

# Construction activity and market outlook



## United Kingdom - Q1 2017

The vote for Brexit did not induce the immediate economic shock predicted. Construction activity has held up well as projects are dusted off after a period of pause. Projects already underway are at risk of impact from continued labour shortages, capacity pressures and the fall in the value of sterling. However, indicators suggest that the steep rise in tender costs post-downturn may at last start to soften as contractor pipelines ease from 2017.

Indicators show the recent construction surge is abating. Has construction tender price inflation (TPI) peaked?

Despite a post-Brexit dip, construction output in 2016 was 2.4% higher than the previous year.

Before the UK voted to leave the EU, total construction output slowed to 3.4% in 2015 - down from 8% in 2014 - against a backdrop of GDP growth that was weaker than expected, as well as continued government spending constraints. The modest fiscal stimulus introduced in the autumn statement, however, combined with a fairly positive level of global activity and favourable credit conditions helping to maintain consumer activity, prompted the Bank of England to revise its recent growth forecasts upward to 2.0% in 2017, 1.6% in 2018 and 1.7% in 2019. Nevertheless, it should be noted that these are still lower than many pre-referendum GDP forecasts.

The main concern is that the economy is still unbalanced, with manufacturing output, steel production and productivity all falling, together with projected increases in inflation above the bank's stated target of 2.0%, risking an interruption to consumer spend growth.

Post-referendum, the pound has continued to weaken against the major currencies, making imports more expensive. It is not clear when interest rates will rise.

Labour constraints continue to impact upon project delivery, particularly in London. There has been evident slippage within some large projects, and the prime residential market has stalled as overseas investment has cooled. The hope is that this slight cooling off might ease capacity pressures and, therefore, tender prices, although to date this has not been strongly evidenced. It remains to be seen what impact the eventual deal on Brexit delivers.

## UK tender price inflation by region (%)

Region	2015	2016	2017	2018	2019	2020
East Anglia	3.2	2.4	2.6	2.2	2.6	2.7
East Midlands	3.4	2.7	2.6	2.2	2.6	2.7
West Midlands	3.1	2.6	2.3	2.3	3.7	3.8
North East	2.8	2.1	2.2	2.4	3.6	2.7
Yorks & Humber	3.1	2.6	2.6	2.6	1.7	3.7
N West	3.5	3.3	2.6	2.8	1.8	3.9
N Ireland	2.3	2.8	2.7	2.9	1.5	3.3
Scotland	4.7	3.9	2.5	2.6	2.7	3.2
Central London	7.5	4.1	2.1	2.2	3.0	3.9
South East	4.4	3.1	2.8	2.6	3.3	3.7
South West	3.1	3.0	2.6	1.9	3.3	3.8
Wales	2.3	2.9	3.4	2.8	1.9	3.2
<b>UK average</b>	<b>4.4</b>	<b>3.2</b>	<b>2.5</b>	<b>2.4</b>	<b>2.8</b>	<b>3.5</b>

Our forecast provides guidance on the general level of tender price inflation, based on major and medium-sized projects across all sectors of the market. Project-specific commercial factors can have a significant impact on the level of pricing - size of scheme, attractiveness of scheme (eg complexity, location, risk, etc), procurement route (eg single stage, two stage, negotiated) and keenness of tenderers (eg local market dynamics, workloads, hot spots, realisable margins, etc).

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Housing continues to lead in the construction market but there has been some renewed growth in the commercial sector as projects previously placed on hold have resumed. Demand for mid-price housing and private rented sector (PRS) is the major focus for investors.

While the public sector is largely constrained, infrastructure is forecast to remain buoyant. The government has previously committed £100 billion to new roads, rail, flood defences and other vital projects by 2020, including:

- High Speed 2 and 3
- The Thames Tideway Tunnel
- Crossrail 2
- The Trans-Pennine Tunnel
- Highways England motorway upgrades
- Offshore wind development
- Nuclear power development
- Airport investment at Heathrow and Gatwick

With the current uncertainties, some of these projects may be subject to delay or cancellation. We do expect, however, to see some progress in the near term.

Universities are continuing to invest heavily in their estates, having spent £2.75 billion in 2016.

In London, residential is still a major focus, with big retail and masterplan developments and regeneration continuing at Croydon, King's Cross, White City and various other locations. Investment from companies such as Google and Apple remains significant.

Growth is also spreading into other regions with increased levels of activity in Manchester, Birmingham, Bristol and

the Thames Valley. Much of this is being driven by overseas investment.

In Scotland, the construction sector is dominated by public sector spending which has been under increasing pressure each year. The government has developed procurement vehicles to alleviate the reliance on capital-funded projects which are of particular benefit to local authorities and the NHS. Commercial and retail activity is at a low because of market uncertainty. The residential market, however, is growing year-on-year in most areas, with the exception of Aberdeen.

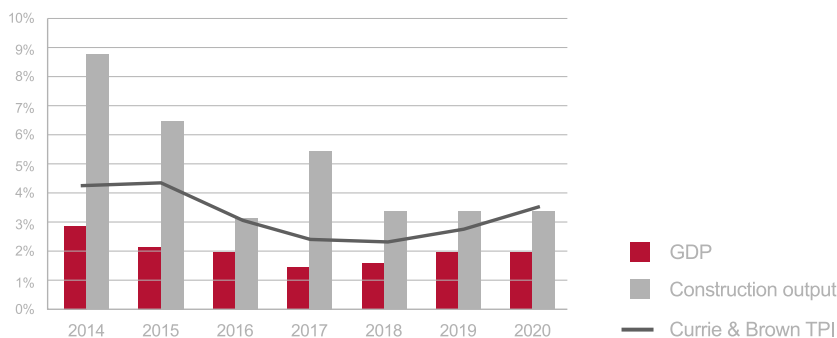
Optimism remains subdued. Most corporate investors are looking at the wider global picture as much as Brexit. There is substantial uncertainty, but some are starting to test the market again after a period of construction prices being viewed as too high.

The overall effect of these various factors is that contractor pipelines generally seem to be holding up this year, but may begin to ease in the near future.

In procurement, contractors generally remain risk-averse as they seek to rebuild weakened balance sheets and face the prospect of future restrictions on EU construction workers. Opportunities are, however, opening up for a return to single-stage tendering on certain schemes. Nevertheless, at the upper end of the scale, two-stage, or direct negotiations with selected clients, continue to prevail on large schemes. Overhead and profit rate rises suggest that contractors are prioritising returns over turnover.

Forecasting to 2020 is uncertain. Subject to a major shock to the economy, we see TPI continuing to rise year-on-year, but at levels of sub-3% before moving back toward long-term average levels (circa 4%) around 2020.

## Annual UK tender price inflation (%)



## Materials and commodities costs:

BEIS Materials Index rose 3.7% in Q4 2016 compared to same quarter last year. [BEIS] biggest rises were in reinforcement and imported timber products



## Labour costs:

Unemployment down to 4.8%; may rise in 2018. ONS construction wages index up 2.8% through 2016. Forecasts for 20% wage growth over the next 4 years. [ONS/OBR]



## Inflation:

CPI has risen to 1.6%, the highest since July 2014. Forecast to peak at 2.7% next year. Bank rate on hold at 0.25% [ONS; OBR; Bank of England]



## Insolvencies:

Total company insolvencies have started to increase after a period of falling (4.2% in Q4 2016 compared to same period the year before. [The Insolvency Service]



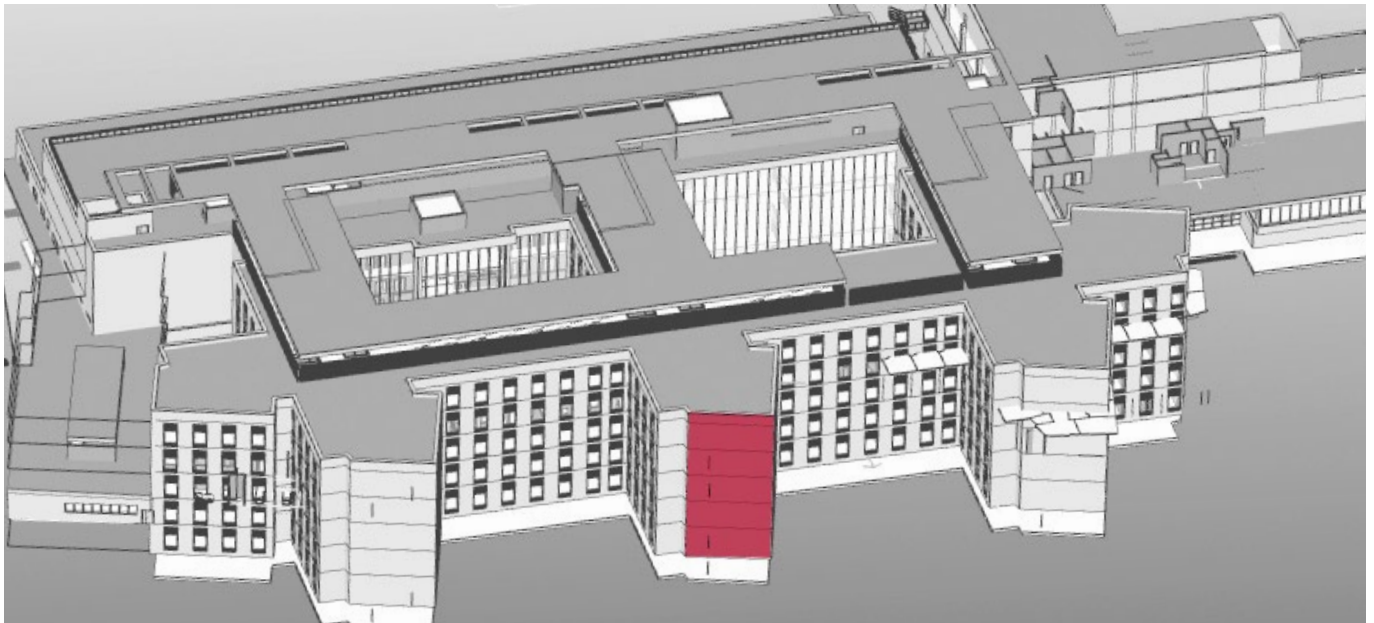
## GDP

GDP grew 0.6% in Q4 2016 and by 2.0% throughout 2016, slowing slightly from 2015 (2.2%) and 2014 (3.1%). [Bank of England]

# BIM

‘The majority of departments have already met the requirements for BIM Level 2 and the remaining departments are on target to meet the 2016 mandate. The task now is to consolidate and embed BIM Level 2 throughout departmental processes.’

Government Construction Strategy 2016-20



Since 4 April 2016, all central government construction projects have had to be delivered using BIM (building information modelling) Level 2. In this article we analyse some of the key issues and potential pitfalls to be avoided for successful implementation.

## A game changer

Every so often, a person, product or process comes along that creates a change in how we do things. BIM is one such process. The claims for efficacy are immense: ‘It saves time’; ‘it eliminates waste’; ‘it delivers all information at the touch of a button’. Certainly the outcomes can be impressive. The idea that you can use the same tool to deliver design information from inception to operational use is extremely attractive. Design teams can build a co-ordinated project model without swapping 2D information. Granular information from data libraries

can be quickly assimilated into ‘repeat product’ developments including cost. An early 3D model enables an end-user, who could be unfamiliar with reading 2D drawings, to visualise the development they will ultimately occupy and run.

## Always use a BIM execution plan

With all ‘new’ processes a whole new lexicon arrives. BIM is no exception: we have COBie Data Drops, BIM Maturity Levels and BIM Managers. We have new platforms: Revit, ArchiCad, new ‘reading’ software such as CostX, and a new standard ISO/TS 12911:2012. All of this can cloud the issue. The key to success is not simply to employ BIM as a tool, but to harness BIM to a successful project outcome. One needs to link aspiration (‘BIM can do this’) to reality (‘Is the software/hardware actually available to manage these outputs?’).

A simple lesson: BIM has the capacity to generate far more detailed information than may be required. A project BIM execution plan enshrining the specific

objectives, platform, and level of detail required is a good way to avoid waste. Post-procurement, the process then requires careful management to ensure the later BIM outputs inform the building manuals and, where appropriate, feed into the FM model and data libraries.

## ‘It will make delivery faster’

Ultimately that will be true. For now, there is still a learning curve to negotiate. The cradle to grave reach of BIM affords significant focus on outcomes. The Ministry of Justice, for example, is developing an evolving library of data which can inform future developments and offer ‘what if’ scenarios. This data can significantly speed up option appraisals, consideration of alternative site uses and evaluation of other suitable sites with a high degree of early accuracy.

On procurement, a number of other external factors such as market capacity, design capability, supply chain management, etc. may be the dominant driver of programme. At a basic level,

design-leads-procurement-leads-construction and an orderly handover facilitate a soft landing. Aligning these basics to the BIM COBie data stages throughout the project life will lead to a smoother and more certain outcome at each stage.

Procurement will change as BIM matures. Current experience is that the data dropped into BIM by individual contributors can be technically correct but not necessarily the most efficient, carbon reductive, or cost effective. Collaborative behaviours should help shift focus from an individual input to overall outcome emphasis.

## Don't be too prescriptive

Experience shows us that taking a design too far before engaging a contractor can preclude the ability to receive valuable buildability input or alternative design solutions, without generating abortive work. BIM could effectively change the manner of contractor engagement. Much success has been gained by using BIM in setting parameters, for example, planning constraints; lettable/saleable space; numbers of rooms, beds, functions, etc. for subsequent development with the chosen supply chain.

## Ownership

It is easy for any new process to evolve into a cottage industry if not carefully managed. With BIM, many in the supply chain now have the capability to inform the model in detail and there will be many occasions where bringing that involvement forward can be beneficial. To succeed, the protocols around ownership and transfer of the model, as well as roles and responsibilities, need to be clear.

## Collaboration is key

BIM is a very powerful collaborative tool. Over the next few years, successful BIM projects will indeed see more integration between the design and construction teams. This is healthy and to be embraced. Behaviours and processes will need to adapt accordingly. The role of the BIM manager, particularly on large complex projects, will be crucial. The legalities of copyright, insurances and liabilities will need to be considered, and there will be a need to harness the collaboration ideal with the practicality of governance and commercial probity, expected from both public and privately commissioned projects, for real success to be delivered. Simply put, BIM is a

powerful tool which is changing the way we work, the way we approach projects, and the roles we all play in building delivery, occupation, operation and management. To get the best out of BIM, it is prudent to first step back and decide the objective you require BIM to meet.

### **Cookham Wood Youth Justice Board New Build Young Offenders Institution:**

Currie & Brown was delighted to support the Ministry of Justice deliver this BREEAM 'Excellent' facility as an exemplary BIM project; achieving Constructing Excellence Project of the Year 2014.



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