Glenigan
CELEBRATING 50 YEARS

Construction Industry Forecast 2024-2025

FOR THE UK AND REPUBLIC OF IRELAND

Featuring expert commentary from:

DeHavilland NBS

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Contents

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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 has endured challenging economic conditions this year as UK economic growth effectively stalled. Economic conditions will remain sluggish next year before growth accelerates from 2025.

The UK economy is set to grow by just 0.5% this year. Growth was supported by higher government spending, increased investment, and a small rise in consumer spending. The increase in investment has been a combination of a rise in business investment, particularly in transport equipment, and higher public sector capital expenditure.

The modest rise in consumer spending has been underpinned by a 6.5% rise in average earnings. Whilst higher wages have helped offset the impact of rising prices and mortgage costs on household spending, they have also exacerbated concerns that higher inflation may become entrenched. Accordingly, interest rates are expected to stay higher for longer. Bank base rates are widely expected to remain close to current levels during 2024. This is set to constrain consumer expenditure, business investment, and overall economic growth next year.

Despite the rise in average earnings, households are enduring a drop in real incomes and spending power. Higher interest rates and mortgage costs will continue this squeeze into 2024, with many homeowners facing a marked rise in mortgage payments as fixed-rate deals expire. The continued pressure on household budgets will moderate growth in consumer-facing construction sectors such as private housing, retail, and hotel & leisure during 2024. Higher borrowing costs and weak economic conditions will similarly dampen investor confidence in industrial and commercial property markets.

Government departments are estimated to have underspent their capital budgets by an estimated £4.9 billion during the last financial year. Some of this underspend was rolled forward in the Spring Budget to 2023/24. There has been an increase in public sector capital expenditure during the first half of this year and in March the OBR forecast government investment to grow by 12% during 2023 – which will support construction activity in public funded areas such as health, education, and transport infrastructure.

UK economic performance is set to brighten during 2025, with the IMF forecasting that economic growth will rise to 2.1%. The improved UK economic performance should include a rise in private sector investment and housing market activity which is forecast to extend the recovery in construction starts during 2025.

Public-funded investment is expected to stall during the second half of the forecast period. The Prime Minister's decision to cancel phase 2 of HS2 and to redirect the funds towards other infrastructure projects is likely to exacerbate the disruption and delays to infrastructure programmes. The next general election is likely to have been held by Autumn 2024 and must be held by January 2025. The initiation of some public sector construction projects will be disrupted during the run-up to the election, while post-election public sector investment programmes will come under review as the new Government sets out its priorities, further disrupting the progress of construction projects during 2025.

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.

The key assumptions around which the forecasts are based include:

> **Weak UK economic growth, the disruption to UK business revenues and declining confidence curb private sector investment growth for most non-residential sectors during 2023 and 2024.**

> **Weak real earnings growth and high interest rates, continue to check housing market turnover and dampen private housebuilding activity next year.**

> **Public sector investment and construction activity in areas such as health and education picks up during 2024.**

> **Re-scheduling and delays to infrastructure projects following government changes to Net Zero commitments and cancellation of phase 2 of HS2.**

> **Increases in consumer spending and business investment accelerate UK economic growth during 2024 and support a rise in private sector construction projects.**

> **Public sector spending-restraint limits growth in government funded projects during 2025 as government programmes are reviewed post-election.**

Executive Summary

2023 -20%   2024 +8%   2025 +7%

Renewed construction growth is forecast for 2024 and 2025 as the prospect of a strengthening UK economy lifts consumer and business confidence.

However, construction faces a challenging economic environment. Weak UK economic growth and higher interest rates are constraining private sector investment and housing market activity. A gradual recovery in construction project-starts is anticipated from 2024, as private sector investors and consumers adjust to the higher interest rate environment. A further strengthening in starts is forecast for 2025 as UK economic growth gathers momentum, supported by a pick-up in household spending and business investment.

The post-pandemic recovery in project-starts lost momentum in 2022. This was due, in part, to material and labour supply issues delaying work on-site and prompting some contractors and clients to reappraise the design and costing of planned projects. Although these supply-side disruptions have eased, demand rather than supply issues have been the main brake on construction activity this year.

Weak economic growth and sharply higher interest rates have prompted some clients and developers to pause or scale back on planned investments. The value of projects securing detailed planning consent dropped by 10% during the first nine months of 2023, extending an 8% decline last year. Main contract awards have also fallen back in recent months, being 11% lower during the third quarter of 2023 than a year ago.

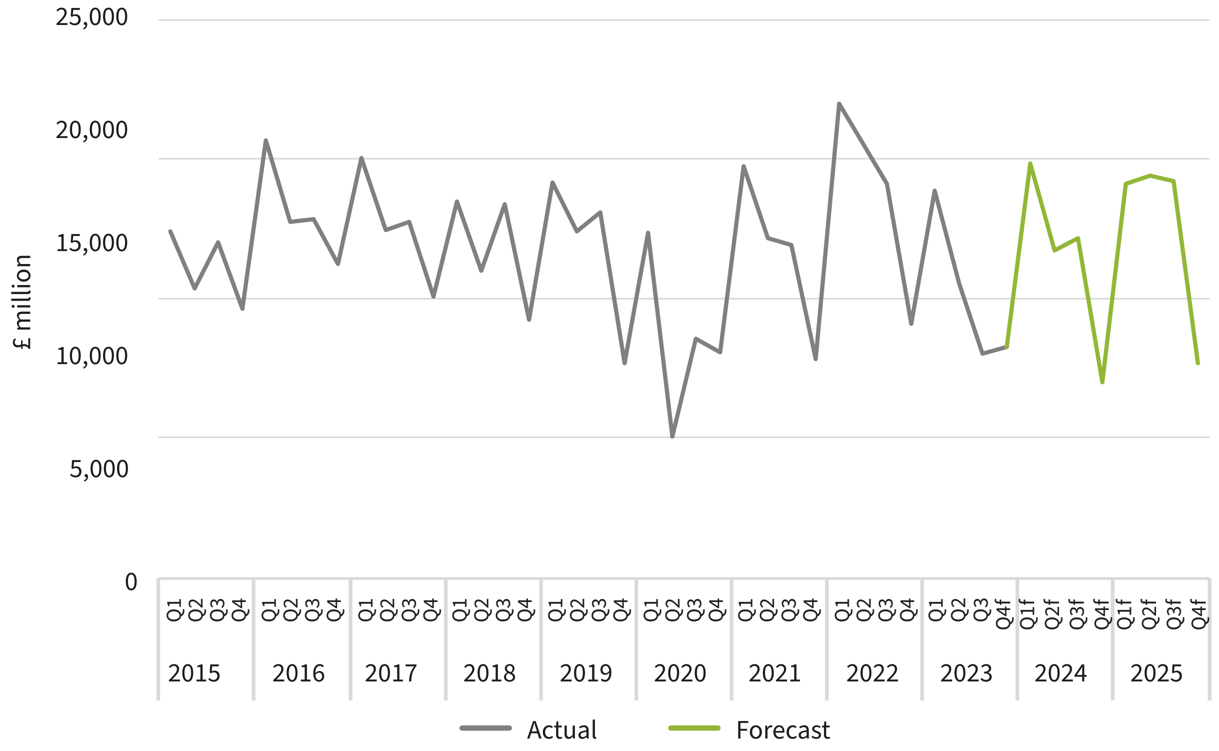
The weak economic outlook and the knock to investor and consumer confidence from last Autumn's mini-budget weighed on private sector activity at the start of the year and construction starts fell back sharply. Private sector starts have continued to weaken in recent months amid concerns that interest rates would remain at current levels for longer than initially anticipated.

Public sector construction has been a relatively bright spot during 2023 as an underspend during 2022/23 was rolled forward to the current financial year, boosting government departmental capital programmes.

Improved household spending and consumer confidence are expected to feed through to increased activity in consumer-related areas, such as private housing, retail, and hotel & leisure. Firm development pipelines are forecast to support a rise in industrial and office starts as investor confidence improves.

- **Gradual recovery in private housing starts from 2024, after the sharp falls seen this year, as housing affordability improves, and economic outlook brightens.**
- **Improved consumer spending lifts retail and hotel & leisure sector starts from next year.**
- **Rise in office refurbishment work as premises are remodelled to accommodate a shift in post-pandemic working practices.**
- **Online retailing is a catalyst for renewed investment in logistics facilities from 2024.**
- **Public sector investment in education, health, and community & amenity vulnerable to post-election public 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	2021	2022	2023f	2024f	2025f
PRIVATE HOUSING	27,123	31,909	24,540	25,576	28,269
SOCIAL HOUSING	8,016	8,079	7,067	7,531	7,917
INDUSTRIAL	5,359	7,694	4,291	5,015	6,057
OFFICES	5,385	5,943	4,388	4,662	5,268
RETAIL	1,937	2,005	1,440	1,567	1,829
HOTEL & LEISURE	3,260	3,440	2,943	3,105	3,259
EDUCATION	4,656	4,218	5,153	5,817	5,088
HEALTH	2,898	3,699	3,158	3,493	3,559
COMMUNITY & AMENITY	965	1,551	1,414	1,531	1,373
CIVIL ENGINEERING	7,067	7,234	6,345	7,431	7,776
TOTAL	**66,667**	**75,772**	**60,739**	**65,729**	**70,394**

Source: Glenigan. f = forecast

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

Change on previous year	2021	2022	2023f	2024f	2025f
PRIVATE HOUSING	32%	18%	-23%	4%	11%
SOCIAL HOUSING	13%	1%	-13%	7%	5%
INDUSTRIAL	51%	44%	-44%	17%	21%
OFFICES	32%	10%	-26%	6%	13%
RETAIL	39%	4%	-28%	9%	17%
HOTEL & LEISURE	24%	6%	-14%	6%	5%
EDUCATION	8%	-9%	22%	13%	-13%
HEALTH	-5%	28%	-15%	11%	2%
COMMUNITY & AMENITY	4%	61%	-9%	8%	-10%
CIVIL ENGINEERING	9%	2%	-12%	17%	5%
TOTAL	**23%**	**14%**	**-20%**	**8%**	**7%**

Source: Glenigan. f = forecast

PRIVATE NON-RESIDENTIAL WORK

After a strong post-pandemic rebound, industrial starts have fallen back sharply this year. Recent growth in starts has primarily been driven by growth in logistics and light industrial projects, fuelled by increased demand from online retailers. However, sharply higher interest rates have dented the capital value of industrial property and have knocked investor confidence, while lower retail spending has dampened the demand for warehousing and logistics space starts this year. Weak domestic and overseas demand has similarly tempered manufacturing investment in new capacity and facilities this year.

The industrial sector is forecast to return to growth over the next two years. Whilst online retailers' market share slipped back post-pandemic as consumers returned to high streets and retail parks, online sales are still up on 2019 levels and a further longer-term shift towards online retailing is expected to support renewed demand for more logistics space.

An overhang of empty retail premises, weak consumer spending, and the growth of online sales market share are predicted to constrain retail construction starts. Starts have been especially weak during 2023, dropping by an estimated 28%. A partial recovery in retail starts is anticipated during 2024 and 2025 supported by increased consumer spending. Investment by the deep discount supermarkets, Aldi, and Lidl, are set to be a bright spot over the next two years, with both chains setting out long-term plans to substantially expand their estates.

The squeeze on household budgets has also curbed consumers' discretionary spending this year in areas such as hospitality and leisure activities. Hotel & Leisure starts have slipped back by an estimated 14% this year. The financial position of many hospitality businesses has been slow to improve post-pandemic, with firms facing reduced revenues from fewer overseas visitors and a sharp rise in energy, materials, and labour costs over the last two years. These factors, combined with weaker consumer spending, have increased pressure on the hospitality sector. A gradual recovery in project-starts is anticipated from 2024 as households' finances stabilise and then improve, lifting consumers' discretionary spending and investor confidence.

Sharply higher interest rates and the prospect of reduced demand for office space have impacted office starts this year. Nevertheless, changing working patterns are expected to remain an important driver for office refurbishment projects during the forecast period as landlords and occupiers adjust to more widespread hybrid working, lifting starts from 2024. In addition, regulatory changes, and growing demand from corporate occupiers for premium office space with good environmental performance are expected to increasingly generate retrofit and redevelopment opportunities over the forecast period.

PRIVATE RESIDENTIAL

Private housing starts fell sharply during the first quarter of 2023 as housing market activity was disrupted by economic uncertainty in the aftermath of the mini-budget and the rapid rise in mortgage costs. The retrenchment in starts has continued during subsequent months alongside further increases by the Bank of England in the bank base rate to 5.25%. Faced with a sharp fall in housing market activity and a weakening in house prices, developers have focused on building out existing sites rather than opening new ones in response to a slowdown in new house sales.

Whilst interest rates are expected to remain at, or near, current levels during 2024, housing market conditions are expected to gradually improve. Weak house prices and rising nominal average earnings will progressively improve housing affordability, while a strengthening economy will help lift purchaser confidence. This is expected to support a partial recovery in project-starts during 2024 and 2025 as housebuilders respond to improved consumer confidence and strengthening in property transactions.

INCREASED GOVERNMENT INVESTMENT

Underspend by a number of government departments during the last financial year was rolled forward to 2023/24 and has helped bolster public non-residential activity this year. However, the flow of project-starts is likely to be disrupted during the run-up to the next general election and post-election as public sector investment programmes are reviewed by the new Government.

The Department of Education's capital funding increased by 26% during 2022/23 and is set to grow by a further 19% during the current financial year. This has helped to support a 24% rise in school building projects this year, with further double-digit growth forecast for 2024. The Spending Review also highlighted plans for increased investment in further education. The additional funding will help address a shortage of secondary school places, especially in major conurbations. In addition, the Government is committed to rebuilding 500 schools over the next decade and the current RAAC crisis will require more immediate investment to address potential structural failures.

Health project-starts have dropped by an estimated 15% this year as NHS resources and management time have been prioritised on addressing long waiting lists and resolving industrial unrest. Nevertheless, the outlook for the health sector remains positive. NHS investment is a high political priority and a 3.8% per annum real-term growth rate in NHS capital funding is set to support a rise in starts from 2024.

Higher construction costs over the last two years have constrained development activity during 2023, with housing associations reappraising the viability of projects. In addition, the slowdown in the private housing market has reduced the opportunities to take forward mixed tenure developments. This has prompted an estimated 13% decline in project-starts this year. Greater cost stability is expected to help associations to increase development activity over the next two years. Improved market conditions should also increase the scope for more mixed tenure schemes.

Civil engineering starts have declined by an estimated 12% this year as a sharp drop in infrastructure approvals during 2022 has fed through to fewer projects-starts. Utilities projects-starts have been unchanged during 2023 against last year. Utilities starts are forecast to return to growth from 2024 in part due to the water industry pressing on with investment agreed with the industry regulator. The delivery of existing and planned major capital projects will also have a significant influence on sector activity over the forecast period. The Government's decision to reschedule and scale back phase 1 of HS2 construction will reduce its contribution to sector workload during the forecast period. The cancelled phase 2 was set to commence after the forecast period. The decision to push back on a range of Net Zero targets may similarly delay investment in renewable energy and the roll-out of EV charging schemes.

The political landscape: Heading towards the general election

Michael Cameron
Policy Consultant
DeHavilland

Where politics is in autumn 2023

The big political question this autumn? When will the Prime Minister call the general election? The ball is in Rishi Sunak's court and the uncertainty is having an impact on politics.

Both parties have been setting out their policy stalls – Sir Keir Starmer has announced Labour's five missions and the Prime Minister his five priorities – though neither have been keen to elaborate much further on policy. Will voters tire of the same rhetoric if they hear little else until the end of next year? How would the parties react to fatigue over what could be essentially a 14-month campaign?

There are three realistic options for the general election: Sunak could call a spring poll, likely to coincide with local elections on 2 May 2024; an autumn poll, sometime around party conference season; or the latest the next general election can be called, a January 2025 poll (resulting in a campaign that would take place over Christmas…)

What will determine when Sunak calls it? Quite simply, the PM will call the election for when he believes the Conservatives have the best chance of winning. That is something that the Government will likely judge regarding progress on its five priorities.

Set out in January 2023, the five priorities are to halve inflation by the end of the year, grow the economy, reduce the national debt, cut NHS waiting lists, and "stop the small boats".

With three of these priorities being economic, the general election timing will inevitably be tied to how the economy performs. Going "long" – waiting until autumn 2024 or even January 2025 – gives Sunak the greatest chance for an economic rebound.

This economic rebound would also give the Chancellor the Prime Minister more time to build the fiscal headroom necessary to deliver a pre-election tax cut – something that that Conservative backbenchers would very much like to see.

As this forecast makes clear, the economy's rebound will tie closely in with the performance of the construction, housing, and infrastructure sectors. Politically, it appears that Labour wants to capitalise on this potential. In recent months, they have shifted the conversation on the economy towards housebuilding.

The politics of construction

In a bid to establish the basis of a campaign, throughout the first half of the year Labour leader Sir Keir Starmer has set out five "missions" for a Labour Government: economic growth, green energy, reduced crime, build a future-fit NHS, and improve opportunity.

When Starmer launched his economic growth mission in February – for Britain to get the highest sustained growth in the G7 – he did not talk about building more homes once. Instead, he focused on closing regional caps in economic productivity.

This has now changed, with the Labour leader's October conference speech including the headline pledge to build 1.5 million in his first Parliament. This commitment was made to the "next generation" as part of Labour's "decade of renewal" – this is Labour's plan to deliver economic stability and increase economic growth. Starmer promised to accelerate building on unused urban land to create the new towns, alluding to the Atlee Government's post-war housing boom.

With this positioning, construction and planning policy will be a key dividing line at the election, whenever it is called. It is one of few areas of domestic policy where there is clear water between the Conservatives and Labour. First, the parties disagree about the degree of necessary planning reform. Second, as alluded to, there appears to be an awareness within Labour of the role that housebuilding can play in economic recovery – an awareness that seems less evident within the Conservatives.

Where the Conservatives stand

When you review housing and planning at this year's Conservative party conference, you may be reminded of Jean-Claude Juncker's famous quote about how to deal with the Eurozone crisis: "We all know what to do, we just don't know how to get re-elected after we've done it."

As with previous years, it was clear at Conservative conference that the country needs substantial reforms to its planning system, and it requires significant levels of investment into infrastructure to make hitting our housing targets work. However, it seems both things are politically impossible or economically unfeasible, respectively.

On planning, it's clear that nobody thought the Levelling-up and Regeneration Act will deliver anywhere near the level of reform required. Sue Bridge, President of the RTPI said that they welcome many provisions in the Act, but that the Government still needed to look at procedural changes to improve the situation in the planning system. Though National Development Management Policies were clearly something that had a lot of support from people in the sector.

On infrastructure, Chancellor Jeremy Hunt said that it took too long to get shovels in the ground when infrastructure projects were proposed and that consultations on national planning policy statements plague renewable energy projects or new airport runways.

He added that the "fast-track" infrastructure planning process was broken. Though this determination to build infrastructure seems to conflict with the Government's decision to scrap the Birmingham to Manchester leg of HS2.

As we roll into a long-campaign, the state of the economy will continue to influence parties' plans. Can Labour keep talking about "building" as the basis for economic growth? Can the Conservatives reconcile infrastructure delays and their HS2 cancellation with their rhetoric on the planning system's necessary changes? Time will tell.

DeHavilland is the leading political monitoring provider. They work with organisations across the construction and housing sectors such as Kier and the British Property Federation helping equip them with all the political information and intelligence, they need to influence policy, manage risk and form meaningful strategies.

Michael Cameron, Policy Consultant, DeHavilland
Michael specialises in housing, construction, and local government policy within the infrastructure policy team at the political monitoring company DeHavilland.

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The importance of accessible, structured and trusted product information

David Bain

Research Manager

NBS

2023 has been a difficult year for the construction industry. It has meant that, for many built environment professionals, their immediate attention has been on the day-to-day. That means getting work or sales, delivering on time, managing cash flow and still hoping to make a profit. During such times, it can be hard to take the longer view and address the major challenges that the industry and wider society face, such as the climate crisis and improving building safety. Encouragingly, it looks like better times are round the corner, even if growth is gradual.

In order to make progress on the big-picture challenges, while remaining competitive, businesses need to do things like prioritize activity and spending effectively, and use new technologies smartly in order to be more productive. Additionally, efficiencies can be realized, and risk can be reduced if robust, well-structured project information is produced. Strong project information from design teams can make tendering, and subsequently construction by the contracting team, a more straightforward process. This includes the provision and use of well-structured, digital product information.

Suppliers of construction products can use many formats and channels to share the information about those products with those who need it, such as designers, specifiers and contractors. Our NBS research report **(theNBS.com/wsw23)**, which was published earlier this year and details the results of our survey with specifiers and other users of product information, reveals that some information sources were clearly preferred over others. There was an emphasis on technical information from experts, and from supplier websites and online product libraries; rather than looking to sales reps, journals or trade shows. Structured data formats were valued – product data sheets in particular (78% most valued these), as well as specification clauses, CAD details and digital (BIM) objects. These were all ranked more highly than, for instance, brochures. In terms of digital (BIM) objects, 69% stated that they needed manufacturers to provide them, with some saying they were more likely to specify those manufacturers that did.

Also coming through particularly strongly was the need for third-party certification and Environmental Product Declarations (EPDs). One-third of respondents told us that third-party certification is essential for **all** products, while over half stated this for safety-critical products only. This means that only one in ten information users think third-party certification is not essential for safety-critical products. This is only going to become more important as the Building Safety Act and secondary legislation, now in force, place increased responsibility on construction professionals to select products that are safe and appropriate for their intended use. Construction professionals will also need to maintain a record ('golden thread') of their decisions and support them with reliable documentation, such as the specification with supporting third-party certification.

The presence of an Environmental Product Declaration (EPD) does not mean that a product is sustainable. However, it does tell the specifier what the product's credentials are with respect to environmental sustainability, in a format that is objective, comparable and verifiable. Therefore, EPDs provide the technical information that the user needs in order to make an informed decision with respect to environmental impact. Over 60% of survey respondents told us that they usually specify the most sustainable product. EPDs help enable this by making it easier for professionals to assess products, and to select the most sustainable option. It's no surprise then that almost nine out of ten specifiers said that EPDs were 'important', while one-third said that they were 'very important'. As well as the statistics quoted above, we received a number of comments, in respondents' own words, asking for more third-party certification and EPDs.

By providing product information in the ways mentioned above, construction suppliers and manufacturers are meeting the needs of specifiers, which should lead to more specifications. Prioritizing some channels over others, such as digital instead of print, may reduce costs. It is also easier to quickly amend digital data, and to add further supporting information if needed. Supporting specifiers in this way helps them to make safer and more sustainable decisions. Also, as structured data formats (such as digital objects and specifications) can easily be integrated into projects, they save designers and specifiers time, as well as reducing the chance of errors. And, finally, where product decisions are based on third-party, trusted sources that can easily be compared, there is likely to be confidence that they are appropriate to the project, and less likely to be substituted. Where substitution is necessary, the structured information is there to easily compare any suggested alternative and receive approval. All of this has the potential to save time in locating information, assessing it, and any final design and approval work that is required during the construction stage – benefits that are important in all economic climates. You can read the full 'What Specifiers Want' report on the NBS website. **(theNBS.com/wsw23)**.

NBS is a global technology platform that combines quality content and connectivity for anyone involved in the design, supply and construction of the built environment.

For architects, engineers, designers and contractors, the specification platform NBS Chorus enables them to work smarter and reduce their risk.

For construction product manufacturers, NBS is a digital marketing platform, exposing their products to decision makers across the construction project timeline, making it easy for specifiers to find, select and specify their products.

David Bain is Research Manager at NBS.

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Private Housing

2023 -23% 2024 +4% 2025 +11%

> **Weak household earnings and higher mortgage rates have depressed housing market activity this year.**

> **Housing starts will be sharply lower in 2023 as housebuilders respond to poor market conditions.**

> **Progressive recovery in private housing starts expected from 2024 as the economic outlook and consumer confidence gradually improve.**

Having fallen back sharply during the first quarter, private housing starts have retrenched further during subsequent quarters. The rapid rise in mortgage costs at the start of the year, and the expectation that bank base rates will remain around current levels for some time, have stalled housing market activity. Fewer house sales and weakening prices have prompted housebuilders to focus on building out existing sites rather than opening new ones in response to a slowdown in new house sales. Brighter economic prospects are expected to support a progressive recovery in project starts during 2024 and 2025 as housebuilders respond to improved consumer confidence and strengthening in property transactions.

PRIVATE HOUSING STARTS

	2022	2023f	2024f	2025f
£ million	31,909	24,540	25,576	28,269
Growth	18%	-23%	4%	11%

Source: Glenigan. f = forecast

STATE OF THE SECTOR

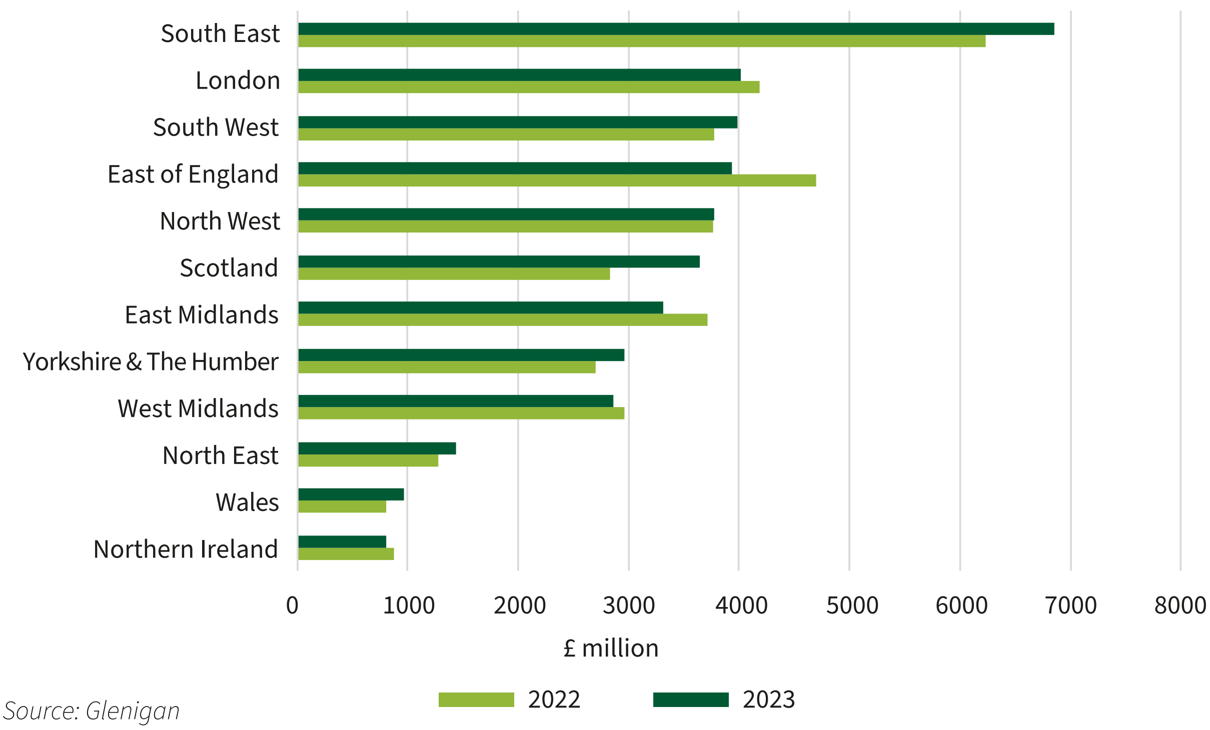
The UK housing market and private housing starts cooled in 2022 as the UK economy stalled and households' real disposable incomes were squeezed by high inflation, tax increases, and rising mortgage rates. Heightened economic uncertainty and rising interest rates accelerated the downturn in housing market activity and private housing starts. After sharp falls at the start of the year, market conditions continued to soften throughout the year.

The number of residential property transactions fell 19% in the first eight months of this year compared to the same period last year. This slowdown in transactions has been accompanied by a weakening in house prices, with Nationwide reporting that house prices in September were 4.7% lower than a year ago, the sharpest annual decline in 14 years.

New build home sales have slowed due to the weakening housing market, the termination of the Help to Buy scheme, and the sharp rise in borrowing costs. Buy-to-let investors have also scaled back their purchases of new build homes in response to the higher borrowing rates and planned regulatory changes in the private rental market. To cope with the slowdown, some housebuilders have agreed bulk sales of properties to private rental businesses.

Given the general market background, private housing project-starts have fallen by an estimated 23% this year.

Chart 2: Value of Private Housing Projects Securing Planning Approval



Source: Glenigan
N.B. 2023 data is based on January to September pro rata

FUTURE OF THE SECTOR

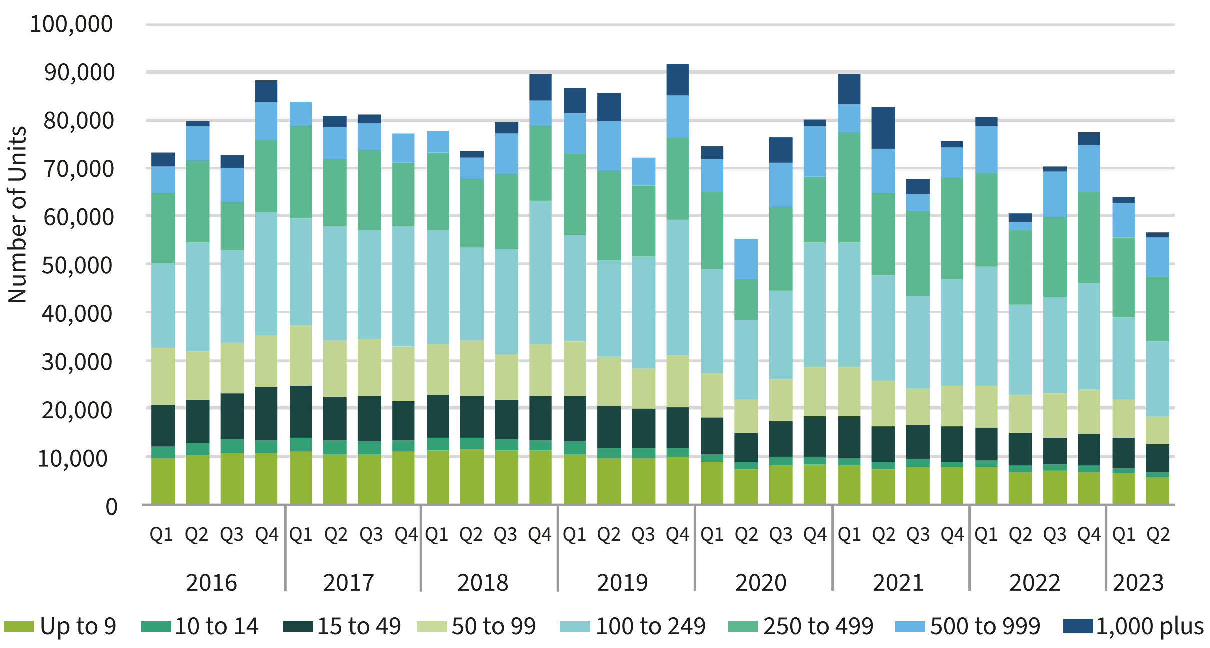
The Bank of England has raised the base rate from 0.25% in early 2022 to 5.25% now. Interest rates are expected to remain high for some time, which will keep project starts subdued in the near term. However, a partial recovery is anticipated in 2024 and 2025 as the housing market adjusts.

Housing market conditions are expected to improve gradually over the next two years as lower house prices and rising wages improve affordability, while a stronger economy will boost buyer confidence. Additionally, first-time buyers, a key group for new home sales, are increasingly turning to longer-term mortgages to fund their purchases.

Detailed planning approvals have stabilised in recent months, up 8% in the first nine months of the year compared to a year ago, after falling 10% in 2022. Additionally, housebuilders have a significant development pipeline of sites that can be brought on stream as market conditions improve. Housebuilders are expected to respond to stronger consumer confidence and a recovery in property transactions by bringing forward more projects in 2024 and 2025.

However, the new Building Safety regime may disrupt and delay the start of high-rise residential projects over the forecast period. Longer term, restrictions on the siting of new residential developments due to nitrate concerns and the Government's decision to relax the obligation on local authorities to plan for adequate new housing supply in their area could reduce the development pipeline and new housing developments in some parts of England.

Chart 3: Private Housing Detailed Planning Approvals by Project Size



Source: Glenigan

Social Housing

2023 -13%   2024 +7%   2025 +5%

- **Higher construction costs have constrained housing association starts despite increased funding.**
- **Strengthening in housing association projects expected from 2024.**
- **Weakening in student accommodation starts in 2023, before renewed growth in 2024 and 2025.**

The sharp rise in construction costs over the past two years has constrained development activity in 2023, as housing associations have reassessed the viability of projects. However, greater cost stability is expected to help associations increase their development activity over the next two years.

Student accommodation starts have remained subdued this year, as the sharp rise in interest rates has dented investor confidence. However, a strong recovery in student accommodation starts is anticipated from 2024, as economic conditions improve.

SOCIAL HOUSING STARTS

	2022	2023f	2024f	2025f
£ million	8,079	7,067	7,531	7,917
Growth	1%	-13%	7%	5%

Source: Glenigan.   f = forecast

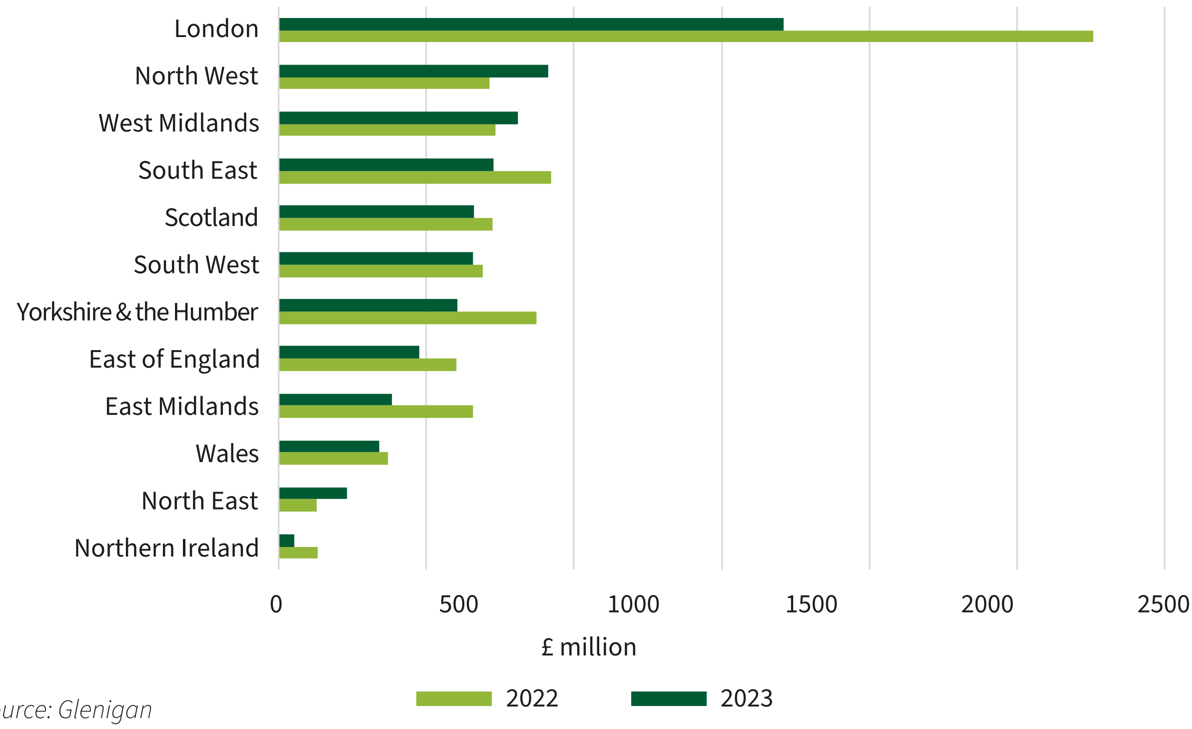
STATE OF THE SECTOR

Government capital funding has increased, with the Affordable Homes Programme (AFP) aiming to deliver 180,000 new homes in England over the five years to 2026, including social housing provision. Additionally, housing associations have greater flexibility to increase their borrowing to fund new developments following the easing of government restrictions that had capped association rent increases to 1% below the rate of inflation.

Despite the improved funding, the rise in construction costs has constrained starts in 2023, with housing associations reassessing the viability of projects. Additionally, the slowdown in the private housing market has reduced the opportunities to take forward mixed-tenure developments. This has prompted an estimated 14% decline in housing association-funded starts this year.

Student accommodation was a bright spot within the social housing sector for much of the past decade, with the value of work starting on site increasing by 74% between 2014 and 2018. Consolidation in the student accommodation market during 2019 and the pandemic was accompanied by a sharp fall in starts. The post-pandemic recovery in starts was weak, as Brexit and the pandemic increased uncertainty within the purpose-built student accommodation market. Over the past year, sharply higher interest rates have further dented investor confidence, with starts slipping by an estimated 3% in 2023.

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



Source: Glenigan
N.B. 2023 data is based on January to September pro rata

THE FUTURE OF THE SECTOR

Although detailed planning approvals fell back by 18% during the first nine months of 2023, there is a significant pipeline of approved projects that can move to the construction site. A sharp rise in main contracts awarded over the same period is expected to support a recovery in sector activity over the forecast period.

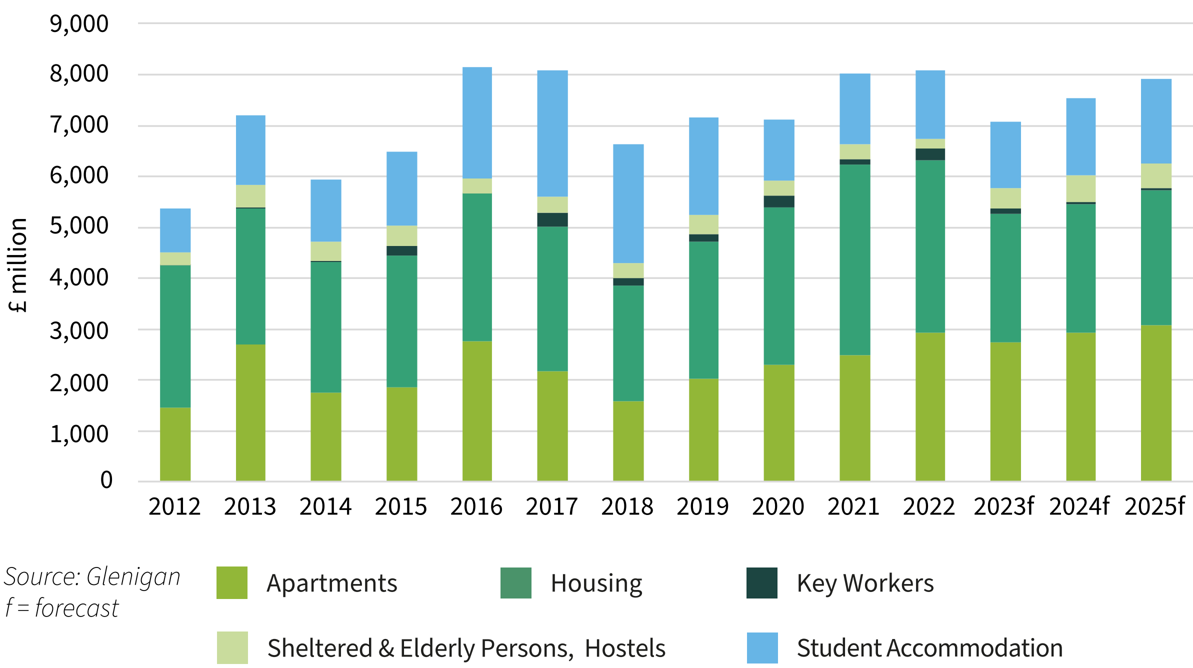
Greater cost stability is expected to improve the viability of planned projects and enable housing associations to increase their development activity over the next two years. Improved conditions in the private housing market should also increase the scope for associations to bring forward more mixed-tenure schemes. The value of social housing projects (excluding student accommodation) is forecast to grow by 4% per annum during 2024 and 2025.

A recovery in the purpose-built student accommodation market is also anticipated over the next two years. Overall student numbers have grown post-pandemic, increasing by 4.0% during 2022/23. While the number of UK students rose by 1.7%, the number of overseas students was 12.4% higher, as a sharp rise in non-EU students, particularly from China and India, outweighed a marked decline in EU students. The rise in overseas student numbers will be especially welcomed by purpose-built student accommodation developers, as international students are more likely to remain in purpose-built student halls throughout their studies.

Additionally, tax and regulatory changes, together with higher interest rates, have eroded the financial returns for buy-to-let investors providing accommodation to students. The Renters Reform Bill would further discourage buy-to-let investors. An exodus of smaller landlords would increase rental levels and increase demand for purpose-built accommodation.

Given these more favourable conditions, student accommodation starts are forecast to increase 16% in 2024 and by 10% in 2025 as investors adjust their investment plans to the current higher interest environment and bring forward new projects to meet the anticipated rise in student numbers.

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



Source: Glenigan
f = forecast

Industrial

2023 -44% 2024 +17% 2025 +21%

> **Economic uncertainty and rising interest rates have disrupted starts in 2023.**
> **Firm development pipeline.**
> **Demand for logistics space to drive renewed growth from 2024.**

Following a strong rebound in industrial starts after the pandemic, growth has primarily been driven by warehousing and light industrial projects. However, the sector has fallen back sharply this year. Firm demand for warehousing and logistics space is expected to support a sustained recovery in sector starts over the next two years.

INDUSTRIAL STARTS

	2022	2023f	2024f	2025f
£ million	7,694	4,291	5,015	6,057
Growth	44%	-44%	17%	21%

Source: Glenigan. f = forecast

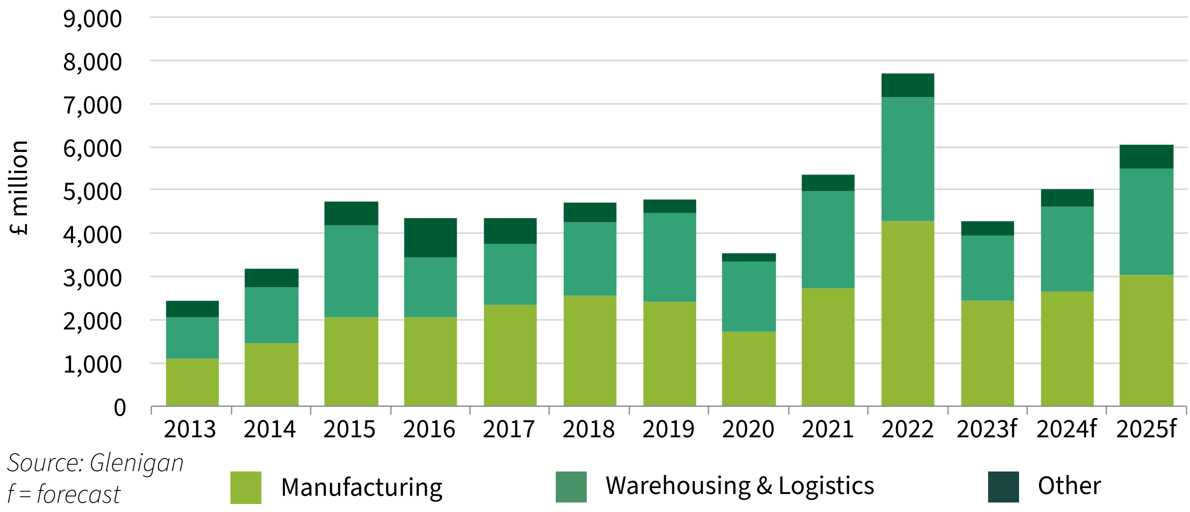
STATE OF THE SECTOR

Industrial starts fell sharply by an estimated 44% in 2023, reversing the strong growth seen in the preceding two years. Investment has primarily been focused on warehousing and light industrial projects, as investors anticipated rising demand for space driven by the pandemic's acceleration of online retail and expectations of increased demand for logistics space to support shifting consumer shopping habits.

However, rising interest rates and heightened economic uncertainty have dented investor confidence this year. The surge in projects started in 2021 and 2022 has increased the availability of floorspace, while occupiers have become more cautious about their space requirements. CBRE reports that the vacancy rate climbed to 4.6% in Q3 2023, up from less than 2% a year ago.

Domestic and overseas demand for UK manufacturers has weakened as UK and global economic growth has slowed. UK manufacturing output in Q3 2023 was 1.8% higher than a year ago, but the latest CIPS manufacturing surveys point to a renewed weakening in activity in the second half of

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



Source: Glenigan
f = forecast

the year. Sluggish demand growth and higher borrowing costs have discouraged manufacturers from investing in new capacity and industrial premises this year.

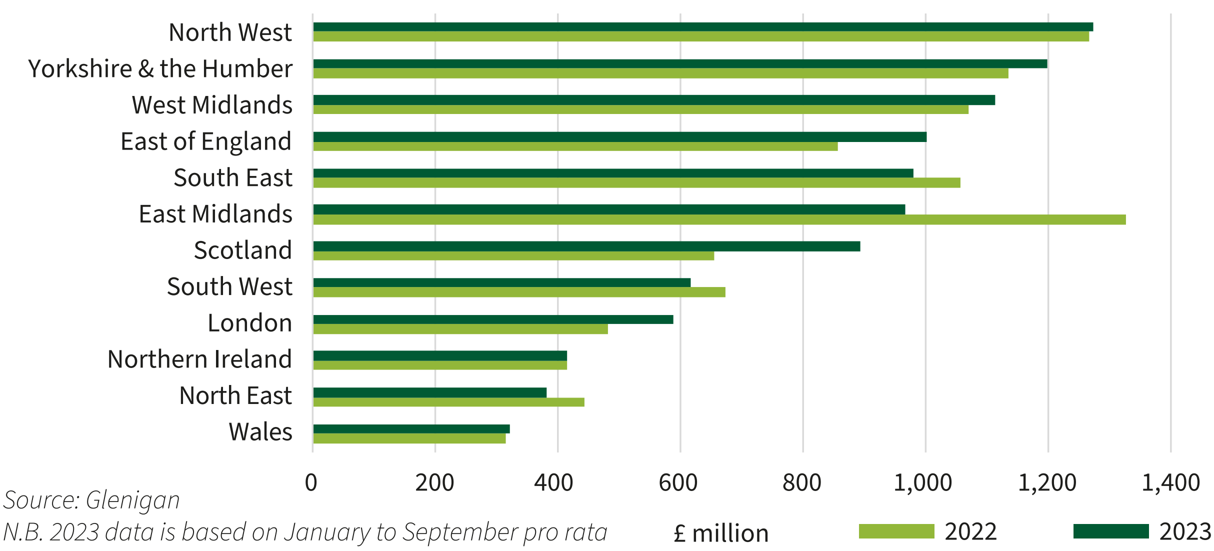
THE FUTURE OF THE SECTOR

Looking ahead, the industrial sector is forecast to return to growth over the next two years.

Although the value of industrial project-starts has fallen sharply in 2023 after the exceptional surge in work in 2022, the development pipeline remains firm. The value of main contract awards in the first nine months of the year was 18% higher than a year ago, while detailed planning approvals were only 8% lower over the same period. This suggests that a recovery in industrial starts is likely from 2024.

Rising demand for warehousing and logistics space is expected to be the main driver of sector growth over the forecast period. Although online retailers' market share has slipped back from its pandemic peak of 36% as consumers have returned to high streets and retail parks, it is still 25% higher than in 2019. This trend is expected to continue, supporting renewed demand for logistics space over the forecast period. However, weak domestic and overseas demand are expected to dampen manufacturing investment in new capacity and facilities over the forecast period.

Chart 7: Value of Underlying Industrial Project Approvals (under £100 million) in 2022 and 2023 Pro-Rata



Source: Glenigan
N.B. 2023 data is based on January to September pro rata

Offices

2023 -26% 2024 +6% 2025 +13%

> **Interest rate rises in 2023 sharply dented developers' confidence, leading to a sharp fall in starts.**
> **Hybrid working is driving demand for refurbished office space.**
> **Firm demand for premium and sustainable office space.**

Weak UK economic growth, higher interest rates, and concerns about future demand for UK office space have depressed office project starts in 2023. Looking ahead, changing work patterns will remain an important driver for the sector, supporting a gradual recovery in starts over the next two years as landlords and occupiers refurbish and redevelop premises.

OFFICE STARTS

	2022	2023f	2024f	2025f
£ million	5,943	4,388	4,662	5,268
Growth	10%	-26%	6%	13%

Source: Glenigan. f = forecast

STATE OF THE SECTOR

Office project starts have fallen sharply this year, following a surge in work started post-pandemic. The value of project starts has declined by an estimated 26% in 2023. The sharp rise in interest rates has dented investor confidence, as office capital values have weakened, and vacancy rates have risen. Knight Frank reports that vacancy rates in the central London market climbed to 10.1% in Q3 2023.

In addition to weak economic growth and higher borrowing costs, developers are contending with structural changes to occupiers' accommodation requirements due to the increase in remote and hybrid working.

The change in work habits is being felt most acutely in the London office market, where four out of ten workers are now hybrid working, compared to the national average of 28%, according to the ONS. The greater prevalence of hybrid working in the capital is partly due to the desire of staff to avoid longer and more expensive commutes, with those traveling in from outside less likely to be in the office. However, the higher cost of London office space is also an added incentive for business occupiers to rationalise and repurpose their office space.

The central London office market is therefore most exposed to potential changes in office design requirements and overall demand for office accommodation. Although the capital has a strong development pipeline, accounting for 30% of detailed planning consents, approvals slipped back by 1% on a pro rata basis during the first nine months of 2023 compared to 2022. In contrast, approvals in the North West rose 26% over the same period, and approvals in Yorkshire & the Humber were 46% higher, pointing to a growing development pipeline in "core" regional cities such as Manchester and Leeds.

Chart 8: Value of Underlying Office Project Approvals (under £100 million) in 2022 and 2023 Pro-Rata

Source: Glenigan
N.B. 2023 data is based on January to September pro rata

THE FUTURE OF THE SECTOR

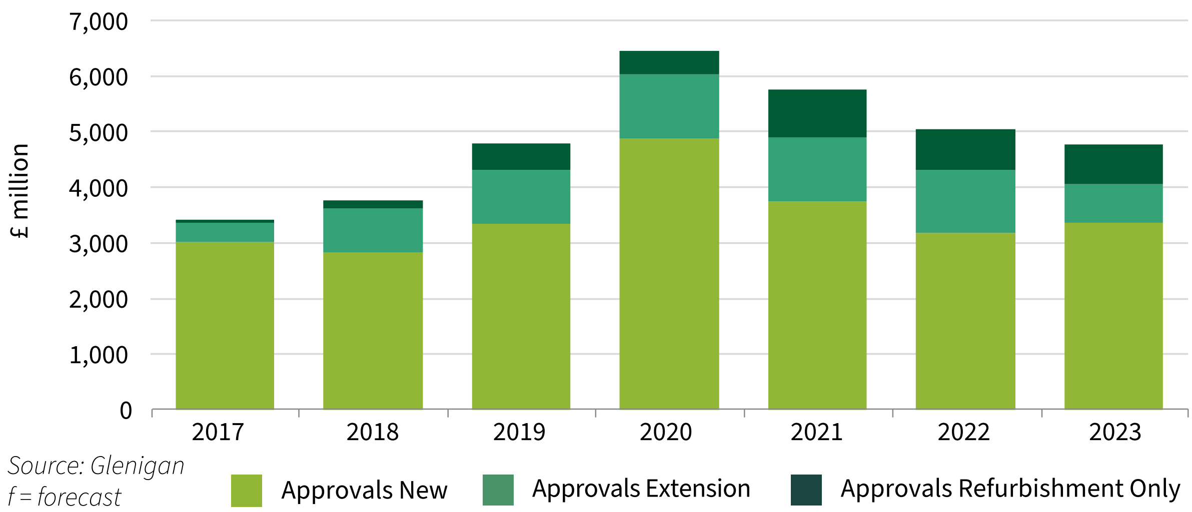
Although the growth in hybrid working reduces overall floorspace requirements for many businesses, it is also generating new fit-out opportunities as firms remodel premises to provide more modern and collaborative workspaces. The changes in floorspace requirements are also generating refurbishment opportunities as premises are sublet. This is expected to underpin sector growth in 2024 and 2025.

Hybrid working is also expected to spur new build developments over the next two years. The reduction in overall office space requirements will be most keenly felt in the demand for lower-grade office space. Conversely, demand for prime office space has remained relatively firm, as occupiers opt for high-quality and well-located premises as they reshape their office requirements. Additionally, tenants and occupiers are increasingly demanding buildings with a good environmental performance as they seek to reduce their carbon footprint.

Additionally, alongside changing tenant demand, some existing premises will require additional investment to meet new energy efficiency regulations. Since April, all let office accommodation must achieve a minimum EPC rating of band E. Legislation currently before Parliament will raise this threshold further to band B by 2030. If implemented, these proposals are set to generate substantial refurbishment and retrofit opportunities during the forecast period and over the remainder of the decade, as many existing premises are currently 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 is likely to generate refurbishment and redevelopment opportunities, as landlords and developers reassess and rationalise their portfolios. Poor-quality office space and buildings in secondary locations are likely to be targeted for redevelopment as higher-grade office facilities or conversion to alternative uses, such as apartments or student accommodation, over the forecast period.

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



Source: Glenigan
f = forecast

Retail

2023 -28% 2024 +9% 2025 +17%

> **Project starts fell sharply in 2023 due to weak UK economic growth and squeezed household budgets, which deterred investment.**

> **A brighter economic outlook and improving consumer spending will gradually support the recovery of project-starts from 2024.**

Retail construction activity is constrained by an overhang of empty retail premises, weak consumer spending, and the growing market share of online sales. Starts have been particularly weak in 2023. Improved household finances and a brighter economic outlook are forecast to support a partial recovery in retail starts over the next two years. Investment by the deep discount supermarkets, Aldi and Lidl, is set to be a relative bright spot within the sector.

RETAIL STARTS

	2022	2023f	2024f	2025f
£ million	2,005	1,440	1,567	1,829
Growth	4%	-28%	9%	17%

Source: Glenigan. f = forecast

STATE OF THE SECTOR

The squeeze on household budgets and structural changes in the retailing sector are both impacting the demand for retail space and construction activity in the retail sector.

Retailers have faced challenging conditions in the past 18 months, as high inflation and energy costs have squeezed household budgets. Although the rate of inflation has eased and average earnings growth has matched inflation recently, household budgets remain under pressure, with higher taxes and mortgage costs exacerbating the squeeze.

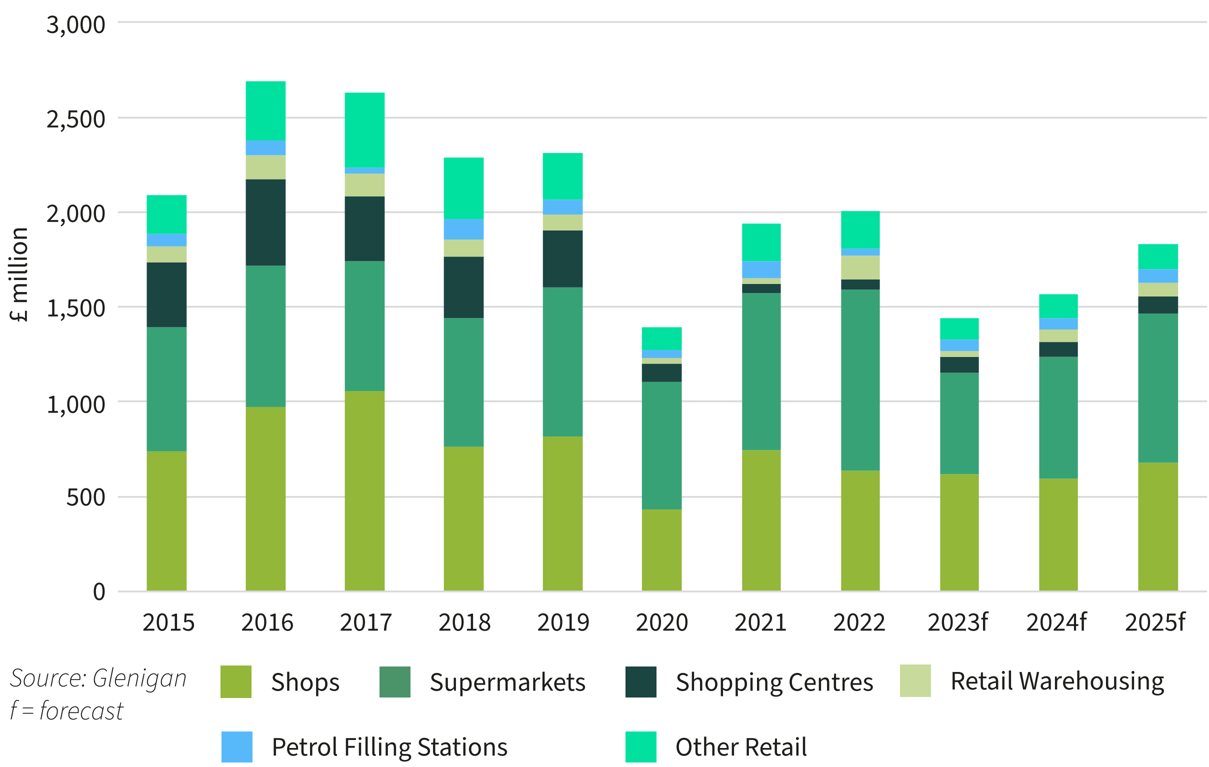
Retail sales revenue was 3.3% higher in the third quarter of 2023 than a year earlier, but sales volume was 1.8% lower, according to the ONS. This divergence highlights that the current rise in retail sales revenue is being driven by inflation, not by consumers buying more. Discretionary spending has been particularly hard hit.

In addition to the weakness in overall consumer spending, retailers are adapting to a long-term structural change in consumers' shopping habits. The growth of online retailing has prompted established retailers to reassess their retail space requirements. After a post-pandemic decline, online retailers' market share of UK retail sales is on the rise again. Online purchases rose by 1.3% in the third quarter of 2023 compared to the previous three months, while overall retail sales volumes weakened. Online purchases are expected to account for a growing proportion of retail sales in the medium term, reducing the demand for new retail floorspace.

Weak retail sales volumes and the growth in online sales have prompted many retailers to remodel or close unprofitable stores, while several long-established chains and independent retailers have ceased trading. Savills estimates that 150 million square feet of retail space, equivalent to 14.5% of retail units, is currently vacant. Vacancy rates are particularly high at tertiary and secondary sites, reflecting the general contraction and concentration of retailing around primary locations.

Weak retail sales and the overhang of vacant premises have prompted retailers and developers to scale back their immediate investment programs in 2023. After a partial post-pandemic recovery in project-starts in 2021, the flow of starts lost momentum in the second half of 2022. The value of project-starts has fallen sharply this year, dropping by an estimated 28% as retailers and developers deferred planned projects. A general weakening in retail starts was exacerbated by an estimated 44% drop in supermarket projects, partly due to Lidl's decision to temporarily prioritise investment in new distribution facilities over store openings.

Chart 10: Value of Underlying Retail Project starts (under £100 million) by Segment



Source: Glenigan
f = forecast

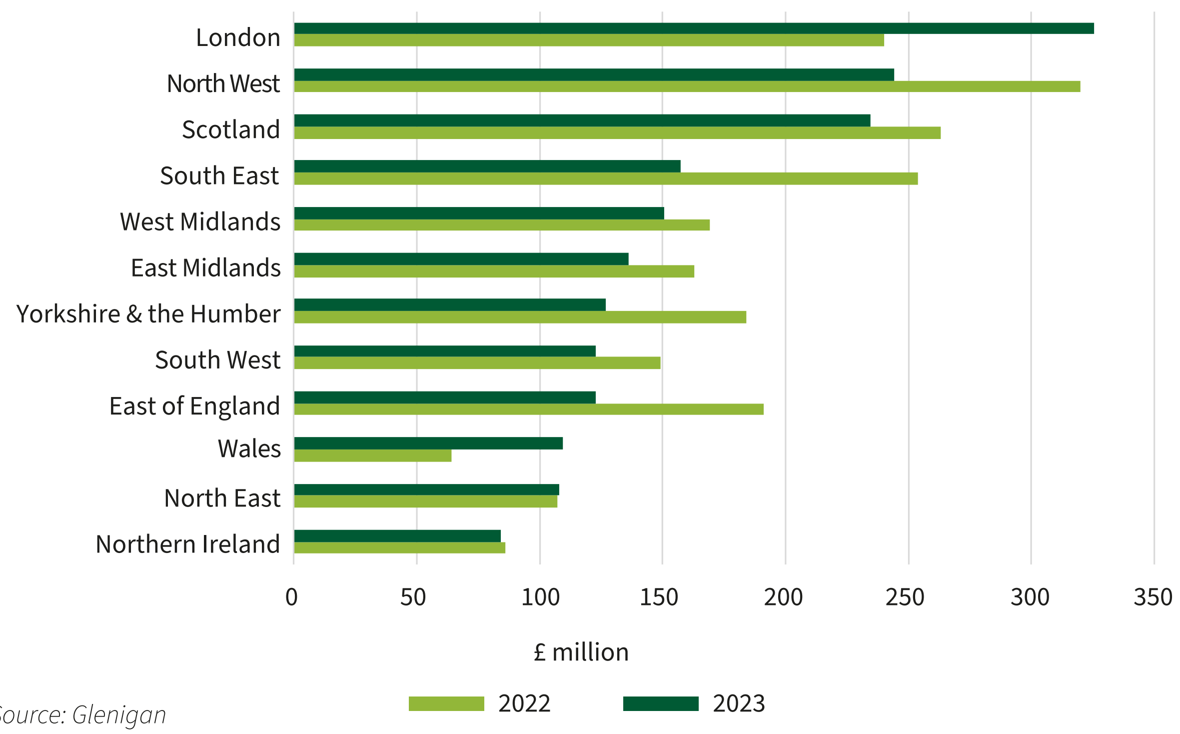
THE FUTURE OF THE SECTOR

The fall in project-starts has been accompanied by a softening in the development pipeline, with main contract awards falling by 10% and detailed planning approvals falling by 4% during the first nine months of 2023 compared to the same period a year ago.

A recovery in project starts is forecast from 2024 as rising consumer spending prompts retailers and developers to initiate planned projects. However, the overhang of vacant retail space and the anticipated long-term increase in online retailing's market share are expected to limit the recovery, with sector starts remaining below pre-pandemic levels.

Grocery stores had been a relative bright spot within the retail construction sector prior to 2023. The consumer spending squeeze has prompted many households to opt for frequent supermarket trips rather than using online grocery deliveries as they seek to manage budgets, and the deep discount supermarkets have been gaining market share. Lidl prioritized investment in new logistics facilities during 2023 to support its growing stores network, but both Lidl and Aldi plan to substantially increase their estates over the medium term. Aldi is targeting a UK network of 1,500 stores, up from the current 1,000, while Lidl also sees the potential for hundreds more stores. Supermarket development is forecast to outperform the rest of the sector during 2024 and 2025.

Chart 11: Value of Underlying Retail Project Approvals (under £100 million) in 2022 and 2023 Pro-Rata



Source: Glenigan
N.B. 2023 data is based on January to September pro rata

Hotel & Leisure

2023 -14% 2024 +6% 2025 +5%

> **The hospitality industry is being squeezed by rising costs and weak consumer spending, curbing hotel and leisure starts in 2023.**

> **A rise in consumer spending and an increase in overseas visitors are expected to boost hospitality investment and sector starts from 2024.**

The hotel & leisure sector remains under pressure near term as the squeeze on households' budgets limits their discretionary spending and as hospitality businesses contend with rising costs and staff shortages. A brighter economic outlook, improved consumer confidence and a rise in overseas visitor numbers are expected to support an increase in starts from 2024.

HOTEL & LEISURE STARTS

	2022	2023f	2024f	2025f
£ million	3,440	2,943	3,105	3,259
Growth	6%	-14%	6%	5%

Source: Glenigan. f = forecast

STATE OF THE SECTOR

The hotel & leisure sector has been slow to recover post-pandemic, with firms facing reduced revenues from fewer overseas visitors and a sharp rise over the last two year in energy, materials, and labour costs. As a result, the financial position of many hospitality businesses has been slow to improve post-pandemic.

Overseas visitor numbers to the UK are set to reach 37.5 million in 2023, up 20% from 2022 but still below pre-pandemic levels, with business travel lagging behind.

With household budgets squeezed, consumers have cut back on discretionary spending on hospitality and leisure activities, leading to a decline in new project-starts. Hotel & leisure starts are down an estimated 14% this year.

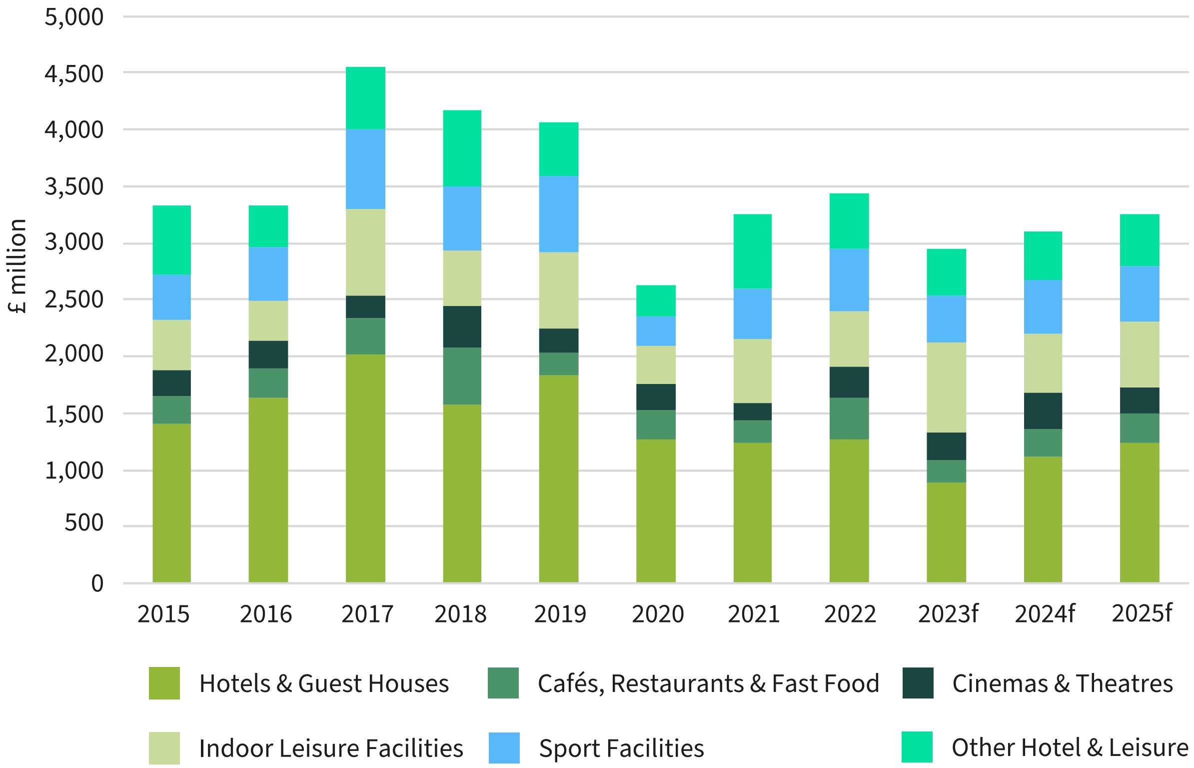
THE FUTURE OF THE SECTOR

Improved consumer spending and investor confidence are expected to boost project starts from 2024, as households' finances stabilise and improve.

The planning pipeline remains firm, with contract awards increased 74% in the first nine months of 2023, despite a recent decline. Detailed planning approvals also rose 14% over the same period, especially in the North West, with a marked rise in in core cities including Manchester and Liverpool.

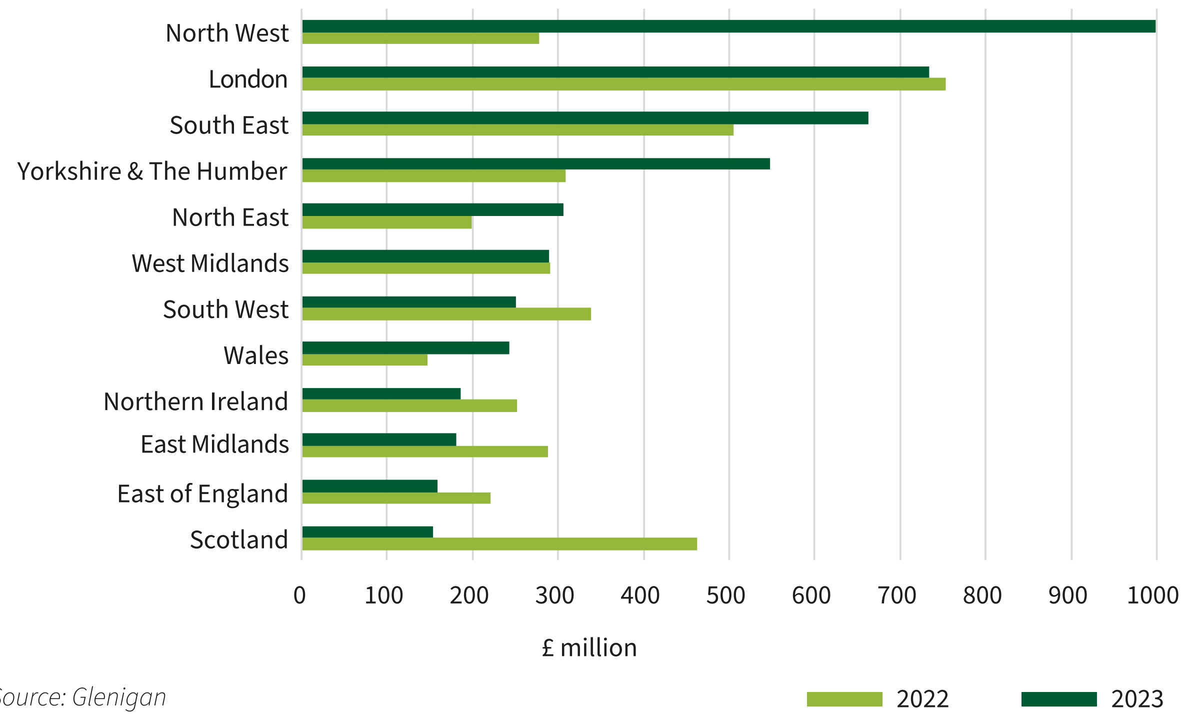
The strong pre-construction pipeline is expected to support a gradual increase in project starts over the next two years, as improved consumer spending and a further strengthening of tourism to the UK boost the finances and confidence of the hospitality industry.

Chart 12: Value of Underlying Hotel & Leisure Project starts (under £100 million) by Year



Source: Glenigan. f = forecast

Chart 13: Value of Underlying Hotel & Leisure Project Approvals (under £100 million) in 2022 and 2023 Pro-Rata



Source: Glenigan
N.B. 2023 data is based on January to September pro rata

Education

2023 **+22%** 2024 **+13%** 2025 **-13%**

- **Strong performance in 2023 will continue into 2024.**
- **Investment in school buildings and further education facilities set to increase.**
- **Education capital funding will be disrupted post-election as priorities are reviewed.**

Education has been the only sector to grow in 2023, primarily due to a sharp increase in school and further education building work. Further project-start growth is forecast for 2024, but a drop in starts is anticipated in 2025 as public sector capital programs are reviewed post-election.

EDUCATION STARTS

	2022	2023f	2024f	2025f
£ million	4,218	5,153	5,817	5,088
Growth	-9%	22%	13%	-13%

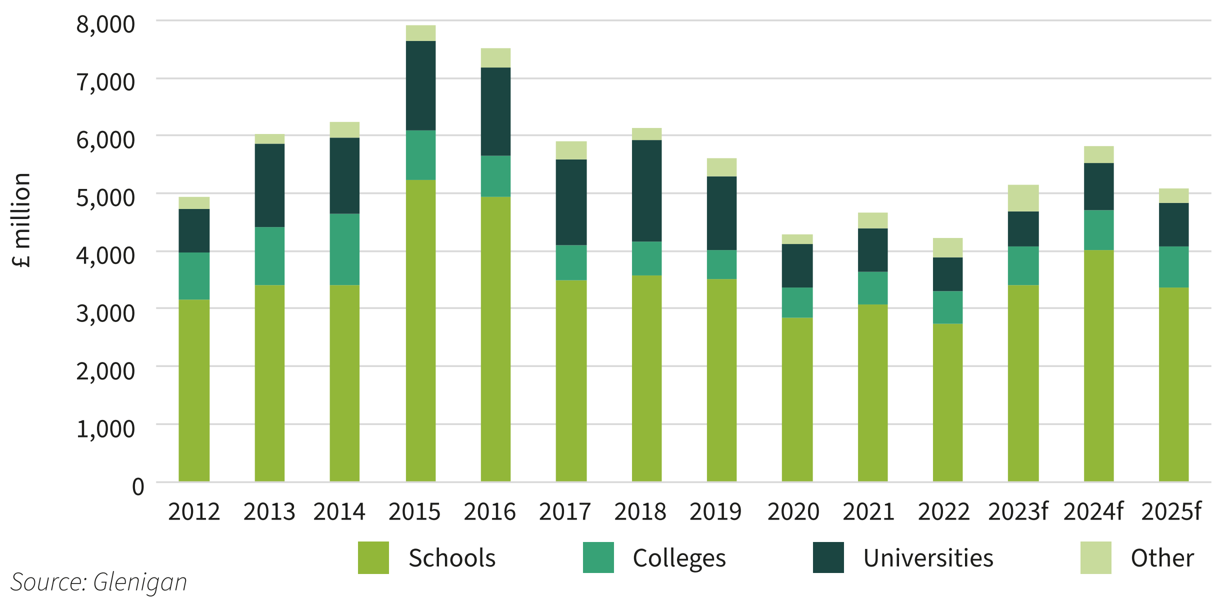
Source: Glenigan. f = forecast

STATE OF THE SECTOR

The number of secondary school pupils has increased steadily over the past seven years, with a projected 17% (or 462,000) increase in pupil numbers since 2016, according to the Department of Education. Pupil growth has been greatest in London and the South East. Local authorities have been slow to address the potential shortfall in secondary school capacity, but now appear to be securing increased investment. School buildings have been the largest and fastest-growing area within the education sector during 2023, with the value of school building project-starts estimated to have grown by 24%.

Further education starts have also increased sharply this year, rising by an estimated 22%. The rise in school and further education projects has been supported by an increase in government capital funding. Following a shortfall in capital spending during the last financial year, unspent Department for Education capital funding was rolled forward into the current financial year. Planned departmental capital spending for 2023-24 is around £7.0 billion, a 28% increase in real terms compared to 2022-23.

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

University budgets have been under pressure in recent years due to a cap on income per UK resident student and disruptions to income from overseas students caused by Brexit and the pandemic. The sharp rise in inflation over the last two years has exacerbated the budgetary squeeze. The value of university project starts fell for four consecutive years to 2022, declining by 66% from their 2018 peak to £596 million. After this prolonged decline, university starts have stabilized this year, edging 4% higher than 2022.

FUTURE OF THE SECTOR

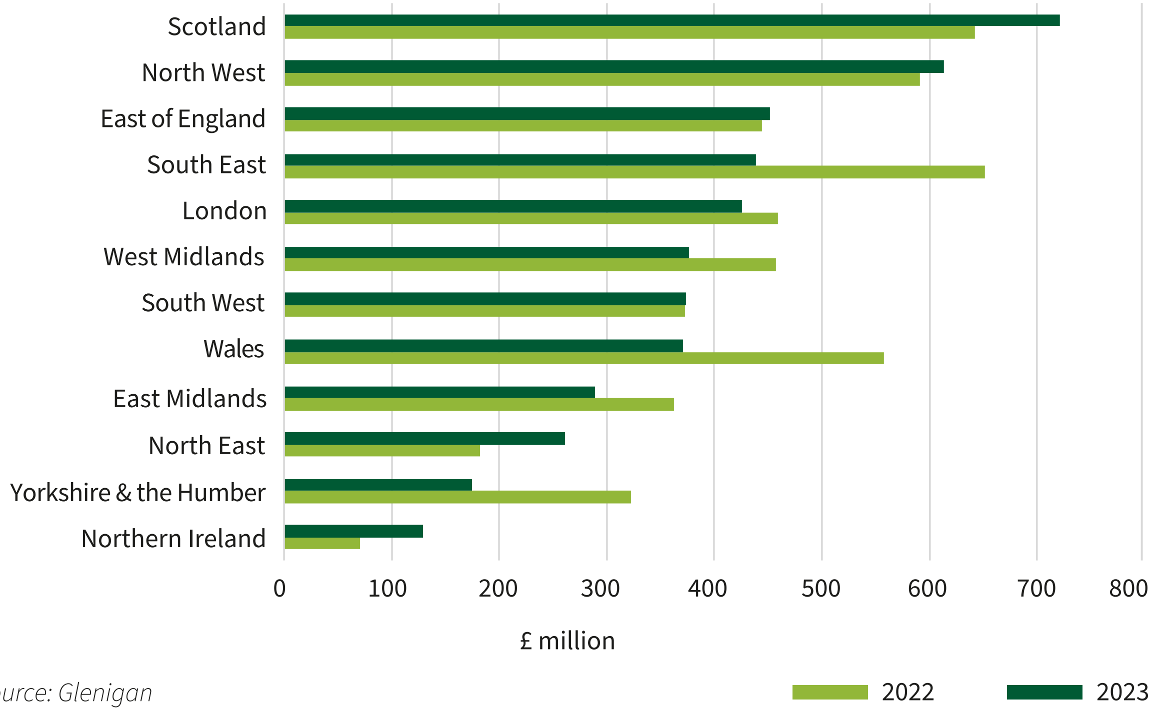
An 18% rise in school project starts is forecast for 2024. The government has committed to rebuilding 500 schools over this decade. Progress has been slow, with the first 100 schools announced in 2021 and a further 61 in July 2022. However, 239 more schools were added to the list in December 2022, bringing the total to 400. Work on site had started at 170 schools, and four projects were completed.

Additional spending is anticipated to address the risk of Reinforced Autoclaved Aerated Concrete (RAAC) failure at existing schools. To date, the number of schools at risk from RAAC failure has risen to 214.

A partial recovery in university starts is anticipated over the next two years. Universities should benefit from a progressive rise in the number of 18- to 23-year-olds in the UK population over the next five years. Universities have already seen an uplift in student numbers, with the overall number of students at UK universities rising by 4% in 2021/22, including a 24% increase in higher fee-paying non-EU overseas students. Further growth in the student population will require renewed, if selective, investment in the university estate. This is expected to underpin an increase in university projects in 2024 and 2025.

Overall education starts are expected to climb by 13% next year, buoyed by increased government funding for school and further education projects, together with an increase in university work. However, starts are forecast to slip back by 17% in 2025 as central government funding programs are reviewed and disrupted post-election.

Chart 15: Value of Underlying Education Project Approvals (under £100 million) in 2022 and 2023 Pro-Rata



Source: Glenigan
N.B. 2023 data is based on January to September pro rata

Health

2023 -15% 2024 +11% 2025 +2%

> **Industrial disputes and the NHS's focus on cutting waiting lists has delayed planned investment throughout 2023.**
>
> **Rise in starts expected during 2024 and 2025 as planned projects progress to site.**
>
> **NHS investment remains a political priority as the general election approaches.**

Although the health sector outlook remains positive, project start values have fallen this year as NHS resources and management time have focused on tackling waiting lists and industrial unrest. NHS investment will be a political priority in the run-up to next year's general election, and a strengthening in starts is forecast from 2024.

HEALTH STARTS

	2022	2023f	2024f	2025f
£ million	3,699	3,158	3,493	3,559
Growth	28%	-15%	11%	2%

Source: Glenigan. f = forecast

STATE OF THE SECTOR

The Government has committed to a progressive long-term increase in NHS capital investment. The Spending Review in October 2021 allocated £32.2 billion of capital funding to the Department of Health over the three years to 2024/25, including plans to upgrade over 70 hospitals by the end of the decade.

In 2019, the Government also announced plans for 40 "new" hospitals by 2030. This was relaunched in May of this year as Hospital 2.0, an enlarged program of 45 hospital projects, including five additional hospitals with a RAAC problem. However, progress to date has been slow, with a National Audit Office investigation finding that only 32 projects are likely to be completed by the end of the decade. To date, only seven projects have started on-site, while 31 do not yet have full funding to start core building works, suggesting that they are unlikely to start during the forecast period.

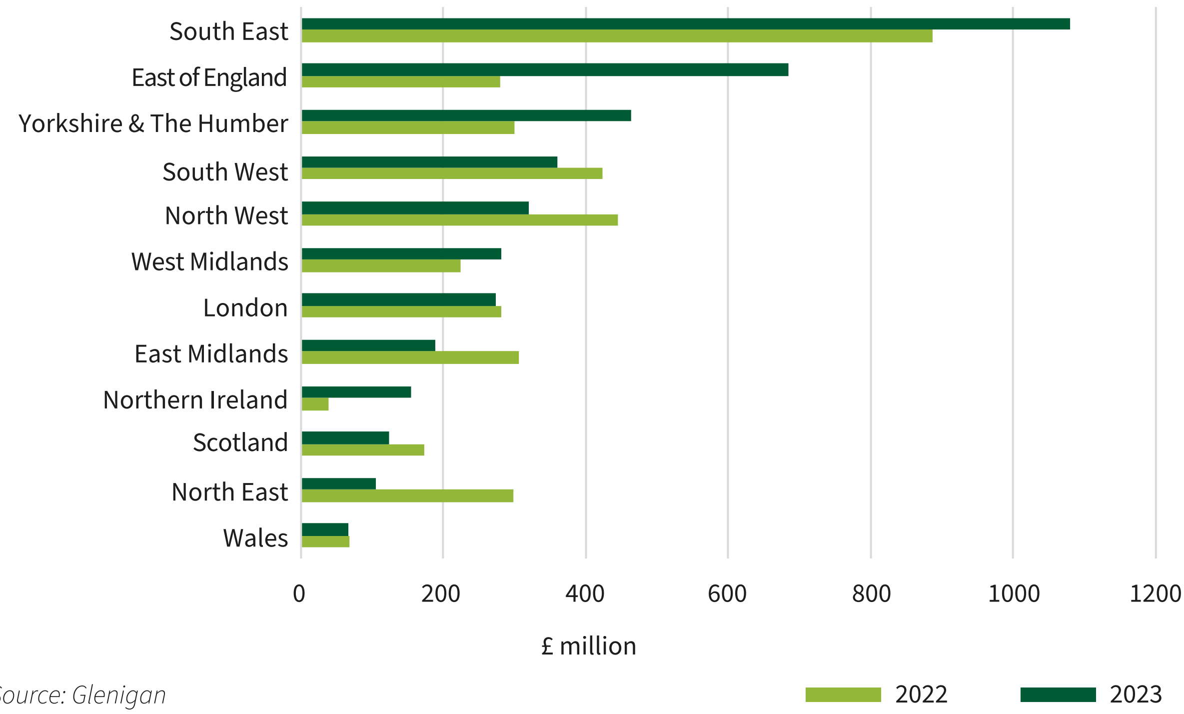
Despite the increase in NHS capital funding, health project starts fell back by an estimated 15% this year. NHS resources and management time have been preoccupied with bringing patient waiting lists down and dealing with industrial unrest across the health service. This appears to have delayed the progress of planned projects to site. In contrast, approvals have performed well, rising by 14% during the first nine months of 2023 against a year ago.

THE FUTURE OF THE SECTOR

Although project starts have fallen recently, the outlook for the health sector remains positive. NHS investment will be a top political priority in the run-up to next year's general election, and a 3.8% annual real-term growth rate in NHS capital funding is expected to support an increase in starts from 2024 as the current front-line service delivery crisis eases. The increase in approvals this year is forecast to feed through as an 11% rise in project starts in 2024.

Post-election, sector growth is forecast to moderate to 2% in 2025 as the new administration reviews spending programs and priorities.

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



Source: Glenigan
N.B. 2023 data is based on January to September pro rata

Civil Engineering

2023 -12% 2024 +17% 2025 +5%

> **Projects delayed by higher construction costs during 2023.**
> **Recovery in utilities and infrastructure projects from 2024.**
> **Major projects support overall sector workload.**

Civil engineering project-starts under £100 million are estimated to have fallen 12% in 2023, driven by a sharp drop in infrastructure work. This follows early falls in main contract awards and detailed planning approvals. Project-starts are expected to recover over the next two years, supported by a rise in both infrastructure and utilities work.

CIVIL ENGINEERING STARTS

	2022	2023f	2024f	2025f
£ million	7,234	6,345	7,431	7,776
Growth	2%	-12%	17%	5%

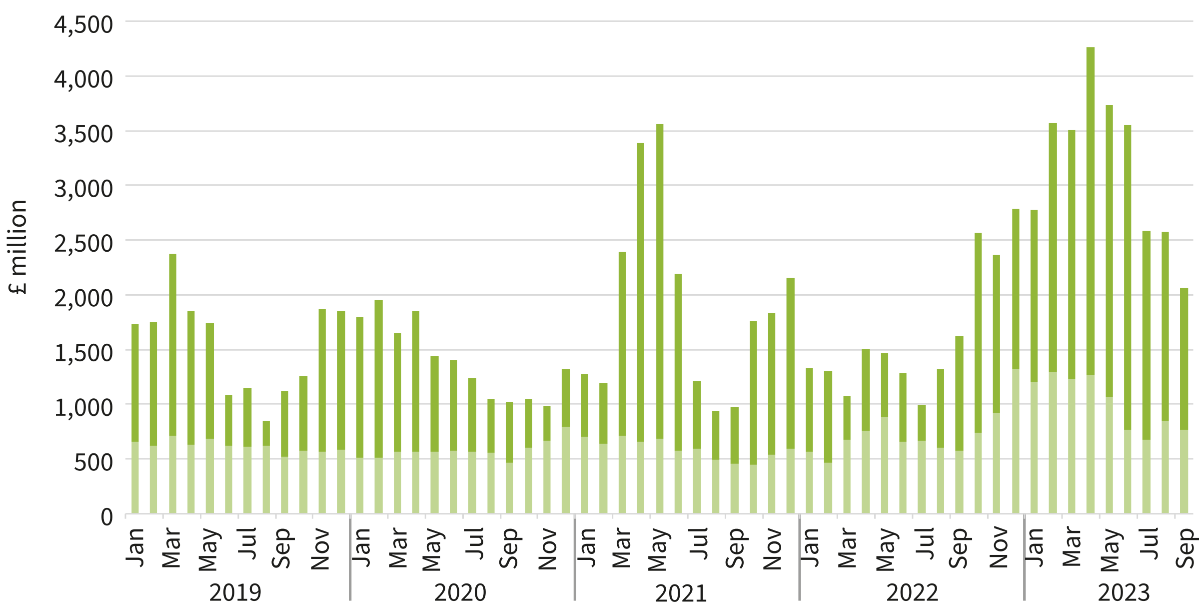
Source: Glenigan. f = forecast

STATE OF THE SECTOR

Civil engineering starts have declined broadly in 2023, with airports, power generation, and water distribution as the only growth areas in the first nine months. Overall, civil engineering starts are estimated to have fallen by 12% this year, accompanied by a 21% drop in main contract awards during the first nine months. However, the development pipeline remains firm, with detailed planning approvals rising by 5% over the same period.

Despite the decline in project starts, overall sector activity has been supported by work continuing on several major projects, such as the Lower Thames Crossing and HS2 phase 1, which will continue to be important drivers of sector activity in the forecast period.

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



Source: Glenigan

FUTURE OF THE SECTOR

Civil engineering starts are forecast to rebound 17% next year, driven by a strengthening in utilities work and the progression of rescheduled infrastructure projects to site. Utilities starts are expected to strengthen during 2024 as the water industry invests according to its regulator-agreed plans, and as investment in electricity generation and distribution, and broadband connectivity increases.

The growth in project starts is forecast to moderate to 5% in 2025, as public sector investment plans are reviewed by the new post-election administration and the water industry's current five-year investment programme draws to a close.

The delivery of existing major capital projects, including HS2 phase 1, the Silvertown Tunnel, and Hinckley Point, will continue to underpin sector activity over the forecast period. Other major planned projects, including the Stonehenge Tunnel and the Lower Thames Crossing, are scheduled to start after the forecast period, although enabling works for the latter should commence next year.

Less encouragingly, the Government appears to have scaled back its initial commitment to prioritise infrastructure investment. Rising construction costs have prompted the rescheduling and rescoping of major road projects. In recent months, the Government has also cancelled phase 2 of HS2, watered down its Net Zero commitments, and failed to secure any bids for the next round of offshore windfarms. While these projects would have largely fallen beyond the forecast period, they highlight the reprioritisation of public sector resources away from the sector.

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.

2023 +13% 2024 +5% 2025 +9%

Construction starts have recovered strongly during 2023 after a retrenchment during the preceding year. The upturn was driven in large part by a double digit rise in residential project-starts. Further, more broadly based growth is anticipated over the forecast period.

After a 35% jump in starts during 2021, the value of project-starts slipped back 6% during 2022 as a more uncertain economic outlook, high inflation and rising interest rates tempered investor and consumer confidence. Despite this decline, starts were still 21% above pre-pandemic levels. Construction starts have returned to growth during 2023 as economic conditions have stabilised and the economic outlook has brightened.

Consumer spending has remained firm during 2023 as inflation moderated and household earnings and employment levels rose. However, higher borrowing costs have dampened housing market activity and business investment this year, moderating construction activity in related sectors.

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

€ million	2021	2022	2023f	2024f	2025f
AGRICULTURE	93	65	57	63	66
CIVIL AND UTILITIES	617	499	725	761	837
COMMERCIAL	579	530	449	440	484
COMMUNITY AND SPORT	134	216	168	201	211
EDUCATION	301	489	383	460	474
HOSPITALITY	165	109	190	218	240
INDUSTRIAL	1,012	1,232	1,456	1,529	1,651
MEDICAL	404	408	363	417	429
RESIDENTIAL	4,928	4,166	4,895	4,992	5,492
ALL	**8,232**	**7,713**	**8,685**	**9,082**	**9,885**

Source: CIS & Glenigan

Despite global economic headwinds, the Irish economy bounced back strongly from the pandemic with double-digit economic annual growth during both 2021 and 2022. Whilst the rapid pace of growth has been flattered by the strength of multinational enterprises, the wider economy also grew strongly. Industrial production and consumer spending are currently well above pre-pandemic levels.

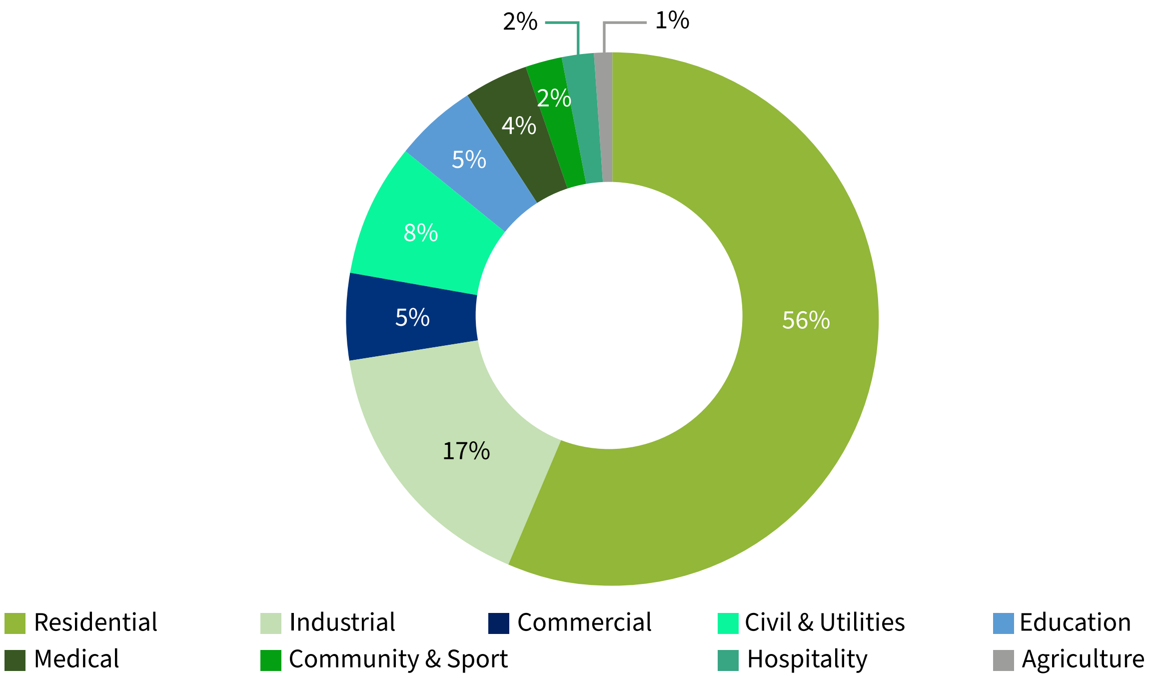
Although the IMF estimates that economic growth slowed sharply to 2% this year, it anticipates a pick-up in growth over the forecast period to 3.3% in 2024 and in 3.2% in 2025.

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

Annual Change	2021	2022	2023f	2024f	2025f
AGRICULTURE	-28%	-31%	-11%	10%	5%
CIVIL AND UTILITIES	86%	-19%	45%	5%	10%
COMMERCIAL	-23%	-8%	-15%	-2%	10%
COMMUNITY AND SPORT	-22%	61%	-22%	20%	5%
EDUCATION	-4%	63%	-22%	20%	3%
HOSPITALITY	132%	-34%	75%	15%	10%
INDUSTRIAL	69%	22%	18%	5%	8%
MEDICAL	6%	1%	-11%	15%	3%
RESIDENTIAL	49%	-15%	17%	2%	10%
ALL	**36%**	**-6%**	**13%**	**5%**	**9%**

Source: CIS & Glenigan

Chart 18: Value of Construction Starts in 2022



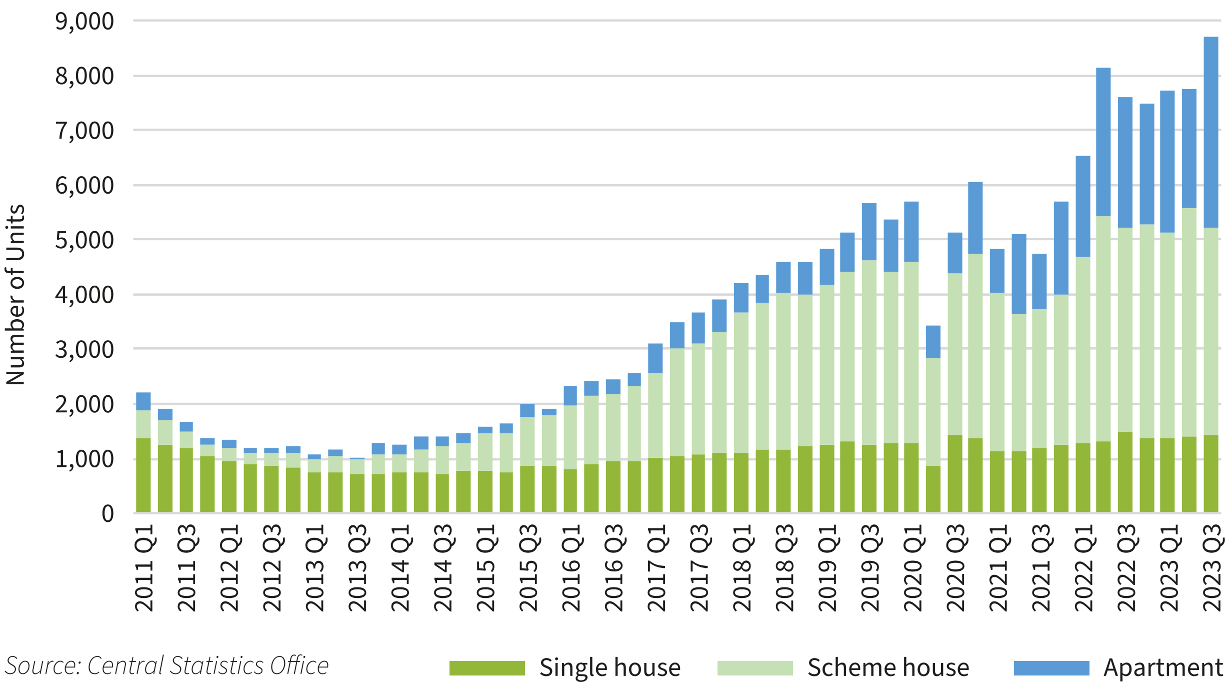
PRIVATE RESIDENTIAL

Residential is the dominant construction sector, accounting for 56% of projects started by value during the first nine months of 2023. Increasing housing supply is a major political priority. The Government introduced its 'fast-track' initiative in 2017 to accelerate the progress of larger sites (100 units plus) through the planning system. This has subsequently helped boost the overall value of residential projects starting on-site. Although the completion of individual units on these larger sites tends to be phased over a longer time period than for smaller sites, the measure has supported a step change in new unit completions over the last five years, despite the disruption of the pandemic. The chart below illustrates how scheme houses and apartments have been the principal source of growth in units completed over the last five years. The fast-track initiative was wound down and concluded earlier this year and was replaced with a new 'Large Residential Development' initiative, taking planning decision responsibility from An Bord Pleanála and bringing them back to a local authority level, albeit within a dedicated planning department for these 100+ unit residential developments.

Strong demand from purchasers helped to boost the recovery in residential starts post-pandemic, supporting a 49% jump in the value of residential starts during 2021. Higher interest rates have subsequently stabilised housing market activity over the last two years. After an 18% increase in 2021, the growth in property transactions slowed to 7% in 2022 and fell back by 5% during the first eight months of this year.

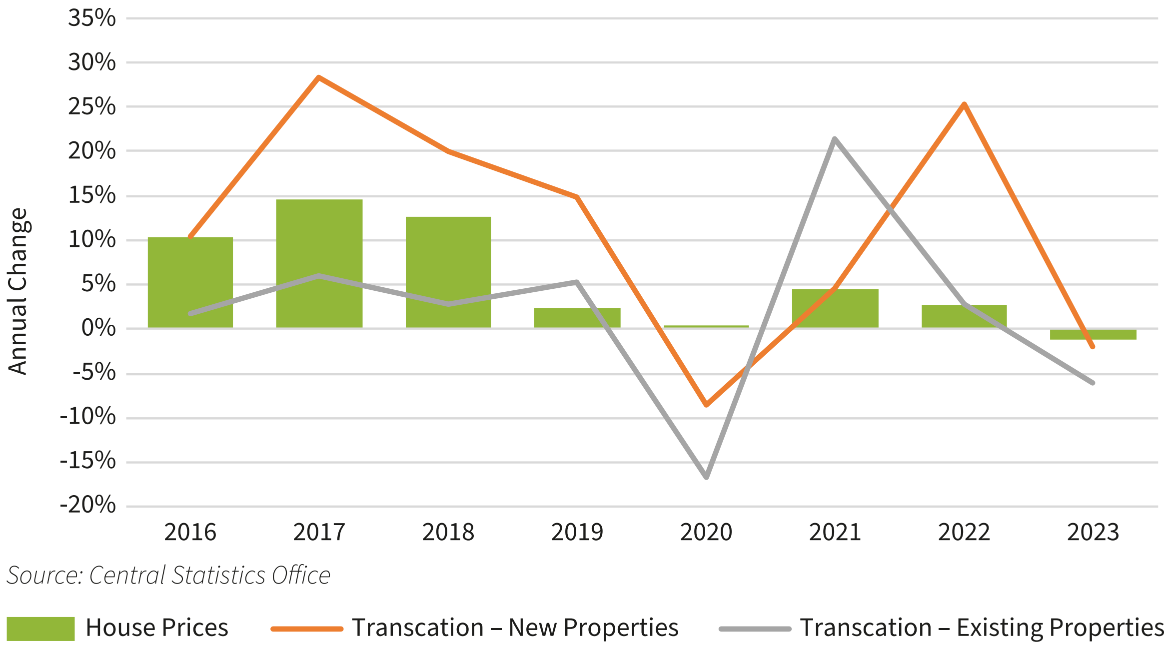
However, new house sales have outperformed existing properties, with a 25% rise in new house sales during 2022 followed by just a 2% dip during the first eight months of 2023.

Chart 19: Number of New Housing Units Completed



Source: Central Statistics Office

Chart 20: Housing Market Activity



Source: Central Statistics Office

Overall housing market activity is expected to remain subdued during 2024. In addition, the first nine months of 2023 have seen a 6% fall in the value of residential planning approvals and a 35% drop in planning submissions. This is expected to limit the growth in residential project-starts to just 2% in 2024.

Firmer economic growth and an easing in interest rates are forecast to support a renewed strengthening housebuilding activity in 2025, with the value of residential project-starts rising by 10%.

PRIVATE NON-RESIDENTIAL

The value of industrial project-starts has grown by an estimated 18% during 2023, building upon a double-digit growth during the preceding two years. A shift in consumers' retail habits during the pandemic towards online retailing has fuelled increased investment in distribution and warehousing projects. Ireland has also emerged as a favoured data centre location for global tech companies. Demand for industrial space remains strong. CBRE report that the Dublin industrial and logistics market experienced its second strongest year on record for take-up in 2022. CBRE report that although off the peak level seen in 2022, the market remains firm with the take-up of 60,000 sqm of floorspace in Q3.

Investment by domestic and international manufacturers is also boosting industrial sector activity. In October, Galway County Council granted planning permission for the construction of Dexcom's new global manufacturing facility in Athenry, County Galway.

The sector is benefiting from investment by global pharmaceutical companies. Ireland's pharmaceutical sector is known around the world for its innovative excellence and strong workforce. This has attracted continued investment from companies such as Abbott, Styker, Eli Lilly and Pfizer. This has provided a boost to industrial activity in the southern region of Ireland this year. The investment should provide a boost to economic activity and job creation in the region.

In addition, two key projects in the development pipeline are the Eli Lily Biopharmaceutical Building in Raheen, Co. Limerick and the Abbott Ireland Pharmaceutical Development Extension in Loughboy, Co. Kilkenny. These projects are set to create hundreds of jobs and represent significant investments in the sector.

After strong growth post-pandemic, the value of industrial approvals slipped back 12% during the first nine months of 2023. Despite this drop the development pipeline remains strong. This is expected to support a further rise in project-starts over the forecast period, although the pace of growth is expected to moderate.

Commercial sector starts peaked in 2019 and have fallen back progressively since 2019. The growth in hybrid and remote working is potentially reducing the overall volume of floorspace required by occupiers. CBRE estimate that the vacancy rate in the Dublin market is over 14.5%. Weak demand combined with higher borrowing costs is forecast to limit the growth in starts to 2% during 2024.

A sharp 32% drop in approvals during the first nine months of 2023, combined with weak demand for office space and higher borrowing costs are forecast to further dampen project-starts during 2024. Improved market conditions are expected to support a return to growth during 2025.

GOVERNMENT INVESTMENT

Education starts fell back 35% during the first nine months of 2023 after a 61% surge in starts during the previous year. The sharp rise in material costs has disrupted the progress of planned projects moving to both contract award and on-site stages within the sector. CIS reports many education projects have been re-tendered with the originally agreed prices increased to reflect the higher cost of materials. Labour shortages have also delayed and extended initially planned timeframes for the delivery of projects.

Despite the fall during the current year, the sector is expected to remain a growth area over the forecast period. The Government's National Development Plan (NDP) sets out plans for substantial investment in new school buildings through its Large Scale Projects Programme. The Government anticipates that an average of 150 to 200 school building projects would be delivered annually over the period 2021 to 2025. The recent award of the €200 million Project Nore PPP Bundle, covering the construction of several school schemes, is set to lift sector starts over the coming months.

The NDP also addresses the need to increase capacity in the Health Service to address increased demand for healthcare services, with capital funding growing by 12% per annum. The value of health sector approvals jumped 53% last year. However, the rise in construction costs has disrupted the initiation of projects during the current year, with the value of project-starts falling by an estimated 11% during 2023.

Nevertheless, the increased funding and stronger development pipeline is forecast to support an increase in sector starts from 2024. Several high-profile schemes within the sector have secured funding, one of which being the new €800 million National Maternity Hospital in Dublin 4, which is currently out to tender for main contractors and is expected to commence on-site in late 2024.

The value of civil and utilities projects has rebounded 45% this year after a 19% fall in starts during 2022. The development pipeline remains strong, despite approvals slipping back slightly from the high point reached in 2021. This is expected to support further sector growth over the forecast period.

Key Recommendations

After sharp falls in starts during 2023, construction faces a gradual improvement in market conditions over the next two years. Firms will need to be adept and responsive to exploit the new opportunities as they emerge.

TARGETING NEW GROWTH AREAS

As the industry emerges from the current downturn, the best-performing sectors will differ from those prior to the pandemic. Structural changes are creating new opportunities in warehousing & logistics, office refurbishment and fit out, and the repurposing of redundant commercial premises.

Planning restrictions currently threaten to reduce the supply of development land for the residential homeownership sector, especially outside urban areas, adversely impacting the delivery of low-rise family housing. Whilst rules may again change after the general election, this will take time to feed through. In contrast, reform of leasehold property regulations together with post-Grenfell safety regulations may improve purchasers' enthusiasm for new apartments. This may increase competition with Build to Rent developers for high-rise city centre sites.

Near term, increased government funding is expected to drive the Education, Health, and Community & Amenity sectors, although departmental budgets are likely to be reviewed post-election, potentially slowing sector activity during 2025.

Regionally, construction markets in the northern half of England are set to outperform London and southern England over the forecast period. This reflects a shift in government funding and policy as part of its "levelling up" agenda. A future Labour Government is also likely to weight government funding towards economically weaker regions. Firms will need to target these new and shifting opportunities, ensuring that they have the expertise and resources to increase their exposure to growing markets and locations.

FACTOR-IN SUPPLY SIDE CONSTRAINTS

Overall material availability and inflation has stabilised, although prices remain high, and the cost of some products remains volatile. Contractors and sub-contractors should remain alert to future potential interruptions to product supply, including those from overseas sources.

Labour supply pressures have stabilised with average earnings rising by 5%. This may be short-lived however, with skills shortages and labour costs expected to grow alongside the strengthening in starts from 2024. Contractors and sub-contractors should factor-in the impact on their costs and development schedule when bidding for work.

MITIGATE RISK

Over the last two years supply-side constraints have disrupted project schedules and extended construction times, with implications for workload, turnover and cashflow. The typical construction phase for a project completed during 2023 was 15% longer than one completed prior to the pandemic. Planned construction programmes may be further disrupted by regulatory supervision of projects as the Building Safety Act comes into force. The slower pace of site development will delay stage payments from clients and push back the timing of when late trades are required on-site. Contractors and sub-contractors may wish to offset the lower monthly revenues generated per site by spreading their workforce across a greater number of projects.

Weak economic growth and sharply higher interest rates have prompted clients to reassess the cost and viability of planned projects, increasing the vulnerability of contractors', sub-contractors and suppliers' order books to projects being rescheduled or reappraised. An enlarged order pipeline is essential to ensure businesses can weather unexpected programme delays or project cancellations.

Construction insolvencies has been on the rise and the anticipated upturn in project starts may increase insolvency risks as the rise in workload increases the call on firms' cash flow. A diversified client base will reduce exposure to any one client with a pipeline spread more evenly over a larger number of customers. This can help reduce the threat from any financial crisis or adverse change of payment terms by any one firm. Identifying new customers has never been more important.

Supply chains should be reviewed to ensure that firms are not overexposed to just a few suppliers.

ON-SITE EFFICIENCY AND COLLABORATIVE WORKING

Whilst product supply disruptions are expected to subside over the forecast period, the availability of skilled labour is likely to remain as a significant constraint.

The industry's qualified workforce has been shrunk by reduced access to skilled EU labour, and loss of UK workers post-pandemic, to other industries and early retirement. Although current slowing in industry workload may partially ease these pressures near term, skilled labour availability threatens to increase construction costs and disrupt the timely delivery of projects. This will intensify the need for firms to invest in the recruitment, training and retention of skilled labour, and to use on-site labour more sparingly and effectively to accommodate rising workloads.

In addition, the Building Safety Act is also set to change how projects are delivered. Whilst the Act's requirements will be most keenly felt in the delivery of high rise residential and other 'high risk' structures, it is intended to progressively change construction practices. The Act increases the importance of detailed pre-construction design and project planning and increases the risk, cost, potential delay of amending designs during construction. More detailed pre-construction design and less scope for on-site design changes should increase the opportunity for offsite components and systems.

Companies should invest in design solutions, site operating practices, and offsite manufacturing options that reduce the reliance on site labour to safeguard the timely and profitable delivery of projects. In many cases this will involve a more collaborative approach and the use of digital solutions to cut waste and accelerate design and construction processes.

ADOPT DIGITAL SOLUTIONS AND PROCESSES

The pandemic accelerated the adoption of digital systems, both pre-construction and on-site, as more traditional ways of working were disrupted. Investment in an effective customer relationship management (CRM) system, digital marketing channels, a modernised salesforce, and implementation of a robust sales process will help firms to rapidly identify and target emerging opportunities, sustain their workload, cut the cost of winning work, improve efficiency, and enhance profitability.

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