Glenigan

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CONSTRUCTION INDUSTRY FORECAST

FOR THE UK AND REPUBLIC OF IRELAND

2024-2026

Featuring expert commentary from:

KPMG

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ABOUT THE AUTHORS

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Allan heads up Glenigan's Economics Unit and has over 30 years' experience in providing insightful market analysis and forecasts on UK construction and the built environment. Following 20 successful years as Economics Director at the Construction Products Association, Allan joined Glenigan 15 years ago. During this time Allan and his team have helped hundreds of businesses confidently develop their market strategies.

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

Yuliana and Drilon provide research and analysis for Glenigan's suite of monthly industry reports, and regularly support customers with their strategic decision-making by offering industry insights and expertise.

ECONOMIC BACKGROUND

UK construction is set to benefit from a gradually improving economic outlook over the next three years. Economic growth will be sluggish in 2024 as the UK recovers from the short-lived recession of the latter half of last year. A progressive acceleration in economic growth towards 2% per annum is anticipated for 2025 and 2026.

The UK economy is forecast to grow by around 0.8% this year, supported by increased government spending and a modest rise in consumer spending. The early General Election called for the 4th of July will dispel political uncertainty that could have persisted for much of the year and should help to lift investor confidence in the second half of 2024.

The modest rise in consumer spending in 2024 is supported by a small increase in real household incomes. While the rise in average earnings is decelerating sharply from 7.3% in 2023 to around 4% this year, the drop in consumer price inflation has been steeper, providing a boost to households' spending power.

The fall in inflation towards the Bank of England's 2% target rate also raises expectations for a gradual easing of interest rates during the second half of the year. While some homeowners still face a rise in mortgage payments this year as their fixed-rate deals expire, the easing in base rates will help to moderate the increase. The gradual reduction in bank rates is also expected to stabilise housing market activity and housebuilders' confidence in the second half of this year.

A further strengthening in household incomes is anticipated from 2025. This is expected to benefit consumer-facing construction sectors such as private housing, retail, and hotel & leisure. An easing in borrowing costs, improved economic conditions, and greater political certainty are also expected to boost investor confidence in industrial and commercial property markets from next year.

Public-funded investment is expected to stagnate in the near term. The General Election has disrupted the progress of public sector projects, with the purdah period leading up to the 4th of July preventing civil servants from making any announcements that could influence voting intentions. Decisions will also be delayed post-election as the new government reviews existing programmes. The Department for Transport has already announced that ministerial decisions on several major projects, including the Lower Thames Crossing, have been pushed back by six months.

The next Spending Review will set out the new government's funding commitments and priorities. This is expected to support a strengthening in public sector construction activity during the second half of the forecast period.

These forecasts are built upon the analysis of Glenigan's database of current and planned construction projects, which have been examined alongside other market and economic variables.

EXECUTIVE SUMMARY

2024 +3% 2025 +7% 2026 +6%

Near-term challenges for UK construction include weak economic growth, high interest rates, and disruptions caused by the General Election. These factors are constraining private sector investment and delaying public sector projects.

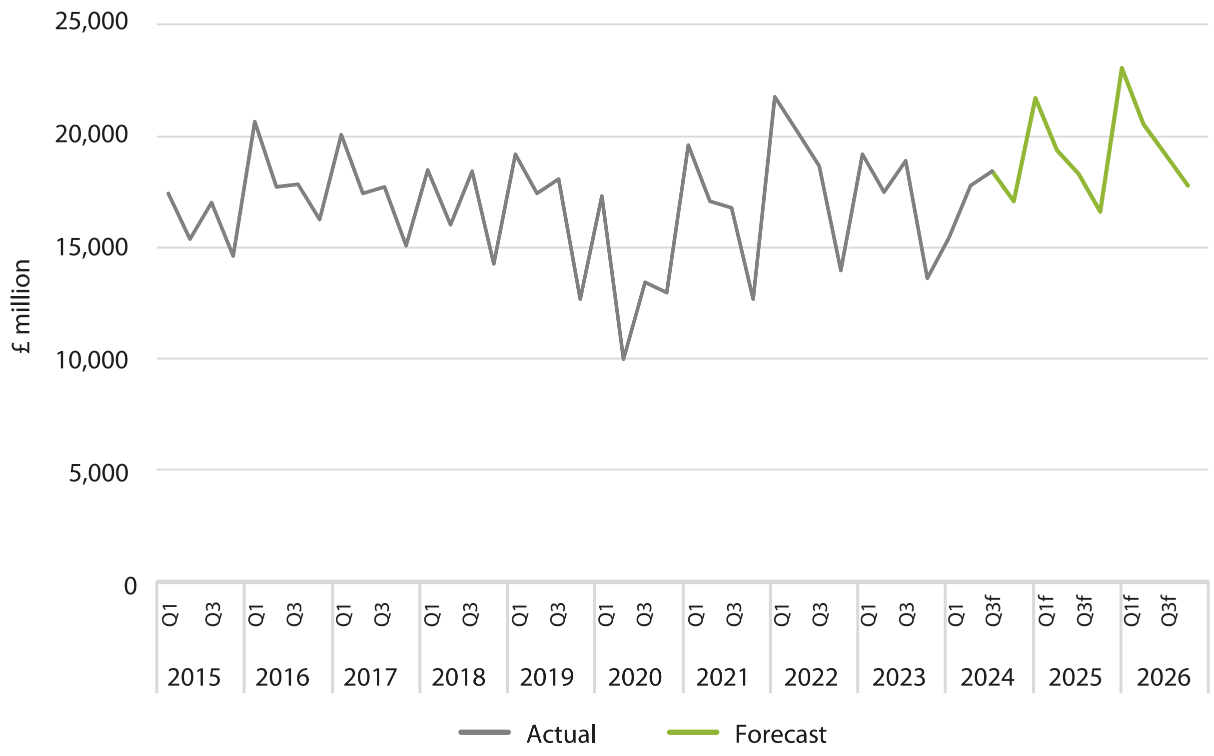
However, the outlook brightens over the forecast period. The early election will reduce political uncertainty, with a Labour government expected to take office after 4 July. A strengthening economy is expected to boost consumer and business confidence from H2 2024.

Project starts are forecast to recover tentatively in H2 2024, with a stronger rise in 2025 as economic growth accelerates. Public sector investment is expected to pick up in H2 2025 following the Spending Review.

Key drivers of growth:

- **Private housing:** Gradual recovery from mid-2024 as affordability improves and economic prospects brighten.
- **Retail & Hotel & Leisure:** Increased activity driven by improved consumer spending.
- **Offices:** Rise in refurbishment work to adapt to post-pandemic working practices.
- **Logistics:** Renewed investment from 2024 fuelled by online retail growth.
- **Public sector (Education, Health, Community & Amenity):** Growth initially constrained post-election, awaiting Spending Review.

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



Source: Glenigan. f = forecast

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

£ million	2023	2024f	2025f	2026f
PRIVATE HOUSING	28,045	28,696	32,636	34,627
SOCIAL HOUSING	9,018	9,409	9,269	9,895
INDUSTRIAL	5,351	4,694	4,853	5,053
OFFICES	4,672	5,038	5,648	5,869
RETAIL	1,693	1,783	1,834	2,177
HOTEL & LEISURE	2,691	3,066	3,240	3,475
EDUCATION	5,860	5,548	5,294	5,627
HEALTH	3,280	3,736	3,532	3,682
COMMUNITY & AMENITY	1,552	1,526	1,360	1,411
CIVIL ENGINEERING	6,969	7,836	8,341	8,644
TOTAL	**69,133**	**71,332**	**76,007**	**80,460**

Source: Glenigan. f = forecast

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

Annual Change	2023	2024f	2025f	2026f
PRIVATE HOUSING	-11%	2%	14%	6%
SOCIAL HOUSING	15%	4%	-1%	7%
INDUSTRIAL	-29%	-12%	3%	4%
OFFICES	-19%	8%	12%	4%
RETAIL	-15%	5%	3%	19%
HOTEL & LEISURE	-21%	14%	6%	7%
EDUCATION	41%	-5%	-5%	6%
HEALTH	-8%	14%	-5%	4%
COMMUNITY & AMENITY	7%	-2%	-11%	4%
CIVIL ENGINEERING	-4%	12%	6%	4%
TOTAL	**-7%**	**3%**	**7%**	**6%**

Source: Glenigan.   f = forecast

MAIN PARTY MANIFESTOS: HOW THEY COULD IMPACT UK CONSTRUCTION

LABOUR

Facing tight finances, Labour's strategy is to boost UK economic growth and improve public services without any significant new tax rises. They aim to achieve this by prioritising legislative and administrative reforms, combined with some government funding, to unlock private sector investment, including in construction. This, in turn, would boost growth and government revenues.

Labour manifesto pledges to:

- 'Immediately' update the National Policy Planning Framework, restoring local authorities' **mandatory housing targets** and increasing presumption in favour of sustainable developments to help 'kick-start' the economy.
- Introduce a national target of delivering **1.5 million new homes** in England over the next parliament. Labour would prioritise brownfield sites but has also committed to a new generation of new towns alongside urban extensions and regeneration projects.
- The above planning reforms, if quickly implemented, could help to accelerate the flow on new developments over the forecast period. In contrast major projects such urban extensions and **new towns** are likely to start on site at the tail end of the new parliament.
- No additional funding for **social housing** provision, despite promising 'the biggest increase in social and affordable housebuilding in a generation'. Rather Labour would increase developers S.106 obligations and look to the Affordable Homes Programme to deliver more homes out of its existing budget.
- Planning reform is also intended to **accelerate greater infrastructure and industrial investment.** New national policy statements and policy will aim to streamline the delivery of major projects and Labour hopes to encourage investment in laboratories, digital infrastructure and gigafactories.
- Introduce a new industrial strategy and create a **National Wealth Fund** to support their economic growth and clean energy objectives. The £7.3 billion fund would invest in gigafactories, the steel industry, new ports infrastructure and green technology.
- Under Labour's Green Prosperity Plan would seek to double onshore wind, triple solar power, and quadruple offshore wind by 2030. A new publicly owned company, **Great British Energy**, would invest £8.3 billion in energy initiatives with the private sector.
- The construction industry should also benefit from Labour's plans to improve the **energy efficiency of British homes**, doubling planned funding with an extra £6.6 billion for the upgrading of five million homes.

CONSERVATIVE

The Conservative manifesto includes few new funding commitments or policy initiatives that will directly impact construction. However, it does reiterate existing plans across several important areas.

- Redirection of £36 billion released from the cancellation of the Birmingham to Manchester section of HS2 to **road and rail projects** across England. The Midlands and the north of England to receive the lion's share of funding including support for Northern Powerhouse Rail.
- **Simplification of the planning system** 'to make it easier to build, faster' and aim to cut the average time taken to sign off major infrastructure projects from four to one year.
- Continue with the **New Hospital Programme** which is due to deliver 40 new hospitals by 2030. The party has also pledged to build or modernise 250 GP surgeries and build 50 more community diagnostic centres. The Conservatives also plan to build four new prisons by 2030.
- On **energy supply**, the Conservatives expect to treble offshore wind capacity over the next parliament but have no targets for onshore or large-scale solar projects both of which have been subject to new planning guidance restrictions. £6 billion is also committed to energy efficiency improvements to a million homes over the next three years.
- The manifesto did include new commitments on housing. A pledge to resuscitate the **Help to Buy** scheme will be welcomed by both first-time buyers and housebuilders and, if introduced quickly, would help to unlock stalled private housing sites post-election.
- National target of **1.6 million new homes** in England over the next parliament. Supporting policies suggest that the targeted increase will be hard to deliver. There are no targets for local authorities housing land supply. The manifesto proposes accelerating the redevelopment of inner-city brownfield sites and abolishing 'nutrient neutrality' rules to unlock 100,00 new homes with planning consent. Together these measures are unlikely to be sufficient to deliver the target.

LIBERAL DEMOCRATS

The Liberal Democrats are not likely to be part of the new government. However, a hung parliament would give the party greater influence and potential to incorporate their proposals into legislation.

- Greater investment in renewables and energy saving measures are high priorities that are seen as driving economic growth and tackling the cost-of-living crisis as well as delivering net zero. Measures proposed include a **ten-year emergency Home Energy Upgrade programme** for the existing housing stock, new incentives for homeowners to install solar panels, and requiring all new homes to be zero-carbon.
- **Accelerate the deployment of renewable power** by lifting recent restrictions on new solar and wind power schemes, developing the national grid and investing in energy storage.
- Build **380,000 new homes a year** across the UK including 150,000 social homes. This increased supply would include **10 new garden cities**.
- On **transport**, support the delivery of Northern Powerhouse Rail, establish a ten-year rail electrification plan and review the cancellation of the northern leg of HS2. In contrast, the Liberal Democrats would block the expansion at any of the five London airports.

PRIVATE NON-RESIDENTIAL WORK

Industrial starts fell back sharply in 2023 after a strong post-pandemic rebound. Sharply higher interest rates dented the capital value of industrial property and knocked investor confidence last year, while weak retail spending dampened the demand for warehousing and logistics space. Weak domestic and overseas demand similarly tempered manufacturing investment in new capacity and facilities.

Whilst a further weakening is expected this year, the industrial sector is forecast to return to growth from 2025, primarily driven by demand for logistics and light industrial projects. The online retail market has lost momentum post-pandemic as financially strapped consumers have reigned in spending. However, online's share of retail sales is still up on 2019 levels. Renewed growth is anticipated in the latter half of the forecast period as households improved financial position fuels the demand for logistics space from online retailers and third-party carriers.

An overhang of empty retail premises, weak consumer spending, and the growth of online sales' market share have constrained retail construction starts. Starts were especially weak during 2023, dropping by 15%. Strengthening consumer spending as household incomes grow is forecast to lift starts over the next three years, although by 2026 starts are projected to remain 6% below pre-pandemic levels. Investment by the deep discount supermarkets, Aldi, and Lidl, remain a bright spot with both chains pressing on with plans to expand their store networks. The change in consumers' shopping habits is also expected to prompt investment to refresh and repurpose existing excess retail space including shopping centres to create more mixed-use locations.

The squeeze on household budgets also curbed consumers' discretionary spending last year in areas such as hospitality and leisure activities. This has intensified the financial squeeze on many hospitality businesses. Hotel & leisure starts dropped by 21% last year. A gradual recovery in project starts is anticipated from 2024 as households' finances stabilise and then improve, lifting consumers' discretionary spending and investor confidence.

Office starts dropped by 19% last year as sharply higher interest rates and stalled economic growth prompted investors to defer planned projects. The sector is expected to return to growth over the forecast period. Whilst changing working patterns are reducing the overall demand for office space, they will also be an important driver for office refurbishment projects as landlords and occupiers remodel premises to support hybrid working. In addition, regulatory changes, and growing demand from corporate occupiers for premium office space with a good environmental performance is forecast to generate retrofit and new build opportunities over the forecast period.

PRIVATE RESIDENTIAL

The housing market cooled sharply last year as squeezed household incomes, higher mortgage rates, and economic uncertainty deterred home purchases. Private housing starts fell back sharply last year and remained weak during the first quarter of 2024 as developers responded to the fall in demand by building out existing sites rather than opening new ones.

There are tentative signs that the housing market is now stabilising, with a rise in mortgage approvals in recent months. Weak house prices and rising nominal average earnings have improved housing affordability, while a strengthening economy and an easing in interest rates over the summer are expected to help rebuild house buyers confidence during the second half of this year and 2025 and 2026. This is expected to support a progressive recovery in project starts over the forecast period as housebuilders respond to improved consumer confidence and a strengthening in property transactions.

INCREASED GOVERNMENT INVESTMENT

Public sector construction was lifted during 2023 as an underspend during 2022/23 was rolled forward, boosting government departmental capital programmes. In contrast, the flow of project starts during 2024 faces disruption both during the run-up to the General Election and post-election as public sector investment programmes are reviewed by the new government.

A sharp increase in the Department of Education's capital funding over the last two years and action to tackle RAAC defective buildings helped drive a 41% leap in school building projects in 2023, with further growth forecast for 2024. Funding for school building programmes is likely to be tempered next year as the Government reviews its spending priorities, before returning to growth in 2026. Universities' finances are under pressure from capped UK student fees and a sharp drop in overseas student numbers. This is forecast to curb university building projects over the forecast period.

Health project starts declined last year as NHS resources and management time were focused on addressing long waiting lists and resolving industrial unrest. Renewed growth is anticipated this year as delayed projects progress to site. Whilst the post-election Spending Review is expected to temper starts next year, the outlook for the health sector remains positive. NHS investment remains a high political priority across all political parties and with the electorate. Increased capital funding is expected to support renewed growth in 2026.

Higher construction costs have constrained housing associations' development programmes over the last two years. Whilst the value of social housing, apartment, and sheltered accommodation projects started increased by 7% last year, the number of residential units involved was 2% fewer than in 2022. Greater cost stability is expected to help associations increase their development activity this year, while a gradual recovery in the wider housing market will increase the opportunity for mixed-tenure developments. Social housing provision is expected to have a higher priority post-election, with increased government support helping to accelerate sector growth during 2026. Student accommodation project starts rebounded sharply last year. However, the recent drop in overseas student applications is expected to temper investor enthusiasm for further development activity over the forecast period.

Civil engineering starts slipped 4% last year as a sharp drop in infrastructure approvals during 2022 has fed through to fewer project starts. A modest recovery in infrastructure projects is anticipated over the forecast period, although in the near-term projects will be vulnerable to delay as government programmes are reviewed post-election. In contrast, utilities project starts strengthened during the second half of last year. Further strong growth in utilities work is forecast over the forecast period. The water companies are seeking the regulator's approval for a substantial increase in capital works to reduce pollution discharges. Post-election the new government is expected to redouble efforts to deliver net zero targets and encourage investment in renewable energy generation and distribution.

PREPARING FOR THE FUTURE OF CONSTRUCTION

Krystle Drover, B.Eng, P.Eng
Associate Director, Major Project Advisory KPMG in the UK
KPMG

OVERVIEW

As the forecast over the next three years in the UK construction industry stands to benefit from gradually accelerated economic growth, a continuing optimistic question will exist around the ability and capacity of industry to deliver against increasing demands. To capitalize on this positive trajectory, the industry will need to support a continued focus on new and innovative strategies, products, and ways of working to enable delivery at pace. Irrespective of the outcome of the general election in 2024, the UK government must continue to focus investment on enhancing and expanding infrastructure, which will continue to be accompanied with the pressure to meet capacity and deliver internally despite potential supply chain challenges and labour force gaps.

PUBLIC SECTOR

As pressure grows and mandates increase on required efficiencies in cost, delivery time and quality, whilst maintaining sustainable delivery, a call for new approaches and innovative models across the life cycle of projects will be required to meet increasing demands and the changing regulatory landscape.

A long-posed question (and often a requirement) in the tendering of major public projects is the application of methodologies such as standardisation, industrialisation, and modern methods of construction or MMC (the process of applying a manufacturing mindset to construction). These techniques have been identified as routes to delivering major capital projects faster and more economically, however, often overlooked are other areas of the life cycle that can additionally unlock and promote value to delivering major projects effectively. A need to secure and provide predictability in pipeline of projects as well as capacity requirements will be necessary for the government to enable and incentivise the economic growth in the industry. Challenging traditional models of funding and leveraging more private investment can aid in improving predictability and confidence. The increasing use of models such as private public partnerships have proven effective in the past in the UK and Europe. When properly structured, partnerships can improve productivity and forward planning for pipeline readiness.

RESIDENTIAL

These issues are not solely limited to major projects. Home builders face the pressure of dwindling margins, alongside the pressure to maintain build programmes and pipeline development. House builders are increasingly looking to improve their cost valuation methods and data acquisition to improve decision making and savings. Additionally, they are also turning to standardisation and MMC factory ownership to enable predictable supply and provide long term cost savings through in-house supply of essential materials. These developments in housebuilding are now becoming the new traditional ways of working for the construction industry. They can be effective in facilitating access to materials supply and quality of product, while enabling resilience in a fluctuating market. However, as pressure on development and improving margins continues to challenge the residential market, so will the need to delve into the less familiar and traditional ways of construction to maintain resiliency in an ever fluctuating and somewhat unpredictable market. A need to re-evaluate and challenge the traditional ways of land development, cost valuation, budgeting, sales strategies, and internal funding will be required to offset diminishing returns while managing delivery risk.

With increasing government pressure to deliver social housing in an already challenging market, a case for change in incentivising and supporting the house building market has never been more relevant. Home builders can look to collaborate with their supply chain and labour force to collectively bring defined multifaceted challenges forth to government to provide real solutions and address challenges to stimulate growth in the house building market.

CONSTRUCTION INNOVATION

The use of innovative methods of standardising, industrialising and MMC, (such as modularisation), when applied in a right-fit manner, accompanied by practical end-to-end strategies can be essential in realising benefits to delivering faster, greener, and more cost-effective outcomes without compromising on quality. The use of these methods have been evidenced to reap capital benefits of up to 40%, and operational cost reduction of up to 30%. However, these opportunities are not met without their own set of challenges, risks and previous failures that can elicit a cautious approach to future adoption, some of which include potential supply chain disruptions, increased upfront costs, supplier dissolution and the need for labour force training (that diverges from traditional education). The key to managing these challenges will lie in the collaboration of all layers of the value chain developing an aligned strategical approach, that enables consumers needs to be met, whilst committing to continually balancing risk, cost, and overall value for positive outcomes.

SUMMARY

The forecast for UK construction over the next three years is promising, but success and resiliency in the construction industry will depend on the industry's ability to adapt and innovate. By leveraging innovative approaches and new models, the sector can achieve faster, greener, and more cost-effective outcomes. However, a staged approach to technology development and expectations will need to be considered in adoption to change and be balanced with robust risk management, close client collaboration, and a steadfast commitment to sustainability. The key to success will begin in a clear practical strategy and laying a path to evolutionary adoption of construction innovation, to enable successful outcomes, harness benefits, accelerate delivery and maintain resiliency through changing economic landscapes. Through a concerted effort to cautiously challenge the status quo, the UK construction industry can not only weather the challenges ahead but be a model for enhanced delivery and innovation whilst contributing to a sustainable future.

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Krystle Drover, Associate Director, Major Project Advisory KPMG in the UK
Krystle is a professional engineer with 20 years of industry experience leading in technical due diligence, industrialisation and innovation. She is recognised in the infrastructure and energy industries for her technical contributions accelerating routes to delivery, unlocking stranded projects and creating evidenced cost efficient innovative solutions. She is a recognised expert in project delivery, commercial, assurance and construction. She has experience in end to end programme management as well as, intellectual property creation and commercialisation.

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PRIVATE HOUSING

2024 +2%   2025 +14%   2026 +6%

- **Private housing starts to grow moderately amid increasing house sales.**
- **Housing starts will accelerate next year as a response to improved market conditions.**

The private housing sector is expected to experience a gradual recovery over the next three years, driven by an improving market environment. While project starts remained subdued in the first half of 2024 due to high interest rates, a rise in mortgage approvals points towards a potential pick-up in house sales later this year.

PRIVATE HOUSING STARTS

	2023	2024f	2025f	2026f
£ million	28,045	28,696	32,636	34,627
Growth	-11%	2%	14%	6%

Source: Glenigan. f = forecast

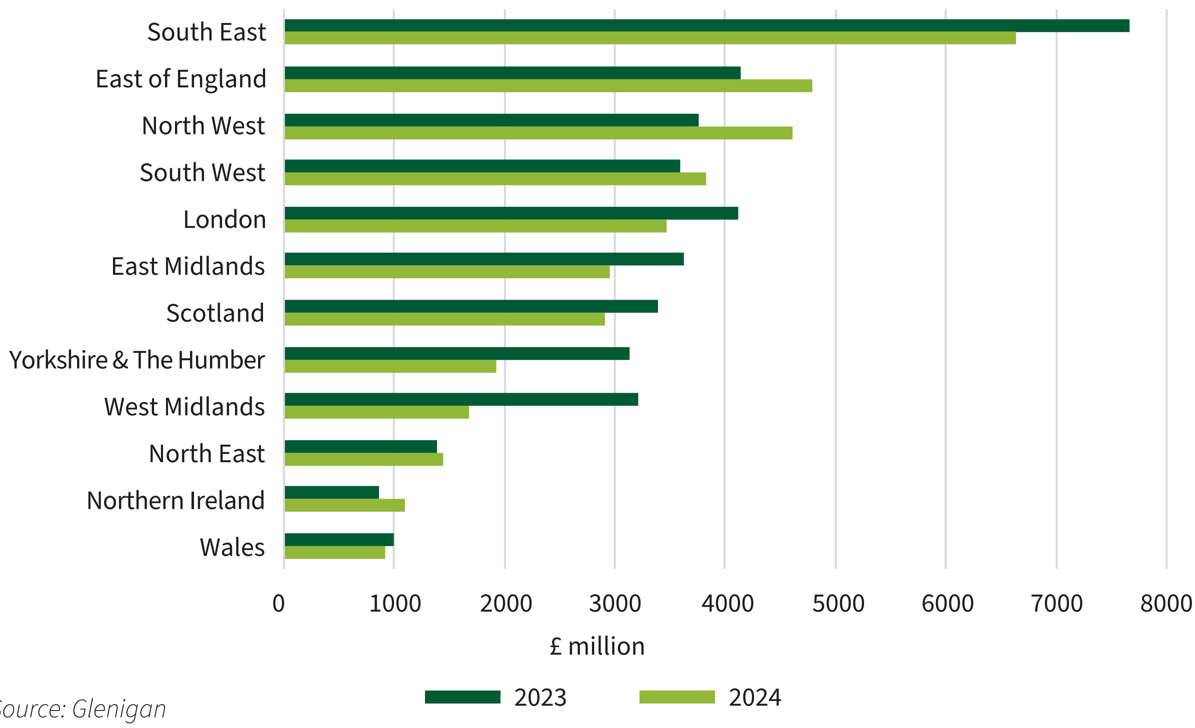
STATE OF THE SECTOR

The UK housing market faced headwinds in 2023 as rising inflation and interest rates squeezed household disposable income. This led to a decline in both house prices and project starts. Although the housing market remained sluggish in early 2024, some tentative signs of recovery emerged.

Despite a modest decline in property transactions compared to the previous year (residential property transactions during March were 6% lower than a year ago), a significant increase in mortgage approvals in March 2024 (the highest in 18 months) suggests a potential strengthening of house sales in the coming months. This is further supported by a recent rise in the number of house sales agreed upon (Zoopla reports that the number of UK house sales agreed in April was 12% up on a year ago), indicating growing buyer interest.

Housebuilders have responded to the initial slowdown by focusing on completing existing projects and holding off on new site openings. This, combined with a decline in off-plan sales (Hamptons research found a sharp fall in off-plan sales last year, with only 32% of new homes sold before completion during 2023), explains the continued decrease in project starts during the first four months of 2024.

CHART 2: Value of Private Housing Projects Securing Planning Approval



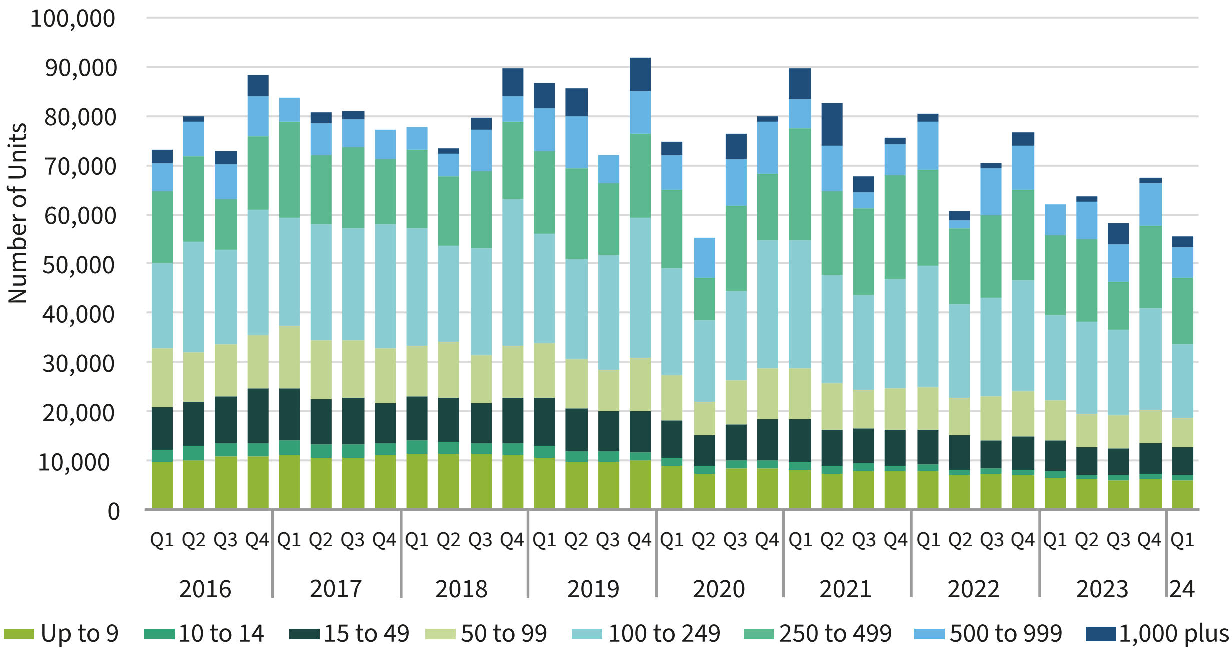
Source: Glenigan
N.B. 2024 data is based on January to April pro rata

FUTURE OF THE SECTOR

The Bank of England is expected to cut interest rates later in 2024 as inflation moderates. While the value of private housing approvals dipped slightly in the early months of 2024 (falling 4% in the four months to April 2024), housebuilders still have a robust pipeline of previously approved developments (approvals grew during 2023) that can be readily brought forward as market conditions improve.

The recent rise in mortgage approvals and agreed house sales suggests a stabilising housing market. Additionally, improving affordability due to rising wages and potentially lower mortgage rates are expected to boost consumer confidence and support a progressive recovery in private housing project starts over the next three years. This will allow housebuilders to respond to improved consumer confidence and a strengthening in property transactions by opening new sites and increasing construction activity.

CHART 3: Private Housing Detailed Planning Approvals by Project Size



Source: Glenigan

SOCIAL HOUSING

2024 +4%   2025 -1%   2026 +7%

→ **Stabilisation in construction costs will aid growth in social housing project starts during 2024.**

↗ **Increase government funding for social housing provision lifts starts in 2026.**

↘ **Weakening in student accommodation starts will slow down sector recovery.**

The social housing sector is expected to experience a period of modest growth over the next three years, with a slight dip in 2025. Stabilising construction costs and an anticipated rise in government funding from 2026 are expected to support an increase in social housing project starts. However, a decline in student accommodation development is likely to dampen overall sector growth.

SOCIAL HOUSING STARTS

	2023	2024f	2025f	2026f
£ million	9,018	9,409	9,269	9,895
Growth	15%	4%	-1%	7%

Source: Glenigan.   f = forecast

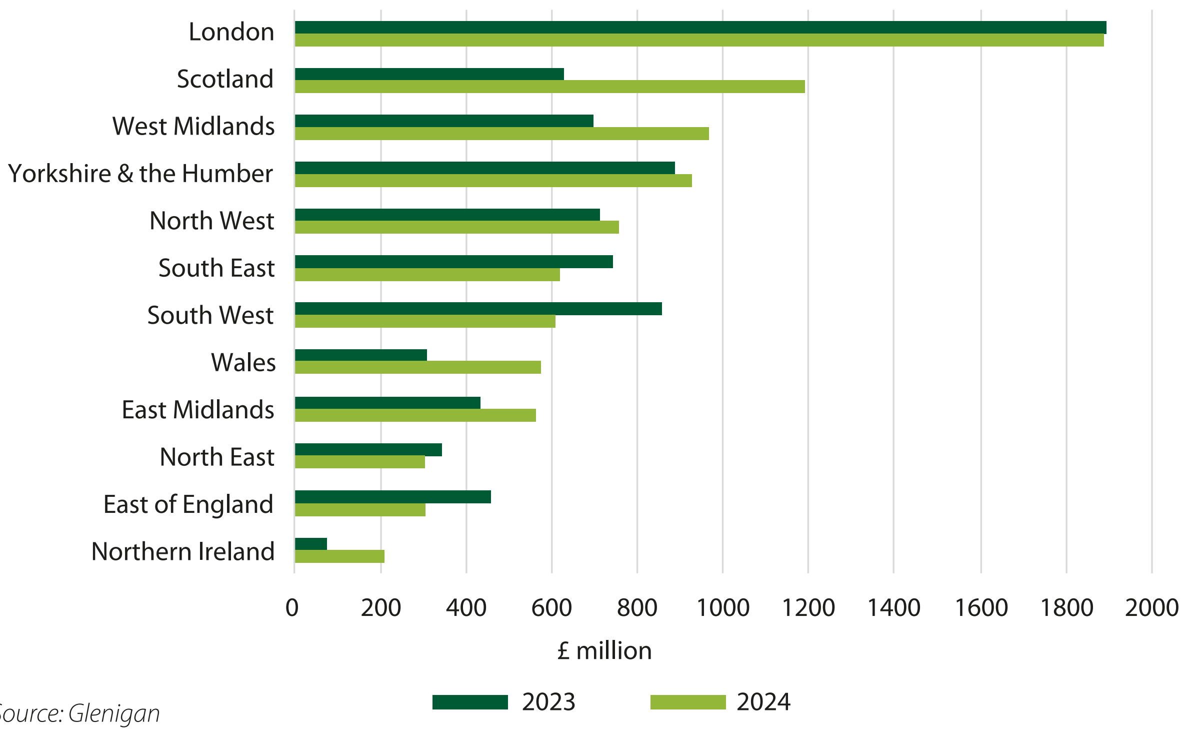
STATE OF THE SECTOR

The Government provided support for the social housing sector through the Affordable Homes Programme, aiming to deliver 180,000 new homes by 2026. Additionally, the Affordable Homes Guarantee Scheme was expanded in 2023 to deliver a further 20,000 affordable homes. However, both programs may be subject to review following the upcoming General Election.

High construction costs significantly constrained housing association development activity in the past two years. Furthermore, a slowdown in the private housing market limited opportunities for mixed-tenure developments. While the total value of social housing projects increased by 7% in 2023, the actual number of units delivered declined by 2% compared to 2022.

In contrast to social housing, student accommodation experienced a surge in project starts in 2023, rising by 59% compared to the previous year. This reversed a decline experienced during the pandemic.

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



Source: Glenigan
N.B. 2024 data is based on January to April pro rata

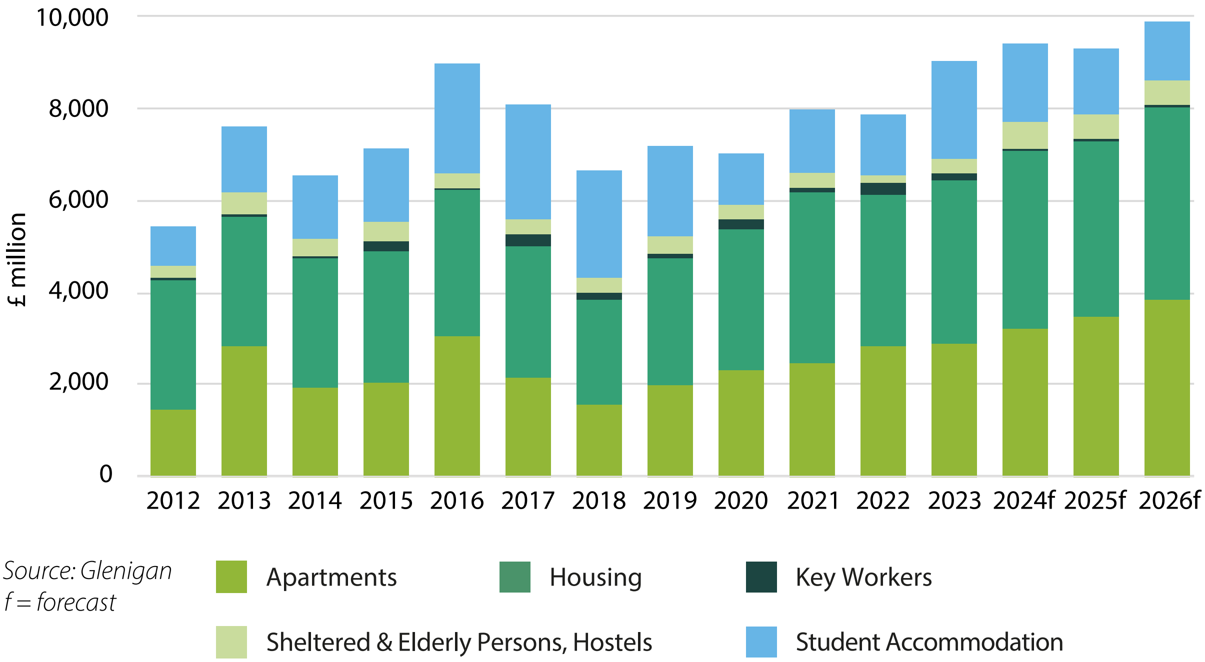
THE FUTURE OF THE SECTOR

Greater cost stability in the construction industry is expected to allow housing associations to increase development activity in 2024. Additionally, a gradual recovery in the general housing market could lead to more mixed-tenure projects. Despite a recent decline in affordable housing planning approvals, there is a healthy pipeline of already approved projects that can move forward to construction. As a result, the value of housing association projects is forecast to grow by 13% this year.

The potential rise in social housing provision might be reviewed by the new government following the General Election. However, social housing is likely to remain a high political priority, and an increase in government funding is expected to boost activity in 2026.

Student accommodation starts are forecast to decline significantly in the coming years, dropping by 19% in 2024 and by 18% in 2025. This follows a sharp rise in student accommodation projects in 2023. The decrease is attributed to new government visa restrictions on graduate schemes, which may make the UK a less attractive destination for international students. The number of overseas students enrolling in the UK has already fallen by a third in February 2024. International students are a key market for purpose-built student accommodation, as they are more likely to remain in such housing throughout their studies. It remains unclear whether the current visa restrictions will be reviewed by the new government.

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



Source: Glenigan
f = forecast

INDUSTRIAL

2024 $^{-12\%}$ 2025 $^{+3\%}$ 2026 $^{+4\%}$

- ↘ **Further weakening in industrial starts during 2024.**
- ↗ **Brighter economic conditions spur growth in 2025 and 2026.**
- ↗ **Warehouse and logistics demand set to drive growth over the forecast period.**

The industrial sector is experiencing a period of correction after a post-pandemic boom in warehousing and light industrial projects. Higher borrowing costs and a broader economic slowdown dampened investor confidence in 2023, leading to a sharp decline in project starts. While some consolidation is expected in 2024, the sector is forecast to return to growth from 2025.

INDUSTRIAL STARTS

	2023	2024f	2025f	2026f
£ million	5,351	4,694	4,853	5,053
Growth	-29%	-12%	3%	4%

Source: Glenigan. f = forecast

STATE OF THE SECTOR

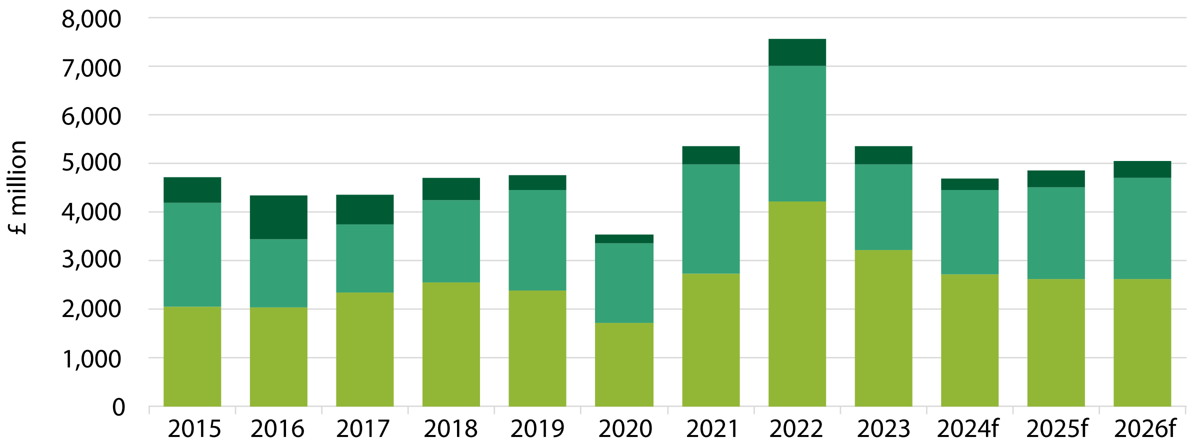
Industrial project starts experienced a sharp reversal in 2023, dropping by 29% after two years of robust growth, as sharply rising interest rates reduced the capital value of industrial property and investor confidence.

Additionally, weak retail spending dampened demand for warehousing and logistics space. Online retailers reassessed their needs in response to sluggish sales, with companies like Amazon even disposing of some existing distribution space while simultaneously commissioning new facilities.

The surge in project starts in 2021 and 2022 has increased available floorspace, and occupiers have become more cautious about space requirements. CBRE reports a rise in the vacancy rate to 5.3% in the last quarter of 2023, compared to less than 2% a year earlier. This has discouraged speculative development by investors.

Furthermore, weak domestic and overseas demand linked to slowing UK and global economic growth has impacted UK manufacturers. Sluggish demand and higher borrowing costs led manufacturers to hold back on new capacity and industrial space investment in 2023.

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



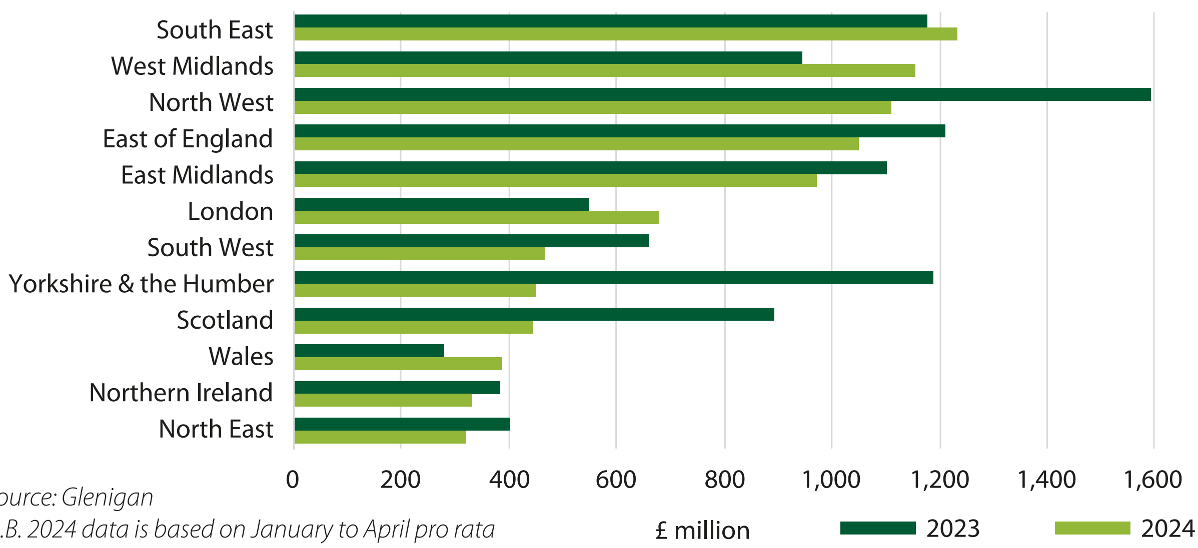
Source: Glenigan
f = forecast

THE FUTURE OF THE SECTOR

A further 12% decline in industrial starts is expected for 2024. While the economic outlook is improving, the consumer spending recovery is predicted to be modest. A more substantial rebound in retail sales, particularly online purchases, is necessary to increase demand for logistics space. UK manufacturing output is also expected to remain subdued, limiting the need for new capacity investment.

The industrial sector is forecast to return to growth from 2025, primarily driven by continued demand for logistics and light industrial projects. The online retail market has lost some momentum post-pandemic due to consumer spending constraints. However, online retail's share of total sales remains higher than pre-pandemic levels. Renewed growth is anticipated in the latter half of the forecast period as household finances improve, fuelling the demand for logistics space from online retailers and third-party carriers. Consequently, warehousing and logistics project starts are forecast to grow by 9% per year in 2025 and 2026.

CHART 7: Value of Underlying Industrial Project Approvals (under £100 million) in 2023 and 2024 Pro-Rata



Source: Glenigan
N.B. 2024 data is based on January to April pro rata

OFFICES

2024 +8%   2025 +12%   2026 +4%

- Hybrid working continues to affect office demand.
- Rise in new projects and refurbishment opportunities.
- Strong demand for sustainable office space.

Office project starts rebounded slightly in the first quarter of 2024 after a 19% decline in 2023. Weakening economic growth and high interest rates initially dampened investor confidence and project starts. However, a strengthening economy is expected to support a recovery in both new build and refurbishment projects over the next three years.

OFFICE STARTS

	2023	2024f	2025f	2026f
£ million	4,672	5,038	5,648	5,869
Growth	-19%	8%	12%	4%

Source: Glenigan.   f = forecast

STATE OF THE SECTOR

The office sector faced headwinds in 2023 as economic growth stalled and interest rates rose sharply. This challenging environment dampened investor confidence and commercial property values, impacting project starts. Additionally, a slowdown in the job market, with rising unemployment and falling vacancy rates, further pressured demand for new office space.

Positive signs include growth in office rentals reported by leading property firms, particularly in central London. This coincides with a small decline in office vacancy rates, potentially indicating employees returning to the office under hybrid working models. While the overall office space requirement won't reach pre-pandemic levels, the rise of hybrid working is driving demand for more modern and collaborative workspaces through refurbishments and fit-out projects. Companies are also increasingly subletting their existing space, creating further refurbishment opportunities.

CHART 8: Value of Underlying Office Project Approvals (under £100 million) in 2023 and 2024 Pro-Rata

Source: Glenigan
N.B. 2024 data is based on January to April pro rata

THE FUTURE OF THE SECTOR

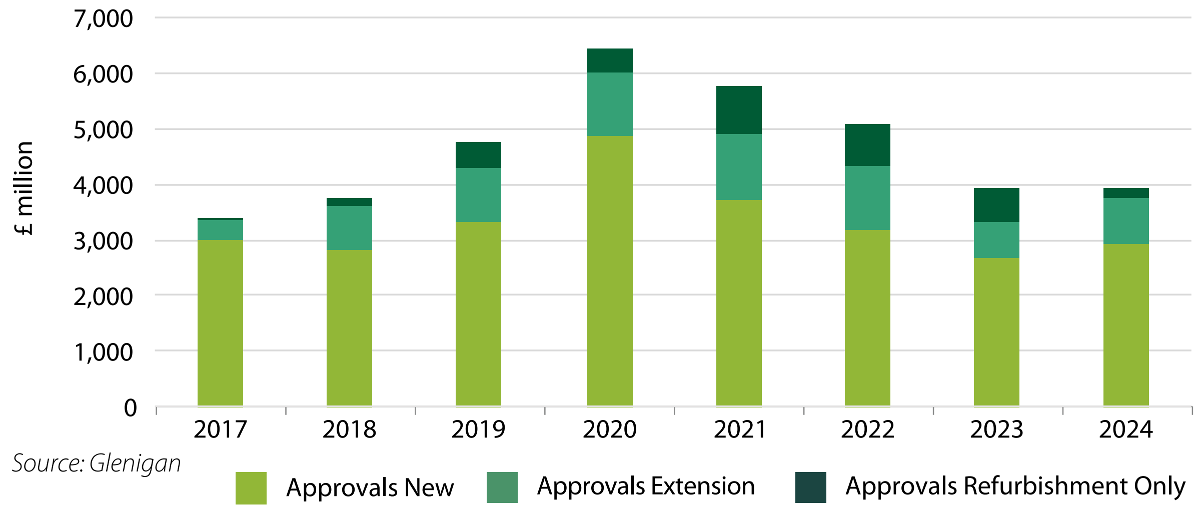
Hybrid working is expected to contribute to sector growth in 2024 and 2025 through refurbishment and new build development. While the total office space requirement will decrease, the demand for high-quality, well-located prime office space remains strong as companies reassess their needs. Additionally, tenants are increasingly prioritising buildings with good environmental performance to reduce their carbon footprint.

Although detailed planning approvals have dipped, developers possess a substantial pipeline of approved projects ready for construction. London boasts a particularly robust development pipeline, followed by the South East and Yorkshire & the Humber.

Furthermore, upcoming energy efficiency regulations will create substantial refurbishment and retrofit opportunities. Since April 2023, all let office space requires a minimum EPC rating of E. Proposals for a further increase to band B by 2030 could lead to significant refurbishment activity, as many existing buildings fall 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 will likely lead to landlords and developers reassessing their portfolios and potentially redeveloping poor-quality office space or buildings in secondary locations. These could be converted into higher-grade office facilities or alternative uses like apartments or student accommodation.

CHART 9: Value of Underlying Office Project Approvals (under £100 million) by Type of Development Work



Source: Glenigan

N.B. 2024 data is based on January to March pro rata

RETAIL

2024 +5% 2025 +3% 2026 +19%

- **A brighter economic outlook supports an upturn in retail starts during the forecast period.**
- **Supermarket development is expected to perform strongly.**

The retail sector is expected to see a gradual recovery in project starts over the next three years, driven by a brighter economic outlook and improving consumer spending. While pre-pandemic levels are unlikely to be reached by 2026, the sector is forecast to experience a significant rise in activity compared to recent years. Supermarkets, particularly discount grocers, are anticipated to be a strong performer throughout the forecast period.

RETAIL STARTS

	2023	2024f	2025f	2026f
£ million	1,693	1,783	1,834	2,177
Growth	-15%	5%	3%	19%

Source: Glenigan. f = forecast

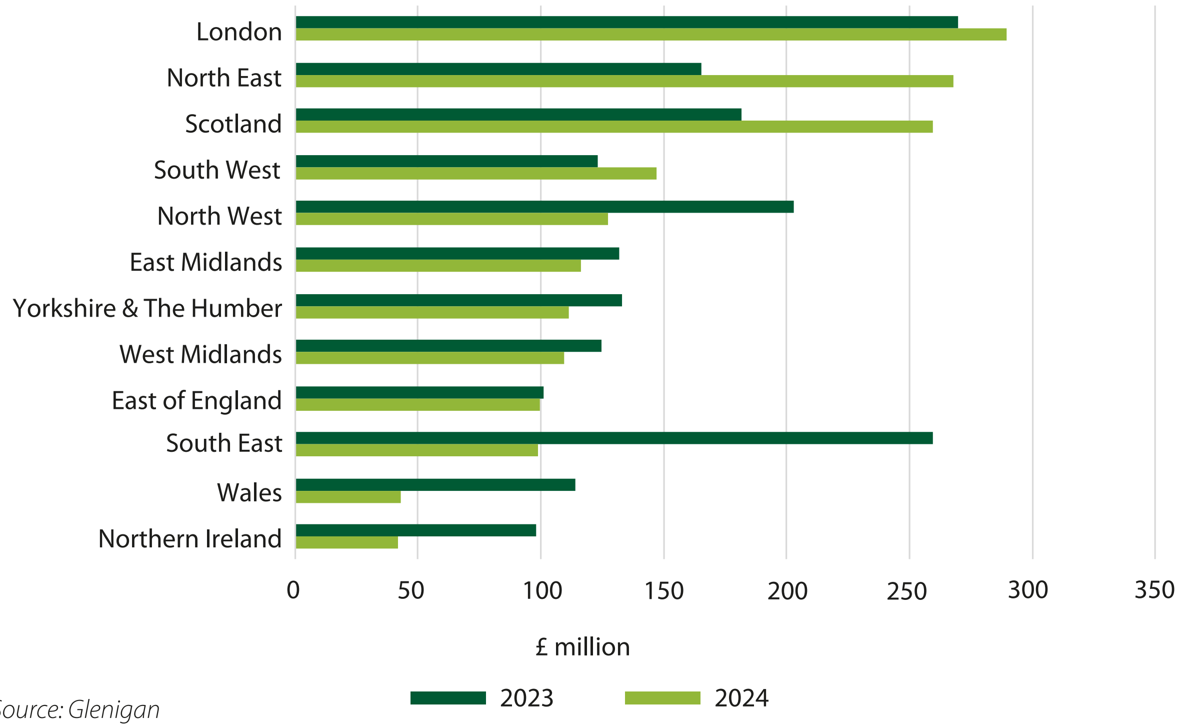
STATE OF THE SECTOR

The retail construction sector has been challenged by a combination of factors, including weak consumer spending, rising costs for retailers, and the growing share of online retail sales. This resulted in a 15% decline in the value of retail project starts in 2023.

Households have faced pressure on their disposable income due to inflation and higher costs. While inflation has moderated somewhat, consumer spending remains subdued. Additionally, the rise of online shopping has forced traditional retailers to re-evaluate their physical store requirements. Despite a recent 1.5% dip in online sales, its overall share of the retail market remains higher than pre-pandemic levels.

Retail sales struggles and a glut of empty stores have caused retailers and developers to hit the brakes on investment. The value of new retail projects starting construction plunged 15% last year, and the number of projects getting detailed planning approval dropped 13%. However, while approvals haven't picked up much in the first few months of 2024, the number of projects actually starting construction jumped 9% compared to the same period last year.

CHART 10: Value of Underlying Retail Project Approvals (under £100 million) in 2023 and 2024 Pro-Rata



Source: Glenigan
N.B. 2024 data is based on January to April pro rata

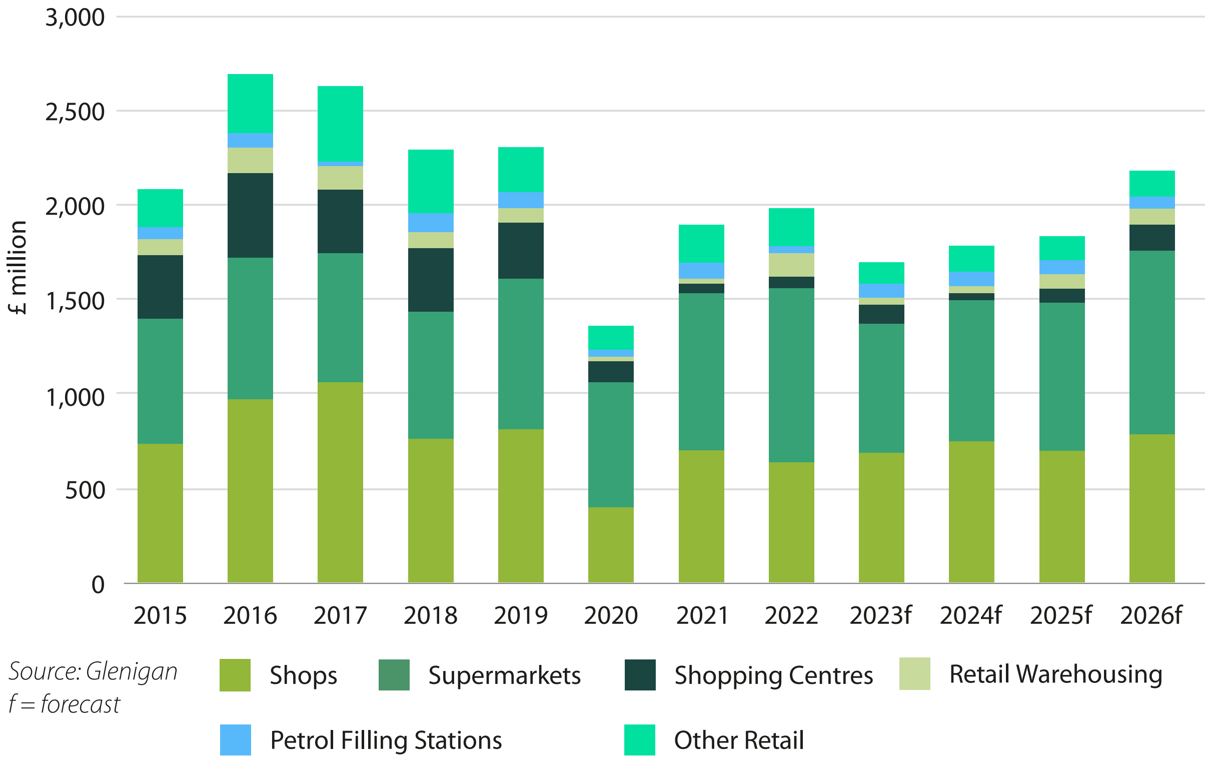
THE FUTURE OF THE SECTOR

Despite a softening development pipeline, a gradual upturn in project starts is expected over the next three years. This is primarily driven by anticipated growth in consumer spending, which will prompt retailers and developers to move forward with planned projects. However, the long-term trend towards online shopping and the abundance of vacant retail space are likely to constrain the overall recovery, keeping project starts below pre-pandemic levels.

Supermarkets, particularly discount grocers like Lidl and Aldi, are expected to be a bright spot in the retail construction sector. The cost-of-living crisis has led many consumers to prioritise budget-conscious shopping trips and grocery delivery services are seeing less use. This trend, coupled with Lidl's renewed focus on store openings and Aldi's ambitious expansion plans, is likely to contribute to a rise in supermarket project starts.

Looking beyond new builds, the changing consumer shopping landscape is also expected to drive investment in repurposing existing vacant retail space. This includes transforming shopping centres into mixed-use developments that offer a variety of uses such as residential, office, or leisure facilities. This approach will help to revitalise underutilised retail space and cater to evolving consumer preferences.

CHART 11: Value of Underlying Retail Project-Starts (under £100 million) by Segment



Source: Glenigan
f = forecast

HOTEL & LEISURE

2024 **+14%** 2025 **+6%** 2026 **+7%**

- **After a period of being squeezed by rising costs and weak sales, the hospitality industry is finally showing signs of recovery.**
- **Rising consumer spending and a recovery in overseas visitor numbers are expected to boost hospitality investment and sector starts over the next three years.**

After enduring a period of economic hardship, the hotel & leisure sector is poised for a comeback. Rising disposable incomes and a projected surge in tourism are expected to be the key catalysts, fuelling investment and propelling project starts over the next three years.

HOTEL & LEISURE STARTS

	2023	2024f	2025f	2026f
£ million	2,691	3,066	3,240	3,475
Growth	-21%	14%	6%	7%

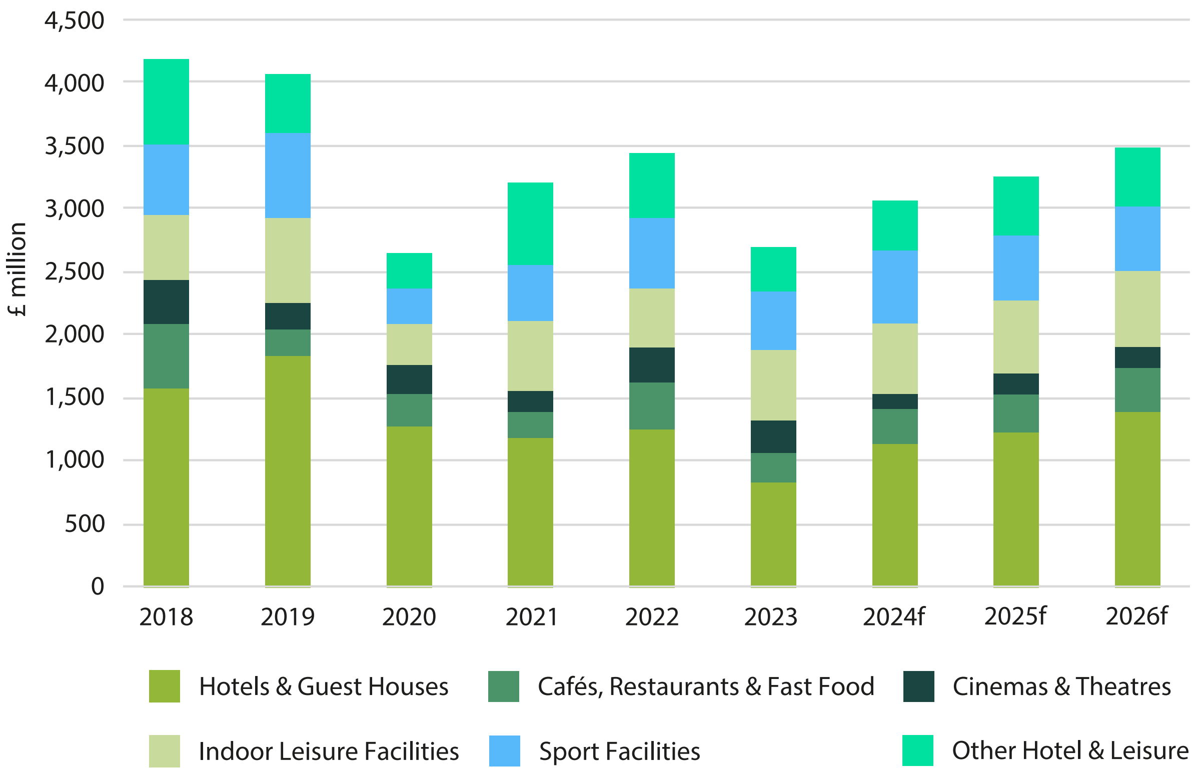
Source: Glenigan. f = forecast

STATE OF THE SECTOR

The hospitality industry has been slow to bounce back from the pandemic. Facing a combination of declining consumer spending, reduced overseas tourism, and rising operational costs (labour, materials, energy), many businesses prioritised financial stability over facility upgrades. This resulted in a 21% drop in hotel & leisure project starts in 2023.

Despite an increase in overseas tourists compared to the previous year, visitor numbers haven't reached pre-pandemic levels. However, Scotland emerged as a bright spot, with visitor numbers exceeding pre-pandemic levels by 19%. This may explain the smaller decline in project starts observed in that region.

CHART 12: Value of Underlying Hotel & Leisure Project-Starts (under £100 million) by Year



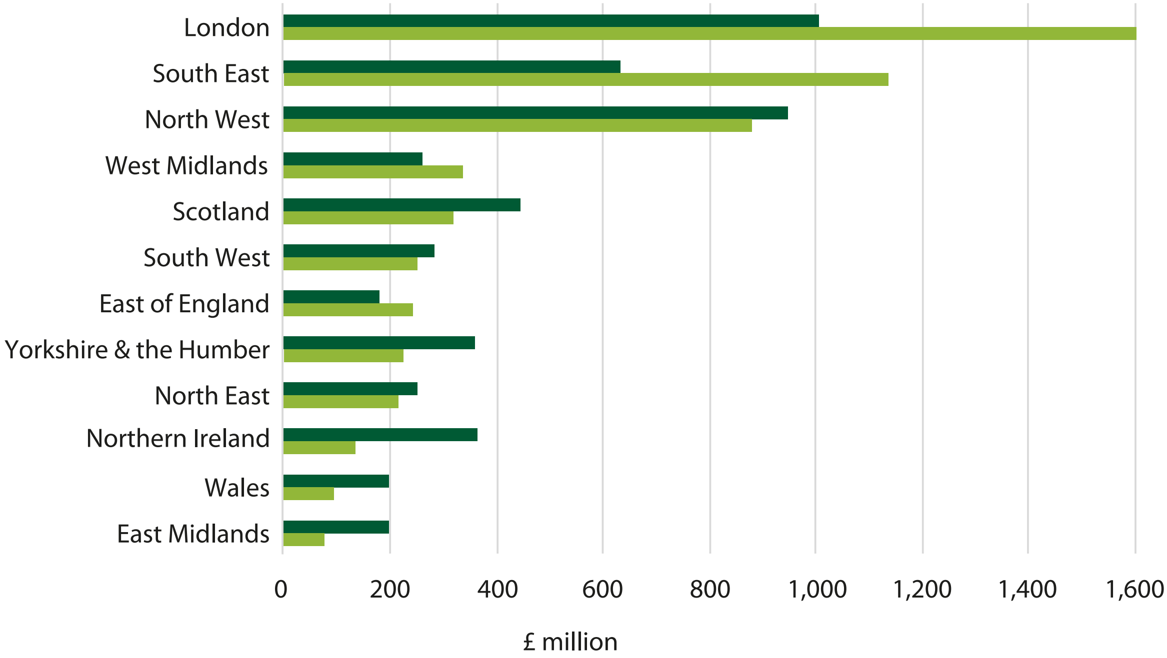
Source: Glenigan. f = forecast

THE FUTURE OF THE SECTOR

A gradual rise in household income is expected to fuel growth in discretionary spending on hospitality and leisure experiences over the next three years. This, coupled with a further recovery in overseas tourism, should invigorate the sector, attract investors, and translate into increased project starts.

The strengthening planning pipeline, evidenced by a 12% rise in detailed approvals during 2023, suggests a positive outlook. This growth in approvals is predicted to support a 14% increase in project starts in 2024, partially reversing the decline seen in 2023. Further growth is anticipated in 2025 and 2026 as investors capitalise on the expected upswing in consumer spending.

Chart 13: Value of Underlying Hotel & Leisure Project Approvals (under £100 million) in 2023 and 2024 Pro-Rata



Source: Glenigan
N.B. 2024 data is based on January to April pro rata

2023 2024

EDUCATION

2024 **-5%** 2025 **-5%** 2026 **+6%**

- ↗ **Increase in school projects over the forecast period, but programmes subject to review.**
- ↘ **Reduction in higher education projects with universities under financial pressure.**

The education sector witnessed a significant rise in school building projects in 2023, driven by a 41% increase in project starts. This surge is attributed to a two-pronged approach: increased capital funding from the Department of Education and tackling buildings identified with Reinforced Autoclaved Aerated Concrete (RAAC). However, project starts are expected to experience a temporary dip in 2024 and 2025 as the newly elected government reviews existing funding plans.

EDUCATION STARTS

	2023	2024f	2025f	2026f
£ million	5,860	5,548	5,294	5,627
Growth	41%	-5%	-5%	6%

Source: Glenigan. f = forecast

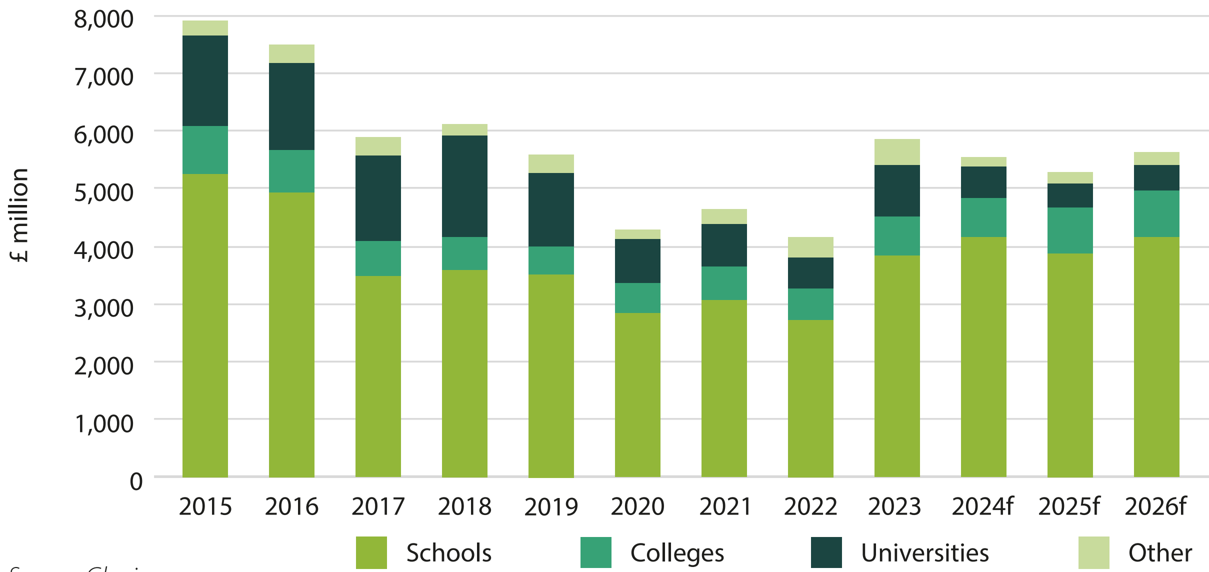
STATE OF THE SECTOR

School building projects dominated the education sector in 2023, with a notable 41% growth in project starts. This upsurge directly addresses the 17% rise in secondary school pupils, particularly concentrated in London and the South East. Local authorities are now actively securing increased investment to meet this growing demand for school places.

Urgent funding has also been directed towards tackling RAAC defective school buildings. So far, RAAC has been confirmed in 234 schools across England. Out of these, over 100 schools require major refurbishment or rebuilding, with the remaining needing smaller-scale works. Glenigan data reveals that 124 RAAC-related projects started on site last year, with a combined value of £146 million. More extensive remediation projects are anticipated to commence in 2024 and 2025.

Universities, on the other hand, saw a contrasting picture in 2023. The value of university projects starting on site jumped by 55%, partly due to an increase in larger projects exceeding £25 million. However, despite this rise in activity, the university segment remains at half its pre-pandemic peak.

CHART 14: Value of Underlying Education Project-Starts (under £100 million) by Year



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

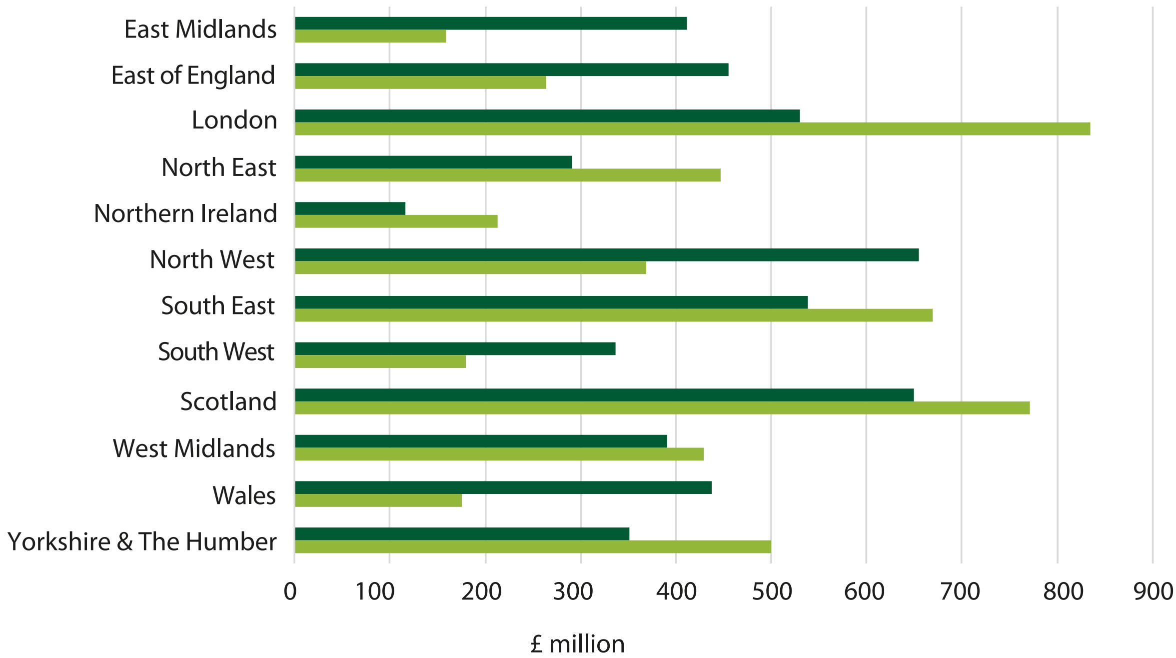
FUTURE OF THE SECTOR

A modest rise of 9% in school project starts is forecast for 2024, building on the momentum from the previous year. Progress on committed projects, including tackling RAAC deficiencies, is expected to continue. However, the general election and the subsequent review period by the incoming government could disrupt the flow of school and college project starts in 2024 and 2025.

Despite the temporary disruption, the education sector holds promise for future growth. Labour's commitment to increased education funding, coupled with the potential contraction of the private school sector due to VAT on fees, could lead to a surge in demand for additional secondary school places. This, in turn, would drive further investment in school building projects.

The outlook for universities remains more challenging. The short-lived jump in university project starts witnessed in 2023 is unlikely to be sustained. The sector continues to grapple with frozen tuition fees since 2017, leading to a significant decrease in their real-term value. Universities have increasingly relied on overseas students who pay higher fees, but this trend has been disrupted by recent government visa restrictions, causing a sharp drop in applications. This financial squeeze, coupled with potential reductions in domestic student numbers, is putting a strain on university budgets, limiting their ability to invest in upgrading facilities. Research by PwC for Universities UK indicates that a significant proportion of universities are vulnerable to these combined pressures. With higher education funding not appearing to be a priority for Labour, university construction is likely to remain under pressure regardless of the election outcome.

CHART 15: Value of Underlying Education Project Approvals (under £100 million) in 2023 and 2024 Pro-Rata



Source: Glenigan
N.B. 2024 data is based on January to April pro rata

HEALTH

2024 +14% 2025 -5% 2026 +4%

- NHS investment is a priority across the political spectrum.
- Rise in starts during 2024 as planned projects progress to site.
- Renewed growth in 2026, following post-election Spending Review.

Although the post-election Spending Review may moderate project starts in 2025, the long-term outlook for the health sector remains positive. NHS investment is a high priority for all political parties and the public alike. Increased capital funding is expected to fuel renewed growth in 2026.

HEALTH STARTS

	2023	2024f	2025f	2026f
£ million	3,280	3,736	3,532	3,682
Growth	-8%	14%	-5%	4%

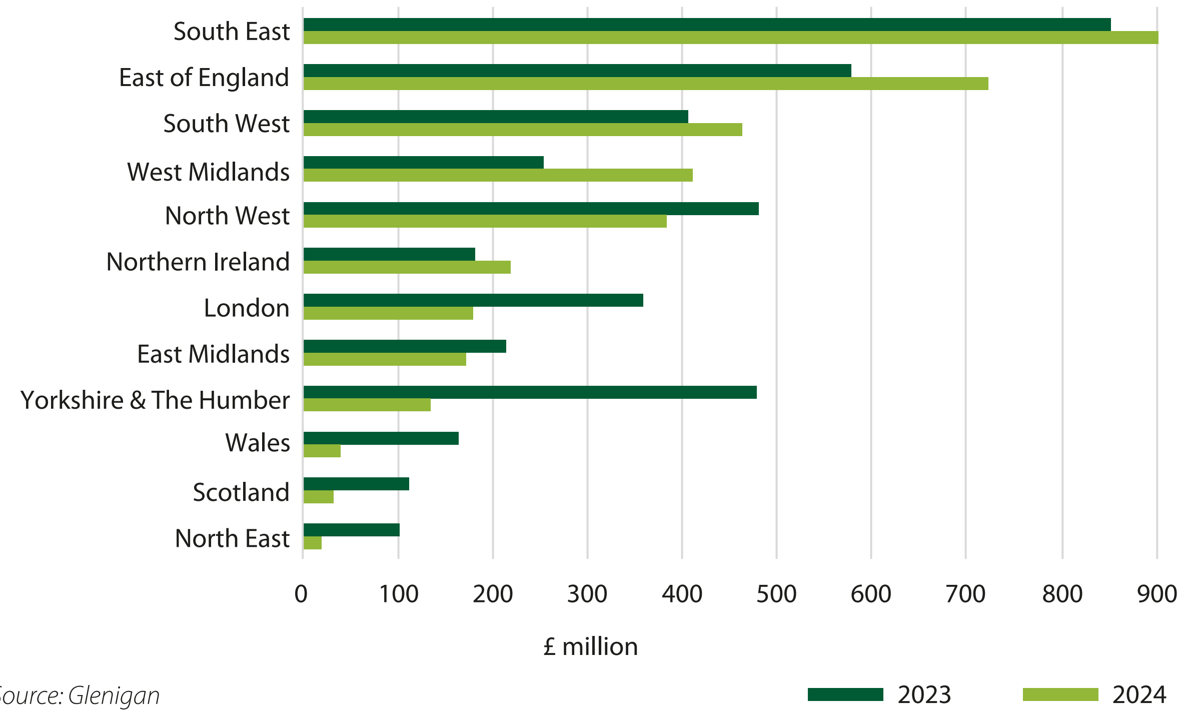
Source: Glenigan. f = forecast

STATE OF THE SECTOR

The decline in project starts in 2023 can be attributed to the NHS prioritising immediate needs like tackling long waiting lists and resolving industrial disputes. This came even amidst a government commitment to a long-term increase in NHS capital funding. The 2021 Spending Review allocated £32.2 billion to the Department of Health over three years, aiming to upgrade over 70 hospitals by 2030.

Additionally, the government launched the ambitious "Hospital 2.0" program in 2023, aiming to build 45 new hospitals, including five with RAAC issues. However, progress has been slow, with the National Audit Office finding only 32 projects are likely to be completed by 2030.

Chart 16: Value of Underlying Health Approvals (under £100 million) by Year and Region



Source: Glenigan
N.B. 2024 data is based on January to April pro rata

THE FUTURE OF THE SECTOR

While existing programs and projects may face review and potential delays following the election, NHS investment remains a critical political priority. A recovery in project starts is forecast for 2024 as delayed projects from 2023 progress to site. This is supported by a 35% increase in the value of project starts during the first four months of 2024 compared to the previous year.

The General Election and subsequent ministerial reviews might cause temporary delays, but overall starts are still forecast to rise by 14% in 2024. Although the post-election Spending Review might lead to a moderation in starts in 2025, the long-term outlook remains positive with continued political commitment to NHS investment. This is expected to translate into renewed growth in project starts by 2026 with fresh funding allocations.

CIVIL ENGINEERING

2024 +12% 2025 +6% 2026 +4%

- **Energy & water projects to drive sector growth.**
- **Infrastructure projects and programmes reviewed post-election.**
- **Major projects support overall sector workload.**

A sustained rise in civil engineering work is anticipated over the next three years, driven primarily by an increase in utilities projects. Water companies are planning significant capital expenditure, and investment in renewable energy generation and distribution is expected to be a key growth area. However, the General Election may disrupt and delay some government-funded infrastructure projects.

CIVIL ENGINEERING STARTS

	2023	2024f	2025f	2026f
£ million	6,969	7,836	8,341	8,644
Growth	-4%	12%	6%	4%

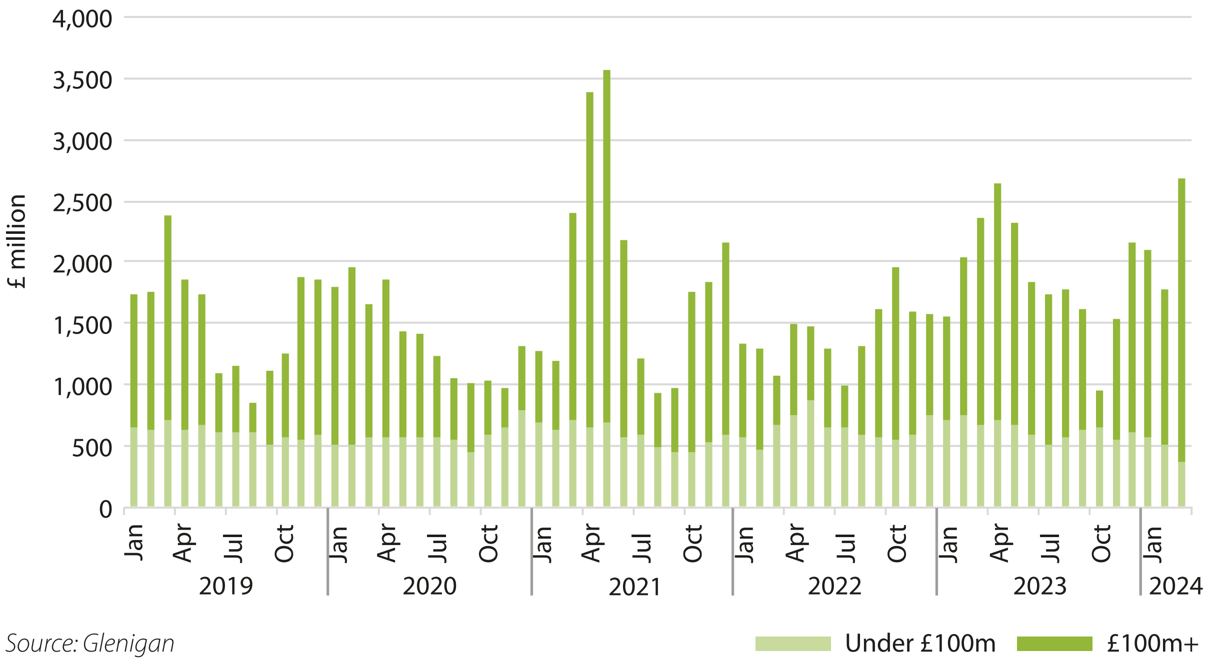
Source: Glenigan. f = forecast

STATE OF THE SECTOR

Civil engineering starts slipped 4% in 2023 due to a reduction in infrastructure approvals during 2022. This decline was offset by a 15% rise in utilities starts. The trend continued in the first four months of 2024, with infrastructure starts down 11% year-on-year, while utilities starts grew by 13%.

Despite the recent decline in project starts, overall sector activity has been supported by major projects like the Silvertown Tunnel and HS2 Phase 1, which will continue to drive activity in the forecast period.

CHART 17: Value of Civil Engineering Main Contract Awards by Month



Source: Glenigan

FUTURE OF THE SECTOR

Utilities work is expected to be the main driver of sector growth over the next 2-3 years. Water companies have proposed doubling capital investment to £96 billion over the next five-year control period (AMP8). This investment includes major schemes like new reservoirs, alongside smaller projects to improve river quality and reduce discharges. The regulator's final decision on these plans is expected in December, with AMP8 commencing next April.

The new government is likely to further encourage investment in renewables to achieve net zero. Labour's plans for a publicly owned clean power company could accelerate this. Additionally, National Grid's £24.8 billion investment program for the transmission network will accommodate new generating capacity and rising electricity demand.

A weaker recovery in infrastructure starts is anticipated. While a 7% rise is forecast for 2024, the sector is vulnerable to delays and reviews post-election. The Department for Transport has already pushed back ministerial decisions on major projects, such as the Lower Thames Crossing, by six months. The next Spending Review will reassess the government's transport investment priorities.

Infrastructure starts are expected to see a gradual increase in 2025 and 2026.

HS2 will remain a significant contributor, with Phase 1 work continuing throughout the forecast period. An early decision from the new government is needed to restart tunnelling work from Old Oak Common to Euston.

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.

2024 **+16%** 2025 **+11%** 2026 **0%**

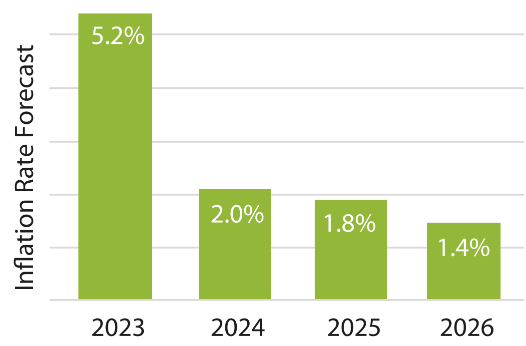
Construction starts in Ireland continue an upward trend, driven in the most part by a strong residential sector and by a strong Irish economy, bucking trends in the wider European market.

In 2023 new project starts rose by 18% from the previous year and further double-digit growth is expected in 2024 (16%) and 2025 (11%) before levelling off in 2026.

As the shocks from the pandemic and global unrest wane, Ireland finds itself in a strong position, where the strong economic performance in 2022 has continued with growth of 2% predicted out to 2026. Headline inflation is decreasing faster than previously anticipated driven by an easing of global energy prices.

The Irish labour market remains strong with unemployment close to historical lows, a strong factor influencing consumer confidence and spending. This year, pay increases outpaced inflation for the first time since 2022. Ireland however remains vulnerable to external global threats and uncertainty persists around corporation tax revenues.

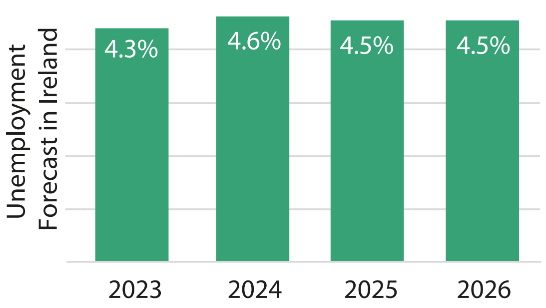
CHART 18: Inflation rate forecast



Note: Harmonised Index of Consumer Prices

Externally-driven inflationary pressures have abated, while domestically-driven inflation remains sticky.

CHART 19: Unemployment forecast in Ireland



Note: International Labour Organisation Definition

Unemployment projected to remian low with positive real wage growth.

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

€ million	2023	2024f	2025f	2026f
AGRICULTURE	56	38	38	13
CIVIL AND UTILITIES	2,226	1,600	2,210	2,730
COMMERCIAL	831	800	850	870
COMMUNITY AND SPORT	184	182	185	190
EDUCATION	375	300	350	385
HOSPITALITY	100	170	185	200
INDUSTRIAL	1,252	1,259	1,415	1,512
MEDICAL	308	412	409	414
RESIDENTIAL	6,099	9,010	9,500	9,250
ALL	**11,431**	**13,770**	**15,142**	**15,564**

Source: CIS & Glenigan. f = forecast

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

Annual Change	2023	2024f	2025f	2026f
AGRICULTURE	-14%	-32%	0%	-1%
CIVIL AND UTILITIES	102%	-28%	12%	5%
COMMERCIAL	12%	-4%	6%	2%
COMMUNITY AND SPORT	-11%	-1%	2%	3%
EDUCATION	-23%	-20%	17%	10%
HOSPITALITY	-8%	70%	9%	8%
INDUSTRIAL	2%	1%	12%	7%
MEDICAL	-26%	34%	-1%	1%
RESIDENTIAL	15%	48%	5%	-3%
ALL	**18%**	**16%**	**11%**	**0%**

Source: CIS & Glenigan. f = forecast

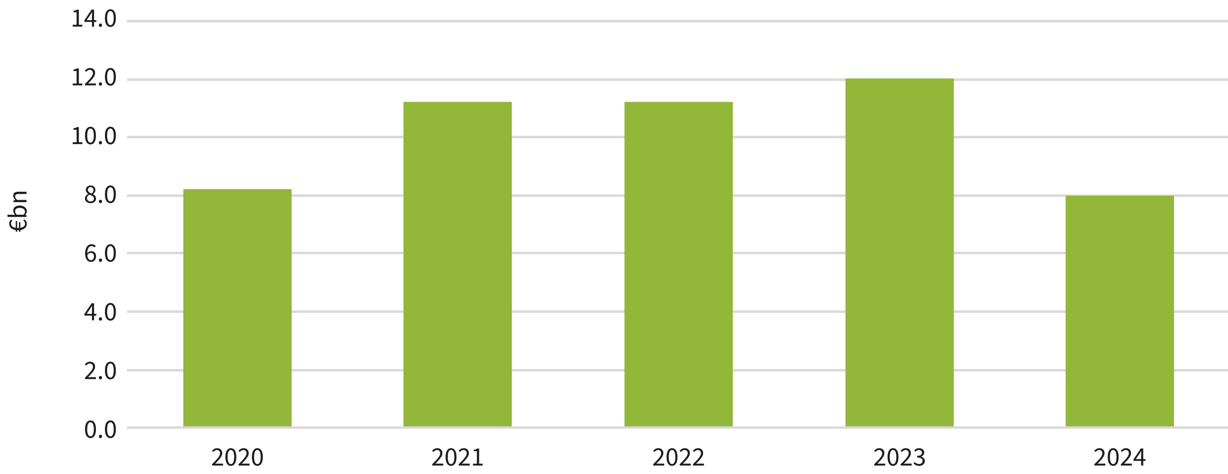
Fiscally, Ireland remains strong with the Government continuing to post surpluses. In addition, Budget 2024 seeks to enhance the resilience of the public finances by the establishment of the Future Ireland Fund and Infrastructure, Climate and Nature Fund. Supported by new legislation, the fund will benefit from an annual contribution of 0.8% of GDP, potentially €100 billion by 2035.

TABLE 5: Key Macroeconomic Variables - Quarter-on-quarter, per cent change (unless stated)

	2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
CONSUMER SPENDING	0.0	0.9	0.7	1.2	1.1	0.5	0.3	0.3
MODIFIED DOMESTIC DEMAND	-0.2	1.0	1.2	1.2	0.2	0.2	0.1	0.1
INFLATION RATE	7.5	5.5	4.9	3.3	3.6	2.8	2.6	2.5
UNEMPLOYMENT RATE	4.2	4.2	4.1	4.1	4.2	4.2	4.2	4.3

Source: Budget 2024 Economic and Fiscal Outlook, Department of Finance

CHART 20: Project Start Trends to May 2024



PRIVATE RESIDENTIAL

The Irish government has set ambitious targets for 2024 to combat the ongoing housing crisis, aiming to build 30,000 new units. This goal, rooted in historical targets and the need to boost housing supply, highlights the urgency of the situation.

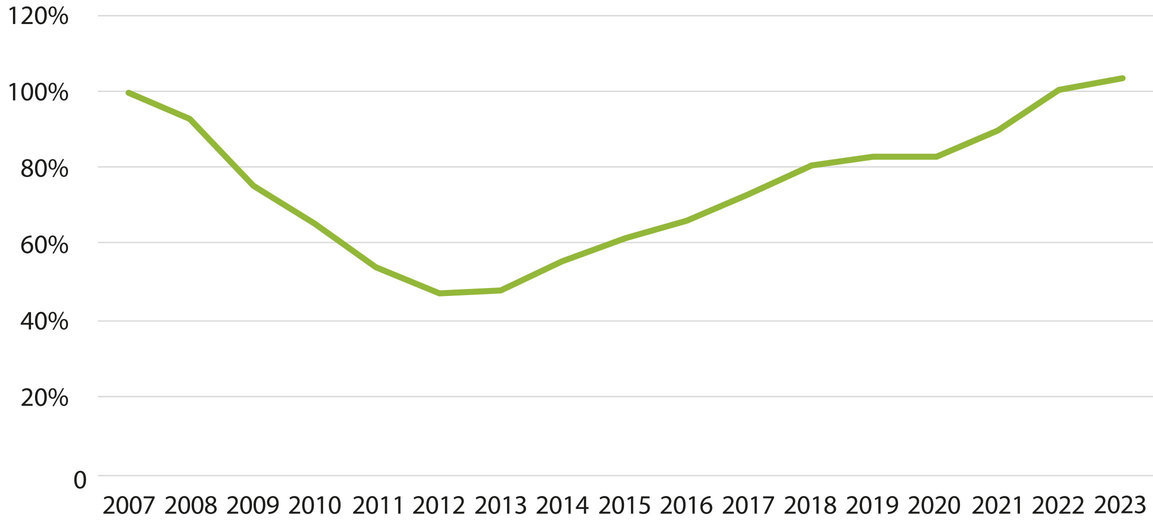
Last year saw 1,400 planning applications submitted, representing over 47,000 units. Housing commencements were strong, with 787 projects starting, resulting in almost 30,000 new dwellings.

Planning grants were issued in 2023 for over 56,000 new homes, a 14.3% increase from 2022. This in part contributed to a high level of new starts and strong housing completion figures.

Earlier this year the Government extended the deadline on the Development Contribution Waiver Scheme, which exempts developers from development contributions and allows them to seek refunds on water connection fees. The scheme required developers to begin new housing schemes, or phases thereof, by the 24th of April 2024 and complete them by 31 December 2025. The result of this action was a huge spike in new housing commencements in Q2 of this year. However, there is concern that the steady flow of housing will fall after 2025 as much of the planned development has been squeezed into a shorter development timeframe.

House prices continue to rise in Ireland as demand continues to outstrip supply. The Residential Property Price Index December 2023 below highlights the erratic nature of this market.

CHART 21: Residential Property Price Index December 2023



Source: Central Statistics Office
Note: 2007 = 100%

CHART 22: Residential Planning Grants to end of May 2024

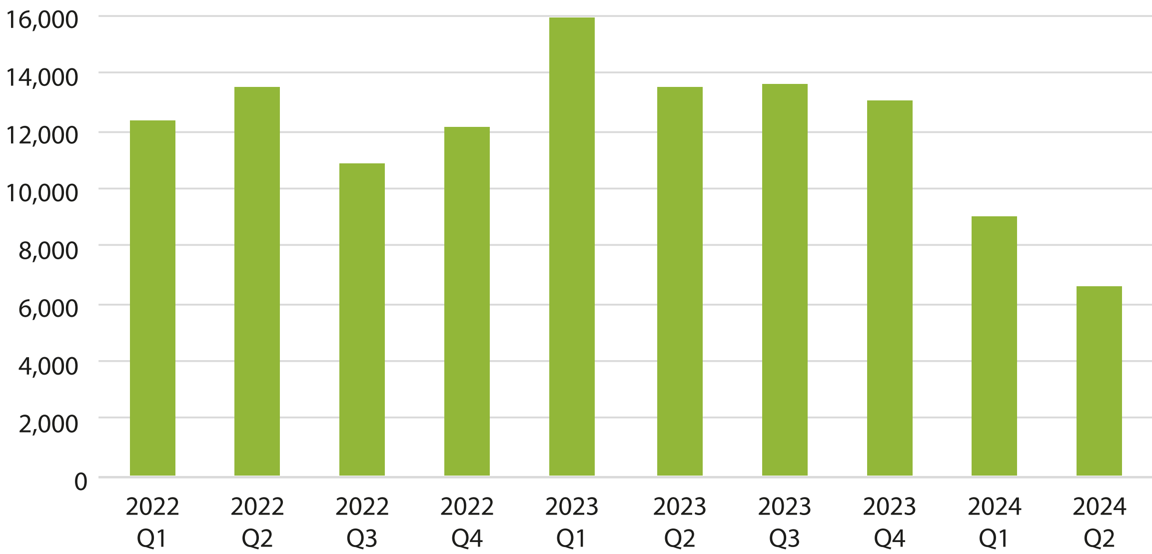
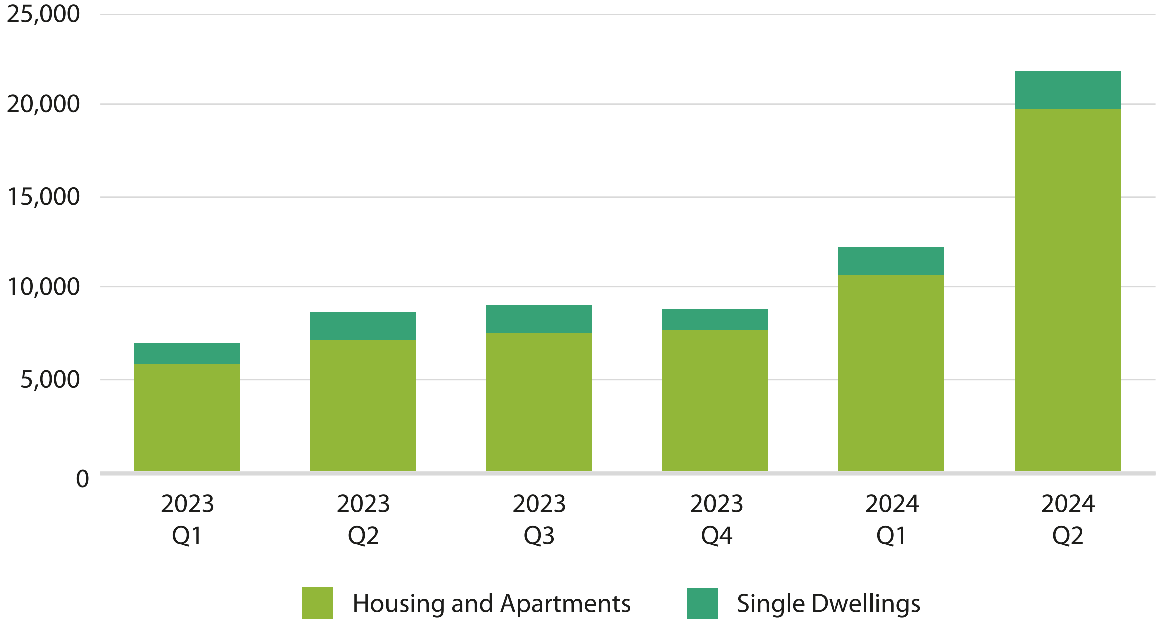


CHART 23: Housing Completions to end of May 2024

CHART 24: Housing Starts (Units Commenced)



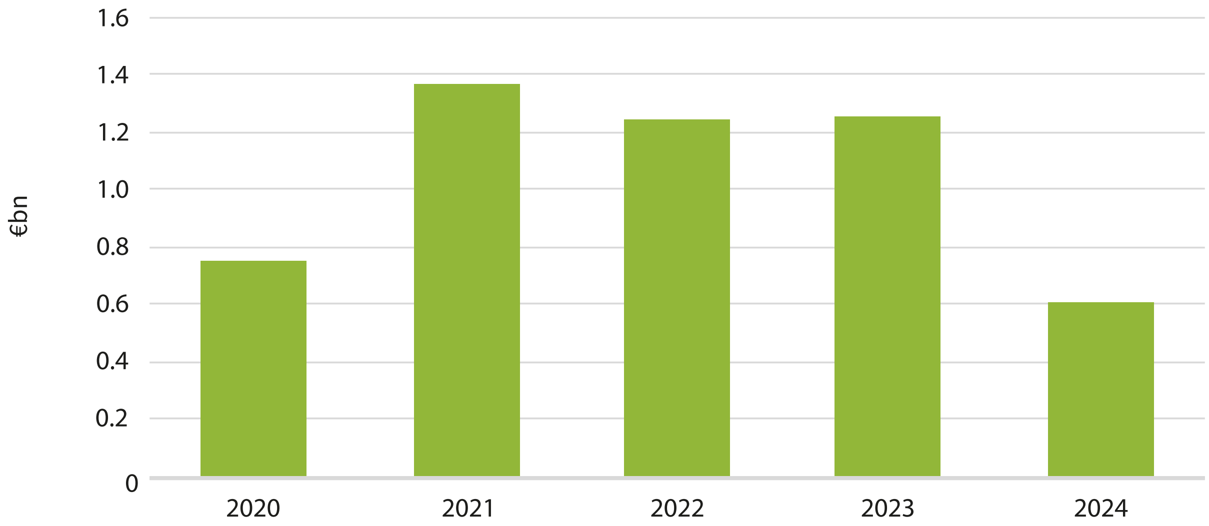
PRIVATE NON-RESIDENTIAL

INDUSTRIAL

As a vital contributor to the country's economic development, the industrial sector provides the necessary infrastructure for sustained enterprise, manufacturing and logistics which all feed back into economic growth. In 2024, industry stakeholders must navigate a complex environment marked by supply chain disruptions, labour shortages and the pressing need for sustainable practices in planning and construction. Global players in the pharmaceutical industry are continuing to engage with domestic contractors, who are offering innovative construction solutions responding to the advancing needs of research and development in the areas of new product expansion, retrofitting and sustainability.

By embracing innovation, fostering collaboration, and prioritising sustainability, contractors and suppliers in construction can drive growth and position themselves as leaders in the Irish industrial sector. This necessitates a focus on delivery excellence and implementing strategic recommendations to address challenges like supply chain disruptions, labour shortages and the need for sustainable practices.

CHART 25: Industrial project start trend in Ireland (to May 2024)



COMMERCIAL

The commercial sector has suffered most in post-pandemic Ireland. There is uncertainty in the commercial office sector as flexible working and rising costs impact new office developments. This is reflected in the pipeline as represented by planning grants and by the number and value of new office developments starting. The retail sector fares better with steady growth projected from 2024 in line with rising consumer confidence.

CHART 26: Office and Retail plans granted by value (to May 2024)

CHART 27: Office and Retail new starts by value (to May 2024)

HOSPITALITY

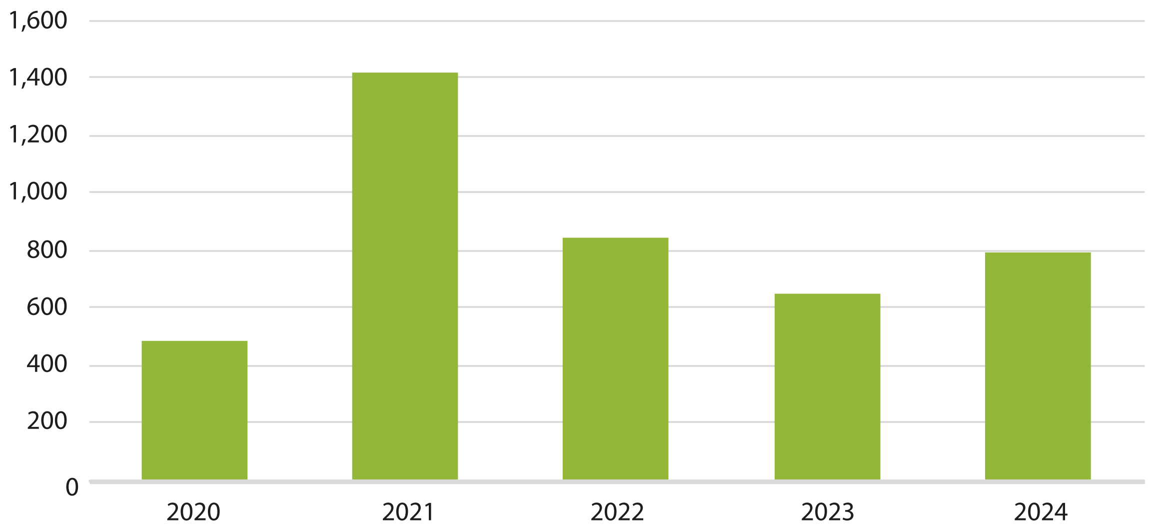
2024 has so far seen a steady stream of planning applications submitted for the hotel and hospitality sector and there are certainly some large schemes on the drawing boards. In terms of hotel development, between January 2024 and April 2024, new planning applications account for 17 potential new projects, amounting to €110.9 million in build costs.

Demand for hotel rooms in Ireland is on the rise and the Irish Tourism Industry Confederation has already voiced concern that the number of rooms being built will not meet the projected demand going forward in the next decade, so more needs to be done.

Other areas of the hospitality sector such as bars, restaurants and guesthouses have shown an increase in planning applications being submitted for potential new builds, refurbishments and conversions (January 2024-April 2024) which should lead to a healthy pipeline of work for 2024/2025.

Figures released in January 2024 by the DAA show that 31.08 million passengers passed through the terminals of Dublin Airport in 2023. Passenger numbers at Dublin Airport are now 60% higher than they were a decade ago. Investment in hospitality and leisure services in Ireland remains key despite many areas potentially hindering development such as a lack of hospitality staff, increase in minimum wage, increase in food costs, increase in utility/energy bills/rents which are ever present.

CHART 28: Hotel beds completed to May 2024



SPORT & SOCIAL

The sport & social sector has experienced a recent decline in the volume of applications submitted and approved. Plans approved however, have seen an increase of approximately 32%. The volume of project starts this year show an increase of over 10% compared to the same time last year.

It was announced recently that funding of over €20 million will be available under the Town and Village Renewal Scheme for regeneration projects in rural towns and villages in Ireland. Since being established in 2016, the Town and Village Renewal Scheme has approved over €177 million for almost 1,800 projects across the country.

GOVERNMENT INVESTMENT

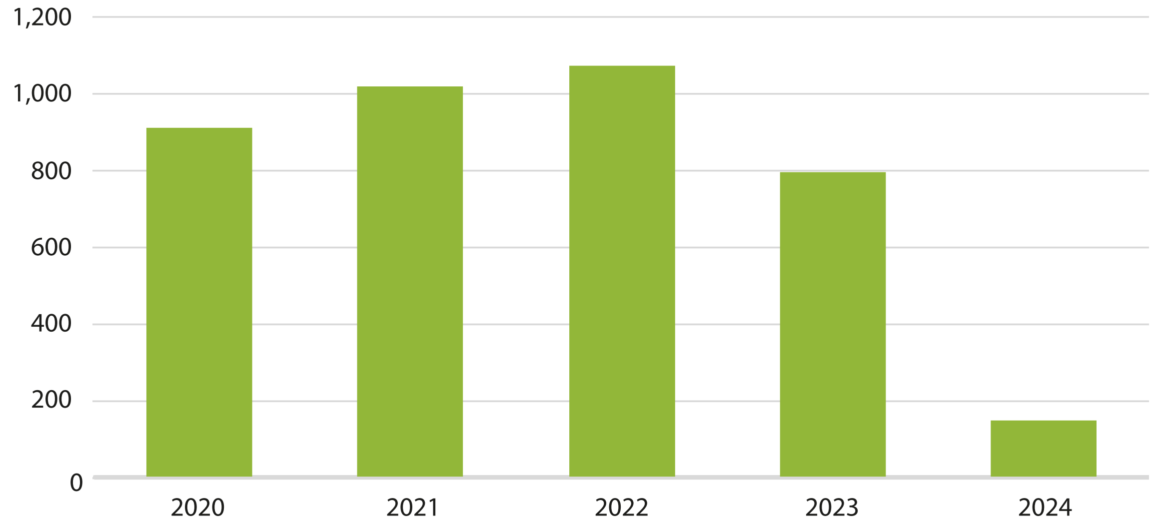
EDUCATION

The education sector has experienced what appears to be an ongoing backlog of projects currently awaiting approval from the Department of Education.

During the first quarter of 2024 the Government revealed plans to roll out the next phase of the Department of Education's building plan. It has been stated that 90 school buildings that are currently at tender stage will see authorisation to proceed and this will be carried out over 2024 into 2025.

Compared to 2023 there has been a decrease in the number of project starts by classroom of 36.5% (141). It is agreed that the rising costs of materials and labour has created this delay, with many schemes having to adjust budgets. If the roll out picks up pace the education construction sector looks set to have an active time ahead.

CHART 29: Project start trends by classrooms (to May 2024)



MEDICAL

The medical sector has been on a steady track this year so far. Overall, there has been a volume increase in new project starts of 5.2% compared to this period last year. There has been continued progress on the National Children's Hospital. March saw the completion of the Ronald McDonald House, a four-storey family accommodation unit on the grounds of St. James Hospital Site. This has been a welcome advancement in what has been a slow project. On a positive note, plans to build new elective hospitals in Cork and Galway have issued the publication of tenders for design and cost control teams. It is expected that the design phase may take up to a year before applications for planning are submitted.

We have also seen projects shelved or placed on hold due to the rising cost of materials and labour. Contractors have found that their original costings are no longer valid. The HSE is now in a position, that it must increase budgets on these projects to progress.

CIVIL & UTILITIES

The civil engineering sector is crucial to Ireland's economic development, providing essential infrastructure for housing, commerce, connectivity and sustainable communities. In 2024, the sector stands at a pivotal juncture, poised for growth and transformation amidst a rapidly evolving landscape. Addressing these challenges is crucial for the sector to deliver on its growth potential, meet the critical infrastructure needs and to address the ongoing housing crisis.

As the sector navigates challenges such as supply chain disruptions, labour shortages, and the increasing need for sustainable practices, industry stakeholders must embrace strategic initiatives throughout project lifecycles. Early involvement by contractors and the adoption of innovative solutions are essential to effectively address rising costs, funding approval issues, supply chain constraints and skills shortages. The adoption of modern construction methods, offsite manufacturing, and digital technologies will be essential to improve productivity and reduce project costs.

Despite positive growth forecast for 2024, sustained efforts are needed to drive public investments, adopt sustainable approaches in planning and construction and advance technological innovation. By emphasising delivery excellence and strategic recommendations, the civil engineering sector can overcome challenges and achieve significant growth in 2024 and beyond.

NORTHERN IRELAND

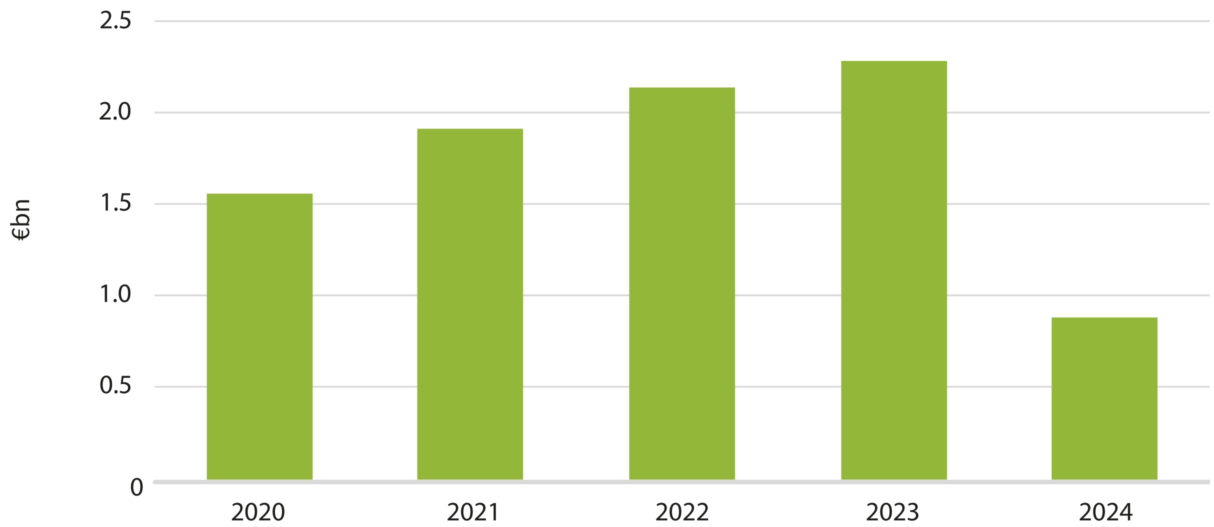
So far this year we have seen a decrease in the volume of planning applications submitted in Northern Ireland. A 22% decrease in Q1 2024 compared to the same period last year. In contrast, the value of these applications saw an increase of 54%.

The Education sector saw a spike in planning applications approved this year. In February 2024 it was announced that seven new build projects will now be progressed. It had previously been announced in May 2023 that the process for 28 schools earmarked for new buildings were paused.

One major factor that affected planning and construction works in Q1 2024 is the "housing crisis" in Northern Ireland. 19,000 homes are reportedly being held up by wastewater capacity limits. We can see the impact that these issues are having already in Q1 2024, with plans submitted, approved and projects starting on site all down compared to the same time last year.

Devolved government returned to Northern Ireland in February 2024 after a 24-month hiatus. Following the return, CEF, which represents around 70 per cent of construction in Northern Ireland, set out a 10-point plan for stimulating the country's construction sector. The list includes planning reform, fresh housing targets and the creation of an independent infrastructure commission.

CHART 30: Planning grant trends Northern Ireland to May 2024



KEY RECOMMENDATIONS

for the Construction Industry over the Next Three Years

The construction industry can expect a gradual improvement in market conditions over the next three years, driven by a strengthening economy. This will bring new opportunities in the private sector. However, publicly funded projects may face short-term disruption due to the upcoming General Election and potential policy changes from the new government.

TARGETING NEW GROWTH AREAS

Construction companies should be prepared to adapt and target new growth areas. Sectors like warehousing & logistics, office refurbishment, and repurposed commercial spaces are expected to see significant growth. It's also important to be aware of potential planning reforms that could impact low-rise family housing development. Additionally, companies should look for opportunities in regions receiving increased government funding, particularly in northern England.

MANAGING SUPPLY CHAIN CONSTRAINTS

Managing supply chain constraints will be crucial. Construction firms need to stay alert to potential disruptions in material availability and price fluctuations. When bidding for projects, it's important to factor in potential labour shortages and rising labour costs.

MITIGATE RISK

Mitigating risk is essential, as supply-side constraints over the past two years have significantly impacted the industry. Here's a breakdown of the key risks and mitigation strategies:

- **PROJECT DELAYS AND EXTENDED CONSTRUCTION TIMES:** The typical construction phase for projects completed in 2023 was 15% longer than pre-pandemic projects. This disrupts workloads, turnover, and cash flow.

  MITIGATION:

  - Realistic Scheduling: Factor in potential delays when planning projects. Buffer periods can help absorb unexpected disruptions.
  - Communication: Maintain clear communication with clients about potential delays and adjust expectations accordingly.

- **REGULATORY DISRUPTIONS FROM THE BUILDING SAFETY ACT:** The new regulations may further disrupt construction schedules due to increased scrutiny.

  MITIGATION:

  - Early Compliance: Familiarise yourself with the Act's requirements and implement them from the beginning of projects to avoid delays during construction.
  - Seek Expert Advice: If needed, consult specialists to ensure your projects comply with the Building Safety Act.

- **SLOWER STAGE PAYMENTS:** The slower pace of site development due to the above factors can delay stage payments from clients, impacting cash flow.

  MITIGATION:

  - Strong Contract Terms: Negotiate clear and timely payment terms in contracts to mitigate cash flow issues.
  - Manage Cash Flow Effectively: Carefully manage project finances and consider alternative financing options if needed.

- **INCREASED INSOLVENCY RISK:** The anticipated rise in project starts could strain contractor and subcontractor cash flow, potentially leading to insolvencies.

  MITIGATION:

  - Diversified Client Base: Spread your workload across multiple clients to reduce dependence on any single source of income.
  - Review Supply Chains: Ensure you are not overly reliant on a few suppliers, as this can leave you vulnerable to disruptions. Proactively seek alternative suppliers to mitigate risks.
  - Financial Management: Maintain strong financial controls and monitor cash flow closely. Consider building a cash flow buffer to weather potential challenges.

ON-SITE EFFICIENCY AND COLLABORATIVE WORKING

While product supply disruptions are expected to subside over the forecast period, the availability of skilled labour is likely to remain a significant constraint. The industry's qualified workforce has shrunk due to reduced access to skilled EU labour, post-pandemic worker migration to other industries, and early retirement. Although the current slowdown in industry workload may partially ease these pressures in the near term, skilled labour shortages threaten to increase construction costs and disrupt the timely delivery of projects.

This will intensify the need for firms to invest in the following:

- Recruitment, training, and retention of skilled labour: Companies should develop programmes to attract and retain skilled workers, including apprenticeships and upskilling initiatives.
- More efficient use of on-site labour: By optimising workflows, utilising technology, and potentially reducing rework caused by last-minute design changes, companies can make better use of their existing workforce.

The Building Safety Act will also change how projects are delivered. While its requirements will be most impactful on high-rise residential and other high-risk structures, it is intended to progressively change construction practices overall. The Act emphasises:

- Detailed pre-construction design and project planning: This reduces the need for on-site design changes, which can be time-consuming and disruptive.
- Increased use of offsite components and systems: Prefabricated elements can be manufactured in controlled environments with less reliance on skilled site labour, potentially improving efficiency and quality.

EMBRACING DIGITAL SOLUTIONS

Embracing digital solutions is key to improving efficiency and profitability. Construction businesses should utilise digital tools for customer relationship management, marketing, sales, and project management. Additionally, considering offsite construction methods and pre-construction design can reduce reliance on skilled labour and streamline project delivery.

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