INDUSTRY INSIGHTS in Construction

INDUSTRY INSIGHTS in CONSTRUCTION

1 MARKET OVERVIEW

1.1 Scope of the Market

Construction in the UK typically accounts for 6% of the country's total economic output. Parts of the sector have suffered in recent years from the economic uncertainty that surrounded the Brexit decision.

A potential trade deal with the EU was due to be agreed by December 2020. However, international economies have been devastated in Q2 2020 by the impact of COVID-19. As of mid-April 2020, there is no certainty that social distancing measures in the UK will be concluded by Q3. This lack of clarity is leading to huge variations in expectations for wider economic outcomes with major uncertainty across different construction sectors[1].

GDP from construction in the United Kingdom averaged at 23980.55 million from 1990 until 2020, reaching an all-time high of 29637 million in the first quarter of 2019 and a record low of 20732 million in the first quarter of 1995[2].

Image Source[3]

1 Store Mintel (2020). "UK Construction Market Report".
Retrieved from: https://tradingeconomics.com/united-kingdom/construction-output
2 Trading Economics (2020). "United Kingdom GDP From Construction-Stats Section".
Retrieved from: https://tradingeconomics.com/united-kingdom/gdp-from-construction
3 Trading Economics (2020). "United Kingdom GDP From Construction-Stats Section".
Retrieved from: https://tradingeconomics.com/united-kingdom/gdp-from-construction

1.2 Major Players

Latest Rank By Turnover	Latest Rank By Profit	Company	Reporting Period	Latest Turnover (£m)	Previous Turnover (£m)	Change (%)	Latest Pre-tax Profit (£m)	Previous Pre-tax Profit (£m)
1	1	Balfour Beatty Plc	Dec-18	7,802.0	8,234.0	-5.2	181.0	165.0
2	4	Kier Group Plc	Jun-18	4,512.8	4,282.3	5.4	106.2	-14.2
3	99	Interserve Plc	Dec-18	3,225.7	3,666.9	-12.0	-111.3	-244.4
4	2	Galliford Try Plc	Jun-18	3,132.3	2,826.0	10.8	143.7	58.7
5	5	Morgan Sindall Group Plc	Dec-18	2,971.5	2,792.7	6.4	80.6	64.9
6	100	Amey UK Plc	Dec-18	2,667.8	2,581.3	3.4	-427.6	-189.8
7	75	Mace Ltd [1]	Dec-18	2,350.0	2,036.9	15.4	3.3	2.3
8	18	ISG Plc	Dec-18	2,237.6	1,708.8	30.9	27.4	9.1
9	46	Keller Group Plc	Dec-18	2,224.5	2,070.6	7.4	8.4	110.6
10	97	Laing O'Rourke Plc	Mar-18	1,985.7	2,034.2	-2.4	-25.2	-80.8
11	10	Skanska UK Plc	Dec-18	1,935.4	1,802.7	7.4	44.1	13.5

Image source[4]

4 The Construction Index UK (2019). "Top 100 Construction Companies 2019".
Retrieved from: https://www.theconstructionindex.co.uk/market-data/top-100-construction-companies/2019

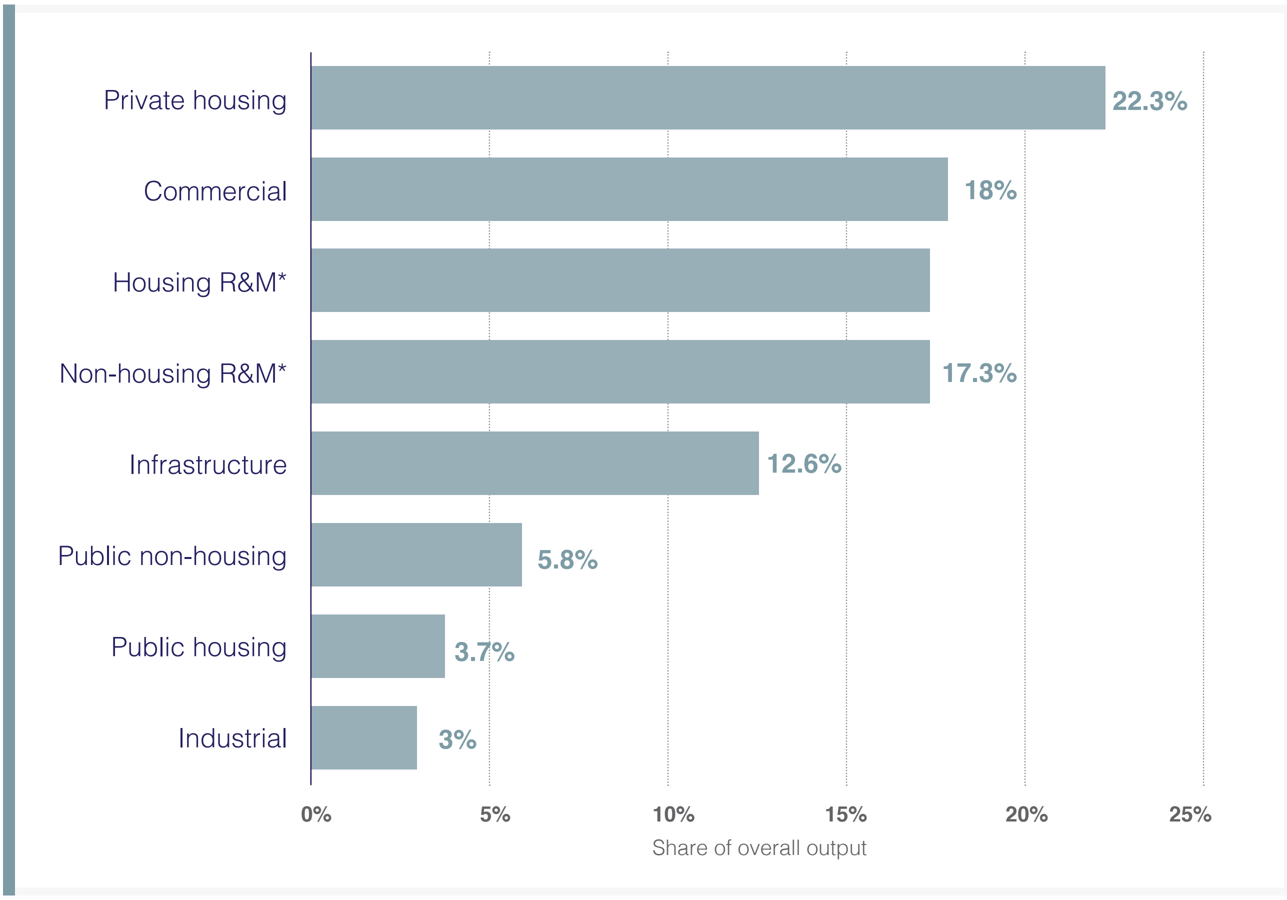
2 MARKET INSIGHTS

2.1 Current Market Scenario

GDP from construction in the United Kingdom decreased to 28746 million in the first quarter of 2020 from 29507 million in the fourth quarter of 2019[5].

Industry Structure and Growth Outlook

Different fields of the construction industry hold different shares of overall output (Statista, 2020-Structure of Construction Industry 2018)[6]:



In the Office for National Statistics (ONS) monthly Index, British construction output fell by 40.1% during April 2020; this was driven by a 41.2% decrease in new work and a 38.1% decrease in repair and maintenance. These monthly decreases were the largest on record since the monthly records began in January 2010.

The decrease in new work in April 2020 was because of record month-on-month falls in all new work sectors; private new housing and private commercial were the largest contributors, falling by 59.2% and 39.7% respectively[7].

5 Trading Economics (2020). "United Kingdom GDP From Construction-Summary Section".
Retrieved from: https://tradingeconomics.com/united-kingdom/gdp-from-construction
6 Statista (May 2020). "Structure of the construction industry in the United Kingdom (UK) in 2018, by share per sector".
Retrieved from: https://www.statista.com/statistics/565511/construction-industry-structure-uk/
7 ONS Statistics (2020). "Construction output in Great Britain: April 2020".
Retrieved from: https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/april2020

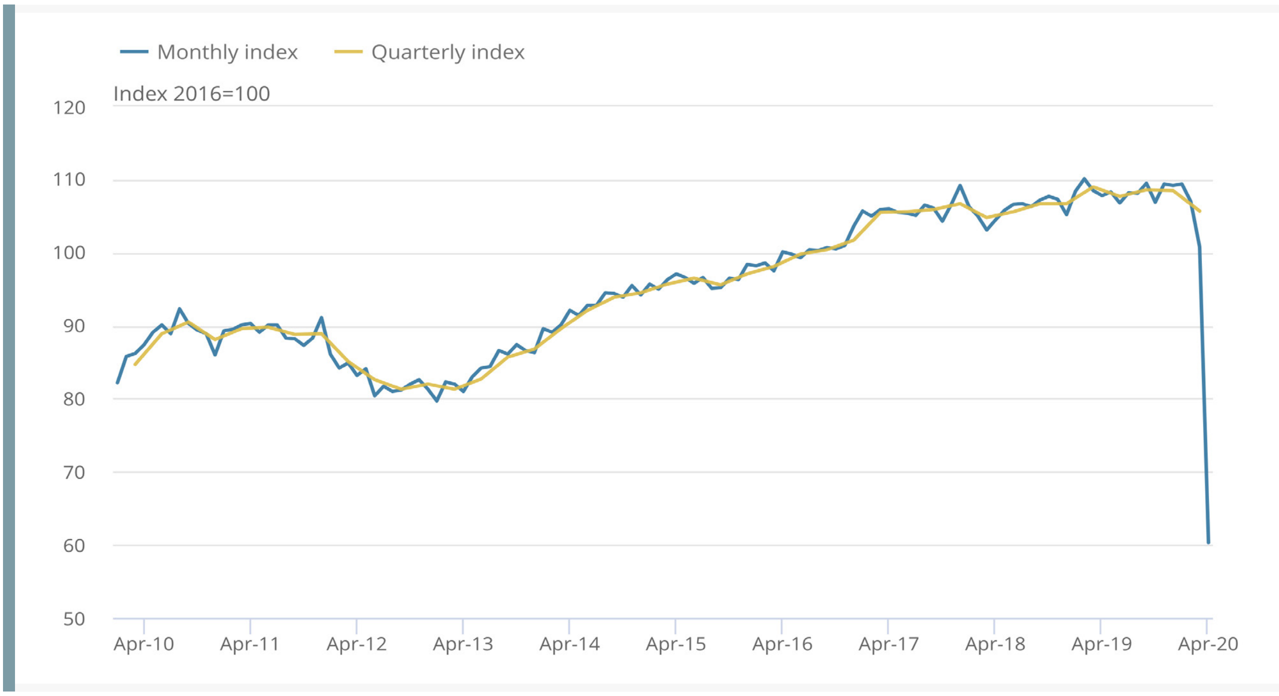


Image Source[8]

Construction was among the hardest-hit sectors, with 42.5% of businesses in construction reporting zero turnovers in April. Across the whole of the UK economy, GDP fell by 20.4% in April, the largest drop since monthly national records began in 1997[9].

When compared against April 2019, the value of all construction work in April 2020 fell by a wider margin of 44%, which was another record loss.

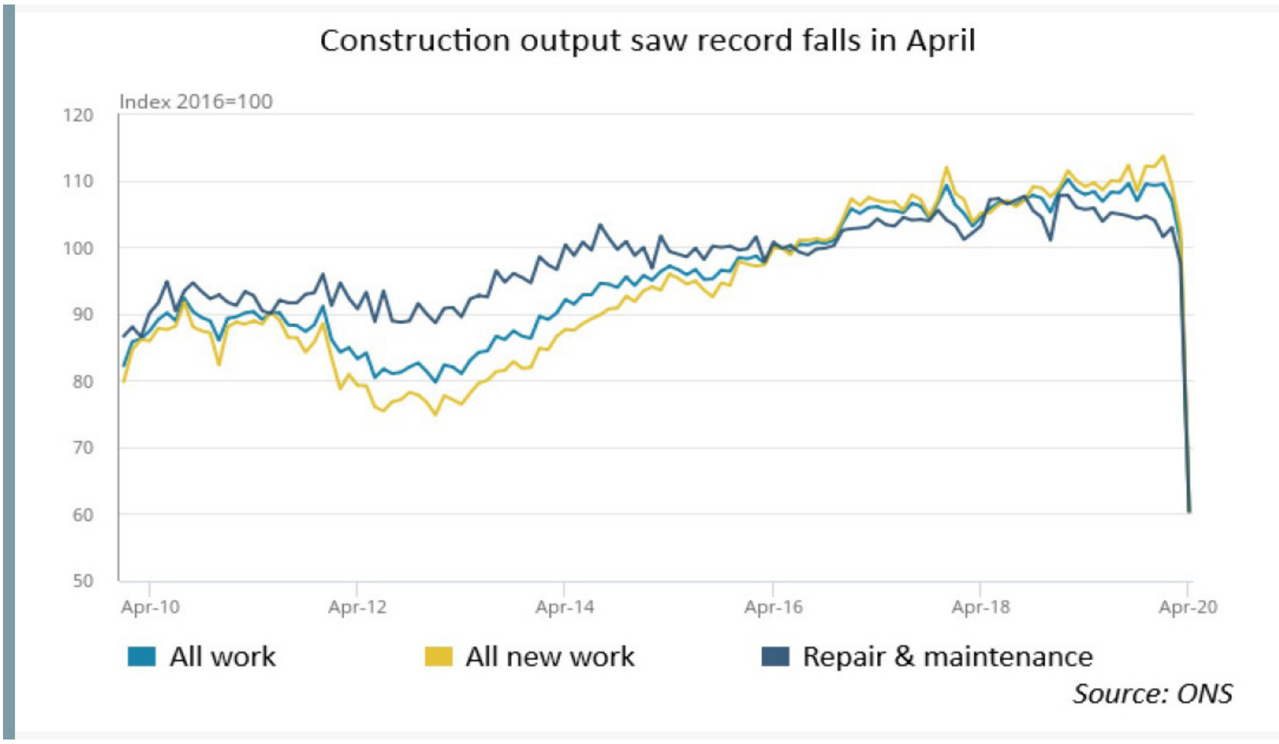


Image Source[10]

8 ONS Statistics (2020). "Construction output in Great Britain: April 2020".
Retrieved from: https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/april2020
9 Construction News (Jun.2020). "Construction output dropped by £5.1bn in a month".
Retrieved from: https://www.constructionnews.co.uk/financial/construction-output-dropped-by-5-1bn-in-a-month-12-06-2020/
10 Construction News (Jun.2020). "Construction output dropped by £5.1bn in a month".
Retrieved from: https://www.constructionnews.co.uk/financial/construction-output-dropped-by-5-1bn-in-a-month-12-06-2020/

Workers in the construction sector suffered the biggest fall in wages in April 2020, according to new data from ONS. The 8.4% fall for construction workers was only beaten by the 10.8% drop in earnings for those working in the accommodation and foodservice industry. The lower average wages paid in the industry meant the value of the fall was less, at £27 per week[11].

Redundancies at contractors increased in April with Sisk being the latest to announce plans to cut jobs. Wates, TClarke, and Atkins have also made redundancies. Major suppliers have made more extensive cuts to staff numbers with Travis Perkins planning for 2,500 redundancies and two of UK's largest brick suppliers planning to cut 600 jobs combined[12].

Average weekly earnings of freelancers in May 2020, compared to April[13]:

Region	May 2020 Average	Month on Month % Change	Year on Year % Change
North East	£728	26.0%	4.0%
North West	£795	12.9%	-0.4%
Yorkshire and the Humber	£753	16.9%	-2.6%
East Midlands	£814	0.7%	-3.9%
West Midlands	£907	21.9%	3.3%
Wales	£816	15.7%	6.5%
East of England	£876	7.9%	-0.3%
London	£861	6.4%	0.9%
South East	£876	13.3%	3.6%
South West	£784	19.5%	6.5%

The best-performing regions for earnings growth were the South West and Wales (up 6.5%) and the North East (up 4%)[14].

2.2 Technological Innovations

Construction technology is a collective term for types of technology that have a specific use within the construction industry. Examples of this include smart machinery, automated robots, virtual reality, 5G, and IoT (Internet of Things). All of these have been created and adapted to aid the industry in improving working conditions, boosting efficiency, improving health and safety, and enhancing many other areas[15].

11 Construction News UK (Jun.2020). "Construction workers suffer largest pay hit in April".
Retrieved from: https://www.constructionnews.co.uk/data/data-news/construction-workers-suffer-largest-pay-hit-in-april-16-06-2020/
12 Construction News UK (Jun.2020). "Construction workers suffer largest pay hit in April".
Retrieved from: https://www.constructionnews.co.uk/data/data-news/construction-workers-suffer-largest-pay-hit-in-april-16-06-2020/
13 The Construction Index UK (May 2020). "Sub-contractor Pay Trends May 2020".
Retrieved from: https://www.theconstructionindex.co.uk/market-data/subcontractors-pay-trends/
14 The Construction Index UK (May 2020). "Sub-contractor Pay Trends May 2020".
Retrieved from: https://www.theconstructionindex.co.uk/market-data/subcontractors-pay-trends/
15 of UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020".
Retrieved from: https://ukconnect.com/construction-technology-trends/

The ten types of construction technology impacting the industry are:

Big Data

Big data is a term used to describe vast data sets. These sets of data may be used to uncover hidden trends, patterns in behaviour, and unknown correlations to make more informed business decisions. This information can serve as the basis for artificial intelligence and automation systems[16].

Artificial Intelligence (AI) & Machine Learning (ML)

Artificial Intelligence (AI) is intelligence shown by a machine to mimic human behaviour. Machine learning (ML) is a field of AI, where statistical techniques are used to give a computer the ability to learn from data without being explicitly programmed[17].

The Internet of Things (IoT)

The Internet of Things (IoT) is an already integral piece of construction technology. IoT is made up of smart devices and sensors that all share data and can be controlled from a central platform. The implications of this are huge as it means that a new, smarter, more efficient, and safer way of working is now very possible[18].

Robotics & Drones

The construction industry is one of the least automated industries that features manual-intensive labour as a primary source of productivity, and, surprisingly, robots have yet to play a significant role. A key obstacle to this is the construction worksite itself because robots require a controlled environment and tasks that are repetitive and non-variable[19].

3D Printing

3D printing is quickly becoming an indispensable construction technology offering for the construction industry, especially when taking into account its impact on changes in material sourcing. This technology pushes the boundaries beyond the designer's table by creating a three-dimensional object from a computer-aided design model, building the object up layer by layer[20].

5G and Wi-Fi6

5G is the fifth-generation wireless technology for digital cellular networks, boasting faster speeds, better traffic handling, and less congestion. To accompany this, Wi-Fi 6, the newest standard of Wi-Fi technology, is also improving on its predecessors[21].

Virtual Reality (VR) / Augmented Reality (AR)

Virtual reality (VR) implies a complete immersion experience that shuts out the physical world, while augmented reality (AR) adds digital elements to a live view. The potential of VR/AR technologies in conjunction with BIM technology are endless. An example of this would be creating a building model with BIM technology that featured a virtual building tour[22].

16 UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020". Retrieved from: https://ukconnect.com/construction-technology-trends/
17 UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020". Retrieved from: https://ukconnect.com/construction-technology-trends/
18 UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020". Retrieved from: https://ukconnect.com/construction-technology-trends/
19 UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020". Retrieved from: https://ukconnect.com/construction-technology-trends/
20 UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020". Retrieved from: https://ukconnect.com/construction-technology-trends/
21 UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020". Retrieved from: https://ukconnect.com/construction-technology-trends/
22 UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020". Retrieved from: https://ukconnect.com/construction-technology-trends/

Building Information Modelling (BIM)

BIM technology is an intelligent 3D modelling tool that supports engineering, architecture, and construction professionals to effectively plan, design, modify and manage buildings and their infrastructure. It begins with the creation of models and supports document management, coordination and simulation during the entire lifecycle of a project (plan, design, build, operation and maintenance)[23].

Mobile and Cloud Technologies

Only in recent years has the technology that can handle the challenging environments, workflows, and complications of such a physical industry evolved. Mobile and cloud technologies continue to impact the sector[24].

Blockchain Technology

Blockchain is digital information stored in a transactional public database (block) that is peer-to-peer controlled or verified by a network of computers (chain). Compared to standard databases, blockchain does not need a central authority, because all the information exchange is happening between end-users, peers, or nodes, without the mediation of a middleman[25].

How These Technologies Can Benefit Construction:

Big data from weather, traffic, and community and business activity can be analysed to determine the optimal phasing of construction activities.

Machine learning can be used to explore different variations of a solution and create design alternatives, taking into consideration the mechanical, electrical, and plumbing systems and ensuring the routes for MEP systems do not clash with the building architecture.

Increased safety for construction workers. Construction workers are five times more likely to be killed on the job than other labourers. With the use of AI, sites can be monitored for safety hazards, using photos and recognition technology to tell if a worker is wearing the correct PPE or by using geo-location to identify danger areas and alerting workers.

5G and Wi-Fi 6 will enable users to communicate effectively, share large scale drawings, and run resource-heavy applications without compromising speed/performance. It will provide a reliable and secure communication network for advanced technologies to utilise.

BIM technology enables better collaboration because each expert can add its expertise area to the same model (architecture, MEP, civil, plant, construction, and structures), enabling a review of project evolution and working results in real-time.

Drones can be used for site safety; they can monitor sites and with the use of cameras be used to identify any danger areas and give a construction manager a quick view of the site without himself being physically present.

3D printing provides the capability to either prefabricate offsite or directly on-site. Compared to traditional building methods, now it is possible to print materials necessary for prefabrication and have them ready to use immediately.

23 UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020". Retrieved from: https://ukconnect.com/construction-technology-trends/
24 UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020". Retrieved from: https://ukconnect.com/construction-technology-trends/

25 UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020". Retrieved from: https://ukconnect.com/construction-technology-trends/

Mobile and cloud technologies have significantly contributed to the changes and evolution of the construction sector by enhancing the digital experience and business efficiency, enabling real-time information, providing Integrated Labour Delivery [ES], and improving organisation and productivity.

Blockchain technology has the potential to establish an error-free process for contracts generation, administration, and monitoring. Smart contracts implementation through blockchain technology improves efficiency and excludes the intermediary parties and their services[26].

2.3 Government Regulations and Initiatives

Construction Sector Deal

The Sector Deal for Construction (initiated in 2018) includes several policies to support the recruitment and training of construction workers. The government will work to reform the CITB so that it is "more focused on future skill needs." The government will also create new apprenticeship standards that better prepare entrants into the profession for the tasks they will be performing (moving away from traditional building skills)[27].

Key Policies

The **Construction Leadership Council** is a high-level forum consisting of the relevant Business Enterprise and Industrial Strategy, senior government officials, the leaders of several major infrastructure projects, and the leaders of several major construction companies. The Council's role is to help achieve the goals set out in Construction 2020 and the Farmer Review, identify any barriers and promote government policies
to construction firms.

The **Transforming Construction programme** is a series of competitive funding competitions to encourage the development and take-up of modern materials, modern methods of design, and modern building methods. The whole programme has funding from the government worth £170 million, matched by £250 million from the industry. One of the key policies funded through this programme will be the **Core Innovation Hub**, based partly at the University of Cambridge, which will "…enable construction businesses to develop and validate new products and manufacturing and assembly processes[28]."

Post-Brexit Regulations

The UK has left the EU and is now in a transition period. New rules are set to come into place from the 1st of January 2021. There will be new rules in many areas, such as travel to Europe or selling goods abroad[29].

Get an EORI Number

Business owners need an EORI number to move goods between the UK and non-EU countries. If they do not have one, they may have increased costs and delays. For example, if HM Revenue and Customs (HMRC) cannot clear their goods, they may have to pay storage fees[30].

26 UK Connect (April 2020). "10 Construction Technology Trends Impacting the Industry in 2020".
Retrieved from: https://ukconnect.com/construction-technology-trends/
27 Rhodes Ch. (Dec. 2019). "Construction industry: statistics and policy".
Briefing Paper, House of Commons Library, pp.14-15 (pdf).
28 Rhodes Ch. (Dec. 2019). "Construction industry: statistics and policy".
Briefing Paper, House of Commons Library, pp.14-15 (pdf).
29 UK Government (2020). "Get an EORI number". Retrieved from: https://www.gov.uk/eori
30 UK Government (2020). "Get an EORI number". Retrieved from: https://www.gov.uk/eori

Businesses That Move Good to or From the EU

After the 31st of December 2020, business owners will need an EORI number to move goods between the UK and the EU.

They should apply for their EORI number in advance. It can take up to a week to get one.

Business owners will not usually need an EORI number if they only:

- Provide services
- Move goods between Northern Ireland and Ireland

If they use a post or parcel company, the government will tell them if they need an EORI number.

Business owners will need an EU EORI number if their business will be making customs declarations or getting a customs decision in the EU. They should get this from the customs authority in the EU country where they submit their first declaration or request their first decision[31].

Businesses That Already Have an EORI

After the 31st of December 2020, you'll need an EORI number that starts with GB to move goods to or from the UK.

Business owners should check their EORI number and should apply for a new one if it does not start with GB[32].

Before They Apply

To apply, business owners may need their:

- VAT number and the effective date of registration (these are on their VAT registration certificate)
- National Insurance number (if they're an individual or a sole trader)
- Unique Taxpayer Reference (UTR)
- Business start date and Standard Industrial Classification (SIC) code (these are in the Companies House register)
- Government Gateway user ID and password

If business owners need a Government Gateway user ID, they can apply via their business or as an individual[33].

If business owners do not already have a user ID, they'll be able to create one when they apply.

Apply for an EORI Number

It takes 5 to 10 minutes to apply for an EORI number. Business owners will get it either:

- Straight away
- Within five working days (if HMRC needs to make more checks)[34].

31 UK Government (2020). "Get an EORI number". Retrieved from: https://www.gov.uk/eori
32 UK Government (2020). "Get an EORI number". Retrieved from: https://www.gov.uk/eori
33 UK Government (2020). "Get an EORI number". Retrieved from: https://www.gov.uk/eori
34 UK Government (2020). "Get an EORI number". Retrieved from: https://www.gov.uk/eori

UK Business Support Mechanisms

The UK government and devolved administrations have been developing and announcing a range of measures aimed at supporting the economy, businesses, and workers through the COVID-19 crisis[35].

The list of Business Support Mechanisms is cited below:

- COVID-19 Corporate Financing Facility (CCFF)
- Coronavirus Business Interruption Loan Scheme (CBILS)
- Coronavirus Large Business Interruption Loan Scheme (CLBILS)
- Coronavirus job retention scheme
- Term Funding Scheme with additional incentives for SMEs (TFSME)
- Small Business Grant Fund (SBGF)
- Coronavirus Business Support Grants (Scottish Scheme)
- Future Fund
- ESFA post-16 provider relief scheme
- Bounce Back Loans scheme
- Trade Credit Insurance
- Statutory Sick Pay
- General Taxation - Time to Pay
- Insurance
- Companies House
- Mortgage Holidays
- Deferred VAT payments
- Self Employed Income Support Scheme
- Reform of Insolvency law

35 Pinsent Masons (May 2020). OUT-LAW GUIDE “Coronavirus: UK Business Support Mechanisms”.
Retrieved from: https://www.pinsentmasons.com/out-law/guides/covid-19-uk-business-support-mechanisms#CCFF

3 MARKET DYNAMICS

3.1 Drivers

Key Segments for Industry Development

In the commercial construction sector, the London area remains the main driver. The value of new office project starts in the capital increased by 16% in 2019 and is expected to continue rising in 2020. However, there could be more uncertainty over further business construction investment in other regions where local industries could be negatively affected by the Brexit outcome.

Concerning the public construction segment, the government has proposed investment in several major infrastructure projects (e.g. Northern Powerhouse Rail and the Midlands Rail Hub, new hospitals)[36].

Foreign Direct Investments (FDI) Attractiveness

With a weaker pound, investment into UK property has been surprisingly resilient, especially outside London.

For example, in 2018, EY conducted an Attractiveness Survey. It found that the Midlands had attracted the second-highest amount of foreign direct investment over the previous ten years. Similarly, prices in Leicester, a city in the East Midlands, have grown 15% since the referendum in 2016.

On top of that, the 2019 General Election delivered the first government with a large majority since the previous Labour administration. Whatever everyone's political stance, the promise of several election-free years, with less political hostility and uncertainty, is positive from a business perspective. In the aftermath of the vote, there was a significant stock market surge (£33 billion) and a house price increase in London[37].

Technology and Its Impact

Earlier this year, the Housing, Communities and Local Government Committee (HCLG) warned the government that an over-reliance on traditional building methods would see the UK fall far short of its target to build 300,000 new homes a year by the mid-2020s. Issues such as a growing skills crisis, Brexit uncertainty, and pressure on resources mean the sector needs to be reflecting on the methods which it has relied on to date. As a result, there has been a shift towards the use of Modern Methods of Construction (MMC), which 40% of 2019 Property and Construction Outlook Report respondents believe to be the next big thing to impact the property sector, followed by artificial intelligence (AI) at 23%[38].

36 Atradius (Mar.2020). "Market Monitor Construction UK 2020".
Retrieved from: https://atradius.de/publikation/market-monitor-construction-uk-2020.html
37 UK Construction Media (2020). "2020 vision: Property and construction industry".
Retrieved from: https://www.ukconstructionmedia.co.uk/features/property-construction-crowe/
38 UK Construction Media (2020). "2020 vision: Property and construction industry".
Retrieved from: https://www.ukconstructionmedia.co.uk/features/property-construction-crowe/

3.2 Industry Challenges

Limited Access to Finance

Banks and traditional financial institutions adhere to a stringent lending process, making the process of acquiring a loan time-consuming and complicated. As such, construction companies can have difficulties commissioning new projects, recruiting new staff, and planning projects for the future, especially with the impact of Brexit uncertainty[39].

UK Tax and Planning System

Unsurprisingly, the UK tax system has, once again in 2019, remained a key concern and barrier for the property and construction industry. For the third consecutive year, the majority of Annual Property and Construction Outlook Report respondents (65%) cited the system to be unfavourable for property developers and investors, with a further 22% stating that they were unsure.

Stamp duty land tax (SDLT) led the way, with 48% of respondents believing stamp duty land tax to be the main fiscal barrier to business growth, echoing the findings of the 2018 Property and Construction Outlook Report. Over recent years, high levels of SDLT has caused liquidity in the market to drop, with official figures released by HMRC in October 2019 revealing that revenues from land and property stamp taxes fell last year for the first time in a decade[40].

COVID-19

COVID-19 is having far-reaching impacts on the construction industry's supply chains, cash flows, and workforces. The pace of change is so rapid that developers and construction participants across the supply chain need to make sure they are on top of the provisions of their construction contracts. These provisions include health and safety policies, employment law practices, and the pressure of protecting their workers from exposure to COVID-19[41].

3.3 Opportunities and Investments

Diversity in The Sector

In recent years, the topic of diversity in the property and construction sector has come increasingly into focus and, undoubtedly, will continue to do so over the coming years. Workplace diversity is of particular interest, given the sector has often been accused of falling short in this area[42].

Environment

Public and private sector clients will show increasing interest in the sustainability impacts of their projects and will also examine the environmental credentials of their contractors and supply chains. This interest will affect investments positively in green infrastructure and clean energy solutions[43].

Use of SMEs

The failures among large contractors over the past few years have made the public sector focus on 33% increased use of SMEs for procurement spending in construction projects. This is due to take place on both a principal contractor level and within the subcontractor supply chain[44].

Outsourced Bidding

Bringing in outsourced bidding expertise will help level the playing field for SME bidders, who often will be up against main contractors with standing bid teams[45].

39 UK Construction Media (2020). "2020 vision: Property and construction industry".
Retrieved from: https://www.ukconstructionmedia.co.uk/features/property-construction-crowe/
40 UK Construction Media (2020). "2020 vision: Property and construction industry".
Retrieved from: https://www.ukconstructionmedia.co.uk/features/property-construction-crowe/
41 Construction News UK (Dec.2019). "10 trends for the construction sector in 2020".
Retrieved from: https://www.constructionnews.co.uk/agenda/opinion/10-trends-for-the-construction-sector-in-2020-19-12-2019/
42 Construction News UK (Dec.2019). "10 trends for the construction sector in 2020".
Retrieved from: https://www.constructionnews.co.uk/agenda/opinion/10-trends-for-the-construction-sector-in-2020-19-12-2019/
43 Construction News UK (Dec.2019). "10 trends for the construction sector in 2020".
Retrieved from: https://www.constructionnews.co.uk/agenda/opinion/10-trends-for-the-construction-sector-in-2020-19-12-2019/
44 Construction News UK (Dec.2019). "10 trends for the construction sector in 2020".
Retrieved from: https://www.constructionnews.co.uk/agenda/opinion/10-trends-for-the-construction-sector-in-2020-19-12-2019/
45 Construction News UK (Dec.2019). "10 trends for the construction sector in 2020".
Retrieved from: https://www.constructionnews.co.uk/agenda/opinion/10-trends-for-the-construction-sector-in-2020-19-12-2019/

4 COMPETITIVE LANDSCAPE

UK Competitiveness Level in International Construction Market

The global professional services company has called for greater investment in new technology and methods to ensure the UK remains competitive for investment.

The international construction market survey 2019 shows that construction inflation rose 2.1% in the UK capital, with average build costs now standing at an average of £2,880 per square metre.

However, with two-thirds (65.6%) of the global markets surveyed by Turner & Townsend currently reporting a trade labour shortage, concerns over the availability of labour and restrictions of movement after the UK exits the EU are exacerbating the strain. To sustain investment in the UK, Turner & Townsend's report calls for increased investment in innovative technologies and new methods that drive productivity and control costs in the construction sector[46].

London Construction Costs

London is now a 'lukewarm' market. The rate of construction cost inflation is less than half of that recorded before the UK voted to leave the European Union, down from 5.1% before the referendum in 2016, to 2.1% in 2018.

The high-cost escalation in London had become an accepted norm as a result of continued investment in new construction projects. This escalation, albeit at a slower rate than previous years, is partly underpinned by rising labour costs fuelled by a shortage of workers. The average hourly construction wage in London has now hit £35 ($46.1USD), 41.4% higher than the global average[47].

Housebuilders Market Competitiveness

For housebuilders, the period since the crisis has been about riding the cyclical wave of buyers coming back into the market, due to increased government intervention and a seemingly constant shortage of UK houses.

Higher prices, especially among new-build flats in London, have been attractive to buyers due to the location and the Help to Buy scheme. This has increased revenues, profits, and dividends across the sector. Average selling prices among new-build properties have seen a 50% increase among some housebuilders since the scheme was launched, with an increasing percentage of their portfolios geared towards servicing this market over the past few years.

As the population grows, it's clear the nation still needs more housing. If the housebuilders can keep tempting a nation fixated with homeownership to pay up, and maintain their margins, shareholders could continue to benefit[48].

46 Infrastructure Intelligence (2019). "UK construction market feels chill as it braces for Brexit".
Retrieved from: http://www.infrastructure-intelligence.com/article/apr-2019/uk-construction-market-feels-chill-it-braces-brexit
47 Infrastructure Intelligence (2019). "UK construction market feels chill as it braces for Brexit".
Retrieved from: http://www.infrastructure-intelligence.com/article/apr-2019/uk-construction-market-feels-chill-it-braces-brexit
48 Fidelity UK (May 2020). "Where do the UK housebuilders go from here?".
Retrieved from: https://www.fidelity.co.uk/markets-insights/investing-ideas/shares/where-do-uk-housebuilders-go-here/

5 | RECRUITMENT CHALLENGES

Like any sector, the construction industry has its fair share of issues when it comes to recruitment. However, this vibrant and innovative part of the UK economy also has a lot of potentials, particularly for businesses that are willing to embrace new ideas and technology and take steps to crush out of date perceptions.

The Millennial Issue

One of the biggest challenges for the construction sector as a whole right now is the lack of appeal to millennials. The bulk of the workforce is currently made up of older generations, many of whom are on a path out of the industry over the next decade, moving towards retirement[49].

Low Job Satisfaction

Short-term employment opportunities characterise the typical career pattern of a millennial worker. Employers who proactively identify ways to offer more job satisfaction will be able to recruit and retain more millennial workers[50].

Labour Market Trends[51]

The Loss of Construction Workers[52]

A large proportion of construction workers are reaching retirement age which signifies an expected shortage of skilled labour for manual trades in the future. The dip we see in those in their early 40s can be traced back to the 1990s recession when jobs had been lost, and recruitment was low.

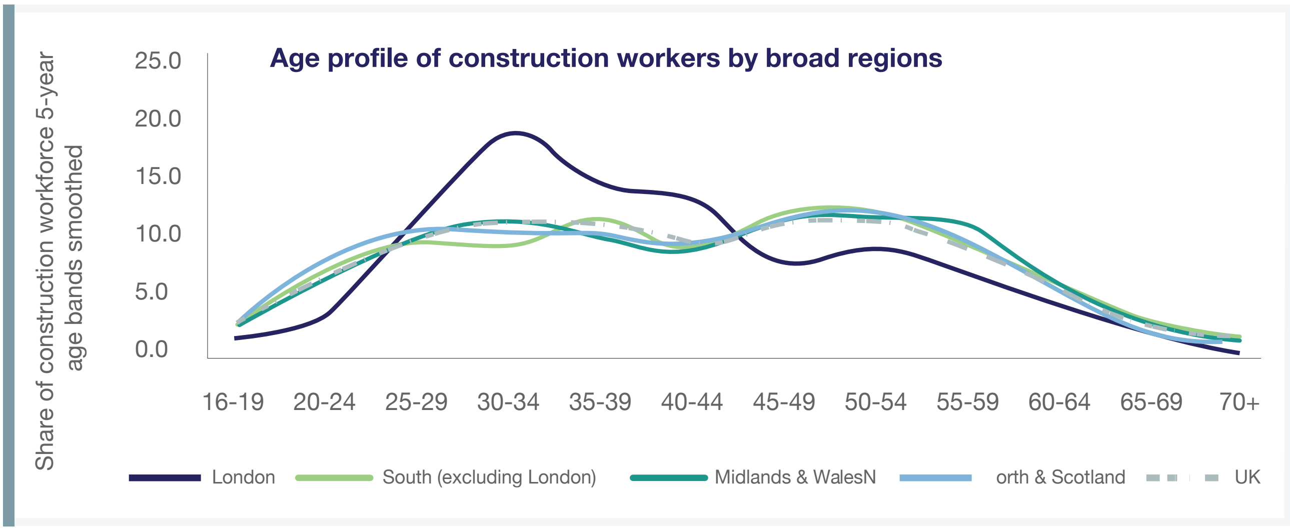


Image Source[53]

49 RG Group UK (April 2019). "An overview of recruitment in the construction industry". Retrieved from: https://rg-group.co.uk/an-overview-of-recruitment-in-the-construction-industry/
50 RG Group UK (April 2019). "An overview of recruitment in the construction industry". Retrieved from: https://rg-group.co.uk/an-overview-of-recruitment-in-the-construction-industry/
51 CIOB (2020). "The Real Face of Construction 2020"pp. 22. Retrieved from: https://policy.ciob.org/wp-content/uploads/2020/02/The-Real-Face-of-Construction-2020.pdf
52 CIOB (2020). "The Real Face of Construction 2020"pp.22. Retrieved from: https://policy.ciob.org/wp-content/uploads/2020/02/The-Real-Face-of-Construction-2020.pdf
53 CIOB (2020). "The Real Face of Construction 2020"pp.22. Retrieved from: https://policy.ciob.org/wp-content/uploads/2020/02/The-Real-Face-of-Construction-2020.pdf

6 KEY FINDINGS SUMMARY

Construction is a major element of the UK typically accounting for 6% of total economic output[54].

Construction was among the hardest-hit sectors, with 42.5% of businesses in construction reporting zero turnovers in April 2020[55].

One of the biggest recruitment challenges for the construction sector is the lack of appeal to millennials[56].

In the long-term, construction output in the United Kingdom is projected to trend around 5.10% in 2021 and 2.50% in 2022[57].

Over the next decade or so, there will be a big loss of construction workers in their late 40s and early 50s who reach retirement age[58].

54 Store Mintel (2020). "UK Construction Market Report".
Retrieved from: https://tradingeconomics.com/united-kingdom/construction-output
55 Construction News (Jun.2020). "Construction output dropped by £5.1bn in a month".
Retrieved from: https://www.constructionnews.co.uk/financial/construction-output-dropped-by-5-1bn-in-a-month-12-06-2020/
56 RG Group UK (April 2019). "An overview of recruitment in the construction industry".
Retrieved from: https://rg-group.co.uk/an-overview-of-recruitment-in-the-construction-industry/
57 Trading Economics (2020). "United Kingdom Construction Output-Forecast Section".
Retrieved from: https://tradingeconomics.com/united-kingdom/construction-output
58 CIOB (2020). "The Real Face of Construction 2020"pp. 22.
Retrieved from: https://policy.ciob.org/wp-content/uploads/2020/02/The-Real-Face-of-Construction-2020.pdf

Industry Pains:

- Limited access to finance[59]
- UK tax and planning systems[60]
- COVID-19 and the impact on supply chains[61]
- Redundancies and pay-cuts[62]

Main Industry Drivers:

- In the commercial construction sector, the London area remains the main driver[63]
- Major infrastructure projects[64]
- UK Foreign Direct Investments (FDI) attractiveness[65]
- Smart technologies[66] [67]

Opportunities:

- Diversity in the sector[68]
- Environmental investments[69]
- Public sector focus on SMEs[70]
- Outsourced bidding as a helping hand for SME bidders[71]

59 International Director (Feb.2020). "WHY 2020 COULD BE A TURNING POINT FOR THE UK'S CONSTRUCTION INDUSTRY".
Retrieved from: https://internationaldirector.com/finance/why-2020-could-be-a-turning-point-for-the-uks-construction-industry/
60 UK Construction Media (Jan.2020). "2020 vision: Property and construction industry".
Retrieved from: https://www.ukconstructionmedia.co.uk/features/property-construction-crowe/
61 Norton Rose Fulbright (2020). "UK construction sites and COVID-19".
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64 Atradius (Mar.2020). "Market Monitor Construction UK 2020".
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68 UK Construction Media (Jan.2020). "2020 vision: Property and construction industry".
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69 Construction News UK (Dec.2019). "10 trends for the construction sector in 2020".
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71 Construction News UK (Dec.2019). "10 trends for the construction sector in 2020".
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7 FORECASTS 2020-2023 AND BEYOND

Industry Growth Data

Construction output in the United Kingdom is expected to be -30.00% by the end of Q2. According to Trading Economics (2020) estimation, construction output in the UK is to stand at 4.50% in 12 months. In the long-term, the UK construction output is projected to trend around at 5.10% in 2021 and 2.50% in 2022[72].

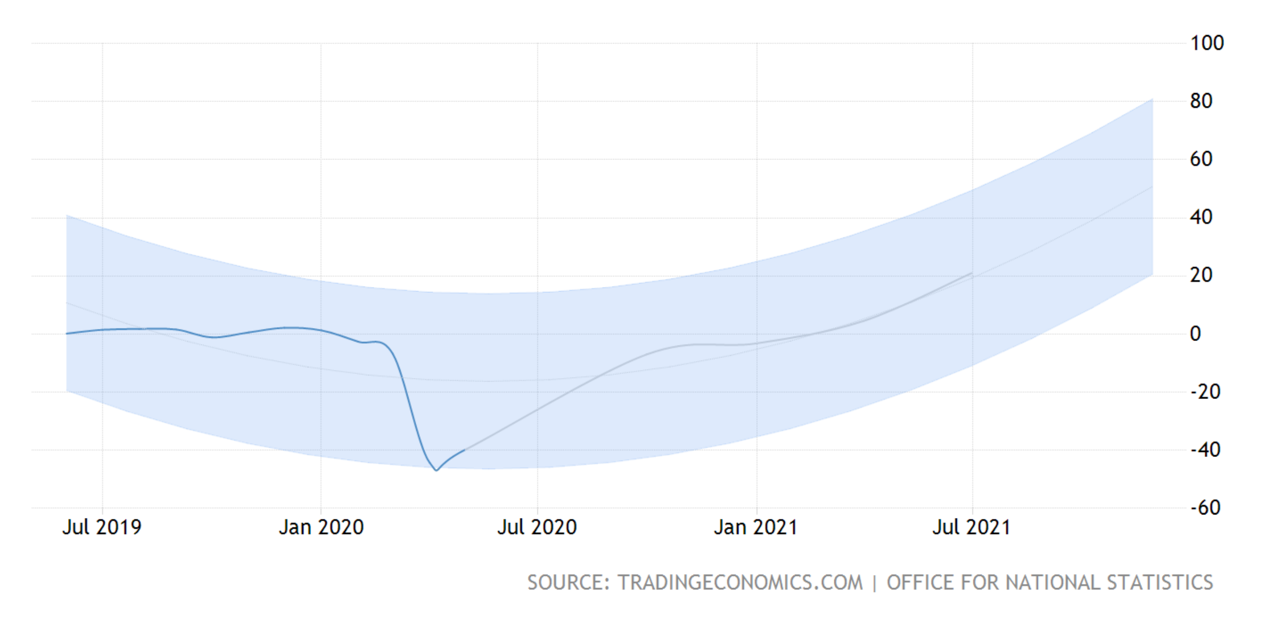

Image Source[73]

The contractions are expected to be sharpest in:

- **Private housing (-42%)**
- **Commercial (-36%)**
- **Private housing repair**
- **Maintenance and improvement (-35%)**

72 Trading Economics (2020). "United Kingdom Construction Output-Forecast Section". Retrieved from: https://tradingeconomics.com/united-kingdom/construction-output
73 Trading Economics (2020). "United Kingdom Construction Output-Forecast Section". Retrieved from: https://tradingeconomics.com/united-kingdom/construction-output

These are the sectors that are most closely linked to consumer and business confidence, which are likely to be significantly dented by fading job security and rising unemployment, falling incomes, and an unwillingness to commit to large purchases or loan repayments to finance them[74].

Furthermore, there are risks relating to Brexit and uncertainty over major infrastructure projects, which could damage growth further. The forecast by the CITB's Construction Skills Network looks out to 2023, and its view is of the industry averaging growth of 1.3% over five years[75].

The suggestion from these forecasts is that any reshaping of construction in the near to medium term will have to be done against a very mixed economic background. This includes significant uncertainty as the UK seeks to negotiate its way outside the EU and develop new global trade relations[76].

Post-Brexit Challenges

Increased Tariffs Scenario

As more than 60% of building materials are imported from the EU, any increase in tariffs or limits on quantities imported after leaving the EU could lead to higher costs for British construction businesses and a shortage of building materials[77].

Single Market Absence

Once the UK leaves the single market, the current issue of skill shortage will likely worsen for the construction industry, especially if there are no follow-up agreements with the EU on the free movement of people. This could result in even higher pressure on wages, causing construction firms to face considerably higher project costs[78].

Non-UK Workers and Future Recruits

About half of London's construction workforce is non-UK born, with 37% of the workforce hailing from other EU countries. Many firms in this sector hire foreign nationals. The ability to employ foreign workers in the future will be an issue for the industry if it wishes to maintain its workforce at near current levels.

Firstly: How can it hold on to older workers longer?

Secondly: How many of the current workforce from overseas will leave the UK post Brexit?

Thirdly: Where will recruits come from if not from Europe?

Huge recruitment efforts are being made, such as recruiting from those leaving the services, more women, and supporting ex-offenders back into work within construction. But in the face of a serious and imminent labour crisis for the industry, firms are working to reduce the need for labour and making it less labour intensive.

74 Construction News UK (2020). "This is the most likely path the recession will take".
Retrieved from: https://www.constructionnews.co.uk/agenda/opinion/this-is-the-most-likely-path-the-recession-will-take-02-06-2020/
75 CIOB (2020). "The Real Face of Construction 2020"pp. 23.
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This, in part, will result in:

- Increased use of factory-based prefabrication and offsite construction
- Demographic shifts swelling the numbers of older people
- A significant rise in the retired relative to the working population[79]

This will add to already rising welfare demands and encourage a transformation of the built environment to better meet the needs of a rapidly ageing population[80].

International Trade with Emerging Economies

Figures from the IMF indicate that in 1992 the share of GDP that went into investment in nations defined as “Emerging market and developing economies” was about 26% compared with 24% for the “Major advanced economies (G7).” In 2017 those figures stood at 32% compared with 21%. These emerging economies are far bigger than they were, both in terms of growth and scale. However, for firms within the more established economic powers, this presents huge opportunities. It’s a massive window of opportunity for nations such as the UK, to establish a large international footprint within the global construction sector in fields such as management, design, and engineering[81].

79 CIOB (2020). “The Real Face of Construction 2020”pp. 22.
Retrieved from: https://policy.ciob.org/wp-content/uploads/2020/02/The-Real-Face-of-Construction-2020.pdf
80 CIOB (2020). “The Real Face of Construction 2020”pp. 22.
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