

Q3 2017

Long-term decline in construction activity tempered by recent growth

Commercial construction activity in the 12 months to Q3 2017 increased to £14.7 billion, up 7.9% on the previous quarter. Within this, new build commercial activity increased to £9.4 billion, reflecting growth of 12.2%.

This growth was predominantly driven by the core commercial sectors, which combined to reach £7.4 billion in the 12 months to the end of September, an increase of 11.3%. The retail sector was the strongest performer, growing 28.4% to £1.9 billion, followed by industrial with growth of 8.2% to £1.5 billion and office which was up 5.7% to £4.0 billion.

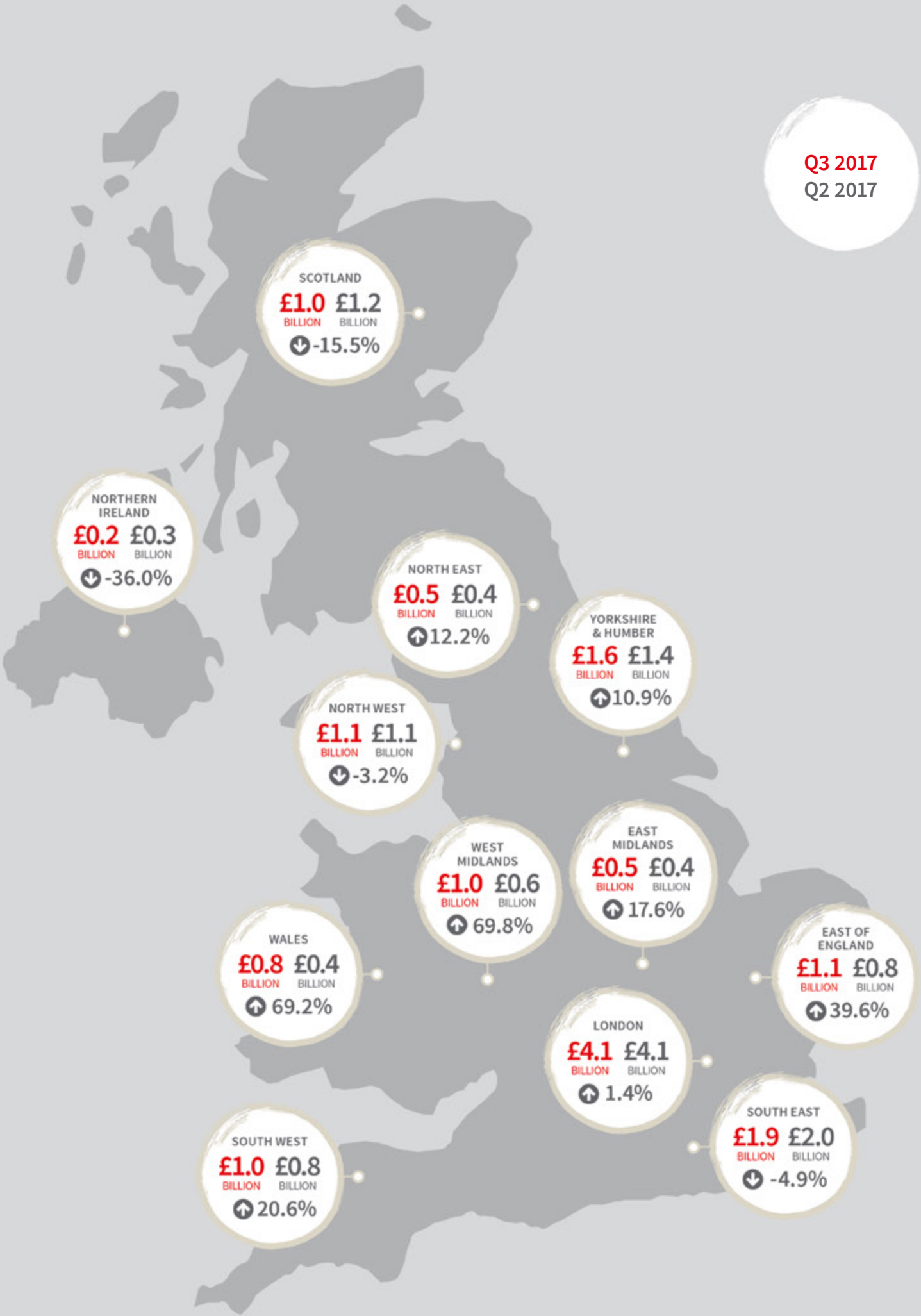
Commercial construction



New build



The picture across the UK

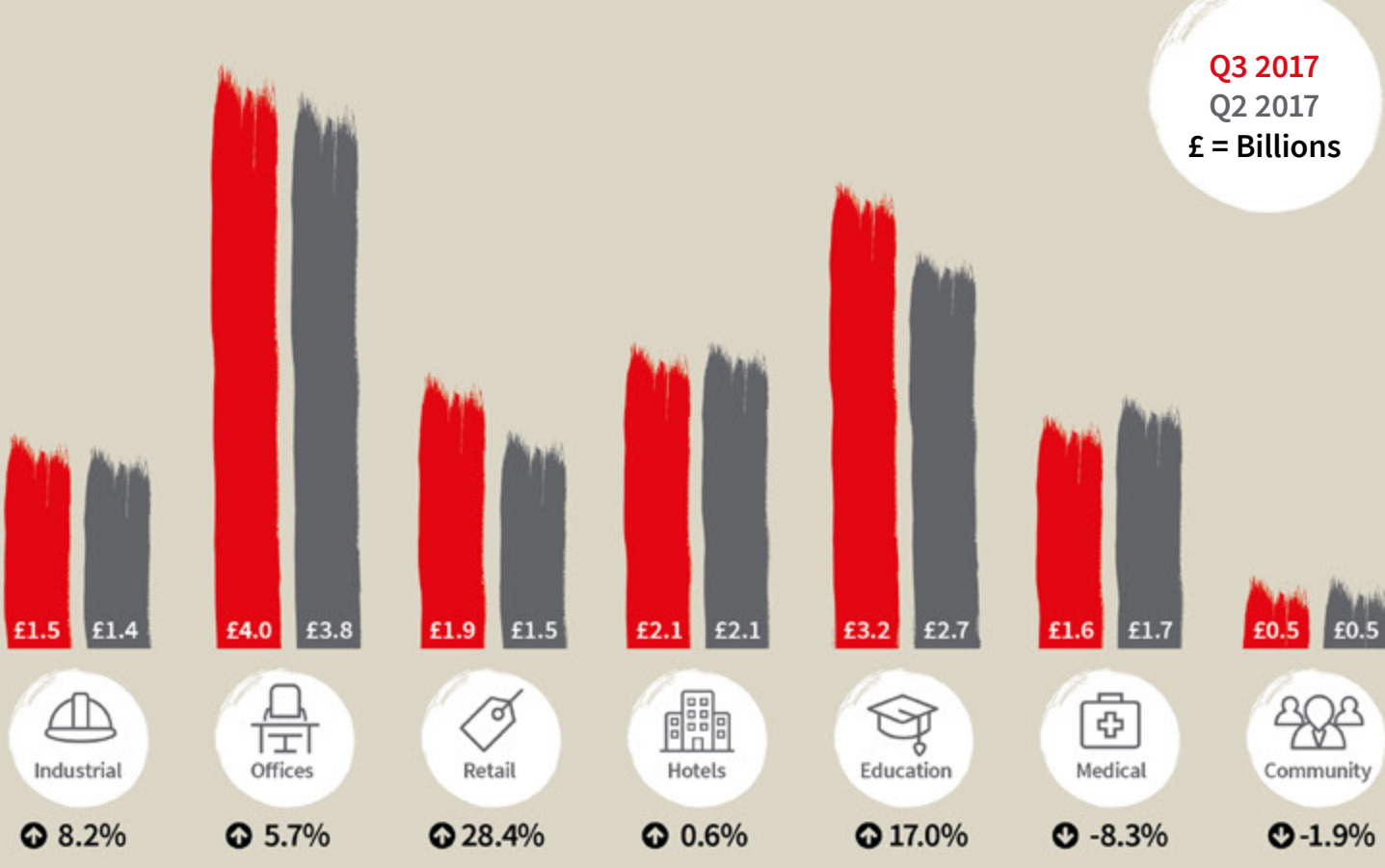


There was an uptick in activity across the regions, which saw an increase of 14.7% to £8.7 billion. Regional activity now accounts for a 59.2% share of the total, up from 55.7% in Q2. The West Midlands was the largest driver, as activity increased 69.8% to £1.0 billion, with £200 million of Commercial & Student Accommodation starting on-site in Birmingham. Wales was another strong regional performer, with construction increasing 68.2% to £0.8 billion. This is a result of the on-site start of a new £350 million Critical Care Centre in Cwmbran. In the East Midlands activity was up 39.6% to £1.1 billion, with a £625 million Research & Development Centre starting on-site in Loughborough.

Despite this recent growth, construction activity remains down on last year, with an overall decrease of 22.4% y-o-y, including a decrease of 25.5% on new build construction projects since Q3 2016. This is reflected across all major sectors and the majority of regions. London & the South East has seen particularly sharp downturns, with activity currently 43.4% lower than this time last year.



Sector dynamics



Sentiment in the UK construction sector is also subdued. The latest Markit/CIPS construction purchasing managers' index fell below the 50.0 (no change) threshold, which indicates expansion, for the first time since the immediate aftermath of the EU referendum. Survey respondents noted delays in decision making among businesses, triggered by prevailing economic uncertainty.

The outlook for the UK commercial construction sector continues to be impacted by general economic and business uncertainty. The economy is lacking momentum, with expectations for growth falling further to 1.5% both this year and next. Within this, the construction sector has been particularly stagnant, with output falling by 0.8% in the most recent 3-month period. Public output fell by 6.3% and private commercial by 2.9%, with only private industrial bucking the trend with growth of 7.8%. In spite of the current downturn, the construction sector remains broadly optimistic about future growth. While greater caution by private investors in commercial projects is likely in the short-term, volatility in the sector may be offset by public investment and the diminishing effect of the initial post-Brexit reaction.

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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