

Covid-19 construction briefing #4

We have seen a further small increase in the volume of delayed projects with the total value currently standing at £71bn. We provide some interesting survey evidence, a report of projects staying open and further findings of delays at the sub-sector level in the sections below.

We provide an update to last week's briefing on:

- **conditions in the UK economy,**
- **observations on activity in the construction industry, and**
- **insights drawn from our planning data.**

Our research team are operating at full capacity and constantly updating projects in real time to ensure our information is timely and accurate. We remain poised to respond as the situation changes.

Economic conditions

As more European governments start to consider how to ease their movement restrictions, such as re-opening schools and some businesses, the UK Government has agreed an extension to the lockdown for a further 3 weeks. The death toll in the UK appears to be stabilising, however without a large-scale testing regime it is difficult to see how easy will be to remove widespread movement restrictions in the near term. The Government is now starting to alter its messaging to one of normal conditions not returning until a vaccine is available.

This week the ONS published a scenario modelling the impact of Covid-19 on the UK Economy. While primarily focused on the impact on the public finances, it showcased a 35% drop in GDP in Q2: the most severe scenario published by any organisation so far. It also modelled a return to full capacity over the remainder of 2020, with an annual change of "only" -12.8% this year.

It may turn out that the ONS's modelling is too severe a drop initially and the recovery too fast. The uncertainty at the current time makes any forecast very uncertain.

Concerns are also appearing over rising prices: the ONS's most recent survey of the UK economy found that prices for its basket of high demand products have surged by 4.4% over the last month.

The impact in the USA is being felt severely as industrial production is at historically low values and retail sales suffered their largest ever month-on-month fall.

In some positive construction-related news, this week the Government gave the go-ahead to construction work for HS2. While preparatory work is already underway, the commencement of construction will be positive for firms who have won contracts on the project, as long as they are able to comply with social distancing guidelines.

Construction industry

Our survey work continues to provide valuable evidence on construction, distribution and manufacturing companies' experiences and challenges.

This week sentiment has shifted towards the issues companies are experiencing reopening sites and maintaining or restarting activity.

Many contractors and subcontractors are reporting difficulties meeting government guidelines. There is widespread frustration that:

- the guidance available is not realistic or comprehensive enough to be of use, and
- there is no joined up approach to successfully combating the situation.

Several construction companies are also reporting they are coming under pressure to reopen sites from main contractors and/or clients where they cannot guarantee worker safety.

As reported last week, there continue to be concerns with supply of materials. Some companies appear to be in better shape as they stockpiled successfully in the weeks before the crisis.

Finally, there are also concerns emerging around increasing costs – contracts are having Covid-19 clauses inserted which is significantly increasing cost and risk.

Firms continue to experience a wide variety of conditions. Most companies have furloughed large proportions of their workforce and continue to experience steep drops in demand. On the contrary a minority maintain they are only experiencing minor disruptions.

Construction project information

We continue to see small increases in the overall number and value of delayed projects. Currently we have 4,506 projects marked as delayed, with a total value of £70.7bn (last week: 4,301 projects with a value of £68.3bn).

We have also directly confirmed 378 projects as remaining open through our research efforts with a total value of £32.7bn (this value does include Hinkley Point however).

Excluding Hinkley Point, the largest sector with projects confirmed as remaining open is the Infrastructure sector with £3.5bn of projects (excluding Hinkley Point). The Medical sector follows, somewhat unsurprisingly given the current crisis, with £2.5bn of project value. Elsewhere:

- The residential sector has £1.5bn of projects confirmed as open, followed by the Education and Commercial sectors with £1.2bn and £1.1bn respectively.
- London leads across UK regions with £3.5bn of confirmed projects. Other regions with over £1bn of confirmed projects include West Midlands (£1.5bn), the North West (£1.3bn) and the South West (£1.1bn).

Planning activity

We continue to receive both new projects and decision updates from the planning process. Activity continues at the lower bounds of normal, with planning applications on a slow downward trend.

In March contract award values held up. So far in April they have been concerningly weak, though this may be due to the public holidays around Easter.

Impact by sector and region

The majority of Covid-19 related project delays remain in the residential sector at 53% by value and 57% by number. Infrastructure remains the next most affected sector.

We have seen some significant shifts under the surface within sectors and regions. The Medical Sector, while the least impacted sector, has seen some large changes with most delayed projects in London reopening. This is

offset by an increase in delayed medical sector projects in the elsewhere in the UK, especially in the South East, South West, North West, West Midlands and the East of England.

Delayed projects in the South West have seen some large changes, with large increases in delayed projects in the Education, Medical and Residential sectors, but somewhat offset by sites reopening in the Commercial sector.

Elsewhere the East of England, South East and Wales have seen double digit percentage increases in delayed projects in the Residential sector.

London, being one of the two the most affected UK regions, appears to have had a limited number of sites reopening this week, with small decreases in closures in the Education, Infrastructure and Medical sectors.

The following table shows the change in delayed project value from last week to this week.

Table 1: Change in delayed project value

Sector	Value last week (£bn)	Value this week (£bn)	% change
Commercial & Retail	8.8	8.7	-1%
Education	3.4	3.4	+1%
Hotel, Leisure & Sport	2.7	2.7	+2%
Industrial	2.4	2.4	+2%
Infrastructure	14.8	14.6	-2%
Medical & Healthcare	0.3	0.2	-34%
Residential	35.9	38.6	+8%
All sectors	68.3	70.7	+4%

The table below shows the value of delayed projects by sector and region.

Table 2: Value of Covid-19 delayed projects by sector and region

Covid-19 delayed project value (£m)	Commercial & Retail	Education	Hotel, Leisure & Sport	Industrial	Infrastructure	Medical & Health	Residential	All sectors
East Midlands	99	73	73	420	100	12	2,184	2,960
East of England	182	556	103	258	93	8	3,573	4,772
London	6,599	794	966	91	4,905	21	7,201	20,577
North East	79	85	55	328	124	0	1,779	2,449
North West	235	108	500	107	696	36	4,156	5,838
Scotland	853	1,044	576	189	7,575	64	6,255	16,557
South East	212	265	194	317	503	41	4,417	5,950
South West	104	173	72	165	195	17	3,473	4,198
Wales	25	120	8	40	146	12	730	1,080
West Midlands	95	172	115	348	78	9	2,224	3,041
Yorkshire & Humber	228	40	80	148	181	7	2,550	3,233
Great Britain	8,710	3,429	2,741	2,411	14,594	227	38,609	70,721

Last week we presented an initial analysis at the subsector level. We have now completed a more robust assessment. Our findings so far are as follows:

- In the residential sector, halls of residence, elderly persons homes and sheltered dwellings have been less impacted than other residential subsectors.
- Private residential, local authority or housing association projects have all seen large-scale delays. Local authority projects have proportionally seen the highest delays.
- The care sector is relatively less affected than many other sectors.
- In the infrastructure sector, water sector projects have seen a disproportionate amount of delays compared to other infrastructure sub-sectors. Road projects appear to have a higher proportion of delays compared to other sectors. The next most impacted infrastructure sub-sectors in order are Coastal, Power and Utility, Rail and Air. Air has seen only a very small number of delays so far.
- In the commercial and retail sector, offices and shopping centres have been disproportionately affected. Food retailing and general retailing categories have seen less disruption.
- Warehouse construction has seen little or no impact.
- In the hotel, food, leisure and sport sector, the most delays are to hotel and arenas/stadia projects. Holiday centres, theme parks, sports clubs, restaurants and sports centres have been less affected.
- Courts, civic centres and town halls have been the most impacted in the Civic and Public sector, while other public construction is less affected, such as emergency services, places of worship, libraries and prisons.

The table below shows the value of Covid-19 delays and cancellations relative to baseline construction activity levels. Values are expressed as the percentage more or less than normal splits of activity.

Table 3: Variance of Covid-19 delays compared to baseline activity levels

% by project value	Commercial & Retail	Education	Hotel, Leisure & Sport	Industrial	Infrastructure	Medical & Health	Residential	All sectors
East Midlands	-5%	-5%	-2%	+3%	-11%	+1%	-1%	-4%
East of England	-4%	+4%	-2%	-1%	-10%	-1%	+1%	-2%
London	+28%	+9%	+1%	-2%	+23%	-16%	-4%	+7%
North East	-2%	-2%	0%	+9%	-2%	-2%	+1%	0%
North West	-6%	-5%	+4%	-7%	-9%	+2%	-1%	-3%
Scotland	+5%	+20%	+12%	+3%	+36%	+16%	+9%	+14%
South East	-8%	-8%	-3%	-3%	-4%	+6%	-2%	-4%
South West	-3%	-2%	-5%	0%	-5%	-3%	0%	-1%
Wales	-1%	0%	-3%	-1%	-2%	0%	-1%	-1%
West Midlands	-3%	-4%	0%	2%	-3%	-3%	-2%	-2%
Yorkshire & Humber	-1%	-5%	-3%	-4%	-15%	0%	-1%	-4%
Great Britain	-1%	-3%	-5%	-8%	+1%	-2%	+18%	

Impact by planning stage

There have been only minor changes to the impact of delayed projects across different planning stages. This week we've seen an increase in projects at the tender stage, however the numbers are very small compared to the projects at later stages of the process. We also saw a 4% increase in delayed projects under construction.

The table below shows values and number of delayed projects at each construction stage.

Table 4: Covid-19 delays by construction stage

Project value	Value (£m)	Number of projects
Detail planning	80	5
Approval	91	8
Tender	14	14
Contract awarded	10,052	537
Under construction	60,159	3,912
All projects	70,396	4,476

Impact by project value

The average value of projects impacted by Covid-19 remains concentrated in the £10-50m (£29.4bn of projects) and £100-500m (£24.7bn of projects) categories when considering project value.

When considering the number of projects, the most delays are in the £10-50m category (1,436 projects) and the £1-10m category (2,022 projects).

The largest increases this week have been in the £10-50m and £1-10m categories with 6% and 5% increases respectively.

Table 5: Covid-19 delays by project value

Project value	Value (£m)	Number of projects
£1-10m	8,353	2,022
£10-50m	29,354	1,436
£50-100m	8,050	124
£100-500m	24,688	78
More than £500m	0	0
All projects	70,444	3,660

Next steps

We will continue to provide weekly updates, including any themes we uncover as further information becomes available.