



Construction Industry Tracker

June 2015

UK Construction: *on the road to recovery*

Introduction

The latest Construction Industry Tracker highlights the importance of taking a long term view of construction and examines public and private sector construction output over the last ten years, with a particular focus on growth since the economic recovery between 2013-2015.

- While there have been many headlines surrounding the retraction of construction for the last two quarters, we have conducted further analysis to examine the full picture of the construction sector.
- The report also uses Scape Group's bespoke market data to predict what will happen over the coming year.
- The Tracker is divided into four sections:
 - total output - public and private sector construction
 - public sector specific output (new housing, infrastructure, education and health)
 - private sector specific output – private (new housing, infrastructure, education and health)
 - the number of planning applications granted since 2010.

Mark Robinson, Group Chief Executive of Scape, comments: *“Our research highlights the importance of taking a long term view of the construction industry – years not months. It is not a tap which can be turned back on, and ours was a sector severely hit by the Great Recession, but we have turned the tide. Our analysis shows that over the last two years we have seen exceptional growth and given the concentrated emphasis on large infrastructure and housing projects, this trend is set to continue under the new majority government.”*

Executive Summary

On the road to recovery?

- Construction output has retracted for the last two consecutive quarters (by -2% and -8% respectively) but it is far from being in recession. The retraction was a result of a seasonal dip (visible in Q1 of every year since 2008) and the uncertainty of an election year, which our historical analysis shows impacts output levels.
- Since bottoming out in Q1 2013, construction output has actually shot up by **17%** in just **two years** – triple the growth rate of GDP (5%).
- When compared to the average growth of construction over the last 10 years (**9%**) the industry is clearly firing on all cylinders.
- Construction is set for record highs in 2015. Based on Scape's significant pipeline and project activity to date, in-depth historical research and the new government's construction mandate, we anticipate output to rise to record levels (**£34 billion**) with growth anticipated across the next three consecutive quarters of **15%**.
- The public sector has seen the most growth over the last 10 years, with construction output rising by **13%**, though the growth over the last two years has been relatively low (**6%**). We predict that there will be a further **11%** growth for the rest of this year.
- The private sector output has increased **7%** over the last decade, but has seen a significant growth in the last two years of **22%**. We predict that there will be a further **17%** growth for the rest this year.

Total Output

- Construction output has grown by **9%** in total over the last decade, but the inclination has transformed from a steady flow to sharp peaks and troughs as the industry struggles to recover from the recession.
- Output has seen a general downward trajectory from 2008 to 2013 and but we are now seeing growth return.
- Over the last two years, growth has been exceptional, with output increasing **17%** since Q1 2013 (which marked the second lowest output level and the start of the recovery).
- Over the last decade **public sector** construction output has increased by **13%**, the stronger sector over the long term. But since the recovery in 2013 growth has only increased by **6%**
- Conversely, **private sector** output has increased by just **7%** over ten years, but has seen significant growth in the last two years of **22%**

Going forward in 2015.

- Our research indicates that there will be consecutive quarters of growth over 2015 – with output levels reaching record levels of **£34,409 million**.
- This growth will be mainly driven by the private sector and especially new housing.

Construction Output in Great Britain

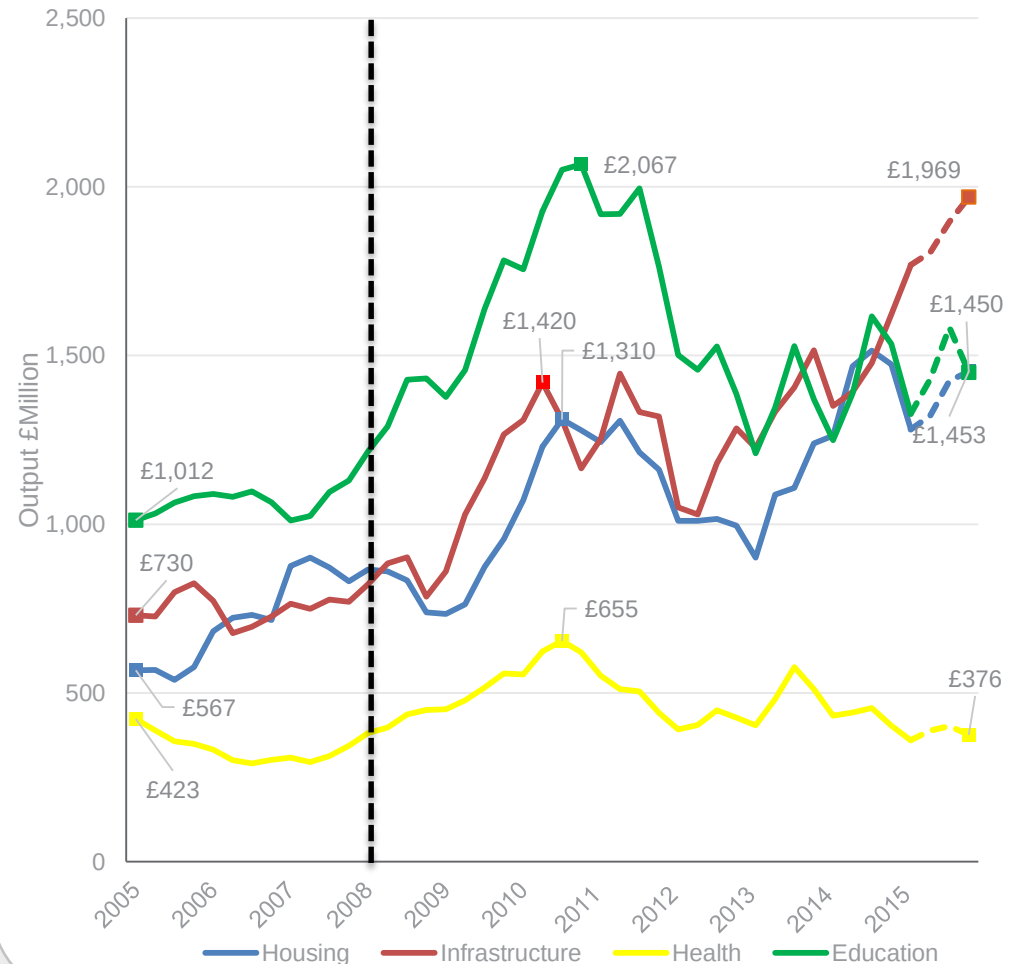
Source: ONS



Public Sector Output – Core Sector Analysis

- Public sector construction output has seen growth across all core sectors, except for health, over the last ten years.
- There was a sharp rise in public housing construction, up by **126%** over ten years, and **42%** between 2013-2015.
- This was the result of an increase in construction from Housing Associations and a diversification of the Housing Association model over the last two years – which saw an evolution to joint venture partnerships between the private and public sector which has bolstered production.
- Infrastructure rose by **142%** over the last ten years and a lesser **33%** over the last two years. This growth has been driven by large scale construction projects such as Crossrail and Broadband Delivery UK.
- Education construction saw a **31%** increase over the last ten years, though despite a surge in output in 2010 and 2011, construction then dropped off. We have since seen a resurgence, with a **10%** increase in the last two years but levels have not recovered since the Building Schools for the Future funding was withdrawn (2011).
- The health sector was the only industry across both the public and private sectors which has seen negative or zero growth over the last ten years (**-15%**) and also two years (**-11%**) – despite a brief rise between 2010 and 2011.
- In spite of consecutive government pledges to prioritise and maintain the NHS, construction output in this sector has dropped. This lack of growth is contributing to the severe and well reported challenges the service has faced over the last few years – which have been described as the worst deterioration since the 1990s.

Public Sector Value Output *Source: ONS*

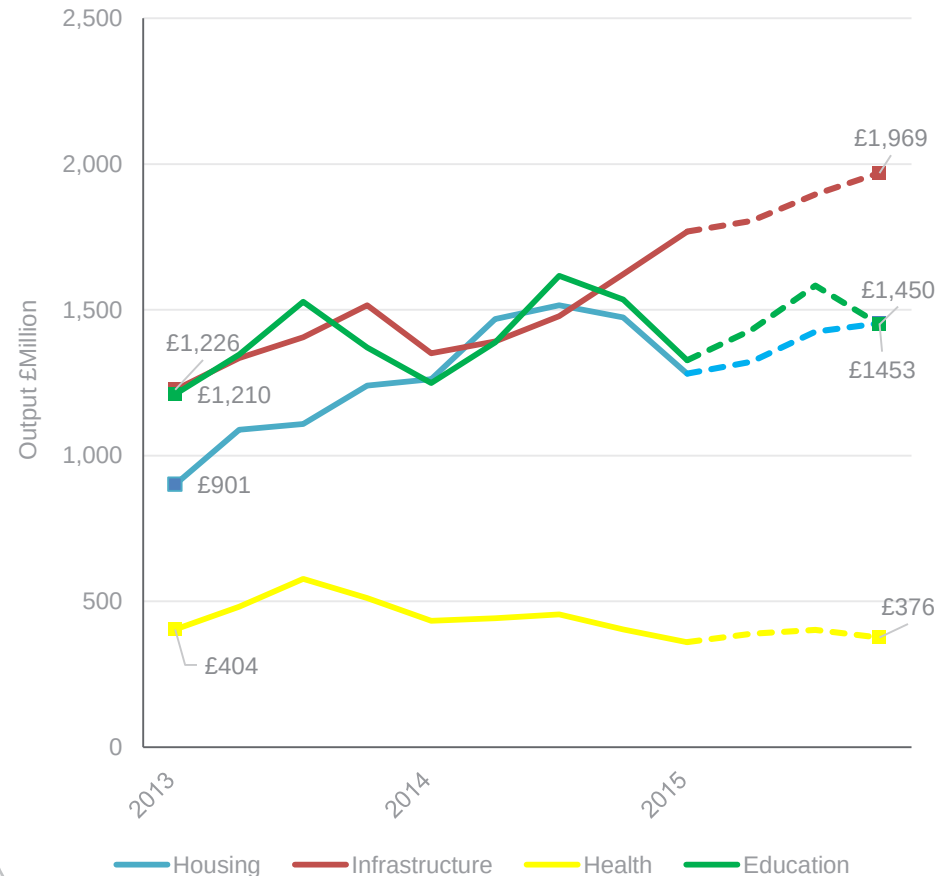


Public Sector Output – Going Forward

- Going forward into 2015, by analysing our significant pipeline of activity, historical research and government policy, our research indicates that overall, there will be a slow but steady increase in public sector construction output. There will be an increase of **11%** for the rest of the year, and an annual increase of 3%.
- The government's recent Right to Buy initiative along with the increase in development from Housing Associations and Councils will propel housing construction in the sector by **13%** for the rest of 2015.
- Large scale projects such as the Roads Revolution and HS2 will see a surge in infrastructure output by **11%** over the rest of 2015, up by 21% between Q4 2014 and Q4 2015.
- We predict that in spite of the crisis in school places the current delivery model for education construction, two in five councils are now concerned that they won't have enough primary school places this September (LGA). As a result we anticipate growth in this industry will be lower, while rising by **9%** over the rest of the year, overall it will be **-6%** lower annually.
- While the NHS has been a cornerstone of the election campaigns for all parties, the current trend combined with previous output indicates that construction output will remain relatively low over the rest of the year, rising by **4%** and overall it will be **-7%** lower. In order to reduce bed occupancy levels – which have been described as critical in the latest Kings Report – more beds must be built.

Public Sector Value Output
2013-2015

Source: ONS

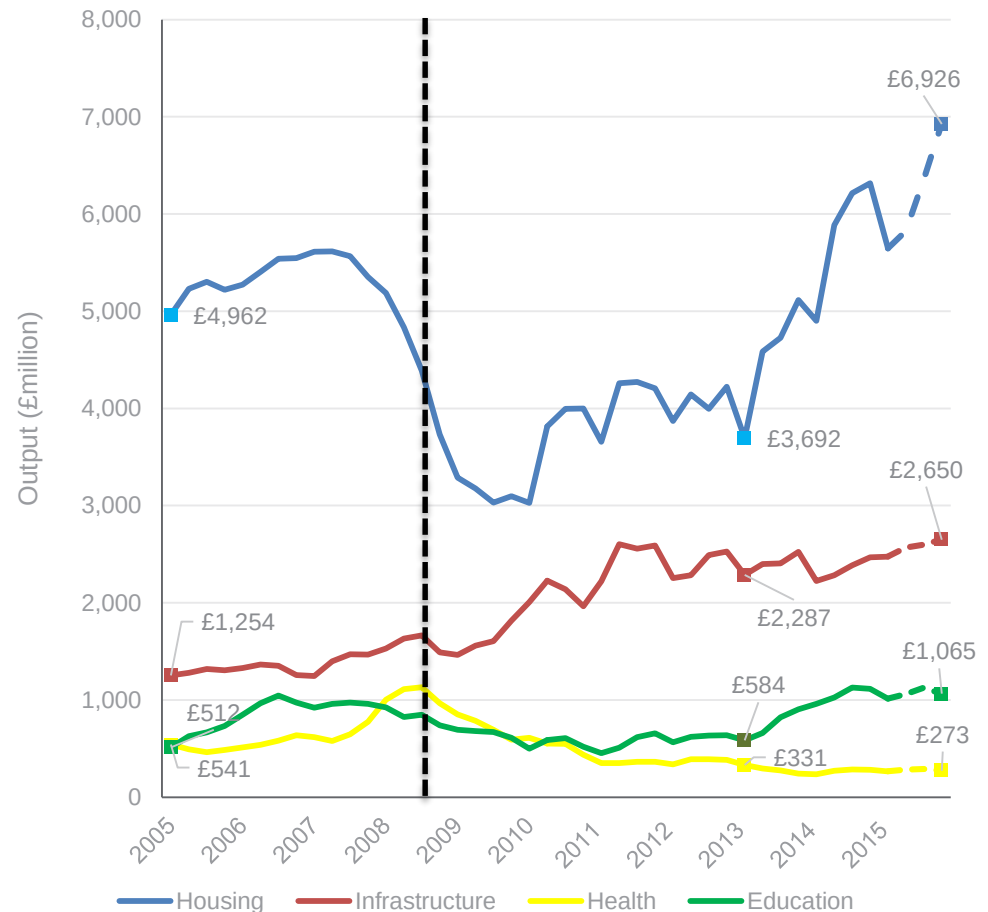


Private Sector Output – Core Sector Analysis

- Private sector construction output has seen strong growth over the last decade, with health being the only sector that declined.
- The greatest growth has been seen in the last two years across the majority of sectors.
- Private housing construction increased by **14%** over the last ten years but has skyrocketed **53%** over the last two years, reaching record new heights in Q1 2015.
- The growth in housing has been the result of a number of factors but primarily, the recovery of the housing market, a relaxation in planning regulations and the impact from new homes initiatives, such as Help to Buy and The Mayor's Housing Covenant.
- Infrastructure grew by **97%** over the last decade but just **8%** in the last two years. The majority of the recent large scale infrastructure projects have been public sector which accounts for the marginal growth of the sector.
- Education output increased by a staggering **98%** over the last decade, rising still by **74%** between 2013-2015. The increase in Academies and Free Schools is responsible for this sharp rise.
- The value of the health sector fell rapidly, decreasing by **-51%** over the last ten years and **-20%** in the last two.

Private Sector Value Output

Source: ONS

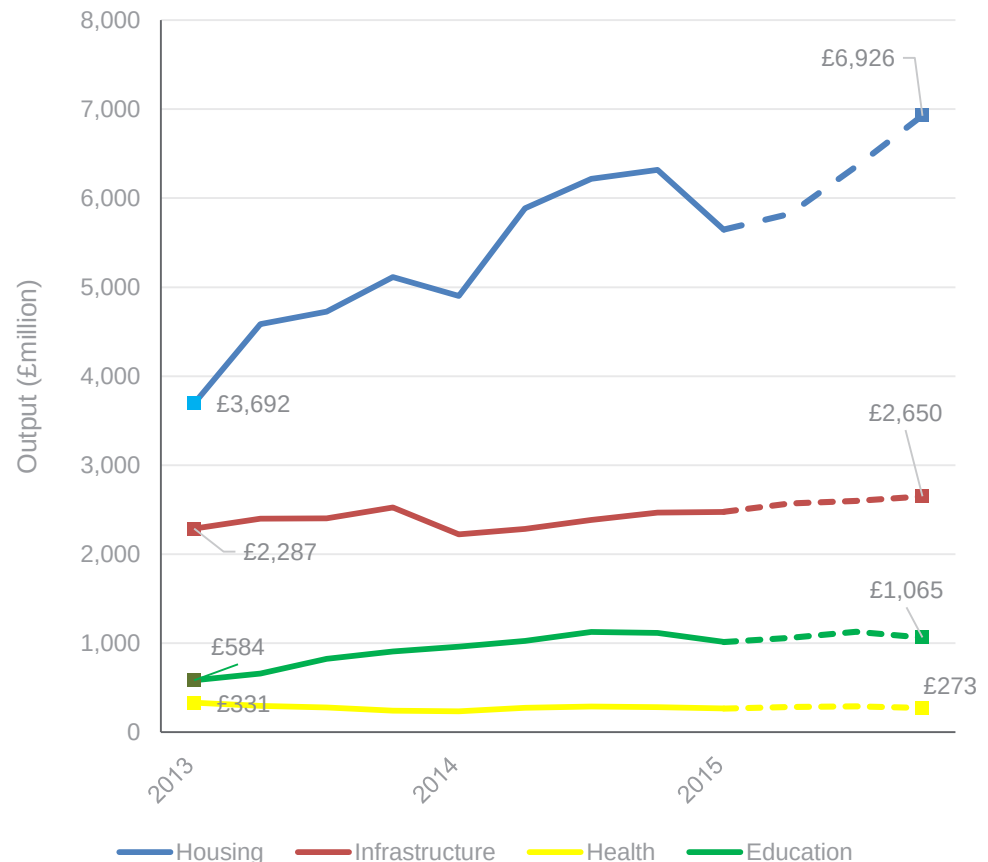


Private Sector Output – Going Forward

- As a result of the government's impetus on the growth of the private sector and construction as a whole, our research indicates that we will see three consecutive quarters of growth over the rest of the year to a record high growing by **17%**.
- This growth will be predominantly driven by housing, which has reached record highs already this year and is anticipated to rise a further **23%** by the end of the year with an annual increase of **10%**. This will be fuelled by the extension of new homes incentives and also the release and sale of public sector land to build 150,000 over the next five years.
- Infrastructure will also see growth over the year, with the National Infrastructure Plan highlighting some large scale infrastructure projects, such as the Thames Tideway Tunnel, will be funded privately. As a result we anticipate output to rise by **7%** for the rest of the year with an annual increase of also **7%**.
- Education construction output is expected to continue to rise at a steady pace for the rest of the year, increasing by **5%**. This is primarily due to the continue growth of Free Schools and Academies. However annually there is a decrease of **-4%**.
- Health will see the least amount of growth across all of the core sectors, rising by just **3%** for the rest of the year, with no notable annual increase. This is mainly down to the negative legacy left by PFI.

Private Sector Value Output
2013-2015

Source: ONS

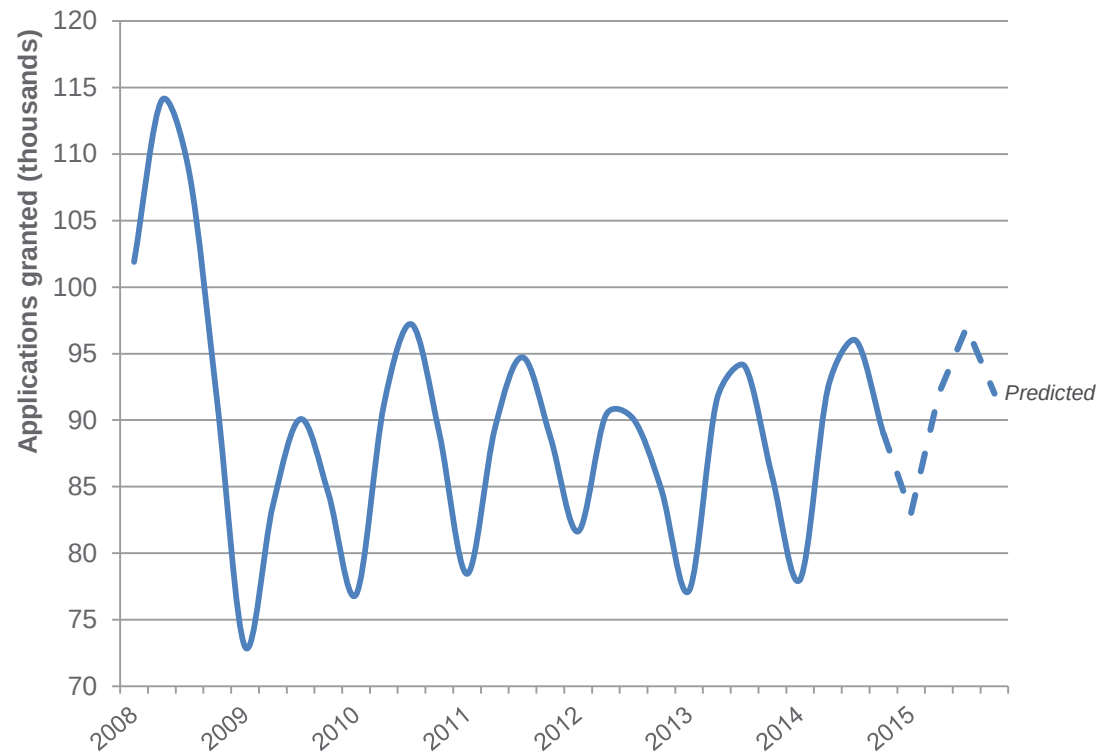


Planning Activity in the Sector

- Over the last five years, there has been a steady rise of 16% in the number of planning applications.
- However the values are markedly down from pre-recession levels, where in Q2 2008 there were 114,000 applications granted.
- We predict that by the end of the year, the number of new planning applications will have risen by 11% from Q1.
- With the current majority government prioritising housing and infrastructure projects we would anticipate the pipeline of projects to rise further in 2016.

Planning Applications Granted

Source: DCLG



Conclusions

Mark Robinson, Group Chief Executive of Scape, comments:

“The last couple of years have seen an extraordinary level of growth in the construction industry and we predict that 2015 will be another bumper year, reaching record levels of investment. The uncertainty of the election is now well behind us and the new majority government’s promises on investment in housing, infrastructure and the Northern Powerhouse, will contribute to a perfect growth climate. Interestingly the public sector has had the largest increase over the past decade, but it is private sector construction that, over the last couple of years, has really excelled - giving the industry the boost it needed. However there are still serious concerns about the state of construction in the health sector. This needs to be urgently addressed, not just for the industry but for the health of the nation as a whole.

On top of this, planning laws need to be liberalised to really create the opportunities needed for further growth in all sectors and I am hopeful that the new government will put the construction industry front and centre and give us the support we need to continue to build a better Britain.”

Methodology

The report was compiled by Instinctif Partners – winner of several industry awards for use of research including the CIPR Awards, Golden Hedgehog Awards and PR Week Awards.

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Analysis of data from the CML, DCLG, ONS and Halifax. Analysis starts at first date when relevant data series is available. Construction output is measured by value.

About Scape Group

Scape Group is a public sector owned built environment specialist offering a full suite of national frameworks and innovative design solutions.

Scape currently has over 500 clients and over 1,000 live commissions across the United Kingdom.

Bringing together the strongest teams from the public and private sector, Scape's rapidly deployed, highly measurable and collaborative approach delivers value for money and quality buildings whilst stimulating local growth and community benefits. For more information visit: www.scapegroup.co.uk



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