gleeds

Feeling the burn

Summer 2021 UK Market Report

Gleeds' UK Market Report is published quarterly, exploring current and anticipated future UK construction market conditions. It draws on the experience of main contractors, sub-contractors, suppliers and colleagues in the UK construction market, collected through an online survey conducted between 25th June – 9th July 2021.
The report was written in July 2021.

Contents

Executive summary

DOUGLAS MCCORMICK
Group Executive Director, Gleeds

Mind the potholes

With easing restrictions and increased opportunities coming forward, there is definitely a sense of the construction industry accelerating forwards. Out of the respondents to our survey, 50 percent said that tender opportunities had increased in the past quarter and 48 percent forecast that tender opportunities will increase over the coming quarter.

Whilst the outlook for construction is definitely more positive than earlier on in the year, there remain some challenges. The effects of the pandemic are still being felt, particularly in regard to materials, with 77 percent of survey respondents saying that they expect issues with supply of materials and products to worsen over the next quarter. The number of contractors responding that they had seen issues with labour availability increased to 44 percent from 17.5 percent in our Spring report.

Our recent LinkedIn poll saw 84 percent of respondents say that the ongoing issues with materials are causing delays to their projects and the so-called “pingdemic” is impacting sites and supplies with increasing numbers needing to self-isolate, adding further pressure.

Feeling the Burn examines the construction industry’s journey over the past quarter, looking at the potential impact of inflation. We address contractual, tendering and claims scenarios that stakeholders may be faced with, and look ahead, sector by sector, giving an account of market activity, risks and opportunities.

We also look at key trends including recruitment, retention and diversity and inclusion (D&I), digital transformation and net zero carbon (NZC), all of which are expected to influence the industry in the upcoming period. With activity in the construction industry increasing and large pipelines of work forecast to help support economic recovery, recruitment will be key across the industry as clients, consultants, contractors and their supply chain will all be trying to attract staff.

Office for National Statistics (ONS) data shows that the skills shortage has intensified with 33,000 vacancies across the industry between April and June 2021, following 35,000 jobs available between March and May 2021 which was the highest level of vacancies in 20 years. We consider what people are looking for from new roles and how digital transformation can alleviate the challenge.

With an interesting and mixed year anticipated, our teams located across the UK remain your constant advisors to support your growth. We hope *Feeling the Burn* will prove a useful guide to aid your decision making as you move ahead through the coming months.

Gleeds Offices

Barrow-in-Furness /
Belfast /
Birmingham /
Bristol /
Cambridge /
Cardiff /
Edinburgh /
Glasgow /
Gloucester /
Leeds /
Liverpool /
London /
Manchester /
Milton Keynes /
Newcastle /
Nottingham /
Oxford /
Southampton /
Tunbridge Wells /
Warrington /
Whitehaven /

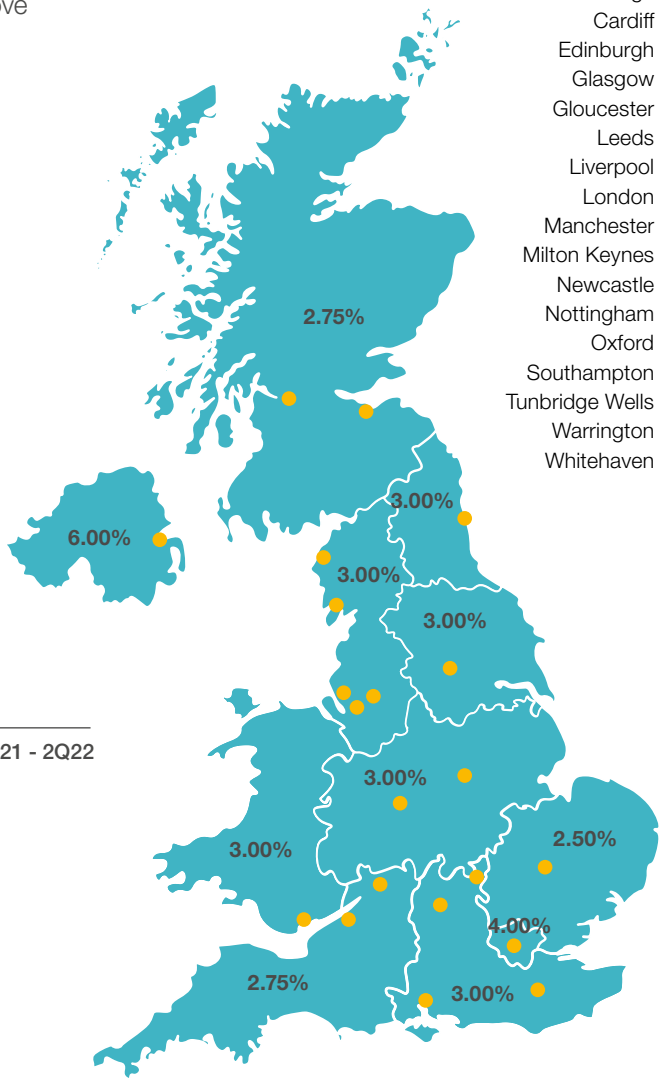


Figure 00

Regional inflation forecasts for 3Q21 - 2Q22

Market intelligence

Gross domestic product (GDP)

Recovery from the pandemic is ongoing. The latest data from the ONS shows that UK GDP is estimated to have grown for a fourth consecutive month in May 2021, but it remains 3.1 percent below its pre-pandemic level (February 2020).

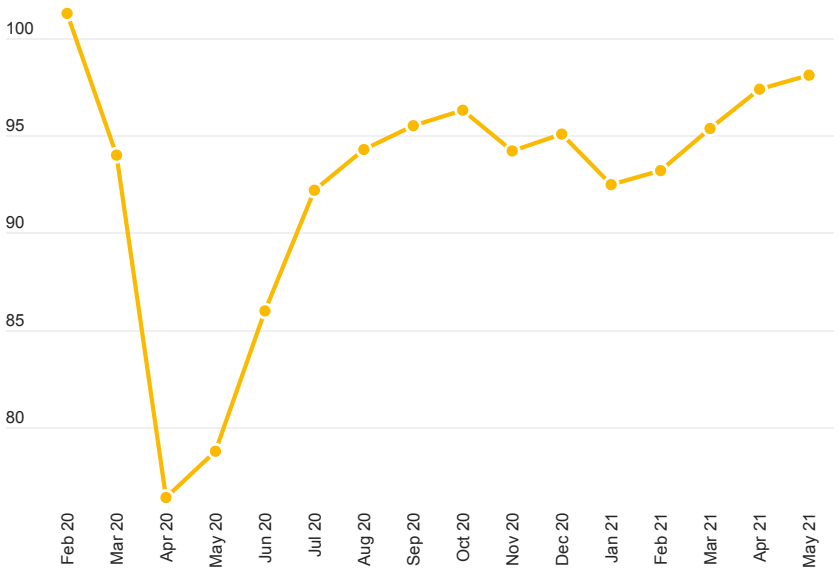
The 0.8 percent growth in May was weaker than anticipated — GDP was previously forecast to increase by 1.5 percent in May. Reasons for this include computer chip shortages reducing car production and steel/timber availability and severe weather impacting construction.

COVID-19 restrictions continued to ease to varying degrees in England, Scotland and Wales in May.

Many commentators are forecasting significant GDP growth in 2021, with economic activity returning to pre-pandemic levels in the last quarter. However, there are some risks to this around consumer confidence – if people don't spend savings amassed during the pandemic or if rising case numbers affect leisure spending.

Figure 01

GDP monthly index — ONS, 2018 = 100



"Pingdemic"

"Freedom Day" has arrived in England, and this has brought its own challenges. According to NHS COVID-19 app statistics, 520,194 contract tracing alerts, or "pings", were sent in England between 1st and 7th July, an increase of nearly 50 percent on the previous week, and 9,932 in Wales. Figures since then have continued to increase with nearly 690,000 pings issued in the week to 21st July. The press has been reporting this as a wider societal issue, with the so-called "pingdemic" impacting all areas of life including food supplies, retail opening hours, transport, factory production and the NHS.

At the time of writing, government guidance in England is that the requirement to self-isolate for close contacts of people who have tested positive for COVID-19 will remain in place until 16th August 2021. After that date, close contacts will not need to self-isolate if they are under 18 or have received both doses of the vaccine, however they will be advised to take a PCR test and if that returns positively, they will be required to self-isolate. There is concern in the interim that the problem could mean that millions need to self-isolate unless track and trace requirements are tweaked. The government's workplace testing program has been expanded to an additional 2,000 testing sites to allow more emergency services staff to avoid self-isolation with daily testing.

The self-isolation issue could be exacerbated in the construction industry with the timing of summer holidays and a reduction in labour available to cover workers self-isolating. There have been suggestions made that "critical" construction workers, whose absence from work could have a major detrimental impact on essential services, could receive a letter from the Department for Business, Energy & Industrial Strategy (DBEIS) stating that they do not need to self-isolate.

Employment and labour shortages

The UK unemployment rate was estimated at 4.8 percent in the period of March to May 2021, 0.9 percent higher than before the pandemic, but 0.2 percent lower than the previous quarter. With the Coronavirus Job Retention Scheme, more commonly referred to as the furlough scheme, ending in September, some are cautious as to the effect of this on employment rates. However, across several sectors there are reports of the need for labour, and particularly well documented is the hospitality sector where industry bodies estimate that one in five workers have left the sector during the course of the coronavirus pandemic.

Data from ONS shows that employment in the construction sector fell from 2.3 million in 2017 to 2.1 million at the end of 2020, with a four percent fall in UK born workers and 42 percent fall in EU workers. This reduction is particularly significant in London, with a 54 percent fall in EU workers, and there is suggestion that the shortages of labour have pushed average earnings in London up by 4.5 percent in May (according to Hudson Contract).

Provisional government data indicates that nearly 10 percent of the construction sector's eligible workforce were furloughed at the end of June 2021. With changes to the furlough scheme, until its planned close in September, and with employer payments increasing, it is hoped that those on furlough will return to the sector.

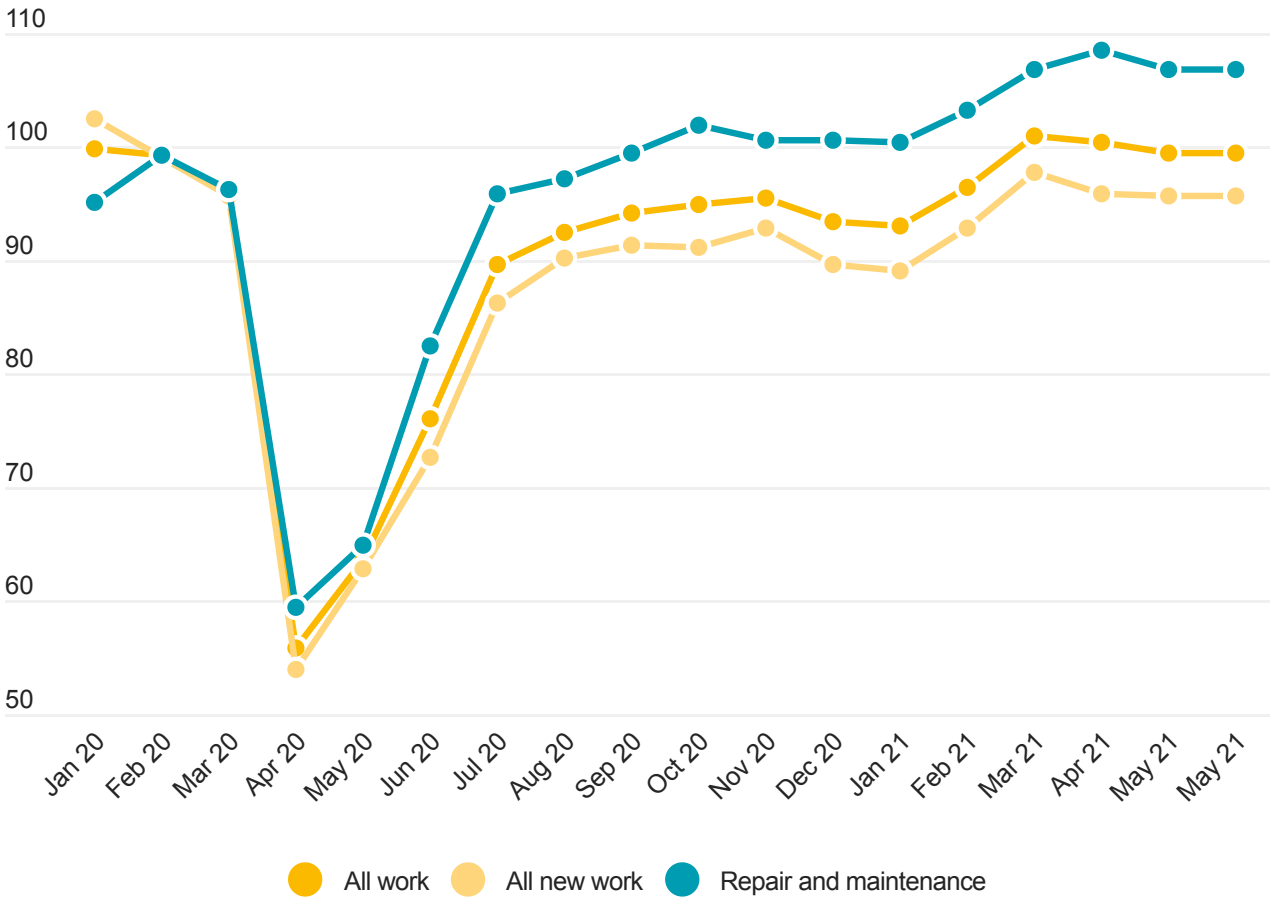
Vacancies data from the ONS shows that job openings have increased in the construction industry by 16.1 percent in the past quarter. It appears that labour will be an ongoing issue, with large demand from ongoing infrastructure projects. There are reports of Hinkley Point C currently trying to recruit 300 steel fixers and 200 carpenters, and labour demands increasing as projects move to site in other sectors.

Construction output

Whilst construction output fell 0.8 percent in May 2021, it remains 0.3 percent above the February 2020 pre-pandemic level according to ONS data. Repair and maintenance is now 7.5 percent above the February 2020 level but new work is 3.5 percent below the pre-pandemic level.

Figure 02

Construction output, monthly index, chained volume measure, seasonally adjusted — ONS, 2018 = 100 Index



There is a real mixing pot of economic and societal issues affecting construction currently. According to the latest release from IHS Markit and CIPS, recovery in UK construction output gained further momentum during June with construction activity expanding at the fastest pace since June 1997, supported by another sharp rise in new orders. They reported rapid cost inflation across the construction sector in June due to imbalanced supply and demand and average prices paid for materials and products increased at survey-record pace. Whilst construction companies surveyed by IHS Markit and CIPS remained optimistic about growth prospects over the year, the degree of confidence reduced to its lowest since January, reflecting concerns about labour availability and sustainability of the recent surge of demand.

Market snapshot: China

RAY CHISNALL
Regional director (Asia Pacific) and country manager (China)

Construction activity in China has remained steady in the past quarter. The market has been very busy since the initial COVID-19 lockdown ended in April 2020 and the Chinese construction industry registered growth of 3.5 percent in 2020.

The swift recovery from the disruption caused by the pandemic was due in part to the fast tracking of major infrastructure projects. In September 2020, the National Development and Reform Commission (NDRC) approved 14 fixed-asset investment projects worth CNY177.8 billion (US$25.2 billion), following approvals of CNY68.9 billion (US$10.1 billion) in August 2020.

The Chinese construction industry is forecast to grow further in coming years, with additional investments in infrastructure, particularly in the areas of 5G networks, continuing expansion of the high-speed rail network and data centres.

There has been a large increase in data centre needs due to the boom in all things digital (e-commerce, mobiles, etc.) plus requirements to house regional user data locally leading to investment from home-grown and international clients.

There has been substantial investment in the logistics sector for the past four to five years. There is now an increase in specialised facilities such as automated distribution centres (supporting e-commerce) and cold storage (for food and beverage, pharmaceuticals, etc.)

Hotels are also a key sector in China currently. Pre-COVID, there was high demand for mid-market hotels outside Tier 1 and 2 cities but a lack of international travel due to COVID-19 has led to a domestic travel boom and a general demand for more hotel rooms. As such, all of the main hotel operators have ambitious plans for new openings over the next 12-24 months.

Investment in construction and infrastructure is supporting China's economic growth following the pandemic. China's investment in infrastructure has been one of the key drivers for GDP growth over the past two decades and this will continue while China grows and transitions from an export-led economy to a consumer-led one.

There is significant focus now on the Environmental, Social and Governance (ESG) agenda and especially sustainability. China has set ambitious targets in the 14th Five Year Plan in this regard and Chinese consumers are becoming ever more environmentally aware.

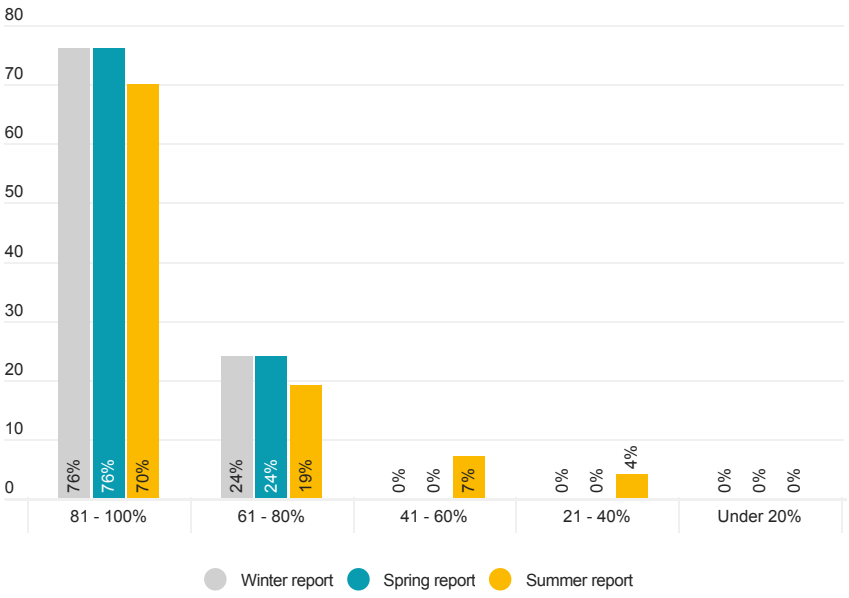
Investment in construction and infrastructure is supporting China's economic growth following the pandemic.

Site productivity and labour

Contractor respondents to our latest survey indicated slightly lower estimations of site productivity than our previous surveys for the Winter and Spring market reports. Seventy percent of respondents said that site productivity is between 81-100 percent, compared to 76 percent previously. There were also contractor respondents who answered that productivity on their schemes is lower than 61 percent for the first time since our autumn 2020 report.

Figure 03

On average, what would you say the present site productivity is on your projects? (Contractors)

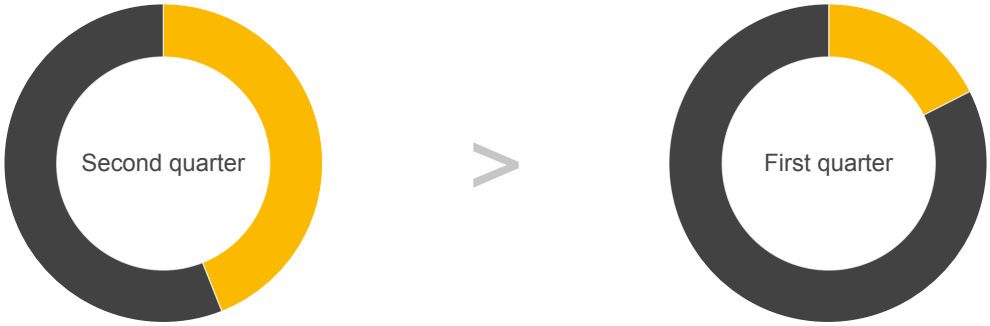


Feedback received has been that some sites are being impacted by people notified to self-isolate and that in some instances this is delaying trade start dates/progress on site, this also has subsequent consequences for other projects as the effects knock on to other sites.

During the pandemic, the Construction Leadership Council (CLC) Site Operating Procedures and Branch Operating Procedures have been adopted by the industry to continue working safely and to provide consistency to the supply chain. With the lifting of restrictions, these procedures have become reference documents from 19th July 2021. However whilst COVID-19 remains widespread, many sites are choosing to maintain the procedures or elements of them.

Figure 04

Have you experienced any issues with labour supply in the past quarter? (Contractors)



44%	**Yes**	**17.5%**	**Yes**
56%	No	82.5%	No

Figure 05

Have you noticed any increases to labour rates in the past quarter? (Contractors)

63%	**Yes**	**44%**	**Yes**
37%	No	56%	No

Of the contractors who responded to our survey, 44 percent said that they had experienced issues with labour supply in the past quarter, up from 17.5 percent in the first quarter. This was in line with our expectations that labour issues would start to become apparent during the course of 2021. Particularly, we anticipate that in the second half of the year, as activity picks up with higher volumes of work and the effects of Brexit are felt more keenly, the demand for labour will increase highlighting labour shortages.

Contractor respondents also noticed increases to labour rates, with 63 percent saying that they had noticed increases to labour rates in their region in the past quarter, compared to 44 percent in the first quarter.

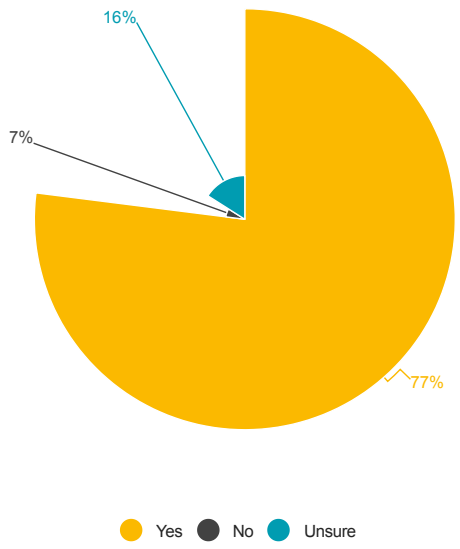
Respondents noted the roles they are currently experiencing most labour supply issues for are carpenters/joiners, bricklayers, dry liners and mechanical installers and electricians. There is concern surrounding consultant roles, with shortages of project managers, quantity surveyors, architects and fire engineers indicated.

Materials

Out of the contractor respondents to our spring survey, 80 percent said that they experienced issues with the supply of materials and products on their projects in the first quarter. Issues have become even more of a problem during the last quarter and 77 percent of respondents to our recent summer survey said that they see the situation worsening in the next quarter.

Figure 06

Issues with supply of materials/products have become even more of a problem in the last quarter, do you see the situation getting worse in the next quarter?



Issues have included:

- Longer lead in times
- Material price increases
- Specified materials/products not being available
- Issues importing materials, e.g. border delays.

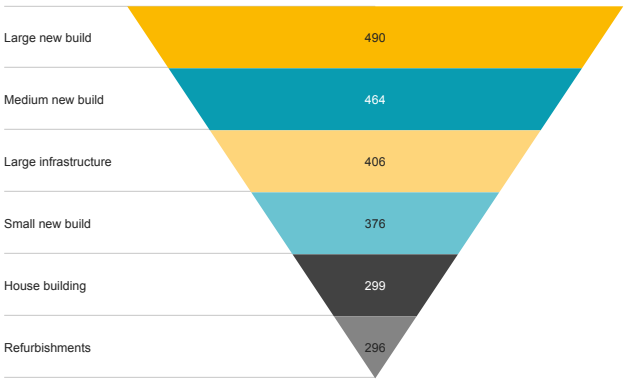
There is a perfect storm of factors behind the materials issues:

- Commodity price increases are being seen as industry around the world has restarted following lockdowns during the pandemic
- Major economies have seen increases in demand as they try to revive their economies, e.g. timber (USA) and steel (China), which has contributed to shortages and price inflation
- Lockdowns have seen a dramatic increase for DIY and garden project materials across most G7 countries
- COVID-19 cases are continuing to have an impact with operating restrictions and interruptions where workers need to self-isolate
- Delays from materials imports, and time and cost to fill out customs and due diligence paperwork stemming from Brexit
- Shortages in shipping containers driving up shipping prices, and shipping issues exacerbated by the week-long blockage of the Suez Canal
- With a shift to renewable energy and electrical vehicles there is increased demand for materials such as copper and aluminium
- There is an acute driver shortage which is affecting deliveries. According to Logistics UK, the logistics industry is now lacking almost 80,000 drivers, a figure up from approximately 50,000 in early 2020, as a result of Brexit and IR35 rules on the classification of contractors.

The materials issues are impacting all projects but respondents to our survey think that large and medium new-build projects are most impacted, followed by large infrastructure projects. Similar to our last report, steel frame, façade and M&E related packages are where respondents are seeing most issues, although the majority of packages are affected in some way.

Figure 07

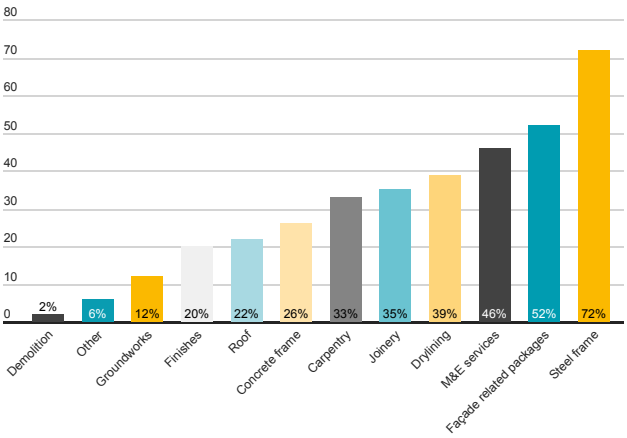
Rank to indicate which size/type of projects are being impacted most by the materials shortages, 1 = most affected



Score is a weight calculation with items ranked first being valued higher, the score is a sum of all weighted rank counts.

Figure 08

For which packages are you experiencing issues with products/materials?



The table below outlines some of the issues faced by each package.

Figure 09

Summary of issues faced by packages

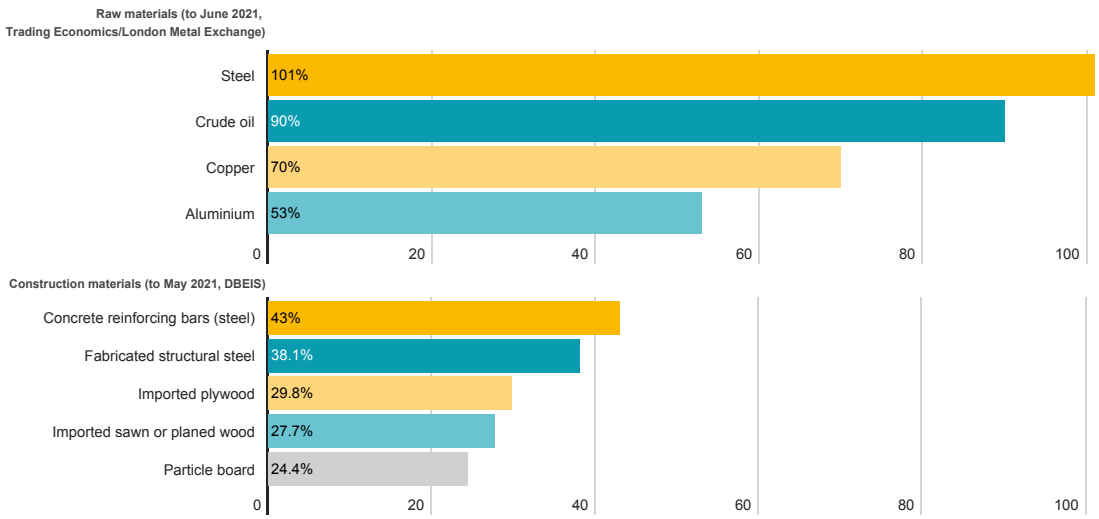
Package	Commentary	Indicative lead in times
Groundworks and reinforced concrete frame	There are reports of increased costs for groundworks and frame driven from raw materials shortages, and demand for labour and materials for large infrastructure projects such as HS2. Cement shortages are forecast to continue for the remainder of the year and there are reports that suppliers and subcontractors are looking to Europe (Poland) for supply and asking for early orders/moving to allocation to avoid bottlenecks.	- Ready mix concrete: up to 2 weeks - Plastic drainage: 3–4 weeks - Concrete/clay drainage: 2 weeks - Bulk aggregates: 2 weeks - Piling rig: 6 weeks
Steelwork	Steelwork prices have increased over the past year predominantly due to global demand as industry has restarted since the pandemic. British Steel temporary halted orders in May. They also announced two price increases in May followed by an £80/t increase in June. Strong demand is expected to continue with further price increases and extended lead times anticipated. Quote validity for steel/related products is drastically reduced.	- 14–16 weeks+
Masonry	As well as materials pressures for masonry support and demand for bricks increasing after slowing during the pandemic, there are also labour pressures related to brick and block layers. Longer lead in times due to strong demand and low stock - reports from a contractor that most bricks are on a 6 week+ lead in compared to 1–2 weeks previously. Stock bricks are typically an 8-week lead in and some European options are being used to bolster UK manufactured volumes.	- Facing bricks: 4–20 weeks+ - Engineering bricks: 10–12 weeks+ - Ready spread mortar: 3–4 weeks - Brick support: 3–4 weeks+ - Insulation: 4–6 weeks - Lintels: up to 16 weeks
Facades	Cladding is being impacted by steel and aluminium availability and many suppliers are stating 1Q22 as the earliest date for new orders. High demand and managed capacity is impacting glass availability. Transport issues are also impacting deliveries and lead in times.	- Aluminium windows/external doors: 8–10 weeks+ - Metsec purlins for cladding: 26 weeks - SFS: 8–24 weeks - Coated aluminium: 22 weeks
Roofing	Insulation and roofing material price increases due to demand and raw material pressures.	- Single ply/hot melt: 8–10 weeks - Kingspan insulated roof/wall panels (except Topdek): 12 weeks - Kingspan Topdek and Coldstore panels: 6 weeks
Drylining/suspended ceilings	Many reports of longer lead ins for materials due to demand. British Gypsum went on allocation from 21 June for board and metal supply and Sinat and Knauf are reporting similar issues. All are announcing price increases, further British Gypsum price increases announced from 1st October.	- Plasterboard/plaster: 6–8 weeks - Suspended ceilings: 6–8 weeks+

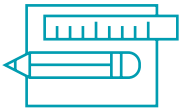
Package	Commentary	Indicative lead in times
Joinery and doors/ timber generally	There is global demand for timber (particularly a large increase from the USA); price increases and longer lead in times are being seen for timber products. Timber suppliers usually set rates for 6/12 months, many have recently switched to monthly rate updates (from April) with rates increases seen for all. Issues with timber are expected to continue/worsen in the summer months with volumes arriving in the UK at the lowest recorded levels, and cost demands from timber producing mills at an all-time high. Swedish inventory is at the lowest levels in 20 years as they struggle to meet demand, let alone restock.	- Timber door sets: 10–12 weeks+ - Ironmongery: 4 weeks - Sheet materials: 2–3weeks - Trusses: 8–10 weeks
Finishes	Increased delivery costs/materials costs being seen — price increases announced for most products.	- Ceramic tiling: 4–6 weeks - Paint: some instances of 4 weeks+ - Carpet: depends on product but some reports of 4 weeks+
M&E services and lifts	Availability of raw materials is causing volatility for cabling and containment and longer lead in times generally. Most suppliers are announcing price increases (ductwork, radiators, pipework, boilers, etc.) in addition to those earlier in the year.	- Radiators: 3–4 weeks - Air conditioning: 2–3 weeks - Lighting: 6–8 weeks+ - Sprinklers: 6–8 weeks+ - Ventilation ducts and fittings: 6–8 weeks+ - Lifts: 16–20 weeks
Fitted furniture, fittings and equipment	Some increased delivery costs/materials costs being seen.	- Fitted furniture: 10–12 weeks+
Site cabins/skips	Due to demand, increased lead in times are being seen.	- White goods: 3–4 weeks - Site cabins: 8 weeks+ - Longer turnaround for skips

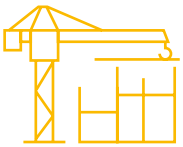
Data from Trading Economics and London Metal Exchange demonstrates the significant cost increases in raw materials in the year to June 2021. DBEIS data shows that there have been major cost increases to certain construction materials and products in the last twelve months to May.

Figure 10

Percentage change in price in the year to May/June 2021







Issues are having a significant impact on projects:

Pre-construction

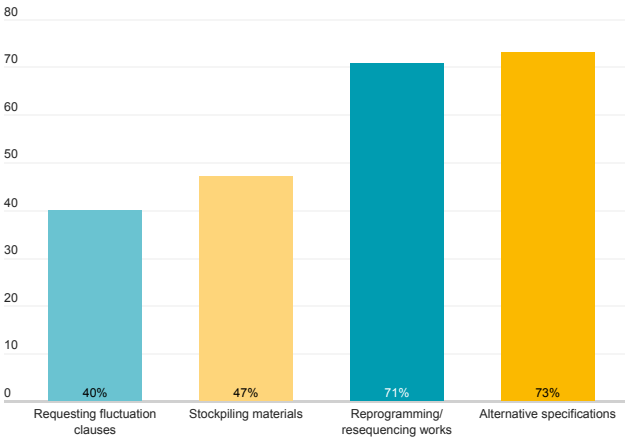
- Materials availability and price increases are affecting project budgets
- Lead in times are extending and may push back start dates
- Quote validity is reducing and main contractors may reduce the period that tenders are open for acceptance
- Main contractors will be cautious on projects with longer programmes, and will carefully consider risk premiums, particularly for fixed price, and may look for contract amendments/liquidated damage holidays, etc.

Construction

- Materials availability may impact site progress and programme
- Some subcontractors and contractors may be under pressure due to material price increases if they have given a fixed price for a project.

Figure 11

How will contractors overcome materials difficulties on projects?



Respondents to our survey said that contractors will overcome materials difficulties on projects with alternative specifications, reprogramming/ resequencing works and stockpiling materials.

Increased communication and early engagement with suppliers is also required and early orders should be placed where possible.

Market snapshot: USA

RES ORGUT
Senior project consultant for Gleeds Americas

Construction activity has increased in the past quarter, and we have seen an increase in new project and program starts as the economy recovers from the global pandemic, and as owners, developers, and investors have more clarity. As the pendulum begins to swing back from an ebbing market, we are now facing material and labor shortages in a classic case of demand growth versus constrained supply.

The current market dynamics resemble the slow recovery experienced after the recession in the late 2000s and, therefore, are not new to our industry. Material and labour levers are expected to keep pressuring pricing structures for various industry stakeholders.

A year ago, industry stakeholders did not know what to do with the excess material they had while trying to keep the labour force busy. Today, access to certain materials is hampered by cost escalations and longer lead times. Labour availability is also limited due to a substantial backlog of work.

Per the Producer Price Index (PPI) data from the United States Bureau of Labor and Statistics (BLS), within the last 12-month period, primary construction materials have experienced significant cost escalations, such as lumber and plywood (85%+), copper (30%+) and steel (25%+).

Additionally, freight costs have also increased drastically (15%+), amplifying the impacts even on the materials deemed less vulnerable. (It is worth mentioning that not all regions in the US are impacted the same way. The overall trend and effects, however, are observed in the same direction in most areas.)

These price increases are mainly driven by demand outpacing the supply. As the pandemic slowed down construction activity and stay-at-home mandates forced workplace closures, material suppliers had to reduce capacity or stop production while trying to offload their existing stock.

As the economy and production facilities reopen and construction activity ramps up, suppliers resumed their production but not before the stock levels have shrunk, resulting in ongoing shortages. Now, as construction backlogs and material demand grow, suppliers are trying to catch up but are still constrained in their capability to close the gap.

It is expected for supply to eventually catch up with the demand (as it always does) and material prices to normalize back to their pre-pandemic levels. It is, in fact, a matter of when, not if, supply and demand would reach a balance. However, the longer the cost escalations sustain, the more pricing pressure on projects, programs and stakeholders will increase in intensity.

The broadening implementation of Design-Build projects, compared to traditional Design-Bid-Build, give more control to contractors in material selection. Coupled with relaxing project specifications (where possible) and qualifying more alternatives by owners, the pressure on the supply chain and material procurement is expected to be eased to a certain extent.

Construction activity in the USA is expected to increase and there are heightened expectations around the proposed $1.2 trillion (£860 billion) infrastructure bill. The eight-year plan is poised to generate various opportunities in building or rehabilitating roads, bridges, railways, public transport, airports, power grid and broadband internet systems across the USA.

Today, access to certain materials is hampered by cost escalations and longer lead times.

Tender opportunities and tendering

In line with our Spring report, confidence has continued to return; nearly half of contractor respondents said that tender opportunities have increased over the past quarter and think that tender opportunities will increase going forward to the next quarter. There is similar optimism from non-contractor respondents, with 51 percent saying that tender opportunities increased in the past quarter and 48 percent thinking that tender opportunities will increase in the next quarter.

Figure 12

Have tender opportunities decreased or increased over the past quarter? And looking ahead to the next quarter?

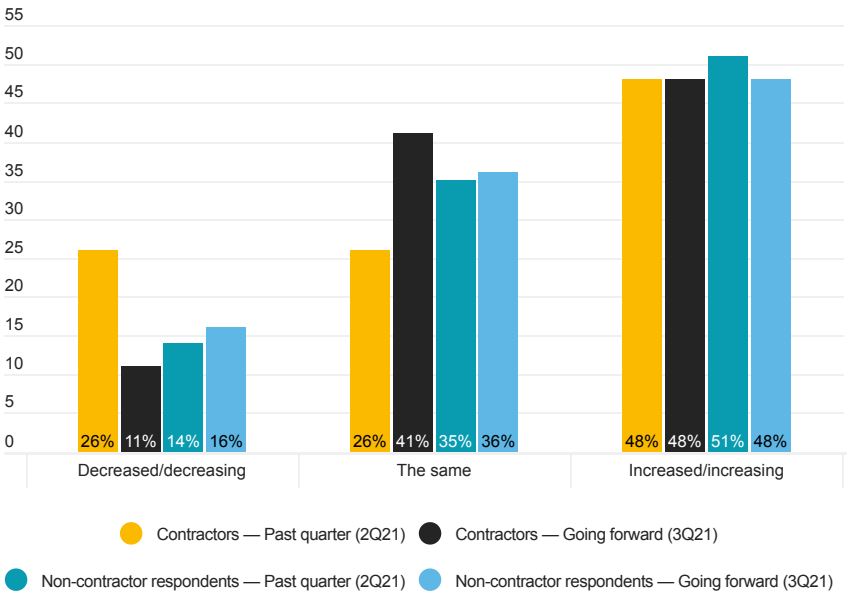
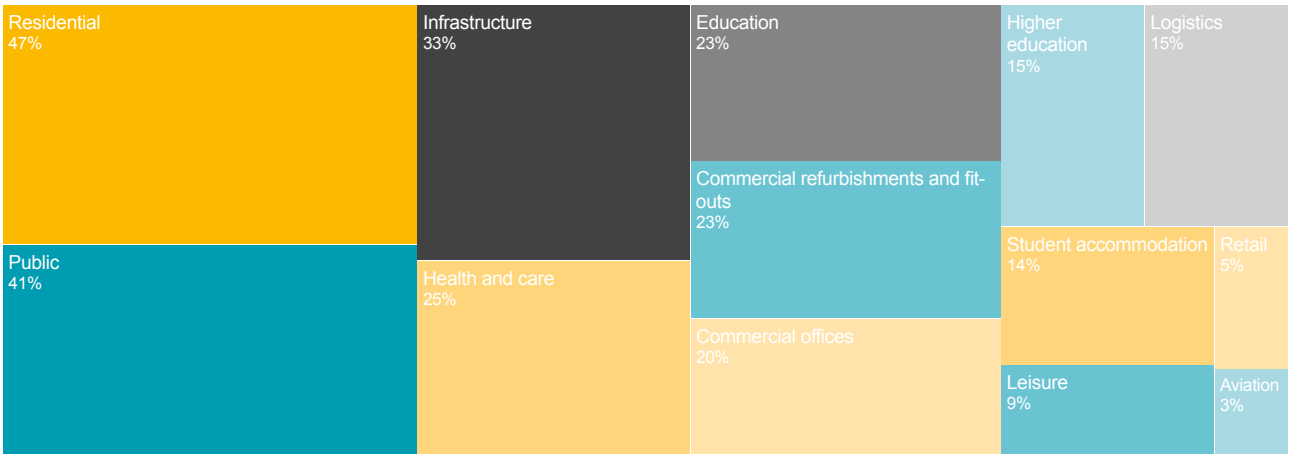


Figure 13

For which UK construction sectors are you seeing most tender opportunities?

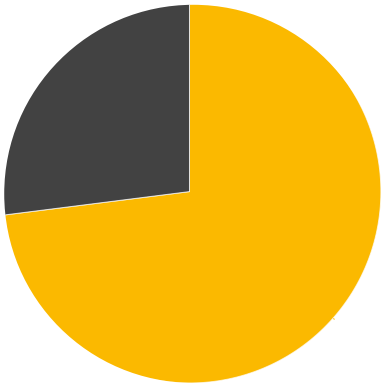


Survey respondents indicated that the top five sectors for current tender opportunities are:

- Residential (47%)
- Public (41%)
- Infrastructure (33%)
- Health and care (25%)
- Education (23%)

Figure 14

Which factor do you think will influence tender prices more?



73% Materials shortages

27% Skills/labour shortages

Out of the respondents to our spring survey, 88 percent thought that tender prices will increase during 2021 predominantly due to materials pressures, increased confidence and more projects being tendered. 73 percent of respondents to our summer survey think that materials shortages will influence tender prices more than skills/labour shortages.

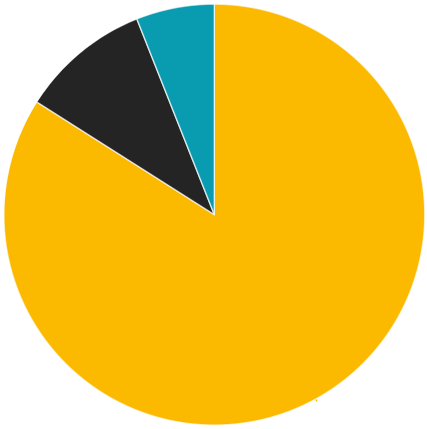
Contracts and claims

With the market improving and contractors facing commercial pressures related to materials, labour and COVID-19 measures, we are seeing larger ranges in tenders than usual as contractors have different workloads, pipelines and appetites for risk. It remains important for clients to ensure that tender documents are robust, and that risk is fairly and appropriately allocated to avoid conflict.

Our recent LinkedIn poll saw 84 percent of respondents say that the ongoing issues with materials are causing delays to their projects, and EY-Parthenon has recently highlighted that "Most profit warnings over the last year cited contract problems that pre-dated the pandemic. Cost inflation will only exacerbate the pressure and companies will need to maintain discipline and visibility over key parts of their supply chain. Cost inflation will only exacerbate the pressure and companies will need to maintain discipline and visibility over key parts of their supply chain."

Figure 15

Are the ongoing issues with materials causing delays to your projects?



84% Yes
10% No
6% Unsure

Materials price increases may see the supply chain under significant financial pressure, and this may see a more contractual approach taken to recoup margins/reduce the burden of additional costs. Many suppliers are issuing notes reminding/stating that they will not be held liable for project delays as the result of late delivery of materials and products.

Going forward, it is expected that contractors will look for contract amendments, liquidated damages relief, risk premiums, etc. to help them manage risk exposure. For projects with a long programme, fluctuations can be considered to reimburse the contractor for price escalation during the contract.

There is a general expectation that there will be an increase in the number of supply chain company insolvencies as we reach the latter stages of 2021 and the ending of government support programmes. Since the start of the pandemic, overall numbers of company and individual insolvencies have remained low when compared with pre-pandemic levels, with government measures put in place to support businesses and individuals.

This includes temporary restrictions on the use of statutory demands and certain winding up petitions. Enhanced government financial support during the pandemic is said to have had an impact.

Rudi Klein, Construction Barrister, has said that fears of construction company failures are growing as the sector is hit by both a shortage of key materials and sharp price rises for material and labour costs.

Nottingham Castle, Nottingham

Inflation forecast

The latter part of the year sees inflation picking up into 2022, with the emergence of larger projects and other sectors picking up activity in activity following lifting of restrictions, with pent-up demand helping wider economic recovery and giving confidence to the market.

Wider ranges of tenders are being seen as contractors become busier and navigate materials challenges. Labour shortages for some trades will also be an issue as the market picks up.

Contractors who responded to our spring survey saw materials availability and further waves of COVID-19 as the biggest threats to the construction industry, with 42 percent ranking materials availability as the top threat and 34 percent seeing further waves of COVID-19 as a concern. Concerns about materials and labour shortages have remained for contractors responding to our summer survey, with 77 percent seeing these as the greatest threat followed by the remaining 23 percent instead seeing further variants of COVID-19 as the greatest threat.

Figure 16

Rank the biggest threats to the construction industry (Contractors), *1 = greatest threat*

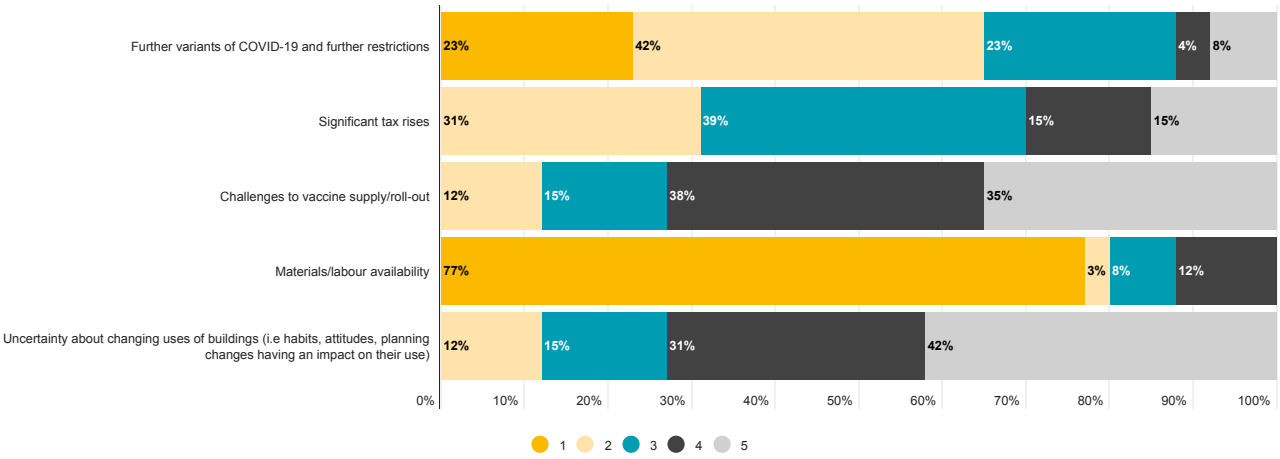


Figure 17

Regional inflation forecasts

	3Q 2021 - 2Q 2022		3Q 2022 - 2Q 2023		3Q 2023 - 2Q 2024	
East	2.50%	2.50%	3.25%	3.25%	3.50%	3.50%
Greater London	4.00%	2.75%	3.50%	3.75%	3.50%	3.75%
Midlands	3.00%	2.75%	3.25%	3.50%	3.25%	3.50%
Northern Ireland	6.00%	2.50%	4.25%	3.25%	3.50%	3.50%
North East	3.00%	2.00%	2.50%	2.50%	3.00%	2.50%
North West	3.00%	2.50%	3.25%	3.25%	3.25%	3.25%
Scotland	2.75%	2.25%	2.50%	2.50%	2.50%	2.50%
South East	3.00%	2.50%	3.25%	3.25%	3.50%	3.50%
South West	2.75%	2.25%	3.25%	3.25%	3.50%	3.50%
Wales	3.00%	2.50%	3.50%	3.25%	3.75%	3.50%
Yorkshire and Humberside	3.00%	2.50%	3.00%	3.00%	3.25%	3.25%

Moderated forecast Spring 2021 report forecast for equivalent period*

**Spring 2020/21 report forecasts calculated for the equivalent period covered in this report have been rounded to the nearest 0.25 percent.*

Note: *This assessment is based on collated views from an internal survey of Gleeds' experts. These forecasts reflect tender price inflation only and do not account for additional costs associated with extended programmes due to social distancing measures/delivery delays. Inflation should be assessed for each project.*

Inflation forecasts for the upcoming year (3Q21 to 2Q22) have generally increased to reflect the impact of material price increases and anticipated labour cost increases. In some areas, particularly Greater London and Northern Ireland, defined spikes are being seen in some tender returns, reflecting particular challenges in those markets. The reliance on an EU workforce and reduction in numbers of such in London, and in Northern Ireland materials challenges are being exacerbated by trading issues as a result of Brexit. In some other areas, the materials and labour cost pressures are being tempered slightly by a more competitive market from effects of project approvals having slowed/been put back in 2020.

For the remainder of 2022 and going forward in to 2023, inflation is expected to return to more typical levels as supply and demand balances and costs and supplies stabilise.

Now more than ever, it is important to consider inflation on a case-by-case basis considering the particular factors which may influence a project. This may be procurement strategy, for instance, a contractor reviewing inflation impact at the end of a second stage tender for a project with a long programme may take a different view to one in a competitive tender situation for a project quick to start on site and certain to go ahead. The nature and specification on the project may also influence inflation, for example, a project with a steel frame may be more exposed to volatility and it would be worth assessing if there are other options.

Negative pressures

- Project approvals having slowed/been put back in 2020 is creating some competitive tendering situations
- Some contractors are still filling their pipeline
- Wider economy still recovering — GDP growth was 0.8 percent in May, behind the forecast 1.5 percent due to materials issues.

Positive pressures

- Large infrastructure projects are continuing which have large labour and materials demands
- Cost pressures for materials — DBEIS 'All Work' construction materials price index increased by 10.2 percent in the year to May 2021
- Labour shortages — 33,000 vacancies across the construction industry between April and June 2021
- Wider impacts — "Pingdemic", continuing shipping issues, shortage of drivers etc.

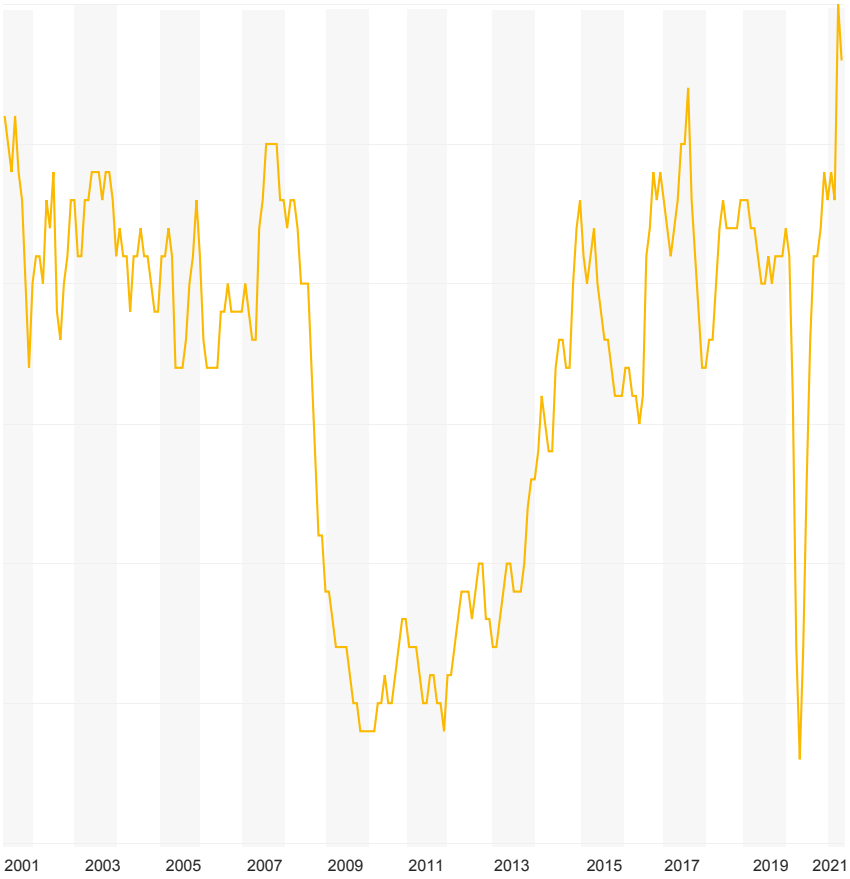
Future trends

With activity in the construction industry increasing and large pipelines of work forecast to help support economic recovery, recruitment will be key across the industry as clients, consultants, contractors and their supply chain will all be trying to attract and retain the best talent.

ONS data shows that the skills shortage has intensified with 33,000 vacancies across the industry between April and June 2021, following 35,000 jobs available between March and May 2021 which was the highest level of vacancies in 20 years.

Figure 18

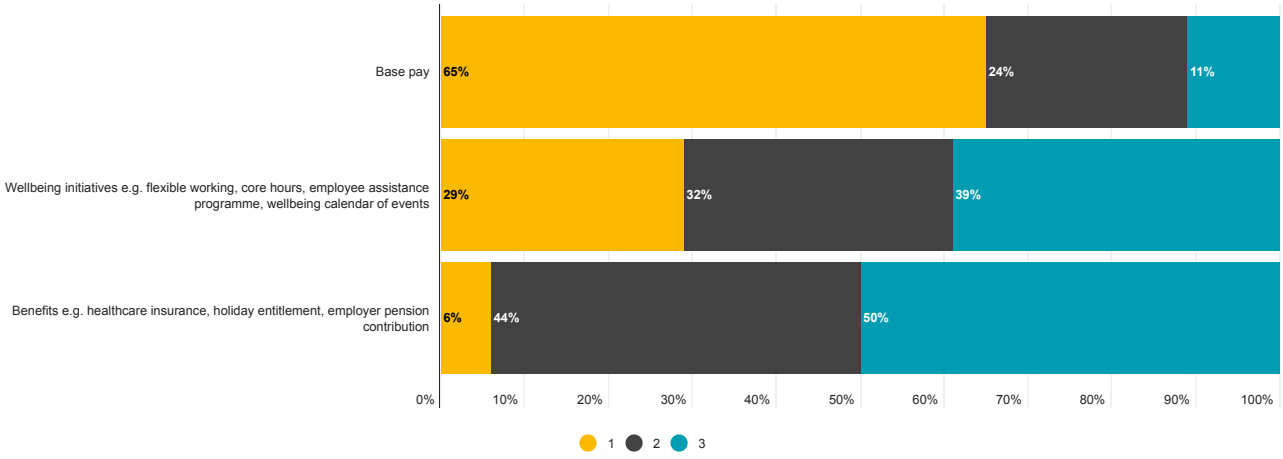
Vacancies in the construction (seasonally adjusted) – ONS



Out of the survey respondents, 65 percent considered base pay to be the most important factor to people looking for a new role. Another 29 percent of those who responded to our survey thought that wellbeing initiatives are key to those considering a new job. We have noticed that there is increased consideration for flexible working practices following the pandemic and that people want to have more control over where, when and how they work.

Figure 19

Rank what you consider to be most important to people considering a new role, 1 = most attractive



A recent Build UK and Timewise study concluded that flexible working could be made to work on construction sites. The 18-month trial by BAM Construct, BAM Nuttall, Willmott Dixon and Skanska adopted flexible working practice on test sites for their site workers, including all subcontractors on site, in some cases. All four firms reported no negative impact on budgets or timeframes, and participants who felt their working hours gave them enough time to look after their own health and wellbeing rose from 48 percent to 84 percent. Some data suggested that adjustments to working patterns could drive savings on labour costs due to enhanced productivity and there are a number of major contractors who are now implementing/ developing flexible working plans and recognising this is key to attracting and retaining staff.

Our #FutureFit taskforce, established in 2020, has provided the business with health and safety advice, best practice and knowledge of how to navigate all requirements relating to COVID-19, including office safety, wellbeing and mental health support at home, PPE provision and advice for working on site. The FutureFit taskforce circulated several employee surveys to canvas views and opinions about how our employees were feeling about life at Gleeds during the pandemoic as well as issuing weekly updates. Taking onboard employee feedback, the team have worked with the Gleeds' People Team to define the Gleeds' "Ways of Working" policy which sets out our expectations for the return of our employees to the workplace. This new policy works in conjunction with our formal Flexible Working Policy which is available to all employees wishing to apply for a permanent change in their working practices. It is encouraging employees to safely return to the office for half their working hours – acknowledging the benefits that homeworking brings to many.

Of those in leadership roles who responded to our survey, 89 percent said that they would be prepared to headhunt talent if it improved their company's chances of winning work. Over 60 percent of those in leadership roles said that they would be prepared to offer salary increases of 10 percent to secure talent, with nearly 30 percent responding that they would offer whatever it takes.

Figure 20

Would you be prepared to headhunt talent if it improved your chance of winning work? (Leadership)

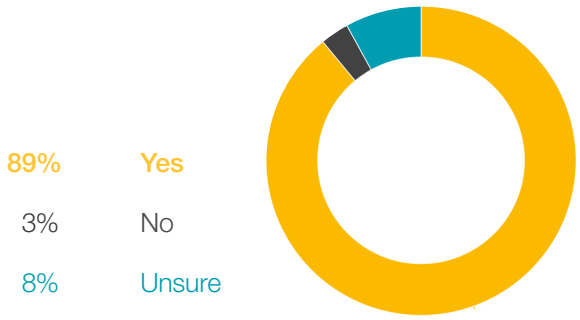
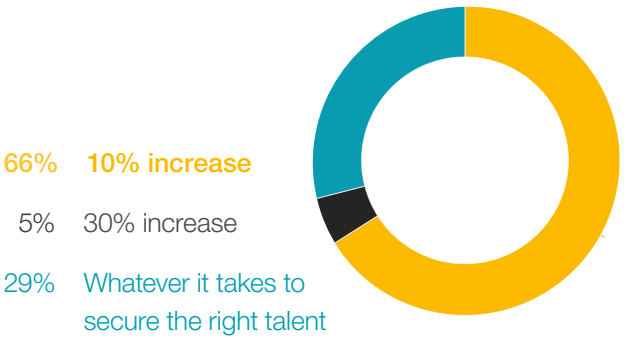


Figure 21

What level of salary increase would you be prepared to offer to secure talent? (Leadership)



From our survey respondents, 56 percent said that they think that the construction industry is taking improving D&I seriously. Only 28 percent of respondents think that positive discrimination has a part to play in improving diversity within the industry, and over half of respondents thought that greater opportunity for flexible working and increased targeted apprenticeships were ways to increase diversity.

Figure 22

Do you think that the construction industry is taking improving diversity and inclusion seriously?

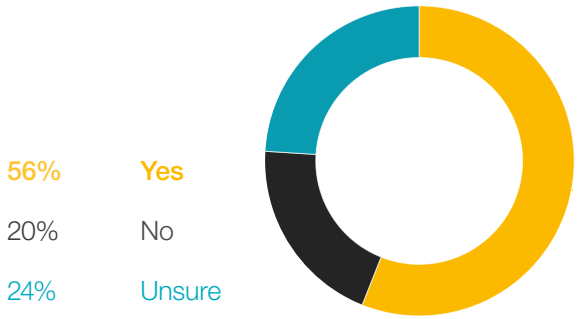
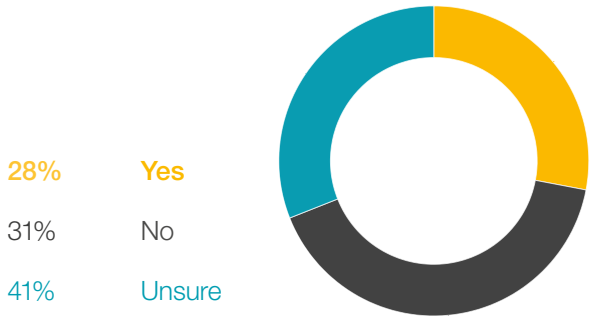


Figure 23

Do you think that positive discrimination has a part to play in improving diversity within the industry?

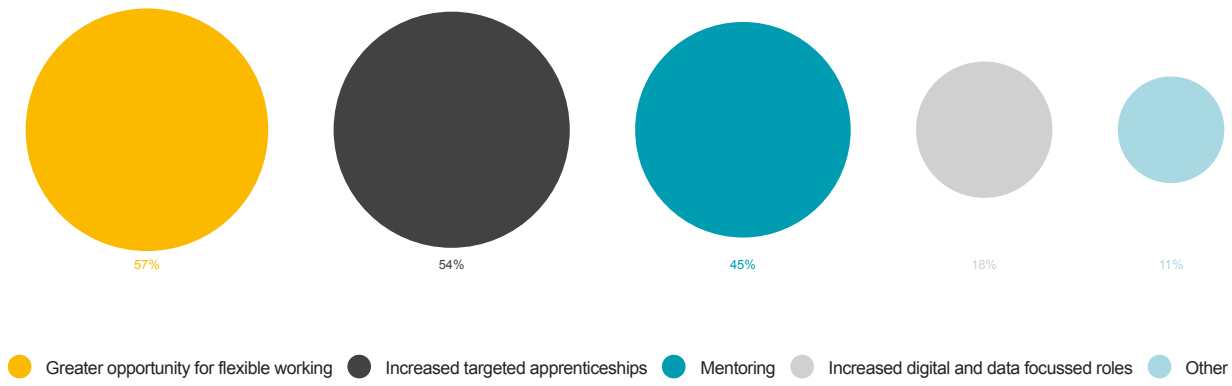


Mentoring and increased digital roles were also identified as ways to help improve diversity across our industry, other suggestions were:

- Better publicity in schools from a young age showcasing the range and diversity of jobs in the construction sector
- Increased visibility in senior management/leadership roles
- Consideration of the National Football League's "Rooney Rule" in recruitment (the rule states at least one minority candidate must be interviewed for all head coaching openings)
- Construction persists with a poor image and frequently poor behaviours without credible "ambassadors"
- Better maternity provisions
- Making it a viable career possibility to people from all backgrounds.

Figure 24

How do we increase diversity in construction?



At Gleeds, we want our company — and industry — to reflect wider society. D&I is integral to us, inspiring our collaborations with Black Professionals in Construction, Women in Construction, and staff-led D&I Steering Group and allies' networks. Most recently, we are adapting our approach to improving D&I at Gleeds by building awareness of the necessity to create a working environment with is fair, inclusive, and respectful. If the benefits of this approach to D&I are understood and role modelled by leaders and line managers it will create a working environment where our employees feel they belong, where they can be themselves and therefore where they can bring their individuality and whole selves to work. This in turn improves employee engagement and therefore productivity at work.

There are many activities than an organisation can take to improve diversity and acknowledging one's own unconscious bias is the start. Positive discrimination is not necessarily the answer as employees' differences, personalities and capabilities should be embraced by an employer no matter what their gender, race, ethnicity, beliefs and background.

Digital transformation

The digital transformation journey is well and truly underway in all parts of the construction industry. As companies move from a simple augmentation of existing processes to transforming the way they carry out their business or the services they offer, we are likely to see significant changes in the productivity and efficiency in design and construction of projects.

We expect this growth to be exponential in the areas of design, data analytics and construction tech in the coming years, as technologies become more mature and the industry's data landscape becomes more established. Whilst it may seem like the 'wild west' now, in terms of the different solutions being developed, we expect to see mergers and consolidations of solutions, with leaders emerging and those ultimately being acquired by big players (Microsoft, Apple, Autodesk, Oracle, etc).

We can expect to see automation of processes to increase, as development of solutions becomes more and more cost effective, through the use of low code/no code solutions and as price points become more competitive (i.e. Microsoft have just announced that their Power Apps license will halve in price from October 2021). This automation should not be looked at as a threat to existing jobs but as a huge opportunity to enhance roles to provide more value to clients.

These factors will allow the industry's skilled workforce to spend more time adding value rather than putting out fires or dealing with risks that have emerged that could otherwise have been eliminated or reduced.

Digital transformation will reduce waste in our industry in terms of labour, materials, abortive work, etc. due to not having a single source of the truth.

Industry must be careful to not allow these increased efficiencies to simply become a never-ending race to the bottom in terms of consultant fees or contractor margins, otherwise we will remain in the same position we are currently in. Our industry is incredibly skilled and versatile and should be rewarded appropriately. This in turn will attract more young talent to the industry.

As an industry we must also become better at sharing our data to the benefit of all. We simply do not have enough projects happening yearly to be shielding data from one another, the medical and insurance industries are two examples where an open data approach can benefit both the wider industry and individual companies.

NZC

In our Spring report we noted that 81 percent of respondents said that they had noticed an increase in requirements to achieve NZC on their projects. Awareness of NZC continues to increase and there is particular attention ahead of the 26th United Nations Climate Change Conference of the Parties (COP26) to be hosted in Glasgow in November.

Our summer survey respondents felt that specification selection would be the key change in how the industry operates going forward to meet NZC targets, closely followed by increased emphasis on whole life of assets.

Out of our survey respondents, 63 percent felt that government legislation will be most influential in driving the industry to act to meet NZC carbon targets. Client demand and funding requirements were also recognised, along with public opinion that there may be eventual exclusion from the market for those that do not act to meet the targets. Investors and end users will seek to safeguard their reputations, and developers/investors want to ensure their developments meet future requirements. One respondent mentioned cost and it is anticipated that as adoption of green technologies, passivhaus construction and MMC widens, the 'green premium' will reduce helping with viability.

With the materials issues being seen, alternative specifications are often being sought to try and mitigate the impact on projects. Out of our respondents, 38 percent thought that product replacements would be more sustainably sourced —this is an important consideration as energy targets are pursued. With environmental targets increasing it is likely that materials issues will impact sustainable alternatives as well, for example, HS2 is pioneering a low carbon concrete.

Figure 25

In order to meet NZC targets, what will be the key change in terms of how the industry operates going forward?

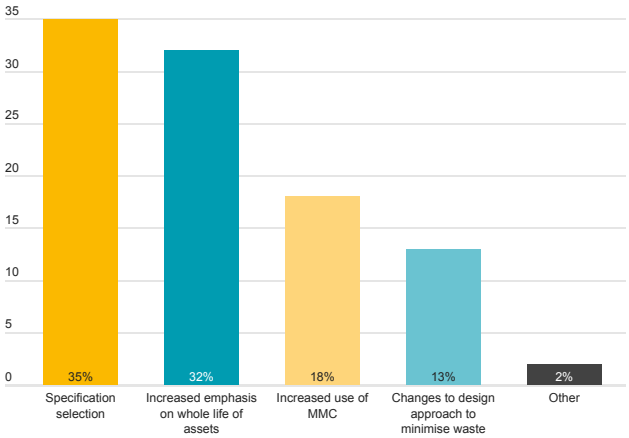


Figure 27

As materials shortages become more acute do you think that alternatives will be found to replace existing products that are more or less sustainably sourced?

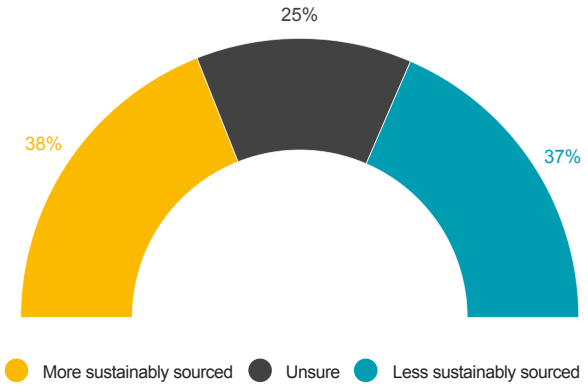
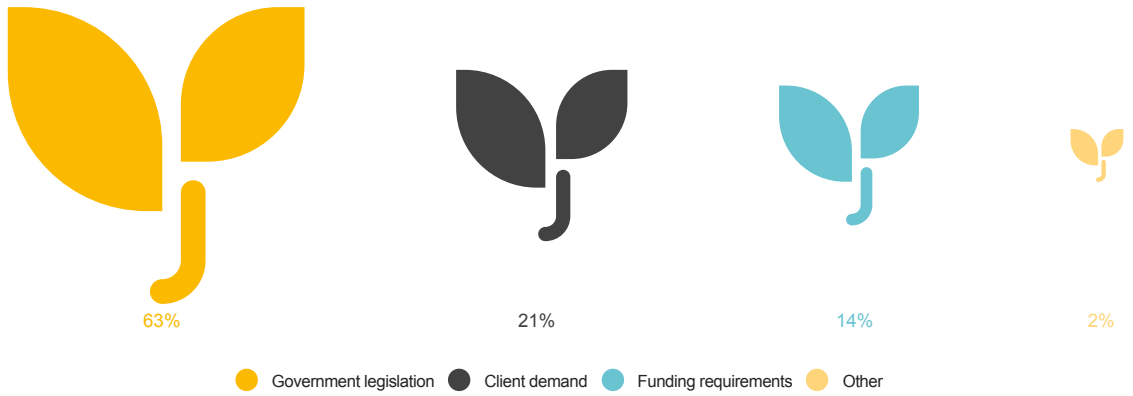


Figure 26

Which of the following will be most influential in driving the industry to act to meet NZC targets?



Market snapshot: India

SUSHMA WILSON
Associate Director for Gleeds India, Insights and Analytics

The Indian economy was hampered by the largest outbreak that any country had since the start of the COVID-19 pandemic in 2020. The construction industry however has proved to be vital and a steady contributor to the country's economy, despite the circumstances.

The Indian Government has recognised this and is seen to support the industry, with investment promised in the infrastructure sector and residential sector. But localised lockdown and restrictions in movement, along with global production issues, have pressurised the supply chain, inflating material prices and bringing about price uncertainties. Contractors have sought to renegotiate contracts and update preliminary costs to meet the present demand.

While the industry is visibly resetting and rethinking its strategies, the one subject at the forefront and of interest to Developers is sustainability. The pandemic has pushed clients to look deeper into savings in operational costs, as well as reserving resources. Employee wellbeing is found to be key in retaining talent, including working from home policies and retrofitting workspaces to allow for a pandemic-safe environment. While India has always focussed on sustainable materials and measures, thereby widening the sustainable construction footprint to 7 billion square feet, it is yet to venture deeper into other aspects of preserving the environment such as carbon counting and NZC buildings.

Being the third-largest emitter of greenhouse gas, zeroing out its greenhouse gas emission by 2050 (to meet the NZC pledge) is ambitious. The Government and its officials are looking into this possibility by at least 2060, and many non-government institutions in India are exploring models of net-zero options.

India's first NZC design was Indira Paryavaran Bhavan, constructed way back in 2013 with the adoption of solar passive design and energy-efficient building materials. Kochi International airport, which is completely powered by solar energy, followed by Indra Gandhi international airport producing up to three million units a day, are all trendsetters on the net-zero front.

Data centres, the fastest growing sector in India, is also warming up to sustainable construction. Top e-commerce brands and search engine brands establishing datacentres in India are exploring the options of buying out renewable energy, designing their rack to retain higher temperature and investment in hyperscale.

Government policies aim to create a favourable environment for both domestic and foreign direct investments, promoting the growth of robust and sustainable data centres in the country. It is also working towards providing an "Infrastructure status" for the data centre sector, on par with other sectors such as railways, roadways and power, allowing for easier access to long-term credit from domestic and international lenders, heralding positive growth for the sector.

India has always showcased considerable responsibility towards the impact of the built environment on its natural surroundings, bringing it to be the second-largest country in sustainable building construction.

This continued growth is now evolving into the narrowing of carbon emission and, even if tough, is aiming to reach the net-zero goal by at least mid-2060.

Sector insights

Residential

COLIN FIELD
Senior Director

Market activity and key trends

The English stamp duty holiday is now in the past with a tapering relief until the end of September 2021 and whilst there was a rush to complete purchases before the window closed, house prices are still expected to rise as there remains a shortage of stock in many areas. Large house price increases are being seen in the North West, Scotland, Wales and the North East. According to data from the ONS, the average UK home cost was nearly 10 percent higher than the previous year in May, representing the fastest rate of growth seen for 14 years.

Whilst sales are slowing, they are higher than at the same time in 2019 and new enquiries are expected to remain strong for the remainder of the year. The Bank of England's chief economist recently commented that the housing market was "on fire" thanks to the extension of government tax breaks for homebuyers and increased demand from wealthier households with more savings following coronavirus lockdowns. Although some others are cautious about the end of the furlough support scheme and potential interest rate increases.

It is expected that more properties will be brought to the market this summer as people again have staycations and are therefore available for viewings and completions.

Whilst there remains interest in suburban areas, rural lifestyle-relocation areas, and people looking for second homes looking or moving further out from cities, there are now glimmers of people looking to stay and upscale their current properties. One of the reasons is due to lack of supply of stock in desirable areas and properties coming to the market in those areas seeing stiff competition.

Not everyone can work remotely, and we are seeing more people returning to offices part of the week to be in touch with their workplace and colleagues. More than 70 percent of London office workers have already started to spend at least one day in the office and more than a third are already back to pre-COVID working routines, according to a new study from Landsec.

Workplace location is still a key driver in where people choose to live, and commuter zone developments and build to rent developments, in particular, remain strong although corporation tax changes have impacted on this.

Savills recently reported that rental prices have risen nearly 20 percent in the year to April 2021. City suburbs, commuter towns and coastal locations have recorded the biggest rises in rent for tenants in the last year. Rents in London and Edinburgh were still lower than they were last year, down by 6.8 percent and 4 percent respectively according to Rightmove. Other recent statistics show rent collection is 95 – 97 percent in the Build to Rent (BTR) market making it attractive to funds to security of income.

Risks and opportunities

As with other sectors, the residential market has been and will continue to be affected by volatility in the material and labour markets. Tenders are starting to be held open for much shorter periods of time and there has been a greater move towards two stage tendering as contractor workload picks up and concerns of fixing of tenders increases.

With large investment by the government to support the levelling up agenda, homes will continue to be developed across the country and there remains a great opportunity for residential to play a significant role in the rejuvenation of high street and town centres. Greater investment in research and innovation, along with changes to permitted development rights will help fuel this demand.

Bayscape, Cardiff

Market snapshot: **Europe, Middle East and Africa (EMEA)**

EDNA BENAVIDES
Insights & Analytics Manager (EMEA)

Many markets in the EMEA are continuing to build in the residential sector as a response to long-standing shortages or demands for modernisation. The recent EU Recovery Plan, NextGenerationEU, outlines the agreed intention to invest over €800 billion in projects that address current global issues like sustainability, accessibility and inclusion. Several member states have already defined their plans to invest in various solutions requiring construction works, such as affordable housing for all age groups, energy efficiency of buildings, low-carbon equipment and materials, amongst others. Several of these EU goals are direct responses to the United Nations 2030 Agenda and can be seen in other EMEA countries where Gleeds is active, such as Egypt, Qatar, Saudi Arabia and the United Arab Emirates.

The residential sector has always been one of the busiest in the Egyptian construction industry and the Egyptian Government is addressing a supply gap of three million residential units, especially in the Old Capital plagued by long-standing squatter areas, by relocating residents to newly established low and middle housing areas and demolishing existing ones. This is creating many urban planning opportunities.

As a result of the Qatar National Vision 2030, Qatar has experienced years of continued national investment in infrastructure and other major construction works. Recent changes in legislation that simplify requirements for foreign ownership are expected to drive a boom in housing construction.

NextGenerationEU generally promotes energy efficiency in buildings. Many countries have focused their use of funds towards renewing existing buildings, including residential, but getting across the finish line requires foreseeing the ripple effect of increased construction.

The Czech Republic has particularly focused on streamlining and digitising its Construction Permit procedures to bring speed to the traditionally slow process and increase Investor interests in the region. Slovakia also addresses the role of the government in driving construction by simplifying procurement procedures. France's Recovery Plan proposal anticipates increased demands in skilled labour and will invest in training to pre-empt potential shortages. Germany has chosen to support small and medium-sized enterprises in the timber industries, requiring upgrades to their facilities and/or technologies to prepare for increased demands in climate friendly construction materials.

The student housing, co-living and senior housing industry in some European countries is expected to continue growing, especially considering new Government incentives encouraging the creation of affordable and accessible housing that adopts "green" and inclusive design initiatives. Although post-pandemic student housing demands have decreased in larger markets, smaller markets that were already under-supplied are maintaining continued Purpose Built Student Accommodation developments, as can be seen in several Gleeds EMEA countries such as France, Germany, Italy, Portugal and Spain.

The forces brought on by pandemic recovery, and the quickly approaching United Nations' 2030 Agenda, appear stronger than the downward pull of recent, ongoing materials issues faced by delays and increased costs, as can be seen in this summary of several Gleeds' EMEA markets.

Many markets in the EMEA are continuing to build in the residential sector as a response to long-standing shortages or demands for modernisation.

Commercial Office

PAUL SWEENEY
Head of London Region

KARA THOMPSON
Senior Director and Head of London Project Management

Market activity and key trends

Despite the doomsayers declaring that the office is dead and that everyone will work from home, the dawn of reality for most businesses is that the office is the culture and heart of the business. Several surveys by agency firms in recent weeks support the view that businesses need offices with little immediate intention to downsize. There has been a large increase of tenant activity since the last reporting period, with a number of new headquarters acquired, both lease and freehold.

What is clear is that businesses need offices to attract staff and to reflect modern ways of working. Many companies are listening to their staff as well as considering their growth plans to ensure their offer is the most attractive to secure talent. This means that we are already seeing many projects coming forward to repurpose office space and, as such, activity in the commercial offices sector remains busy. In London there is significant money wishing to invest and offices are still prime acquisition.

White Collar Factory, London

Risks and opportunities

Like most sectors, commercial is seeing inflationary pressure on the supply of materials and labour, and this is impacting on tender returns and the ability of contractors to hold their prices firm.

We continue to see the rise in tech, as well as opportunities within food and beverage — with now over 1,500 businesses closed in this space there is a gap and opening in the marker for new offerings. The high street will not look the same post-pandemic and there is an opportunity for commercial to help shape the evolved town and city centres of the future.

Undoubtedly, the next five years will see a rise in the millennial generation into the next level of management positions, which will drive forward the need for change, with decisions being made on sustainability to disrupt the market. We have seen an increase of industry reports and papers highlighting that reuse is key for sustainability. This is not a new concept but it is being spoken about with much more emphasis now. The specification of assets needs to be carefully considered, with all stakeholders contributing to elements of the design encouraged to be considering what is best for the environment and maximising opportunities for reuse.

Commercial developers are increasingly looking at their value-add offer to investors, not just incorporating trends but bearing in mind how the built environment should look in the future. Rapid advances in robotics and artificial intelligence (AI) will significantly change the workforce by automating and augmenting jobs, and it is expected that continued technological disruption will fundamentally change the way we work, live and relate to each other. It is therefore an exciting time to be in the commercial offices arena, to help shape spaces which will enable the services sector to respond to the Fourth Industrial Revolution and to create flexible and digitally enhanced buildings which can meet other uses should that be needed in time.

Hotels and Hospitality

GILLIAN BREEN
Director

Market activity and key trends

The last quarter has seen much optimism return to the hotel and hospitality sector. The vaccination programme has underpinned much of the return in confidence, with occupancies and revenue improving as a result. However, hopes of the anticipated "bounce back" have been tempered in the UK's major urban centres; in particular, London, as the number of overseas visitors remains low and is likely to remain that way for some time. That said, new hotel openings, such as Sydell's eagerly awaited NoMad in Covent Garden and Cycas Hospitality's Hyatt Place London City East have added some much-needed vibrancy and excitement to the sector.

Meanwhile, there is a polarised situation in the domestic UK market — as anyone trying to book a last-minute summer holiday will testify. Prime and secondary locations around the UK were booked out this time last year, leaving many to settle for second best on their holiday choices. This presents opportunity for many of the UK's smaller cities, towns, rural and coastal destinations as potential guests and regional visitors are open to exploring lesser known locations and property types. Last year's surge in rural and coastal locations has continued again this year with visitors keen to explore the British countryside and open spaces. This year also brings an uptick in activity to locations with associated leisure attractions, such as retail centres, food and beverage, sports, entertainment and theme parks, as social distancing measures and capacity restrictions are relaxed.

Risks and opportunities

Institutional backing in the sector continues with operational capital markets seeking to diversify portfolios and investments. We are also seeing increased activity from property owners and asset managers looking to take advantage of current lower levels of occupancy to implement refurbishment, project improvement and value add plans. This makes sense for owners that have access to funds, particularly as the phasing and timing of construction activity can be planned around forecast revenue models that keep properties open and minimise the impact on guest experience.

For the foreseeable, we anticipate the same themes continuing as confidence grows and overseas visitors are allowed less restrictive access to the UK. In the meantime, we anticipate institutional interest in the sector to continue, not just here in the UK but internationally as well. The pandemic has no doubt influenced the sector profoundly and yet still there is and always will be a need and place for hotels and hospitality. In many ways, the pandemic has 'nudged the needle' and we are now seeing the sector serve as inspiration to wider urban development, particularly as greater emphasis and consideration is placed on wellbeing, leisure and hospitality. This can only be a good thing especially in urban centres where adaptative re-use and repurposing of existing buildings and older assets into hotels and leisure facilities can support and anchor regeneration and placemaking.

Kingsway Hall Hotel, London

Market snapshot: Kingdom of Saudi Arabia (KSA)

GALAL HANY
Country Director (KSA)

The construction sector in KSA has improved in health in the first two quarters of the year, recovering from the combined effects of the pandemic and oil prices. We have noticed substantial activity on all of the Public Investment Fund Special Purpose Vehicles (SPVs) such as NEOM, ROSHN and Qiddiya. The three main sectors are residential, leisure and infrastructure.

The residential sector is driven by the Crown Prince who set plans to deliver circa 4 million units in the next five years: three million by the Ministry of Housing and one million by the PIF subsidiary ROSHN.

For the leisure sector, all the new mega/giga projects place a lot of attention on tourism and hospitality, such as NEOM, Red Sea Development, Amaala and Qiddiya. We have also noticed that the aviation sector is becoming live again with new airports being designed or constructed (Design and Build following schematic) for all of the aforementioned remote developments. This increase in market activity is expected to drive TPI by 3-4 percent this year.

There are grand aspirations for the use of MMC considering the very challenging project programmes, yet we have not seen this as much in practice. Use is expected to increase following investment in new production facilities.

Sustainability is also another important issue for most clients in KSA. For example, NZC is targeted for NEOM, but we are sometimes seeing it being overtaken by the requirement for a "wow" factor and budgets. What we have noticed to be a key consideration is the attention given to conserving natural habitats, especially on coastal developments, such as preserving corals, seaweed, mangrove areas and turtle immigration destinations.

Challenges are being seen with the unavailability of sufficient materials in the KSA or Gulf Cooperation Council region to cover some project requirements.

For example, on one of our projects there is a requirement to procure circa half a million trees. Also, the remote nature of the new giga projects imposes various supply chain and logistical risks. Another key risk is any unforeseen oil price variations based on Organization of the Petroleum Exporting Countries (OPEC+) decisions.

For the leisure sector, all the new mega/giga projects place a lot of attention on tourism and hospitality, such as NEOM, Red Sea Development, Amaala and Qiddiya.

Higher Education

HEATHER MAKIN
Director

Market activity and key trends

Activity in the higher education sector remains steady. Universities are preparing for the new academic year and are trying to pre-empt what the experience will be like for students. Some are hopeful that the vaccine roll-out and lifting of restrictions will mean a more typical experience with a fully open campus and usual offer, whilst other universities are indicating a "blended" learning proposal often with lectures online and seminars, etc. given in person.
It is a careful balance of recognising that students want an improved experience compared to 2020/21 but needing to be realistic and not overpromising in the event of a tough winter and restrictions being reimplemented.

Commercial pressures are leading many universities to continue to focus on projects related to essential maintenance and facilitating social distancing. Some are looking to strengthen their existing propositions by consolidating courses and seeking growth opportunities to diversify customer base and attract greater numbers of international students. There is also investment in IT to facilitate blended learning and ensuring sufficient infrastructure — some universities are recognising that there will be a place for online learning in the future, even once restrictions are fully lifted.

Where capital projects are progressing, these are under careful scrutiny to ensure that planned outputs meet requirements and offer value for money. Future proofing of assets is important, and we are seeing thorough consideration of energy and sustainability strategies and funds being specifically used to improve building performance.

Risks and opportunities

There is concern that commercial pressures will remain for universities during the upcoming academic year following reduced income in 2020 due to closures and a lack of conference income streams. Some universities are looking to reassure students by indicating rent refunds in the event of lockdown restrictions, and others are offering grants to EU students following a 40 percent reduction in applications from EU nationals for undergraduate degree courses.

There is also concern from some universities that grade inflation will mean that some 'elite' universities will expand their student intake again, like they did in 2020, to maximise student numbers and income potential. It has recently been reported that the University of Exeter has written to candidates who have accepted offers to study medicine starting this autumn asking them to delay to 2022, with the incentive of free accommodation and a cash bursary, following a significant increase in the number of candidates to medicine who have made Exeter their first choice.

Applications from outside the EU were up by 17 percent. It is hoped that the International Education Strategy and the new graduate route visa, allowing applicants to work or look for work within the UK for two or three years, will boost global applications going forward. Some institutions are also looking to increase their global presence and collaboration, with the University of Cambridge in talks discussing a potential strategic partnership with the United Arab Emirates.

Whilst the upcoming period is anticipated to remain difficult for higher education establishments, there are opportunities in the longer term, particularly for universities, to play an important role in upskilling for new requirements in different sectors as part of economic recovery — particularly as part of the 'lifetime skills guarantee' offering all adults four years' worth of education or training. There is also a significant opportunity for universities with research, as more research is targeted to meet life sciences and climate change challenges.

Public

JONATHAN STEWART
Public Sector Lead

Market activity and key trends

Activity in the public sector has started to increase as a result of announced investment by the government to facilitate economic recovery from the pandemic. Work is planned across many central government departments but in particular there has been increased activity from the Department for Education as the number of secondary school pupils is predicted to rise 15 percent by 2027 and new schools are required to meet some of this demand. Work is also continuing across Ministry of Justice, Ministry of Defence (MoD) and Department for Work and Pensions programmes of work.

Projects are also starting to come forward and progress following the local elections in May. For obvious reasons, focus has been on COVID-19 and making spaces COVID secure, however, we are starting to see more consideration of other factors, particularly NZC — especially in readiness for COP26 in November. The recently launched procurement policy note, 'Policy Note 06/21: Taking account of Carbon Reduction Plans', to be used during the procurement of major government contracts, again indicates the importance of NZC targets and ensures that suppliers for goods and/or services and/or works with an anticipated contract value above £5 million per annum align with requirements.

We are seeing thought being given to evaluate estates and building requirements post-COVID, and how buildings can be repurposed or designed to best reduce energy consumption. Futureproofing and flexibility are being considered, recognising that requirements will change over time, particularly as technology continues to develop.

Risks and opportunities

Materials disruption and price increases are affecting public sector projects and there is particular concern where project budgets have already been set and funding allocated. Engagement with the supply chain is occurring to help understand lead in times and to seek the optimum solution given the market constraints. Skills shortages concerns also continue, particularly with the uptick in work anticipated as all parts of the market are looking for the same skills (clients, consultants, contractors, etc.)

We are seeing recognition of the Construction Playbook in tenders and increasing adoption of the principles in projects. The Consultancy Playbook was launched in May to complement the Construction Playbook and to help with the effective procurement of consultants, encouraging the writing of effective specifications to gain better delivery and collaboration, as well as measurable knowledge transfer. Continued adoption of the Playbook series by government departments and bodies will mean that it is successfully embedded into the industry's way of working and will support post-pandemic recovery and achievement of NZC and energy efficiency goals.

Deer Park School and Lidl, London

Health and Care

ROGER PULHAM
Director

JOHN WALKER
Director

Market activity and key trends

The reduced level of projects being brought to market reported previously is easing. In the main, this is being driven by increases in Block Capital and Backlog Maintenance projects being brought to the market. Estates and Facilities Management (FM) strategies/masterplans and Facet surveys are being advanced, suggesting preparations for new investment is happening.

The NHS has also embarked on the delivery of their estate 2021/22 investment/modernisation programmes. These programmes are driven by lessons learnt from COVID-19, updated estate and FM risk profiles, fitness for purpose audits and the Estates Return Information Collection (ERIC) data reports.

Centrally funded capital programmes are being advanced via the business case approval regimes. Those conducting business case reviews have identified the need for enhanced consistency based upon evidence. Over the next two quarters, business case approvals are expected to accelerate, particularly across the multi-billion-pound New Hospital Programme (NHP).

Early engagement with the supply chain at Outline Business Case, as recommended in the Construction Playbook, is accepted as best practice to be adopted, and framework membership is key to securing involvement in NHP and Health Infrastructure Plan programmes. The robustness of Tier 1 contractor supply chains will come under scrutiny to achieve desired benefits associated with initiatives such as Modern Methods of Construction (MMC), NZC and Outreach Solutions in Community and Primary Care. These desired results will need to be defined as part of the service, rebalancing obligations impacting on business case approvals.

Bids for 'strategic capital' are being sought from NHS Trusts who have operational or commercial needs not able to be self-funded or where they have wider health economy impacts.

Risks and opportunities

Capability and capacity of those required to deliver Exchequer funded programmes is proving to be a significant concern. Whether the need is flowing from the NHS Trusts, its advisors or from regulators, training and upskilling is seen as an urgent priority. The adoption of repeatable solutions will ensure manageable arrangements will emerge.

NZC and MMC are required to be fully addressed in business case design solutions. Derogations from current design guidance require careful consideration to avoid capital investments being obsolete within the operational life of the asset. Sufficient design granularity needs to be developed within the next 12 months to ensure compliant designs feature in approved business cases and commissioned capital schemes. Cost benchmarking drawn from past and current approved projects is being given attention by the IPA and Cabinet Office.

The emergence of Integrated Care Systems (ICS) as statutory entities will place priority on Commissioners (Health and Local Government) to embrace the principles of Cavell Centres to 'home' health and social support services to the local demographic. Cavell Centres are intended to provide GP led Primary Care, Community Care, Outreach Services, and access to social advice with flexible provision of premises including café and drop-in capacity.

Grange University Hospital, Wales

Defence

SUZANNE TEARLE
Senior Director, UK Defence Lead

Market activity and key trends

Whilst the market still awaits the approval outcome of many major projects apparently stalled at the Investment Approval Committee or ministerial level, focus has been directed to how the department and industry does its business. Put another way, "business done right".

Publication on 1st July 2021 of MoD's Social Value Model, as part of their Commercial Toolkit, starts to embody this. Subordinate to the Cabinet Office's recent Social Value Model and policy, it applies three themes of a possible five: Tackling Economic Inequality, Fighting Climate Change and Equal Opportunity, as being most relevant to the majority of defence procurements. In practice, this is providing value beyond savings, augmenting our core solutions with local thinking and delivery, benefitting all parties.

Suppliers bidding on major government contracts must demonstrate commitment — and evidence through metrics, including those of the global greenhouse gas (GHG) protocol — to measures which achieve NZC emissions by 2050. Further, from 30 September 2021, they will be required to have a Carbon Reduction Plan in place. Whilst scope is set for contracts with flow-through of £5 million or more per annum, we assess that to assure effective stewardship of the environment, there will be broader adoption across lower-valued public sector works.

Risks and opportunities

Gleeds has been embedding social value into our ways of working for many years through the design and performance measures of the SCAPE Consultancy framework. These align with the National Social Value Measurement Framework (TOMs) and particularly, focus on regional growth and resilience through use of local supply networks and SMEs, environmental protection measures and innovation.

The flexibility and agility of SCAPE as a route to market is proving valuable to many MoD customers, who are also seeking a way to bring fresh and independent perspectives in review of technical works procured elsewhere.

Unsurprisingly, social value is linked to how people feel about their surrounding built environment and how their employer organisation responds to Climate Change. Across the Armed Forces' regular and reserve estate, Gleeds teams are observing renewed emphasis on how the "lived experience" drives recruitment and retention. Developing effective metrics is and will be challenging, requiring a bottom-up, as well as top-down approach to how policy lands with stakeholders. This will entail a huge mind shift to balance the investment with that demanded by operational needs, effectiveness and safety.

MoD, and Defence Infrastructure Organisation (DIO) in particular, are revising their vision around where building and estate information is held. Over time, much of this has been disaggregated into the technical support partner realm, creating unintended blind spots around the actual condition of the estate. Naturally, this impacts coherent investment decisions.

Gleeds is providing expertise in Building Information Management (BIM) and digital twins, using drone technologies to scan buildings and covert the date into 3D models, in a manner suited to sensitive sites and activities.

With the long-awaited award last month of the Future Defence Infrastructure Services (FDIS) framework, by far the biggest portion of DIO's annualised spend, we assess that the design of these contracts has the potential to drive the right outcomes around social value, data and achieving improved optimum lived experience.

Life Sciences and Pharmaceuticals

GALVIN TARLING
Director

Market activity and key trends

COVID-19 is no longer front and centre for the sector. The pandemic has triggered a new flood of cash to the sector which is forecast to contribute an extra £8.5 billion of growth to the UK economy by 2025. Currently, much of this cash is venture capitalist investment targeted at London, Oxford and Cambridge (the "Golden Triangle"). Aside this, the UK government is aiming for 2.4 percent of GDP to be spent on life sciences research and development by 2027, representing a 50 percent increase from 2017. This is supported by the release of the government's 10-year strategy for the life sciences sector which includes a £1 billion investment programme.

If Britain is to fulfil its growth potential in the coming years, the sector must expand beyond its dominant market of the Golden Triangle. Agents advise that the second quarter continued to see demand for laboratory space outstripping supply. Creating enough laboratory space to meet demand, plus supporting growth, will be the challenge for both the property sector and construction industry alike. Supported by the government's levelling up agenda, which not only considers economic distribution but also quality of living standards, the formation of new clusters is critical, and the likes of Birmingham, Manchester, Liverpool, Leeds and Edinburgh are starting to attract significant capital. Second quarter investment announcements included Bruntwood SciTech with a £95 million sustainability-linked loan to fuel expansion at Alderley Park and Edinburgh BioQuarter launching a procurement process for investment partners to realise its £1 billion vision.

Risks and opportunities

With reported lead times of key materials now being up to a year, there is some concern as to how quickly facilities can be delivered to meet the demand.

The convergence of the immediate demand for research and production space, levelling up and urban centre regeneration means that re-purposing opportunities are abundant. The life sciences sector is extremely appealing to those holding stock considered both economically obsolete and/or commercially redundant. Whilst redundant retail stock meets many of the regeneration sustainability criteria via structural re-use, also providing acceptable slab to slab dimensions for laboratory fit-out and access and egress points for chemical supplies and waste removal, agents, landlords and developers are struggling to determine commercial values. Consequently, considerable effort is being expended with the industry educating itself, particularly in potentially new cluster locations. Legal & General's recent marketing of Cambridge's Grafton Centre retail mall will no doubt stimulate much procrastination as to the risks and opportunities for life science re-purpose viability, even within an established knowledge based eco-system.

What is clear is that whilst the sector does carry differing yields, lease covenants and capital construction costs for landlords and developers, they must recognise that value is not just in the stock or outdated institutional lease, life science sector occupiers are where the value really lies. These clients, not "tenants", are fundamental to stock repurposing and levelling up.

Retail

EMMA WIGGIN
Director

ANDREW MARLOW
Director

Market activity and key trends

There has been a significant increase in activity since the last report, particularly in planning for works later this year. The market is very buoyant, especially with food retailers, leading to a competitive market. Retailers are challenging for market share and therefore carefully considering the footprint of stores and targeting key locations.

Active retailers are focused on redefining their portfolio with active disposal. As retail moves from the high street, some retailers are still relocating from traditional town centre locations to out-of-town retail parks which have performed well during the pandemic due to their spacious, outside nature. City centre locations remain key but not for smaller towns, as footfall is still challenging and moving. Retailers are also looking at how they can develop their properties by reviewing ways to repurpose, such as carving up units to make space work more efficiently.

Retailers want to take advantage of pent-up demand as restrictions lift and are looking at ways to draw customers into stores. Some large retailers are planning store refurbishments to improve customer experience and to encourage customers to visit their stores, responding to the tendency of in-store spending being greater than online spending, due to customers being more targeted with their purchases. Generally, a more personalised experience for the customer is being pursued, with elevated customer service, unique experiences and showcases — all driven by technology.

The increase in digital has led to heightened customer expectations for convenience and immediacy and some retailers are working out their revised customer relationship. Zara have launched a feature on their app for users to check into a physical store, (Westfield Stratford City), to only show the products and sizes available in that particular branch, which can be purchased in-app and collected via the store's automated collection points.

Other functions provide new levels of service, such as reserving of changing rooms and finding items in store using in-app geolocation technology. This has multiple benefits, including increased staff productivity and better understanding of stock and customer behaviours/preferences.

Risks and opportunities

Latest data from the British Retail Consortium shows that UK retail footfall was just under 28 percent less than two years earlier, following the 'freedom day' delay in England. Changes in government support for furlough, rents, etc. are creating a shadow of uncertainty and risk.

With a high volume of retailers and hospitality venues closing their doors, this rapidly changing domain opens up further opportunity for market share for those remaining and creates an opportunity to fill gaps in the market.

There is also a significant opportunity to purchase property and rework town centres, not just for retailers but also local developers and councils. Reinventing space to draw people into town centres and cities could mean increased opportunities for independent retailers alongside traditional outlets. Although the current reality of this is that there remains a significant number of empty retail units within town centres.

Climate change and sustainability targets are becoming increasingly important to retailers to meet consumer expectations. H&M, B&Q, IKEA and Walmart have launched a new climate change initiative, Race to Zero, encouraging retailers to move to action to meet carbon reduction targets. Burberry has also accelerated its sustainability goals with a climate positive pledge by 2040 and Asda has published its first report to detail greenhouse gas cuts. The move to reduce plastic waste continues, with Dunelm pledging to go plastic and glitter free, and The Co-op launching an in-store recycling scheme for plastic bags and product packaging.

Town Centre Regeneration

SARA BOONHAM
Head of Cost Management and Town and City Centre Regeneration Lead

Market activity and key trends

Retail Retreat

The retail retreat from our town and city centres continues. Most recently, with Gap declaring the intent to shut all 81 of its UK and Ireland stores, H&M closing 250 stores this year and the great British institution which is M&S stepping up store closures on the high street as part of their transformation plans. One in seven shops in our urban centres are now empty, and retail profits are forecast to shrink by £8 billion by 2025 as we accept the over-provision by approximately 30 percent of retail space in UK. The wholesale closure of 70 of the UK's 700 shopping centres is predicted and a further 20 percent will need a significant overhaul.

Undoubtedly, the most effective route to regeneration of our towns and cities offering sustainable outcomes is unique, mixed-use developments with close attention to creating a sense of purpose and place. The keys to success are likely to lie in economic and demographic diversity and local character, that contrasts with the bland offerings of shopping centres which were yesterday's blueprint.

Judging Today's Schemes by Yesterday's Values

We must, of course, bid farewell to the post-war consensus that the success of our towns and cities were measured in terms of retail dominance and hierarchy which was fuelled by growing consumerism. This retail monoculture as described by Mark Robinson, Chair of High Street Task Force, successfully excluded traditional town centre uses. Going forwards, the new rules for success will, by necessity, embrace change in the high street occupancy model including agile, adaptive spaces which will be the future drivers of consumer footfall and community growth.

Physical retail will still be vital but will be truly reborn as consumers expect to experience the best of what the brand has to offer in terms of discovery, tactility and excitement. Engaging with another human without layers of protection between them is a vital component. Dark stores fulfilling local delivery and pickup orders will continue to take vacant retail space and add value but not the essential vibrancy that other uses, such as later living housing blocks can provide. This offers a solution to loneliness and isolation whilst drawing more people into urban centres, with the associated housing equity generating spend and footfall for local businesses. Life sciences have not yet reached our towns and city centres, albeit the aspiration exists. But do the necessary components of research/academic/health anchor exist or the required transport connectivity?

Offices are clearly evolving but they will remain the beating hearts of central business districts of our prominent cities, and towns will continue to support a lively mix of retail, leisure and cultural attractions which, in turn, will sustain the attractiveness of urban living.

The local and hyperlocal focus continues and the pedestrianisation of towns and cities must move up the agenda, presenting opportunities to more readily co-locate retail, hospitality, entertainment and housing. Meanwhile, the culture and purpose of our destinations becomes a focus driven by movements such as Black Lives Matter, and the health and wellbeing agenda gains further momentum. Encapsulating all of this within the brief for our urban centres, against a backdrop of the rapidly growing global consensus around the extraordinary importance of sustainability, is a challenge which we need to embrace.

Undoubtedly, every town has the potential to be unique and offer something of value to its community and visitors alike, but we will have to collectively work harder to uncover and then realise that potential, as a new blueprint or "off the shelf" methodology simply does not exist. Altrincham market works because it is unique to its location but meanwhile, everyone is trying to replicate. Another carve up of a department store in the same old way to create fashion, F&B and uninspiring commercial offer, is simply pushing today's problem a short way down the line.

Progress on Re-Shaping our Towns and Cities

So where are we on this journey? Private sector investment in shopping centres, largely for change of use and repurposing, is showing some very early signs that recovery could start to flow in 2021 based upon £247 million of assets sold in the first quarter of the year, 230 percent up from the first quarter of 2020. Currently, approximately £1 billion of assets are under offer or in the market, which is considerably down from normal trading levels as owners still sit and wait, hoping for increased valuations. Notably, an ever-increasing list of investors are circling, hence the optimism that by end of 2021 more schemes will have changed hands based upon credible ideas that bring these assets and their surrounding areas back to life.

Meanwhile, multi-disciplinary teams continue to support endless feasibilities for funds owning large portions of our urban centres, who have no real appetite to invest the capex required for schemes as they are not supported by short to medium term financial viability. Consequently, the masterplans sit on drawing boards with no hope of delivery. In parallel, modest schemes that add little value to assets are dreamt up under the misapprehension that a shopfront, a lick of paint and some concrete setts will increase the offer price for secondary and tertiary assets.

Notably, very few super prime shopping centres assets have come to the market but as non-essential retail is now open for trade, and COVID-19 support measures are coming to an end, there will be inevitable further insolvencies. As such, there will be a necessary period of reconsideration of even those shopping centres which dominate their catchments and therefore, they may come to market unless current owners are prepared to invest heavily to stabilise the assets.

Risks and opportunities

Entry of the Government Cavalry (Local and Central)

Clearly, town and city centres are facing long-term issues which will dictate sophisticated and sustained solutions that create new understanding of the inter-related issues and promote cooperation between different sectors and partners in developing solutions. In this respect, local authorities and their leaders are in a position to take a broad perspective and bring different interests together in a way that the private sector championing single issues cannot. Councils who take a leading role and/or act as principal partner in sustaining communities through town centre revitalisation are welcomed, unlocking regeneration in their locality.

However, local authority input and approach still varies massively across the UK, as does their risk appetite and their true bravery. Those who take schemes forward to delivery in their own right are to be applauded and are generally bought forwards by knowledgeable and ambitious development teams within. However, the market is inundated with calls in open competition for teams to produce or develop masterplans, often with briefs that do not request the necessary components to arrive at a fundable and deliverable concept. Fee budgets are often capped and, as such, plans are often developed with little market awareness and sometimes without any viability assessment at all. As a result, local authorities are not presented with full and real facts on which to make informed decisions. We wonder why schemes do not progress!

Local government needs better support in this respect and maybe Ministry of Housing, Communities & Local Government (MHCLG) can expand their advisory teams and their mentoring to create exemplar briefs. This could ensure that public sector grants from Towns Funds or Levelling Up Funds are best utilised in terms of both the initial capacity funding and, of course, the allocation of final project funding, which can be the absolute key to unlocking unviable projects for both public and private sector partners alike. Maybe the Town Centre Playbook should be the next publication which the Revo Regeneration and Repurposing Committee are keen to drive forwards?

On a positive note, another round of Towns Funds successes have recently been confirmed with deals for 79 towns now agreed, offering over £2 billion investment in communities across the country. This is intended to kick-start urban regeneration and boost green transport infrastructure, tourism and jobs. The route to delivery of these schemes is now accelerating and we just need to ensure that the schemes which were often scoped and designed pre-pandemic are still relevant to the current market and sit as part of a granular plan to deliver a clear segment of an iterative masterplan.

What About Viability?

Unquestionably, the biggest challenge in reviving our towns and cities with a vibrant mix of sustainable uses is viability and the assessment of value creation. The traditional financial viability assessment requiring a project is to meet its costs whilst generating an appropriate site value, and an appropriate return is, of course, vital to the private sector if acting in isolation. Set against a backdrop of rising construction costs and (at best) static values in most sectors other than logistics, viability in traditional terms is an increasing challenge in many locations. However, in conjunction with local authority support/partnership and central government intervention, a route map should be devised in which financial viability is not the only consideration with long-term economic and social benefits also being measured.

The re-establishment of both character and sense of place bringing positive social value, support of the net carbon zero and well-being agendas and wider economic benefits clearly need to be embraced in assessing overall viability and value. This is not easy to measure, and all stakeholders will have a different perspective on value. Therefore, we must identify at briefing stage, a series of project objectives against which the developing feasibilities, supporting numbers and funding proposals can be assessed. Undoubtedly, place perception, input to wider town economy, improvement in quality of life, visitor experience and gap filling of current town offers will all be thrown into the mix.

Recognising that the hope of creating high-value economic activity in towns which have wider and more fundamental economic challenges such as educational attainment and skills levels are not a reality. Indeed, we acknowledge that dying high streets are often a barometer of more fundamental issues within the locality. Is central government doing enough through the current funding streams, changes in use classes and promise to overhaul the business rate system? Maybe it is time for the wholesale review of the existing government town centre strategy, post-COVID, building upon the Timpson High Street Report and The Grimsey Review with the simple aim of reinvigorating town centres as part of a wider regeneration programme, recognising that time is of the essence and promoting the devolution of power and money to a local level.

The Brewery Quarter, Cheltenham

Data Centres

CHRIS TREW
Senior Director

Market activity and key trends

The change in working arrangements brought about by the COVID-19 lockdowns, introducing more home working and the need for cloud storage and remote access has transformed the global workplace, delivering a change in working practices that otherwise would have taken years to implement. This change has coincided with a large move towards online shopping, online working, which was slowly gathering pace in any event, online banking and even online education.

The data centre market has been strong for many years now but has accelerated in 2021 with a shift towards even greater construction and investment in data centres, highlighted by the number of hyperscale data centres emerging in recent months. Recent research from JLL indicated that data centre demand has surged in Europe, with London (the most established market in the region) recording a 72 percent increase in demand since 2019. At 2020 year-end, data centres with a combined total of 117.5 megawatts of power were under construction, and whilst London and Slough saw a record number of planning applications for data centres in 2020, scarcity of land availability caused land prices to reach record highs in the market.

Definitions of a hyperscale data centre vary between experts in the sector, with some classifying hyperscale as a data centre with at least 5,000 servers and 10,000 square feet of available space, whilst others consider a shift in focus from the size of the data centre in favour of the performance and deliverables of the data centre.

Further drivers in data usage have been brought about by increasing numbers of people relying on smart technology, apps and the Internet of Things, thus driving even greater reliance upon data management.

Risks and opportunities

Having the power and capacity to store data is now business critical. Hyperscale data centres are seen by many as the solution due to their ability to provide data handling at scale, whilst providing cost and spatial benefits. The hyperscale facility will provide economies of scale in its plant design, both in capital and operational modes.

Whilst hyperscale data centres have grown in recent months, so too has the prevalence of edge data centres; these are smaller data centres that are positioned in proximity to the edge of a network. Whilst comprising of similar devices to traditional data centres, they are smaller, more compact and located closer to the end users and the devices they serve are often connected to larger, more central data centres.

The challenge now for the data centre community is to deliver true low carbon facilities which stand on their own merit and are not simply a product of “green washing”. Research from Technavio indicates that the global green data centre market is expected to grow by nearly $45 billion from 2020 to 2024.

By their very nature, data centres are energy hungry beasts with large power connections to service the technical and cooling loads of the facility. Some data centres have truly embraced the low carbon agenda by locating themselves near to natural resources that can be harnessed to the benefit of the facility.

The continued drive for a commercially attractive, low carbon solution will continue to reform data centre design in the coming years, and the challenge for those in the sector is to meet this insatiable demand in a sustainable way.

Infrastructure

PAUL KNIGHTING
UK Infrastrcture Lead

Market activity and key trends

Last November's spending review announced the next phase of the government's infrastructure revolution with £100 billion of capital expenditure this year, to kickstart growth and support hundreds of thousands of jobs. It gave multi-year funding certainty for select projects including a number of major transport schemes, and also targets additional investment in areas which will improve the UK's competitiveness in the long-term, backing new investments in cutting-edge research and clean energy sources. Investing in a greener future, COP26 will be a key time ahead for all of us.

The Chancellor also set out plans to further the levelling up agenda by launching a new £4 billion Levelling Up Fund which will invest in local infrastructure that has a visible impact on people and their communities and will support economic recovery. A refreshed Green Book will also better link projects and programmes to government objectives, including on levelling up and NZC. Following the pause during local elections and mayoral elections in May, we have seen a considerable upturn in support requests for the delivery and assurance of business cases as local authorities and combined authorities progress plans.

This is supported by the new National Infrastructure Strategy that outlines the government's long-term vision for infrastructure investment, and the UK Infrastructure Bank, headquartered in the north of England, which will work with the private sector to finance major new investment projects across the UK. To ensure that government policies which have the most impact on levelling-up are created by those living in communities outside of London and the South East, the Treasury will set up its Northern headquarters later this year. If we are to believe the rhetoric, this will be the first of many relocations of civil servants from the south to the northern regions of the UK — which is certainly welcomed by the people of the North.

Risks and opportunities

Whilst government's commitment to large infrastructure projects like HS2, Lower Thames Crossing, East West Rail is certainly welcomed, other major projects like TransPennine Route Upgrade (TRU) and Northern Powerhouse Rail (NPR) are yet to mobilise in anger, constrained by piecemeal funding and the delayed publication of the Integrated Rail Plan particularly impacting NPR's release of their Strategic Outline Case.

Back to the positives: no slow down on East West Rail with government announcing funding of £760 million, allowing the project to break ground on the new line that will link Oxford and Cambridge. The cash from the Department of Transport will be used to lay track along a disused railway line between Bicester and Bletchley in Buckinghamshire, with services beginning in 2025.

HS2 are busy shortlisting for the rail systems contracts and have also announced Mace Dragdos as the successful bidder for the £570 million Curzon Street Station contract.

Highways England have announced the successful integration partner (£162 million) as well as the shortlist for the LTC Tunnels (£2.3 billion). They have also recently commenced the procurement of a commercial partner on the scheme which is expected to conclude in the late summer.

We are seeing a significant rise in support on renewables and sustainability across all sectors as clients develop and finalise their roadmaps to meet NZC targets ahead of the UK's 2050 commitments.

So, a positive backcloth as we enter the second half of the year coming out of lockdown measures. At Gleeds we are keen to keep supporting our fantastic clients on defining their key priorities and deliver successful projects from inception to asset handover and beyond.

Rail

PAUL ROBINSON
UK Rail Lead

Market activity and key trends

Activity in the rail sector has remained steady. Projects continue to progress and HS2 work has accelerated with tunnel boring machines starting work, the first recently launched from HS2's South Portal site next to the M25 in Buckinghamshire. HS2 are imminently releasing the first systems packages for Track, Lineside M&E and Overhead Catenary System (OCS) as part of the collaborative Railway Systems Alliance that places innovation, collaboration and overall attainment of programme goals as shared success criteria.

Network Rail has forecast that in the five years to 2024, passenger demand is set to grow by 12 percent and freight by 18 percent in the North West and Central region. Major railway upgrade schemes to cater for this growth include HS2, East West Rail, Midlands Rail Hub and the Great North Rail Project.

Decarbonisation of the rail network is continuing in Scotland, with a target to give Scotland a zero-carbon railway by 2035, which achieves interlinked objectives to reduce inequalities, take climate action, deliver inclusion growth and improve health and wellbeing. Overall, the plan to decarbonise the Scottish railway requires 1,800 single-track kilometres of electrification, with 18 feeder stations and 30 track sectioning cabinets. Contracts have already been let for East Kilbride, Barrhead, Maryhill, Borders, Fife, Kilmarnock and Dunblane-Perth; the Fife lines are out to tender and the Perth-Aberdeen remit is being prepared.

Risks and opportunities

On Crossrail there have been various updates as the project pushes for opening of the first section of the line between Abbey Wood and Paddington in spring 2022. These include a Public Accounts Committee update, where it was confirmed that COVID-19 had increased project costs but was said not to have uplifted the whole budget, and the programme effect of COVID-19 was said to be neutral. This comes as a report from Jacobs warned that the project target dates are unrealistic and could have a detrimental impact. The latest report from the National Audit Office warned that Crossrail is currently exceeding its available funding by circa £120 million, and it was questioned by MP Mark Francois why the initial cost estimate had not included the main Crossrail depot. This situation demonstrates the importance of robust estimating and ensuring that the full scope is captured, that the estimate is stress tested and risks and lessons learned are considered. Sometimes budgets are reviewed for efficiencies or savings to achieve particular budget targets, lessons need to be taken when understanding and agreeing budgets with government. Currently projects make their project 'fit' the level of funding and time considered to be acceptable to gain governmental approval, then struggle to achieve them. Government and projects need to be transparent about the range of potential time and cost outcomes at the outset, then work to better the agreed position, rather than continually working to justify perceived overspends against unattainable targets.

Due to the large pipeline of works in the rail sector and the emphasis on passenger experience from Network Rail and others, we see that sustainable contracting models need to develop to promote innovation and foster collaboration. Moving away from lowest cost and ensuring that realistic pricing is captured in tenders will ensure that the contractor is incentivised to meet the requirements and be focussed on delivering these, rather than trying to make up their margin. Consultant fees will also be more efficient and strategic rather than battling claims! The supply chain require certainty of workload in order to focus upon skills and innovation, Gleeds have recently joined the Network Rail 'Pipeline visibility Charter' and see this as a shared scheme that will create visibility of the shared work bank.

We are seeing some contractors engaging with digital for their rail offering, particularly with designers and key suppliers. This is beneficial and there is a significant opportunity with digital and the better use of data to provide better and more predictable outcomes; better understanding risks, health and safety, performance metrics and the like. Increased use of digital capability in the rail sector may also help with skills shortages by improving efficiency.

It's hoped that the recommendations of the recently published 'Overview of the English rail system' are implemented with a consistent programme of electrification work set to help meet decarbonisation goals, retain skills in the sector and to support economic growth in an efficient way for the taxpayer. The sector also eagerly awaits the launch of the Integrated Rail Plan and announcements of further funding for integrated and complementary Northern Powerhouse Rail, HS2 Phase 2 and other planned investments, to progress these forward to deliver the associated benefits.

Nottingham Hub Station, Nottingham

Energy

GAVIN DOBBING
Project Director

Market activity and key trends

Over the last few months, the UK government has made real progress in developing policies for energy and decarbonisation. This is important against a backdrop of the June 2019 legislation that requires the government to reduce the UK's net emissions of greenhouse gases by 100 percent relative to 1990 levels, by 2050. Furthermore, in April 2021, the sixth carbon budget stipulated those emissions will have to be reduced by 78 percent compared to 1990 levels, by 2035.

The Climate Change Committee has highlighted the challenges inherent in meeting these goals. In particular, it commented on the need for an ambitious strategy for heat and buildings, indicated the delayed plans for transport, aviation, hydrogen, biomass and food which must be delivered, and that plans for the power sector and industrial decarbonisation must be strengthened. The National Infrastructure Commission (NIC) is an executive agency of Her Majesty's Treasury and is recommending an energy system with 65 percent renewables, large scale trials of hydrogen for heating homes, more testing of heat pumps, more energy efficient buildings, rapid roll-out of electric vehicles, recycling instead of incinerating waste, more international electricity interconnectors, more electricity storage and increased demand side response management. Comments published by the NIC also highlight that continuing to build large-scale nuclear power stations is prudent until other technologies have been proven (e.g. carbon capture, energy storage, small modular reactors).

In summary, net zero creates strong drivers for replacing carbon intensive power generation capacity with low or zero carbon alternatives at the same time as a greater demand for electricity to displace high-carbon energy sources (e.g., running heat-pumps and charging electric vehicles). This has led to a lot of policy announcements that will create demand for our services in support of major capital energy projects.

Risks and opportunities

The Prime Minister's 10-point plan for a green industrial revolution sets out plans to create 1 gigawatt of hydrogen production capacity and a hydrogen pilot village by 2025 and set out hundreds of millions of pounds of funding for Small Modular Reactors. The Energy White Paper published in December 2020 included an aim of reaching a Final Investment Decision on a nuclear power station before the subsequent election (backed up by a later announcement that the government is entering discussions on Sizewell C). In March 2021, the UKAEA issued a call for sites to be put forward for consideration to become the site of its next protype fusion energy.

In June 2021, the Department for Business Energy and Industrial Strategy announced a "cluster sequencing" exercise for Carbon Capture Usage and Storage deployment. The aim is to identify two clusters for deployment by the mid-2020s and to define a process for selecting a further two clusters by 2030. At the same time, the department published an update on "The Carbon Capture and Storage Infrastructure Fund" that will support capital investment in carbon dioxide transport and storage as well as industrial carbon capture (a different mechanism to support new power stations with carbon capture is also being developed).

Her Majesty's Treasury published details of its Green Financing Framework in June 2021. The proceeds of selling new bonds to institutional investors and the public will be used to cover expenditures on direct or indirect investments, subsidies, tax foregone or operational expenditures in areas including clean transportation, renewables, energy storage, energy efficiency, pollution prevention and control (including carbon capture, usage and storage), environmental protection and land-use, climate change adaptation and R&D related to many of the foregoing.

From 31st October to 12th November, all eyes will be on the UK's actions in respect of climate change as we host the COP26 in Glasgow. This will undoubtedly provide a focal point for politicians, so it is reasonable to expect further climate change-related policy announcements in the coming months.

The government is making funding available to many of our existing or historic energy clients for new, green projects. We are seeing signs of projects starting up; rest assured that we are working hard to make sure that Gleeds plays its part in this green industrial revolution.

Regional updates

Scotland

LAURA BANKS
Associate Director, Edinburgh office

Market activity and key trends

The Scottish construction market looks to be on the recovery path in the wake of the pandemic and its imposed 11-week shutdown in 2Q2020 — viewed as 'little short of catastrophic' by some (Addleshaw Goddard, Reimagining Scotland's Construction Industry — 2021 and Beyond). However, the Scottish government's commitment to funding large construction projects is a positive, as is the drive towards NZC. The local subcontractor market is responding to the zero-carbon movement and clients seem to be more open to accepting some of the resulting cost uplifts.

From speaking with contractors, order books are fairly full for the next one to two year pipeline and they are keeping busy. In summary, the outlook is fairly positive in terms of construction growth in both private and public sectors in the short term.

The downside, much the same as with our Southern counterparts, is that some material prices are rocketing to a point where a delay of even a couple of months could mean a percentage increase of anywhere between 2 percent and 5 percent on supply prices. Lead-times are also very much on the increase, with some quoting an uplift of 4-10 weeks on certain products. Subcontractors are less able to fix their prices than in pre-COVID/Brexit times. One contractor noted that one of the ways they are dealing with this market volatility is to fix their prices on everything but for the fluctuating packages (such as steel) on which they are proposing to take an open-book approach. The response to this proposal has been varied.

Contractors have been noting the strain on projects which were put on hold and are now coming back to market. If the budgets for these delayed projects have not been updated, there is very little hope of achieving the same budget for the same design.

St, Regulus Hall Annexe, St. Andrews

It is vital that we keep on top of this market and advise our clients wisely and regularly. Cost plans will have to be updated on a regular basis in order to keep up with the current market changes and it may be prudent to have a budget 'range' rather than anything set in stone. Even a short delay to a project could have a costly impact.

Risks and opportunities

Our local team are seeing pressures in terms of contractors committing to tenders. As noted in our spring report, we are still experiencing issues in forming tender lists. We are advising our clients to engage early and in depth with the tender market in an effort to minimise drop-outs from the tender process and ensure that those tendering really want to win the work.

A positive on the Scottish horizon is the upcoming COP26 and we are seeing activity from clients and consultants who are upgrading/refurbishing their offices or spaces in time for the conference. There is a buzz of optimism about the marketplace and Scotland will no doubt take this opportunity by the horns and make it work. This activity means full order books for some contractors over this period, resulting in some being selective on tendering opportunities.

When we discussed the question of whether prices for certain materials will come down again, one interesting answer was 'For some materials, this is the market re-setting itself after years of having to keep prices as tight as possible', although that is one person's opinion.

Construction creates a backpressure on the markets that demands cost reductions and the search for cheaper alternatives. We believe that certain prices will begin to adjust down again, however, the question is when that downward trend will begin and where it will end.

North East

ANDREW SMITH
Project Director, Newcastle office

PETER BURNS
Director, Newcastle office

Market activity and key trends

Continuing the message from our spring report, the North East market remains steady with continued investment in the industrial and manufacturing, health, infrastructure and commercial sectors.

In early July, Nissan and its partner Envision released plans to build a Gigafactory at the International Advanced Manufacturing Park (IAMP). This will support the next generation of electric vehicles being produced at the Nissan plant which is adjacent to the IAMP site. Earlier this year, Gleeds were appointed as Cost Advisor to IAMP and this represents a significant opportunity to be working alongside IAMP to provide the infrastructure and associated works which will be required to support this scale of investment. The announcement follows the news that the Britishvolt Gigafactory in Blyth, Northumberland has been granted planning. Each project is representative of the massive investment in battery technology in the North East.

Newcastle City Centre has seen work continue on the Bank House project (the favourite for the new HMRC office) whilst plans for the wider development of East Pilgrim Street have been released showing the proposals for cafes, bars and new office space. Further commercial space is being considered at Stephenson Quarter and a new residential project on The Helix site is in the bid stage. News that the Treasury will be moving staff to Darlington and other potential government hub projects have been exciting the commercial market across the region.

The Culture House project for Sunderland City Council is progressing with Gleeds leading on the Project and Cost Management and providing the multi-disciplinary design team through the SCAPE Consultancy framework. The project is part of the citywide masterplan for Sunderland, and Gleeds continue to be involved in a number of these developments.

We are seeing a continued steady flow of industrial and manufacturing opportunities in the pipeline or being delivered for some of our clients such as UK Land.

Major infrastructure projects such as the A19 widening are coming to an end but further upgrades and new works are planned, and infrastructure works account for a sizeable portion of our current projects and future opportunities.

Risks and opportunities

The impact of absenteeism due to COVID-19 has been reported to be a significant issue on some sites with difficulties in finding replacement tradesman at short notice. Weekly and then twice weekly lateral flow tests on their construction sites have helped with controlling this greatly.

Contractors are reporting a steady flow of enquiries but have highlighted increases in material costs and lead in times, particularly with steelwork. Due to the material price volatility, some prices are only being held for seven days, which represents a major risk to the commercial success of the projects.

In some instances, issues with securing materials are determining design solutions, with a more “traditional” external wall build-up being proposed in lieu of composite cladding system where material availability is low.

Clients continue to gain an understanding of their requirements for NZC and what this means for their projects; this represents a real opportunity to provide our Whole Life Carbon Assessment service.

In summary, it is anticipated that the coming year will see significant further investment in infrastructure, industrial and manufacturing and public spending.

North West

ALEX HALLIDAY
Director, Manchester office

Market activity and key trends

The local market in the North West has picked up in the last quarter following the roll-out of the COVID-19 vaccine, creating opportunities as people have become more mobile. However, it has been noted that there is a still an element of caution to the local market and that some schemes are slow coming forwards. Activity is expected to pick up later in the year with the launch of a few frameworks and there are a number of 'major projects' (£100 million+) due to come to the market in 2022.

There are a number of infrastructure schemes in the region. HS2 work is having a significant impact on resources from a contracting and supply chain perspective. Highway England's Regional Delivery Partnership also has major work going live across the North to deliver key infrastructure improvements to the strategic road network.

The health and care sector is also busy and we have noticed that modular buildings are gaining particular traction due to the speed of delivery and to minimise disruption to existing facilities during the works. Residential remains buoyant particularly around city centres. It is hoped that as confidence returns, further city centre expansion in commercial and residential will commence, particularly as there appears to be a large desire to get people back into towns and cities post-COVID.

Roof Gardens, Manchester

Risks and opportunities

Generally, the local supply chains are not reporting significant drops in site productivity as a result of the pandemic. They have generally overcome productivity issues with the use of technology and some contacts have cited that less interface management during the pandemic was a significant benefit on some projects.

Materials inflation is continuing to be a concern and there have been some examples of materials shortages, as well as longer lead in times. Materials availability is considered to be the key risk to delivery but many in the supply chain have noticed an increase in schemes with early contractor involvement or a two-stage tender route, which is helping the planning of resources and sequencing of projects.

It is recognised that supply chain partners are busy but no significant capacity issues have been experienced, although there have been some delays. There is some concern about the effect of the pandemic and, in particular, Brexit on labour availability and it's thought that this could become more of an issue as workload across the region increases.

Design for manufacture and assembly (DfMA) and MMC are hot topics and some of the supply chain are developing their digital capability to help improve project performance and outcomes.

Overall, the North West is cautiously optimistic for the upcoming period. There remains a great pipeline of opportunities, particularly for the latter part of the year and into 2022.

Yorkshire and Humber

ANDREW MCNULTY
Director, Leeds office

PAUL MANN
Regional Director, Manchester office

Market activity and key trends

Contractors are still experiencing a good volume of opportunities in the public sector due primarily to central and local government funding, getting swept up under the "levelling up" banner which is proving hugely important in trigger starting delayed projects. Town centre regeneration remains high on most local authorities' priority lists including repurposing vacant retail premises, particularly as high street empty premises levels are as high as 60 percent in some locations. The High Street Funding is enabling a lot of Yorkshire cities and towns to repurpose their empty retail spaces and historic buildings.

The areas of highest activity in the public sector are housing, education and transport. There are also opportunities in commercial, leisure centres and blue light emergency services. The university sector continues to be quiet, and uncertainty remains over the future office market.

The residential sector is still buoyant but increasing land and material prices are putting pressure on the viability of schemes. The city of Leeds is expected to "double in size" with huge developments in the pipeline, including over 16,500 new homes, and projects around the HS2 train station and South Bank.

The Yorkshire regions where HS2 and the associated Northern Powerhouse Rail (NPR) will pass through have developed local plans for growth that have centred around the opportunities it will bring, not just in the immediate vicinity of the stations, but also further afield through enhanced local connectivity. The opportunities for new business investment, house building, place regeneration, high-skilled job creation, innovation and green technologies will help support the construction market in this region.

Risks and opportunities

The shortage of materials is a serious concern in the region, not only due to the significant price increases but in most cases much increased lead in periods and, in certain instances, non-availability. Contractors are experiencing letters of intent/early works orders being used to try and limit the material increases that are constant at present when funding/project sign offs are delayed. Labour costs and availability are a concern but not to the same degree as materials. Supply chain failure remains a significant risk with increased material/labour costs and an increase in disputes across the sector caused by fixed price agreements and rising prices. Speaking with one of the big construction dispute firms, they confirmed that they are so busy they cannot take on any new referrals!

In May, the first ever Mayor for West Yorkshire was elected. In delivering on the priorities detailed throughout her campaign, particularly on the issues of transport, skills and not least the post-COVID Economic Recovery, Tracy Brabin Is committed to delivering on the much-needed upgrades to the regional infrastructure, including the plans for a new West Yorkshire mass transit scheme and the redevelopment of Leeds Bradford Airport, NPR and HS2. Gleeds are strong in rail and aviation in the region, having teams placed in rail project offices in Leeds and York, and live commissions with Peel at Doncaster Airport.

With increased powers and additional resources being made available to the region, it should be acknowledged that there is a clear opportunity to deliver on a robust, evidence-based, long-term economic and spatial strategy for the area with the primary aim of delivering productivity growth. At Gleeds we are excited to be part of and support this transformation.

Wales

NIGEL WATKINS
Director, Cardiff office

SIMON WILLIAMS
Regional Director, Cardiff office

Market activity and key trends

We continue to experience strong market activity and pipeline opportunities, especially in the public sector, with healthcare, education and infrastructure projects being championed through projects such as the £750 million South Wales Metro, 21st Century Schools roll-out programme and several major NHS facilities currently progressing through various stages of design and procurement.

Cardiff Council has recently published an ambitious masterplan for a 30-acre site to transform Atlantic Wharf in Cardiff Bay. This will incorporate more than 1,000 new homes, entertainment and cultural attractions, hotels, offices and a public square, following their decision earlier this year to develop a 15,000-seat arena which Gleeds are currently working on.

The Construction Industry Training Body (CITB) has given a recent boost to the future of the construction industry in Wales with a multi-million-pound investment in four construction training and employment hubs, following a study identifying the construction sector will need more than 9,000 new recruits by 2025 in Wales to meet growing order levels. The same study shows that the sector has bounced back quicker than expected from the COVID-19 pandemic, and most of the industry will reach 2019 levels of output in 2023. The amount of construction work in Wales is set to grow by 4.1 percent annually, on average, until the end of 2025, with private housing being the fastest growth area.

However, one sector that will not be experiencing growth in the foreseeable future is highways, following the Welsh government's decision to put all schemes that have not reached site on hold whilst it conducts a climate change review based on controlling emissions. Progress has been halted on a trio of schemes, including the £300 million Deeside "Red Route", the £50 million Llandeilo bypass and the £135 million Third Menai Crossing.

In addition, The Welsh government appears to have dealt the final blow to the long-mooted M4 relief road near Newport by removing all required land safeguards along the route, in a move described by an opposition politician as "a hammer blow for the economy".

Risks and opportunities

As with the rest of the UK, there are significant pressures currently being experienced in the Welsh market relating to materials and labour. These are expected to continue until at least the end of the year, due to large global demand along with an overheated domestic market.

Main contractors are currently advising some of their supply chain who have been affected the most from material price increases, such as steelwork fabricators, are only keeping quotations open for a maximum of seven days, resulting in an increased risk provision being included within fixed price lump sum tenders. The combined effect of full order books and material price increases has led to contractors and their supply chain being very selective in the opportunities they are bidding for.

It is important to understand these issues and to consider strategies to mitigate them where possible. Collaboration across the wider supply chain will be increasingly important to ensure best project outcomes and to minimise any cost and programme impacts. Commercial developments are increasingly becoming unviable once material price increases are factored into a development appraisal, especially as local headline rents are not keeping up with construction cost increases.

However, clients can reduce the uncertainty around current market conditions and increased tender costs through a number of measures including, amongst others, advanced orders to secure key materials ahead of project start and supply chain engagement and collaborative working. We at Gleeds are happy to support clients through the current challenging market conditions.

Midlands

NEIL MALIK
Senior Director, Nottingham office

ROBERT BIRD
Senior Facilities Manager, Nottingham office

Market activity and key trends

Over the last quarter, market activity in both the East and West Midlands has been very buoyant, especially in the residential/commercial and infrastructure sectors. Tim Downing, Director of Pygott and Crone, an established and respected agent with a number of offices throughout the region, provided us with his views of the market: *"Improved lifestyle with more outside space and improving transport links across the Midlands has really helped the continued high sales of residential housing. Average house price increases across the Midlands of between 5 and 8 percent since the beginning of the year and all the forecasts are predicting house prices growing by a further 5 percent per annum for the next five years, with the Midlands appearing as one of the highest growth areas in the UK. We feel that there may be some headwinds in the near term with the ending of the stamp duty holiday in September"*.

The commercial sector is also experiencing high levels of activity across the logistics, light industrial and business park sectors. East Midlands Airport Zone and Freeport status will keep attracting business and housing requirements to the local area, as highlighted in our update for the spring market report.

Tram infrastructure works in Birmingham are also attracting major investment in retail, commercial and leisure services to the area. There are also plans for significant investment in Leicester connected with the refurbishment of the railway station; more public transport and a workplace parking levy similar to Nottingham have been proposed for public consultation and it is expected that further related investment will follow if the proposals are given the go-ahead. Gleeds are working on Station Quarter, which is a multi-phased, multi-funded, mixed-use development of a brownfield site located in between Telford Train Station and shopping centre facilities.

US, UK and ROI pharmacy and health and beauty retailer Boots, part of the Walgreens Boots alliance, whose headquarters is in Nottingham, has reported another slight drop in sales and profit over the last quarter which was expected. Like most retailers, they have embraced the dot.com age, however, customer interaction in stores where more products are viewed and ultimately purchased in addition to original items has now been highlighted as the way forward. Investment in improving the stores look and feel over the next five years, with significant investment in destination stores, has been proposed and substantial funding is being made available to achieve this over that period. It is likely that this will be the market trend for retailers that own large high street portfolios nationwide.

Risks and opportunities

The Midlands is seeing the same materials issues as other regions, with raw material supply and manufacturing lead times increasing, along with the cost of procuring materials. Aluminium and timber prices have risen substantially and availability has reduced, with many suppliers unable to stockpile and increase stock levels due to the current demand. Fears of construction company failures are growing as the sector is hit by a shortage of key materials and sharp price rises for material and labour costs.

Whilst there remains some caution over recovery from COVID-19, there can be optimism that the worst is hopefully behind us and that there are plenty of opportunities in the Midlands region for the remainder of 2021 and into 2022.

Nottingham Castle, Nottingham

East

MARTIN HALL
Regional Director, Cambridge office

Market activity and key trends

Enquiries have started to pick up in the Eastern region with the residential sector particularly buoyant.

Life sciences remains a strong sector in the region with investment continuing. Recent research from Savills has shown that Cambridge saw £1.21 billion of life science related capital raised in 2020, along with a considerable demand from life sciences occupiers for lab space.

Infrastructure works are continuing in the region, particularly road upgrades. Network Rail has recently submitted a Transport and Works Act Order application for a new station in the vicinity of the Cambridge Biomedical Campus to improve connectivity in Cambridgeshire and beyond. The Cambridge Biomedical Campus is expected to accommodate 27,000 workers by 2031 and the Cambridge Local Plan 2018 identifies the Campus and the Cambridge Southern Fringe as an area of major development in Cambridge, with an estimated 4,000 new homes to be built in the area. The station would provide access to a growing area of high-quality employment and help relieve congestion in the local region by supporting the development of environmentally sustainable transport in Cambridge. In the future, it is hoped that it could be served by East West Rail services. If consented, work could begin in 2022 with a target opening date for the station in 2025.

Churchill College, Cambridge

Repurposing of existing buildings is being explored by some clients to adapt buildings to futureproof them and also to explore the potential for better performing uses. Legal & General has recently marketed the Grafton Centre in Cambridge, identifying its potential for various uses to revitalise it as a mixed used destination including life sciences and laboratory accommodation, introduction of office space, co-working, hotel, education and alternative leisure uses. Norwich City Council is also establishing a Revolving Fund to unlock stalled brownfield sites to deliver homes and workspaces, ensuring that underutilised sites are brought forward for development.

Investment is expected in Freeport East where it is anticipated that 13,500 new jobs will be created and a gross value added of £5.5 billion will be generated over 10 years.

Risks and opportunities

Materials issues are having a significant impact on projects in the region with price spikes and longer lead in times being seen. Contractors are working collaboratively to try to source materials, and where projects are being tendered, teams are working closely with the supply chain to ensure timely procurement of supplies. Labour availability has started to become more of an issue in the region; some contractors are benefitting from their directly employed labour, making the situation easier for them to manage.

There are a large number of opportunities for the region, particularly in the residential, life sciences and infrastructure sectors. Projects are also starting to return in the higher education sector.

Greater London

MATTHEW SUMPTER
Director, London office

Market activity and key trends

The London market is buoyant and continues to exude positivity, showing signs of reverting back to pre-pandemic levels. There remains a strong demand for residential-led projects, and we have seen a significant bounce back within the commercial office market over the past quarter. Other areas that continue to remain strong are public funded infrastructure projects such as HS2.

Some are saying that the bounce back is the biggest increase in workload in five years, although there still remains some caution as recovery is shaped. Repurposing buildings for new ways of living and working is a strong trend and we are seeing opportunities for new uses to areas such as life sciences and senior living.

Public and private sector clients are working hard, often in tandem, to revitalise areas to attract people to spaces post-pandemic and to create areas which people will want to visit. Mixed-use schemes are important to ensure use of space and buildings at different times of the day and throughout the week. There are exciting schemes developing to breathe new life into underused buildings, supported by public realm and pedestrianisation schemes such as the part-pedestrianisation of Oxford Street.

Risks and opportunities

We continue to see a considerable number of projects whereby the use of MMC and the aspiration to achieve NZC continues to increase. Additionally, the use of timber is very much a topic of discussion whereby we have started to see a strong desire by clients on exploring the opportunities that this may bring as it becomes more acceptable to funders/insurers and critical to lower the carbon impact of schemes, as required by the London Plan 2021.

Productivity on sites in the London region has been reported to be down at least 5 percent due to the impact of social distancing requirements of workers. However, we have seen a steady decrease of the impacts of live projects over the past quarter, and it is envisaged that with the further easing of restrictions it will revert to near pre-pandemic levels. However, there is an element of caution with this due to increased numbers needing to self-isolate.

The largest area of concern for the region is the impact of labour and materials shortages, as well as material cost increases. Specifically, within the region there are a number of large public infrastructure projects such as HS2 and Thames Tideway, amongst others, that are impacting on the availability of core materials. Contractors are reporting significant orders, such as a large concrete order placed for Old Oak Common station, affecting availability across the region adding more pressure to the materials issues being seen generally.

White Collar Factory, London

South East

GARY SOUCH
Senior Director, Oxford office

Market activity and key trends

The number of opportunities in the last quarter was above the average for the past ten years, for the first time since the pandemic started in 2020. The lower-than-average amount of opportunities during 2020 will still have an impact on the tender prices for the foreseeable future while fewer projects are coming to tender and competition remains high. This increase in opportunities is likely to affect the market in 2022 with higher tender prices.

The strongest sectors in the South East region currently are education, residential and life sciences and pharmaceuticals. Commercial continues to be at a reduced level of activity although there are some reports that the commercial market is beginning to pick up as the return to work begins in earnest. There are also some opportunities being seen for repurposing of buildings to new uses, particularly to reinvigorate high streets. Defence and public sector opportunities in the region remain steady. Healthcare enquiries are starting to increase, following concentration on the pandemic which delayed expansions and alterations.

Risks and opportunities

The widely reported materials shortage is having a significant impact on tenders, in terms of price and contractual terms. Without having the commitment of the sub-contract chain or suppliers, contractors are becoming nervous about providing lump sum prices for tenders, and instead requesting the inclusion of fluctuation clauses or including a larger risk percentage to cover the eventuality of price increase.

It is likely that inflation will remain on a slight upward trajectory during 2021, with a more significant rise in 2022. However, this could be affected by the end of the job retention scheme when it officially closes at the end of September 2021, and the economic position is known.

The biggest question at the moment is when the best time is to tender. Is it now in 2021, taking account of the competitive market following the pandemic, but with the risk of higher materials prices and contractual risk due to shortages? Or is it in 2022, when there are likely to be more tenders released and inflation is expected to rise more drastically? Advice from our clients that have decided to press the button is that they have not regretted their decision and have benefitted from committing supply chains in an uncertain time.

Iffley Road Sports Centre, Oxford

South West

NEIL PEARCE
Director, Bristol office

Market activity and key trends

The demand in Bristol for good quality commercial offices remains high and our Bristol office is supporting a range of clients with their developments. There are numerous commercial projects in the city that are either on-site or progressing through their respective design stages. Bell Hammer's Assembly Building and Cubex's Halo project at Finzel's Reach are two notable new features on the Bristol skyline. Gleeds have been supporting MEPC with their St. Mary Le Port development at Castle Park: a planning application for three prestigious new offices providing circa 450,000 square feet GIA has just been submitted.

Clearly, working practices are evolving, but the potential panacea that home working offered 12 months ago has transpired to be anything but for some. Complete 100 percent home working is almost certainly not the new norm for most. A mix of office and home working with a far greater degree of flexibility is the likely evolution of working practices hastened by the COVID-19 pandemic. More flexible and adaptable spaces will be required in commercial developments moving forwards and we are seeing this in early-stage design briefs and in revisions to existing project deliverables.

Education projects are being procured for the summer holiday closures across all age ranges and we are assisting our clients across the whole spectrum: primary, secondary, further and higher education. With the financial consequences of the pandemic, local universities' capital project pipelines have been significantly delayed, or even cancelled. Far greater significance has now been placed on enhancing the existing building estate than providing for new-build sites. We are assisting our clients with updated cash flow forecasting and budget setting. Our project management, cost management and building surveying teams in Bristol have experienced an uptick generally in proposed refurbishment, renovation and rejuvenation projects generally.

In addition to their normal programme of works we are assisting public sector clients procure works funded by successful Salix funding applications. This is a government funded programme of works to improve energy efficiency, reduce carbon emissions and lower energy bills. The drive towards a zero-carbon economy is of critical importance in meeting the Climate and Ecological Emergency and to create a sustainable economy. The circa £19 million of works we are helping Dorset Council deliver this year will reduce their annual carbon usage by circa 10 percent and will greatly assist the council in achieving their ambition of being zero carbon by 2040. This challenging programme will replace gas boilers with air source heat pumps, install photovoltaic (PV) panels and LED lighting and improve the overall thermal efficiencies of their buildings' fabrics.

Risks and opportunities

Materials shortages have resulted in significant additional lead in times for some packages, and cost pressures are being felt across the board. This is especially true for steel products where price increase notifications from suppliers have been frequent and considerable, e.g. steel frame costs have increased by approximately 30 percent over 9-12 months.

With a good supply of work available, we are aware that local sub-contractors are being selective around the projects they are tendering. Feedback from the marketplace indicates that specialist works are being eschewed for perceived less risky installations elsewhere, e.g. specialist finishes to exposed concrete frames have been hard to procure.

Hopefully as the world's logistic routes replenish and the initial surge in pent-up demand from the impact of COVID-19 subsides, supply and demand will align, and inflationary costs will level off or even reduce. How long before this renewed equilibrium takes effect will impact on the cost of construction projects in the immediate future. Whilst engagement with local contractor and sub-contractors is key for accurate cost forecasting, the current market conditions make good communication even more important.

Northern Ireland

GEOFF WARKE
Director, Belfast office

Market activity and key trends

The Northern Irish construction industry continues to feel the impacts from Brexit and COVID-19. As a result, activity within the industry is reduced with contractors facing lower site productivity levels and increased programme lengths.

Housing will be the key driver for sustained economic and construction industry growth in 2021. Demand for housing permeates across both the public and private sector as the population continues to grow. Housing associations have busy development programmes.

The Belfast 2035 growth plan and increased focus on sustainable transport models provide further growth opportunities for the industry. Translink is investing heavily in new bus and rail infrastructure projects. Changing its fleet of buses to electric or hydrogen powered vehicles is resulting in investment in the associated local infrastructure.

Investment in new schools and colleges continues unabated, providing a constant supply of work.

Public sector work is moving forward to tender and on to site, driving competition amongst contractors. However, the larger Northern Ireland based contractors continue to focus on work in the rest of the UK and the Republic of Ireland, citing higher margins and more large-scale projects.

In the private sector, there continues to be investment activity in the office sector, with investors buying assets to refurbish, or convert to an alternative use such as apartments. Owners of out-of-town retail parks continue to invest money in upgrading these popular retail destinations.

Consultants are seeing projects progressing, following the vaccine roll-out and, in anticipation of growing demand, are recruiting staff. It is expected that this will translate to increased work, and projects progressing to site, later in the year and throughout 2022.

Risks and opportunities

There are real issues with materials availability, related to delays and backlogs associated with Brexit and COVID-19. Concerns remain around the impact of declaration paperwork checks and requirements, and Northern Ireland's long-term trading relationship with the Republic of Ireland and the UK. Andrew Gilliland, of Carryduff Building Supplies, told UTV: "*We are really struggling to obtain supplies. Most things that you find in a typical builder's yard are hard to come by.*" The Construction Employers Federation of Northern Ireland (CEF) suggests that about one in five GB based suppliers are no longer providing material to Northern Ireland.

Lead in times have increased and there is concern that ongoing materials availability and delivery pressures may will continue to cause abnormal cost increases for some materials and products. There is also concern regarding skilled labour shortages as the market becomes busier.

A recent survey by the CEF of 80 Northern Ireland headquartered construction firms found that all respondents said that they had been impacted by rising material costs, with 78 percent saying that they were seriously impacted, and 38 percent critically impacted. There is concern about the impact of this on public sector works and existing budgets which do not reflect the levels of inflation being seen. Contractors are urging for inflationary mechanisms in new contracts, as without government action on costs, 89 percent of respondents said that they were less inclined to bid for public contracts.

It is hoped that once the current pent-up demand from the period of lockdown slows, there will be a subsequent reduction in the cost of labour and, despite global competition for supplies as a result of the pandemic, the new trade agreement between the UK and EU should help mitigate against any significant cost increases in materials for the industry in Northern Ireland.

Summing up

The construction industry has continued to demonstrate great resilience during the first half of 2021, as work continued during the lockdown restrictions and with continued challenges arising from the pandemic.

With restrictions easing and increased opportunities coming forward, there is definitely a sense of the construction industry accelerating forwards. With the construction industry feeling the burn as a result of the continued challenges with materials and growing labour issues, the key watchwords continue to be *flexibility, adaptability, collaboration and innovation* for the remainder of 2021 and going into 2022.

For further information contact Gleeds Insights & Analytics:

JAMES GARNER
SENIOR DIRECTOR,
HEAD OF INSIGHTS & ANALYTICS

+44 (0) 7957 464 880
james.garner@gleeds.com

NICOLA HERRING
ASSOCIATE DIRECTOR,
INSIGHTS & ANALYTICS

+44 (0) 7588 695 054
nicola.herring@gleeds.com

gleeds.com