

A glance at the economy this quarter

UK construction ended on a high note in 2015 with output increasing 1.5% in December, however, it was not enough to prevent Q4 falling by 0.4% as a whole. This was due to the decrease in Repair and Maintenance contracts which fell by 1.4%. Overall annual output compared to 2014 increased by 3.4%.

The December results previously led to optimistic construction forecasts for 2016 and 2017. Total value of contracts in January 2015 was £5,894.4 million whereas in January 2016, this was £3,856 million making it the weakest growth level in the last 9 months. This led to Experian cutting its prediction to 3% for 2016 down from 6% previously predicted and 10% for 2017 from a previous estimation of 18%. As a result, Consumer Protection Association (CPA) 2016 prediction reduced to 3.6% and 4.1% for 2017.

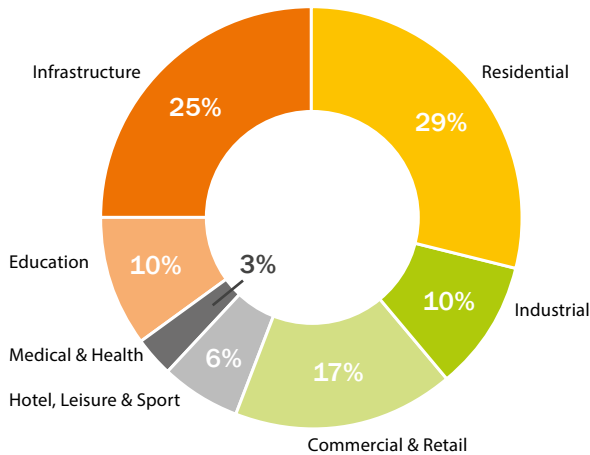


UK government has identified a need for 232,000 - 300,000 houses per year to accommodate increasing population.

The **residential market** had the highest proportion of contracts awarded in 2015 at 29% followed closely by Infrastructure at 25%. Private housing is forecast to rise 5% in 2016 and 2017 due to a high demand for home ownership, enabled through rising mortgage lending policies from the Government, in an attempt to boost the housing market. Public housing on the other hand is forecast to fall a further 5% in 2016 due to lack of funding as rental income is likely to be hit by the extension of right to buy and further cuts to social rent.

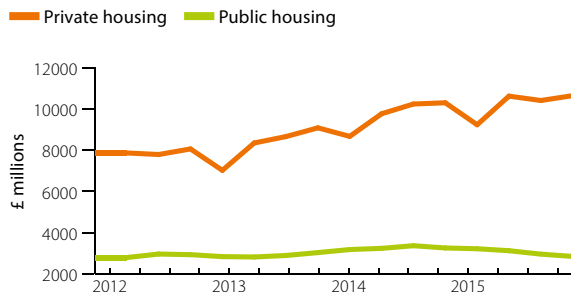
Residential had the highest proportion of contracts awarded by value boosting construction

Figure 1: Type of projects awarded in third quarter 2015
(Source: Barbour ABI)



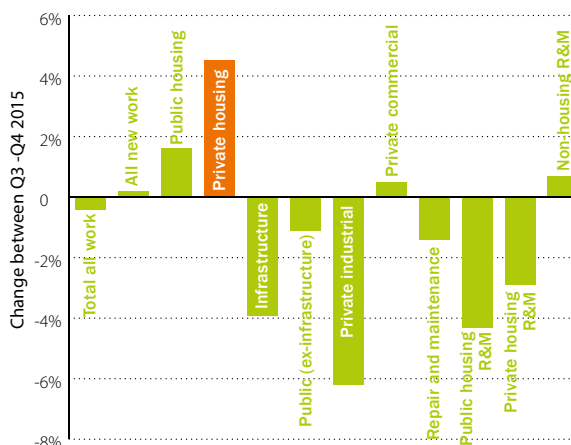
Private housing output remains strong

Figure 2: Public and Private housing output activity trend
(Source: ONS)



Private housing output increased significantly in Q4 2015

Figure 3: Construction activity trend between Q3 - Q4 2015
(Source: ONS)



Base = 0 *2014-2015 **Q1 2016

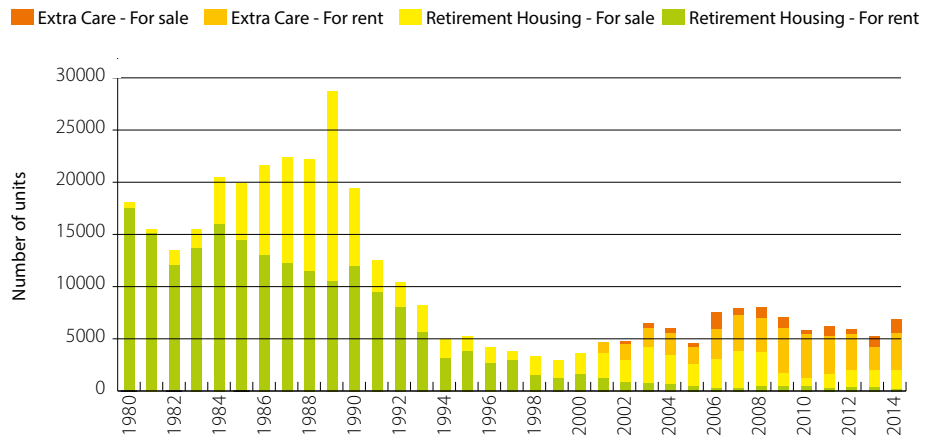
The stagnant Specialist Housing market set to increase substantially

A recent report by the Elderly Accommodation Counsel (EAC) has warned that if **6,700** retirement homes are not provided every year over the next five years, the UK will run out of homes for its increasing ageing population which is set to rise by **3.2%** over the next five years.

- Currently, only 4.8% of over 60s people live in retirement homes with an estimated 3 million residing in large single-person households often unsuitable for their changing lifestyle.
- Building suitable homes desirable for their needs would trigger equity release which could help younger families onto the housing ladder and would cause larger family homes to come back into the market.
- The future supply pipeline appears to be very favourable and would bring about an increase in supply in the specialist housing market.

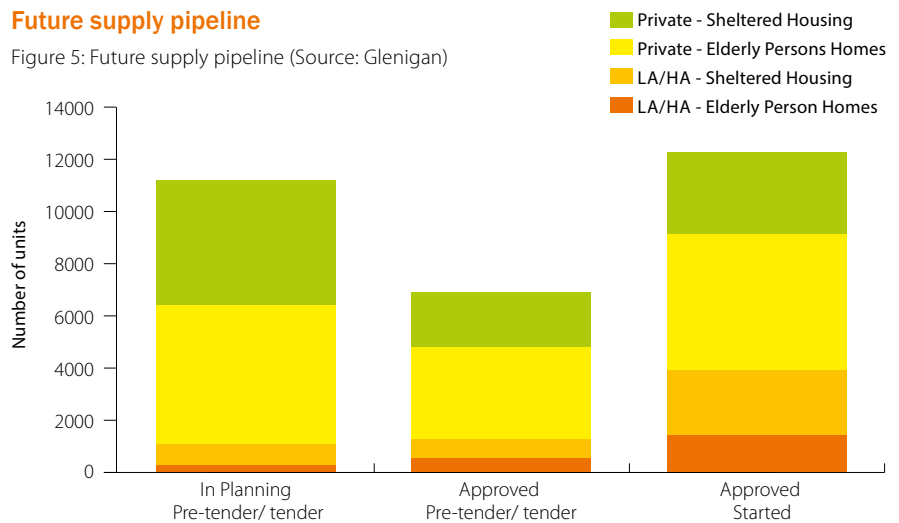
Delivery of housing for older people

Figure 4: Delivery of housing for older people (Source: EAC)



Future supply pipeline

Figure 5: Future supply pipeline (Source: Glenigan)



A glance at construction in the last 3 years

	2013	2014	2015
Over all construction value	£62b	£64b	£74b
Total construction contracts	11,271	12,440	11,857
Average project value	£5.5m	£5.1m	£6.2m

Building professionals' salaries up 10%.

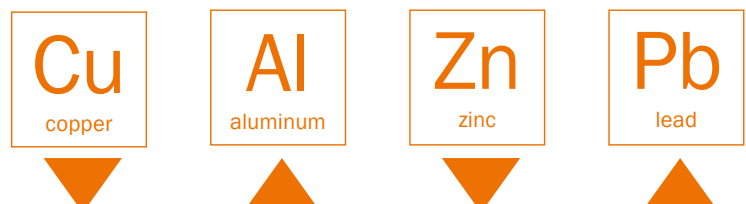
Looking ahead, 71% employers intend to further increase wages

Source: Hays recruitment



Reported Q3 2015 as the highest UK construction skill shortage since 1998. Significant shortage of brick layers and quantity surveyors.

Metal price trends February 2016



Infrastructure is set to rise 56.9% by 2019 due to substantial activity in the rail, energy, roads, water and sewerage sub-sectors. Economists at CPA suggest rail work will be primarily driven by Network Rail activity and also by HS2.

Commercial sector is forecast to improve 3.7% on average every year driven by office construction which is to rise 7% in 2016 and 2017 as a result of some high profile developments in London, Birmingham and Manchester.

Retail is expected to remain fairly neutral in 2016.

East of England has received the highest proportion of **contracts awarded** in February 2016 according to Barbour ABI, accounting for 29% of UK total. The main reason was the £1.8 billion contract to construct East Anglia One offshore wind farm.

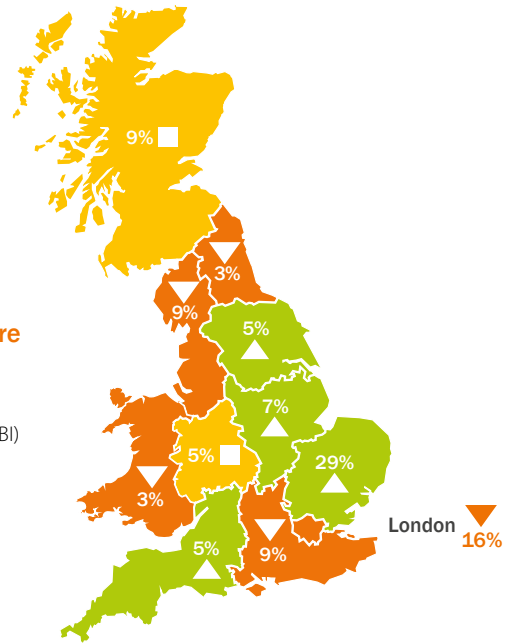
Figure 9 presents **Tender price inflation** envisaged by some major consultants alongside BCIS providing a more realistic average of the forecasts.

A recent article by Arcadis UK research for building.co.uk has warned that **'material prices** for construction are set to rise as the UK steel industry takes a body blow at Port Talbot. It's time for this industry to find better ways of using scarce resources and reducing waste.'

In summary, 2016 will observe a growth in most sectors but certain vulnerabilities such as skills shortages, resulting rise in wages, lack of capacity in the market, inflation in material prices and increasing workload continue to challenge the industry.

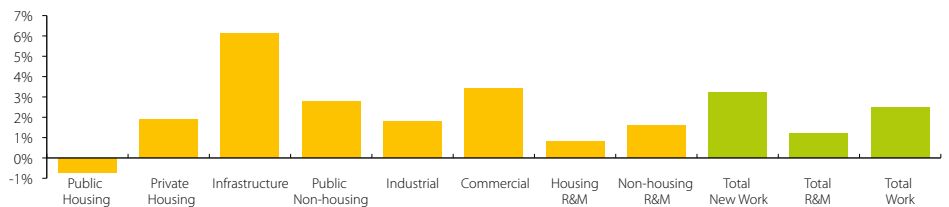
The majority of contracts awarded in February by value were in the East of England

Figure 6: Regional construction contracts awarded February 2016 (Source: Barbour ABI)



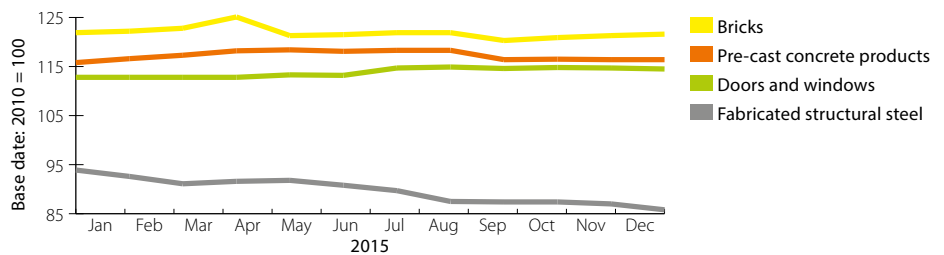
Construction output forecast 2016-2020

Figure 7: Construction activity by sector (Source: CSN, Experian)



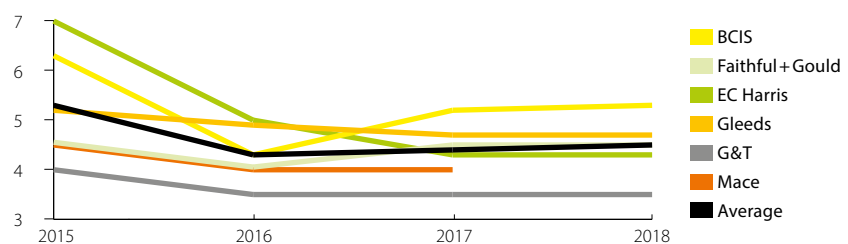
Material prices for construction are set to rise

Figure 8: Material price trend (Source: National statistics - Department for Business Innovation & Skills)



Tender price inflation forecasts

Figure 9: Tender price inflation forecast (Source: F+G construction intelligence)



For further information contact
prp-co.uk



Damian Quinn
Director, Project Services
020 7653 3519
07980 645 954
d.quinn@prp-co.uk

Shrunqi Bhatt
Graduate Quantity Surveyor
020 7653 3441
s.bhatt@prp-co.uk