

# CONSTRUCTION INTELLIGENCE REPORT

Q4 2023 UK & Ireland





# CONTENTS

<b>INTRODUCTION</b>	<b>03</b>
<b>ECONOMIC OVERVIEW</b>	<b>05</b>
<b>CONSTRUCTION OUTLOOK</b>	<b>09</b>
<b>CONSTRUCTION FORECAST</b>	<b>18</b>
<b>SECTOR UPDATES</b>	
<b>MODERN METHODS OF CONSTRUCTION</b>	<b>21</b>
<b>INFRASTRUCTURE</b>	<b>22</b>
<b>SUSTAINABILITY</b>	<b>24</b>
<b>REGIONAL UPDATES</b>	
<b>LONDON</b>	<b>26</b>
<b>IRELAND</b>	<b>27</b>



# INTRODUCTION

Since our last report we've assumed a more sombre economic outlook. Whilst the UK has avoided a recession, we are faced with persistent consumer inflation, higher finance rates and reduced public expenditure.

As the result of increased food and energy costs, we have experienced higher-living costs and high rates of consumer inflation. This in turn has led to ongoing bitter industrial disputes as workers feel aggrieved about the loss of spending power.

The Government handed the task of countering the effects of inflation to the Bank of England who resorted to the traditional method of raising interest rates to take the heat out of the economy. After 15 interest rate hikes inflation is coming down, however, the question remains whether we will enter a recession.

Since the by-election the Government, with an eye on the next general election, has announced a series of U-turns on their green policies, including proposals to ease nutrient restrictions, scrapping the energy-efficiency targets, and pushing back the targets for the replacement of gas boilers with heat pumps. (Read more about this in our Sustainability Update).



This was followed by the big announcement that the HS2 would end at Birmingham with promises that it would be replaced by smaller schemes aimed at better connectivity in different regions. Many of the schemes have been announced before but have fallen victim to delays. This highlights one of the problems the UK faces when delivering major projects where uncertainty and delays lead to cost escalations and capital investment is difficult to acquire. How quickly the Government can release the funding and galvanise the work to start on site will be a key measure of the success of this approach.

**The current regime, with the next general election now looming, has pushed public expenditure cuts down the road, this brings with it uncertainty as the new Government will be faced with these and consolidating their own investment priorities from 2025 onwards.**

Forecasters are expecting a modest construction recovery in 2024 and 2025. While 2024 output will be driven by committed public expenditure, from 2025 this increase is expected to come from private investment and will replace reduced public spending, however, growth will be marginal and tough-trading conditions will continue.

Following a period of consistent inflationary pressures driven by unprecedented world events, it now appears that we have reverted to a more typical economic cycle. Construction inflation will continue, although it is reasonable to expect that it will be at historic levels.

The effect of the last couple of years is that we have now reached a new norm of price levels and that funding and affordability will need to be based on these increases.





# ECONOMIC OVERVIEW

## COMMENTARY

Across the world demand has waned as the recovery from the pandemic has lost impetus amid the surge in inflation, high-interest rates and global uncertainty as the Ukrainian conflict continues. Recent economic publications containing surveys of global manufacturing output revealed that all areas across the world are in retrenchment, with China slipping into contraction, mirroring falls reported in the UK, Eurozone and America hinting at a global downturn.

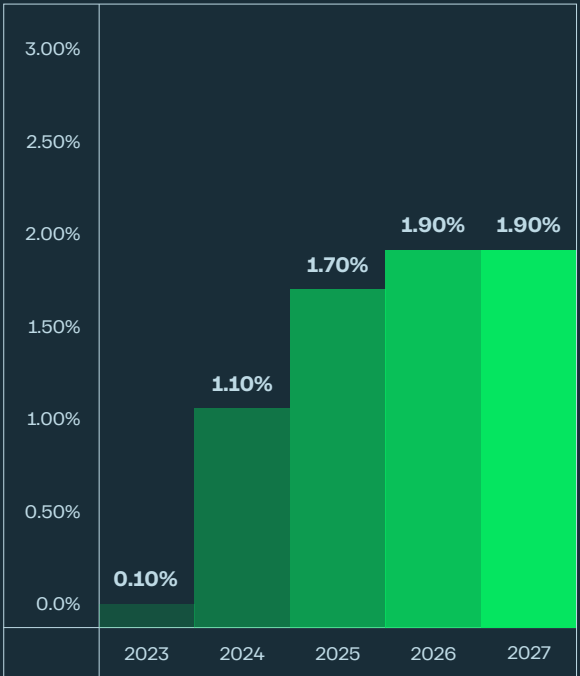
With UK core inflation remaining stubbornly high and wage agreements not keeping up with inflation, we are witnessing a squeeze on private spending. An important economic indicator as house prices continue to slide through 2023 with a year-on-year fall of 5%. This reflects a lack of confidence in the economy and affects investment at all levels of the construction sector.



# GROSS DOMESTIC PRODUCT (GDP)

The latest forecasts released by independent analysts, the IMF and OECD have the UK GDP growth set to experience modest growth of a maximum of 0.3% with GDP set to increase by approximate 1.1% in 2024. Government investment will maintain the wider economy prior to the anticipated increase in private investment, which will drive the economy from 2025 as a combination of lower energy prices, falling inflation and a gradual reduction in interest rates drive improvement.

## GDP % CHANGE FORECAST



Source: The Bank of England/Treasury



# CONSUMER PRICE INFLATION (CPI)

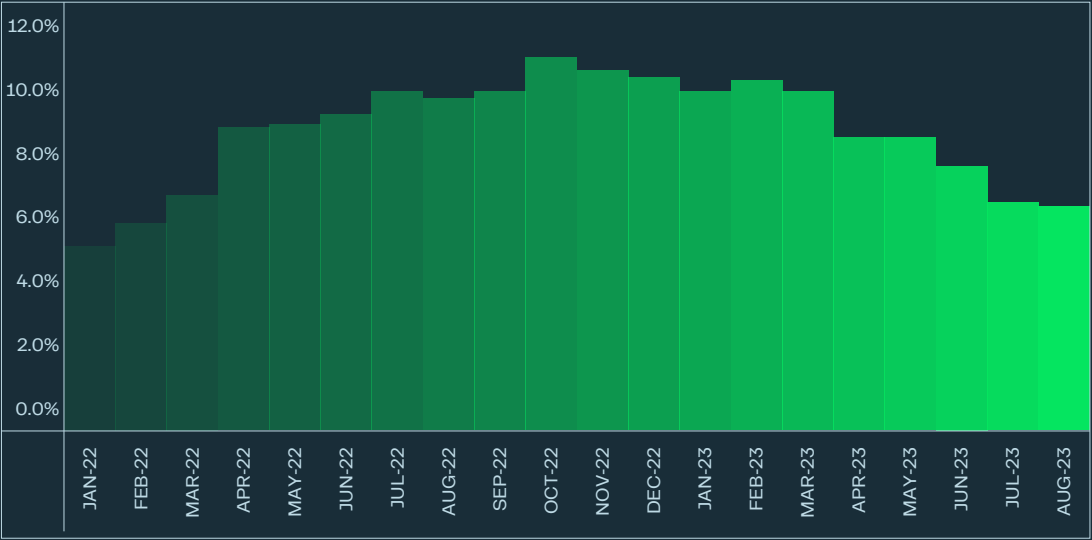
We have seen persistent high rates of consumer inflation remain throughout 2023, although the larger than expected fall in July of 6.8%, down from 7.8% offers hope that the steady, if unimpressive fall from a peak in October 2022 of 11.1%, will mean that inflation will continue to fall to more manageable levels.

The UK consumer inflation rate trails the USA (3.2%) and EU (6.1%) and has led the Bank of England to increase the base lending rate to 5.25%. This has the knock-on effect of suppressing spending, reducing demand for mortgages, increasing the repayments for company loans, further eroding margins for companies, leading to high levels of insolvencies and low levels of growth.

Whether this is the right approach we must wait and see. There has been widespread criticism that the increase in energy costs favoured the energy suppliers, the resultant large profits have spread the believe that they were profiteering, and the so-called windfall taxes were inadequate whilst maintaining high rates of inflation.

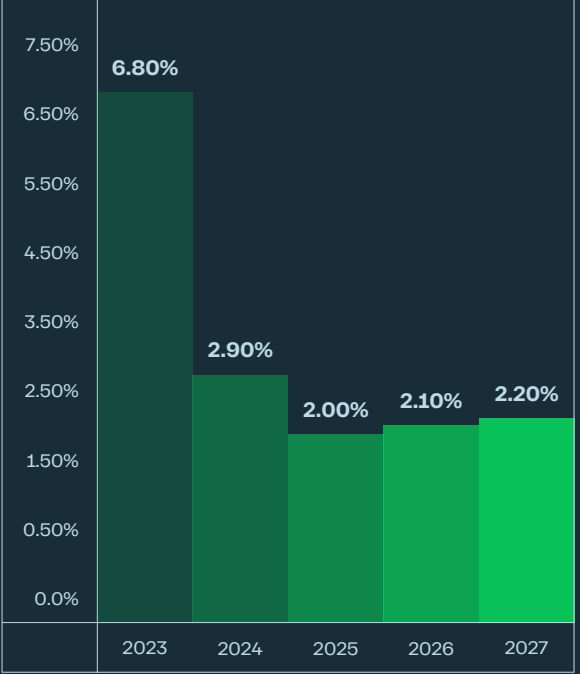
The forecast is for inflation to gradually fall in the latter part of 2023 and throughout 2024 before hitting the target of 2% late 2024 or early 2025.

CONSUMER PRICE INFLATION %



Source: ONS Consumer Price Inflation

ANNUAL CPI % FORECAST



Source: The Treasury



## CONFIDENCE LEVEL

We reported that the S&P Global/CIPS UK Construction Index had fallen for the third month running. Since then, we have seen a resurgence as the economy proved more resilient than expected. Recently it has been volatile, the June 2023 figures dipped below the 50 “No Change” mark before rebounding back to 51.7 in July indicating growth. This proved to be a one off as the subsequent months have seen a large fall in the confidence level.

This was led by a continued fall in the housebuilding subsector, which now stands at 38.1 and registered the biggest fall in non-pandemic times since 2009. This is due to continued high rates of consumer inflation combined with interest rates have meant that demand has fallen.

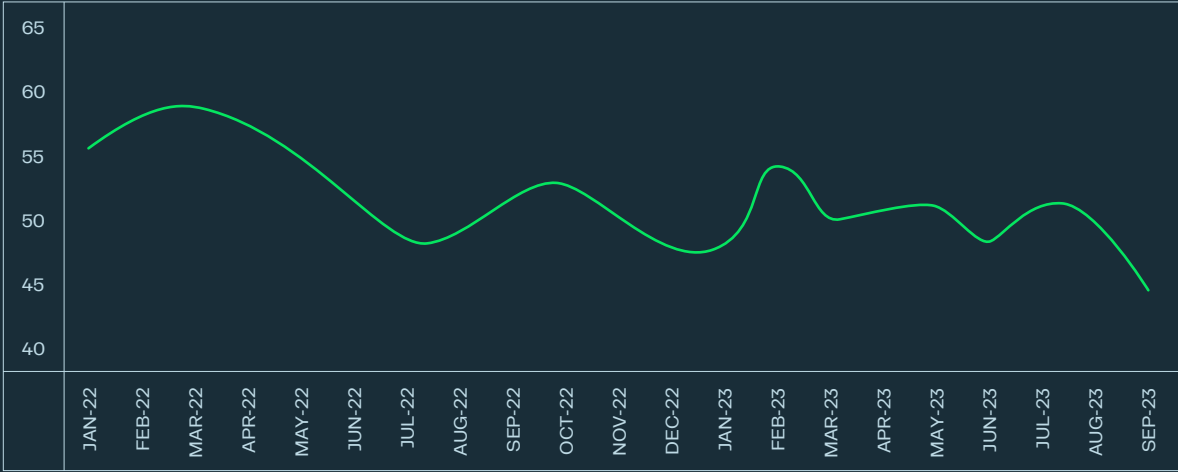
Many housebuilders have announced restructuring and reduced starts as they become more focussed on delivering sites where there is attainable demand.

To protect themselves they have commenced looking at alternative tenure models, these include more affordable homes and delivering single family rental homes for institutions.

**The return to the office has resulted in an increase in office refurbishment projects. Much of this market is driven by the flight to quality as firms look to downsize or reduce operating costs.**

In all cases decisions are being delayed by clients because of economic uncertainty and increased finance costs.

IHS/MARKIT CONSTRUCTION PMI SURVEY



Source: IHS / Markit PMI Construction Survey



# CONSTRUCTION OUTLOOK

## OUTPUT

The latest figures show that construction output has remained flat, despite the private housing sub-sector facing waning demand. The figures also showed that total new-build construction work in May had slipped to their lowest level in a year.

The new build and R&M sectors of the housing sub-sector represent 40% of the total construction output. This sub-sector is heavily influenced by the economic factors affecting the consumer market. ONS statistics show that the new build private housing sector has fallen by 15% in a year as the current high rates of consumer inflation, high borrowing rates and general lack of confidence have led to this substantial downturn.

The large market share of the housing sub-sector influences the total output figures that are reported. Looking at other sectors we can see that other sectors have increased output.



# CONSTRUCTION OUTPUT

Infrastructure has been the major driver since the pandemic and continued expenditure on roads, rail and energy will continue to influence this. The Government has indicated that renewal energy planning consents might be made easier to obtain, so this may become a growth area.

Having committed to a programme of schools and hospital rebuilding this will remain a priority and defence estate and prison building work will boost spending. These will all face the prospect of expenditure cuts as the Government looks to balance the books and a new incoming Government may have alternative priorities.

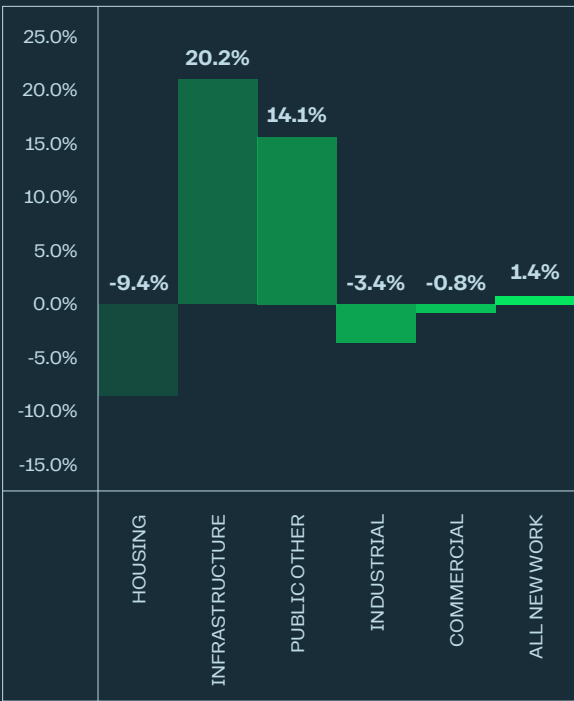
The private commercial sector has remained sluggish as developers look at adapting schemes to make them viable after a period of high inflation, and with uncertainty facing the wider economy, this is seeing scheme starts delayed or even cancelled.

While new builds have remained in the doldrums since the pandemic R&M have soared ahead and this trend is likely to continue with the need to address the requirement to meet EPC levels.

**R&M work has led the recent surge in output, while R&M has increased by 20% since January 2020 new build work is still below the output level of that month.**

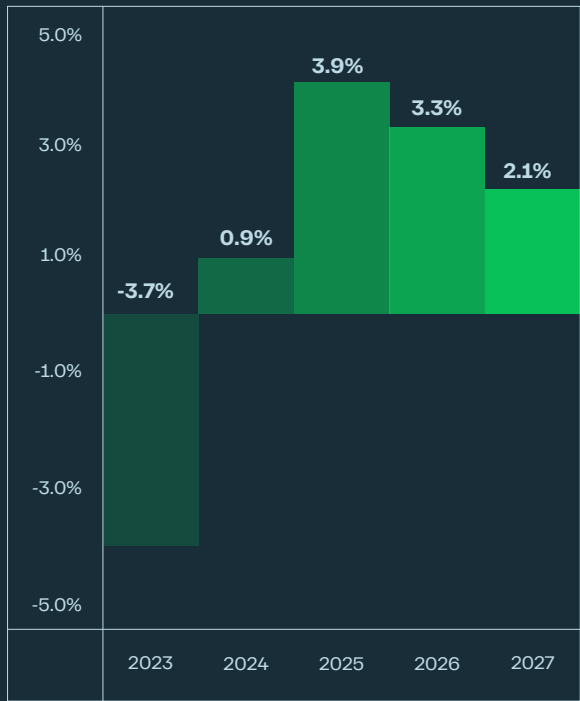
This trend is expected to continue, driven in part by the need for commercial and residential properties to meet improved EPC for rental purposes.

NEW WORK OUTPUT CHANGE JULY 2022-2023



Source: ONS

AVERAGE OUTPUT FORECAST 2023-2027



Source: Average of Construction Output Forecasts





## MATERIALS

Currently material availability is at pre-pandemic levels, and it appears that the problems we have faced in recent years have calmed down at least in the short term. The recent announcement by the Government that the UK would accept CE markings for goods was initially greeted as welcome news, only for further news to emerge that it would not apply to construction. This brings uncertainty about the future availability of materials as the lack of testing facilities will prohibit many new products, including those contributing to net zero targets, from entering the marketplace.







## LABOUR

So far in 2023 we have seen wage agreements running at around 7-8%. After a couple of years of below inflation wage agreements, we are seeing a resistance to lower-wage agreements and the UK has suffered from high-industrial activity this year. The effect of this filters into the Consumer Price Inflation basket as costs of goods are raised to accommodate them putting further pressure on inflation.

The downturn in output has meant that the number of vacancies has dipped slightly from the record high of 48,000 we saw in 2022 to around 40,000.

These vacancies are spread across the whole spectrum of the workforce, affecting office-based and site-based trades and professions alike. Faced with an aging worker demographic we are looking at a shortfall of potentially 250,000 workers by 2027. Whilst this may seem a doomsday scenario it will be lower as some workers will continue to work rather than retire and some may return lured by the prospect of higher wages.

The Government has announced the idea of "T Levels" to encourage more youngsters to study construction. Apprenticeships are being encouraged, but training budgets are always one of the first to be trimmed when savings are needed.

**The realisation that the UK faces a chronic shortage of skilled labour, and that it is competing with a pan-European shortage - without freedom of movement to entice workers to the UK - has forced the Government to act.**

Following lobbying from various trade bodies, skilled trades including bricklayers and roofers have been granted relaxed visa requirements to work in the UK. Meanwhile trade bodies are continuing their efforts lobbying for another 20-plus trades to join the list.



# OUTPUT COSTS

A good indicator of how costs are rising is the ONS Construction Output Index. This model allows for the changes in labour and material costs together with an estimated allowance for OH&P. After peaking in May 2022 at 10.4% it has fallen mirroring the smaller rises in material costs. The latest reported figure is 4.6%. This reflects how material prices soared following the invasion of Ukraine and the subsequent availability of materials.

The addition of an allowance for OH&P permits the effects of tightening margins to be incorporated as investment falls, an aspect that is included in our forecast modelling.

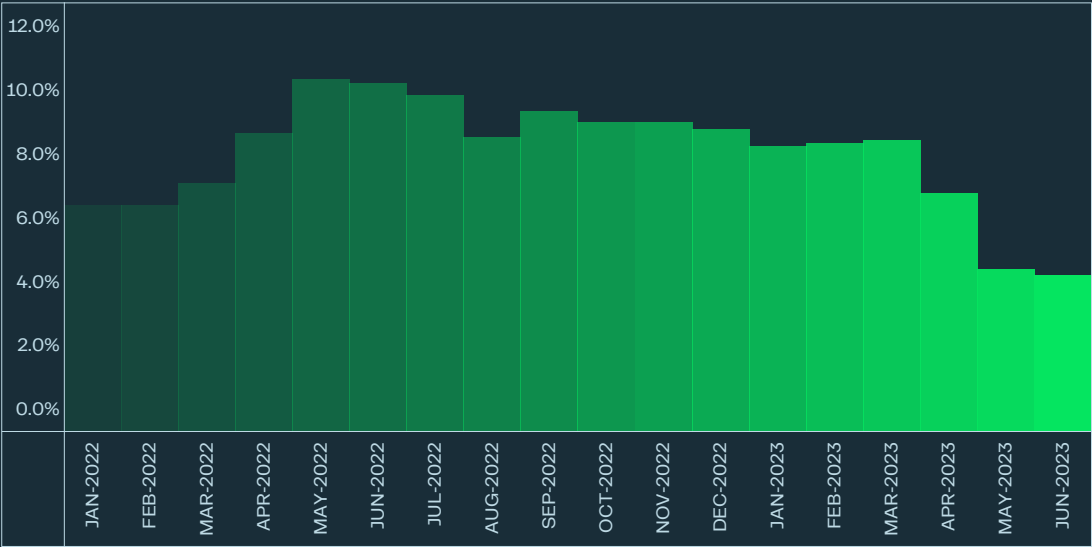
To understand why this movement in the output price index occurred it is necessary to show the percentage movement in labour and material costs over the previous 12-month

period on this chart. These lines reflect how they have contributed to the changes experienced and for this purpose we have used the BCIS Cost Indices for Materials and Labour.

The second graph gives a clear indicator of the influence of material increases, since construction began again after the first lockdown ended.

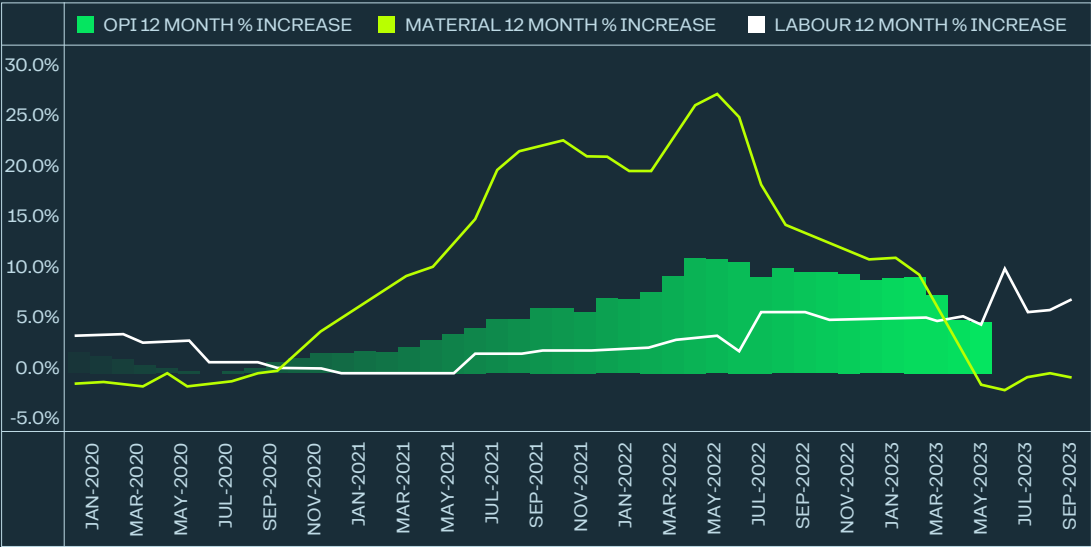
With material prices reverting to traditional levels of price increases, but not the price levels of 2019, this has meant that increases in costs have slowed. Meanwhile the labour line has risen slowly and from April 2023 has overtaken materials as the main cost driver. Barring any volatile economic conditions, we expect labour to remain above material increases.

12 MONTHLY % CHANGE FOR CONSTRUCTION OUTPUT PRICE INDEX



Source: ONS

PLOTTING LABOUR & MATERIALS COSTS AGAINST OUTPUT PRICE INDEX



Source: ONS & BCIS



## FINANCIAL PRESSURES

Historically contractors have worked on margins of less than 3% on fixed price contracts. The effects of generational levels of inflationary pressures on costs linked with increasing bank rates have eroded contractors' profit margins and cash flows. This is witnessed by the recent spate of mixed financial reports and continued elevated levels of insolvencies.

Since the start of the financial crisis in 2008 we have become used to historically low borrowing rates as the Bank of England looked to stimulate and stabilise the economy. It has helped that the economy hasn't overheated, and that inflation remained consistently low. With the emergence of high inflation combined with 15 consecutive interest rate increases the business model has now become stretched and weaknesses have been exposed.

As a result, small and medium-sized firms are facing problems in obtaining finance. With margins squeezed and increasing debt levels following the events of the last few years they are viewed as risky prospects by increasingly risk adverse funders.

**This means that accessing funding is becoming increasing expensive and the ability to recover and investment become challenging.**



## COMMERCIAL AND RESIDENTIAL TRENDS

The UK and Europe are leading the way in transitioning to the use of sustainable measures. 2050 remains the political longstop for reaching the net zero target and the events of recent years have impacted both home and work lifestyles, as a result we are seeing changing dynamics in development patterns in these sectors.

House prices are beginning to slip, having risen by 23.5% since Jan 2020. During the same period the base interest rate has risen from 0.25% to 5.25% impacting the ability of people being able to purchase residential homes and revert to rental properties.

Although the momentum slowed during the pandemic the issue of reaching net zero has returned to the agenda. This move is being driven in a pincer movement by the Government's introduction of new building regulations and occupiers looking for the lowest possible operating costs.



## BACK TO THE OFFICE

As more and more workers return to the office, it is becoming apparent that working styles have changed and there is a need for integrated workspaces, such as breakout areas and more meeting rooms. The new normal is for people to be in the office on a smaller number of days per week. With fewer people being in the office, many companies are taking the opportunity to downsize the physical office space and engage in what has become known as “flight to quality” as the best office space is being sought.

**Currently London and the large regional centres have a deficit of available prime space, which will take several years to rectify.**

While the requirement for commercial buildings to have at least an EPC (Energy Performance Certificate) E rating to be eligible to be let has been removed, one of the main concerns for occupiers looking for new premises is the large increase in energy costs.

Currently 11.4% of commercial buildings have an EPC rating of F or below and owners of these lower-banded buildings will face the prospect of being unable to let the building leading to loss of income and having an unusable asset without redevelopment.

To attract tenants’ developers have increasingly begun to target BREEAM “Outstanding”. This has been successful as recent research by Property Week offers evidence that Central London office buildings achieve 23% higher than the average headline rent. Those with an EPC A rating benefited from rents 17% higher than the headline rate.



## RESIDENTIAL RENTERS

The UK and Ireland differ from our mainland continental neighbours in that we have more houses than apartments. In recent years we have seen the emergence and growth of the build-to-rent development. To date this has been predominately apartments in city centres, but statistics reveals that there are an estimated 3 million rental houses, compared to 2.2m rental apartments.

**The sector is dominated by older properties owned by small landlords. According to the English Private Landlord Survey 2021, 93% of property owners are private individuals with companies owning over 100 properties accounting for just 0.1%.**

Owners over the last few years have seen the Treasury raise taxes on the properties and restrict deductible expenses, even before the recent spate of interest rate increases.

To date the build-to-rent sector has focussed on multifamily apartment blocks in city centres. A combination of high house prices, removal of the “Help to Buy” scheme and interest-rate rises are forcing those currently renting to postpone house purchases. Families now want more outside space and look for energy-efficient housing.

There is the opportunity to link up with housebuilders as build-to-rent operators look at how to manage tenants moving on from the current model. With the current climate and housebuilders reporting fewer sales it allows them to continue building and retaining turnover by selling to institutions rather than individuals.

Whilst most sales have been to operators, such as Moda Living and Blackstone, there has also been examples of housebuilders selling to local authorities, e.g., the Redrow deal with Barnet council.



# CONSTRUCTION FORECAST

As the world emerges from the events of the last three years, the UK is facing high consumer inflation (as discussed earlier). The major impact for the construction industry of the interest rates hikes and the rising cost of living has been the dramatic fall in private housebuilding output in 2023. The increase in finance costs have also suppressed investment especially with the tax breaks introduced to assist the post-pandemic recovery having now ended.

2023 will likely see a fall in output of between 5 – 7% removing the growth, since the start of 2020. Next year will see modest growth before 2025 sees the transition between public and private projects materialise.

The latter part of 2023 has seen stability regarding material availability. With energy costs slipping and the large increases from previous years now falling out of the inflation tracker, coupled with decreased demand, has resulted in material discounting and tempering of price increases.

On the assumption that we don't encounter unprecedented events on the scale of recent years, material increases should become less volatile.

Labour costs will replace material costs as the main cost driver. For 2023 onwards our forecast includes the prediction that labour costs, driven by consumer inflation, are higher than material costs and this year's wage agreements of around 7– 8% have been included. Economists are predicting that higher levels of wage agreements will be around for a couple of years, especially in specialised areas with limited labour pools. The inflationary effects of these will be dampened by reduced output and possibly the influx of labour from overseas.

With the next UK general election required by January 2025 we have seen the start of political posturing as the political parties look to unveil policies that will appeal to voters. With this brings uncertainty as seen with the recent watering down of green policies and the announcement that HS2 will finish at Birmingham.





Policy changes and delays can damage investment for the future. Where doubt exists on commitment to pledges for schemes or policies this filters through to daily life. It makes training of the workforce for new technologies, or developing viable economical solutions for the changing marketplace difficult, and in turn, places further stress on the construction sector. We will see stakeholders looking for more certainty in the next 12 months before commencing projects on site.

Contractors face the dilemma of looking to maximise their margins while maintaining some allowance for risk to insulate themselves against high levels of insolvencies. Amid the downturn and faced with maintaining turnover, contractors will look to sharpen their tendering pencil.

For 2023 we are retaining our 3% forecast, our initial forecast was based on the assumption that most of the increase would come in the 1st half of the year, and this has been the case with returns in the last 2 months being very competitive. For 2024 Government expenditure will be marred by fiscal constraints and private investment will likely remain subdued until economic conditions improve around 2025 - as such 2024 will be a tough year.

Contractors are faced with the combination of the economic downturn causing a reduction in orders against the inflationary pressures caused by labour problems and a loss of capacity in the sector. Margins will likely be eroded as contractors look to secure turnover.

**We have downgraded our forecast and are now forecasting 2.25% tender price inflation down from 2.50%.**

We anticipate that the squeeze on tender inflation witnessed in the second half of 2023 will continue through the first half of 2024 before the increase in tender price inflation commences in the second half of the year.

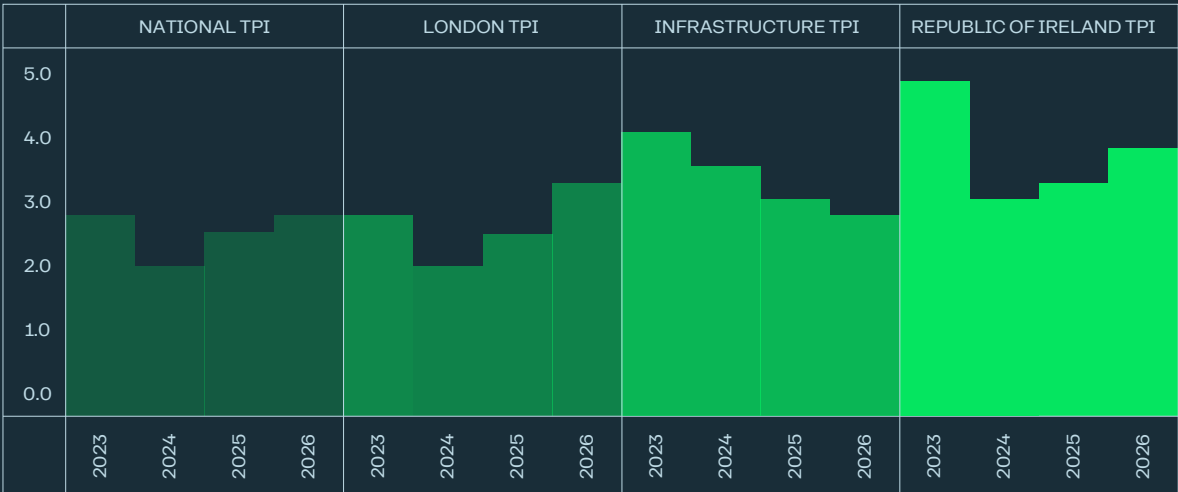
**Max Wilkes,**  
**Associate Director**



**ATKINSRÉALIS TENDER PRICE FORECAST 2023-2026**

TPI FORECAST	2023	2024	2025	2026
National	3.00%	2.25%	2.75%	3.00%
London	3.00%	2.25%	2.75%	3.25%
Infrastructure	3.75%	3.50%	3.50%	3.00%
Republic of Ireland	5.00%	3.25%	3.50%	4.00%

**ATKINSRÉALIS TENDER PRICE FORECAST 2023-2026**





# SECTOR UPDATES



# MODERN METHODS OF CONSTRUCTION

The modern methods of construction (MMC) market has seen a great deal of activity and press in the last few months with a couple of high-profile insolvencies and factory closures.

The demise of both Legal and General Modular and ilke has prompted market analysts and commentators to suggest that MMC and off-site has been over hyped and has no place in the future of construction.

However, the challenges associated with the construction industry, such as low productivity, lack of skilled tradespeople, challenging sites and programmes and the need to reduce embodied carbon and improve building performance, continue to show the benefits of more manufactured elements and increased off-site assembly.

Interestingly, when analysed, the reality of MMC and offsite insolvencies is that these businesses are less likely to enter administration or cease trading, on a percentage basis (only 2.5% of business failures), than other

areas of the industry and it seems that they are more reported than the ongoing base level of general construction insolvencies.

In fact, the MMC and off-site marketplace is currently busy, with a large volume of work undertaken for clients. In the volumetric market particularly, the Ministry of Justice, Ministry of Defence and the NHS are providing prominent levels of work, whilst panelised systems, bathroom pods and prefabricated M&E systems continue to deliver across all marketplaces.

Businesses within the space continue to be successful, delivering good projects with positive client outcomes whilst generating significant growth (up to 300% over 3 years in some cases) and good financial performance.



AtkinsRéalis Project: MMC Boho8, Middlesbrough

There do seem to be cost pressures in this market with recent tender returns producing unexpected returns. However, this is not specifically a characteristic of the MMC and off-site marketplace, it is a consequence of the shorter overall programme times of MMC projects. This can manifest itself in the inflationary impact of price increases felt sooner than on longer term traditional building

contracts where fixed-price deals and supply arrangements can be in place for years leading to a later transition to increased prices.

It is therefore essential when a project comes in higher than expected, that costs are reviewed against all elements to ensure an accurate assessment of the costs.

If you need help with the implementation of MMC and Offsite, our specialist team can help in all aspects from project inception to delivery.

Please contact:  
[stephen.wightman@atkinsrealis.com](mailto:stephen.wightman@atkinsrealis.com)

**Stephen Wightman,**  
Regional Director



# INFRASTRUCTURE

The infrastructure sector plays a pivotal role in the nation's economic and social development. This role was heightened post-pandemic as the sector has led the surge in construction output, underpinned by consistent Government support.

The infrastructure landscape ahead remains robust, with the new Infrastructure tender price forecast pegged at 4.25%.

Concern over diminishing oil and gas reserves, coupled with unpredictable price trajectories, has led to a renewed focus on the British Energy Security Strategy. At the heart of this strategy is a boost in offshore wind energy efforts, highlighted by initiatives, such as the Dogger Bank and Hornsea projects. Alongside this, the HS2 rail project, deemed nationally significant, continues its momentum. Milestones at Euston station, Euston Tunnel and the full competition of the first twin bore tunnel bear witness to this progress.

However, in the evolving landscape on the UK's Infrastructure projects, Prime Minister Rishi Sunak's recent directive offers a pivotal shift. The northern leg of HS2, previously a cornerstone of the nation's transportation vision, has been curtailed due to mounting budgetary pressures. Instead, the Government's gaze has refocussed to enhancing regional rail and road connections. Despite this, the commitment to the HS2 vision remains steadfast, at least in Phase 1. The line is set to establish its presence between London and Birmingham, with substantial groundwork already laid for this segment.







Mega projects, such as HS2, invariably carry significant capital demands, alongside environmental scrutiny. This can sometimes result in project deferrals, particularly when faced with planning and design obstacles. The fluctuating prices for essential materials like steel, cement, and oil-based products further amplify this financial challenge. As a result, contractors, aiming to navigate potential pitfalls, are increasingly streamlining their processes as there is also an increasing requirement to provide more granular visibility of costs. This is further exemplified by regional disruptions, as seen from the ripple effects in places like the North and the West Midlands partly leading to why the Government has reallocated an additional £36bn funding for transport improvements.

On a broader scale, recent data from the S&P Global/ CPI UK Construction PMI index offers a nuanced snapshot of the construction industry. August observed a modest increase in activity, led by the commercial and civil engineering sectors. However, shadows of uncertainty linger, with forecasts for the upcoming year's business activity not looking particularly robust, especially given the drastic dip in sales volumes.

## Economically, the Infrastructure construction sector's approach is slightly out of sync with the wider UK economy. This hints at imminent challenges, especially as fiscal decisions and the threat of the looming election are set to influence ongoing project pipelines.

Looking ahead, while the infrastructure and transportation sectors in the UK are undergoing a significant transformation, fuelled by significant investment, they also face a myriad of challenges.

Stringent environmental checks, budgetary and supply chain pressures, as well as potential economic headwinds all play their part. The UK Government's strategy in the next year will not only determine the trajectory of the infrastructure sector and UK economy as a whole, but will also have ripple effects on other factors, such as the slowing employment momentum and tempering of business activity expectations for the future.

Despite these challenges within the UK, globally there remains a huge demand for infrastructure and project management expertise, with authorities in the Middle East continuing their programme of urban development and a mega package of funds allocated to infrastructure renewal in North America.

**James Dalton,**  
**Regional Director**



# SUSTAINABILITY

In 2019, the UK Government committed to reach Net zero Carbon (NZC) by 2050. This Autumn, Prime Minister Rishi Sunak announced changes to their policy on Net zero.



The main changes to the policy impact domestic properties (EV, residential boilers), with little consideration being held for commercial estates. Another significant shift is underway to address electrical grid limitations, with announced initiatives aimed at removing obstacles to upgrades, that are frequent blockers to decarbonisation projects. Part of this change includes acknowledging the need for more infrastructure.

The main policy changes will now be discussed.

## Homes

- The Energy Performance Certificate (EPC) targets for leasing private residential properties were scrapped and there will now be no EPC target for new residential leases.

- The Boiler Upgrade Scheme is set to increase grants by 50%, to £7,500 to support homeowners in converting to low-carbon alternatives, such as heat pumps.
- The ban on off-grid heating (i.e., oil and LPG) was pushed back to 2035, instead of phasing them out from 2026.
- An exemption was introduced for households who will struggle to decarbonise in the phase out of fossil fuel boilers by 2035. We're awaiting the policy detail on this.

## Cars

- The ban on the sale of new combustion engine only diesel and petrol cars has been moved back to 2035. Second-hand sales of petrol and diesel cars will also continue to be allowed post 2035.

## Further announcements

Other policies were announced although their details have not been published:

- The first ever spatial plan for energy infrastructure aims to provide certainty to industry over where projects will be located whilst ensuring all communities have a say.
- A "fast track" system would be made available through the Nationally Significant Infrastructure Project (NSIP) planning regime ensuring major eligible transmission projects are prioritised, helping businesses and households connect to the grid sooner.
- A new approach to grid connections, where energy projects that are ready first will connect first – and ultimately get online quicker.
- The creation of new Green Futures Fellowship, backed by a £150m endowment, is set to support at least 50 leading scientists and engineers over the next 5 years to develop practical, breakthrough green technologies and climate change solutions – building on the £1 billion invested into the Net zero Innovation Portfolio.

## Our thoughts

At AtkinsRéalis this does not change our ambition and we will continue to work towards embedding sustainability and making positive strides towards Net zero in every project and programme we are involved in.

The legal commitments to achieve NZC by 2050 remain and we are committed to achieving economic, environmental, and social sustainability outcomes.

The built environment is a major contributor to greenhouse gas emissions, with buildings directly attributable for around 25% of the UK's total carbon footprint (UKGBC - Climate Change Mitigation | UKGBC) - making it essential to decarbonise and reduce energy costs.

Given that 80% of the buildings expected to be in use by 2050 already exist, it remains crucial to prioritise the inclusion of decarbonisation measures within capital programmes to address existing building emissions during this period. (UKGBC - Climate Change Mitigation | UKGBC).

**Dave Gilbey,**  
Regional Director







# REGIONAL UPDATES

# LONDON

Conditions for development in London and the South-East remain volatile, albeit certain sectors are performing better than others.

The national economic backdrop, featuring turgid GDP growth, falling rates of inflation and rising interest rates, plus the constantly changing landscape of changes to legislative and sustainability requirements, has led to a theme of “stop-start” progression of schemes in the initial stages of development.

We are seeing more activity within the public residential, office refurbishment and light industrial sectors compared with private housing and new build commercial office sectors, where clients are adopting a more cautious approach.

Within both the private and public the housing sector the cost of projects remains a concern. However, in London, other issues remain a headache for developers. Projects remain impacted heavily by the implementation of the Building Safety Act and the potential for associated delays. Developers have also continued to cite uncertainty on project viability due to the secondary staircase requirements.

Reductions in the rate of tender price inflation and build cost inflation are being offset by the increased cost of project finance.

Extended waits for planning decisions and safety sign offs on towers remain an issue and it has meant that many developers are being forced to hold back prior to sign off, hindering the pipeline of residential work.

Despite these issues, we are anticipating appetite within the contracting market to continue to increase in the second half of 2023, and there is some quiet optimism about this within the residential sector, particularly amongst Local Authority clients where bidding activity is anticipated to be higher during the latter stages of 2023.

In terms of commercial offices, refurbishment activity continues to boom, with the highest volume of refurbishment schemes starts on record in H1 2023, up by circa 80% since the end of 2022, examples of which include the 9000,000sqft Citigroup's 25 Canada Square which accounts for 20% of all new starts so far this year.



AtkinsRéalis Project: One Charter Street Aparthotel Wood Wharf, London

2023 has seen more modest levels of activity in new build commercial office, with clients also adopting a cautious approach to progression.

Several projects have been paused while clients work through general economic, sustainability and regulatory issues which have impacted on viability. We are observing similar trends within other specific sectors, for example, the health and leisure sector, student accommodation and life sciences where refurbishment or re-purposing activity is preferable to new builds.

**Charlie Radbone,**  
Associate Director





# IRELAND

## Northern Ireland

The Northern Ireland construction industry showed positive signs of growth at the beginning of 2023 with total volume of construction output increasing by 6.5% year-on-year.

More recent reports have shown a decline in demand, and further uncertainty in future pipeline is evident within the public sector with all new school building for the 2023-2024 period now paused, as well as two thirds of major road schemes put on hold. The absence of a functioning devolved government is having a negative impact on the local construction sector and industry activity.

Opportunities remain with projects coming forward through schemes, such as the City Deals, Levelling Up Fund and Shared Island Funds as well as demand for social and private housing remaining strong.

Labour shortages in the region presents a key challenge and with-it inflationary pressure, however, material shortages and supply chain issues have largely eased in the region.

Demand remains in key sectors, such as social housing with over 45,000 people now on social housing waiting lists in Northern Ireland. Build-To-Rent, Purpose-built Student Accommodation and the hotel sectors have all seen an increase in activity, and the outlook remains optimistic despite the present challenges.

**Declan Magee,**  
Managing Quantity  
Surveyor



# IRELAND

## Republic of Ireland

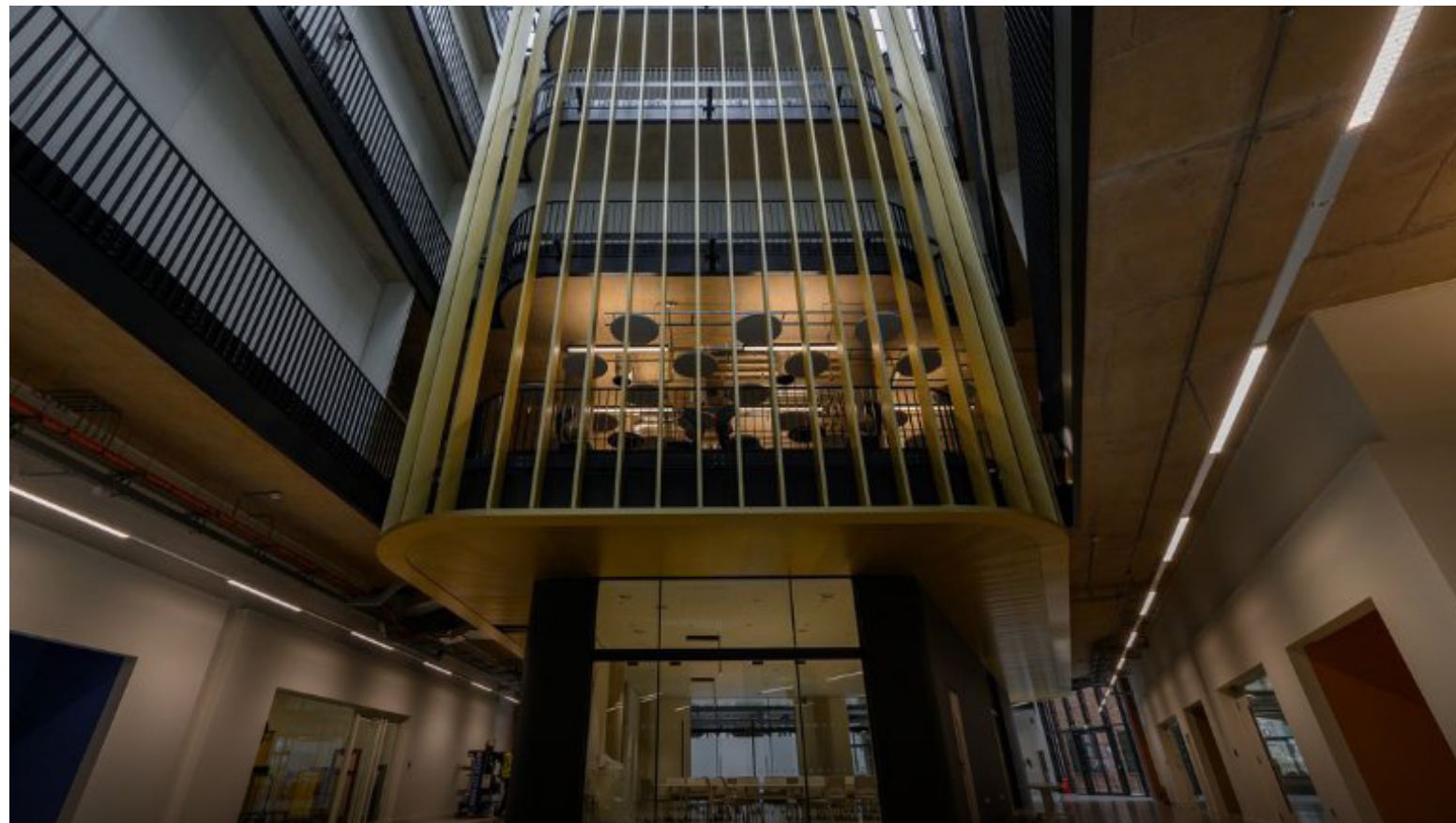
Although construction costs are continuing to rise the rate of increase has stabilised since the 11.5% tender price increase in 2022, down from 14% in 2021.

Like the UK, the second half showed a marked drop off in inflation with the second half contributing 4%. The first two quarters of 2023 have seen a 2.4% increase with a total yearly forecast of 5%. This slowdown in escalation is attributed to several factors.

Raw materials have stabilised with most commodity prices declining or staying consistent since Q3 2022, except for bricks, limestone and concrete. Bricks and limestone are expected to stabilise before the end of the year, however, with the introduction of a 5% levy on concrete blocks and poured concrete we anticipate a continued uncertainty on this product, which will be passed onto the end user. The main change from the initial submission is that this will not apply to precast products and will reduce from the initial 10% proposal.

The central statistics office reported a slowdown in projects towards the end of 2022, however, all sectors bounced back in Q1 2023 with non-residential buildings showing the strongest comeback at 13% and residential at 7%. This is still 8% under the sectors peak in Q1 2020.

Like the UK (and mainland Europe) skilled labour continues to be the major concern in the industry, interest rates and wage demands being the major contributor to tender price inflation. Central Statistics Ireland is reporting unemployment at its lowest for the past 25 years. The shortages of people going into the apprenticeship schemes and an ageing workforce is a major concern.



The government and unions are trying to combat this issue by continuing to increase the minimum pay and pension contribution rates for the construction sector with a 5% increase in February 2023 and a further increase scheduled for September this year.

**Ireland continues to be the location of choice for many major corporations due to the low corporation tax rate and tax credits.**

This incentive continues to secure Ireland as the number one choice for many foreign direct investments with many global firms operating in the mission critical Data Centres, life sciences and high-tech industrial sectors choosing Ireland for their European headquarters.

**Jason Elliott ,  
Director**





[atkinsrealis.com](https://atkinsrealis.com)

