

A glance at the economy this quarter

- UK construction witnessed a decline in Q2 2017.
- Construction activity fell in August 2017 indicating a slow start to Q3 2017.
- Private housing output decreased 3.9% in July 2017.
- By value, the residential sector had the highest proportion of contracts awarded in August 2017 accounting for 36%.
- London received the highest proportion of contracts awarded by region in August 2017 accounting for 20% of UK total.
- Tender price inflation forecasts for the next four years have been revised upwards by BCIS and other major cost consultants.

Will output slow down in 2018?

Material costs for construction have risen faster than inflation over the last quarter. Construction labour costs will also rise because unemployment has fallen and there is continued uncertainty over the availability of European construction workers. As a result tender price inflation is now predicted to rise again in 2018, having eased in 2017.

Sprinklers are likely to be required in many more buildings after Grenfell, which is expected to add between 2% and 3% to the cost of many projects. The tender price inflation predictions do not yet take into account the impact of these changes. As a result it may increase at a faster rate than shown in **Figure 1**.

House price inflation (HPI) is predicted to slow dramatically for the next five years compared with the long term average. This is an important trend and will have a significant impact on development decisions since HPI will no longer outpace inflation and will no longer be a "get out of jail" card for developers.

Tender price inflation forecast

Figure 1 Tender price inflation forecast (Source: Various)

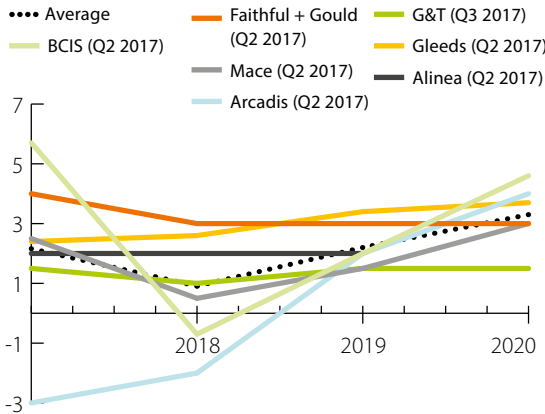
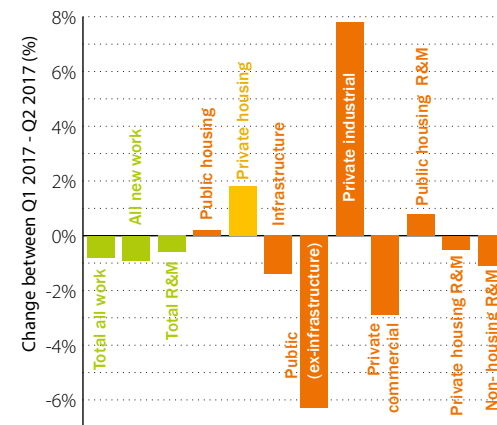


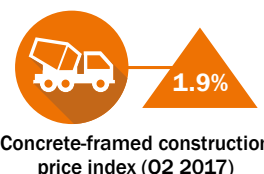
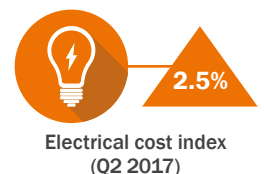
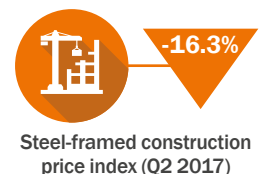
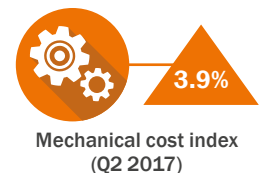
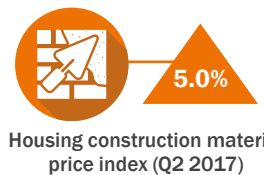
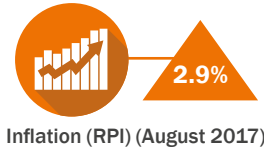
Figure 1 presents the revised tender price inflation between 2017 and 2020 as envisaged by some major consultant's, post-Brexit, along with BCIS to provide a more realistic average of the forecast.

Private industrial has had the highest increase since Q1 2017

Figure 2 Construction activity trend between Q1 2017 to Q2 2017 (Source: ONS)



According to the Office of National Statistics (ONS), all construction work output decreased by 1.2% in Q2 2017, compared to Q1 2017. This indicates that the uncertainty around Britain's exit from the EU continues to cast a shadow on the construction industry. August 2017 observed a three month on three month decrease of 0.8%. Public housing output increased 0.2% in Q2 2017 and private housing increased by 1.8% (see **Figure 2**).



Base = 0
In comparison to previous quarter

Average house prices and earnings

Figure 3 Comparison of average house prices, earnings, mortgage and rental payments (Source: *Land Registry, **Monster UK and ***Home.co.uk)

	UK	London
Average house price*	£223,257	£481,556
Average earnings**	£27,064 (£2,255/month)	£35,127 (£2,927/month)
Average mortgage repayment	£1,110/ month	£2,395/ month
Average rent***	£925/ month	£1,564/ month
% spent on mortgage	49%	82%
% spent on rent	41%	53%

Figure 3 shows a comparison of average house prices, earnings, mortgage and rental payments in London compared with the UK as a whole. Unsurprisingly, this shows that people in London typically spend a larger proportion of their wage on their mortgage than elsewhere in the UK. It also shows that having a mortgage is much more expensive than renting, as a proportion of wages, in London than elsewhere in the UK.

Figure 4 shows the type of residential projects awarded in Q2 2017 and August 2017 by sector. Private housing accounted for 78% of the contracts awarded followed by hostels/ halls of residence at 11%.

Private housing had 73% of residential contracts awarded in August 2017

Figure 4 Residential contracts awarded in August 2017 (Source: Barbour ABI)

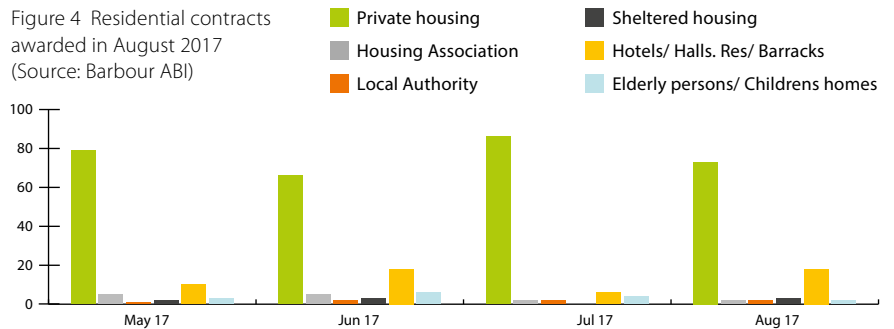


Figure 5 presents the average construction output forecast, sector-by-sector over the next 3 years. Experian and Construction Products Association (CPA) forecast a slower growth in construction output in 2017, 2018 and 2019. Experian downgraded its forecast for 2018 from 2% to 1.4% and are forecasting 1.9% growth in 2019. CPA decreased its prediction from 1.2% down to 0.7% in 2018 and from 2.2% down to 1.8% in 2019.

Construction output forecast 2017-2019

Figure 5 Average construction output forecast by sector (Source: CPA, Experian)

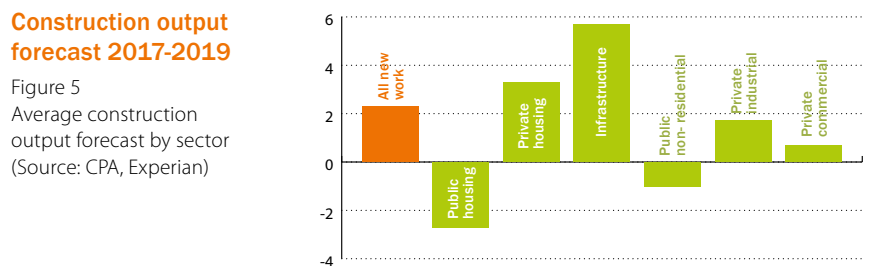


Figure 6 shows predicted house price inflation by region over the next 5 years. House price inflation in London and SE England is predicted to be zero or slightly negative over the course of 2018. By contrast, areas to the north and west of the UK are predicted to have HPI of between 2% and 3%. In 4 years' time however, this situation is predicted to reverse, with London and SE England showing higher HPI than the rest of the country.

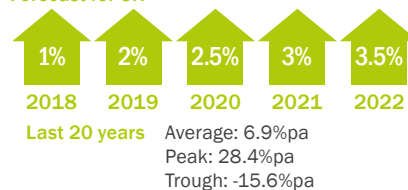
House prices growth forecast 2018-2022

Figure 6 & 7 (Source: JLL Housing Market report)

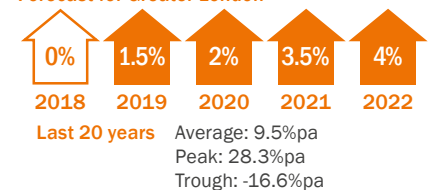
House price growth % pa	2018	2019	2020	2021	2022	2018-22
Prime Central London	-1.0	0.5	2.0	3.0	4.0	8.7
Central London Developments	0.0	0.5	2.0	3.0	4.0	9.8
Greater London	0.0	1.5	2.0	3.5	4.0	11.4
South East	0.0	1.5	2.0	3.0	3.5	10.4
Eastern	0.5	1.5	2.5	3.0	4.0	12.0
South West	1.0	1.5	2.5	3.0	3.5	12.0
East Midlands	2.0	2.5	2.5	3.0	3.0	13.7
West Midlands	2.0	2.0	3.0	3.0	3.5	14.2
Yorkshire & The Humber	2.0	2.5	3.0	3.0	3.0	14.2
North West	3.0	3.0	3.0	3.0	3.5	16.5
North	1.0	1.0	2.0	2.0	3.0	9.3
Wales	1.0	1.5	2.0	2.5	3.0	10.4
Scotland	1.0	1.5	2.0	2.5	3.0	10.4
UK	1.0	2.0	2.5	3.0	3.5	12.6

Figure 7 looks at the predicted house price inflation for the next 5 years for both London and the UK as a whole and compares these figures with the long term averages for the last 20 years. This shows that HPI for London is expected to be less than a quarter of the long term average (2.25% versus 9.5%). The figure for the rest of the UK is just over a third (2.4% versus 6.5%).

Forecast for UK



Forecast for Greater London



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