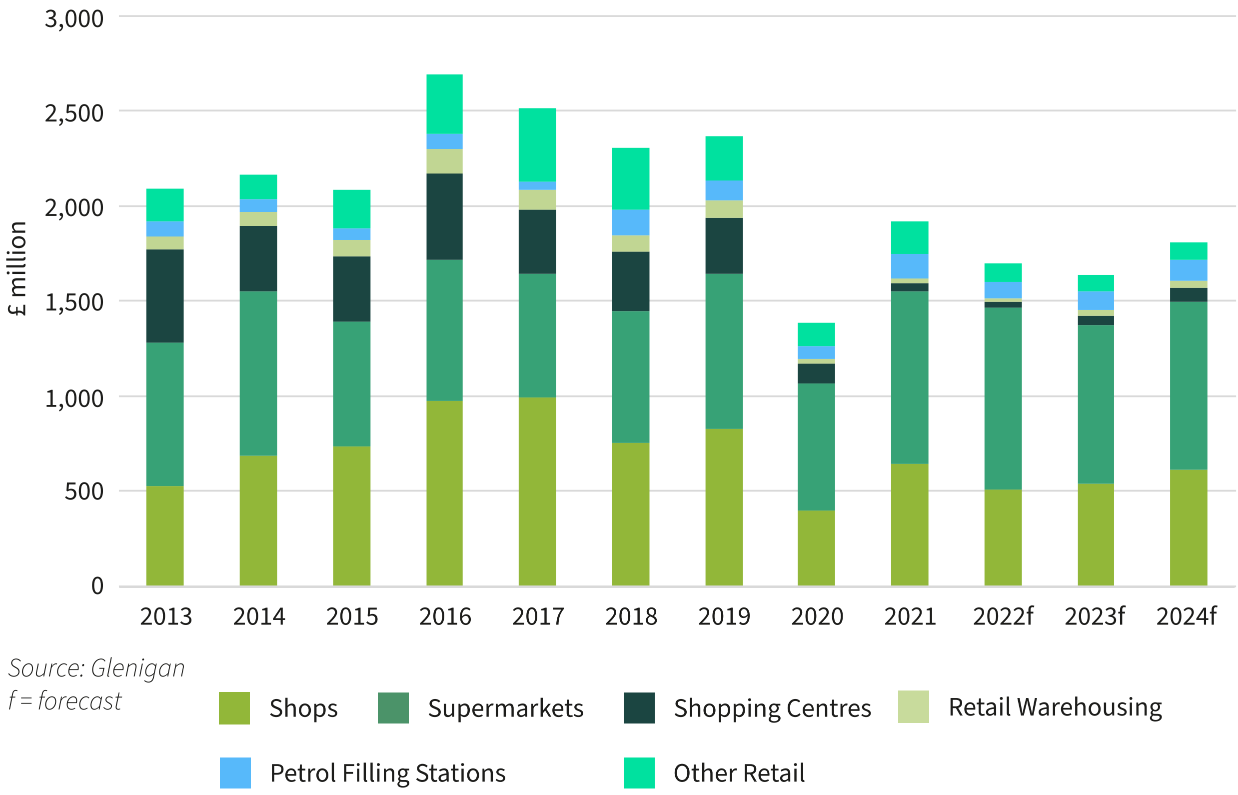
Grocery stores performed well during the pandemic, but inflationary pressures continue to mount, putting pressure on the major supermarket chains. Grocery store sales volumes in August 2022 were 4.5% lower than a year ago as household budgets have been squeezed by rising prices. Higher costs have hit supermarkets as well as consumers with their margins under pressure.

The deep discounters are well placed to benefit as consumers seek out value for money. According to Kantar the four leading supermarkets have all lost market share over the last year, while deep discounters Aldi and Lidl have seen their combined market share climb from 14.2% to 16.4% of the grocery market. Both firms are investing in new stores which will support further growth over the forecast period. Lidl announced previously that it had set a target of operating 1,100 UK stores by the end of 2025, while Aldi is pushing ahead with plans to add a further 100 stores by the end of 2023.

Non-food sales have also slowed, with clothing and footwear sales especially weak in recent months. According to the Office for National Statistics these segments were 17% lower in August 2022 than the year before.

Against the backdrop of falling retail sales volumes, and competition from online retailing, the retail property market continues to face weakening demand for more space, with retailers seeking to rationalise their existing estates. Retail starts are expected to decline by 11% in 2022 with a further 5% fall forecast in 2023. A brighter economic outlook with the prospect of stronger consumer spending is expected to support a 10% recovery in starts during 2024.

Chart 9: Value of Underlying Retail Project-Starts (under £100 million) by Segment



Source: Glenigan
f = forecast

Hotel & Leisure

2022 -6% 2023 +9% 2024 +2%

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

The hospitality sector suffered protracted closures and restrictions on their operations during the pandemic, and the hotel and leisure sector has been slow to recover. In addition, the collapse and slow recovery in overseas visitor numbers to the UK has hit parts of the hospitality sector hard. The sharp rise in energy, material and labour costs over the last 12 months have also increased the pressure on the viability of many hospitality businesses.

Furthermore, falling real household incomes is expected to limit consumer discretionary spending during 2023 as many consumers prioritise heating and other essential spending. This will affect revenues and profitability within the hospitality industry, prompting businesses to delay planned capital expenditure.

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

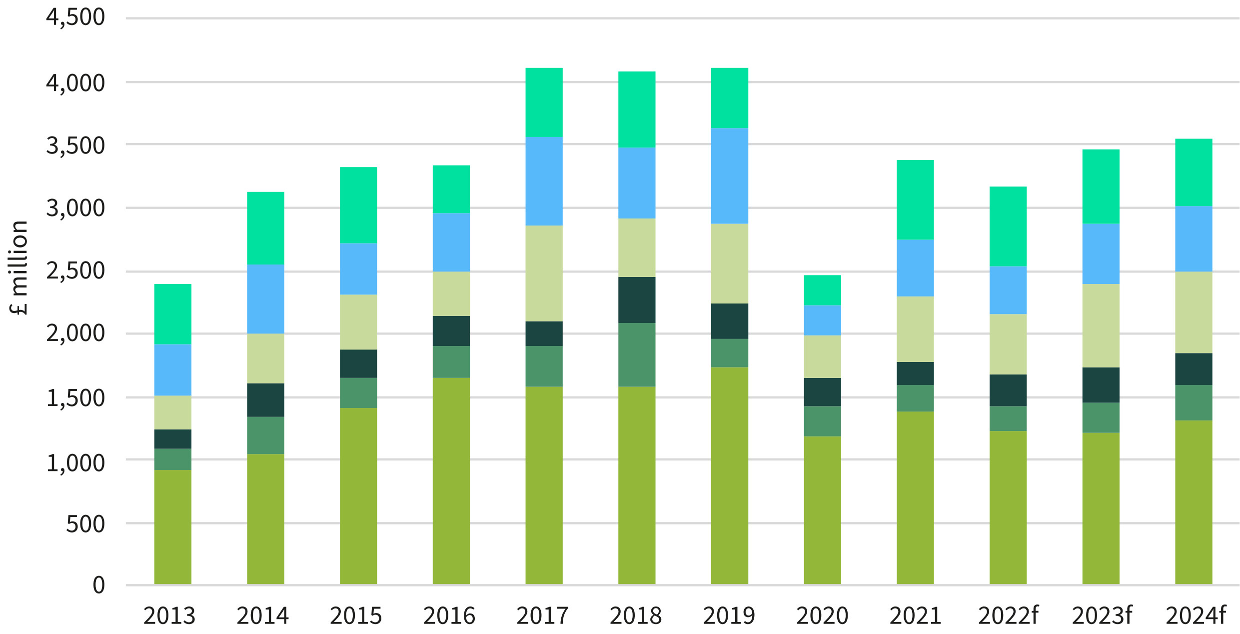
The latest forecast from Visit Britain anticipated 2022 inbound visits to the UK to total 26.7 million, which equates to just 65% of the visits seen in 2019. Whilst overseas visitor numbers are unlikely to fully recover during the forecast period, overseas tourism and business travel are expected to grow progressively over the next two years. This will be particularly welcomed by hospitality businesses in areas such as London that are heavily dependent upon overseas visitors.

HOTEL & LEISURE STARTS

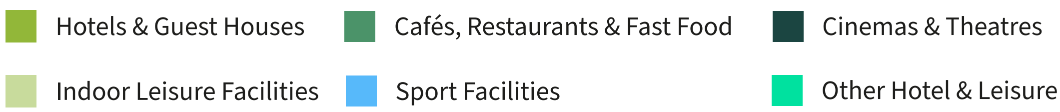
	2021	2022f	2023f	2024f
£ million	3,375	3,188	3,469	3,552
Growth	37%	-6%	9%	2%

f = forecast

Chart 10: Value of Underlying Hotel & Leisure Project-Starts (under £100 million) by Year



Source: Glenigan
f = forecast



An increase in domestic tourism partially offset the impact of the decline in overseas visitors during the last two years. Looking ahead, an increase in UK residents returning to holidaying overseas is likely to partially reset the recovery in overseas visitor numbers. This will hold back the sector from making a significant recovery during the forecast period.

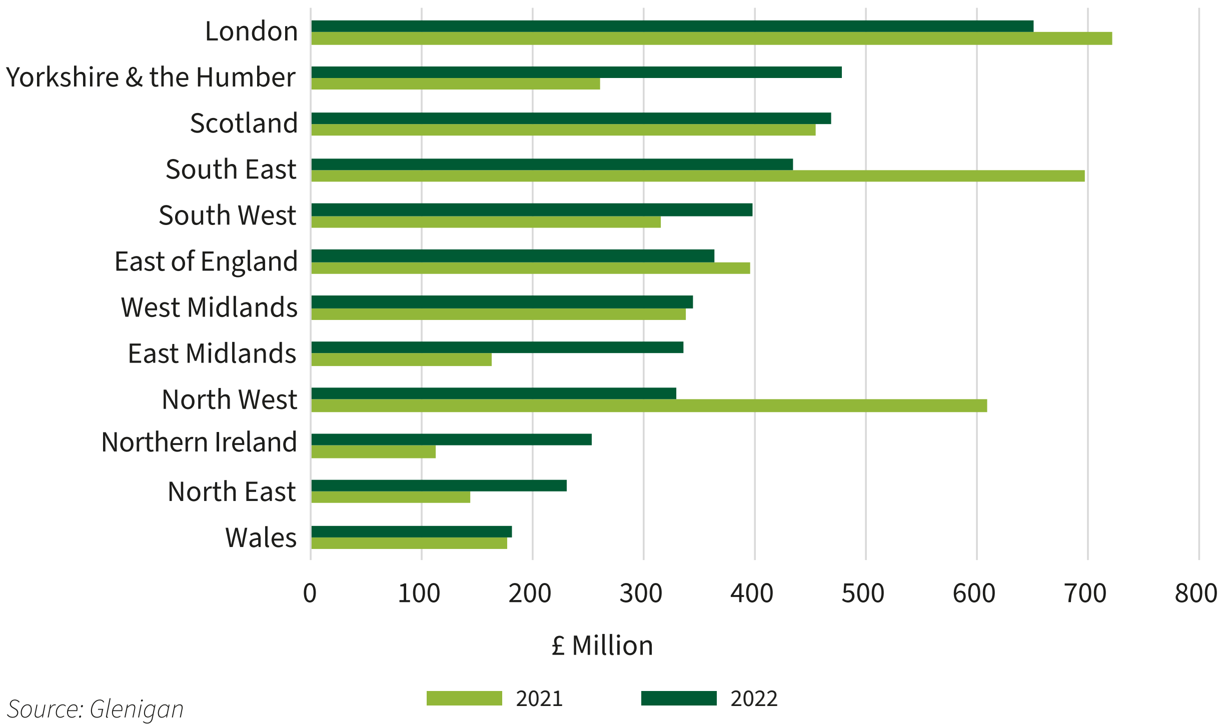
As with all areas within the sector, hotels faced continued restrictions throughout the pandemic and investors have remained cautious. Hotel project-starts partially recovered in 2021, rising by 17%, but have fallen by an estimated 11% during 2022. The hotel development pipeline has continued to contract, with the value of hotel projects securing planning consent dropping by 26% during the first nine months of 2022 (pro rata) to stand 52% down on pre-pandemic levels. Hotel project-starts are forecast to remain subdued in 2023, before growing by 8% during 2024.

A firmer development pipeline bodes well for other parts of the hotel & leisure sector, potentially reflecting the relative importance of spending by UK residents over the last two years. The value of detailed planning approvals of indoor leisure projects has been particularly firm during 2021 and 2022 and is expected to be a growth area within the sector over the forecast period as approved projects feed through to work on site.

Like hotels, the hospitality sectors were boosted during the summer of 2021 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 (under £100 million) in 2021 and 2022 Pro-Rata



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

Education

2022 -15%   2023 +13%   2024 +5%

- **> Disappointing performance in 2022**
- **> Gradual increase in activity anticipated from 2023**
- **> Increase in investment in school buildings and further education facilities**

The Spending Review in October 2021 included a substantial increase in the Department of Education's annual capital budget for 2022/23, before falling back for 2024/25. This is expected to lift sector activity from 2023. However, this forecast was prepared ahead of the Chancellor's Autumn statement on 17 November 2022, which may include a revision to public sector capital funding and present a downside risk to the forecast.

EDUCATION STARTS

	2021	2022f	2023f	2024f
£ million	4,884	4,149	4,680	4,931
Growth	14%	-15%	13%	5%

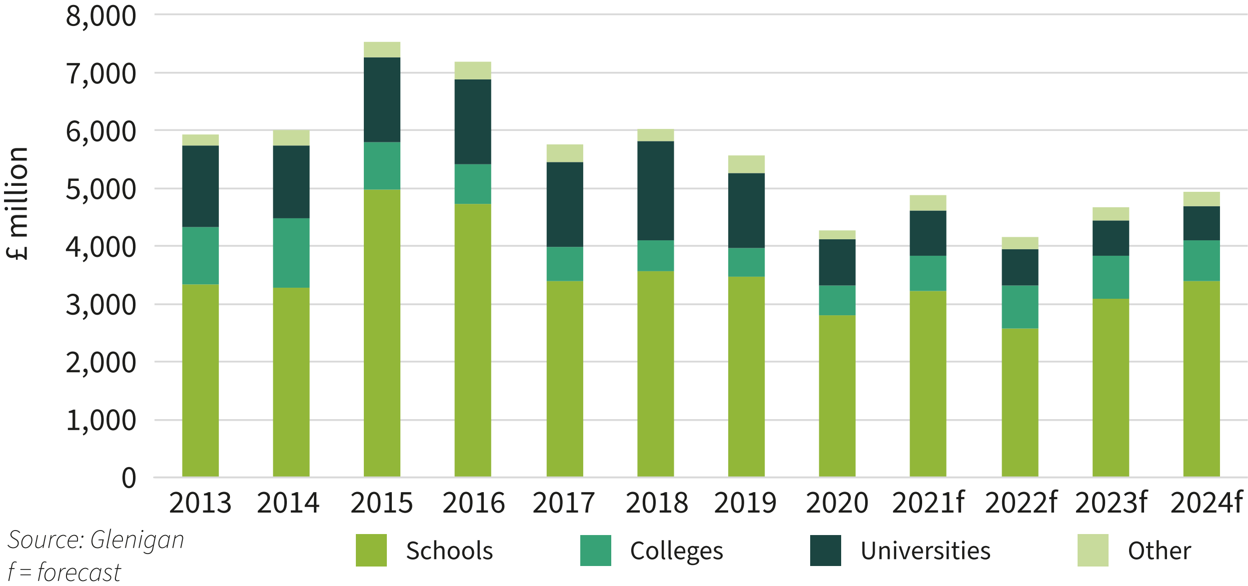
f = forecast

The number of secondary school pupils is predicted to rise by 213,000 over the six years to 2026, with the peak expected at the end of the forecast period in 2024, according to the Department of Education. However, investment in additional capacity to accommodate this rise has been slow. School project-starts picked up in 2021 but stalled during the first nine months of 2022.

The Government has committed to rebuilding 500 schools over the next decade, but progress has been slow. The first 100 schools, as part of this programme were announced in 2021, with a further 61 schools announced in July 2022. The improvement programme is expected to help lift school building work over the forecast period despite a weakening in starts in 2022.

In contrast a strong development pipeline has fed through to an estimated 23% rise in further education project-starts in the last year, building on a 19% increase seen in 2021. Project-starts are forecast to remain firm in 2023.

Chart 12: Value of Underlying Education Project-Starts (under £100 million) by Year

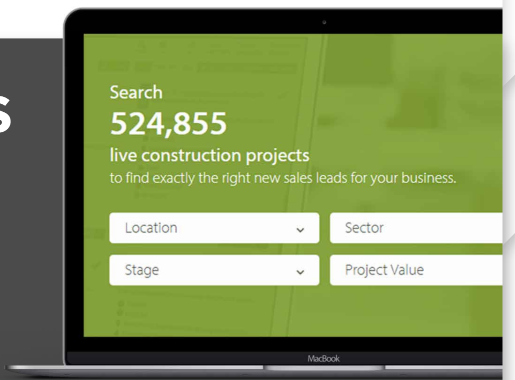


Source: Glenigan
f = forecast

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

The pandemic exacerbated the financial issues already facing universities, with the number of higher fee-paying overseas students falling, and increasing numbers of students deferring their applications. This had a direct impact both on income and on 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. The value of higher education projects securing detailed planning consent dropped by 49% in 2021 and remained weak during the first nine months of 2022. We expect university project-starts to fall by 20% in 2022 and to remain weak over the forecast period.

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



Health

2022 +2% 2023 -6% 2024 +1%

> **Project-starts forecast to remain above pre-pandemic levels**
> **Increase in NHS capital funding over the forecast period**

The health sector was the best performing sector during the pandemic as the Government created the network of Nightingale temporary hospitals. Project-starts have subsequently remained high during 2021 and 2022. Furthermore, a 3.8% real-term growth rate in NHS capital funding is set to boost project-starts throughout the forecast period. However, this forecast was prepared ahead of the Chancellor's Autumn statement on 17 November 2022, which may include a revision to NHS capital funding and presents a potential downside risk to the forecast.

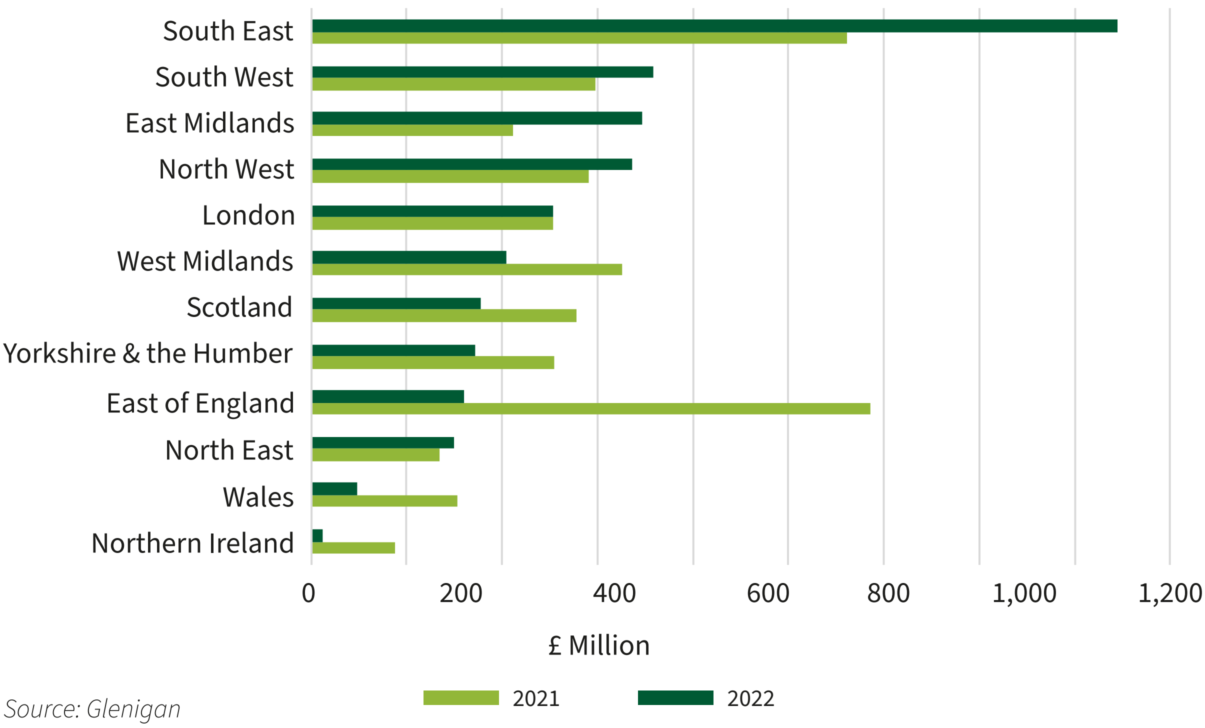
HEALTH STARTS

	2021	2022f	2023f	2024f
£ million	3,084	3,157	2,957	2,986
Growth	3%	2%	-6%	1%

f = forecast

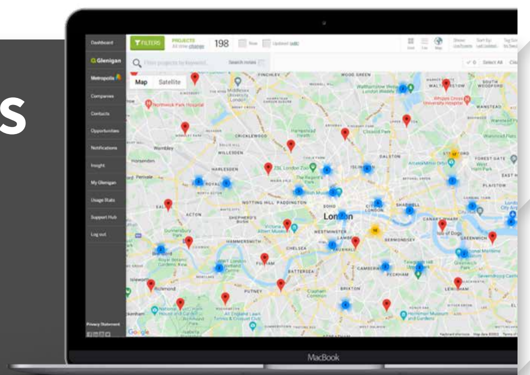
The Spending Review in October 2021 included a £4.2 billion increase in capital spending for the Department of Health over the current Parliament. The Government also previously announced plans for 40 'new hospitals' by 2030 and the upgrade of over 70 hospitals during the same period. Progress to projects starting on-site has been slow, but the development pipeline remains at a high level. Despite a softening in the value of approvals during the first nine months of 2022, approvals are up by a third on 2019.

Chart 13: Value of Underlying Health Approvals (under £100 million) by Year and Region



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

The stronger development pipeline and the additional government funding promised in the last Spending Review are expected to support sector activity above pre-pandemic levels throughout the forecast period. The value of starts is expected to edge 2% higher in 2022, before slipping back 6% in 2023.



Civil Engineering

2022 -4% 2023 +1% 2024 +3%

> **Government looking to accelerate delivery of infrastructure projects**
> **Major projects support overall sector work**
> **Energy projects to play vital role in sector activity**

Whilst underlying project-starts (under £100 million) are set to weaken in 2022 before improving in 2023, existing and planned major projects (over £100 million) will support a lift in sector activity over the next three years.

Civil engineering starts rose sharply in 2021 as the industry emerged from the pandemic but are set to fall back 4% in 2022 following a decline in main contract awards and detailed planning approvals. The current weakness is forecast to be short-lived, however, with a gradual strengthening in underlying starts anticipated for the next two years.

CIVIL ENGINEERING STARTS

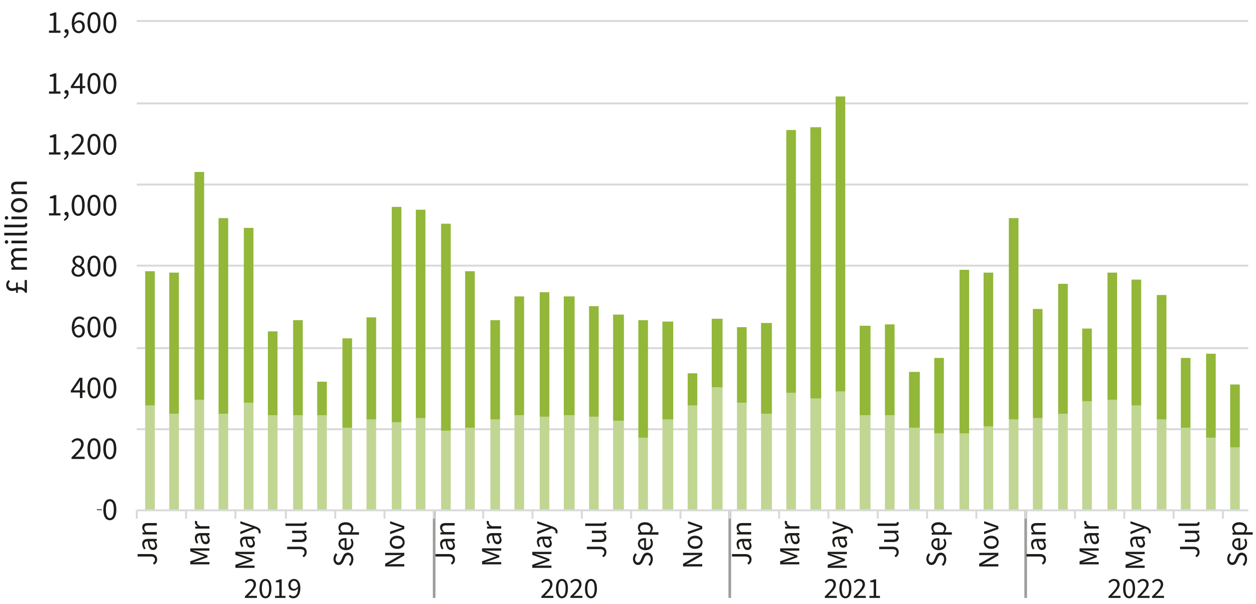
	2021	2022f	2023f	2024f
£ million	7,224	6,930	6,973	7,189
Growth	12%	-4%	1%	3%

f = forecast

Whilst the value of underlying project-starts has slipped back, overall sector activity remains firm as several major projects, including HS2, support industry workload. Major projects such as the £3 billion Sofia Wind Farm expansion and various HS2 related schemes will continue to be important drivers for sector activity over the forecast period.

The administration has reiterated the Government's intension to press on with infrastructure investment as a key part of its UK growth Strategy. The mini-Budget detailed numerous infrastructure projects, including 86 road schemes that the Government wants to get on site by the end of 2023. These include national roads projects covered by the £24 billion Road Investment Strategy (RIS2) and planned local authority road improvements. The forthcoming Autumn Statement will hopefully reiterate the Government's commitment to delivering these projects.

Chart 14: Value of Civil Engineering Main Contract Awards by Month



Source: Glenigan
f = forecast

HS2 will continue to make a vital contribution to sector activity as work on Phase 1 continues throughout the forecast period. 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, North Portal Chiltern Tunnel, and the Brackley to South Portal tunnel.

Network Rail's five-year investment programme (CP6) runs until March 2024. Through the CP6 programme 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.

Energy security has become a high priority for the UK Government following the sharp rise in energy prices and the reduction in Russian gas supplies. Prior to the energy crisis the Government's Energy White Paper had set out the UK's path to being carbon 'net zero' by 2050. Whilst the new administration's carbon commitments appear less certain, the need for energy security should continue to drive investment in more offshore capacity, alongside the development of nuclear and other UK-based generating capacity. The White Paper set the ambition of quadrupling offshore wind capacity to 40GW by 2030. The sector was 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.

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 -5% 2023 +2% 2024 +14%

Construction activity in the Republic of Ireland rebounded from the impact of the pandemic in the second quarter of 2021; with the value of project-starts growing by 35% during the year as a whole. However, as the economic outlook has deteriorated, and the pace of the recovery has lost momentum in 2022; further consolidation is anticipated for 2023. Brighter economic prospects are expected to lift construction starts from 2024.

The Irish economy has continued to bounce back from the pandemic, despite global economic headwinds, with growth of 13.5% in 2021, and projected growth of 7.5% in 2022 according to the IMF. Whilst rapid growth during 2021 and 2022 has been supported by the strength of multinational companies, the wider economy has also grown strongly. Industrial production and consumer spending are currently well above pre-pandemic levels.

Table 3: Value of Underlying Project Starts (under €100 million) by Sector

£Million	2021	2022f	2023f	2024f
AGRICULTURE	93	74	59	77
CIVIL AND UTILITIES	592	533	559	615
COMMERCIAL	577	490	500	550
COMMUNITY AND SPORT	131	238	178	185
EDUCATION	310	501	542	585
HOSPITALITY	164	110	121	145
INDUSTRIAL	1,012	1,265	1,518	1,746
MEDICAL	392	353	477	548
RESIDENTIAL	4,914	4,177	3,968	4,563
ALL	**8,185**	**7,741**	**7,923**	**9,015**

Source: CIS & Glenigan

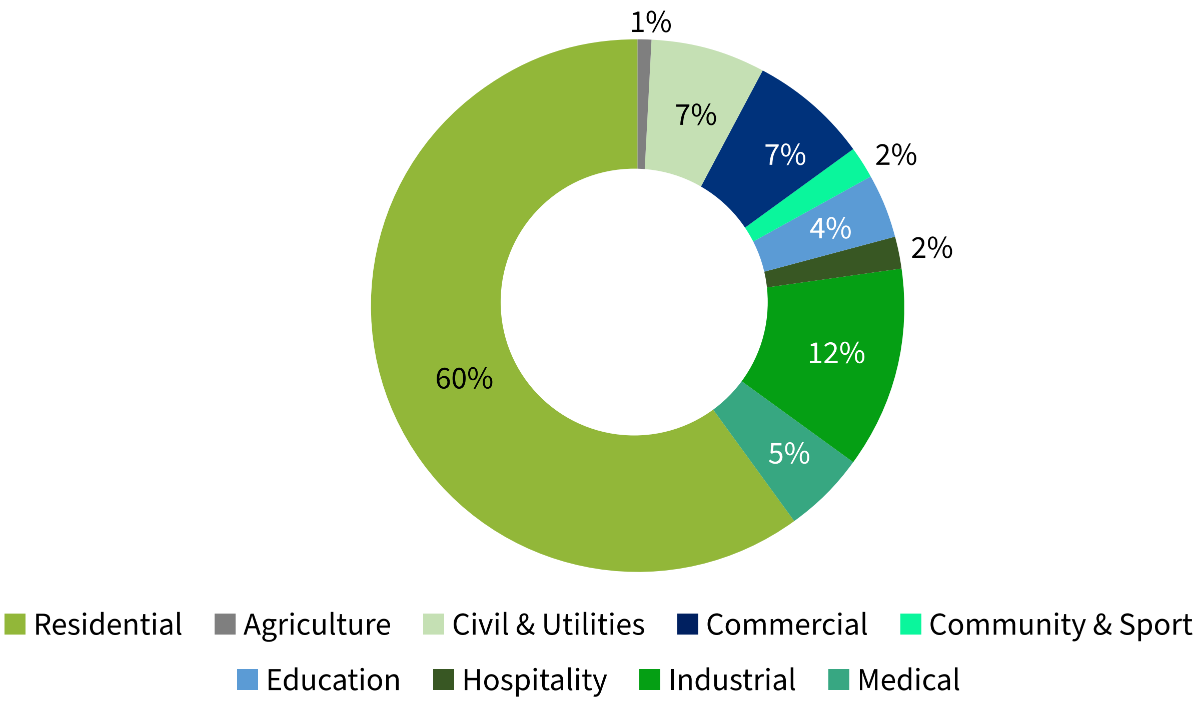
Higher energy costs and rising inflation are set to dent consumer confidence and slow consumer spending-growth during 2023. However, a substantial government support package will partially offset the impact. The Government estimates that modified domestic demand growth (excluding the distortion of the multinational sector) will slow sharply from 7.7% in 2022 to 1.2% in 2023, before strengthening in 2024. Inflation is predicted to average just over 7% next year.

Table 4: Growth in the value of Underlying Project Starts (under €100 million) by Sector

Annual Change	2021	2022f	2023f	2024f
AGRICULTURE	-28%	-21%	-20%	30%
CIVIL AND UTILITIES	81%	-10%	5%	10%
COMMERCIAL	-23%	-15%	2%	10%
COMMUNITY AND SPORT	-25%	82%	-25%	4%
EDUCATION	-1%	62%	8%	8%
HOSPITALITY	131%	-33%	10%	20%
INDUSTRIAL	69%	25%	20%	15%
MEDICAL	3%	-10%	35%	15%
RESIDENTIAL	49%	-15%	-5%	15%
ALL	**35%**	**-5%**	**2%**	**14%**

Source: CIS & Glenigan

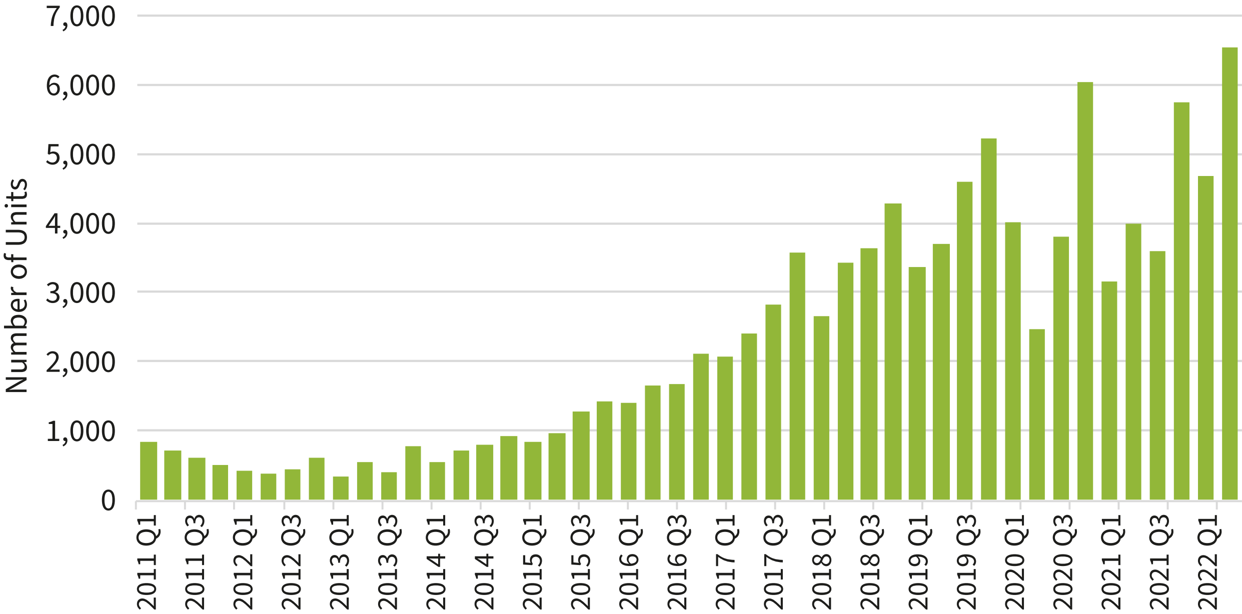
Chart 15: Value of Construction Starts in 2022 Q1-3



PRIVATE RESIDENTIAL

Residential is the dominant construction sector, accounting for 60% of projects started by value during the first nine months of 2022. 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 larger sites tend to be phased over a longer time period than for smaller sites, the measure has supported a step change for new unit completions over the last five years, despite the disruption during the pandemic.

Chart 16: Number of new housing units completed



Source: Central Statistics Office

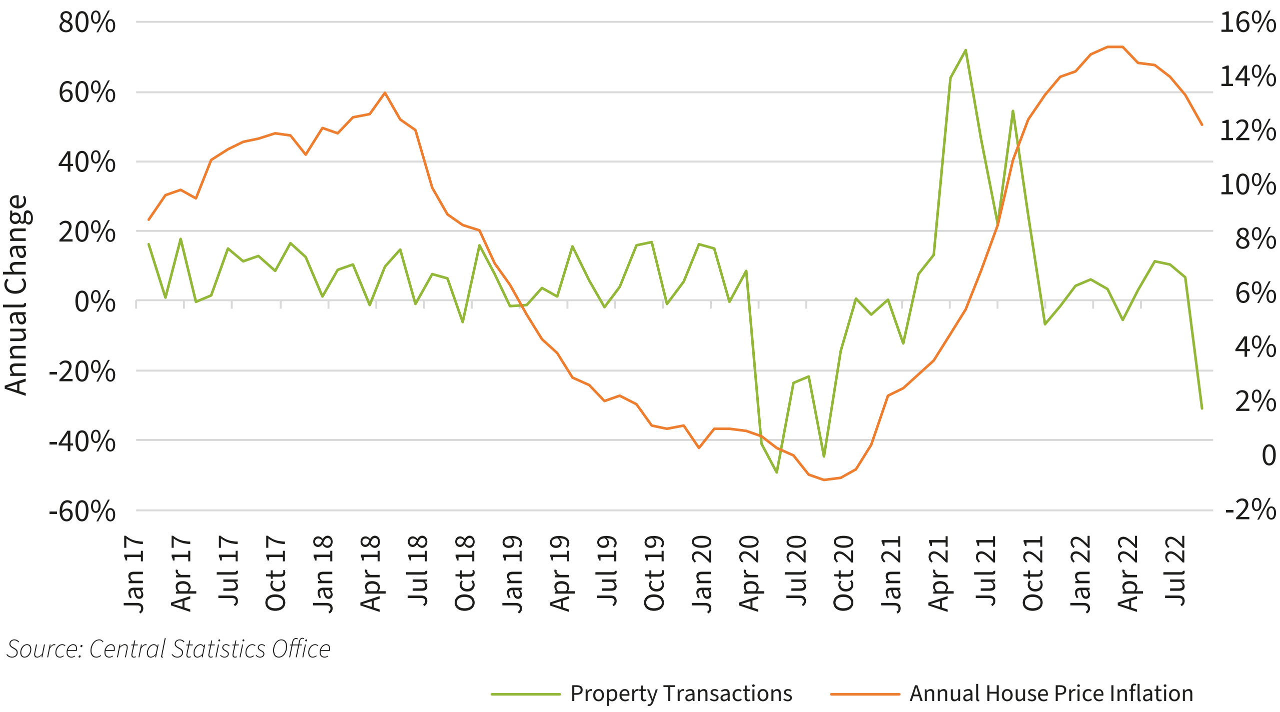
Strong demand from purchasers helped to boost the recovery in residential starts in 2021. After disruption in the first quarter, project starts rebounded sharply during the following quarters as developers pressed ahead with delayed projects. Subsequently, the value of residential starts rose by 49% last year.

House price inflation has moderated this year and the number of property transactions has plateaued after the strong recovery in market activity during 2021. Annual house price inflation has begun to moderate. Prices in August 2022 were 12.2% up on 2021 prices, down from a peak annual rate of 15.1% in March 2022. The number of property transactions during the first nine months of 2022 was unchanged on a year ago, although August saw a sharp drop in transactions. A further cooling in housing market activity is anticipated over the next twelve months.

A slowing in housing market activity, together with the sharp rise in construction material prices and labour shortages, is prompting developers to increase their focus on building out existing sites rather than starting new ones.

Residential starts have softened slightly during 2022 and are expected to be 19% down on the exceptional levels seen in 2021. Further consolidation is anticipated during 2023 as rising inflation slows households' income growth and increases consumer caution.

Chart 17: Housing Market Activity



Source: Central Statistics Office

Having plateaued during 2020 and 2021 after a number of years of strong growth, the flow of residential projects securing planning consent has fallen back this year. The number of residential projects securing approval during the first nine months of 2022 was 6% lower than the previous year, while the value of project approvals dropped by 24%. The decline in approvals and the weaker market outlook are expected to temper starts in 2023 as fewer larger projects are brought forward.

In contrast to approvals, the number and value of residential applications remains strong. The number of applications during the first nine months of 2022 were 10% up on 2021, while the value of applications grew by 37%. The rise in applications should strengthen the development pipeline over the medium term and support a renewed growth in project-starts from 2024 as the wider economic picture brightens.

PRIVATE NON-RESIDENTIAL

The value of industrial project-starts grew sharply last year: rising by 69%. A shift in consumer shopping habits to online retailers during the pandemic has fuelled increased investment in distribution and warehousing projects. Ireland has also emerged as a favoured data centre location for global tech companies. Demand for industrial space remains strong, with CBRE reporting that the Industrial and Logistics markets in Dublin experienced its strongest ever quarter; with the take-up of 187,000 sqm of floorspace in Q3: over three times the long-term quarterly average.

The development pipeline has also grown sharply over the last 24 months and has underpinned an estimated 25% rise in the value of 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 nine months of 2022 points to a further decline. Although CBRE has reported a pick-up in interest from office occupiers for accommodation, and the marked strengthening in the value of planning applications this year, slower economic growth, and higher interest rates are expected to temper sector activity during 2023. Brighter economic prospects are forecast to support a 10% rise in sector starts during 2024.

GOVERNMENT INVESTMENT

Education starts increased sharply during the first nine months 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 2021 to 2025 period.

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. However, although the value of project-starts fell back by 18% during the first nine months of 2022, the value of health projects securing approval was little changed on the previous year. This is expected to moderate the rise in sector starts to 10% next year, with stronger growth of 15% forecast for 2024.

The value of civil and utilities project-starts fell back 18% during the first nine months of 2022 after a sharp 81% jump in starts in 2021. Whilst starts are forecast to decline by 10% this year, they will remain at historically high levels. A firm development pipeline is expected to support further modest growth over the forecast period.

Key Recommendations

Construction faces a challenging trading environment. The war in Ukraine has stalled the UK's post-Covid recovery and exacerbated the disruption of supply chains and materials and energy costs. Firms will have to be responsive and adaptable in order to mitigate risks in the current marketplace and exploit new opportunities as they emerge over the next two years.

IDENTIFY AND EXPLOIT NEW GROWTH AREAS

The pattern of UK construction activity is being reshaped by the economic slowdown and structural changes. Over the next two years, the best performing sectors will differ from those prior to the pandemic. The nature of these growth areas is evolving. Structural changes are expected to create new opportunities in warehousing & logistics, office refurbishment and fit out.

Increased Government funding is expected to drive the Education, Health, Civil Engineering, and Community & Amenity sectors, although departmental budgets are potentially vulnerable to steps by the new administration to curb public expenditure. Regionally, construction markets in the northern half of 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 and 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 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 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 just a few clients.

ON-SITE EFFICIENCY AND COLLABORATIVE WORKING

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

The industry's qualified workforce has been shrunk by reduced access to skilled EU labour, and loss of UK workers post-pandemic, to other industries and early retirement. Although the slowing in industry workload may partially ease these pressures near term, skilled labour availability threatens to increase construction costs and disrupt the timely delivery of projects. This 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 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

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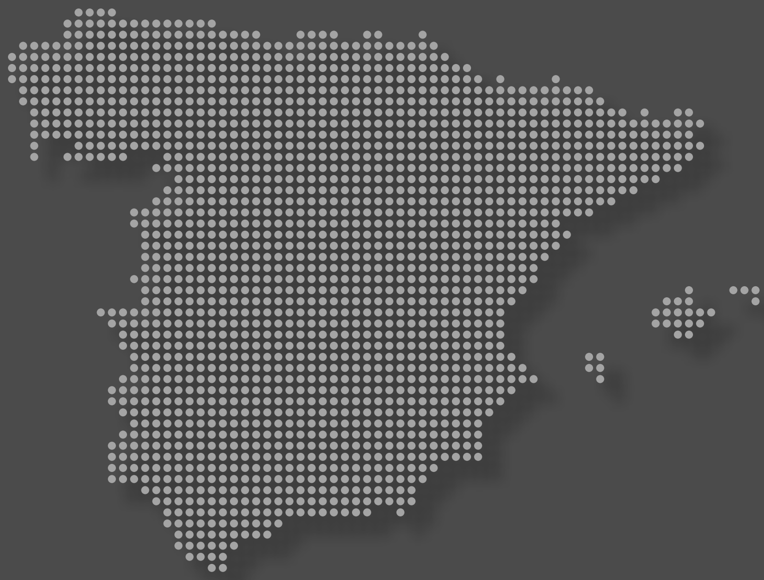
Spain



CURRENT MARKET PERFORMANCE

The inflationary context has not stopped rising in the last months in all European markets and countries. Spain has been no exception, where inflation seems to have peaked at between 9% and 10%.

In this situation, the construction sector maintains its growth and shows unprecedented agility and flexibility to adapt and achieve continuity in its figures, with levels of companies and employment volumes in continuous evolution.

This evolution differs depending on whether we are talking about the public or private sector. In particular, the private sector has led this strategy, specifically the residential sector, through reforms and energy adaptations in homes to combat high energy prices and take advantage of European funds.

In the public sector, the increase in the price of construction materials has left almost 2,000 public contracts void. This, together with the fact that the rates used to draw up the specifications have not been modified, has meant that nearly 900 million euros have not been awarded, putting at risk the fulfilment of the execution objectives of major public projects.

FORECAST

Under the current circumstances, it is very difficult to predict what will happen in the short term. Leading experts in the subject have cut their growth forecasts for the coming year. In some cases, they are even beginning to predict a slight downturn in the sector.

Roberto Fernández
Chief Executive Officer
CONSTRUDATA 21

Norway

CURRENT MARKET PERFORMANCE

The Norwegian market is showing a clear, and ongoing, economic slowdown, but we believe that the construction markets will cope well. As we see declining volumes of projects in the construction and civil engineering sectors, we inevitably see improved capacity in several subcontractor markets.

Construction cost indices are thought to have peaked, although there are variations among different products. Certain energy-intensive goods like cement and steel may still become more expensive, but prices are falling in the timber, logistics and fuel segments.

FORECAST

The industry downturn is currently expected to be moderate and the reduced pressure on the market is positive from a resource supply and expertise perspective. Water supply and sewerage and energy may replace transport infrastructure as the leading market trend.

Lars Schön
Chief Executive Officer
BYGGFAKTA GROUP

Denmark

CURRENT MARKET PERFORMANCE

Rising construction costs and interest rates have set the tone for the Danish project market in the second half of 2022. Since the war in Ukraine began, there has been a delay until the expected drop in the number of new constructions was registered. Construction reached a record high in the first half of 2022, and it is only from the third quarter that a slowdown can be detected – here however, the decrease is significant.

The forecast for 2022 shows a small increase in initiated construction works from 2021 to 2022. But 60% of the total construction in 2022 began in the first half of the year.

All sectors experienced a slowdown in the third quarter, but some sectors have been hit harder than others. Residential construction (especially social housing) and public construction (especially municipal construction) have had difficulty dealing with the increasing construction costs. Commercial construction is also experiencing a decline in the second half of 2022, but thanks to several large-scale projects within transport/logistics, data centers and pharma, these sectors will reach a record high in 2022.

FORECAST

There are both positive and negative indicators for the development in 2023-2024. All predictions for the general economic development point in a negative direction: interest rates will rise further; inflation will remain high, and growth will be low. Normally, the construction industry has been extremely sensitive to economic fluctuations, but right now the pipeline of projects that are planned to start construction in 2023-2024 is historically large. The challenges are real, and therefore we cannot expect a quick turnaround like after Covid-19. Neither can the situation be fully compared to the financial crisis in 2008, because the construction industry in Denmark is in many ways in a very different place today.

In 2008 much of the private housing construction was loan-financed speculative construction. Today, solid institutional investors and rental properties make up a much larger part of the market. Social housing construction will continue to be challenged by high construction costs, but initiatives to increase funding have already been taken by the government. Overall, residential construction in 2023-2024 is expected to return to the level of 2021. Commercial construction is also expected to maintain a relatively high level. Public sector construction will decrease in most areas. Only civil works will rise as the roll-out of Infrastructure Plan 2035 begins in 2023.

In conclusion, there is great uncertainty about the planned projects in 2023-2024 and many will likely be postponed. Even so, the large pipeline means that construction is expected to reach the same level in 2023 as in 2022 and 2021. In 2024 there may even be a small growth due to large investments in energy and green transition. This is provided that the general economy does not develop more negatively than the current forecasts show.

Klaus Søe Rylov
Chief Executive Officer
BYGGFAKTA GROUP

Sweden

CURRENT MARKET PERFORMANCE

The last few years have been something of a roller coaster in many ways; not least for the construction industry. Large long-term industrial investments, expansion of sustainable energy production and an increasing need for housing have created good underlying conditions for the sector. The pandemic initially led to great uncertainty in 2020, which was soon followed by a boom in housing demand and a shortage of building materials, and international logistics problems and shortages of goods led to rising construction costs.

The pandemic had barely subsided in early 2022 when Russia invaded Ukraine, leading to further problems with logistics, rising costs and now also with financing. Between September 2021 and March 2022, before the effects of Russia's war against Ukraine could be noted, the construction cost of started construction projects was almost 10 percent higher than the same period the year before.

If we sum up the construction starts in the same way during the period April to August 2022, the construction volume has decreased by almost 9 percent. The construction start volume has decreased for housing, industry, warehouses, and premises. In terms of construction value, the decline has been greatest in the residential sector, but calculated as a percentage, industry and stock decreased the most. The reduced construction start volume is, in part, due to postponed or cancelled projects.

We can also see a clear decline when it comes to the very earliest project plans, where the replenishment of completely new project plans has decreased by 16 percent in the period April-August 2022 compared to 2021. This is about 1,400 fewer completely new project plans. The number of completely new project plans in August 2022 is the lowest in the last 10 years.

FORECAST

Increases in interest rates, the war in Ukraine and higher prices for material and transportation have led to a nervousness and hesitation in the market.

It has become much more expensive and more difficult to obtain material. 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 canceled due to no/few tenders or too high prices. Municipal procurements are moved forward, and more and more projects are postponed.

Until the summer, the pressure in the construction industry remained high and many construction related companies had a lot to do. Now we see clear signs of a slowdown. The question is how deep and long-lasting the downturn will be.

Lars Johansson
Chief Executive Officer
BYGGFAKTA GROUP

Australia

CURRENT MARKET PERFORMANCE

Skilled labour shortages and decreased profit margins continue to present as concerns across the Australian market. Overseas procurement issues, as a result of COVID and the war in Ukraine, have seen the local industry inundated with work. In turn, as the demand for local resources has increased, so too has the cost of these materials.

A positive outcome of these challenges is that they have spurred innovations in design, technology and process; companies have re-focused their attention on employee wellbeing and workplace culture.

Industry growth can be expected, particularly in infrastructure investment and residential development intended to combat housing affordability issues.

FORECAST

Contrasting 2022's value of construction starts against 2021's, the building sector's long-term trend continues to tread positive territory at 5%, although the upcoming months see the trajectory winding down. Different sectors such as residential, community, education and industrial are influencing the downturn.

Meanwhile the office sector is also fluctuating in the short term, but its long-term trend remains robust at 24%. The retail and hospitality sector is on a rebound with project values exceeding the average such as those seen in the latter part of 2021.

Although the outlook for the building sector is fairly subdued, the construction activity from the civil sector is making up for it as infrastructure and utilities projects come to fruition.

Robert Krups
Chief Executive Officer
BCI CENTRAL

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