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Mixed picture for commercial construction activity

Q4 2016

Commercial construction activity for the 12 months to the end of December fell to £16.7 billion, down 14.1% on the previous quarter. The latest figures reveal a slowdown primarily in the level of new build activity (down 18.1% q-o-q) with more limited change to refurbishments (down 6.8% q-o-q). This is somewhat at odds with the latest Markit/CIPS construction purchasing managers' index which signalled an upturn in new work. However this was largely a result of solid recovery in residential activity while commercial construction increased only marginally and remains the weakest performing sub-category due to more subdued investment and higher levels of uncertainty.

COMMERCIAL CONSTRUCTION

▼14.1%

NEW BUILD

▼18.1%

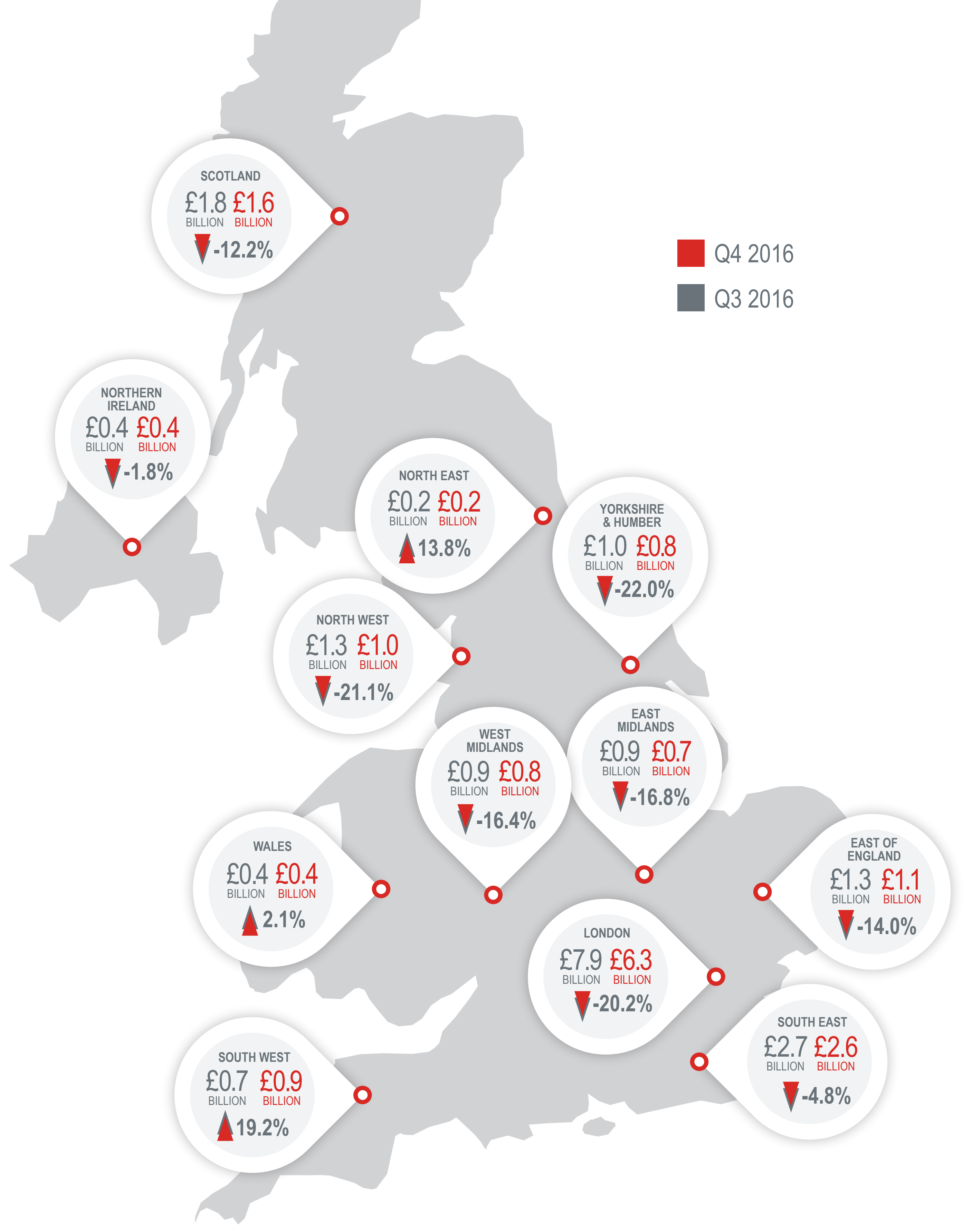
REFURBISHMENT ACTIVITY

▼6.8%

REFURB & EXTENSIONS

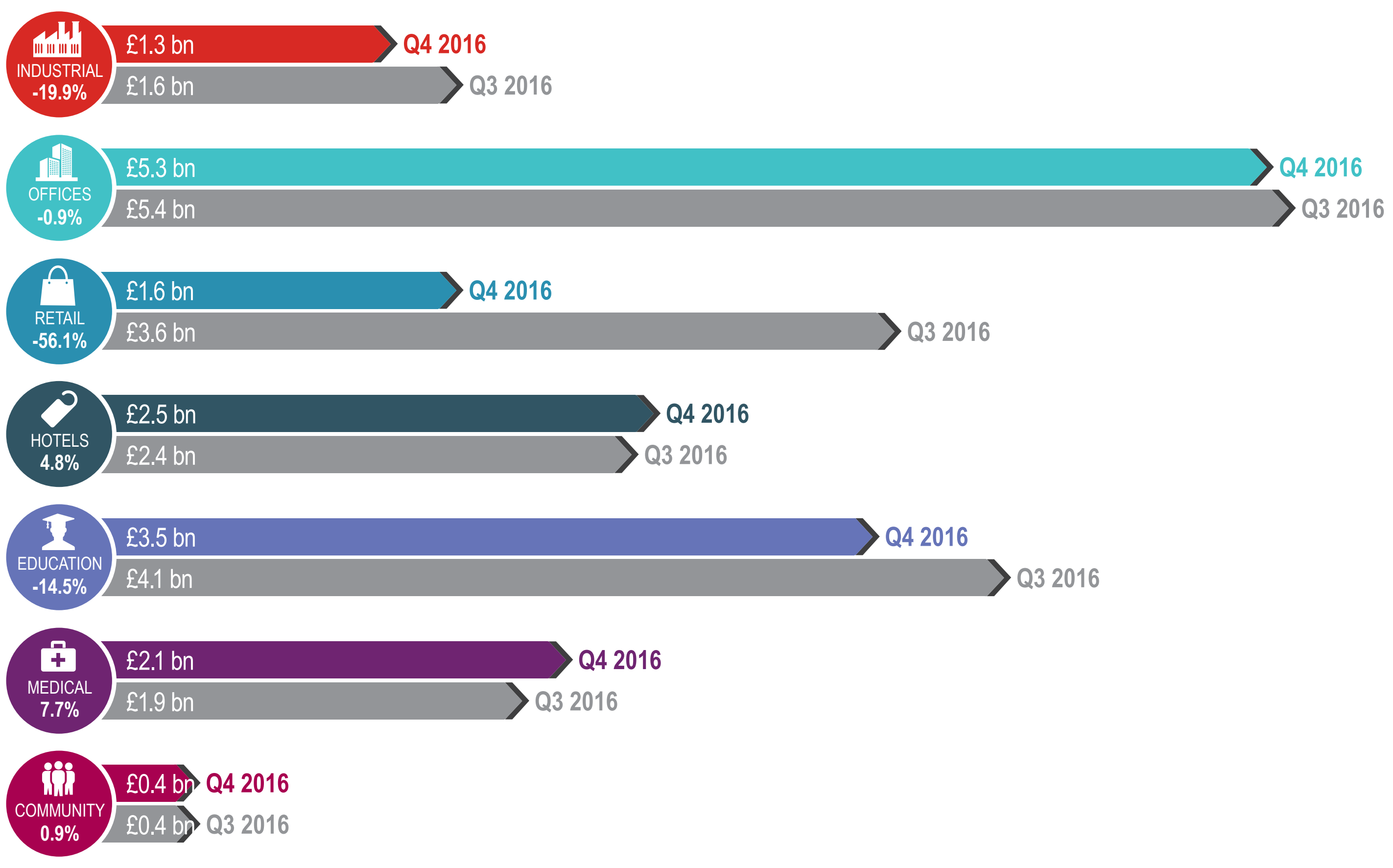
£6.3 BILLION

The picture across the UK



It was a mixed picture across the regions with commercial construction activity increasing in the North East, South West and Wales, albeit from a relatively low base. In London, activity declined in a quarterly comparison but increased 2.7% compared to the same period a year ago. Construction started at 22 Bishopsgate in London City which will provide a total of 1.3 million sq ft of office space, and is scheduled to complete in 2019. The 70,000 sq ft office refurbishment of 33 Gutter Lane also commenced in Q4 with completion scheduled for the second half of the year. Elsewhere activity was more subdued, particularly in Yorkshire and the Humber were the level of construction activity fell 22.0% y-o-y.

Sectors Dynamics



At a sector level, activity in the hotels sector continued to expand reaching £2.5 billion (up 2.4% q-o-q), marking the second consecutive increase over the quarter. Further depreciation of the pound against the dollar and euro is likely to be good news for the hotel industry, with the UK now a more affordable place to visit. Aspects of alternative sectors – notably healthcare – have continued their upward trajectory. Activity within the medical/healthcare sector for the 12 months to the end of December reached £2.1 billion (up 7.7% q-o-q).

Looking ahead, ongoing volatility will influence confidence, access to finance and views on risk, which may result in a decrease in new speculative development starts. Developers may look towards more strategic refurbishments, given quicker speed to market and greater certainty of delivery than costlier new build projects. While certain segments of the commercial construction industry may show hesitancy in progressing new starts the public sector, infrastructure and alternatives offer potential bright spots.

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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