Construction Forecast

for 2020-2021

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Glenigan

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About the author

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 (BEIS), is member of a Construction Leadership Council working group and is a guest lecturer in construction at the University of Reading.

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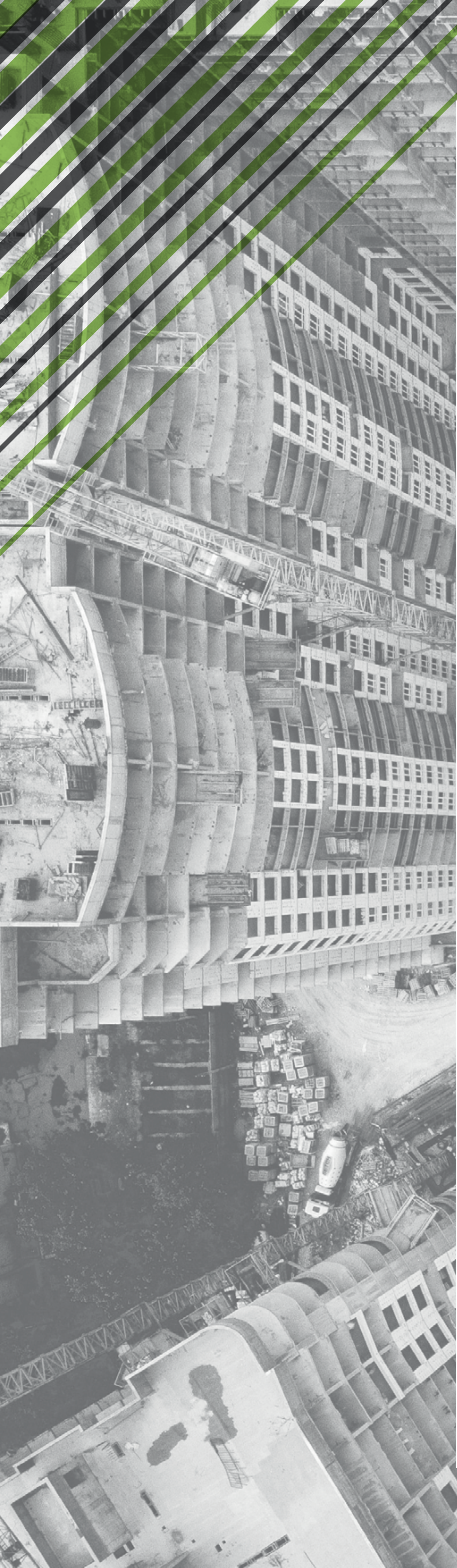

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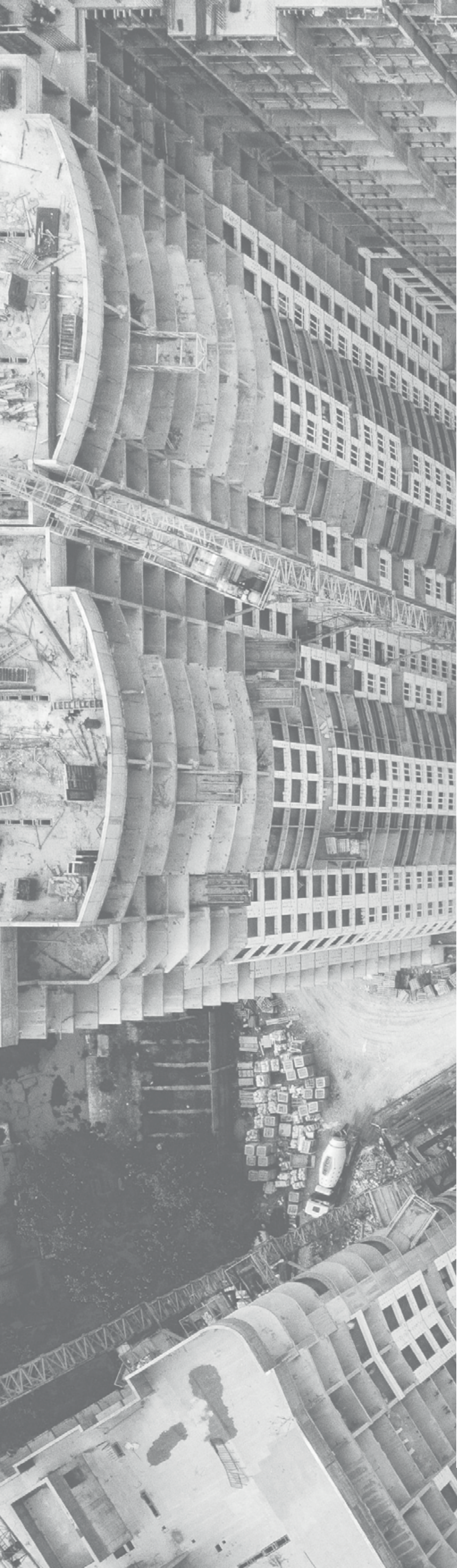


Charts

Assumptions

Significant political uncertainty remains, with a General Election campaign underway. Our forecasts are based on the usual assumption that the incumbent administration is re-elected, with the additional assumptions that:

1. it has a majority
2. it enacts the new Brexit agreement negotiated this autumn and;
3. that a trade agreement with the EU is in place before the end of the transitional period.

Whilst the Conservatives' election manifesto had yet to be published at the time of writing, we have also sought to assess the likely impact of commitments given so far during the election campaign. The most striking policy change is the commitment to a substantial increase in public sector expenditure, including increased investment in the built environment. The full extent and direction of the additional funding is not yet clear, apart for previously announced plans for the NHS.

Construction & Election Outcomes

A key assumption behind our forecasts is that the incumbent administration is returned following the General Election. But how would an alternative electoral outcome be likely to impact upon the industry?

Both the Conservatives and Labour are proposing substantial increases in public spending that will require changes to the Government's own financial rules. Both the Conservatives and Labour plan to invest more in the built environment - as do most of the other parties.

LABOUR MAJORITY

The level and pattern of construction activity will vary under a potential Labour majority administration. Chiefly these will include:

- Private sector investment would be muted near term as Brexit uncertainty continues and the new Labour Government seeks a new revised EU withdrawal deal followed by another in/out referendum. The custom union deal or no Brexit outcome may be more likely to lift economic growth over the medium term.
- Increase in public spending and investment - £250bn in the UK's infrastructure through a new National Transformation Fund (which includes social infrastructure and the housing stock) over the next 10 years
- Support for HS2
- Extra funding for the NHS over that promised by Conservatives, but this is unlikely to impact on construction activity during 2020 and 2021 due to limited pool of projects to take forward.
- Energy efficiency programme for the existing housing stock
- All homes built from 2022 onwards to be carbon neutral
- Increased regulation may deter Build to Rent investors
- Expanded social housing programme – the Labour Party conference called for 155,000 social rented homes a year
- Greater investment in the school building stock
- New funding regime for higher education is likely to further deter capital spending by universities
- Nationalisation of utilities including the National Grid, the Post Office and the water industry. This could have a detrimental impact on civil engineering activity during the forecast period as the existing operators reign in their investment plans.

The overall impact of Labour's plans in the longer-term is likely to be a greater shift in construction activity towards government funded projects and away from private sector areas. Brexit uncertainty, higher corporate tax rates and competition for skilled labour and materials may squeeze out some privately financed projects.

MINORITY GOVERNMENT

If either party forms a minority government, their ability to drive through all their policy commitments would be limited. Any minority Government would be likely to bring forward those parts of its agenda that are probable to find cross-party support and resonate most with voters – potentially ahead of fresh election.

A second referendum on either the current Brexit deal or a freshly renegotiated Labour deal would become more likely.

2020 +2%

2021 +5%

Executive Summary

Overall the market has stabilised this year, rising by 1%. This follows an 8% decline in underlying project starts (with a construction value of less than £100 million) in each of the last two years.

EXECUTIVE SUMMARY
UK CONSTRUCTION PROSPECTS
PRIVATE HOUSING
SOCIAL HOUSING
INDUSTRIAL
OFFICES
RETAIL
HOTEL & LEISURE
EDUCATION
HEALTH
CIVIL ENGINEERING
KEY RECOMMENDATIONS

Construction prospects are set to brighten during 2020 and 2021 as the industry benefits from promised increases in public sector investment.

The forecast recovery in project starts will be driven by a rise in private housing, affordable housing, education, health and civil engineering projects. Industrial and commercial sector starts are expected to decline initially as businesses appraise the post-Brexit outlook for their UK operations.

- **Business investment hit by slow UK economic growth and poorer export prospects**
- **Improved housing market confidence lifts private housing starts**
- **Slowdown in commercial sector activity**
- **Increase in logistics projects**
- **Major projects boost civil engineering workloads**
- **Overall construction project starts grow by 1% during 2019**
- **Strengthening in private housing, affordable housing, public non-residential and civil engineering work lifts starts in 2020 and 2021**

UK Construction Prospects

UK construction activity has fared slightly better than anticipated this year. Despite the continued political uncertainty and weakening UK economic growth, the value of underlying construction starts is expected to finish the year 1% higher than 2018. This stabilisation in activity follows declines of 8% during 2017 and 2018.

Table 1: Value and growth of Underlying Project Starts by Sector

	2018		2019f		2020f		2021f	
	Starts £m	% change YoY	Starts £m	% change YoY	Starts £m	% change YoY	Starts £m	% change YoY
PRIVATE HOUSING	18,087	-15%	17,806	-2%	19,385	9%	21,292	10%
SOCIAL HOUSING	6,239	-11%	6,637	6%	6,349	-4%	6,890	9%
INDUSTRIAL	4,418	-1%	4,395	-1%	4,148	-6%	4,147	0%
OFFICES	4,569	3%	4,8 57	6%	4,204	-13%	4,244	1%
RETAIL	2,340	-3%	2,357	1%	2,176	-8%	2,115	-3%
HOTEL & LEISURE	3,767	-10%	3,769	0%	3,817	1%	4,015	5%
EDUCATION	6,148	8%	5,622	-9%	5,702	1%	5,955	4%
HEALTH	2,451	14%	2,161	-12%	2,235	3%	2,404	8%
COMMUNITY & AMENITY	868	-43%	940	8%	1,039	11%	1,026	-1%
CIVIL ENGINEERING	5,055	-11%	6,172	22%	6,492	5%	6,485	0%
TOTAL	**53,941**	**-8%**	**54,715**	**1%**	**55,548**	**2%**	**58,573**	**5%**

SLUGGISH ECONOMIC GROWTH DAMPENS PRIVATE NON-RESIDENTIAL WORK

Weak UK economic growth is forecast to constrain construction activity during 2020 and 2021.

UK manufacturing in particular is under pressure from weak domestic demand and poorer export prospects under the terms of the renegotiated Brexit agreement. Manufacturers will continue to face significant uncertainty until a trade agreement is in place with the EU. Against this background we anticipate a continued weakening in manufacturing investment over the forecast period.

In contrast, warehousing & logistics premises are forecast to remain a growth area, bolstered by structural changes in the retail sector that are driving the demand for logistics space. However, growth in this area will be overshadowed during 2020 by a weakening in manufacturing investment in factory premises.

In the retail sector, activity is forecast to decline over the forecast period as weak consumer spending and the growth in online retailing accelerate the restructuring of the retail industry and depress the demand for retail premises.

A weakening in office starts is forecast for 2020. Recent development activity in major regional centres has addressed poor supply of office accommodation in these locations. Project starts in London have risen this year. Detailed planning approvals have also improved and further growth in starts in the capital is anticipated. However, a decline in project starts outside of the capital is expected to overshadow the rise in London activity next year, before the sector as a whole returns to growth in 2021.

A cooling UK housing market has held back sector activity during 2019. Greater political clarity is expected to lift homebuyers' confidence from next year, supporting a modest rise in property transactions and new housing activity over the next two years.

INCREASED GOVERNMENT INVESTMENT

Affordable housing activity has picked up during the current year and further growth in this area is forecast for 2020 and 2021. In contrast, student accommodation work has faltered during 2019, having been an important growth area for the sector in recent years. A further weakening in student accommodation work is expected to drag project starts lower next year, before the sector returns to growth in 2021.

An increase in school building projects is forecast to drive sector activity as local authorities tackle a shortage of secondary school places. A fall in universities capital spending is expected to temper the overall growth in education sector work.

The outlook for the health sector is brightening, with promised increases in NHS capital funding expected to lift project starts over the next two years. The scarcity of projects currently in the development pipeline is expected to limit initial sector growth to just 3% next year. Starts are subsequently forecast to gather momentum during 2021, rising by 8%, as NHS trusts develop and implement their investment programmes.

The Conservative government has pledged to significantly increase investment in the UK's infrastructure. In many areas such as energy and broadband, such investment will be delivered by the private sector. Where additional public sector funding is potentially available in areas such as roads, it will take time before additional projects are 'shovel ready'. Accordingly, we anticipate that initially the additional funding increases will be directed at areas such as tackling the maintenance backlog on the nation's roads.

Civil engineering activity has grown sharply this year, with underlying starts (with a construction value of less than £100 million) rising by an estimated 22%. A further strengthening is anticipated in 2020 as road, rail and water industry investment programmes gather momentum.

Existing major infrastructure schemes, including Thames Tideway, HS2 and Hinckley Point, are also forecast to lift civil engineering output over the forecast period. Although the contribution and timing of HS2 will be determined by the final outcome of the Oakervee Review. The £1.4 billion Stonehenge Tunnel is currently scheduled to start in 2021, but important planning and contracting hurdles have yet to be cleared.

2020 +9%

2021 +10%

Private Housing

- Strong potential development pipeline
- Renewed growth in Build to Rent developments
- Improved consumer confidence lifts property transactions and house prices from 2020
- Extension of Help to Buy supports new house sales and new site developments

PRIVATE HOUSING STARTS

	2019f	2020f	2021f
£ million	17,806	19,385	21,292
Growth	-5%	9%	10%

A cooling UK housing market has held back sector activity during 2019. Greater political clarity is expected to lift homebuyers' confidence from next year, supporting a modest rise in property transactions and new housing activity.

The value of private housing projects starting on site declined for a second consecutive year during 2019, falling by an estimated 5% as housebuilders prioritised building out existing developments and opened fewer new sites.

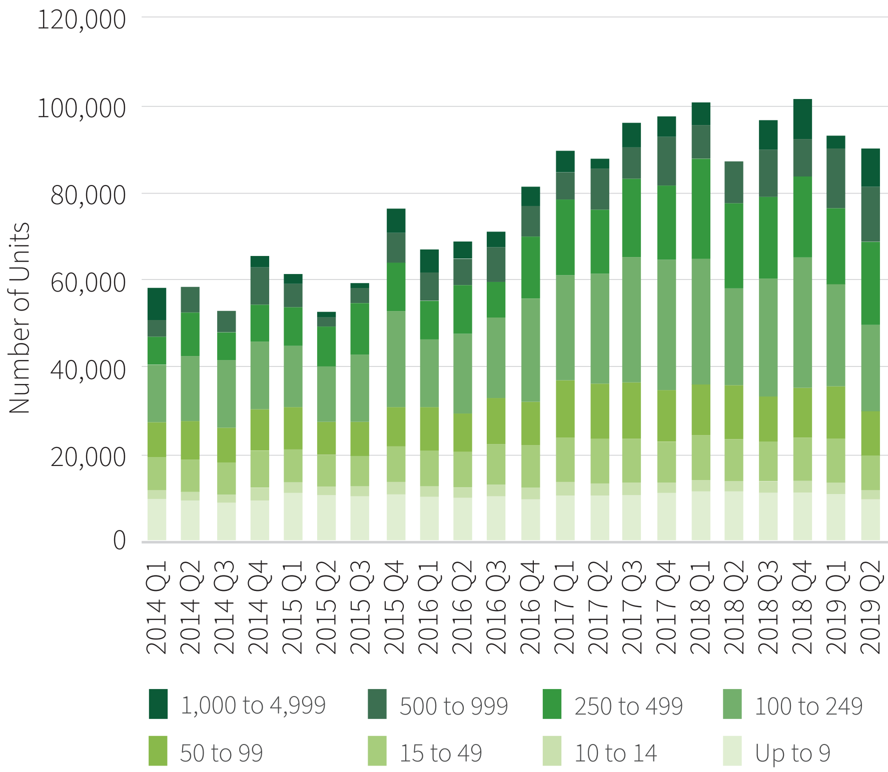
The number and value of projects securing planning approval has also weakened over the last 18 months. However, this decline follows five years of progressive growth in approvals between 2013 and 2017 and the development pipeline remains firm. Previous growth had been strongest in the approval of larger projects of 100 units or more and it is the approval of these larger schemes that have particularly dwindled in the last two years.

Demand, rather than supply, is currently the principal constraint on new private housing activity.

Consumer spending and confidence remain under pressure, despite a recent improvement in real household earnings. Political and economic uncertainty are also contributing to the subdued conditions in the wider housing market as potential buyers have been cautious of committing to major purchases.

Property transactions and house price inflation have slowed since the start of 2017 and conditions remain weak in the wider housing market. The Nationwide put annual house price inflation at just 0.4% in October. Residential property transactions are expected to decline by 2% this year to their lowest level since 2013. Quieter conditions in the wider housing market have dampened sales of new homes, prompting developers to focus their sales efforts on existing sites and to open fewer new ones.

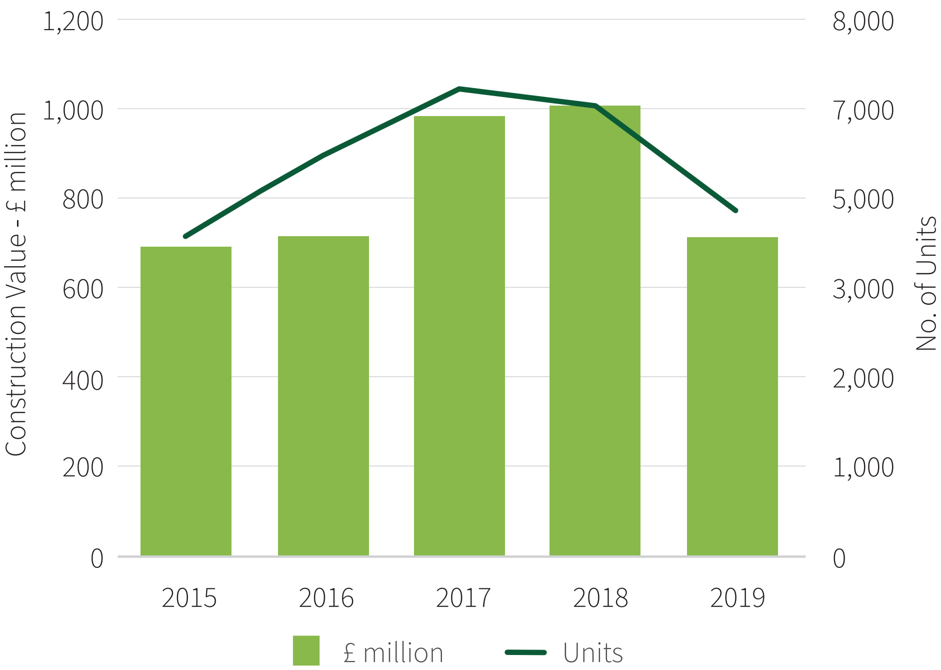
Chart 1: Number of units on private residential projects securing detailed planning approval



Source: Glenigan

Looking ahead, a clear political outlook is expected to improve buyer confidence during 2020 and 2021, despite weak economic growth. A modest rise in household earnings, improved purchaser confidence and the extension of the Help to Buy scheme until 2023 are expected to lift the value of project starts from 2020.

Chart 2: Private Rented Sector projects starting on site



Source: Glenigan N.B. 2019 to October - pro rata

Until this year, the private rented sector has been a small, but fast-growing source of work within the private housing sector. However, the flow of Build for Rent schemes starting on site has faltered during 2019, amid Brexit uncertainty and the potential risk of tighter regulations on private rented properties under a prospective Labour government. At £713 million the value of Build for Rent schemes started during 2019 is forecast to be 29% down on the previous year. A more certain political and regulatory outlook is expected to support renewed growth in Build for Rent development work during 2020 and 2021.

2020 -4%

2021 +9%

Social Housing

- Housing associations better placed to finance new developments
- Increased support for shared ownership developments
- Contraction in student accommodation development pipeline

SOCIAL HOUSING STARTS

	2019f	2020f	2021f
£ million	6,637	6,349	6,890
Growth	6%	-4%	9%

Affordable housing activity has picked up during the current year and further growth in this area is forecast for 2020 and 2021.

In contrast student accommodation work has faltered during 2019, having been an important growth area for the sector in recent years. A further weakening in student accommodation work is expected to drag overall sector starts lower next year, before this sub-sector returns to growth in 2021.

Housing associations are now better placed to finance and take forward new developments. Government requirements limiting association's rent increases to 1% below the rate of inflation are ending. This will provide associations with greater flexibility to increase their borrowing to fund new developments.

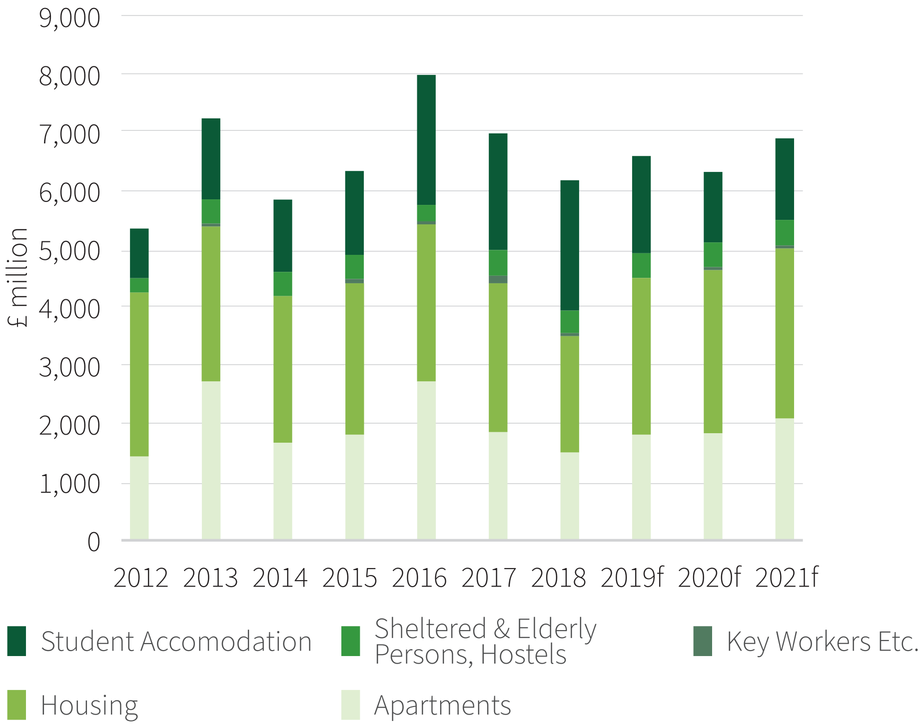
In addition, the Conservative election commitments include a substantial increase in public sector investment. Whilst it is currently unclear how much of the additional funding is to be directed to improving social housing provision, the government is already fully-funding the replacement of unsafe ACM cladding on social sector properties. It has also promised increased support for shared ownership developments.

The value of affordable housing projects started on site is estimated to have grown by 25% this year. Detailed planning approvals, however, slipped back slightly; this is expected to temper new starts growth during 2020.

Student accommodation work has been the bright spot within the social housing sector, with starts growing by 65% over the five years to 2018, while affordable housing projects fell by a third. After such rapid growth, the student accommodation market now appears to have entered a period of consolidation; earlier than anticipated. Two major landlords in the sector, Unite and Liberty Living, are currently merging; this is likely to curb their new development activity as the focus on delivering promised cost savings. Also, the number of student entrants to universities is projected to decline 4.5% over the 4 years to 2021/22, a trend that may be tempering the flow of investment into this market after the rapid growth seen in recent years.

The value of student accommodation work started has fallen by an estimated 26% this year, while detailed planning consents have dropped by 34%. A further consolidation in student accommodation starts is forecast for 2020, before returning to growth in 2021.

Chart 3: Value of underlying social housing starts by type of development



Source: Glenigan

2020 -6%

2021 0%

Industrial

- Manufacturers' investment in additional capacity and manufacturing premises deterred by prolonged uncertainty over domestic demand and reduced access to European Single Market
- Demand for logistics space is lifting investment in warehousing and distribution facilities
- Midlands and North West prime areas for sector growth

INDUSTRIAL STARTS

	2019f	2020f	2021f
£ million	4,395	4,148	4,147
Growth	-1%	-6%	0%

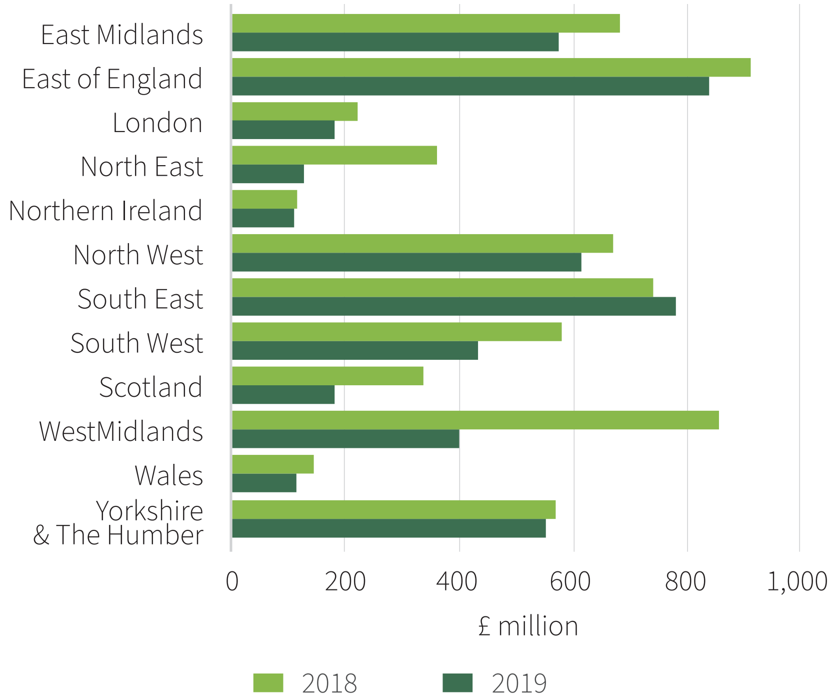
Strong demand for logistics space is supporting sector activity, but Brexit uncertainty is disrupting manufacturing investment.

Industrial project starts are estimated to have declined 1% this year as a weakening in manufacturing buildings overshadows increased demand for logistics space.

Future investment in manufacturing capacity and premises will be determined by long term growth prospects. Weak economic growth is expected to dampen UK domestic demand for manufacturers products. Under the terms of the renegotiated Brexit agreement, manufacturers are also likely to face reduced access to EU markets and supply chains post-Brexit.

Against this adverse political and economic background, many manufacturers have been deferring investment decisions or prioritising efficiency improvements over additional capacity. The value of manufacturing project starts have fallen for a second consecutive year, declining by a significant 18%. The value of manufacturing projects starting on site is expected to fall by a further 17% next year before stabilising in 2021.

Chart 4: Value of underlying detailed planning approvals for industrial projects



Source: Glenigan
N.B. 2019 data is based on Jan to October pro rata

The potential post-Brexit disruption to just-in-time supply chains, however, is adding to the rising demand for logistics and warehousing space.

Warehousing and logistics have been the fastest growing segment within the industrial sector in recent years. Investor confidence and project starts have recovered after a sharp fall in project starts in the immediate aftermath of the EU referendum. The value of starts grew 24% last year to £1.8 billion.

Demand for logistics space is being principally driven by structural change in the retail sector, with the relentless growth of online retailing, click & collect and home deliveries fuelling demand for warehousing and distribution premises.

Chart 5: Value of underlying Industrial starts by category

Source: Glenigan

We expect this structural change to remain a long-term driver for warehousing and logistics projects as online retailing takes an ever-larger share of retail sales and as retailers adapt to changing spending patterns and shopping habits. The value of warehousing and logistics projects starting on site is estimated to have risen by 2% this year at £1.86 billion and is forecast to remain close to this high level during 2020 and 2021.

The Midlands, North West and parts of the South East of England are favoured locations for such facilities, offering good access to national transport networks and the UK's major population centres. However, there is also growing demand across the UK for smaller distribution facilities to service the 'final mile' delivery of products to the customer.

-13%

2020

+1%

2021

Offices

- Slower UK economic and employment growth to dampen demand for office space
- Opportunities for refurbishment and conversion of secondary office accommodation

OFFICES STARTS

	2019f	2020f	2021f
£ million	4,857	4,204	4,244
Growth	6%	-13%	1%

Recent development activity has been driven by a shortage of quality office space, especially outside of London. The increase in available office accommodation as projects are completed, coupled with a weak outlook for UK employment growth, is forecast to temper the flow of new project starts over the forecast period.

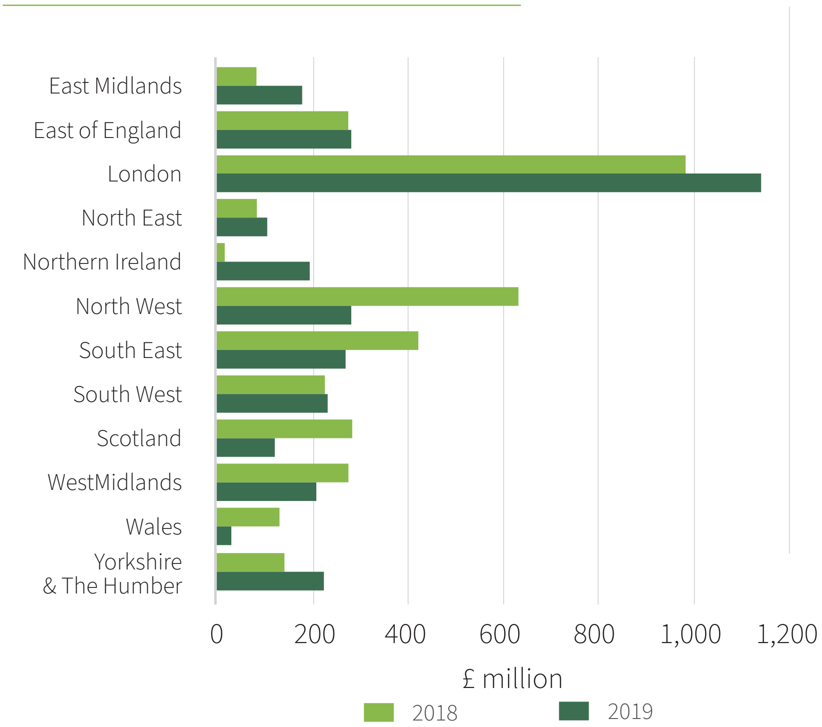
Regional centres, rather than the capital, have been the recent focus for development activity. Demand for high-quality office space has been growing in the UK's 'core' cities. This rising demand for office accommodation and a previous lack of development activity tightened the supply of available office space in Manchester, Birmingham, Leeds and other major regional centres and has spurned on development activity. Recently completed projects and those currently under construction are now improving the supply of available floorspace. This is expected to dampen new build project starts during the forecast period, although it may spur the refurbishment and upgrading of existing premises as leases come up for renewal.

The value of underlying project starts in London declined between 2015 and 2018 as Brexit concerns dampened development activity in the capital's financial quarters. Nevertheless, the capital still accounts for around half of all activity.

London office starts have increased by 16% this year, following a marked rise in detailed planning approvals in 2018. Detailed planning approvals increased by a further 24% during the first ten months of 2019 pointing to a continued growth in underlying office starts next year.

However, a decline in project starts outside of the capital is expected to overshadow the rise in London activity next year, before the sector returns to growth in 2021.

Chart 6: Value of underlying detailed planning approvals for office projects



Source: Glenigan
N.B. 2019 data is based on Jan to October pro rata

-8%
2020

-3%
2021

Retail

- Demand for retail space hit by weak household earnings and growth of online retailing
- Retailers rationalising their estates as costs rise and in-store sales volumes falter
- Refurbishment of retained premises to attract customers and support online offering

RETAIL STARTS

	2019f	2020f	2021f
£ million	2,357	2,176	2,115
Growth	1%	-8%	-3%

New retail development activity is subdued as retailers' close stores in the face of faltering consumer spending and the growth of online retailing.

Retailers face challenging market conditions. Overall consumer spending is growing, but slowly. The OBR estimates consumer spending will grow by just 1.1% this year before strengthening to 1.5% in 2020. This compares to an average rise of 2.3% per annum over the last five years. This is reflected in weak retail sales growth, with online sales taking an ever-growing proportion of sales.

Against this backdrop, the retail property market faces weakening demand for retail space and softening rental values as many retailers look to rationalise their existing estate and renegotiate rental terms.

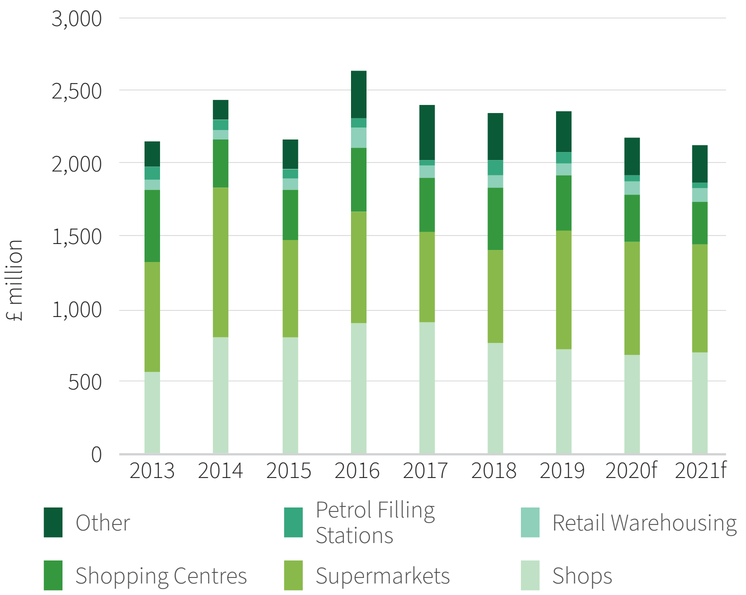
A number of well-known high street names have failed over the last two years. Other retailers, driven by declining in-store sales and efforts to accommodate click & collect services have rationalised their estate, closing stores and seeking rent reductions and re-modelling their retained stores. BRC/ Springboard's retail survey reports that 10% of UK retail premises are currently vacant.

Three of the UK's leading shopping centre owners have recently reported falling rental incomes and asset values as vacancy rates have risen and retailers have sought rent reductions.

The leading supermarket chains have scaled back and refocussed their investment programmes towards the convenience store format. This often entails the conversion of existing high street premises rather than the construction of new stores. Only the deep discounters, Lidl and Aldi, have substantial new store development programmes.

These have helped to stabilise the value of project starts this year as Lidl and Aldi progress their development programmes. However, the upturn is forecast to be short-lived given weak market conditions and a shrinking development pipeline.

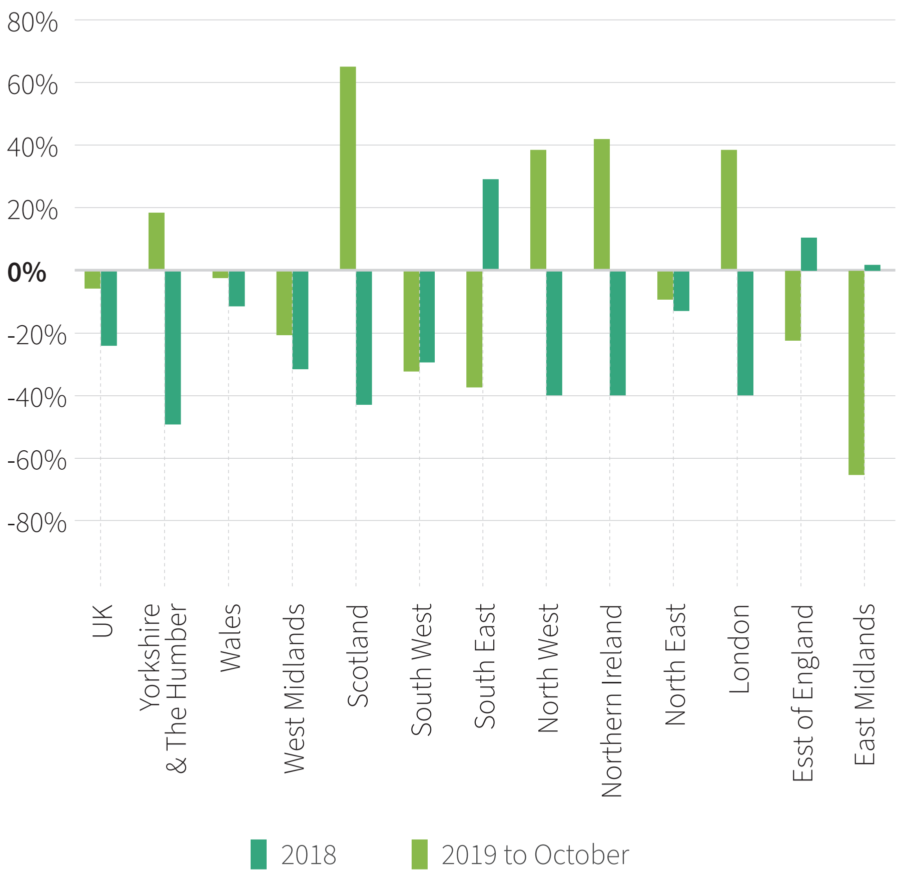
Chart 7: Value of underlying Retail starts by category



Source: Glenigan

Slower retail sales growth and the rise of online sales are forecast to feed through to a decline in the value of retail starts over the forecast period. The value of projects securing detailed planning approval fell by 24% last year. Against this background we expect project starts to fall by 7% this year, with a further 7% decline forecast for 2020.

Chart 8: Change in the value of underlying detailed planning approvals for retail projects



2020 +1%

2021 +2%

Hotel & Leisure

- Hotel chains have significant expansion plans
- Strong development pipeline, but investors cautious
- Initial tourist boost from weaker pound
- More UK residents expected to holiday in UK

HOTEL & LEISURE STARTS

	2019f	2020f	2021f
£ million	3,769	3,817	4,015
Growth	0%	1%	5%

Sector activity has stabilised this year after the retrenchment seen in 2018. Investors and operators remain cautious as UK consumer spending weakens and earlier increase in overseas visitors is reversed.

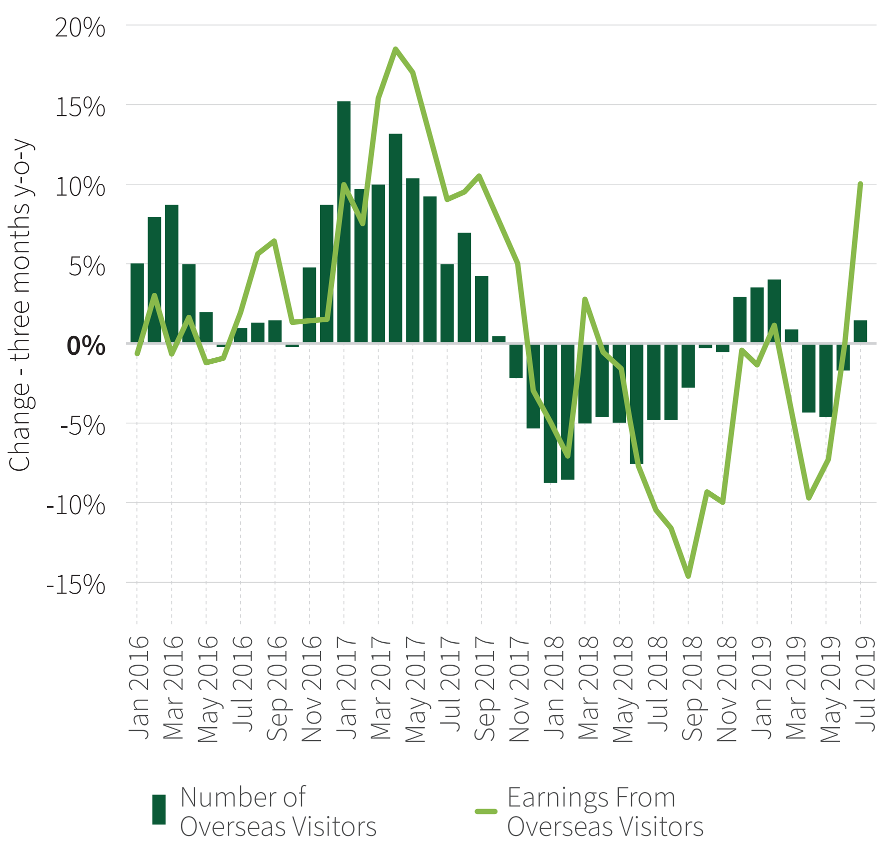
We forecast a gradual strengthening in project starts over the forecast period as investor confidence improves.

The initial boost to UK tourism from the fall in the pound in 2016 has faded. The number of overseas visitors to the UK fell 4% last year and related earnings dropped by 7%. The fall in overseas visitor numbers last year may have prompted increased caution amongst investors. The value of projects commencing on site dropped 10% last year, despite a strong pipeline of projects securing detailed planning approval.

More encouragingly, the most recent monthly data suggests that visitor numbers have stabilised and that related spending may be on the rise again. Any prospect of a further weakening in sterling should provide an additional boost to overseas visitor numbers during 2020.

In addition to increased spending by overseas visitors, the hotel & leisure sector should be able to take a great share of discretionary spending by UK households as the weaker pound prompts more UK consumers to holiday in the UK.

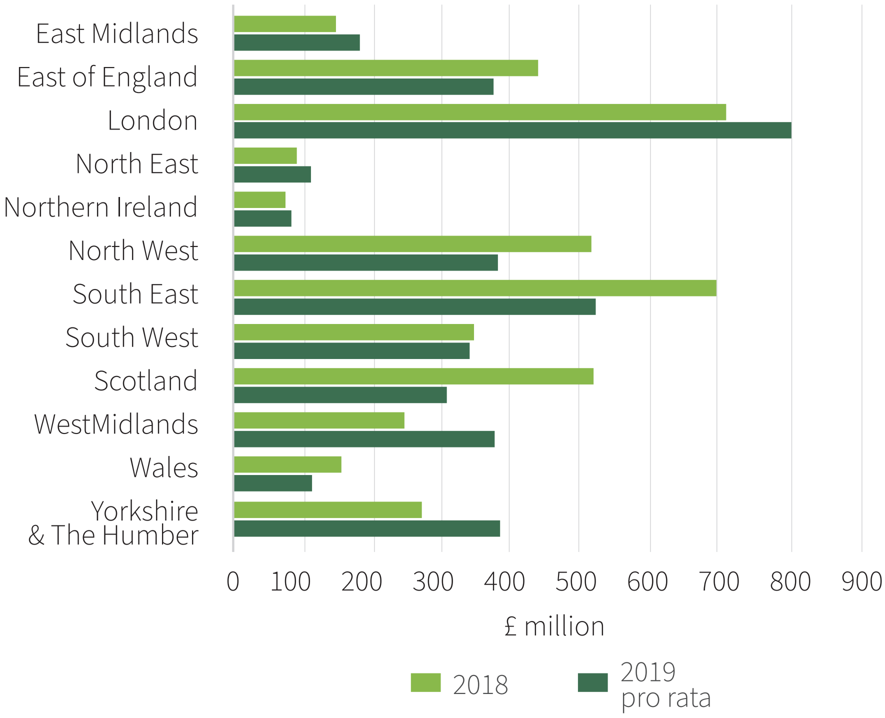
Chart 9: Growth in Overseas Visitors to the UK



Source: ONS

Near term investors and operators remain cautious. The sector has a strong pre-construction development pipeline of projects that have secured detailed planning consent over the last three years. A more certain political and economic outlook is expected to encourage investors to bring forward more projects, especially in 2021.

Chart 10: Value of underlying detailed planning approvals for hotel & leisure projects



Source: Glenigan
N.B. 2019 data is based on Jan to October pro rata

2020 +1%

2021 +4%

Education

- New and expanded secondary schools needed as pupil numbers rise
- Universities moderating investment plans

EDUCATION STARTS

	2019f	2020f	2021f
£ million	5,622	5,702	5,955
Growth	-9%	1%	4%

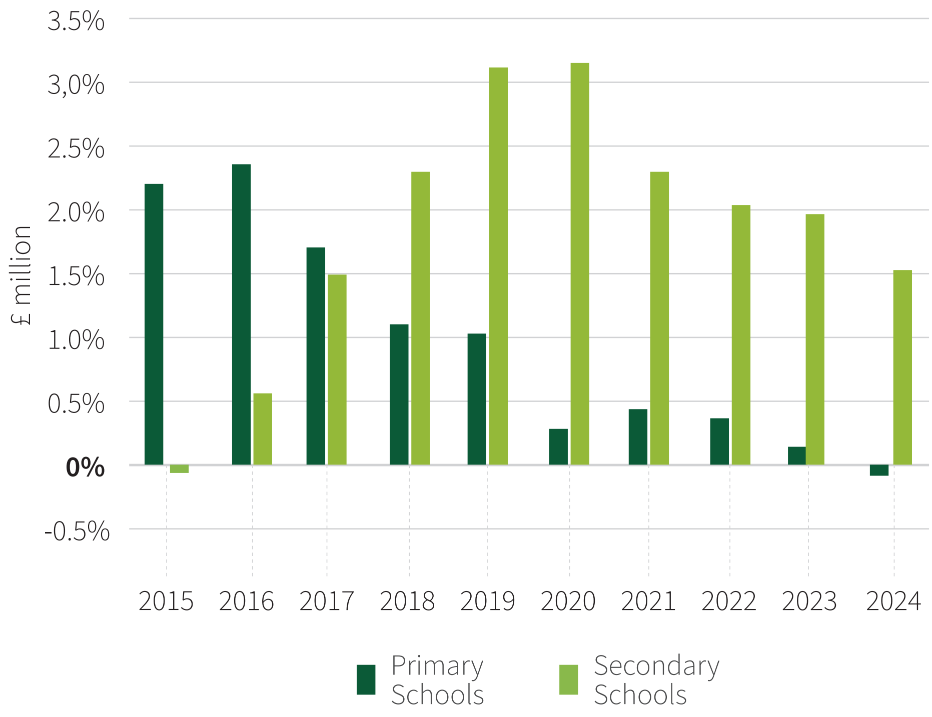
Increase in secondary school building projects forecast to drive sector activity, as universities scale back their capital spending.

The number of secondary school age children in England is projected to rise by 13.6% over the five years to 2022. Cash-strapped councils have sought to accommodate the initial rise in pupil numbers through the expansion of existing schools. However, new schools will also be required, especially in areas of high growth such as London and other major metropolitan areas.

Growth in school building work has been slow and sporadic, reflecting local authorities' tight financial position and the regulatory hurdles to creating a new school. The value of project starts is estimated to have slipped 7% this year, having risen by 14% during 2018.

Looking ahead, the Conservative Party's pledge to increase capital investment may help to increase the funding available to local authorities to invest in their school estate. This is expected to help accelerate the delivery of much needed school places and lift school building starts by 8% next year and by 7% in 2021.

Chart 11: Projected growth in pupils at English primary & secondary schools



Source: Department for Education

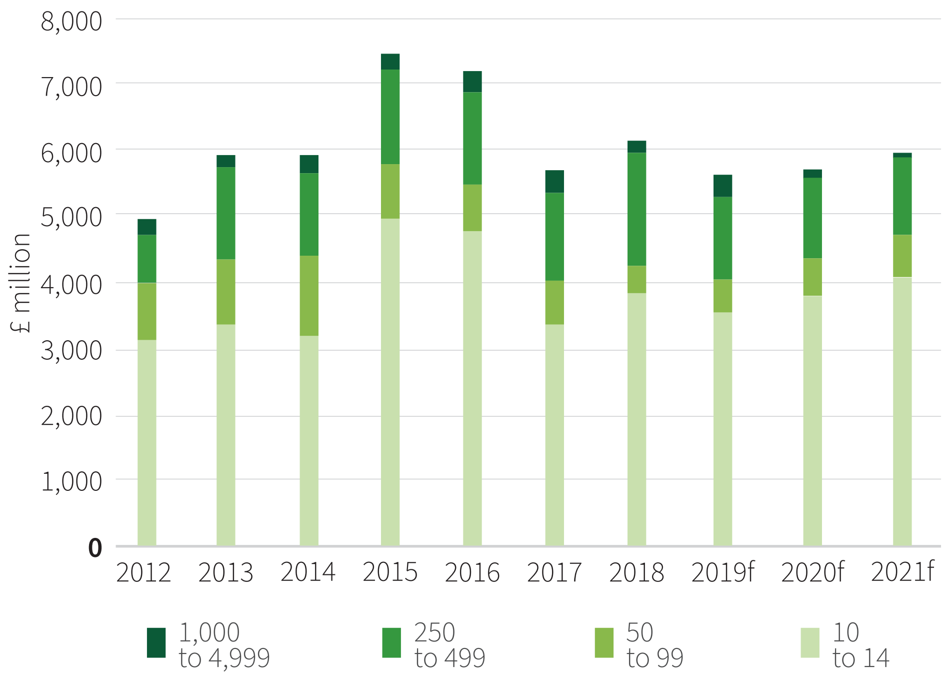
EDUCATION
HEALTH
CIVIL ENGINEERING
KEY RECOMMENDATIONS

Investment in higher education facilities has been a growth area as universities have competed to attract domestic and overseas students. The value of project starts grew by 28% last year. Investment has been undertaken by a wide range of universities with the Russell Group of Universities accounting for the lion's share of activity.

However, universities now face increasing funding pressures from a weakening in UK student numbers. In addition, the Augar Review has proposed changes to graduate funding and the Labour Party has proposed switching to a direct central Government funding model. Against this background university project starts have fallen back by an estimated 28% this year. We anticipate that university construction activity will consolidate at around the current level over the forecast period.

Overall, sector starts are forecast to drop by 9% this year due to the retrenchment in university work and the drop in school building work. The forecast rise in school building projects over the next two years is expected to lift sector starts by 1% in 2020 and 4% in 2021.

Chart 12: Value of underlying Education starts by category



Source: Glenigan
N.B Excludes projects with a construction value in excess of £100m

2020 +3%

2021 +8%

Health

- Weak development pipeline
- Sustained increase in NHS funding over the next two years
- Increase in NHS capital budgets in 2019/20 and 2020/21

HEALTH STARTS

	2019f	2020f	2021f
£ million	2,161	2,235	2,404
Growth	-12%	3%	8%

The outlook for the health sector is brightening, with promised increases in NHS capital funding expected to lift project starts over the next two years.

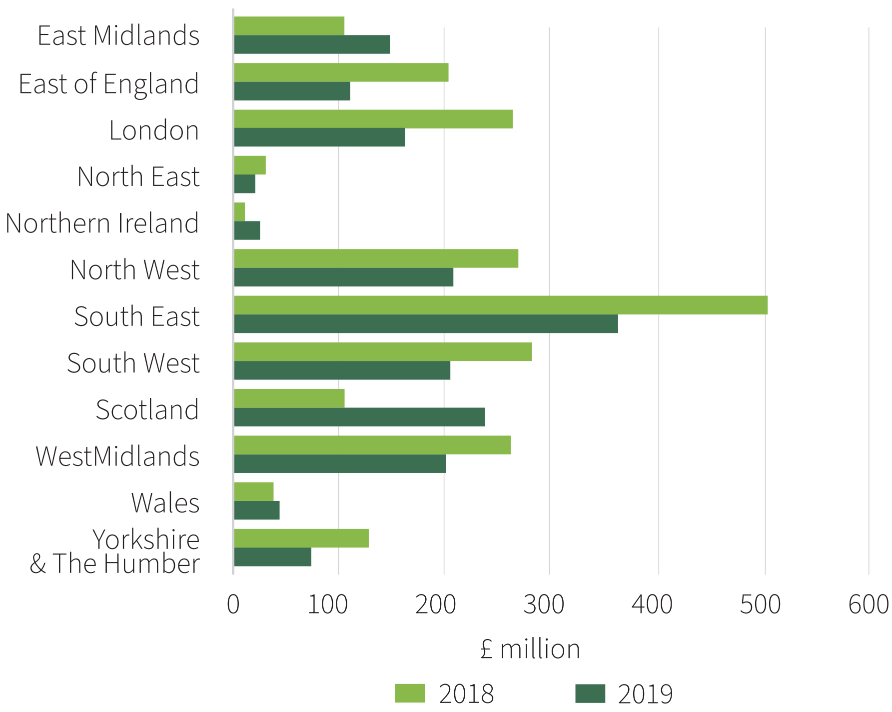
NHS funding is high on the political agenda with extra funding promised by the Government. An extra £20 billion has been committed to the NHS over the next five years. This includes a 14% rise in capital funding for the NHS in England to £6.7 billion in 2019/20.

Initially front-line services, rather than longer term investment in health facilities, will see the benefit of the additional resources. Whilst capital investment in NHS facilities can deliver efficiency improvements and better health outcomes, it will take time to bring forward new building projects.

There are currently few projects in the development pipeline. The value of health projects securing detailed planning consent fell 7% last year and approvals fell by a further 24% during the first ten months of 2019. Against this background, project starts have fallen back 12% this year after a strong performance during 2018. Last year saw a sharp recovery in starts as projects delayed by the snap election in 2017 progressed to site.

Looking ahead the sector will benefit from the promised additional Government funding. The scarcity of projects currently in the development pipeline is expected to limit initial sector growth to just 3% next year. Starts are subsequently forecast to gather momentum during 2021, rising by 8%, as NHS trusts develop and implement their investment programmes.

Chart 13: Value of underlying detailed planning approvals for health projects



Source: Glenigan
N.B. 2019 data is based on Jan to October pro rata

+5%

2020

0%

2021

Civil Engineering

- Increased spending by Network Rail on maintenance and renewals
- Main works on HS2 gets underway in 2020
- Highways England's development programme gathering momentum
- Increased water industry investment from 2020

CIVIL ENGINEERING STARTS

	2019f	2020f	2021f
£ million	6,172	6,492	6,485
Growth	22%	5%	0%

Major infrastructure schemes, including Thames Tideway, HS2 and Hinckley Point, will be important drivers for sector activity over the forecast period. In addition, we anticipate a strengthening in the value of underlying project starts.

The sector has grown sharply this year, with underlying starts rising by an estimated 22%. A further strengthening is anticipated in 2020 as road, rail and water industry investment programmes increase output.

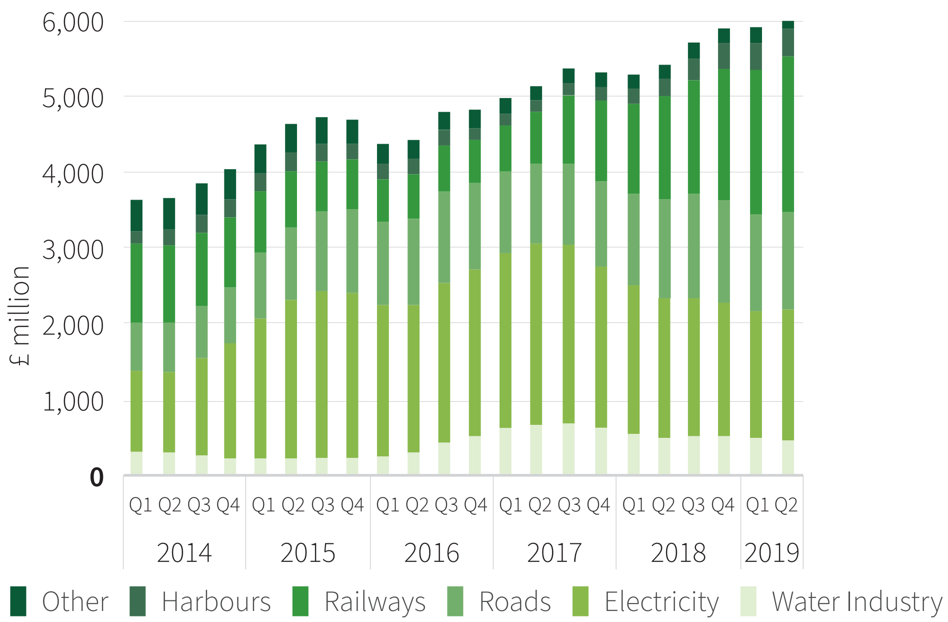
The Conservative government has pledged to significantly increase investment in the UK's infrastructure. In many areas such as energy and broadband, such investment will be delivered by the private sector. Where additional public sector funding is potentially available in areas such as roads, it will take time before additional projects are 'shovel ready'. Accordingly, we anticipate that initially the additional funding increases will be directed at areas such as tackling the maintenance backlog on the nation's roads.

Major projects make up a significant proportion of energy industry workload, a trend that was amplified by the current focus on major generation projects such as new gas-fired plants, Hinckley Point 'C' and off-shore wind farms.

Initial work on HS2 is now contributing to sector activity. However, the project is now awaiting the outcome of the Oakervee Review. If the project does proceed some contracts may be re-tendered and the contribution to sector output will be later than previously anticipated, however, the value of the overall development is likely to rise.

In addition, Network Rail's new five-year investment programme (CP6) is now underway. Within the programme £4.1 billion has been allocated for maintenance and renewals work during the current financial year, a 23% increase on 2018/19. A further 12% increase in spending is earmarked for 2020/21.

Chart 14: Civil Engineering Output



Source: ONS

CIVIL ENGINEERING

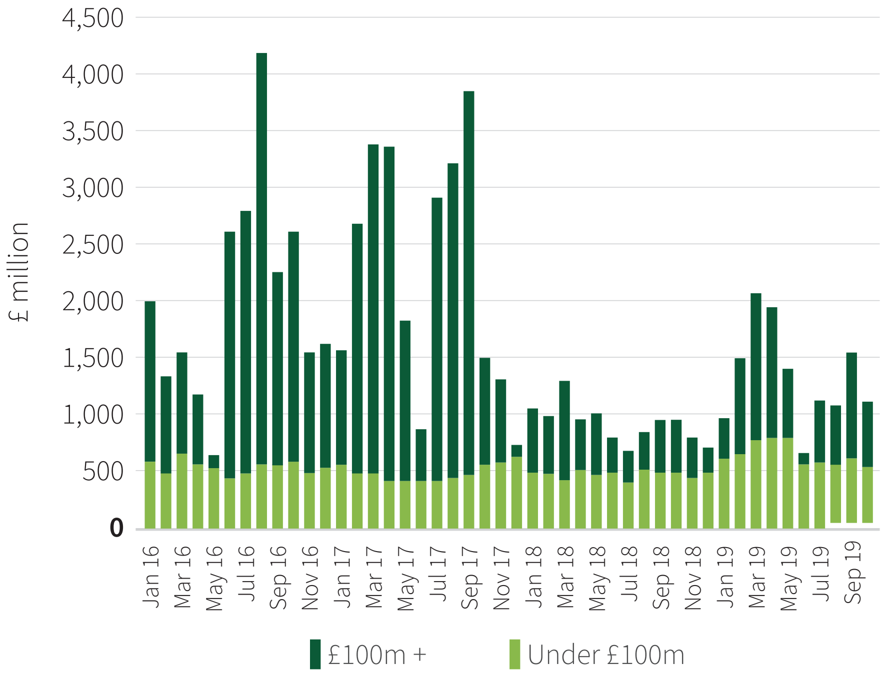
KEY RECOMMENDATIONS

Increased investment in the national road network is anticipated as Highways England brings forward projects under its collaborative framework. Highways England has also been given the go-ahead to appoint a contractor for the Stonehenge Tunnel, with the tendering process running in tandem with the planning process. Construction is scheduled to start in 2021, although it will be vulnerable to delays in planning and tendering.

Heathrow's third runway development is not expected to contribute during the period covered by this report with initial works potentially commencing in 2023.

Water Industry projects starting on site has fallen away during 2018 and 2019 as the current industry investment period (AMP6) draws to a close. The new investment programme (AMP7) will begin to lift industry spending from April 2020. In addition, sector activity will continue to benefit from major work packages for the £4 billion Thames Tideway Tunnel.

Chart 15: Main Contracts Awarded for Civil Engineering Projects Output



Source: Glenigan

Key Recommendations

FOCUS ON TOP PERFORMING SECTORS

Greater political clarity and renewed investor confidence will drive growth is several sectors of the market, which will present new opportunities for businesses who are able to diversify. Increased Government funding will drive growth in the Education, Health, Civil Engineering and Community & Amenity sectors, and we anticipate substantial growth in Private Housing as buyer confidence returns.

SECURE YOUR SUPPLY CHAIN

Further falls in Sterling may increase UK product manufacturers' energy and raw material costs as well as increasing the price of imported products. The change to customs arrangements has the potential to disrupt the ready availability of imported materials and components and their timely delivery to site. The implementation of a Brexit deal by 31 January would reduce the risk of disruption in the near term, although a 'No Deal Brexit' is still a risk if a new trade deal with the EU is not in place by the end of next year.

Given these turbulent market conditions, firms will need to scrutinise their supply chain arrangements carefully to mitigate any potential risks. Do firms in your supply chain have the financial resources to weather market turbulence? Are they overly dependent upon a few customers? Are your suppliers likely to retain the skilled labour and resources you need, and is your supply chain broad enough to cope with problems with particular suppliers?

WORK MORE EFFICIENTLY

The UK's departure from the EU is exacerbating the difficulty in recruiting skilled site labour and this threatens to increase construction costs and disrupt the timely delivery of projects. 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.

EMBRACE DIGITAL SOLUTIONS

Firms will need to be able to successfully respond to turbulent market conditions and in many cases, this will require digital transformation to help cut waste and accelerate design and construction processes. Investment in an effective CRM, use of digital marketing channels and the implementation of a modernised salesforce will help firms to rapidly identify and target emerging opportunities and sustain their workload, cutting the cost of winning work, improving efficiency and enhancing profitability.

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

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