Glenigan 50 CELEBRATING 50 YEARS

Construction Industry Forecast 2023-2025

FOR THE UK AND REPUBLIC OF IRELAND

Featuring expert commentary from:

DeH CHAS

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Economic Background

UK construction faces challenging conditions this year as UK economic growth effectively stalls. The war in Ukraine and the resultant disruption in energy markets has intensified inflationary pressures over the last year. Whilst lower energy costs are now reducing the headline rate of inflation, high prices will continue to squeeze households' spending power during 2023. Falling real incomes, alongside rising interest rates and stalled economic growth are expected to hold back construction activity this year.

The Spring Budget helped to stabilise investor confidence after the disruption and market turbulence sparked by last autumn's mini-budget. Nevertheless, the OBR forecast accompanying the Budget anticipated that the UK economy will shrink slightly by 0.2% this year, while the latest IMF forecast predicts a small 0.3% rise. Consumer spending and private sector investment are both forecast by the OBR to decline this year.

Households are facing a marked drop in real incomes and spending power during 2023. In addition, higher interest rates and mortgage costs are intensifying the squeeze on household budgets, denting activity in consumer-facing construction sectors such as private housing, retail and hotel & leisure. Higher borrowing costs and the weak economic conditions are similarly dampening investor confidence in industrial and commercial property markets.

Government departments underspent their capital budgets by an estimated £4.9 billion during the last financial year. Some of this underspend was rolled forward in the Spring Budget to 2023/24. Overall government investment is forecast by the OBR to be a bright spot, growing by 12% during 2023, and is expected to support construction activity in public funded areas such as health and education.

UK economic performance is set to progressively brighten from next year, with the OBR forecasting that GDP growth will peak at 2.5% in 2025. The improved UK economic performance includes a rise in private sector investment and housing market activity which is forecast to support a recovery in construction starts during 2024 and 2025.

Public funded investment is expected to stall during the second half of the forecast period. The next general election is likely to be held in late 2024 and must be held by January 2025. The initiation of some public sector construction projects will be disrupted during the run up to the general election, while post-election public sector investment programmes will come under review as any new government sets out its priorities, further disrupting the progress of construction projects during 2025.

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 will curb private sector investment growth for most non-residential sectors during 2023.**

> **Weak real earnings growth, together with higher interest rates, will check housing market turnover and dampen private housebuilding activity over the next two years.**

> **Public sector investment and construction activity in areas such as health and education will pick up during 2023 following the rolling forward of departmental under-spends from the last financial year. However, spending restraints will limit growth in government funded projects during 2025 as programmes are reviewed post-election.**

> **The Government will reschedule infrastructure projects, including existing major programmes such as HS2, to accommodate higher construction costs.**

> **Increases in consumer spending and business investment will lift UK economic growth from 2024 and support a rise in private sector construction projects.**

Executive Summary

2023 -18% 2024 +12% 2025 +3%

Construction faces a challenging environment this year. Stalled UK economic growth and higher interest rates are set to dampen private sector investment and housing market activity.

Project-starts dropped sharply following last October's mini-budget and as interest rates rose sharply. The value of starts fell 38% in the first four months of 2023 compared with the same period a year ago. Whilst starts are expected to stabilise during the second half of the year, they are forecast to be 18% down on last year.

A strengthening in project-starts is anticipated from 2024 as UK economic growth returns, supported by a pick-up in household spending and business investment.

The post-pandemic recovery in project-starts lost momentum during 2022. This was due, in part, to material and labour supply issues delaying work on-site and prompting some contractors and clients to reappraise the design and costing of planned projects. These supply-side disruptions are now easing. Whilst material costs remain high, greater price stability will provide clients and contractors with more certainty when costing and planning projects during the forecast period.

Demand rather than supply issues will be the greater brake on construction activity this year.

The poorer economic outlook has also prompted some clients and developers to pause or scale back on planned investments. The value of projects securing detailed planning consent dropped by 8% during 2022 and remained weak during the first four months of 2023. Main contract awards have also fallen back, being 23% lower during the first four months of 2023 than the previous year.

Construction starts fell back sharply during the first four months of this year as the weak economic outlook and the knock to investor, and consumer confidence, from last autumn's mini-budget weighed on private sector activity.

Overall, project-starts are forecast to drop by 18% 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.

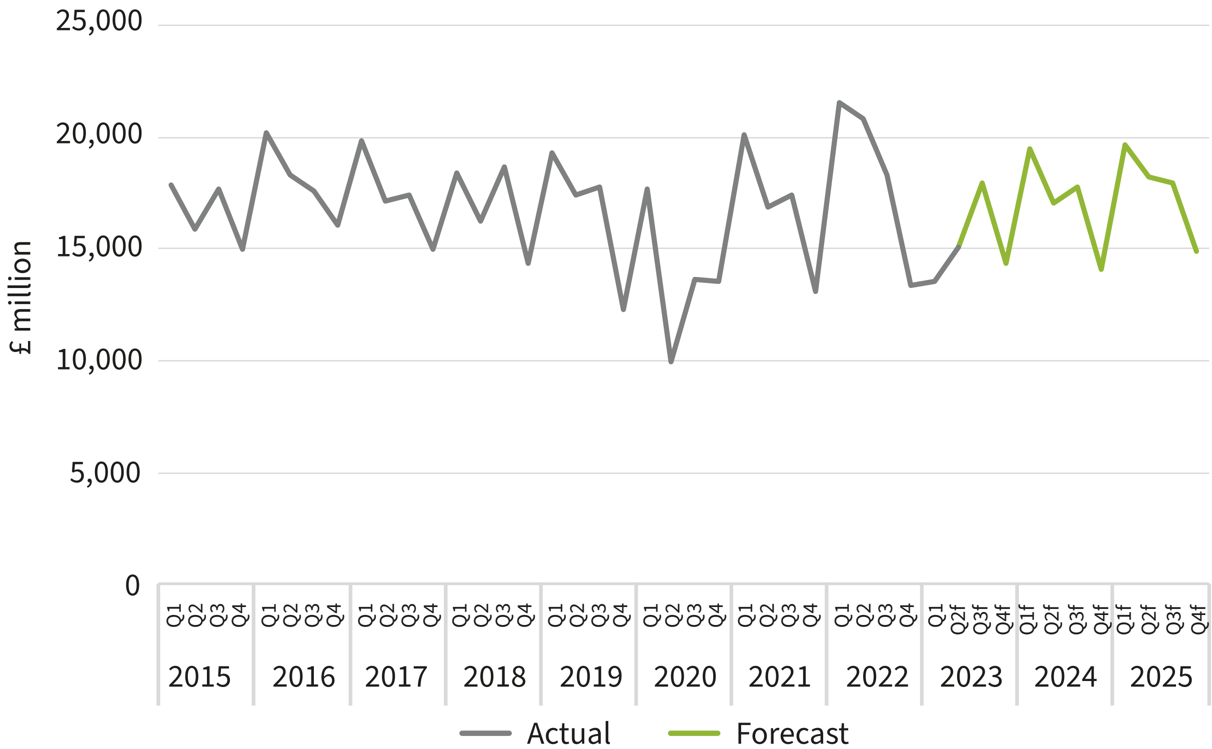
Whilst the Spring Budget has helped stabilise investor confidence, higher interest rates and slow economic growth are forecast to restrain private sector construction-starts during the remainder of this year.

However, public sector construction is expected to be a bright spot during 2023 as government departmental capital programmes are boosted by the rolling forward of 2022/23 underspend into the current financial year.

Renewed construction growth is forecast for 2024 and 2025 as a strengthening UK economy lifts consumer and business confidence. Improved household spending and consumer confidence are expected to feed through to increased activity in consumer-related areas. Firm development pipelines are also forecast to support a rise in industrial and office starts as investor confidence improves.

- > **Weak private housing starts during 2023 as falling real household incomes and rising mortgage rates cool housing market activity.**
- > **Lower consumer spending to hold back retail and hotel & leisure sector starts this year.**
- > **Rise in office refurbishment work as premises are remodelled to accommodate a shift in post-pandemic working practices.**
- > **Online retailing to provide a catalyst for renewed investment in logistics facilities from 2024.**
- > **Public sector investment in education, health, and community & amenity will be vulnerable to post-election public spending reviews.**

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



Source: Glenigan. f = forecast

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

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

£ million	2021	2022	2023f	2024f	2025f
PRIVATE HOUSING	28,153	31,039	20,752	22,156	23,991
SOCIAL HOUSING	7,873	7,767	7,784	8,667	8,390
INDUSTRIAL	5,622	7,860	6,791	8,159	8,640
OFFICES	5,200	5,788	5,178	6,138	6,795
RETAIL	1,906	1,862	1,395	1,984	2,096
HOTEL & LEISURE	3,317	3,248	2,940	3,226	3,312
EDUCATION	4,690	4,270	5,211	5,815	5,300
HEALTH	2,959	3,616	3,000	3,402	3,487
COMMUNITY & AMENITY	935	1,479	1,337	1,560	1,360
CIVIL ENGINEERING	6,917	7,184	6,571	7,319	7,398
TOTAL	**67,573**	**74,115**	**60,960**	**68,426**	**70,770**

Source: Glenigan. f = forecast

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

Change on previous year	2021	2022	2023f	2024f	2025f
PRIVATE HOUSING	29%	10%	-33%	7%	8%
SOCIAL HOUSING	13%	-1%	0%	11%	-3%
INDUSTRIAL	57%	40%	-14%	20%	6%
OFFICES	27%	11%	-11%	19%	11%
RETAIL	39%	-2%	-25%	42%	6%
HOTEL & LEISURE	37%	-2%	-9%	10%	3%
EDUCATION	10%	-9%	22%	12%	-9%
HEALTH	-1%	22%	-17%	13%	3%
COMMUNITY & AMENITY	2%	58%	-10%	17%	-13%
CIVIL ENGINEERING	8%	4%	-9%	11%	1%
TOTAL	**23%**	**10%**	**-18%**	**12%**	**3%**

Source: Glenigan. f = forecast

PRIVATE NON-RESIDENTIAL WORK

Industrial starts rebounded strongly after the pandemic. The rise in starts over the last two years has been primarily driven by growth in logistics and light industrial projects. Following this rapid rebound, the sector faces a period of consolidation this year before returning to growth in 2024. Weak domestic and overseas demand is expected to temper manufacturing investment in new capacity and facilities this year, but tax measures in the Spring Budget should help spur the recovery in business investment from 2024.

Similarly, rising interest rates and weak retail spending are expected to dampen warehousing and logistics starts this year, before returning to growth over the medium term. 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.

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, especially during 2023. Investment by the deep discount supermarkets; Aldi, and Lidl, is set to be a bright spot within the sector over the forecast period.

The squeeze on household budgets is also set to curb consumers' discretionary spending this year in areas such as hospitality and leisure activities. The hospitality sector has already faced protracted restrictions on its operations during the pandemic, reduced revenues from fewer overseas visitors, and a sharp rise over the last year in energy, materials, and labour costs. These pressures, combined with anticipated weaker consumer spending, will increase the pressure on the hospitality sector and is anticipated to push back the expected recovery in sector starts to 2024.

Changing working patterns has been an important driver for the rise in office starts over the last two years, as landlords and tenants have adapted premises to better support the increase in hybrid working. This is expected to remain an important motivation for office refurbishment projects during the forecast period. In addition, regulatory changes and growing demand from corporate occupiers for premium office space, with good environmental performance, is expected to increasingly generate retrofit and redevelopment opportunities over the forecast period.

PRIVATE RESIDENTIAL

Private housing starts fell sharply during the first four months of 2023 as housing market activity was disrupted by economic uncertainty in the aftermath of the mini-budget and the rapid rise in mortgage costs. The Bank of England has progressively raised the base rate to 4.5% from 0.25% at the start of 2022 and further rate rises are anticipated in the short term as the Bank seeks to contain inflation. A sustained retrenchment in starts is forecast for 2023 as housebuilders focus on building out existing sites rather than opening new ones in response to a slowdown in new house sales. Brighter economic prospects are expected to support a partial recovery in project-starts during 2024 and 2025 as housebuilders respond to improved consumer confidence and a strengthening in property transactions.

INCREASED GOVERNMENT INVESTMENT

Public sector investment is set to be an important driver for construction activity over the next twelve months. Underspending by several government departments during the last financial year has been rolled forward to 2023/24 and is expected to help bolster public non-residential activity. The flow of project-starts is likely to be disrupted during the run-up to the next general election, and post-election, as government public sector investment programmes are reviewed by any new Government.

There is a shortage of secondary school places, especially in major conurbations, and the Government is committed to rebuilding 500 schools over the next decade. The Department of Education's capital funding increased by 26% during 2022/23 and is set to grow by a further 19% during the current financial year. This is expected to support growth in school building projects during 2023 and 2024 following a weak performance last year. The Spring Budget also highlighted plans for increased investment in further education.

Health project-starts are forecast to fall back during 2023, dropping by 17% as NHS resources and management time are prioritised towards addressing long waiting lists and resolving industrial unrest. Nevertheless, the outlook for the health sector remains positive. NHS investment is a high political priority and a 3.8% per annum real-term growth rate in NHS capital funding is set to support a rise in starts from 2024.

Despite improved funding, increased construction costs appear to be constraining housing association's development activity. After an initial post-pandemic surge, project-starts slipped back during 2022. Approvals have also fallen back, dropping by 15% last year, and have remained weak during the first four months of 2023. The decline in approvals is forecast to limit the rise in starts this year. Housing associations will also reappraise the viability of projects following the sharp rise in construction costs over the last two years. The slowdown in the private housing market will also reduce opportunities to take forward mixed tenure developments. A strengthening in affordable housing projects is anticipated during 2024 as associations press on with their investment programmes.

Civil engineering starts are also set to soften this year as a sharp drop in infrastructure approvals in 2022 feeds through to a decline in starts. Utilities project-starts are expected to stabilise this year, before returning to growth from 2024 as the water industry presses on with investment agreed with the industry regulator.

The delivery of existing and planned major capital projects will also have a significant influence on sector activity over the forecast period. The Government's decision to reschedule HS2 construction will reduce its contribution to sector workload during the forecast period. In contrast, the increased requirement for energy security should help drive investment in more offshore wind farms, alongside the development of nuclear and other generating capacity.

How the run-up to the general election will shape the future of the construction sector

Harriet Ireland
Policy Consultant
DeH

Michael Cameron
Policy Executive
DeH

Expectation has been growing in Westminster that an election will be held in the second half of next year. In anticipation of that, politics has slowly been returning from the frenzy of last summer and early autumn towards a discussion on administration, policy, and its implementation.

In this climate, both parties have been setting out their stalls: the Prime Minister has his "five priorities", Sir Keir Starmer his five "missions". While neither directly speaks of building homes or infrastructure, housebuilding is coming back onto the political agenda. Here, we examine how this run-up to the general election will shape the sector.

Where Labour is heading

While polls have gone up and down for Labour, the next election is still widely viewed as theirs to lose. They've slowly been evolving their policy platform and it now seems clear that Labour has taken housing and housebuilding to be a key dividing line for the election.

They have a headline target to increase homeownership to 70% and believe that by backing "builders, not blockers", sluggish economic growth and the housing crisis can be tackled as one.

Starmer has, first of all, pledged to reintroduce housebuilding targets and restore the national headline figure of 300,000 new homes per year. He has also said that Labour would "take on planning reform" and has indicated that facilitating faster planning, including for renewable energy projects, would be a priority.

More recently, Labour has floated the idea of reforming compulsory purchase laws for local authorities. They would amend the 1961 Land Compensation Act, which would allow local authorities to buy land at its agricultural value rather than the "hope value" that land could get with future planning permission.

The aim of this would be to both lower the cost of building houses and facilitate the building of local infrastructure. Equally, such a move could help to support a rebound in housing starts following a slipping back last year.

It's clear that Labour is developing a housing policy that aims to support housebuilding, drive growth in the sector, and benefit them politically by securing voters.

What the Government is doing

Meanwhile, Government currently has a far more managerial approach to the sector. The Conservatives have not started to develop an election-ready housing and construction policy in the way that Labour has.

On legislation, the Levelling-up and Regeneration Bill continues its slow march through Parliament – it has a few stages remaining and should gain Royal Assent before the summer. It is also important to note that, politically, time is limited before the election. There are less than a dozen sitting weeks before conference season, following which we expect the prorogation of Parliament and a King's Speech, leaving around a year for the final session.

Debate within Whitehall over what legislation to bring forward in this timeframe will currently be raging. DLUHC is preparing to take through the Renters (Reform) Bill and has promised more legislation on leasehold reform. It is unlikely, therefore, that any further legislation affecting the sector will come forward.

Due to limited parliamentary time, the Government has focused on evolving its housing strategy, such as working to improve community support of new developments. This includes improving the look and feel of new developments.

Housing Secretary Michael Gove came under fire for blocking a development near Tunbridge Wells for its "generic suburban" properties. Developer Berkely Homes objected, and it now looks like the Government will drop its opposition.

Similarly, the Government views protecting the greenbelt as a key political issue in their target seats. Sunak strongly opposed Starmer's greenbelt comments, saying that the Conservatives would "protect green spaces" and has been publicly pushed on the issue by backbenchers having to reverse their policy on mandatory housing targets last year.

Therefore, as we continue the run-up to the election, we will have to see the extent to which the Conservatives are pushed on planning and building policy by their own as well as the Opposition.

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.

Harriet Ireland, Senior Policy Consultant, DeHavilland and Michael Cameron, Policy Executive, DeHavilland.

Harriet specialises in transport and the built environment; Michael specialises in housing and construction. Both work within the infrastructure policy team at the political monitoring company DeHavilland.

Interested in finding out more?
Visit www1.dehavilland.co.uk to find out more about how DeHavilland can help your organisation.

Changes to public sector procurement pose challenges for contractors

Alex Minett

Head of Product at CHAS

In March of this year, the Cabinet Office announced changes that enable contracting authorities to specify the Common Assessment Standard when prequalifying contractors for significant new work contracts. This poses new challenges that firms will need to be aware of if they wish to remain compliant.

Developed by Build UK, Civil Engineering Contractors Association (CECA), and other accreditation bodies and industry experts, the Common Assessment Standard (CAS) is an accreditation programme that is recognised industry wide. It reduces the cost and waste to buyers and suppliers by replacing multiple assessment schemes with one comprehensive industry-agreed questionnaire based on existing prequalification questionnaires, including PAS 91.

In their procurement policy note (PPN) 03/23, the Cabinet Office said specifies that for works contracts, "contracting authorities should use the Common Assessment Standard (CAS), or PAS 91, in place of the standard SQ (Selection Questionnaire) template in pre-qualification of bidders". But since this announcement was made, the British Standards Institution (BSI) has announced that it will no longer be updating PAS 91 and it has been withdrawn.

As a result, it is widely anticipated that public-sector buyers will increasingly opt to specify the CAS rather than PAS 91 as the preferred prequalification assessment scheme of choice for significant public works.

The changes mean that construction firms looking to win public sector contracts now need to show compliance with a broader range of risk management areas, such as sustainable and ethical practices, in addition to meeting health and safety requirements.

However, a key feature of the Common Assessment Standard is that it's designed to be accessible to businesses of all sizes with two levels of certification: desktop and site based. Companies apply for the certification level that is most appropriate for their business based on a range of factors, including trade, size and the requirements of their clients.

The assessment standards are applied proportionately for companies that employ fewer than ten employees and have a turnover below £1.8 million or a balance sheet totalling less than £1.8 million. This enables SME-sized construction firms to achieve the CAS and encourages them to apply for work in the public sector, which in turn, helps meet the Government's commitment to obtain value for money in procurement and support small businesses and start-ups.

Existing CAS requirements

Under the existing requirements, construction firms that have the CAS are certified once a year by a Recognised Assessment Body and are asked up to 234 questions covering 10 key industry areas to properly assess the company's competence. Those questions are structured into three parts:

- **Part 1** covers basic information about the potential supplier, including their contact details, professional body memberships, details of parent companies and group bidding.
- **Part 2** constitutes self-declarations of whether or not any of the exclusion grounds apply.
- **Part 3** asks for evidence and self-declarations of economic and financial standing and relating to technical and professional ability.

CAS covers a broader range of risk management

The CAS introduced additional questions on health and safety, supply chains, modern slavery, carbon emissions and data protection. These include, for example:

- An optional health & safety question to assess "suppliers' technical and professional ability in managing health and safety in their organisation";
- An optional question for Central Government contracts in respect of supply chains to "assess whether a bidder that intends to use a supply chain to deliver the contract, has effective payment systems in place to ensure the reliability of that supply chain";
- An optional question for Central Government contracts in connection with Modern Slavery "to ensure such risks are clearly identified and appropriately managed";
- An optional question around suppliers' carbon emissions to "ensure the necessary environmental management measures are in place"; and
- The concept of using "appropriate selection criteria relating to potential suppliers' technical and professional ability in implementing…measures to comply with GDPR and to ensure the protection of the rights of data subjects" where a procurement for a contract involves "processing personal data".

Overcoming the challenge

The issue of PPN 03/23 provides further incentive for construction contractors to strive for greater levels of compliance and undertake the CAS now, since it's clear that widespread adoption of CAS is expected.

PPN 03/23 is of importance to all public sector organisations that conduct public procurement and is a clear signal of the Government's commitment to responsible public procurement.

Meanwhile, Contracting Authorities who are looking to source responsible contractors who have achieved the CAS can do so using the CHAS Jobs Board, a free resource that allows clients to quickly and easily find accredited construction firms and includes the facility to search by specific or multiple trades, location and radius.

CHAS, a Veriforce company, is a recognised assessment body for the Common Assessment Standard: the construction industry's leading accreditation scheme designed to help contractors demonstrate the highest level of supply chain compliance.

Interested in finding out more?
Visit www.chas.co.uk to find out more about how CHAS can help your business.

Private Housing

2023 -33% 2024 +7% 2025 +8%

> **Weak household earnings and higher mortgage rates to depress housing market activity this year.**

> **Housing starts will be sharply lower in 2023 as housebuilders respond to poor market conditions.**

> **Rebound in private housing starts expected from 2024 as the economic outlook and consumer confidence both improve.**

Private housing starts fell sharply during the first four months of this year as rapidly rising mortgage rates stalled housing market activity. A sustained retrenchment in starts is forecast for 2023 as housebuilders focus on building out existing sites rather than opening new ones in response to a slowdown in new house sales. Brighter economic prospects are expected to support a partial recovery in project-starts during 2024 and 2025 as housebuilders respond to improved consumer confidence and strengthening in property transactions.

PRIVATE HOUSING STARTS

	2022	2023f	2024f	2025f
£ million	31,039	20,752	22,156	23,991
Growth	10%	-33%	7%	8%

Source: Glenigan. f = forecast

PRIVATE HOUSING
SOCIAL HOUSING
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KEY RECOMMENDATIONS

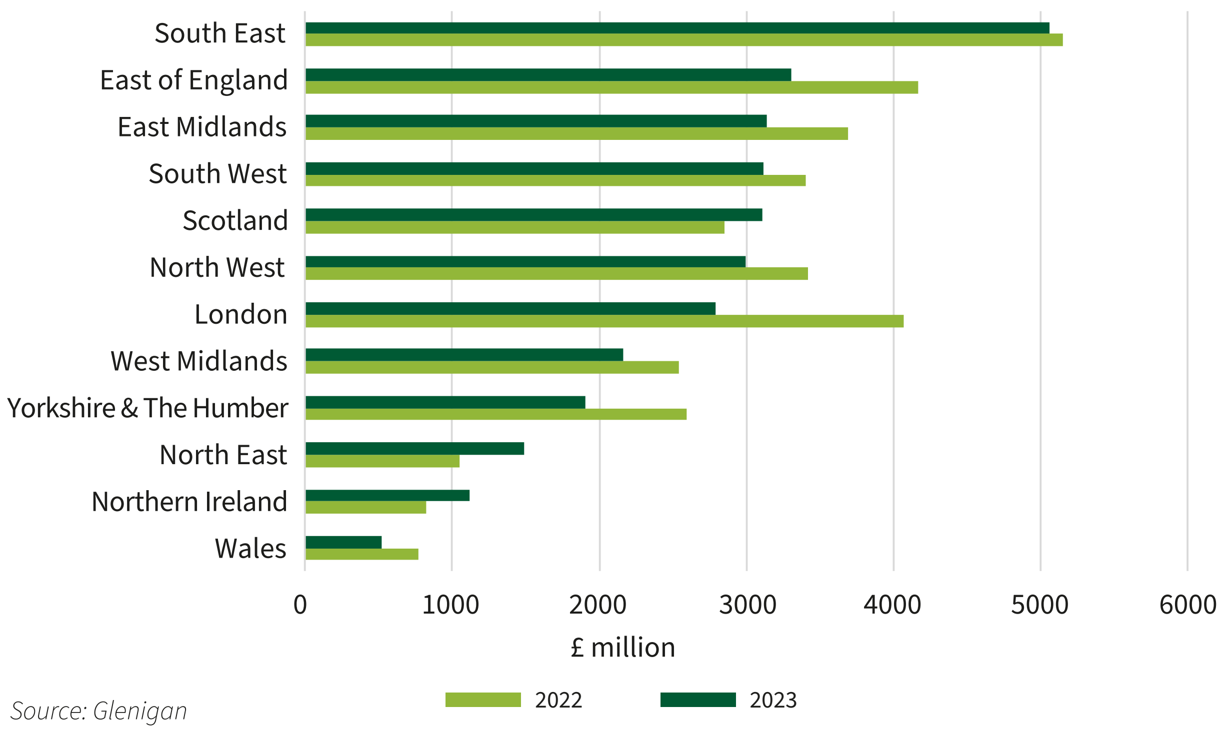
STATE OF THE SECTOR

The UK housing market and private housing starts cooled during 2022 as the UK economy stalled and households' real disposable incomes were squeezed by high inflation, tax increases and rising mortgage rates. The downturn in housing market activity and housing project-starts continued during the first four months of 2023, as heightened economic uncertainty following the mini-budget dented market confidence and as mortgage rates rose sharply. The number of residential property transactions during April were 25% lower than a year ago. The slowdown in transactions has been accompanied by a weakening in house prices. The Nationwide reports that house prices in May were 3.4% lower than a year ago, the sharpest annual decline for 14 years.

Sales of new build homes have slowed alongside the weakening in the wider housing market. In addition, the termination of Help to Buy has removed additional support for first time buyers to purchase a new build home. New home sales to buy-to-let investors is also waning in response to the sharp rise in borrowing costs and concerns over the Government's planned regulatory changes to the private rental market.

Against this general market background, private housing project-starts during the first four months fell to half the level of a year ago.

Chart 2: Value of Private Housing Projects Securing Planning Approval



Source: Glenigan
N.B. 2023 data is based on January to April pro rata

FUTURE OF THE SECTOR

A sustained retrenchment in project-starts is forecast during the remainder of 2023 after the sharp fall seen during the opening months of the year. The Bank of England has progressively raised the base rate from 0.25% at the start of 2022 to 4.5% in May. Further rate rises are anticipated short term as the Bank seeks to contain inflation. Households' spending will also remain under pressure as wage increases fail to match inflation. Property transactions, house prices, and new house sales are expected to remain subdued throughout the year, prompting housebuilders to focus on building out existing sites rather than opening new ones.

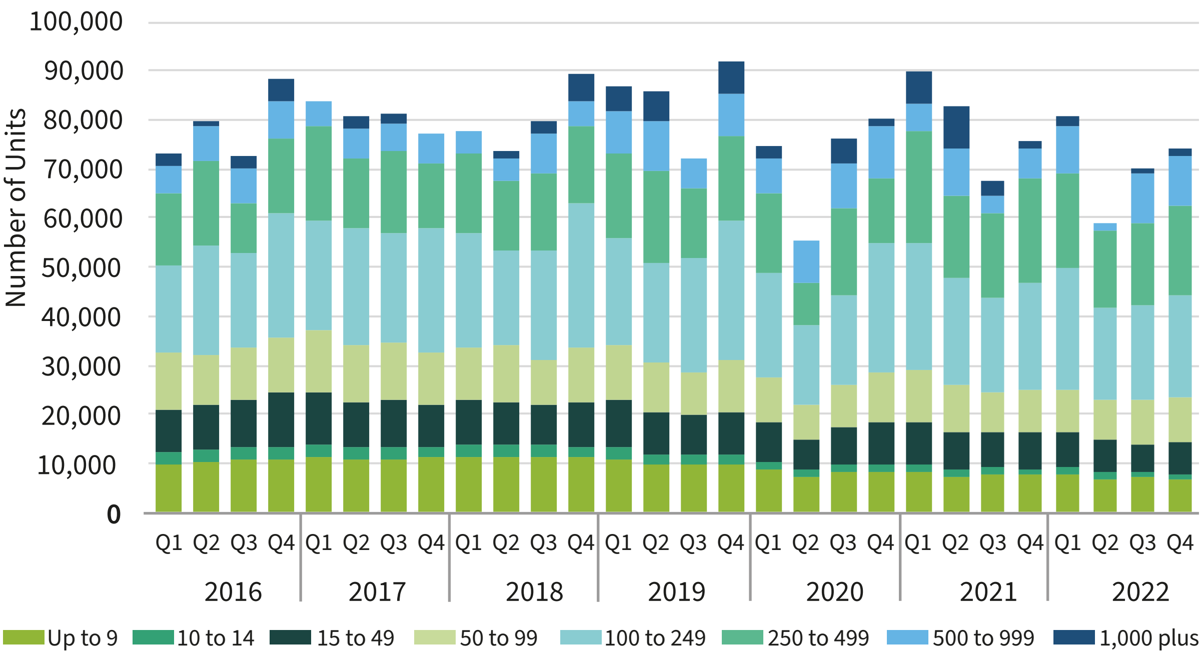
Looking ahead, brighter economic prospects are expected to support a partial recovery in project-starts during 2024 and 2025 as UK economic growth and household incomes rise.

Although the value of private housing projects securing detailed planning approval fell back 10% in 2022 and 18% during the first four months of 2023, housebuilders have a significant development pipeline of sites that can be brought forward as market conditions improve. Housebuilders are expected to respond to strengthening consumer confidence, and a recovery in property transactions, by bringing more projects onto site during 2024 and 2025.

Longer term, restrictions on the siting of new residential developments due to nitrate pollution concerns, and the Government's decision to relax the obligation on local authorities to plan for adequate new housing supply in their area, risks reducing the development pipeline and new housing developments in some parts of England.

Near term, the Build for Rent market is also expected to remain subdued during 2023. The value of projects – including private rented properties – started during the first four months of this year was 30% below 2022 levels. Higher interest rates and legislative uncertainty arising from the Levelling-Up and Regeneration Bill are expected to deter institutional investment in the private rented sector. The risk of further legislative restriction post-election is likely to dampen investment in the sector during the latter half of the forecast period.

Chart 3: Private Housing Detailed Planning Approvals by Project Size



Source: Glenigan

Social Housing

2023 0%   2024 +11%   2025 -3%

> **Higher construction costs to constrain starts despite increased funding for affordable housing.**

> **Strengthening in affordable housing project-starts in 2024.**

> **Weakening in student accommodation starts near term, before renewed growth from 2024 and 2025.**

A decline in approvals and the reappraisal of projects by associations following the sharp rise in construction costs is forecast to limit the rise in starts this year. A strengthening in affordable housing projects is anticipated during 2024 as associations press on with their investment programmes. Higher borrowing costs are expected to dampen student accommodation starts near term, but investor confidence is forecast to improve from 2024, lifting starts.

SOCIAL HOUSING STARTS

	2022	2023f	2024f	2025f
£ million	7,767	7,784	8,667	8,390
Growth	-1%	0%	11%	-3%

Source: Glenigan.   f = forecast

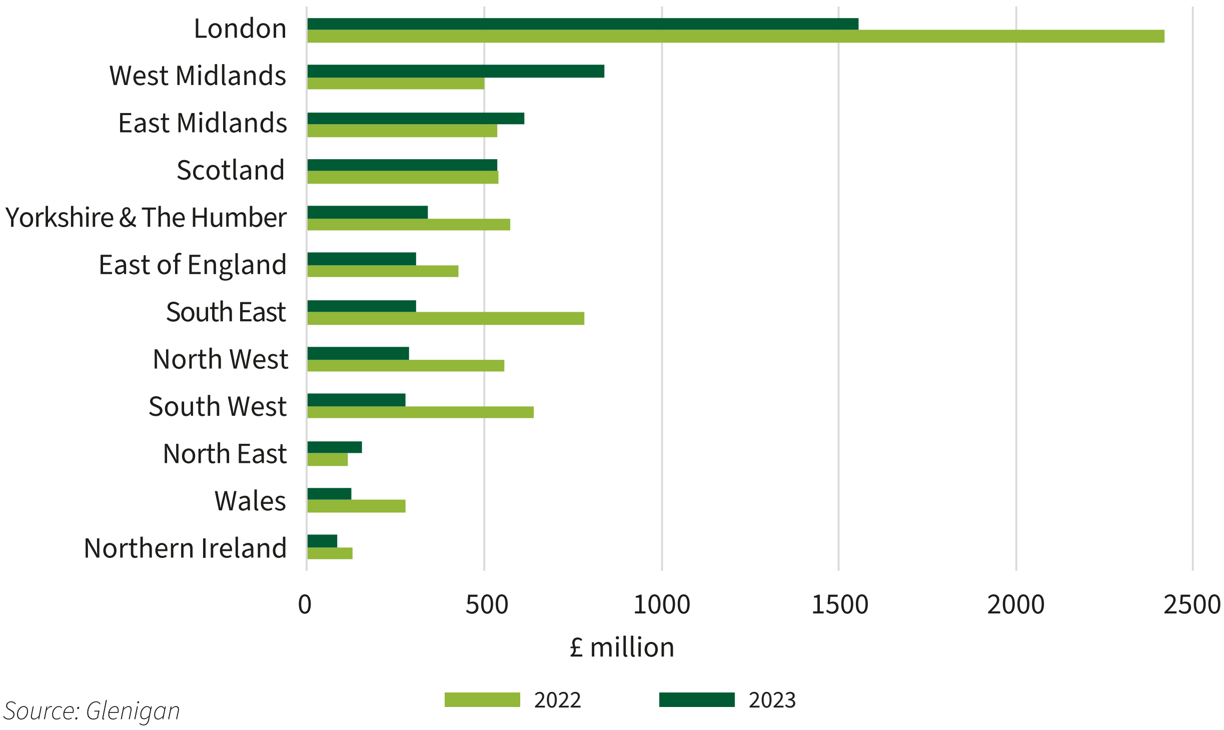
STATE OF THE SECTOR

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

However, despite the improved funding, the rise in construction costs has constrained starts over the last year as the budgets for planned projects have been breached.

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%. Consolidation in the student accommodation market during 2019 and during the pandemic in 2020 were accompanied by a sharp fall in starts. The recovery in starts over the last two years has been weak. Brexit and the pandemic have increased uncertainty within the purpose-built student accommodation market, with the pandemic causing a sharp decline in overseas students and an increase in deferrals from domestic students.

Chart 4: Value of Underlying Social Housing (under £100 million) Detailed Planning Approvals



Source: Glenigan
N.B. 2023 data is based on January to April pro rata

THE FUTURE OF THE SECTOR

Near term, affordable housing project-starts will remain constrained. Approvals have fallen back, dropping by 15% last year and remained weak during the first four months of 2023. In addition, the slowdown in the private housing market will reduce opportunities for associations to take forward larger, mixed tenure, developments in partnership with other developers.

The value of affordable housing project-starts (excluding student accommodation) is forecast to edge up 2% this year. Growth is forecast to accelerate next year as housing associations press on with their development plans. In addition, a brighter economic outlook should increase the viability of mixed tenure sites with private tenure properties helping to cross-subsidise social housing provision.

The prospects for student accommodation construction are expected to brighten over the forecast period.

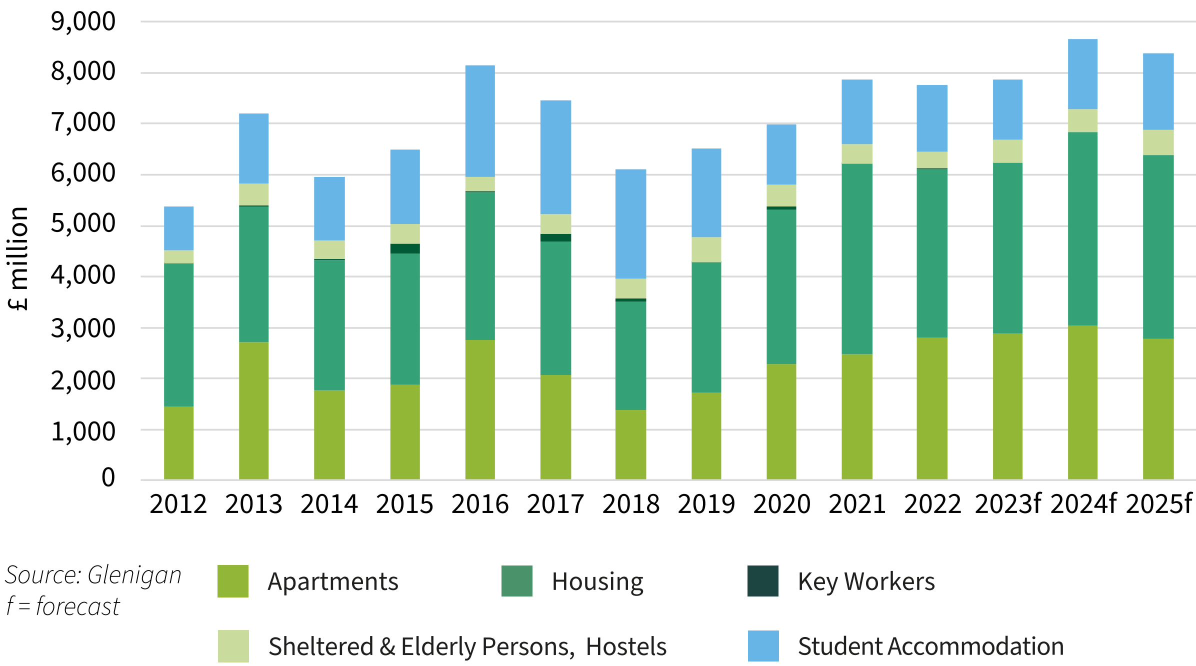
Student numbers are on the rise, with a record 767,000 applications for full-time undergraduate places through UCAS in 2022. Furthermore, there have been continued increases in entry rates for different groups of students, including those from disadvantaged areas/backgrounds where rates have also hit new record levels.

In addition, universities are seeking to increase the number of higher paying international students. The number of non-EU international students increased 24% in 2021/22 when compared to 2020/21, with further increases in international student numbers expected over the next few years. Overseas students are particularly valuable to the Purpose-Built Student Accommodation (PBSA) market, with many opting to stay in such accommodation for the duration of their studies.

The Renters Reform Bill may also increase the demand for PBSA as current proposals in the Bill may increase the number of buy-to-let investors exiting the sector.

While higher borrowing costs are expected to dampen student accommodation starts near term, investor confidence is expected to return from 2024. Student accommodation starts are forecast to rise by 19% next year and by 9% in 2025 as investors seek to increase their share of student lettings.

Chart 5: Value of Underlying Social Housing Project-Starts (under £100 million) by Year



Source: Glenigan
f = forecast

Industrial

2023 **-14%** 2024 **+20%** 2025 **+6%**

- **Firm development pipeline.**
- **Economic uncertainty and higher interest rates to disrupt starts near term.**
- **Demand for logistics space to drive growth from 2024.**

Industrial starts rebounded strongly after the pandemic. The rise in starts over the last two years has been primarily driven by growth in warehousing and light industrial projects. Following this rapid rebound, the sector faces a period of consolidation this year before returning to growth in 2024.

INDUSTRIAL STARTS

	2022	2023f	2024f	2025f
£ million	7,860	6,791	8,159	8,640
Growth	40%	-14%	20%	6%

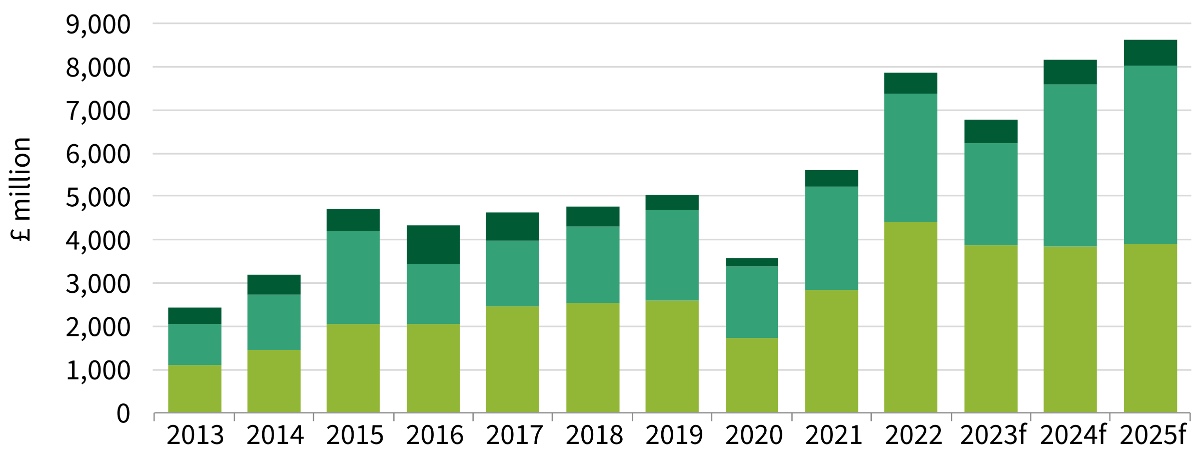
Source: Glenigan. f = forecast

STATE OF THE SECTOR

The value of project starts grew by 40% last year as investors initiated projects in anticipation of rising demand for warehousing and light industrial space. The pandemic accelerated the growth in online retailing, raising expectations of increased demand for logistics space to support this shift in consumers retail habits. More recently, however, rising interest rates and heightened economic uncertainty in the wake of last Autumn's mini-budget appears to have dented investor confidence, with the value of warehousing & logistic projects started being 70% lower during the first four months of 2023 than a year ago.

After a strong initial post-pandemic rebound, UK manufacturers' output has been constrained by spiralling costs, shortages of labour and supply chain disruptions. The war in Ukraine exacerbated these pressures last year, with manufacturers facing sharp increases in energy and raw material costs. Domestic and overseas demand for UK manufactures has also faltered as UK and global economic growth has slowed. UK manufacturing output during the first quarter of 2023 was 1.9% lower than a year ago and the latest CIPS manufacturing surveys point to a further weakening in manufacturing activity during the second quarter.

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



Source: Glenigan
f = forecast

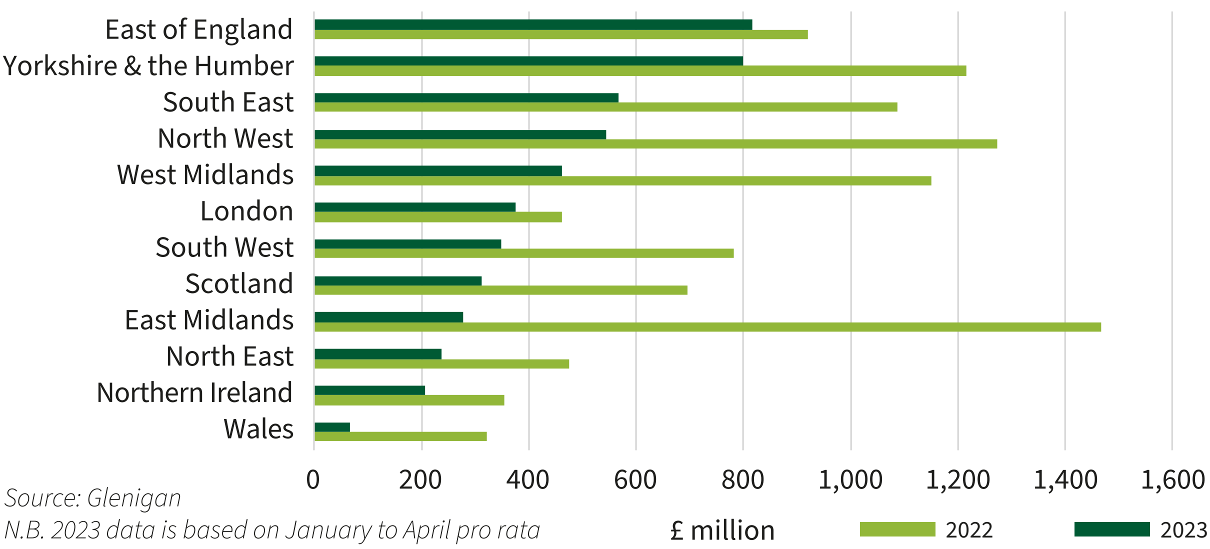
THE FUTURE OF THE SECTOR

Although the value of industrial project starts slumped by 52% during the first four months of 2023, there was a smaller 24% drop in main contract awards over the same period, and detailed planning approvals rose by 15%. The relative strength of the development pipeline is expected to help stabilise sector starts over the coming months before returning to growth from 2024.

Weak domestic and overseas demand is expected to temper manufacturing investment in new capacity and facilities this year, but tax measures announced in the Spring Budget should help spur a recovering in business investment from 2024.

Rising demand for warehousing and logistics space is expected to be the principal driver of sector growth over the forecast period. Online retail sales have been buffeted over the last year as household budgets have been squeezed and consumers have reigned in their discretionary spending. According to ONS data, internet sales fell to 25.8% of total retail sales during the first quarter of 2023, compared to 36% at the peak of the pandemic, reported in the first quarter of 2021, although it still remains above pre-pandemic levels. However, e-commerce is expected to return to growth as the economic outlook brightens next year, fuelling demand for more logistics space.

Chart 7: Value of Underlying Industrial Project Approvals (under £100 million) in 2022 and 2023 Pro-Rata



Source: Glenigan
N.B. 2023 data is based on January to April pro rata

Offices

2023 -11% 2024 +19% 2025 +11%

> Hybrid working is reshaping office design and demand.

> Rise in extension and refurbishment opportunities.

> Firm demand for premium 'green' office space.

In the near term, weak UK economic growth and higher interest rates are forecast to constrain office starts during 2023. Refurbishment and extension projects are expected to be an important driver for growth as the demand for office accommodation is reshaped by the greater use of hybrid working. Demand for premium office space, with a good environmental performance, will support a rise in new build starts during the second half of the forecast period.

OFFICE STARTS

	2022	2023f	2024f	2025f
£ million	5,788	5,178	6,138	6,795
Growth	11%	-11%	19%	11%

Source: Glenigan. f = forecast

STATE OF THE SECTOR

The office sector has rebounded strongly over the last two years as developers pressed on with new build projects delayed during the pandemic, and as landlords and occupiers refurbished accommodation to meet changing working practices.

The pandemic radically changed working trends and has prompted a sharp rise in hybrid working by office staff.

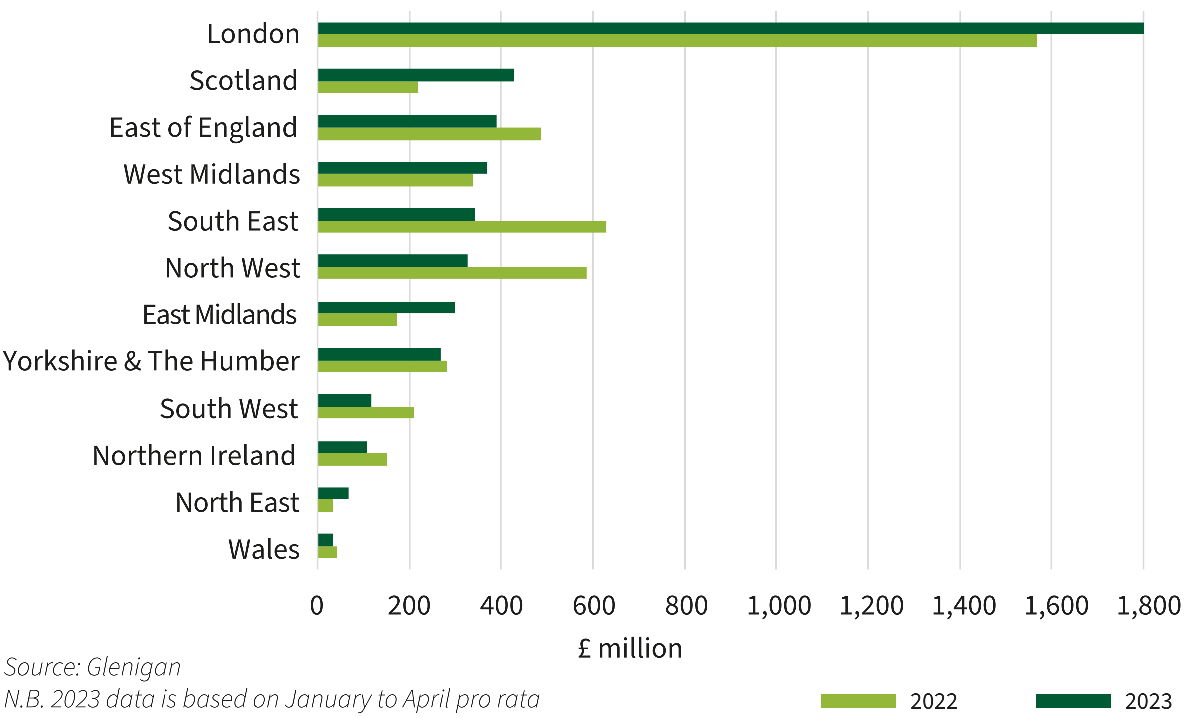
The move to hybrid working appears to be especially prevalent in the Capital, where 40% of workers are taking a hybrid approach, against 28% nationally according to the ONS. Research by the Centre for Cities found that an average central London worker now goes into the office 2.3 days a week, 59% of January 2020 levels. The high level of hybrid working among London workers in part reflects the incentive of avoiding longer and more expensive commuting times, with those living outside the Capital less likely to be in the office.

The central London office market is accordingly most exposed to the potential change in office design requirements and overall demand for office accommodation. Nationally, extension and refurbishment projects have accounted for a growing proportion of sector starts, up from 51% in 2019 to 58% last year, and totalling £3.3 billion. In London, extension and refurbishment projects accounted for 63% of underlying starts (less than £100 million) last year.

London's development pipeline has also outpaced the rest of the country, with the Capital accounting for a third of detailed planning consents in 2022, and 41% of approvals during the first four months of 2023. Given the relatively strong development pipeline, the Capital is expected to outperform all regions of the UK over the forecast period.

However, office starts have also performed strongly in the regions outside of London in recent years, largely due to activity in 'core' cities such as Manchester, Birmingham, and Leeds. Activity in the North West has remained strong, with the value of projects starting on-site nearly doubling during 2022. A firm development pipeline is expected to support activity in the region over the forecast period. In contrast, starts have fallen back in the West Midlands, and Yorkshire & the Humber.

Chart 8: Value of Underlying Office Project Approvals (under £100 million) in 2022 and 2023 Pro-Rata



Source: Glenigan
N.B. 2023 data is based on January to April pro rata

THE FUTURE OF THE SECTOR

Whilst the change in working patterns will reduce the overall floorspace requirements for many businesses, it will also generate new fit out opportunities as firms remodel premises to provide more modern and collaborative workspaces. The changes in floorspace requirements are also generating refurbishment opportunities as premises are sub-let.

Near term, higher interest rates are expected to temper new build development activity as investors review the viability of planned projects. Developers may also hold back on new build projects as they assess the likely impact of increased hybrid working on the demand for office space. In addition, the expansion in overall supply arising from recently completed developments and those currently under construction, may also constrain new builds development.

In contrast, hybrid working may act as a spur for new build developments during the second half of the forecast period. Corporate tenants and occupiers are increasingly demanding buildings with a good environmental performance as they seek to reduce their carbon footprint. Premium office accommodation has been the strongest performing segment of the office market over the last year as tenants have opted for smaller, but higher quality office space.

Furthermore, alongside the changing demand from occupiers, some existing premises will also require investment to meet new energy efficiency regulations. Since April, any let office accommodation must reach a minimum EPC rating of band E. Legislation currently before Parliament will raise this threshold further to band B, by 2030. If implemented these proposals are set to generate substantial refurbishment and retrofit opportunities during the forecast period and over the remainder of the decade as many existing premises are currently below these ratings. For example, since 2020, 36% of EPCs issued for existing London premises fell below band C, and 73% were below band B.

This is likely to spur landlords and developers to reassess and rationalise their portfolios, generating both new refurbishment and redevelopment opportunities, either as higher-grade office facilities or conversion to alternative uses, such as apartments or student accommodation over the forecast period.

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

Retail

2023 -25% | 2024 +42% | 2025 +6%

> **Sharp fall in project-starts during 2023 as stalled UK economic growth and consumer spending deters investment.**

> **Brighter economic outlook and improving consumer spending to support recovery in starts from 2024.**

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, especially during 2023. Investment by the deep discount supermarkets; Aldi, and Lidl, are set to be a relative bright spot within the sector over the forecast period.

RETAIL STARTS

	2022	2023f	2024f	2025f
£ million	1,862	1,395	1,984	2,096
Growth	-2%	-25%	42%	6%

Source: Glenigan. f = forecast

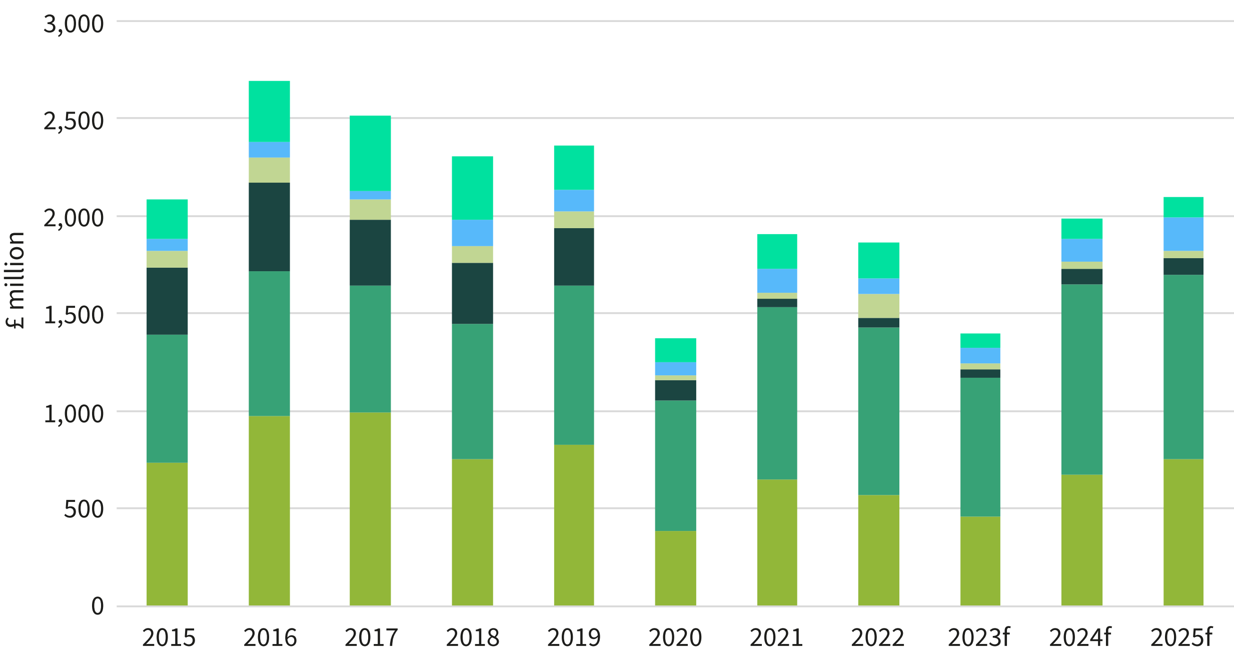
STATE OF THE SECTOR

Retail construction faces pressure from both structural changes in the retail sector and a cyclical downturn in retail spending.

Retailers face challenging conditions as high inflation and energy costs have squeezed household budgets over the last year. Whilst the headline rate of inflation has begun to slow, consumer spending remains subdued. The value of retail sales during the three months to April was 4.6% higher than a year earlier, but the volume of retail sales fell by 3.5% over the same period according to the ONS. The divergence between sales value and volume highlights that the current rise in retail sales revenue is being driven by inflation rather than customers buying more. Consumers' discretionary spending has been especially hard hit, with clothing and footwear retailers seeing a 7.1% decline in sales volumes, over the same period.

Alongside the current weakening in consumer spending, retailers are adapting to a long-term structural change in consumers' shopping habits. The growth in online retailing has prompted established retailers to reassess their retail space requirements. Whilst online retailers' share of UK retail sales has fallen back from a peak of 38% seen during the pandemic, they are expected to take a growing proportion of the market over the medium term, reducing the demand for new retail floorspace.

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



Source: Glenigan
f = forecast

THE FUTURE OF THE SECTOR

Retailers and developers have scaled back their immediate investment programmes in response to the deterioration in consumer spending. After a partial post-pandemic recovery in project-starts during 2021, the flow of starts lost momentum during the second half of last year. The first four months of 2023 has seen a sharp deterioration, with the value of starts 35% lower than a year ago. The downturn in starts has been accompanied by a weakening in the development pipeline; main contract awards fell by 63% over the same period while detailed planning approvals were 19% lower. This is expected to feed through as a sharp 25% decline in project-starts during 2023.

Grocery stores have been a relative bright spot within the retail construction sector. The consumer spending squeeze has prompted many households to opt for frequent supermarket trips rather than using online grocery deliveries as they seek to manage budgets. Lidl and Aldi have been important beneficiaries with substantial new store investment programmes. However, Lidl has announced that it intends to scale back its store openings this year, with investment being redirected towards its logistics facilities instead. This is expected to hold back supermarket development activity this year.

A recovery in project-starts is forecast from 2024 as rising consumer expenditure prompts retailers and developers to bring forward planned projects. An overhang of vacant retail space and the anticipated long-term increase in online retailing's market share is forecast to limit the recovery, with sector starts remaining below pre-pandemic levels.

Chart 10: Value of Underlying Retail Project Approvals (under £100 million) in 2022 and 2023 Pro-Rata

Source: Glenigan
N.B. 2023 data is based on January to April pro rata

Hotel & Leisure

2023 -9% 2024 +10% 2025 +3%

> **The hospitality industry is being squeezed as rising costs and weak consumer spending curb hotel & leisure starts in the short term.**

> **A rise in consumer spending and an increase in overseas visitors is expected to bolster hospitality investment and sector starts from 2024.**

The hospitality and leisure sectors currently remain under intense financial pressure. Many businesses are enduring a sharp rise in costs and labour recruitment difficulties combined with weak consumer spending. This is expected to delay the anticipated recovery in sector starts until improved consumer spending lifts industry confidence and sector investment from 2024 onwards.

HOTEL & LEISURE STARTS

	2022	2023f	2024f	2025f
£ million	3,248	2,940	3,226	3,312
Growth	-2%	-9%	10%	3%

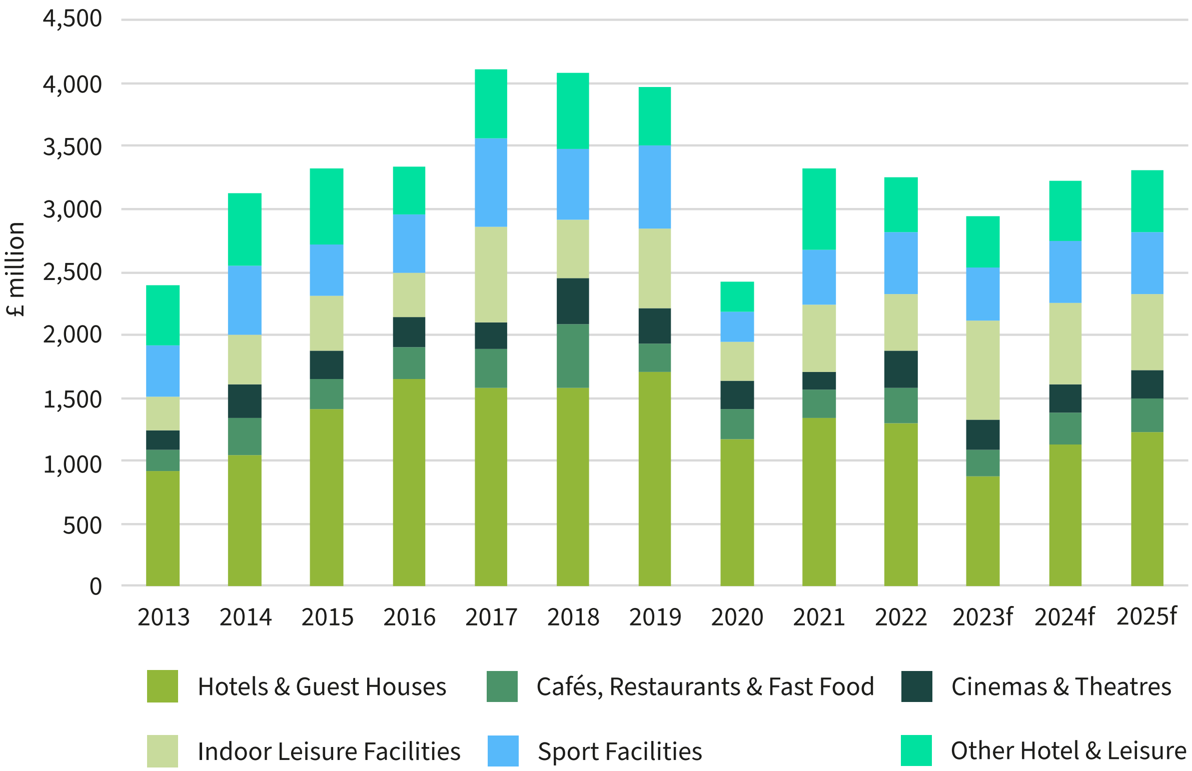
Source: Glenigan. f = forecast

STATE OF THE SECTOR

The hotel and leisure sector has been slow to recover post-pandemic. After an initial rebound during 2021, starts slipped back 2% last year. The hospitality sector suffered protracted closures and restrictions to their operations during the pandemic. Subsequently, operators in the sector have faced labour shortages and a sharp rise in energy, materials, and labour costs over the last 12 months.

In addition, the number of overseas visitors to the UK, an important driver for the hospitality industry, has yet to return to pre-pandemic levels. At 31.2 million, the number of overseas visitors last year was 24% down on a year ago. The number of business visitors is especially weak, being 46% down on 2019 levels. This may, in part, reflect slow UK and world economic growth but may also be due to greater use of digital technology which could have more permanent implications to hospitality firms catering for the business traveller.

Chart 11: Value of Underlying Hotel & Leisure Project starts (under £100 million) by Year



Source: Glenigan. f = forecast

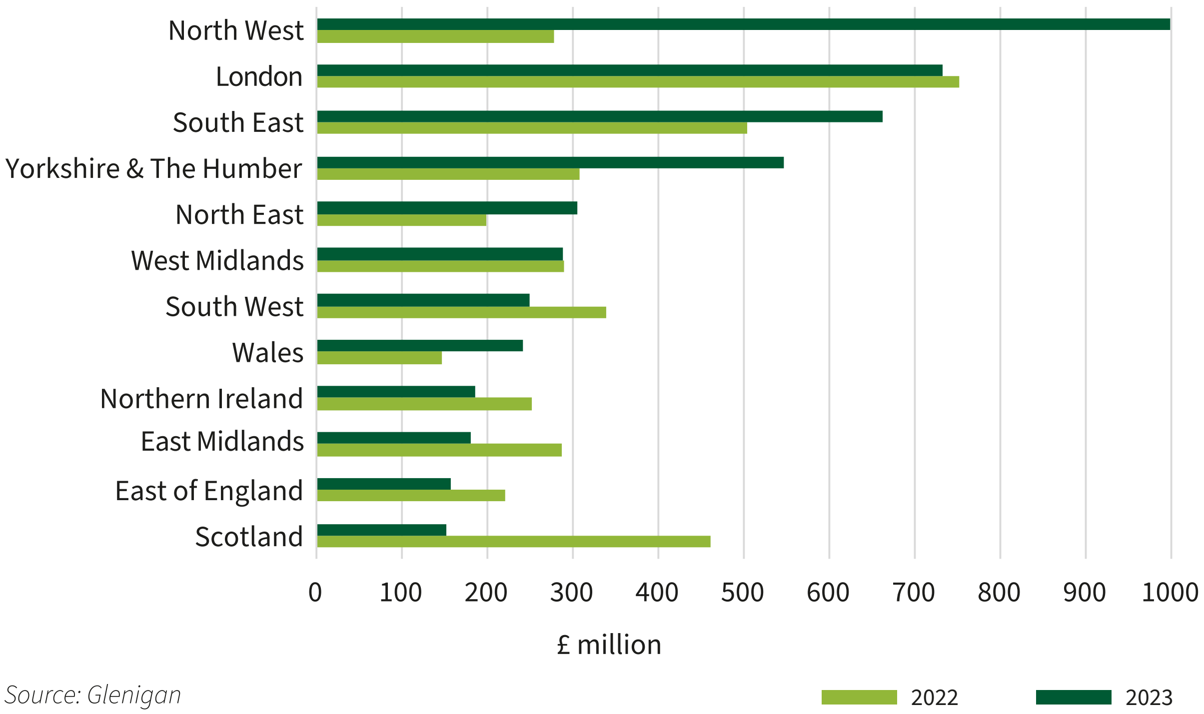
THE FUTURE OF THE SECTOR

Alongside these cost pressures, the hospitality industry faces weak revenues this year as the squeeze on household budgets curbs consumers' discretionary spending on hospitality and leisure activities. Faced with weak revenues and rising costs, many firms operating in the sector will seek to safeguard their financial viability, rather than press on with planned investment during 2023.

The value of project-starts during the first four months of 2023 was 27% lower than a year ago. A 16% decline in main contracts awarded over the same period points to a further weakening in starts near term.

However, the development pipeline appears to be stabilising; having fallen by 8% during 2022, the value of detailed planning approvals during the first four months of 2023 was 17% up on a year ago. The strengthening development pipeline is expected to support a rise in project-starts from 2024 as improved consumer spending, and a further strengthening in tourism to the UK bolster the finances and confidence of the hospitality industry. Overall sector starts are forecast to rise by 10% in 2024 with a further 3% increase anticipated for 2025.

Chart 12: Value of Underlying Hotel & Leisure Project Approvals (under £100 million) in 2022 and 2023 Pro-Rata



Source: Glenigan
N.B. 2023 data is based on January to April pro rata

Education

2023 +22% 2024 +12% 2025 -9%

> **Increased investment in school buildings during 2023 and 2024.**

> **Anticipated post-election government reviews expected to disrupt starts in 2025.**

A shortage of secondary school places, especially in major conurbations, requires investment in new school capacity. In addition, the Government is committed to rebuilding 500 schools over the next decade. Increased capital funding by the Department of Education is expected to support growth in school building projects during 2023 and 2024 after a weak performance last year. Project-starts are forecast to slip 9% during 2025 as government programmes are reviewed post-election.

EDUCATION STARTS

	2022	2023f	2024f	2025f
£ million	4,270	5,211	5,815	5,300
Growth	-9%	22%	12%	-9%

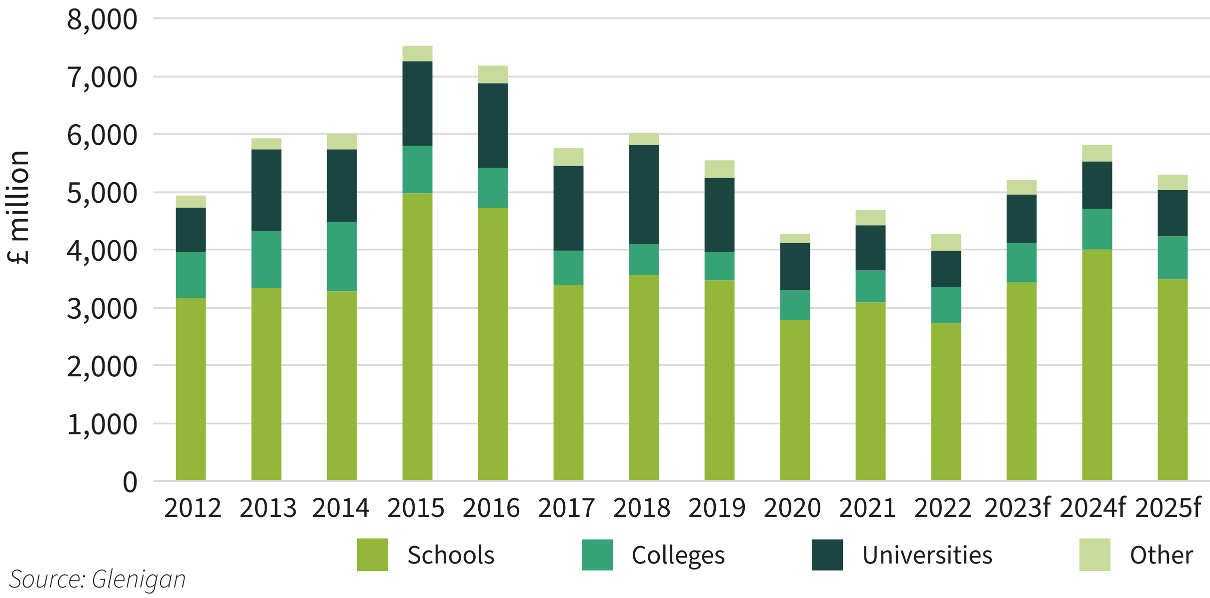
Source: Glenigan. f = forecast

STATE OF THE SECTOR

The number of secondary school pupils in England will have risen by over 13% between 2018 and 2024 adding 381,000 pupils to school rolls, according to the Department of Education. Whilst pupil numbers are projected to ease slightly in subsequent years there is a backlog of investment required to accommodate the rise in numbers over the last seven years.

Alongside investment in additional capacity, the Government has committed to rebuilding 500 schools over the next decade. However, delivery of this commitment has been slow, with the first 100 schools of the programme announced in 2021 and a further 61 announced in July of 2022. The Government has committed £1.8 billion of capital funding for the financial year 2023/24 to improve the condition of existing school buildings.

Chart 13: Value of Underlying Education Project-Starts (under £100 million) by Year



Source: Glenigan
N.B. Excludes projects witha construction value in excess of £100m
f = forecast

Universities were a bright spot within the education sector between 2013 and 2018. However, they have faced increasing funding pressures in recent years from weakening student numbers due to both Brexit and the pandemic. The value of university project-starts fell for a fourth consecutive year during 2022, declining by 19% to £627 million.

The overall value of education project-starts dropped by 9% last year, while detailed approvals edged 2% higher. The weakening in starts appears to reflect the squeeze on local authorities' and other clients' budgets from the sharp rise in construction costs over the last two years. This has prompted some clients to review or redesign projects, slowing their progress to site.

FUTURE OF THE SECTOR

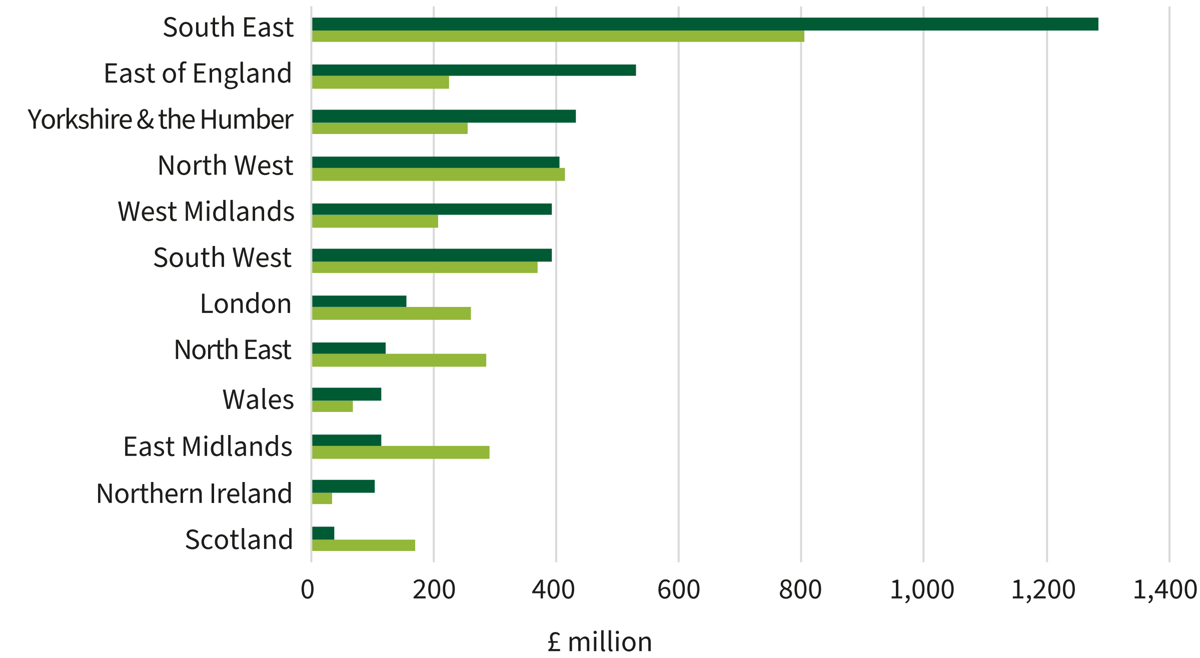
The Department of Education's capital funding increased by 26% during 2022/23 and is set to grow by a further 19% during the current financial year to £7 billion. The increased funding is expected to support growth in school building projects during 2023 and 2024 after a weak performance last year. However, school project-starts are forecast to slip 11% during 2025 as government programmes are reviewed post-election.

The pandemic exacerbated the financial issues already facing universities, with fewer - higher fee-paying - overseas students, and increasing numbers of UK students deferring their applications. Furthermore, high inflation is eroding UK student tuition fees, which are capped. This has limited income flow and deterred university investment in improved facilities.

Whilst a marked rise in detailed planning approvals last year is expected to support a temporary strengthening in university starts this year, as approved projects progress to site, university finances are set to remain under pressure during the forecast period. A renewed weakening in project-starts is anticipated during 2024 and 2025.

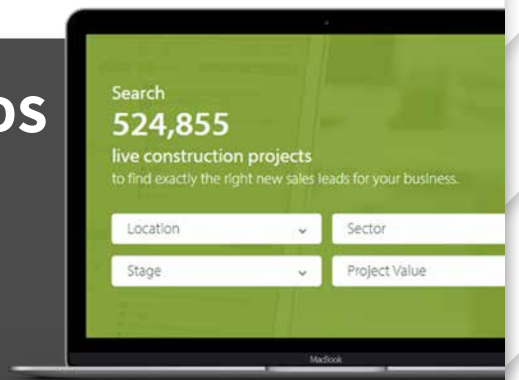
More positively, universities should benefit from a progressive rise in the number of 18- to 23-year-olds in the UK population over the next five years. Student numbers are now on the rise, with a new record level of applications for undergraduate places through UCAS. Universities are also seeking to increase the number of higher fee-paying international students. The number of non-EU international students increased 24% by 2021/22. If sustained, this may support a fresh wave of university capital investment over the longer term.

Chart 14: Value of Underlying Education Project Approvals (under £100 million) in 2022 and 2023 Pro-Rata



Source: Glenigan
N.B. 2023 data is based on January to April pro rata

Overall, an increase in school and university projects are forecast to lift education starts by 22% this year, with school projects supporting a further 12% increase in 2024. However, sector starts are forecast to slip back 9% in 2025 as central government funding programmes are reviewed and disrupted post-election.



Health

2023 -17% 2024 +13% 2025 +3%

> **NHS investment is a political priority.**
> **Renewed growth in starts from 2024 as planned projects progress to site.**

The outlook for the health sector is bright, despite an anticipated dip in project-starts this year. Whilst NHS resources and management time are currently focussed on tackling extended waiting lists and industrial unrest, the NHS remains a high political priority. The Government has committed to a progressive long-term rise in capital investment which should help lift sector starts from 2024.

HEALTH STARTS

	2022	2023f	2024f	2025f
£ million	3,616	3,000	3,402	3,487
Growth	22%	-17%	13%	3%

Source: Glenigan. f = forecast

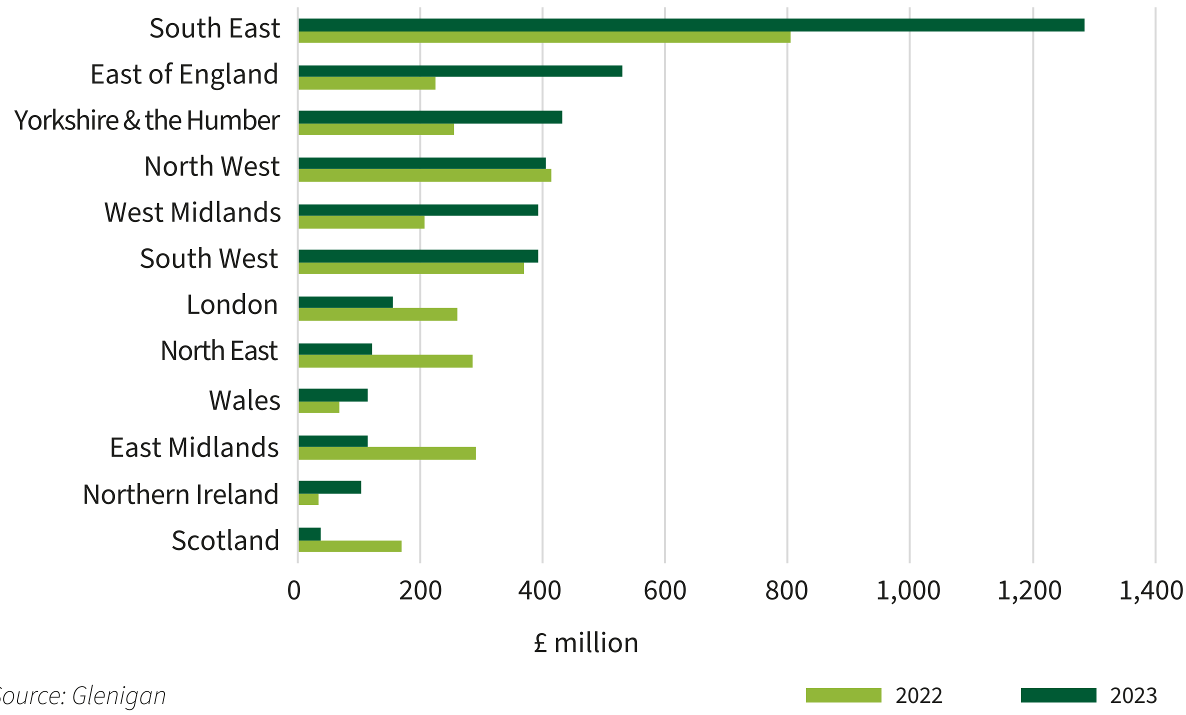
STATE OF THE SECTOR

The Government has committed to a progressive long-term rise in capital investment. The Spending Review in October 2021 included £32.2 billion of capital funding for the Department of Health over the three years to 2024/25.

Health sector starts remained firm throughout the pandemic and rose sharply last year, growing by 22%. The rise in starts was despite a 7% under-spend of the Department of Health's capital budget during 2022/23. The underspend has been partially rolled forward to the current financial year, lifting capital funding by 7% to £12 billion.

The Government also previously announced plans for 40 new hospitals by 2030 and to upgrade over 70 hospitals during the same period. Progress to date with the 40 promised major hospital projects has been slow. 33 of the projects are yet to start on-site, of which 31 do not yet have full funding to start core building works, suggesting that they are unlikely to start on-site during the forecast period.

Chart 15: Value of Underlying Health Approvals (under £100 million) by Year and Region



Source: Glenigan
N.B. 2023 data is based on January to April pro rata

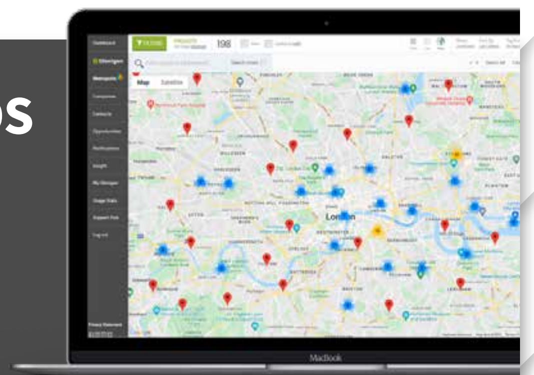
THE FUTURE OF THE SECTOR

After a softening in the value of approvals during 2022, approvals picked up during the first four months of this year and were 13% higher than a year ago. The rise in approvals is encouraging and is expected to feed through to work on-site during 2024.

Near term, health project-starts are forecast to fall back during 2023, dropping by 17% as NHS resources and management time are prioritised towards addressing long waiting lists and resolving industrial unrest.

The medium-term prospects for the healthcare sector are bright, despite the anticipated drop in project-starts this year. The NHS is a high political priority, and the Government has committed to a progressive long-term rise in capital investment. Increased funding enables NHS management to take forward more projects from 2024 as the current pressures on delivering front-line services eases.

However, the upcoming general election will dampen the pace of growth to a more modest 3% in 2025 as any new government reviews spending programmes post-election.



Civil Engineering

2023 -9% | 2024 +11% | 2025 +1%

> Higher construction costs to postpone infrastructure projects.

> Major projects to support overall sector work.

> Energy projects to play vital role in sector activity.

The value of underling civil engineering project-starts (under £100 million) edged 4% higher last year after strong growth in 2021. Sector starts are forecast to fall back 9% in 2023 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

	2022	2023f	2024f	2025f
£ million	7,184	6,571	7,319	7,398
Growth	4%	-9%	11%	1%

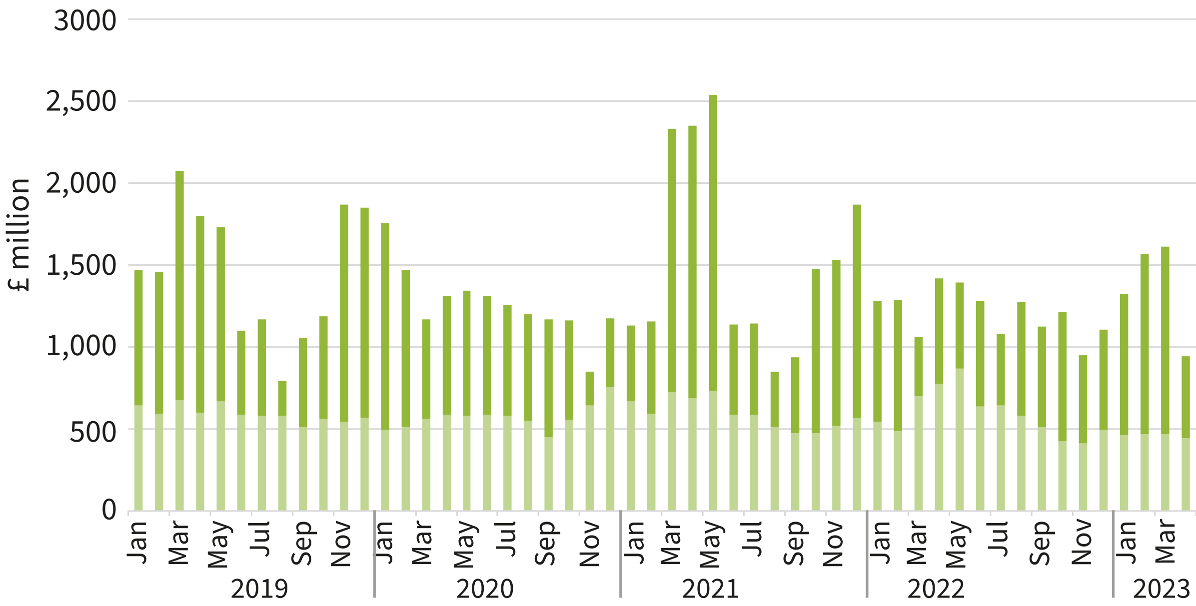
Source: Glenigan. f = forecast

STATE OF THE SECTOR

After a strong post-pandemic recovery, growth in underlying project-starts moderated to 4% last year. In addition to underlying project-starts, sector activity continues to be supported by the delivery of major projects (over £100 million) including HS2 and Hinkley Point C. These, and other planned major projects, will continue to bolster sector activity over the forecast period.

However, whilst the Government maintains that infrastructure remains a key part of its UK growth strategy, rising construction costs have prompted the rescheduling and rescoping of HS2, the A27 Arundel Bypass, and the A5036 in Liverpool. Other planned public sector infrastructure projects are expected to be similarly vulnerable to reprioritisation over the forecast period, especially in the delivery of road and rail projects.

Chart 16: Value of Civil Engineering Main Contract Awards by Month



Source: Glenigan

FUTURE OF THE SECTOR

Civil engineering starts are set to soften this year as a sharp drop in infrastructure approvals during 2022 feeds through as a decline in project-starts. Utilities starts are expected to stabilise this year, before returning to growth from 2024 as the water industry presses on with investments agreed with the industry regulator. Overall, civil engineering starts are forecast to slip back 9% before returning to growth during 2024.

Project-starts are then expected to grow by just 1% during 2025 as public sector investment plans are reviewed post-election and as the water industry's five-year investment programme draws to a close.

The delivery of existing and planned major capital projects will also have a significant influence on sector activity over the forecast period, including HS2, the Silvertown Tunnel, and Hinckley Point. The Government's decision to reschedule HS2 construction will reduce its contribution to sector workload during the forecast period. Other major planned projects including the Lower Thames Crossing, Stonehenge Tunnel, and phase 2 of the Sheffield Supertram are now scheduled to start after the forecast period.

The sharp rise in energy prices and the severing of Russian gas supplies have emphasised the strategic importance of a robust energy sector to the UK economy. Prior to the energy crisis the Government's Energy White Paper had set out the UK's path to achieving carbon 'net zero' by 2050, and Rishi Sunak has "pledged to speed up the transition to renewals". The need to attain energy security will provide additional impetus over the forecast period to deliver more investment in offshore capacity, alongside the development of nuclear, and other UK-based generating capacity, and the upgrading of the UK's electricity grid.

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.

2023 **0%** 2024 **+12%** 2025 **+6%**

A strong post-pandemic rebound in construction activity in the Republic of Ireland lost momentum last year as a more uncertain economic outlook, high inflation and rising interest rates tempered investor and consumer confidence. The value of project-starts slipped back 7% last year after a 36% jump during 2021. Despite this decline starts were still 20% above pre-pandemic levels. Further consolidation is anticipated for 2023, but sustained economic growth and rising household incomes are expected to help lift construction starts from 2024.

Despite global economic headwinds, the Irish economy has bounced back strongly from the pandemic with double digit economic growth during both 2021 and 2022. Whilst the rapid pace of growth over the last two years has been flattered by the strength of the multinational enterprises, 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	2022	2023f	2024f	2025f
AGRICULTURE	93	65	52	52	55
CIVIL AND UTILITIES	616	499	524	576	605
COMMERCIAL	577	523	534	587	646
COMMUNITY AND SPORT	128	210	158	164	172
EDUCATION	301	488	527	548	565
HOSPITALITY	165	106	116	139	153
INDUSTRIAL	1,012	1,214	1,396	1,466	1,393
MEDICAL	393	407	448	515	531
RESIDENTIAL	4,928	4,165	3,957	4,551	5,006
ALL	**8,213**	**7,678**	**7,712**	**8,599**	**9,125**

Source: CIS & Glenigan

REPUBLIC OF IRELAND
KEY RECOMMENDATIONS

Forecasts from the European Commission anticipate that economic growth will moderate but remain substantial throughout the forecast period, with a 5.4% rise in 2023 easing to annual growth of 5.0% in 2024. Modified domestic demand, which better reflects underlying domestic economic activity in Ireland, is estimated to have increased by 8.2% in 2022, and is expected to expand by 2.0% in 2023 and 2.3% in 2024.

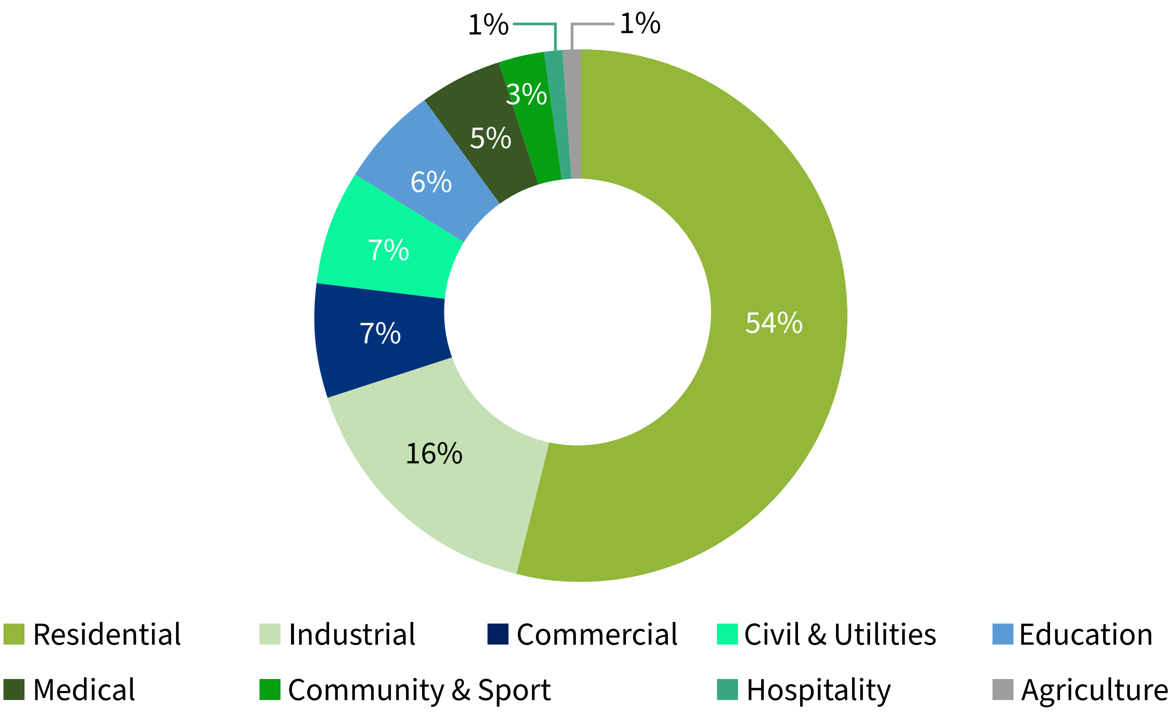
Consumer spending is forecast by the Commission to remain firm as inflation moderates and household earnings and employment levels rise. However, higher borrowing costs are set to dampen housing market activity and business investment this year, impacting construction activity.

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

Annual Change	2021	2022f	2023f	2024f	2025f
AGRICULTURE	-28%	-30%	-20%	0%	5%
CIVIL AND UTILITIES	86%	-19%	5%	10%	5%
COMMERCIAL	-23%	-9%	2%	10%	10%
COMMUNITY AND SPORT	-26%	65%	-25%	4%	5%
EDUCATION	-4%	62%	8%	4%	3%
HOSPITALITY	132%	-36%	10%	20%	10%
INDUSTRIAL	69%	20%	15%	5%	-5%
MEDICAL	4%	4%	10%	15%	3%
RESIDENTIAL	49%	-15%	-5%	15%	10%
ALL	**36%**	**-7%**	**0%**	**12%**	**6%**

Source: CIS & Glenigan

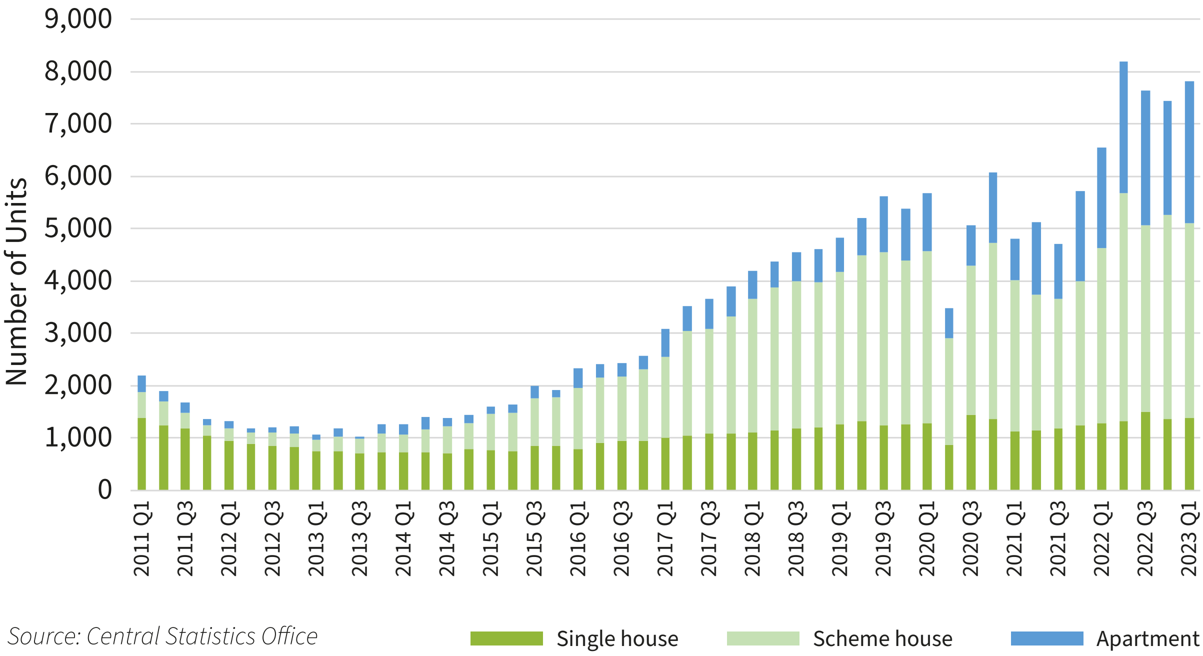
Chart 17: Value of Construction Starts in 2022



PRIVATE RESIDENTIAL

Residential is the dominant construction sector, accounting for 54% of projects started by value during 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 tends to be phased over a longer time period than for smaller sites, the measure has supported a step change in new unit completions over the last five years, despite the disruption during the pandemic. The chart below illustrates how scheme houses and apartments have been the principal source of growth in units completed over the last five years.

Chart 18: Number of new housing units completed

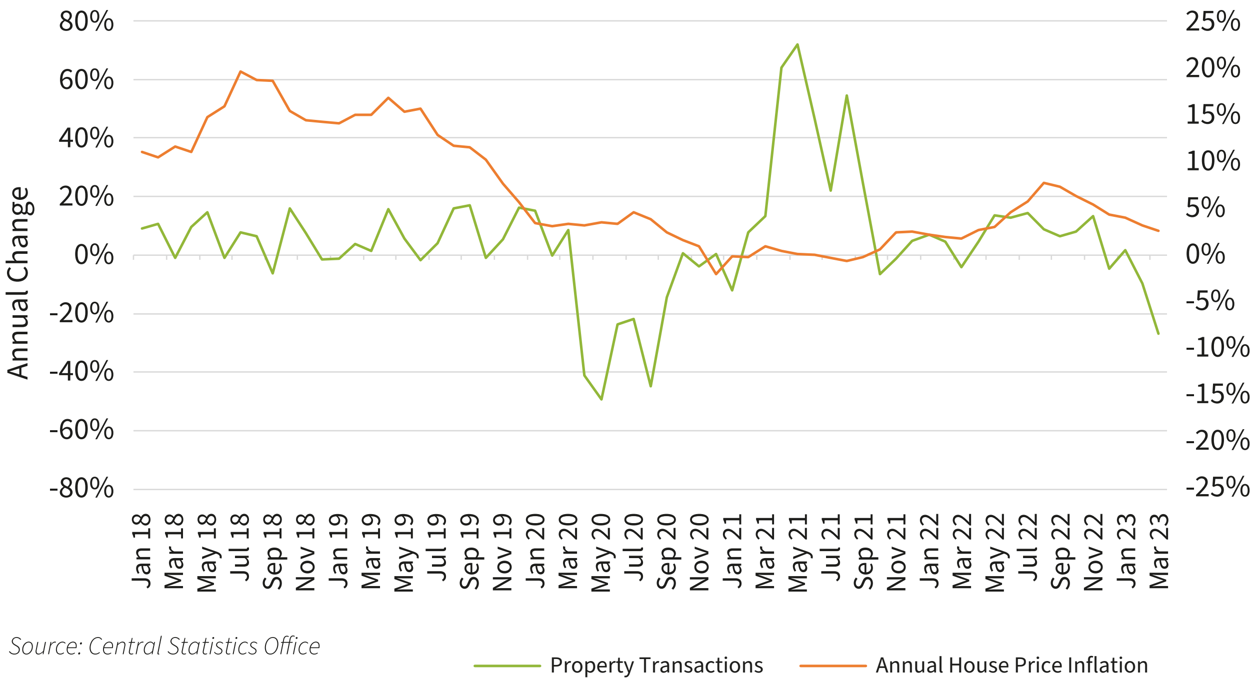


Source: Central Statistics Office

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 49% during 2021.

Housing market activity stabilised last year as interest rates rose. After an 18% increase in 2021, the growth in property transactions slowed to 6% last year, with the increase driven by a 25% rise in new house sales. Sales of existing homes rose by just 2%. The first quarter of 2023 has seen a further weakening in market activity, with transactions 13% down on a year ago. A further cooling in housing market activity is anticipated during the coming months.

Chart 19: Housing Market Activity



Source: Central Statistics Office

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 projects. The value of residential project starts declined by 15% last year and a further 5% decrease is anticipated during 2023.

Having plateaued during 2020 and 2021 after a number of years of strong growth, the flow of residential work securing planning consent picked up last year. While the number of residential projects securing approval during the year was 4% lower than in 2021, the value of project approvals rose by 15%.

The number and value of residential applications also remains strong. The number of applications rose 9% last year, while the value of the applications grew by 15%. Whilst recent CIS data suggests that over 60,000 houses are currently caught up in the planning system, the rise in applications should strengthen the development pipeline over the medium term and support the renewed growth in project-starts anticipated from 2024 as the wider economic picture brightens.

PRIVATE NON-RESIDENTIAL

The value of industrial project starts grew by 20% last year, building upon a 69% increase in 2021. A shift in consumers' retail habits during the pandemic towards online retailing 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. CBRE report that the Dublin industrial and logistics market experienced its second strongest year on record for take-up in 2022 and that demand remained strong in 2023 Q1, with the take-up of 85,000 sqm of floorspace; a 44% increase on a year ago.

The development pipeline has also grown sharply over the last 24 months and has underpinned a 20% rise in the value of starts during 2022. This is expected to support a further rise in sector starts over the forecast period, although the pace of growth is expected to moderate. Rising costs, higher interest rates and labour shortages may impact the viability and development timetable of some projects over the forecast period.

Commercial sector starts peaked in 2019 and have fallen back progressively over the last three years. The growth in hybrid and remote working is potentially reducing the overall volume of floorspace required by occupiers. CBRE estimate that the vacancy rate in the Dublin market is now 13%. Weak demand combined with higher borrowing costs is forecast to limit the growth in starts to 2% during 2023.

A strong rise in approvals over the last two years has strengthened the potential development pipeline. This is expected to support a partial recovery in commercial project-starts from 2024.

GOVERNMENT INVESTMENT

Education starts increased sharply during 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 would be delivered annually over the period 2021 to 2025. However, funding problems are currently holding up close to 60 large scale schemes. This is expected to temper the pace of growth in the education sector over the forecast 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. The value of health sector approvals jumped 57% last year. The increased funding and stronger development pipeline is forecast to support an acceleration in sector growth during 2023 and 2024.

The value of civil and utilities projects fell back 19% last year after a sharp 86% jump in starts during 2021. A firm development pipeline is expected to support renewed growth over the forecast period.

Key Recommendations

Construction faces a challenging and changing trading environment. Firms will need to be responsive and adaptable to mitigate risks in the current marketplace and exploit new opportunities as they emerge over the next three years.

IDENTIFY AND EXPLOIT NEW GROWTH AREAS

The pattern of UK construction activity is being reshaped by the economic slowdown and structural changes, while new regulations will change how projects are delivered. As the industry emerges from the current downturn 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 and retail refurbishment and fit out, and the repurposing of redundant commercial premises.

Changes to the planning regime threaten to reduce the supply of development land for the residential homeownership sector over the medium term, especially outside urban areas, adversely impacting the delivery of low-rise family housing. Reform of leasehold property regulations together with post-Grenfell safety regulations may improve purchasers' enthusiasm for new apartments. This may increase competition with Build to Rent developers for high-rise city centre sites.

Near term, increased government funding is expected to drive the Education, Health, and Community & Amenity sectors, although departmental budgets are likely to be reviewed post-election, potentially slowing sector activity during 2025.

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 and shifting opportunities, ensuring that they have the expertise and resources to increase their exposure to growing markets and locations.

FACTOR-IN SUPPLY SIDE CONSTRAINTS

Whilst material availability is improving and overall construction product costs are stabilizing, the cost of selected products remains volatile. Contractors and sub-contractors should seek to identify and mitigate any potential interruption to product supply, including those from overseas sources.

Labour supply pressures are likely to ease near term as industry workload softens. This is expected to be short-lived however, with skills shortages and labour costs growing alongside the strengthening in starts from 2024. Contractors and sub-contractors should factor-in the impact on their costs and development schedule when bidding for work.

MITIGATE RISK

Over the last year supply-side constraints have disrupted project schedules and extended construction times, with implications for workload, turnover and cashflow. Planned construction programmes may be further disrupted by regulatory supervision of projects as the Building Safety Act comes into force. The slower 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. An enlarged order pipeline is essential to ensure businesses can weather unexpected programme delays or project cancellations.

Construction insolvencies since the start of 2022 are 27% above pre-pandemic levels. A diversified client base will reduce exposure to any one client with a 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. Identifying new customers has never been more important. Supply chains should also be reviewed to ensure that firms are not over exposed to just a few suppliers.

ON-SITE EFFICIENCY AND COLLABORATIVE WORKING

Whilst product supply disruptions are expected to 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 firms to invest in the recruitment, training and retention of skilled labour, and to use on-site labour more sparingly and effectively 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 were 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.

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

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