

---

# UK Construction Industry Forecast 2022-2023

November 2021

---

# About the authors



Allan Wilen BSc (Hons),  
Glenigan Economics Director



Rhys Gadsby Bsc Econ,  
Glenigan Senior Economist

Allan heads up Glenigan's Economics Unit and has over 30 years' experience in providing insightful market analysis and forecasts on UK construction and the built environment. Following 20 successful years as Economics Director at the Construction Products Association, Allan joined Glenigan 12 years ago. During this time Allan and his team have helped hundreds of businesses confidently develop their market strategies.

Allan sits on the Consulting Committee on Construction Industry Statistics for the Dept for Business, Energy & Industrial Strategy (BEIS), is member of a Construction Leadership Council working group and is a guest lecturer in construction at the University of Reading.

Integral to the Glenigan Economics team, Rhys' analysis and reporting of UK construction industry trends and performance regularly supports businesses in their key strategic decision-making.



---

# Contents

Economic Background .....	6
Executive Summary.....	7
Private Housing .....	12
Social Housing .....	15
Industrial .....	17
Offices.....	20
Retail.....	22
Hotel & Leisure .....	24
Education.....	26
Health.....	28
Civil Engineering .....	30
Key Recommendations.....	32



---

# Tables

Table 1: Value of Underlying Project-Starts by Sector ..... 8

Table 2: Growth in the Value of Underlying Project-Starts by Sector ..... 11

---

# Charts

Chart 1: Value of Underlying Project-Starts ..... 8

Chart 2: Value of Underlying Private Residential Project Approvals by Region and Year... 13

Chart 3: Value of Underlying Private Residential Project Approvals by Project Size..... 14

Chart 4: Value of Underlying Social Housing Project-Starts by Year ..... 16

Chart 5: Value of Underlying Industrial Project-Starts by Year..... 18

Chart 6: Value of Underlying Industrial Project Approvals in 2020 and 2021 Pro-Rata..... 19

Chart 7: Value of Underlying Office Project Approvals in 2020 and 2021 Pro-Rata ..... 21

Chart 8: Value of Underlying Retail Project-Starts by Year ..... 23

Chart 9: Value of Underlying Hotel & Leisure Project-Starts by Year..... 25

Chart 10: Value of Underlying Hotel & Leisure Project Approvals in 2020 and 2021 Pro-Rata ..... 25

Chart 11: Value of Underlying Education Project-Starts by Year ..... 27

Chart 12: Value of Underlying Health Project Approvals in 2020 and 2021 Pro-Rata ..... 29

Chart 13: Value of Civil Engineering Main Contract Awards by Month ..... 31

---

# Uncertain times call for expert and dependable insight

Make better business decisions and influence your strategy with detailed and evidence-based insight from the Glenigan Economics team.

Our bespoke reports and forecasts are regularly commissioned by national and regional companies, and can help you to make informed strategic decisions that will help guide your business too.

Our research methodologies are driven by your objectives, with both quantitative analysis of our past, present and future construction industry data, and qualitative research with key industry decision makers, to identify exactly the insight you require to make your business critical decisions.



**Identifying gaps  
in your markets**



**Market sizing for  
products or services**



**Identifying  
diversification  
opportunities**



**Identifying new or  
niche markets**



**Forecasting regional  
or national growth**



**Competitor  
analysis**

Contact us today for an initial conversation about your objectives, and start guiding your strategy with expert and dependable insight from Glenigan.

**0800 060 8698 | [info@glenigan.com](mailto:info@glenigan.com) | [www.glenigan.com](http://www.glenigan.com)**

# Economic Background

The UK economy and the construction industry rebounded strongly from the impact of the COVID-19 pandemic during the first half of this year. The pace of recovery in both the economy and construction activity has subsequently moderated due in part to material and labour supply issues.

The outlook for UK construction activity has been reshaped by the pandemic, as it has for the UK and world economies. The Glenigan forecasts take stock of the direct impact of the pandemic upon the industry and assess the industry's expected path to recovery.

The forecasts are built upon the analysis of Glenigan's database of current and planned construction projects which have been analysed alongside other market and economic variables. The data has then been further analysed to take account of the potential change in historic trends and relationships in light of the pandemic.

Construction industry growth over the forecast period will be shaped by the UK's and global path out of the pandemic as well as the response by the private sector and the Government.

The key assumptions around which the forecasts are based include:

- > **Weak UK growth and the disruption to UK business revenues and confidence deters private sector investment in most non-residential sectors.**
- > **Weak real earnings growth, together with tax and interest rate rises, will check housing market turnover and curb the rise in private housebuilding activity over the next two years.**
- > **Increased public sector investment is forecast to support the recovery in construction activity. Funding commitments in the Spending Review are expected to lift government investment in areas such as health and civil engineering.**
- > **Post-Brexit customs regulations and non-tariff barriers continue to disrupt supply chains both for the construction industry and across the wider UK economy. Brexit and the pandemic have also intensified the labour shortages both in construction and supporting industries such as logistics. This is expected to disrupt the economic recovery from the pandemic.**
- > **The strength of the initial recovery in construction activity threw a spotlight on the impact of supply-side constraints on the pace of growth. We expect supply-side issues to temper the pace of growth over the forecast period. Near-term availability and cost of materials are set to be the greatest constraint on industry growth. These are anticipated to ease during 2022, while labour availability and wages are expected to be a growing supply-side constraint.**

# Executive Summary

2021 **+11%**      2022 **+7%**      2023 **+5%**

Construction activity recovered strongly during the first quarter of 2021 as the vaccine rollout and progressive unlocking of the economy started to rebuild confidence and as contractors started pandemic-delayed projects.

After this sharp initial surge of delayed projects, the flow of work has moderated during the rest of 2021, due in part to material supply disruptions. Nevertheless, starts remain substantially ahead of last year. At £54.2 billion, the value of underlying starts (projects with a construction value of less than £100 million) during 2021 is expected to be 11% up on last year although 8% behind pre-pandemic levels seen in 2019.

We now expect further growth over the next two years to lift the value of underlying starts to total £61 billion by 2023, 3% above 2019 levels.

The recovery will be driven by strong growth in health and industrial projects, increases in private and social residential activity and a belated recovery in the hotel & leisure sector. Regionally, growth will be strongest across the Midlands and the north of England, as the Government's 'levelling-up' agenda provides a spur to new development activity. Wales, Scotland and Northern Ireland are also forecast to outpace overall UK growth.

- **Private housing growth moderates as weak real earnings growth, and higher taxes and interest rates dampen housing market activity**
- **Greater public sector investment fuels recovery in social housing, health, schools, and civil engineering**
- **Belated post-pandemic recovery in Hotel & Leisure sector**
- **Online retailing catalyst for increased investment in logistics facilities**
- **Major projects boost civil engineering workloads**

EXECUTIVE SUMMARY

PRIVATE HOUSING

SOCIAL HOUSING

INDUSTRIAL

OFFICES

RETAIL

HOTEL & LEISURE

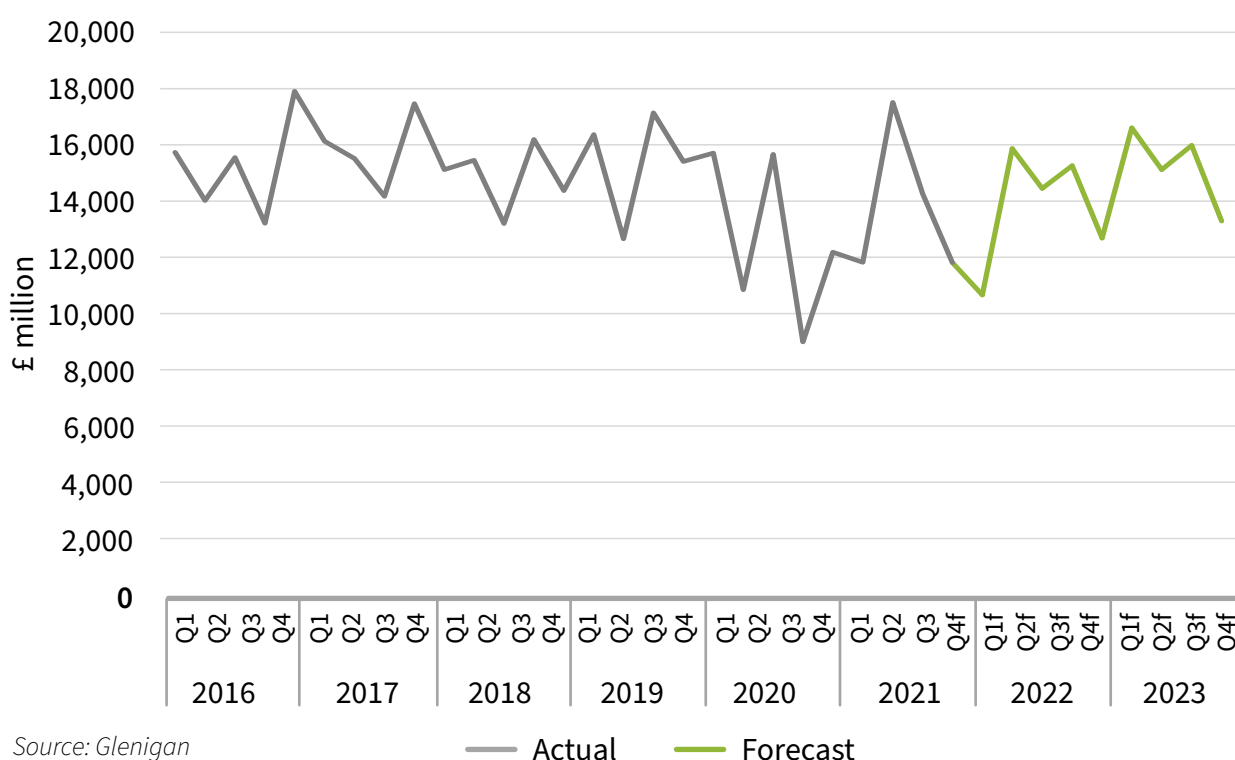
EDUCATION

HEALTH

CIVIL ENGINEERING

KEY RECOMMENDATIONS

### Chart 1: Value of Underlying Project-Starts



Source: Glenigan  
f = forecast

### Table 1: Value of Underlying Project-Starts by Sector

£ million	2019	2020	2021f	2022f	2023f
<b>PRIVATE HOUSING</b>	19,564	15,790	18,748	19,924	20,833
<b>SOCIAL HOUSING</b>	6,478	6,748	6,825	7,225	7,521
<b>INDUSTRIAL</b>	5,036	3,568	4,743	5,894	6,261
<b>OFFICES</b>	5,279	4,115	4,998	5,127	5,386
<b>RETAIL</b>	2,364	1,385	1,770	1,861	1,777
<b>HOTEL &amp; LEISURE</b>	4,106	2,457	2,649	3,316	3,892
<b>EDUCATION</b>	5,567	4,263	4,387	4,445	4,451
<b>HEALTH</b>	2,186	3,004	2,785	2,928	3,048
<b>COMMUNITY &amp; AMENITY</b>	940	908	718	748	747
<b>CIVIL ENGINEERING</b>	7,586	6,423	6,627	6,787	7,082
<b>TOTAL</b>	<b>59,107</b>	<b>48,660</b>	<b>54,251</b>	<b>58,254</b>	<b>61,000</b>

Source: Glenigan

## PRIVATE NON-RESIDENTIAL WORK

The successful roll-out of the vaccination programme and the lifting of Covid-restrictions fuelled a sharp upturn in the wider economy during the second quarter of 2021. Whilst the pace of UK economic growth moderated during subsequent quarters, the Office for Budgetary Responsibility (OBR) estimates that the economy grew by 6.5% during 2021.

The speed of the initial recovery generated pinch-points in some manufacturers' operational capacity and logistic disruptions have hit just-in-time supply chains. Whilst these have tempered the pace of the economic recovery during the second half of the year, some of the constraints have started to ease.

Whilst the initial recovery has boosted UK manufacturing activity, over the medium-term manufacturers face sluggish domestic sales growth and weak overseas demand. Although a free trade agreement with the EU is in place, UK manufacturers now have less favourable access to the EU single market, increased border and other administrative costs and potential disruption to EU source supply chains. Against this background we anticipate a continued weakening in manufacturing investment over the forecast period.

In contrast, warehousing and logistics premises are forecast to remain a growth area. The long-term growth in online retailing was accelerated during the pandemic. This will help ensure the further expansion of warehousing and logistics activity during the forecast period.



Whilst the pandemic and repeated lockdowns boosted the demand for logistics space, it exacerbated the woes faced by more traditional retailing. Whilst consumers are now returning to high streets and retail parks, online purchases still accounted for 26% of retail sales during the third quarter of this year. Where consumers choose to shop off-line is also changing, with more households working remotely and shopping locally. Retail starts have improved this year, largely driven by an increase in supermarket investment. However, a renewed weakening in retail sector activity is forecast for the next two years as an overhang of empty retail premises, weak consumer spending and the growth in online retailing accelerate the restructuring of the retail industry and depress the demand for retail premises.

The leisure and hospitality industries have been especially hard hit by the pandemic. The collapse in the number of overseas visitors to the UK and Covid regulatory restrictions on facilities' operations have damaged the financial viability of many operating in the sector. This has delayed the recovery in hotel & leisure project-starts, which are estimated to have grown by just 8% this year, having fallen by 40% in 2020. However, investor confidence is expected to rise as the financial position of the hospitality industry improves, reviving sector activity over the next two years.

EXECUTIVE  
SUMMARY

PRIVATE HOUSING

SOCIAL HOUSING

INDUSTRIAL

OFFICES

RETAIL

HOTEL  
& LEISURE

EDUCATION

HEALTH

CIVIL  
ENGINEERING

KEY  
RECOMMENDATIONS

Office starts declined sharply last year as the lockdown exacerbated a cyclical downturn in sector activity, but starts have bounced back sharply, increasing by 26% during the first ten months of 2021. The sector will benefit over the forecast period from a rise in refurbishment projects as tenants and landlords adapt premises to accommodate changing working practices. In contrast, new build office projects are likely to be slower to recover as tenants and developers assess the potential impact of structural shifts towards remote and hybrid working on the long-term demand for office accommodation.



### PRIVATE HOUSING ACTIVITY

A ‘mini-boom’ in the housing market since the lifting of the first national lockdown is now beginning to fade. Over the last eighteen months, property transactions and house prices have risen sharply as pandemic restrictions and remote working fuelled the demand for larger properties, especially in market towns and semi-rural settings. Transaction levels and house prices were also boosted by a temporary reduction in stamp duty rates until the second half of this year. The buoyant housing market has helped to lift new housing activity, driving the value of starts up 22% during the first ten months of 2021 compared to last year.

The recent surge in housing market activity is expected to fade during 2022, following the removal of the temporary stamp duty reduction and as homebuyers’ confidence is dented by weak real earnings growth and higher taxes and mortgage costs, tempering the rise in project-starts.

### INCREASED GOVERNMENT INVESTMENT

Public sector investment is set to be an important driver for construction activity over the forecast period. However, the Spending Review unveiled only modest growth in capital funding for some key central government departments over the next three years after the sharp increases seen over the last two years.

Whilst the pandemic caused a short-term hiatus in social housing starts during the first half of 2020, sector activity has subsequently stabilised. Renewed growth is anticipated over the next two years supported by increased investment by housing associations. In contrast, student accommodation starts have remained subdued during 2021, but a partial recovery in activity is anticipated over the forecast period.

EXECUTIVE SUMMARY

PRIVATE HOUSING

SOCIAL HOUSING

INDUSTRIAL

OFFICES

RETAIL

HOTEL & LEISURE

EDUCATION

HEALTH

CIVIL ENGINEERING

KEY RECOMMENDATIONS

However, the recent Spending Review included little additional capital funding in real terms for the Department of Education, which is expected to limit the resources available to local authorities for new school facilities. A fall in universities capital spending is expected to also temper the overall growth in education sector work. However, the Spending Review did highlighted plans for increased investment in FE colleges.

The outlook for the health sector is brightening, with promised increases in NHS capital funding expected to lift project-starts over the forecast period. Starts have slipped back in 2021 after last year's strong performance, which was bolstered by the Nightingale temporary hospital programme, but the sector is set to return to growth - rising by 5% in 2022 and 4% in 2023 - as NHS trusts develop and implement their investment programmes.

The Government has pledged to significantly increase investment in the UK's infrastructure. While civil engineering project-starts, along with other sectors, were disrupted and delayed last year by the pandemic, the sector is set to recover progressively over the forecast period.

Additional public sector funding is potentially available in areas such as roads. Resources have been initially directed at starting smaller improvement schemes and areas such as tackling the maintenance backlog on the nation's roads, while larger projects are gradually progressed to start on site. Increased investment in rail projects and by the regulated utilities are also set to lift sector activity over the forecast period.

Existing major infrastructure schemes, including Thames Tideway, HS2 and Hinckley Point, are also forecast to lift civil engineering output over the forecast period. The £1.7 billion Stonehenge Tunnel was scheduled to start at the end of next year, but plans will have to be reviewed following a judicial review. Reduced funding for the Government's strategic roads programme indicates that if it proceeds the scheme will now start outside the forecast period.

**Table 2: Growth in the Value of Underlying Project-Starts by Sector**

	2019	2020	2021f	2022f	2023f
<b>PRIVATE HOUSING</b>	-10%	-19%	19%	6%	5%
<b>SOCIAL HOUSING</b>	6%	4%	1%	6%	4%
<b>INDUSTRIAL</b>	5%	-29%	33%	24%	6%
<b>OFFICES</b>	15%	-22%	21%	3%	5%
<b>RETAIL</b>	3%	-41%	28%	5%	-5%
<b>HOTEL &amp; LEISURE</b>	0%	-40%	8%	25%	17%
<b>EDUCATION</b>	-8%	-23%	3%	1%	0%
<b>HEALTH</b>	-23%	37%	-7%	5%	4%
<b>COMMUNITY &amp; AMENITY</b>	22%	-3%	-21%	4%	0%
<b>CIVIL ENGINEERING</b>	20%	-15%	3%	2%	4%
<b>TOTAL</b>	<b>-1%</b>	<b>-18%</b>	<b>11%</b>	<b>7%</b>	<b>5%</b>

Source: Glenigan

EXECUTIVE SUMMARY

PRIVATE HOUSING

SOCIAL HOUSING

INDUSTRIAL

OFFICES

RETAIL

HOTEL & LEISURE

EDUCATION

HEALTH

CIVIL ENGINEERING

KEY RECOMMENDATIONS

# Private Housing

2021 <sup>+19%</sup> 2022 <sup>+6%</sup> 2023 <sup>+5%</sup>

- > Rebound in starts during 2021 and strong potential development pipeline
- > Weak household earnings, tax increases and higher mortgage costs overshadow housing market
- > Growth in private housing-starts moderates during 2022 and 2023

A ‘mini-boom’ in the housing market since the lifting of the first national lockdown has helped to drive new housing activity over the last 18 months. Property transactions and house prices rose sharply as pandemic restrictions and remote working fuelled the demand for larger properties, especially in market towns and semi-rural settings. Transactions levels and house prices were also boosted by a temporary reduction in stamp duty rates.

Conditions in the wider housing market are now beginning to cool, following the withdrawal of the temporary stamp duty reduction and as homebuyers’ confidence is dented by weak real earnings growth and higher taxes and mortgage costs. This is forecast to dampen the rise in project-starts over the next two years.

## PRIVATE HOUSING STARTS

	2019	2020	2021f	2022f	2023f
<b>£ million</b>	19,564	15,790	18,748	19,924	20,832
<b>Growth</b>	-10%	-19%	19%	6%	5%

f = forecast

PRIVATE HOUSING

SOCIAL HOUSING

INDUSTRIAL

OFFICES

RETAIL

HOTEL & LEISURE

EDUCATION

HEALTH

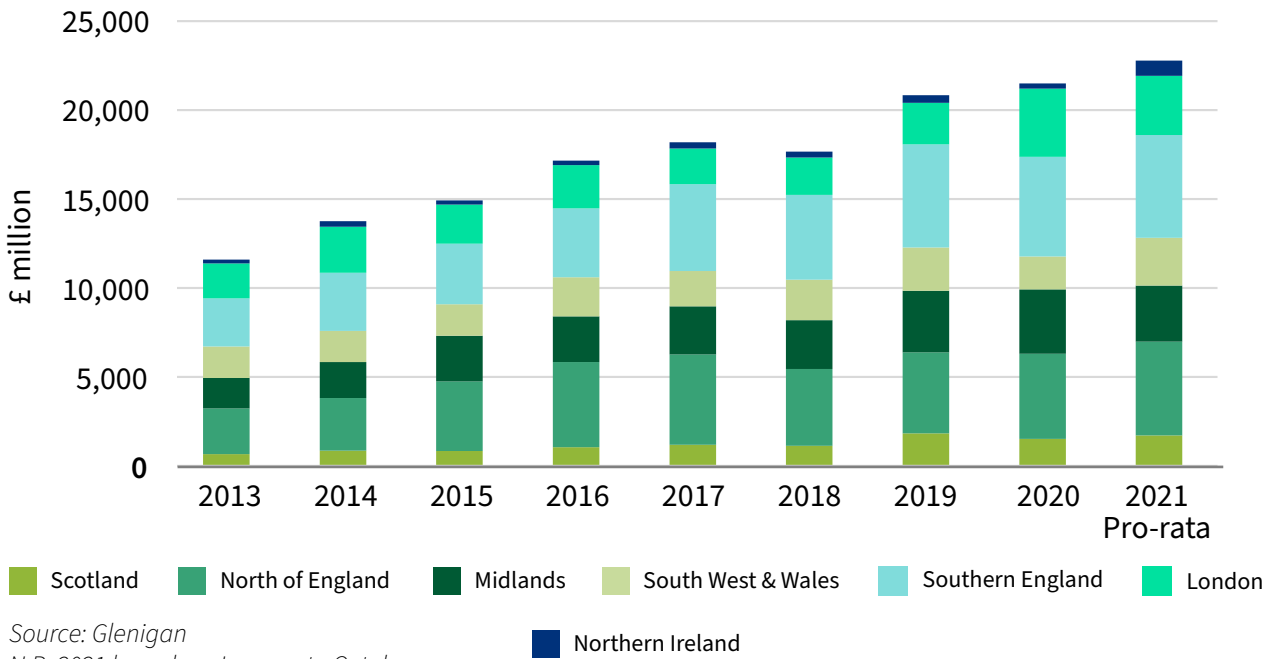
CIVIL ENGINEERING

KEY RECOMMENDATIONS

The buoyant housing market has helped to lift new housing activity. As existing sites were completed during the second half of 2020, housebuilders switched their attention to new developments. The value of starts during the first ten months of 2021 were 22% up on last year.

The potential development pipeline of projects continues to grow. The value of projects securing planning approval has strengthened every year since 2015, bar 2018 when project-approvals fell slightly by 3%. The value of approvals held up in 2020 despite the pandemic, rising by 3%, and have remained firm in 2021, with an 8% rise in approvals (seasonally adjusted) during the ten months to October.

**Chart 2: Value of Underlying Private Residential Project Approvals by Region and Year**



Source: Glenigan  
N.B. 2021 based on January to October

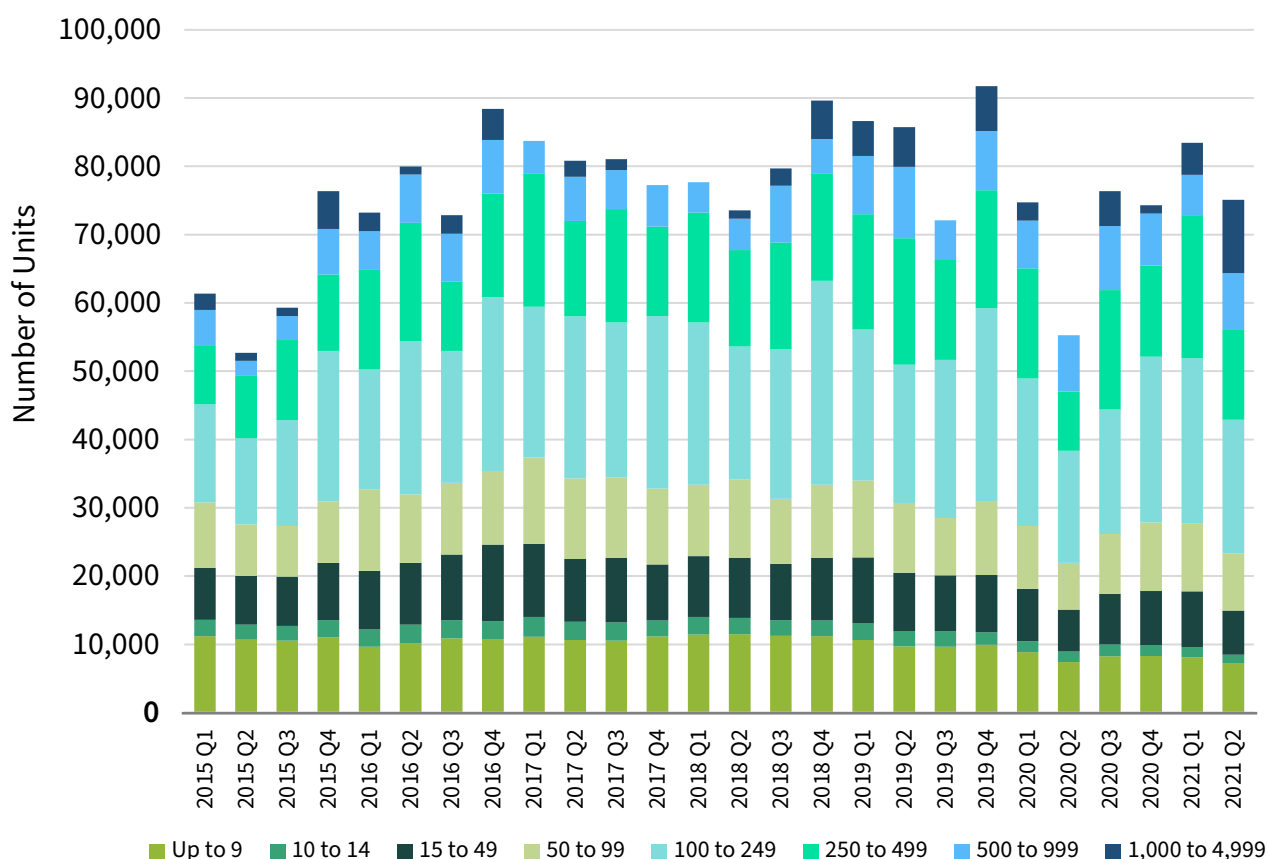
PRIVATE HOUSING  
SOCIAL HOUSING  
INDUSTRIAL  
OFFICES  
RETAIL  
HOTEL & LEISURE  
EDUCATION  
HEALTH  
CIVIL ENGINEERING  
KEY RECOMMENDATIONS

Whilst the sector benefits from a strong potential development pipeline, firm house purchaser demand and confidence is required for housebuilders to increase new housing activity.

Following the reinstatement of the higher Stamp Duty Land Tax rates, housing market conditions have begun to cool. Whilst the Nationwide reports that annual house prices rose by 9.9% over the year to October, the pace of growth has softened in recent months. Similarly, the Bank of England has tracked a progressive decline in the number of mortgage applications for house purchases since May.

The recent surge in housing market activity is expected to dissipate during 2022 following the removal of the temporary stamp duty reduction and as homebuyers' confidence is dented by weak real earnings growth and higher taxes and mortgage costs. This is forecast to temper the rise in project-starts to 6% in 2022 and 5% in 2023.

**Chart 3: Value of Underlying Private Residential Project Approvals by Project Size**



Source: Glenigan



PRIVATE HOUSING

SOCIAL HOUSING

INDUSTRIAL

OFFICES

RETAIL

HOTEL & LEISURE

EDUCATION

HEALTH

CIVIL ENGINEERING

KEY RECOMMENDATIONS

# Social Housing

2021 <sup>+1%</sup>      2022 <sup>+6%</sup>      2023 <sup>+4%</sup>

- > Strengthening pipeline of social housing projects
- > Increased support for shared ownership developments
- > Partial recovery in student accommodation development activity

## SOCIAL HOUSING STARTS

	2019	2020	2021f	2022f	2023f
<b>£ million</b>	6,478	6,748	6,825	7,225	7,521
<b>Growth</b>	6%	4%	1%	6%	4%

*f = forecast*

Whilst the pandemic caused a short-term hiatus in social housing starts during the first half of 2020, sector activity subsequently stabilised due to increased housing association investment. In contrast, student accommodation work has been declining over the last couple of years, falling sharply in 2019 and 2020 and remaining weak this year. We anticipate student accommodation starts to partially recover over the forecast period but to remain below 2018 levels.

The value of housing association project-starts has climbed steadily over the last two years. Whilst the pandemic caused a short-term hiatus in social housing starts during the first half of 2020, increased investment from associations subsequently stabilised sector activity and the value of housing projects starting on-site has remained firm this year.

Housing associations are now better placed to finance and take forward new developments than in recent years. Government requirements limiting association's rent increases to 1% below the rate of inflation have been lifted, providing associations with greater flexibility to increase their borrowing to fund new developments.

In addition, last year saw a sharp rise in capital funding for MHCLG housing and communities' projects to £9 billion. Whilst the departmental capital budget has declined this year, capital funding for the renamed DLUHC is set to almost recover last year's level in 2022/23. This should help to underpin sector activity over the next year throughout 2022, before the capital budget falls back from 2023/24 onwards.

SOCIAL HOUSING

INDUSTRIAL

OFFICES

RETAIL

HOTEL & LEISURE

EDUCATION

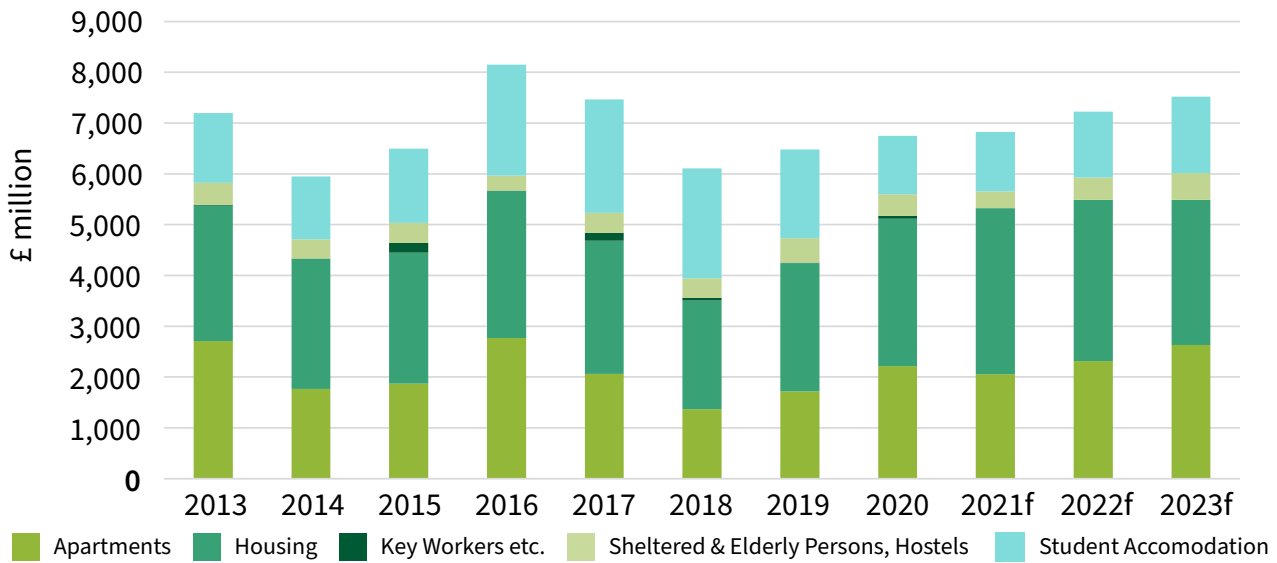
HEALTH

CIVIL ENGINEERING

KEY RECOMMENDATIONS

Having grown sharply during 2019 and 2020, housing association work starting on-site has remained firm during 2021, rising by 1%. We expect stronger growth of 5% next year with a 2% rise anticipated for 2023.

**Chart 4: Value of Underlying Social Housing Project-Starts by Year**



Source: Glenigan  
f = forecast

For much of the past decade, student accommodation work has been a bright spot within the housing sector, with project-starts growing by 65% over the five years to 2018. However, student accommodation starts declined heavily between 2019 and 2020 and have remained weak this year as the sector entered a period of consolidation and activity was disrupted by the pandemic last year. The pandemic and Brexit are expected to have longer term implications for the purpose-built student accommodation market which is disproportionately dependent upon lettings to overseas students. Overall student numbers are projected to decline over the medium term and overseas student numbers are expected to be especially vulnerable. While the value of student accommodation starts is expected to improve over the next two years, by the end of the forecast period they will still be 30% below their 2018 peak.



SOCIAL HOUSING

INDUSTRIAL

OFFICES

RETAIL

HOTEL & LEISURE

EDUCATION

HEALTH

CIVIL ENGINEERING

KEY RECOMMENDATIONS

# Industrial

2021 <sup>+33%</sup> 2022 <sup>+24%</sup> 2023 <sup>+6%</sup>

- > **Rapid increase in demand for warehouse and logistics space**
- > **Firm growth in project approvals throughout 2021**
- > **Strong growth in project-starts anticipated during the forecast period**

As with most sectors, the industrial sector failed to avoid a sharp fall in project-starts in 2020 with the value having declined 29% against the previous year. Manufacturing work starting on-site fell by over a third (34%) while warehousing and logistics project-starts declined 22% against the previous year. This followed three years of consecutive increases for sector-starts. However, project-starts have recovered greatly in 2021, with the value forecast to increase by 33%. Sharp growth in project approvals over the past two years provides a strong pipeline of projects that will help to boost starts further over the forecast period.

## INDUSTRIAL STARTS

	2019	2020	2021f	2022f	2023f
<b>£ million</b>	5,036	3,568	4,743	5,894	6,261
<b>Growth</b>	5%	-29%	33%	24%	6%

*f = forecast*

The warehousing and logistics sub-sector has been the strongest performing sector since 2018. Structural changes in the retail sector, accelerated by the pandemic, has rapidly increased demand for logistics space. According to the Office of National Statistics, internet sales as a percentage of total retail sales increased from 19.1% of all retail sales in February 2020 to a peak of 37.1% in January 2021. This has since fallen to 25.9% in September 2021 but is still substantially above pre-pandemic levels.

The rise in online sales has intensified the demand for logistics space, as online retailers continue to grow their customer bases. According to property agent Cushman & Wakefield, available warehouse space in the UK has fallen to the lowest level since Cushman started tracking the sector in 2009. CBRE also recorded the lowest vacancy rate for logistics space on record (1.53%) at the end of September. Current projections from Cushman suggest that the UK could run out of available space within a year. This surge in demand has largely benefitted the sector and has translated quickly into sector activity.

INDUSTRIAL

OFFICES

RETAIL

HOTEL & LEISURE

EDUCATION

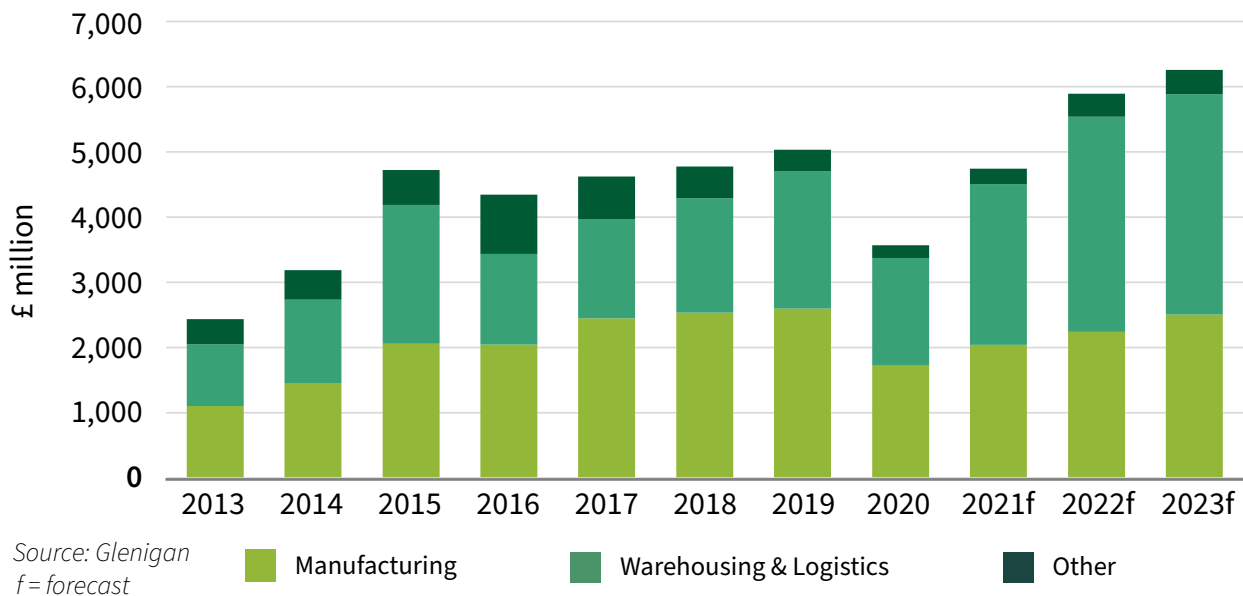
HEALTH

CIVIL ENGINEERING

KEY RECOMMENDATIONS

Disruption to supply chains as a result of both the introduction of customs controls with the EU single market and the pandemic has also likely fuelled additional demand for precautionary warehousing space. Following anticipated growth of 49% in 2021, we expect warehousing and logistics work starting on-site to increase by a further 34% in 2022, followed by 2% in 2023.

**Chart 5: Value of Underlying Industrial Project-Starts by Year**



In contrast, manufacturers have faced tough market conditions over the last three years. This has restricted their need and ability to invest in additional operating capacity, with many manufacturers having struggled to make a profit.

Manufacturing activity rebounded sharply at the beginning of 2021 as the UK economy emerged from lockdown and as the rapid roll-out of the vaccination programme took effect. Industry body Make UK said in June 2021 that manufacturing output volumes reported during the previous quarter rose at the fastest pace since the series started 30 years ago. In addition, the UK Manufacturing PMI by IHS Markit reached an all-time high of 65.60 points in May 2021.

However, spiralling costs, shortages of labour and delivery delays caused by a shortage of HGV drivers have disrupted schedules and have been a constraint on growth during the second half of 2021. Furthermore, more subdued UK economic growth and high inflation is expected to dampen domestic demand for manufacturers' products. Less favourable access to the EU single market is also likely to exacerbate the situation for manufacturers.

INDUSTRIAL

OFFICES

RETAIL

HOTEL & LEISURE

EDUCATION

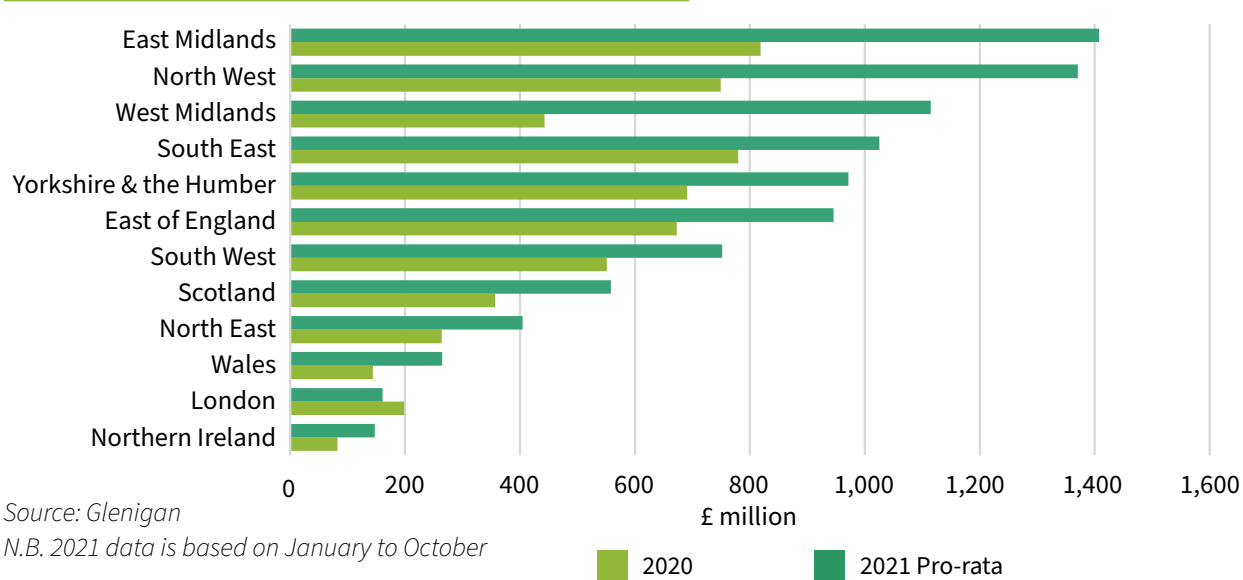
HEALTH

CIVIL ENGINEERING

KEY RECOMMENDATIONS

Against this adverse economic background, investment in new premises is expected to be weak over the forecast period as manufacturers prioritise efficiency improvements over additional capacity. We anticipated the value of manufacturing work starting on-site to reach pre-pandemic levels by the end of the forecast period.

**Chart 6: Value of Underlying Industrial Project Approvals in 2020 and 2021 Pro-Rata**



INDUSTRIAL

OFFICES

RETAIL

HOTEL & LEISURE

EDUCATION

HEALTH

CIVIL ENGINEERING

KEY RECOMMENDATIONS

# Offices

2021 <sup>+21%</sup>    2022 <sup>+3%</sup>    2023 <sup>+5%</sup>

- > **Underlying activity largely driven by refurbishment and conversion schemes**
- > **Office occupiers re-assessing their long-term accommodation needs**

Office work starting on-site is forecast to almost completely recover from the sharp decline experienced as a result of the pandemic. In addition, the value of office-starts is anticipated to slowly increase throughout the forecast period, surpassing 2019 levels in 2023. An increase in refurbishment schemes has boosted project-starts in 2021 as tenants and landlords adapt premises to accommodate changing working practices.

## OFFICE STARTS

	2019	2020	2021f	2022f	2023f
<b>£ million</b>	5,279	4,115	4,998	5,127	5,386
<b>Growth</b>	15%	-22%	21%	3%	5%

*f = forecast*

New build office projects have been slower to recover as tenants and developers assess the impact of the pandemic on long-term demand for office accommodation as a result of a potentially permanent shift to remote and hybrid working. This is likely to lead to firms requiring less overall office space but also accommodation in alternative locations. While this is expected to hold back new office accommodation activity in the short-term, it is acting as a spur for refurbishment works as firms remodel existing premises to create more collaborative spaces and downsize existing accommodation.

Before the pandemic, demand for high-quality office space had been growing in the UK's 'core' cities outside of London such as Manchester, Birmingham, and Liverpool. Recently completed projects and those currently under construction are already increasing the supply of available floorspace. This, as well as firms assessing their need for office space, is expected to hold back growth in new-build project-starts during the forecast period.

OFFICES

RETAIL

HOTEL & LEISURE

EDUCATION

HEALTH

CIVIL ENGINEERING

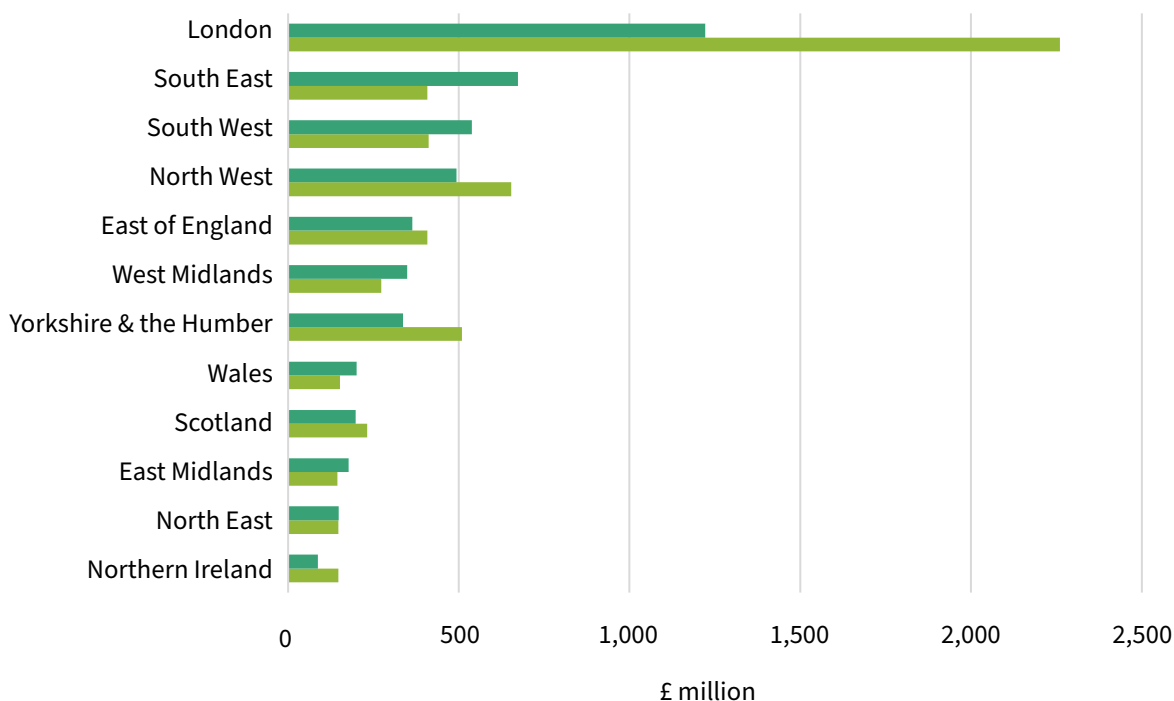
KEY RECOMMENDATIONS

Following strong growth in 2015, office-starts in London declined for three consecutive years as concerns over Brexit dampened development activity in the Capital’s financial quarters. Project-starts in 2019 improved significantly on previous years following much-needed political certainty. As with most sectors, the value of underlying office-starts fell sharply in 2020 but have recovered swiftly in 2021, with project-starts expected to increase 21%.

Encouragingly, the development pipeline is strong and remained so throughout the entire pandemic. Overall, underlying detailed planning approvals increased 34% in 2020 following growth of 23% in 2019. The value of underlying office project-approvals in London climbed 58% in 2020 following growth of 46% in 2019 and 47% in 2018. However, structural changes in occupiers’ accommodation requirements are expected to delay the number of projects currently in the development pipeline, with the value in London during 2021 to October having fallen 39% compared with the previous year.

Overall, we anticipate the value of office project-starts in 2021 to largely bounce back from the decline experienced in 2020, before steadily increasing by 3% in 2022 and 5% in 2023.

**Chart 7: Value of Underlying Office Project Approvals in 2020 and 2021 Pro-Rata**



Source: Glenigan

N.B. 2021 data is based on January to October

■ 2020 ■ 2021 Pro-rata

OFFICES  
RETAIL  
HOTEL & LEISURE  
EDUCATION  
HEALTH  
CIVIL ENGINEERING  
KEY RECOMMENDATIONS

# Retail

2021 <sup>+28%</sup> 2022 <sup>+5%</sup> 2023 <sup>-5%</sup>

- > Demand for retail space hit by sharp growth in online retailing spurred by the pandemic
- > Inflation and weak household earnings likely to impact the sector further
- > Optimism provided by supermarket activity

The retail sector has been one of the worst affected sectors during the past two years. The pandemic has intensified pressure on traditional retailers as many stores were closed for much of 2020 and early-2021.

'Bricks & Mortar' retailing faces continued pressure over the next two years from weak consumer spending growth and the continued erosion of market share to online retailing. Retail development activity is expected to remain low throughout the forecast period as retailers rationalise their stores in the face of faltering consumer spending and the growth of online sales.

## RETAIL STARTS

	2019	2020	2021f	2022f	2023f
<b>£ million</b>	2,125	1,385	1,770	1,861	1,777
<b>Growth</b>	-9%	-35%	28%	5%	-5%

f = forecast

Retailers have faced very challenging conditions in recent years with a marked shift in consumer shopping habits accelerated by the pandemic.

Internet sales as a percentage of total retail sales increased from 19.1% in February 2020 to a peak of 37.1% in January 2021. Although this figure dropped to 25.9% in September 2021, it is still a marked shift from pre-pandemic behaviour. Indeed, the latest data from Springboard showed that shopper footfall across all UK shopping destinations in October 2021 was 13% lower than two years ago. High street footfall was 15% lower and shopping centre footfall was down 20%.

Grocery stores performed well during the pandemic as households were eating out far less frequently. While overall grocery store sales dropped in Spring 2021 following the re-opening of restaurants and hospitality, sales are still relatively high with the ONS reporting that sales were up 0.6% in September 2021 and were 3.9% above pre-pandemic levels in February 2020.

RETAIL

HOTEL & LEISURE

EDUCATION

HEALTH

CIVIL ENGINEERING

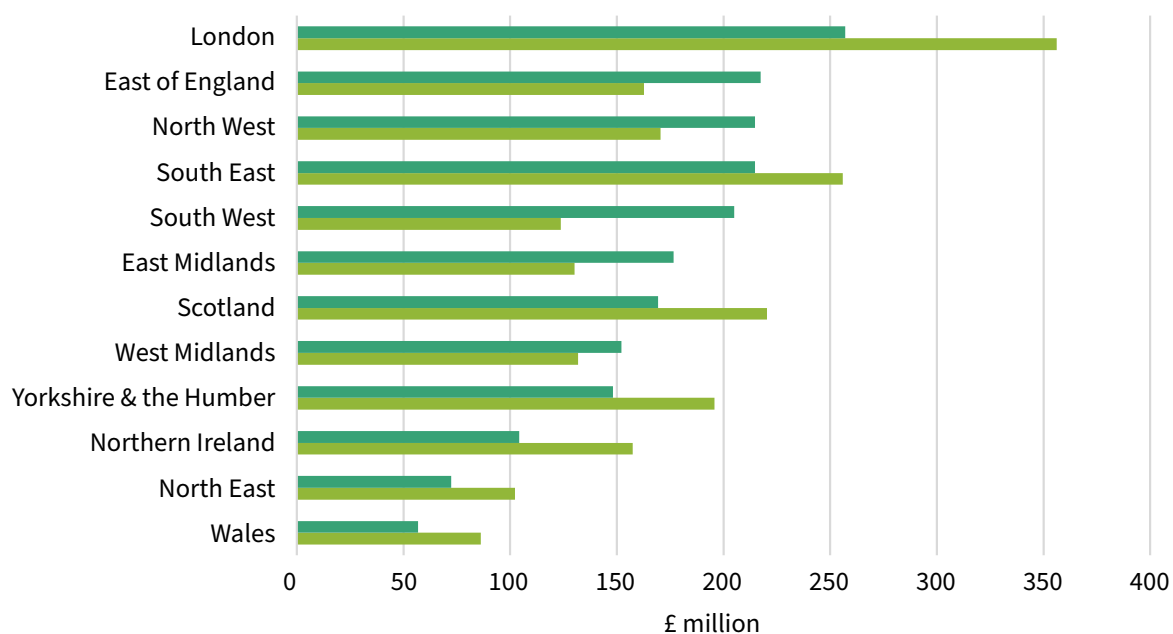
KEY RECOMMENDATIONS

Non-food sales have been slow to recover and have been hit particularly hard by changing consumer shopping habits. Household goods store sales have struggled, declining 9.3% in September largely due to a 14.8% fall in furniture and lighting store sales volumes. Household goods store sales have fallen each month since May 2021. Chemists, toy and sports equipment stores have also struggled since the re-opening of non-essential retail. Clothing and department store sales have performed better in recent months but remain far behind pre-pandemic levels.

Against this backdrop, the retail property market faces weakening demand for retail space and softening rental values as some retailers fail, such as Arcadia Group and Debenhams at the start of the year. Others will seek to rationalise their existing estate and renegotiate rental terms.

Slow retail sales growth and the rise of online sales are predicted to feed through to a decline in new retail project-starts over the forecast period. While project-starts are expected to increase 28% this year, they are still projected to remain lower than 2019 levels. We anticipate work starting on-site will increase by 5% in 2022 but fall by 5% the following year.

**Chart 8: Value of Underlying Retail Project-Starts by Year**



Source: Glenigan

N.B. 2021 data is based on January to October

■ 2020 ■ 2021 Pro-rata

However, opportunities may arise from changing consumer shopping habits. Continued remote working has encouraged households to shop more locally which could provide a boost to local high streets. Retail refurbishment and fit-out activity is likely to benefit in the short term, as retailers rationalise their estate and re-model their retained stores to lure back customers and better accommodate services such as click & collect.

Supermarket activity has performed strongly in 2021 and is forecast to increase 32% this year to reach its highest level for nine years. The combination of rising online sales and more frequent local 'top-up' shopping trips is expected to lift investment by major supermarket chains in their stores over the forecast period and the deep discounters are investing substantially in new store openings.

RETAIL

HOTEL & LEISURE

EDUCATION

HEALTH

CIVIL ENGINEERING

KEY RECOMMENDATIONS

# Hotel & Leisure

2021 <sup>+8%</sup>      2022 <sup>+25%</sup>      2023 <sup>+17%</sup>

- > **Strengthening development pipeline, but investors remain cautious for now**
- > **Slump in overseas visitors likely to remain until past the forecast period**
- > **Project-starts not predicted to reach pre-pandemic levels until at least 2024**

The hospitality and leisure industries have been hit particularly hard by the pandemic. A total collapse in the number of overseas visitors to the UK and restrictions on hospitality throughout 2020 and much of 2021 has damaged the financial viability of many operating in the sector in the short term. This has delayed the recovery in hotel & leisure project-starts, which are estimated to have recovered by just 8% this year, following a 40% decline last year. However, investor confidence is expected to rise as the financial position of the hospitality industry improves, reviving sector activity over the next two years.

## HOTEL & LEISURE STARTS

	2019	2020	2021f	2022f	2023f
<b>£ million</b>	4,106	2,457	2,649	3,316	3,892
<b>Growth</b>	0%	-40%	8%	25%	17%

*f = forecast*

The total value of hotel & leisure work starting on-site in 2020 fell 40% against the previous year. This was the second-sharpest decline of any sector despite the development pipeline of planned projects being firm throughout.

Hotels faced continued restrictions during the various lockdowns and investors have remained cautious as the UK has emerged out of the pandemic given the harsh conditions faced. Hotel project-starts fell 32% in 2020 and are forecast to fall by a further 2% in 2021 while much of the rest of the sector recovers.

HOTEL & LEISURE

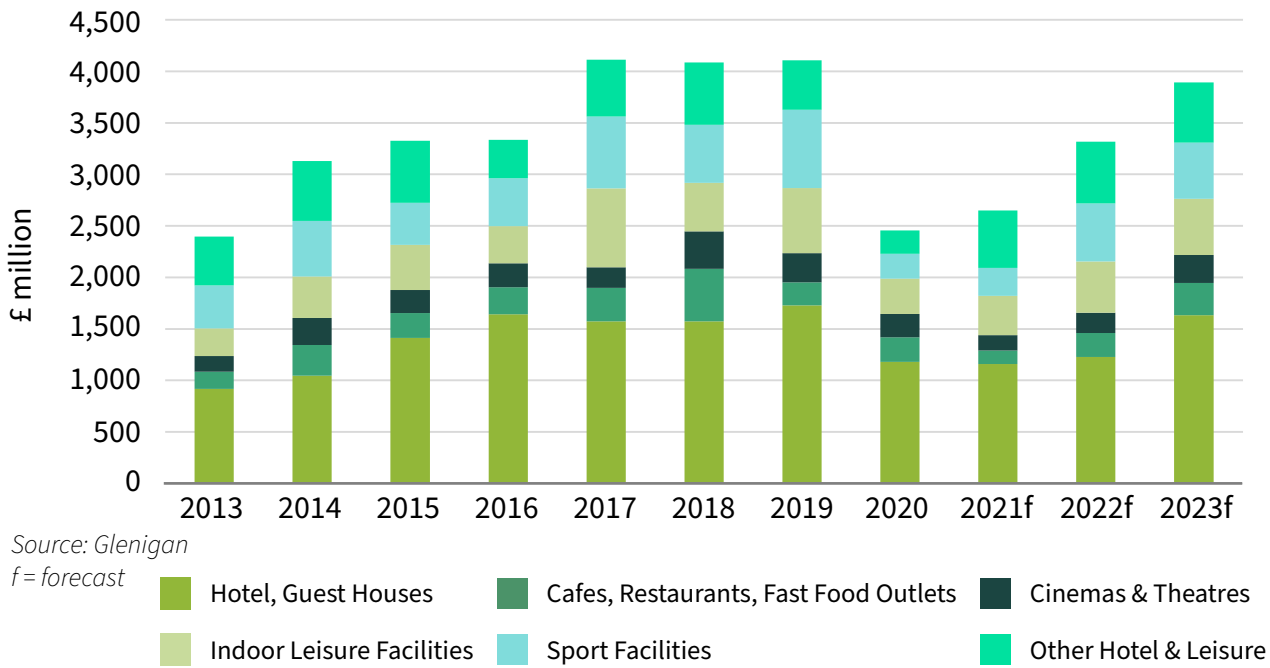
EDUCATION

HEALTH

CIVIL ENGINEERING

KEY RECOMMENDATIONS

**Chart 9: Value of Underlying Hotel & Leisure Project-Starts by Year**

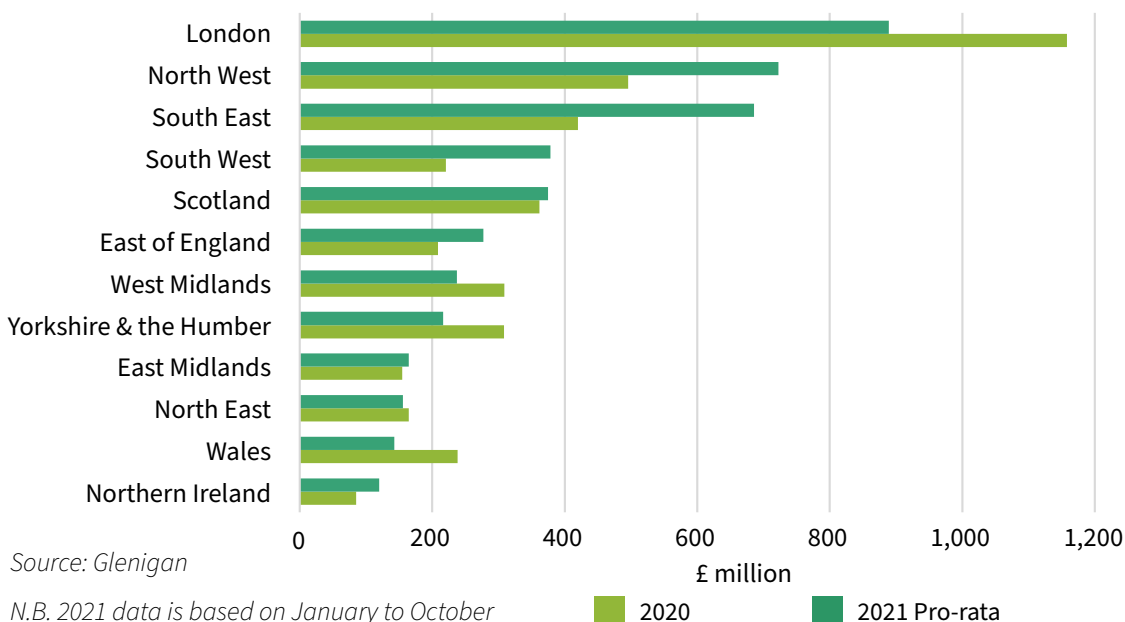


Overseas visitor numbers are not likely to recover until at least the end of the forecast period, with London’s Heathrow Airport not expecting air traffic to completely recover until at least 2026 despite a pick-up during the third quarter of this year. This will prevent the sector from making a significant recovery until after the forecast period, especially in regions such as the Capital that are especially reliant on overseas visitors.

However, the sector was boosted in the summer following the complete easing of lockdown restrictions. The sector was able to take a greater share of discretionary spending by UK households as travel restrictions prompted UK consumers to holiday in the UK. This has perhaps influenced project-starts which have slowly increased throughout 2021.

A more certain outlook is expected to encourage investors to push back projects to beyond 2022, with the upturn in hotel & leisure driven by investment in facilities directed at capturing UK households’ discretionary spending. Crucially though, project-starts are forecast to remain below pre-pandemic levels at the end of the forecast period.

**Chart 10: Value of Underlying Hotel & Leisure Project Approvals in 2020 and 2021 Pro-Rata**



HOTEL & LEISURE  
EDUCATION  
HEALTH  
CIVIL ENGINEERING  
KEY RECOMMENDATIONS

# Education

2021 <sup>+3%</sup>      2022 <sup>+1%</sup>      2023 <sup>0%</sup>

- > **Modest increase in departmental capital budget to hold back recovery**
- > **Further education projects anticipated to increase from 2022**

Project-starts in 2020 fell 23% following an 8% decline in 2019 compared to the previous year. Detailed planning approvals have also declined for three consecutive years.

The latest Spending Review in October 2021 revealed that the Department for Education annual capital budget is to grow by an average of only 0.5% per annum in real terms over the next three years, which is likely to hold back the speed of recovery within the sector. Project-starts are not forecast to fully recover from the decline experienced in 2020 until beyond 2023.

## EDUCATION STARTS

	2019	2020	2021f	2022f	2023f
<b>£ million</b>	5,567	4,263	4,387	4,445	4,451
<b>Growth</b>	-8%	-23%	3%	1%	0%

*f = forecast*

The number of secondary school pupils is predicted to rise 15% by 2027, according to the Department of Education. However, investment in additional capacity to accommodate the rise in pupil numbers has been slow.

Local authorities' tight financial positions have been exacerbated by the pandemic. Cash-strapped councils have previously sought to accommodate the initial rise in pupil numbers through the expansion of existing schools, however new schools will also be required, especially in areas of high growth such as London and the North West.

The Government is committed to rebuilding 500 schools over the next decade, however the recent Spending Review included little additional capital funding in real terms for the Department for Education.

School building project-starts are not forecast to recover to pre-pandemic levels until beyond the forecast period.

EDUCATION

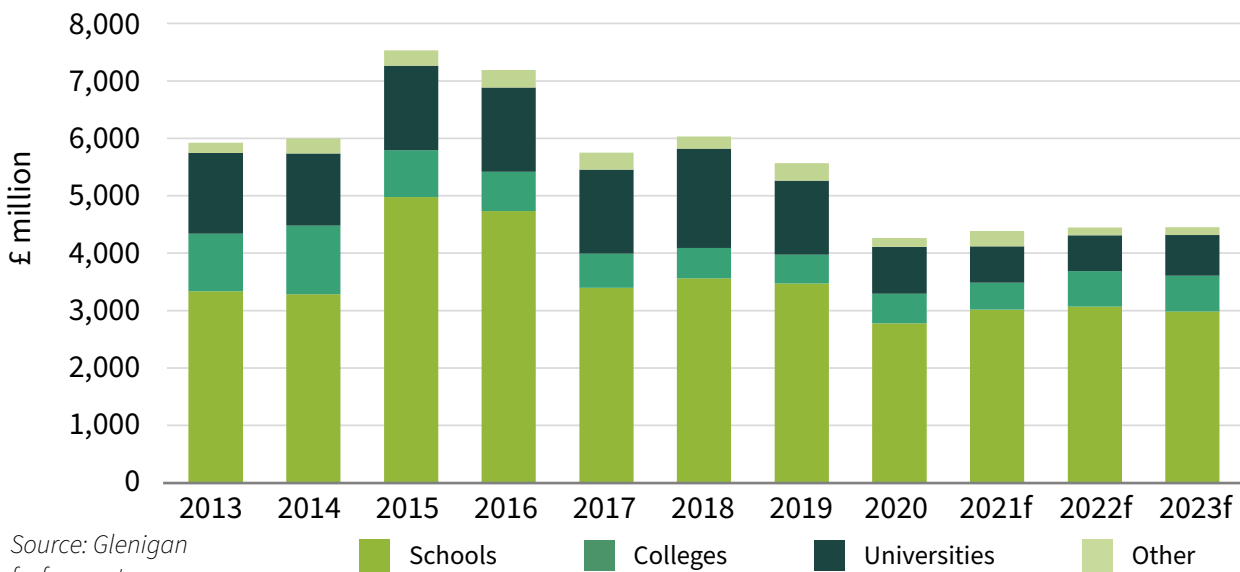
HEALTH

CIVIL  
ENGINEERING

KEY  
RECOMMENDATIONS

Work to deliver further education facilities is forecast to bounce back over the forecast period however, as the Chancellor did outline plans for increased investment in the Spending Review in October. While the value of work starting on-site is expected to fall 9% in 2021, we anticipate that the value will increase 33% in 2022 and remain at that level in 2023.

**Chart 11: Value of Underlying Education Project-Starts by Year**



Source: Glenigan  
f = forecast

Universities had been a bright spot within the education sector, with strong growth between 2013 and 2018.

However, universities have faced increased funding pressures from a weakening in UK student numbers. In addition, the Augar Review proposed changes to graduate funding, and against this backdrop university project-starts fell by a quarter in 2019. The pandemic exacerbated financial issues, with the number of higher fee-paying overseas students falling and the number of dropouts increasing. Furthermore, the pandemic has sharply impacted the revenues universities have been able to generate from retail and leisure spaces on campus, putting debt repayments under further pressure according to the New Street Consulting Group. This has led to many universities embarking on cost-cutting measures

However, student application numbers are increasing again, with the total number of accepted applicants through UCAS in 2020 up by 5.4%, to a new record high. Furthermore, accepted applications from EU students were up 1.7% and accepted applications from higher paying, overseas students were up 16.9%. This is unlikely to influence growth in the short term but will help turn the tide towards the end of the forecast period. We expect the value of university construction-starts to fall by 23% in 2021, 1% in 2022, before returning to growth with a 14% rise in 2023.



EDUCATION  
HEALTH  
CIVIL ENGINEERING  
KEY RECOMMENDATIONS

# Health

2021 <sup>-7%</sup>      2022 <sup>+5%</sup>      2023 <sup>+4%</sup>

- > **Department for Health capital budget further increased**
- > **Project-starts strong in 2021 despite a decline against the previous year**
- > **Continued increase in NHS funding over the forecast period**

The outlook for the health sector remains bright. Reaction to the pandemic lifted project-starts during 2020 and early 2021 and a 3.8% real-term growth rate in NHS capital funding is set to lift project-starts further over the forecast period.

## HEALTH STARTS

	2019	2020	2021f	2022f	2023f
<b>£ million</b>	2,186	3,004	2,785	2,928	3,048
<b>Growth</b>	-23%	37%	-7%	5%	4%

*f = forecast*

Health could not be higher on the political agenda, with a £4.2 billion increase in capital spending over the Parliament announced in the latest Spending Review. The Government has also previously announced plans to build 40 new hospitals by 2030 and upgrade more than 70 hospitals during the same period.

While an increase in capital investment in NHS facilities can deliver efficiency improvements and better health outcomes, it will take time to bring new projects to site.

The Nightingale temporary hospital programme added a significant boost to health sector project starts in 2020 which grew by a total of 37% against 2019 performance. And although the value is projected to slip back by 7% in 2021, project-starts are anticipated to remain very high compared with pre-pandemic levels.

The value of health detailed planning approvals fell 7% in 2018, following a strong performance during the previous year. Encouragingly, health project approvals have increased since then, with rises of 3% in 2019 and 32% in 2020. Approvals remained high during 2021 to October, rising 9% against the previous year.

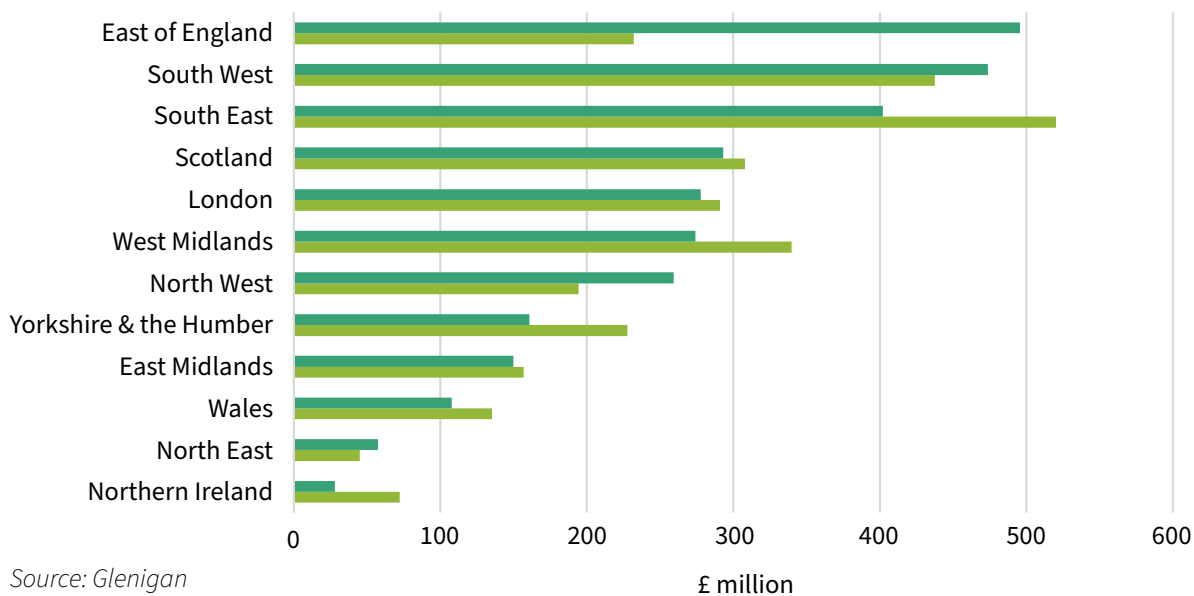
HEALTH

CIVIL  
ENGINEERING

KEY  
RECOMMENDATIONS

The additional government funding promised in the Spending Review should feed through to sector activity towards the end of the forecast period. Project-starts are forecast to fall slightly during 2021 but remain high compared with any year prior to the pandemic. We expect project-starts to increase 5% in 2022 and 4% in 2023 as new projects come forward and as NHS trusts develop and implement their investment programmes. By the end of the forecast period, we expect project-starts to surpass the strong performance experienced in 2020.

**Chart 12: Value of Underlying Health Project Approvals in 2020 and 2021 Pro-Rata**



Source: Glenigan

N.B. 2021 data is based on January to October

■ 2020

■ 2021 Pro-rata



HEALTH

CIVIL  
ENGINEERING

KEY  
RECOMMENDATIONS

# Civil Engineering

2021 <sup>+3%</sup>      2022 <sup>+2%</sup>      2023 <sup>+4%</sup>

- > **Steady growth in project-starts throughout the forecast period**
- > **Renewable energy projects high on the Government’s agenda**
- > **Major projects lifting overall sector workload**

The commencement of the £3 billion Sofia Wind Farm expansion, the Silvertown Tunnel and various HS2-related schemes will be important drivers for sector activity during the forecast period. The value of underlying main contract awards has been high throughout 2021 and should feed through to boost project-starts.

## CIVIL ENGINEERING STARTS

	2019	2020	2021f	2022f	2023f
<b>£ million</b>	7,586	6,423	6,627	6,787	7,082
<b>Growth</b>	20%	-15%	3%	2%	4%

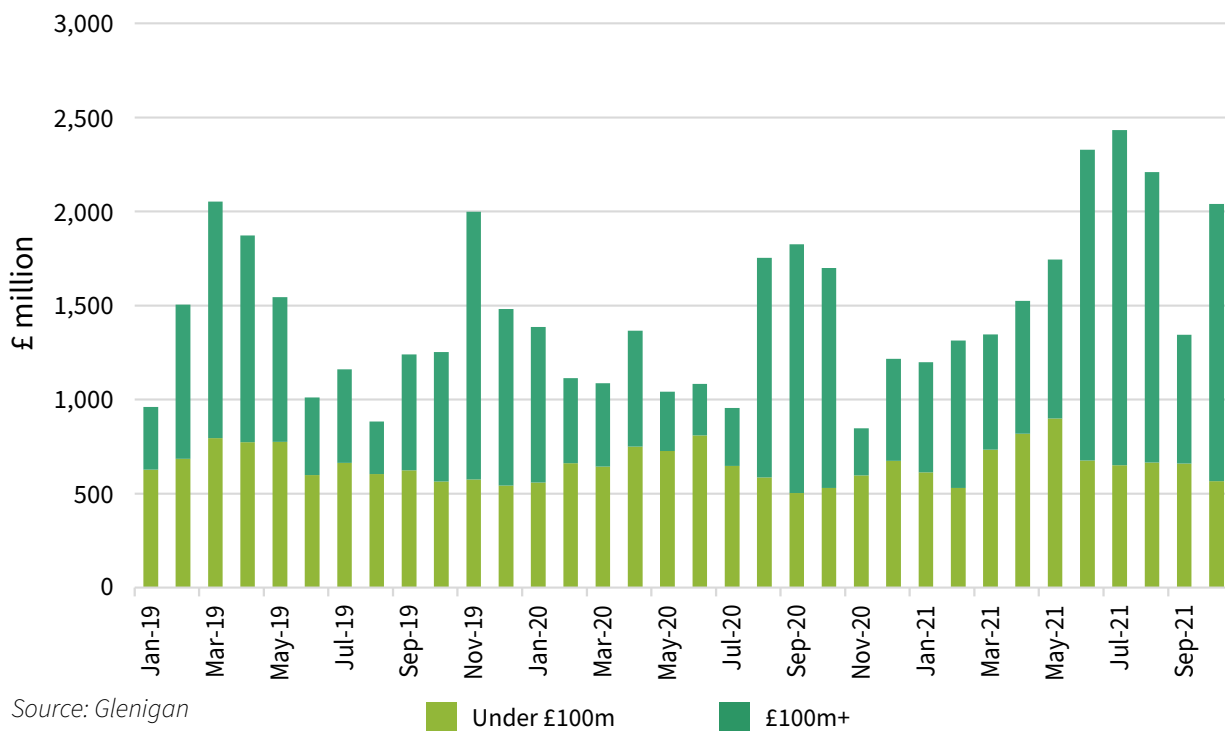
*f = forecast*

2019 was a particularly strong year for underlying civil engineering project-starts, with the value having increased 20% against the previous year to stand at its highest level since 2015. However, the pandemic largely reversed all growth with the value having fallen 15% in 2020. This was a relatively small decline compared with other sectors, with proportionately less civil engineering sites suspended during the pandemic. However, project-starts during 2021 have remained much lower than anticipated, with the value only forecast to increase 3% this year.

The second Road Investment Strategy (RIS2), which will allocate £24 billion to build new road capacity as well as improve the quality of existing roads, is approaching the halfway stage. This will deliver over 60 road upgrades, including the Lower Thames Crossing and major upgrades to the A66, A428, A417 and A12. It was originally proposed that the scheme would take forward the £1.7 billion A303 Stonehenge Tunnel in 2022, however the future of the development is now uncertain due to increasing costs, the value of RIS2 having been revised down as well as a judicial review deeming the approval of the project unlawful

The Government has also promised £2.7 billion over the next three years for local roads maintenance, and £2.6 billion to deliver a long-term pipeline of over 50 local road upgrades, including the A509 and A259. Much of this should boost sector activity during the forecast period.

**Chart 13: Value of Civil Engineering Main Contract Awards by Month**



Source: Glenigan

HS2 is making a significant and crucial contribution to sector activity as work on Phase 1 continues. Work has started on several projects including the £2.2 billion Euston HS2 station and various tunnels schemes such as the Northolt Tunnels, Chiltern & Colne Valley scheme and North Portal Chiltern Tunnel. Other HS2-related schemes, such as the Long Itchington Wood Green tunnel and Birmingham Curzon Street station have main contractors appointed and are expected to commence on-site during the forecast period.

Network Rail’s five-year investment programme (CP6) is at the halfway stage. Over the five-year period Network Rail is scheduled to invest £19.2 billion in renewals and £8.9 billion in enhancement works. The latest Spending Review also pledged to spend £5.7 billion over five years for City Region Sustainable Transport Settlements which will fund projects such as the Sheffield Supertram renewal and the Wednesbury to Brierley Hill metro extension in the West Midlands.

The Government’s path to ‘net zero’ will require substantial investment in the UK energy sector. The Energy White Paper sets out ambition of quadrupling offshore wind capacity to 40GW by 2030. The value of offshore wind projects starting on-site has grown sharply over the last two years, driving a strong overall increase in renewable energy projects. The value of renewable energy projects started during 2021 is on track to total £5 billion, a 70% rise on last year and six times the value seen in 2019. The sector was greatly boosted in 2021 by the commencement of the Sofia Wind Farm expansion. Further sustained growth in investment is expected over the forecast period and beyond to deliver the planned increase in offshore capacity.

We anticipate the value of underlying civil engineering to slowly increase throughout the forecast period. However, we do not expect underlying project-starts to reach the levels seen during 2019 by the end of the forecast period.

---

# Key Recommendations

## TARGET NEW AREAS OF GROWTH

The pattern of UK construction activity is changing post-pandemic. As construction workloads are rebuilt over the next two years, the best performing sectors will vary from those prior to the outbreak. The types of opportunities are also likely to evolve. Structural changes are expected to create new opportunities in warehousing & logistics, office and retail refurbishment and fit-out and the repurposing of redundant commercial premises. The residential sector is also likely to see a trend away from high-rise city centre residential developments towards low-rise family housing.

Increased Government funding will drive growth in the Health, Civil Engineering and Community & Amenity sectors. Regionally, construction markets in the northern half of the country are set to outperform London and the South East over the forecast period reflecting a shift in Government funding and policy.

Firms will need to target these new emerging opportunities, ensuring that they have the expertise and resources to increase their exposure to growing markets.

## FACTOR-IN SUPPLY SIDE CONSTRAINTS

Construction's initial recovery from the pandemic's disruption was rapid, but this has exposed supply-side constraints. A wide range of construction products have been subject to extended delivery and sharp price hikes. Contractors and sub-contractors should seek to identify and mitigate any potential interruption to product supply including those from overseas sources.

Material and labour shortages are likely to increase cost pressures. Contractors and sub-contractors should factor-in their impact on the cost and development schedule when bidding for work.

## MITIGATE RISK

Supply-side constraints are disrupting project schedules and extending construction times, with implications for workload, turnover and cashflow. The slow pace of site development will delay stage payments from clients and push back the timing of when late trades are required onsite. Contractors and sub-contractors may wish to offset the lower monthly revenues generated per site by spreading their workforce across a greater number of projects.

A diversified client base will reduce exposure to any one client with a work pipeline spread more evenly over a larger number of customers. This can help reduce the business's exposure to a financial crisis or adverse change of payment by any one firm. Supply chains should also be reviewed to ensure that firms are not overexposed to a few clients.

## WORK MORE EFFICIENTLY

Whilst current product supply disruption should subside over the forecast period, the supply of skilled labour is likely to emerge as an additional constraint.


During the pandemic on-site working restrictions to contain Covid transmission exacerbated the need for the industry to use on-site labour more sparingly and effectively. With the UK's departure from the EU shrinking the pool of available skilled site labour, this will remain a priority as firms seek to expand their onsite workforce over the next two years to accommodate rising workloads. This threatens to increase construction costs and disrupt the timely delivery of projects.

Companies should invest in design solutions, site operating practices and offsite manufacturing options that reduce the reliance on site labour to safeguard the timely and profitable delivery of projects. In many cases this will involve a more collaborative approach and the use of digital solutions to cut waste and accelerate design and construction processes.

### **ADOPT DIGITAL SOLUTIONS AND PROCESSES**

The pandemic has accelerated the adoption of digital systems both pre-construction and on-site as more traditional ways of working have been disrupted. Investment in an effective CRM, digital marketing channels, a modernised salesforce, and implementation of a robust sales process will help firms to rapidly identify and target emerging opportunities, sustain their workload, cut the cost of winning work, improve efficiency, and enhance profitability.





Do you need reliable insight and statistics to help you budget, forecast, realise size of market or penetration?

Do you need a better understanding of your competitor's activities, or would you like to see the trends shaping the future of construction?

---

**Contact us today to discuss your strategic business requirements:**

Call **0800 060 8698**

Email **[info@glenigan.com](mailto:info@glenigan.com)**

Visit **[www.glenigan.com](http://www.glenigan.com)**

80 Holdenhurst Road,  
Bournemouth BH8 8AQ

© Glenigan November 2021

This report is copyrighted. Information contained herein should not, in whole or part, be published, reproduced or referred to without prior approval. Users may download and print extracts of content from this report for their own personal and non-commercial use only. Brief excerpts may be used, provided full accreditation is given to Glenigan. Republication or redistribution of Glenigan content is expressly prohibited without the prior written consent of Glenigan.

**Disclaimer:** This report is for general information purposes only. It should not be relied upon as a basis for entering into transactions without seeking specific, qualified, professional advice. While facts have been rigorously checked, Glenigan can take no responsibility for any damage or loss suffered as a result of any inadvertent inaccuracy within this report.