

2016 EU Membership Referendum

Analysis of the Implications for the UK Construction Industry

PREPARED BY

 **Glenigan**

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Introducing Glenigan

Established in 1973, Glenigan's research team of over 110 make over a million research telephone calls per year to track every construction project in the UK from the earliest pre-planning stage through to completion on site. This enables us to provide the most up-to-date and comprehensive construction sales leads and analysis, to help companies win new business and understand their markets.

Glenigan has exclusive content partnerships with key industry bodies such as the Builders' Conference, the Considerate Constructors Scheme and the Building Research Establishment (BRE), enabling us to offer project data that's not available elsewhere in the market.

Glenigan's detailed insight is used across all levels of our customers' businesses. Different departments have much to gain from using our industry knowledge and product features to deliver results for their specific job role.



Further information

For further information, visit glenigan.com or contact us on the details below.

Phone +44 (0)1202 786700
info@glenigan.com

Floor 5, Ocean 80, 80 Holdenhurst Road
Bournemouth BH8 8AQ

Subscription Sales
Phone 0800 373 771
info@glenigan.com

Account Management
Phone 0870 443 5373
customer@glenigan.com

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Should I stay or should I go?

The referendum on the UK's EU membership is fast approaching, with voting cards dropping through letter boxes across the country. What are the implications of the referendum outcome for the construction industry if we remain or leave?

The impending vote already appears to be having an impact. Whilst planning applications remain strong, anecdotal evidence suggests that private investors are delaying the final commissioning of planned projects until the referendum outcome becomes clear.

The Bank of England has reported that the uncertainty associated with the EU referendum has also begun to weigh more generally on economic activity and has downgraded its growth forecast for the UK. Slower economic activity could have a direct impact on construction workload.

Whilst pre-referendum nerves are having an adverse impact on the construction activity in the short term, how will the industry fare once the votes have been counted?

Remain

A majority vote to stay in the EU should, in theory, mean 'business as usual'.

Recent growth in the construction industry has been driven by the private sector, with housebuilding, commercial and industrial buildings being the key growth sectors. Pre-construction pipelines for these sectors remain strong and we anticipate that private sector investors should be quick to bring projects to site once the political uncertainty has been removed. Accordingly after a subdued first half to the year, we would expect a strengthening in private sector project starts during the final six months of 2016 and into 2017.

Planning approvals for office projects rose 29% during 2015, with investment increasingly rolling out from the central London market to other major city centres. Expectations of sustained economic growth and firm demand for new office space should prompt institutional investors to go ahead with planned schemes.

The industrial sector has grown rapidly over the last two years. The value of detailed planning approvals has also increased sharply; approvals rose 48% in 2015. Recent growth has been driven by plans for new logistics space and manufacturing floorspace. Confirmation that UK manufacturers will still have tariff free access to the Single European Market, which accounts for around half the country's exports, is likely to reassure investors in such industrial premises.



Near term, private house building is expected to benefit from rising demand by house purchasers benefiting from increasing real incomes, low interest rates and government incentives. Longer term, if the UK continues to outperform other parts of the European economy, inward migration demand from EU nationals to the UK is likely to add to demand in the housing market and increase the pressure for more new homes to be built.

The Single European Market

The Single Market is intended to provide a 'level playing field' for the trade of goods and services across Europe. The removal of tariff barriers between member states is the most obvious benefit of the Single European Market.

However, the EU has also sought to tackle non-tariff barriers to trade. VAT regulations, employment legislation, employment standards and even environmental legislation can all impact on firms' costs and act as a barrier to trade.

The EU has sought harmonisation in all of these areas in an effort to ensure a fair market and to prevent a 'race to the bottom' in terms of social and environmental legislation.

Accordingly it is likely that these areas would be part of any post-Brexit negotiations, as the EU would be concerned to ensure that its businesses were not put at a disadvantage to UK firms that were no longer subject to the same social and environmental requirements.

Leave

A majority vote to leave the EU could affect the construction industry in a number of ways.

The principal arguments being put forward for a UK departure are greater national sovereignty, a reduction in EU regulations and greater control over inward migration. Indeed, a recent survey by the FMB found that 40% of construction SMEs identified the potential freedom that Brexit could grant the Government to set legislation that "truly meets the needs of British business" as the biggest potential positive of Brexit.

However, to date there has been a lack of consensus from those advocating a UK exit as to how these aspirations will be realised in treaty negotiations with the rest of the EU and other trade partners. What agreement, and how quickly it is reached could have a significant impact on the UK economy and construction.

The initial impact upon construction workloads could be to prolong and intensify private investors' hesitation, delaying planned industrial and commercial construction projects until the UK's future relationship with the EU becomes clearer.

Over the last twenty years, the UK has been highly successful at attracting foreign direct investment, helping to fuel the demand for industrial and commercial premises. However, 72% of investors in a recent EY survey cited access to the European single market as important to the UK's attractiveness.

Near term it is likely there could be a similar nervousness in financial markets. Any sustained weakening in Sterling against the major currencies would increase the price of imported goods, squeezing consumer spending power and potentially prompting an earlier rise in interest rates. Against this background, housing market growth and housebuilding activity would be likely to cool.

The longer term implications for construction would be determined by the type of relationship negotiated with the EU. The greater any trade barriers, the more likely economic impacts such as increased costs, reduced productivity and ultimately weaker growth would be.

The Treasury's assessment of the post-Brexit alternatives concluded that all their anticipated scenarios would increase the costs of trading with Europe, and none of the alternatives would involve the full access to the Single Market that the UK currently benefits from.

Over the longer term any weakening in UK economic growth would have a direct impact upon construction activity, both curbing private sector investment and dampening the inflow of government revenues needed to fund public sector projects.

In addition, one of the clear political objectives of those arguing for Brexit is greater control on inward migration from the EU. If this led to reduced immigration, it could ease pressure on house prices, and in particular demand for private rented accommodation. However any cooling in the housing market is also likely to be accompanied by a slowing in new house construction as demand decreases.



Controls on EU immigration pose particular challenges for construction as 5% of the industry's workforce were born elsewhere in the EU according to the 2011 census. The introduction of employment restrictions upon EU nationals could exacerbate the industry's current labour and skills shortages unless replaced by non-EU immigration or indigenous labour.

Industry wage levels could rise, while firms recruiting or employing workers from the EU would also face additional administrative costs. Recruiting staff with the requisite skills, already a problem for many firms, could be amplified by restricting the freedom of EU nationals to work in the UK. However, some of those arguing for Brexit have proposed that lower overall immigration would make it easier for the Government to introduce a targeted relaxation in current non-EU immigration controls to tackle specific skills shortages.

Higher labour costs would put pressure on contractors' margins and in due course feed through to clients in higher tender prices. Over the longer term, such restrictions could hamper the industry's ability to respond to sharp changes in workload over the economic cycle.

Construction Products Directive

UK construction product manufacturers have spent many years working to secure common product standards and testing regulations across Europe that do not disadvantage UK suppliers and which improve their access to other European markets.

Brexit is likely to diminish UK influence over any future changes to standards and testing requirements. Over time new European standards may be adopted that do not suit the UK market or manufacturing processes. This could place UK firms at a competitive disadvantage and add to UK construction costs:

- UK standards could diverge from the rest of Europe, adding to manufacturers' costs to supply both the UK and continental markets
- UK construction costs could rise and the choice and availability of products could diminish as product manufacturers withdraw from the UK market due to differing product standards