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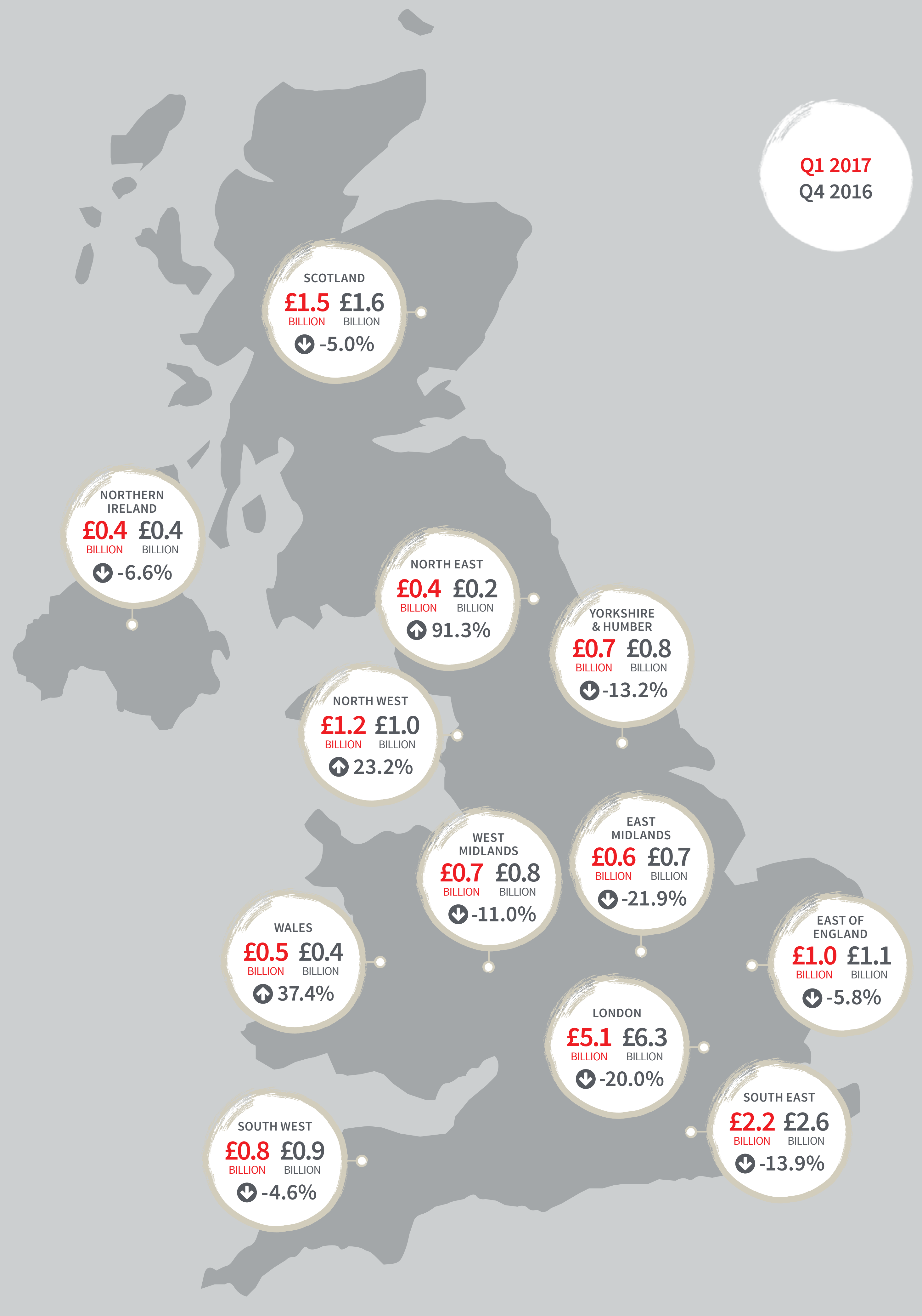
Q1 2017 UK construction sector optimistic despite slowing commercial activity

Commercial construction activity in the 12 months to the end of Q1 2017 decreased to £15.0 billion, down 9.7% on the previous quarter. March data revealed a loss of momentum, particularly in the level of new build activity, which totalled £8.9 billion (down 13.7% q-o-q). Refurbishment activity was more resilient (down just 3.0% q-o-q).

Commercial construction	New build	Refurbishment activity
↓ 9.7%	↓ 13.7%	↓ 3.0%

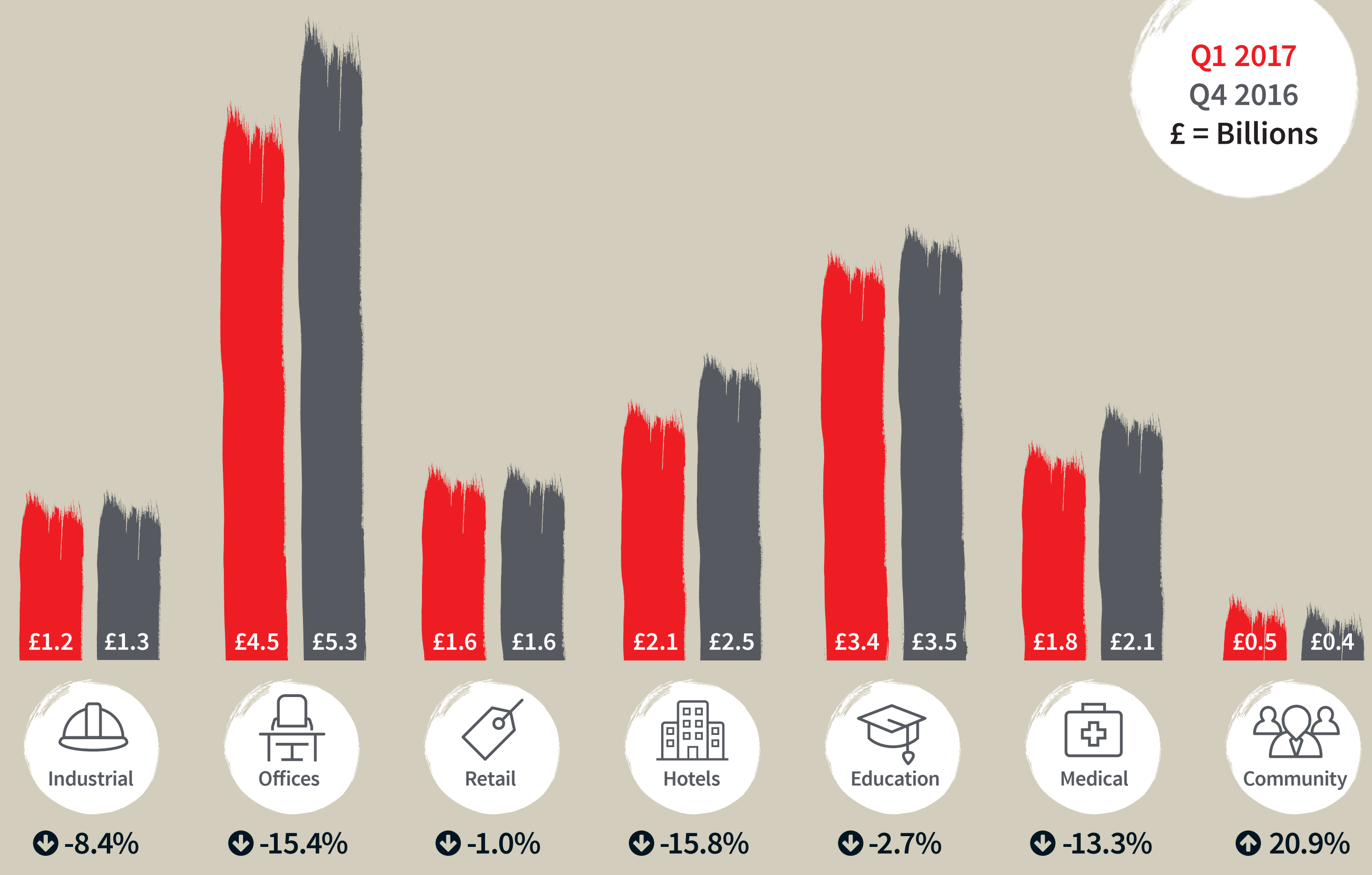
The picture across the UK



Despite weaker activity the UK construction sector remains relatively upbeat about the short-term outlook. The latest Markit/CIPS construction purchasing managers' index signalled the sharpest rate of expansion so far this year, with the PMI increasing to 53.1 in April, up from 52.2 in March. Survey respondents noted that the resilient economic backdrop had helped to drive up optimism.

At a regional level, London and the South East continue to account for almost half of all UK commercial construction activity, with volumes of £7.3 billion over the 12 months to the end of March (down 18.2% q-o-q). Elsewhere however, regional markets including Wales (up 37.4% q-o-q), the South West (down 4.6% q-o-q) and Scotland (down 5.0% q-o-q) have shown greater resilience of late, with activity either expanding or slowing only marginally. Work began on phase 3 of the £135 million extension to Cardiff University Innovation Campus as well as on the refurbishment of 85,000 sq. ft. of office space at 191 West George Street, Glasgow.

Sector dynamics



Among sectors, community projects were the most resilient with activity of £0.5 billion, up 20.9% q-o-q, albeit from a low base. A £55 million extension and development project in Andover by Defence Infrastructure Organisation, as part of the Army Basing Programme, as well as a general uptick in the number of community projects in London and the South East contributed to the increase. Activity was relatively constant across education and retail sectors with only marginal declines experienced on a quarterly comparison. In addition to the previously mentioned Cardiff University extension, work also commenced on site at Manchester University's £350 million Engineering Campus Development that forms part of its current estates capital works plan.

The outlook for the UK construction sector will be clouded by the likelihood that UK economic growth will slow, with growth of 1.8% predicted this year followed by 1.4% in 2018. While some projects may be delayed amidst ongoing uncertainty, the governments' emphasis on industrial policy could drive further construction starts, particularly in regional markets. With construction survey sentiment suggesting further expansion, the overall picture is cautiously optimistic.

Contact us

The JLL and Glenigan teams are perfectly placed to discuss any of the issues raised in this paper. Please do not hesitate to contact us.

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