Charting the Course

Winter 20/21 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 in December 2020 and January 2021. The report was written in January 2021.

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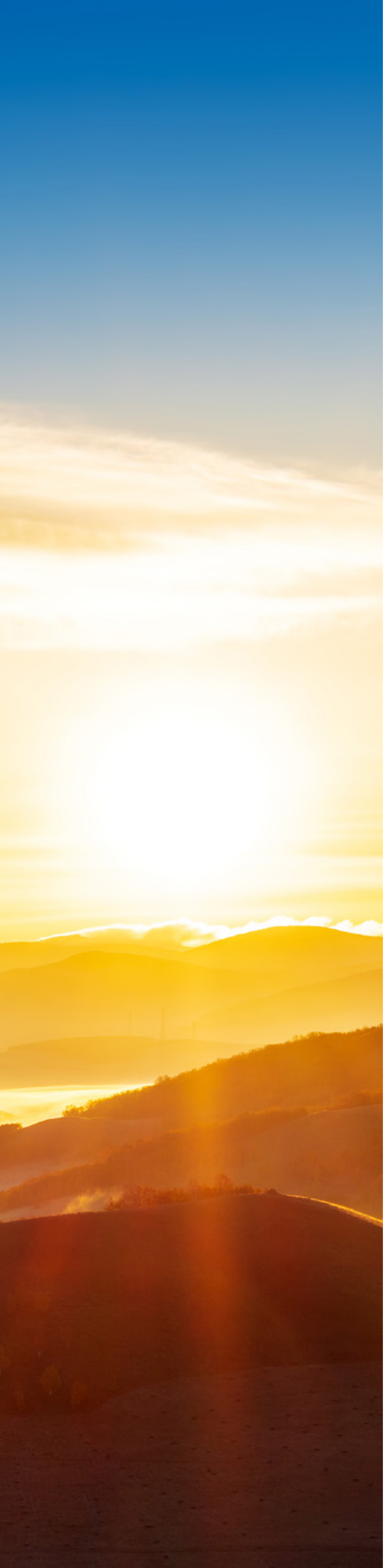

Executive summary

DOUGLAS MCCORMICK
Executive Chairman UK, Gleeds

Hope on the horizon

As we begin 2021, we are able to look ahead and plan with a vaccine rollout happening at pace and with a Brexit deal in place. Whilst challenges remain in the short-term, there is definitely a sense of the tide turning and opportunities for the construction industry.

Site productivity seems to have levelled, with 76 percent of contractors saying it is within the 81–100 percent range, and reporting increasing use of modern methods of construction (MMC) to counter labour issues. Whilst some implications remain from the outcomes of the Brexit deal, the position is much improved compared to a no-deal situation, and with forward planning there is opportunity to mitigate some of the potential issues related to importing materials and labour shortages.

With the news of the Brexit deal and vaccine rollout, many in the industry are reporting a 'new year and new start' with a greater volume of project enquiries being seen than in 2020. This is further supported by the results of our recent LinkedIn poll, with 73 percent of respondents saying that the vaccine rollout will give clients the confidence to push ahead with projects.

There are increasing numbers of projects coming forward which are responding to changes to the ways we live and work, and there continues to be opportunities for those who look at the longer-term picture – the need for homes, to regenerate town and city centres, and adaption of offices to meet changing working patterns and requirements. Public funding and infrastructure projects are expected to support the post-pandemic recovery and be responsible for construction market activity with works continuing on High Speed 2 (HS2), Europe's largest construction project, as well as many significant energy sector projects.

As we move forwards, the buildings we construct now and, in the future, will embody the resilience demonstrated during the pandemic: flexible for adaptation to alternative uses, innovative in design from the outset and future-proofed with the needs of their occupants at the heart.

Charting the Course 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, trends, risks and opportunities.

With a challenging first half of the year anticipated, our teams located across the breadth of the UK remain your constant advisors to support your growth. We hope this report will prove a useful guide to aid your decision making as you move ahead through the coming months.

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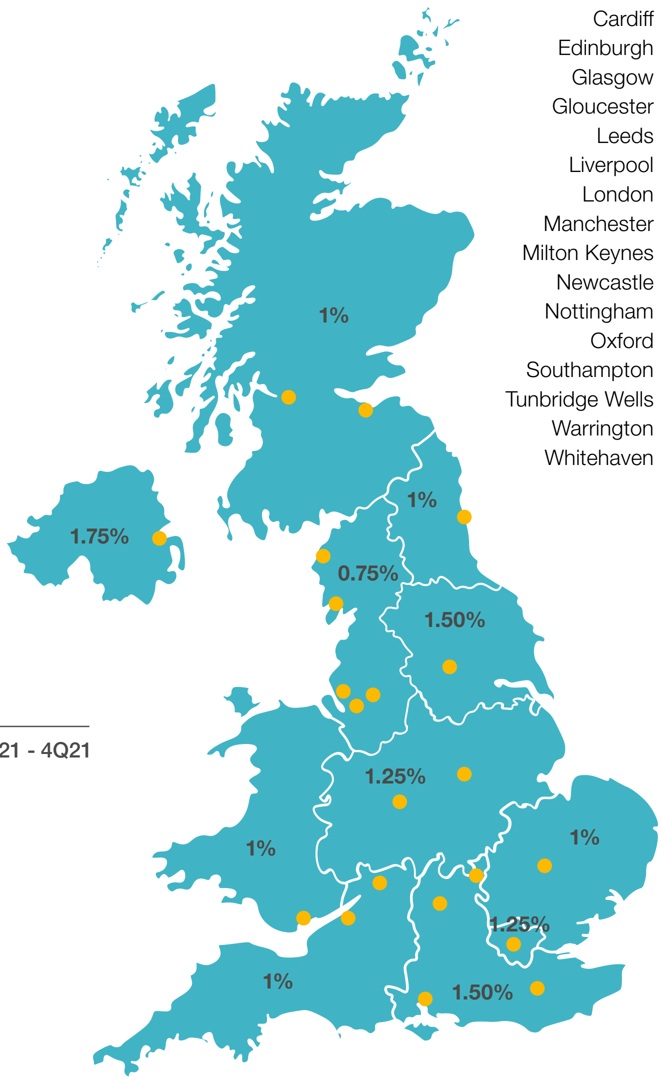
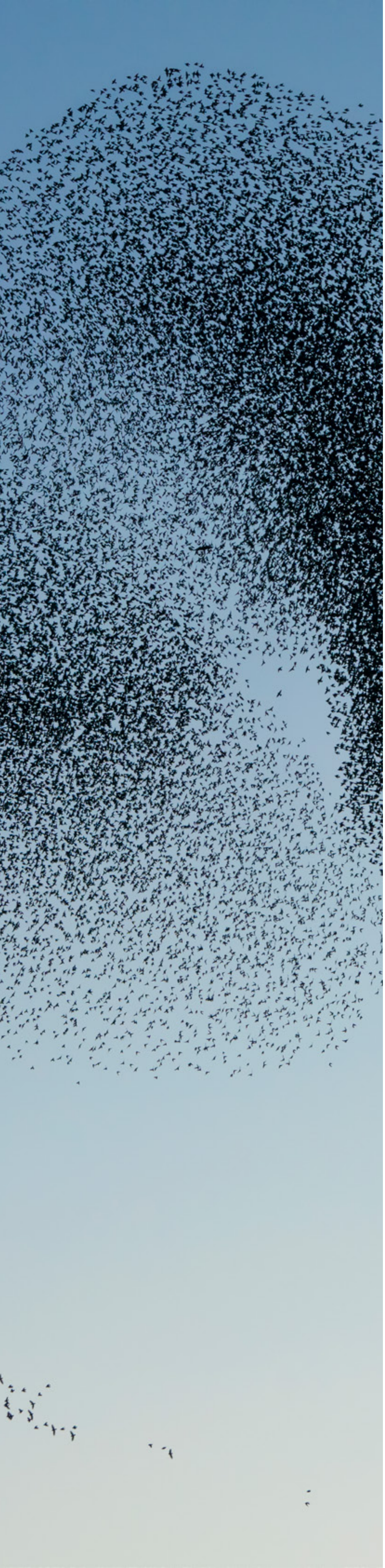


Figure 1

Regional inflation forecasts for 1Q21 - 4Q21



Market intelligence

The pandemic continues to have a significant impact on the United Kingdom (UK) economy. The latest data from the Office for National Statistics (ONS) shows that after six consecutive monthly increases, real gross domestic product (GDP) fell by 2.6 percent in November as varying degrees of COVID-19 related restrictions were in place across all four nations during November 2020.

This November reduction has meant that GDP has fallen to 8.5 percent less than the level in February 2020 (pre-pandemic). GDP fell by 8.9 percent in the 12 months to November 2020.

Unemployment levels reached 5 percent in the three months to November 2020, an estimated 1.2 percent higher than a year earlier. ONS data indicates that the redundancy rate reached a record high of 14.2 per thousand in the three months to November. The Coronavirus Job Retention Scheme (CJRS) was due to end in October 2020 but was extended when lockdown 2.0 was announced in November 2020. On 17 December 2020, it was extended further, until the end of April 2021. ONS data also shows that the total number of hours that people worked improved in August to November as parts of the economy reopened, and people returned to work.

The Office for Budget Responsibility (OBR) has undertaken analysis comparing the current situation to previous recessions which demonstrates the impact of the CJRS, enabling firms to furlough employees rather than cut jobs (figure 2). There is concern about the impact once the scheme ends.

Figure 2

Output, hours and productivity in previous recessions

The pandemic has also affected our habits. The latest ONS data shows that retail sales volumes increased by 0.3 percent in December, resulting in an increase of 2.7 percent when compared with February's pre-pandemic level. However, the pandemic has accelerated the shift towards online shopping. Clothing stores (negative 25.1 percent), fuel stores (negative 22.2 percent), "other stores" (negative 11.6 percent) and department stores (negative 5.2 percent) all recorded record annual declines in sales volumes in 2020 when compared with 2019. Non-store retailing saw a record annual increase of 32 percent for 2020 and total online retailing values increasing by 46.1 percent in 2020 compared with 2019, the highest annual growth reported since 2008.

The House Price Index and commentary from Nationwide shows that annual house price growth rose to a six year high of 7.3 percent at the end of 2020. House prices ended the year at 5.3 percent above the level prevailing in March when the pandemic struck the UK. Various measures have helped the housing market, including the furlough and Self Employment Income support schemes, policies to help keep the cost of borrowing down and keep credit flowing and the stamp duty holiday also bringing forward peoples' home-moving plans. Changes to working patterns and life in lockdown have caused people to re-evaluate their housing needs; estate agents report an increased interest in larger properties in less densely populated locations, and different types of properties with space to facilitate working from home. However, some think that house price increases are unsustainable in the context of a recession and increasing unemployment, and this may increase caution on house purchases along with the end of the stamp duty holiday.

Construction industry

ONS indicates that construction output grew by 1.9 percent month-on-month in November 2020. A 3.5 percent increase in new work more than offset the 0.6 percent fall in repair and maintenance. This was the seventh consecutive month of growth since the record decline of 40.7 percent in April 2020, and the level of construction output in November 2020 was 0.6 percent above the February 2020 level. It is 0.3 percent below the level of output in January 2020 due to adverse weather in February.

The Construction Products Association (CPA) are forecasting that the vaccine roll-out will power construction to growth in 2021, allowing easing of restrictions and resulting in improvements to the wider economic situation.

There is relief in the construction industry that a Brexit trade deal has been reached. James Butcher, Head of Policy at the National Federation of Builders and Chair of the Construction Leadership Council's Brexit working group, told Building magazine that "The mutual co-operation in respect of reducing technical trade barriers and co-operation at the border will undoubtedly help to avoid some of the risks of delay and disruption. What this means is that in January we will not see the inflationary shock of tariff and quota introductions or the expected currency depreciation associated with a no-deal. This deal delivers certainty at a time when it is needed most". There remains concern about the impacts on labour and importing of materials but it is recognised that there would have been a greater impact without a deal.

Uncertainty about COVID-19 and Brexit caused investors to be cautious in 2020 and projects in some sectors were scaled back or put on hold. It is hoped that a Brexit deal and vaccine roll-out will help to bring confidence to the market. There are also increasing numbers of projects coming forward which are responding to changes in the way we live and work. There continues to be opportunities for those, who look at the longer-term picture: the need for homes, to regenerate town and city centres, and adaption of offices to meet changing working patterns and requirements. Public funding and infrastructure projects are expected to support the post-pandemic recovery and be responsible for construction market activity with works continuing and a large works pipeline including HS2 and energy sector projects.

Market snapshot: USA

CHRIS WILLIAMS
President of Americas

While unemployment in the US remains a concern for the economy overall, the demand for construction labour has held steady. This has caused labour escalation to increase at a steady 3 percent+ through 2020. Mechanical and Electrical trades are seeing the largest labour rates increases through 2020 due to the demand in the mission critical market.

Material pricing remains mainly consistent with outliers, namely, wood products, drywall and concrete showing the largest increases in Q4 2020. Steel products pricing remains consistent through 2020 but recent tenders may suggest an imminent uptick.

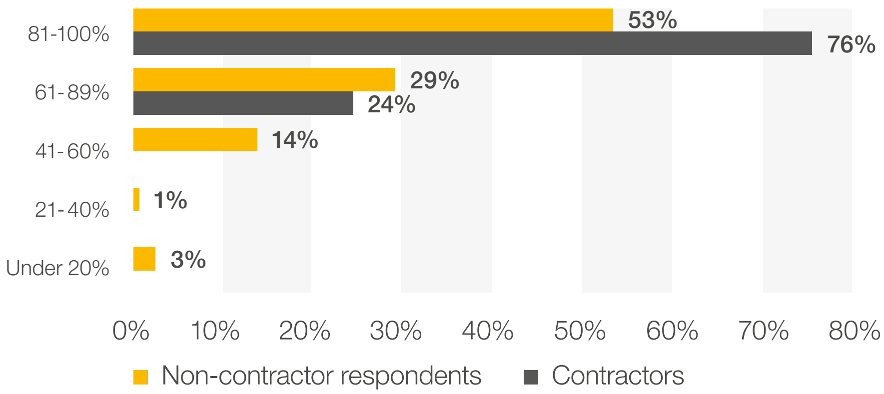
Overall, projects in their early design phase are being affected most negatively when it comes to escalation, with contractors nervously pricing the unknown road ahead. On the flip side, projects currently being bid and ready for construction may see a softening in pricing due to increased competition. In the US, we await the effects of recent economic triggers, most notably, the reaction to the election results and the deployment of the COVID-19 vaccination.

COVID-19 and site productivity

All contractors who responded to our survey reported current site productivity between 61–100 percent, with 76 percent saying that site productivity is within the 81–100 percent range. Interestingly, 18 percent of non-contractor respondents responded that site productivity is less than this. Site productivity appears to have stabilised, as contractors have gained confidence at working within the parameters over the course of the pandemic.

Figure 3

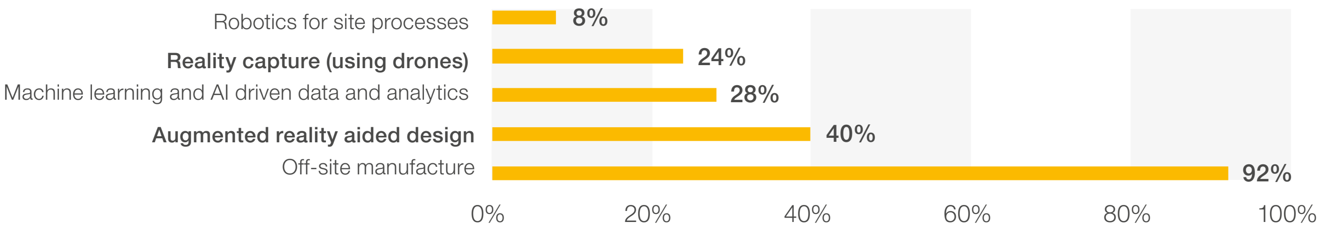
What would you say the average site productivity is at present on your projects?



Restricted numbers of operatives permitted is having the greatest impact on-site productivity, and some contractors have turned to off-site components to try and reduce their on-site labour requirements; 92 percent of contractor respondents saw that offsite manufacture would be the fastest growing technology in the construction industry in 2021 (figure 4). Some sites are equipped with facial recognition thermometers or are undertaking regular testing amongst those working on-site; however, the new COVID-19 strain has seen a significant increase in positive cases in some areas, impacting projects if teams need to self-isolate.

Figure 4

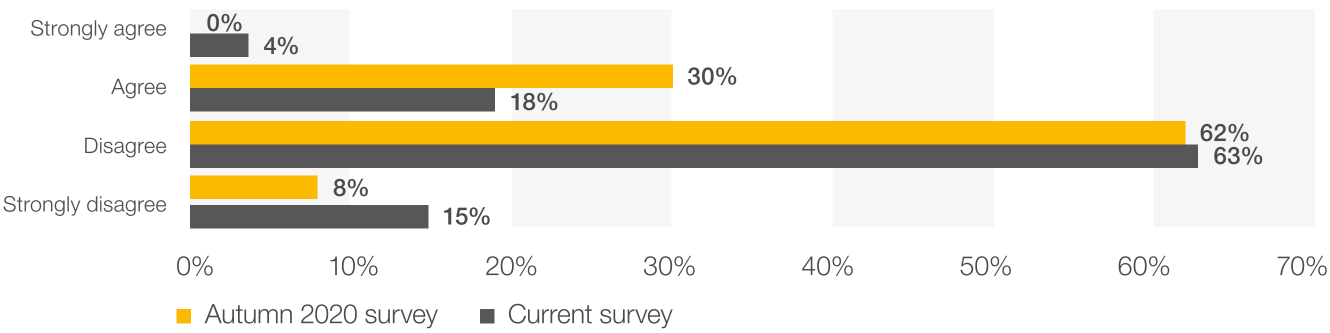
Which technologies will be fastest growing in the construction industry in 2021 and beyond? (Contractors)

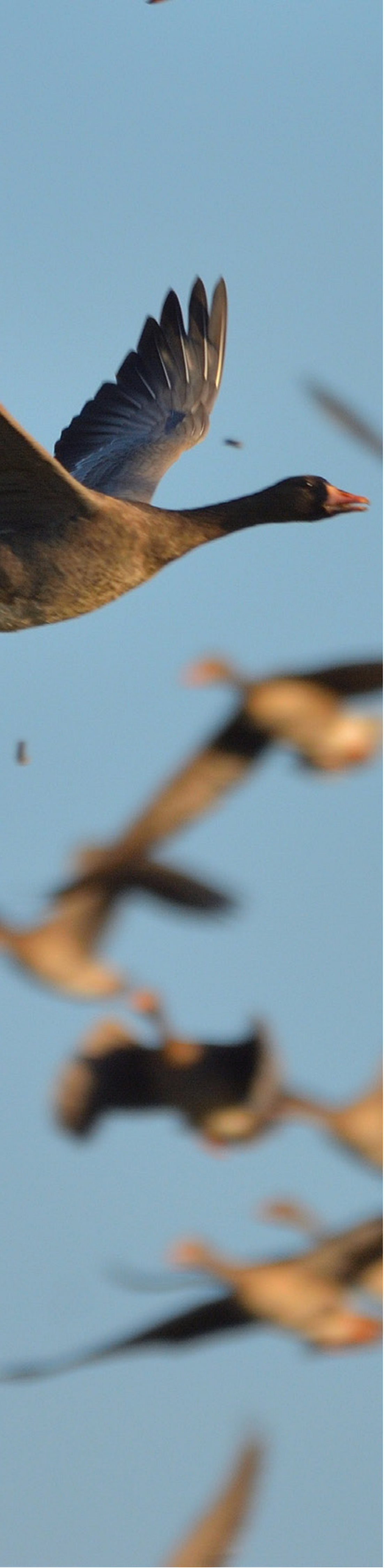


In line with our Autumn 2020 survey, respondents did not envisage that it would be harder to implement social distancing measures in the colder months, with 78 percent of respondents saying that they disagreed or strongly disagreed with the statement “It will be difficult to implement COVID-safe measures on my projects during the winter period”.

Figure 5

Do you agree with the statement "It will be difficult to implement COVID-safe measures on my projects during the winter period"?





Brexit

After tense negotiations, a last-minute deal was reached on 24 December 2020. The EU–UK Trade and Cooperation Agreement sets out arrangements that cover many topics, such as goods and services, public procurement and intellectual property. Tariffs and quotas have been avoided, and whilst implications for the UK construction industry remain, the situation is vastly improved compared to a no-deal situation, particularly with the ongoing impact of COVID-19.

Key concerns for the construction industry now are labour availability, importing of materials and recognition of professional qualifications.

Labour availability

73 percent of respondents to our survey said that there is currently a shortage of skilled labour in the UK, and 81 percent believe that a shortage of skilled labour post-Brexit would increase construction costs. Certain regions and trades are expected to be particularly impacted. For example, Eve Livett of the Association of Brickwork Contractors said to Construction News that "There are large London-based bricklaying companies who have 80 percent of their workforce as EU nationals."

The Migration Advisory Committee (MAC) advised for masons, bricklayers and welders to be added to the shortage occupation list. However, the Home Office decided not to accept these recommendations, preferring instead to wait and see how the recovery from COVID-19 and new system of immigration shape the labour market.

Whilst there is a clear opportunity for the industry to attract new domestic entrants, there is concern that apprenticeships will not fill the gap quickly enough. With this in mind, 59 percent of the contractors who responded to our survey said that their organisation's contingency plans for Brexit included greater use of MMC.

Importing of materials

Tariffs have been avoided with the Trade and Cooperation Agreement, however practical issues with importing materials remain.

The ONS suggests that 15–20 percent of materials used in the construction industry are imported, with 60 percent coming from the EU, according to data from the Department for Business Energy and Industrial Strategy (BEIS).

Depending on the type of project (sector, value, design (particularly façade design), new-build / refurbishment etc.) the proportion of imported materials can be significant. The top five packages identified by respondents to our survey as having the highest risk of being impacted by Brexit were:

1. Façade related packages
2. M&E services
3. Drylining
4. Finishes
5. Roofing

Following the end of the transition period, goods entering the EU from the UK have faced numerous checks including customs declarations, rules of origin checks, product safety certificates and inspections. In response to COVID-19, the government is delaying full customs checks on non-"controlled" goods entering from the EU until 1 July. It is likely that there will be delays when full declarations at the border are required, which could impact materials and supplies used by the construction industry.

Towards the end of last year, the pandemic, stockpiling and Christmas rush were causing mounting pressure on ports and deliveries. Felixstowe, the UK's largest container port, has been experiencing delays since October 2020 and a shortage of empty shipping containers in Asia is causing further problems as the costs for change to escalate due to demand. Delays as vessels dock is causing carriers to favour European ports instead, meaning containers are then moved by truck, adding further cost and time to the deliveries.

As many construction projects operate on a "just-in-time" model for deliveries, there may be a significant impact on these imports, with increased delivery times leading to increased costs and possible delays.
Out of those who responded to our survey, 82 percent of contractors said that their organisations have made contingency plans to assist with importing materials. Of those, 73 percent said that their organisation was pre-ordering and storing materials, whilst 68 percent said that they were looking to use alternative products or materials to avoid importing.

Recognition of professional qualifications

Services makes up approximately 80 percent of the UK economy with its largest export market being the EU. Under the Trade and Cooperation Agreement, services trade has become more difficult. One particular concern is the mutual recognition of professional qualifications (e.g. legal, architectural, engineering, etc.) There is a future framework identified in the Agreement for mutual recognition through the Partnership Council on a case by case basis, but this will take time to be developed, and until then, qualifications will be recognised on an EU state by state basis.

Summary

Whilst there are short/medium-term implications associated with the UK leaving the EU, there are also some longer-term opportunities for the UK construction industry. The reduction in EU labour may drive the use of MMC and off-site to reduce on-site labour requirements which would also help to modernise the industry. Increased digitisation may help to attract new entrants to the industry and improve efficiency and outcomes.

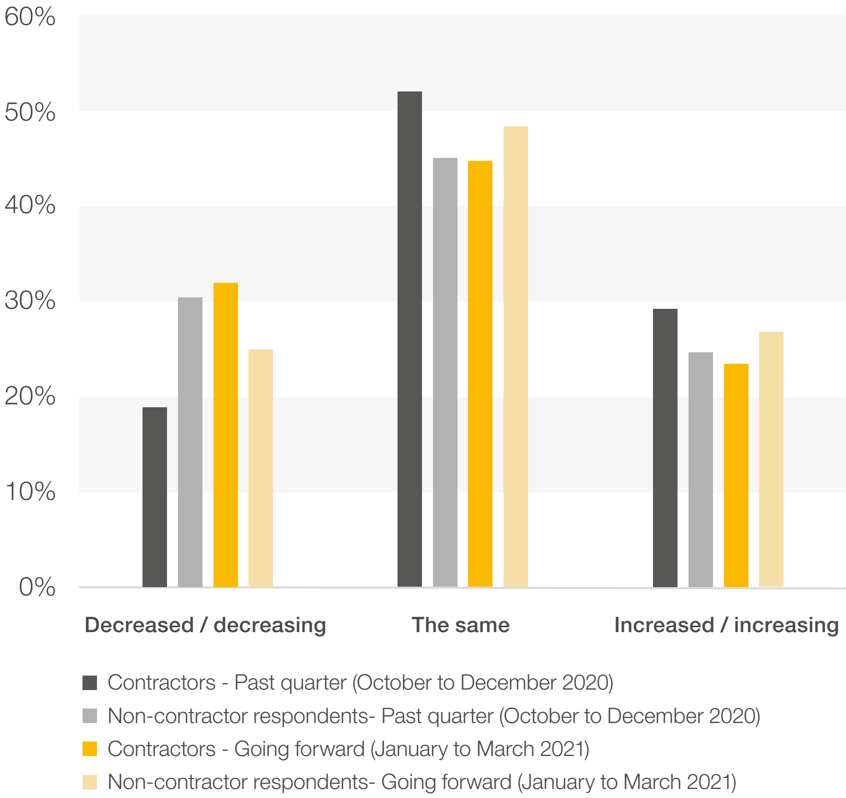
For further information, please see our updated Spotlight Report on Brexit.

Tender opportunities and tendering

In our Autumn 2020 survey, 39 percent of respondents observed that tender opportunities decreased in the third quarter and 67 percent of respondents at the time thought that tender opportunities would remain at the same level or decrease further. In this survey, 71 percent of contractors and 75 percent of non-contractor respondents said that tender opportunities stayed the same or decreased in the fourth quarter of 2020. Only 23 percent of contractors and 27 percent of non-contractor respondents think that tender opportunities will increase in the first quarter of the New Year. However, there is likely to be differences of opinion depending upon sector and region. In the first weeks of 2021, we are hearing from several sources that there appears to be a shift, with many new project enquiries being received.

Figure 6

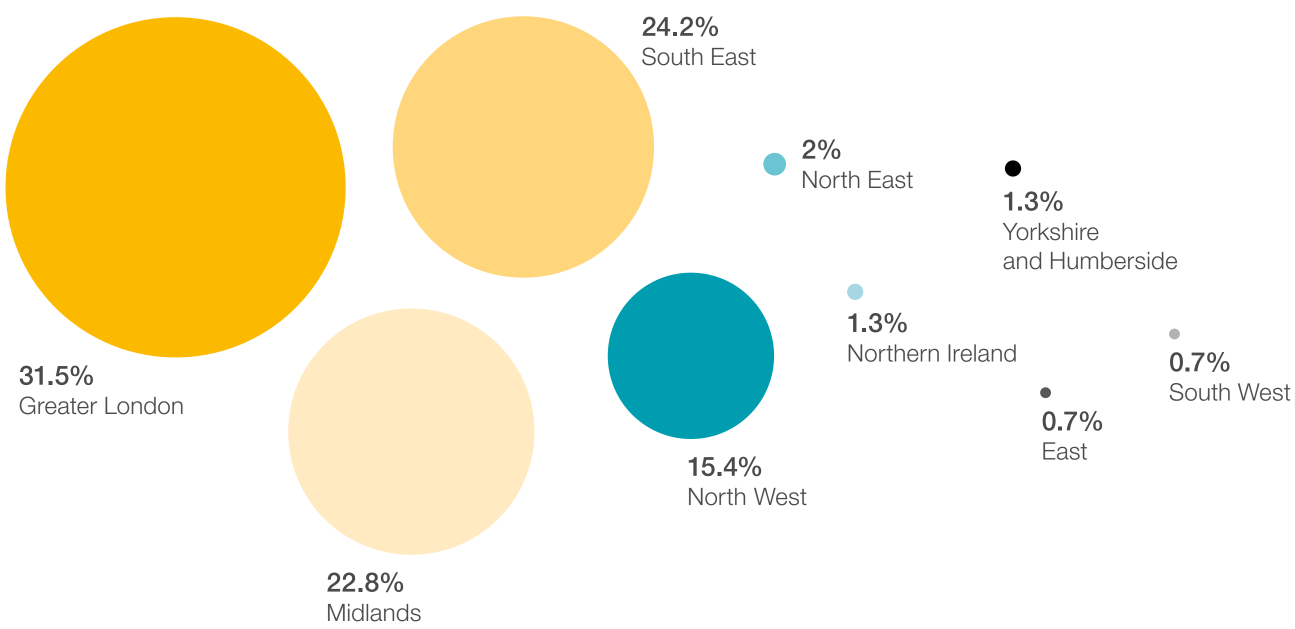
Have tender opportunities decreased or increased over the past quarter? How about looking ahead to the next quarter?



The top five regions thought to be the fastest-growing markets for the construction industry in 2021 and beyond by survey respondents were Greater London, South East, Midlands, North West and North East.

Figure 7

Which UK region will be the fastest growing market for the construction industry in 2021 and beyond?



It's widely reported that COVID-19 is expected to cause a shift in the way people live and work, which will also impact the way buildings are used. Over 80 percent of respondents thought that the commercial office and retail sectors would be the most detrimentally impacted by market conditions and that there was most opportunity for work and growth in the healthcare, public, infrastructure and education sectors.

Figure 8

Which UK construction sectors will be most detrimentally affected by market conditions in 2021 and beyond?

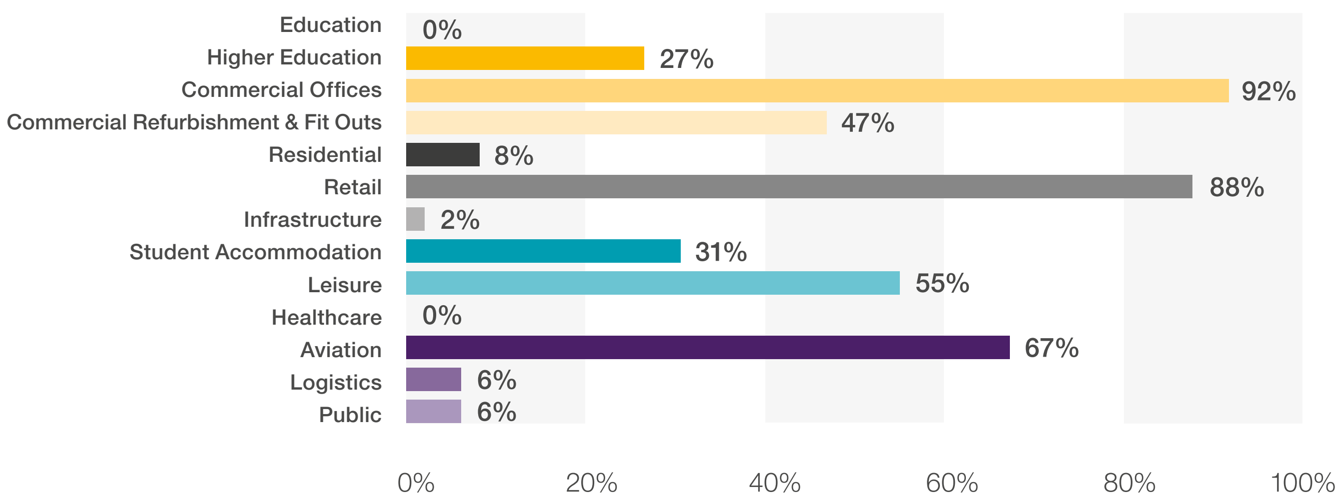
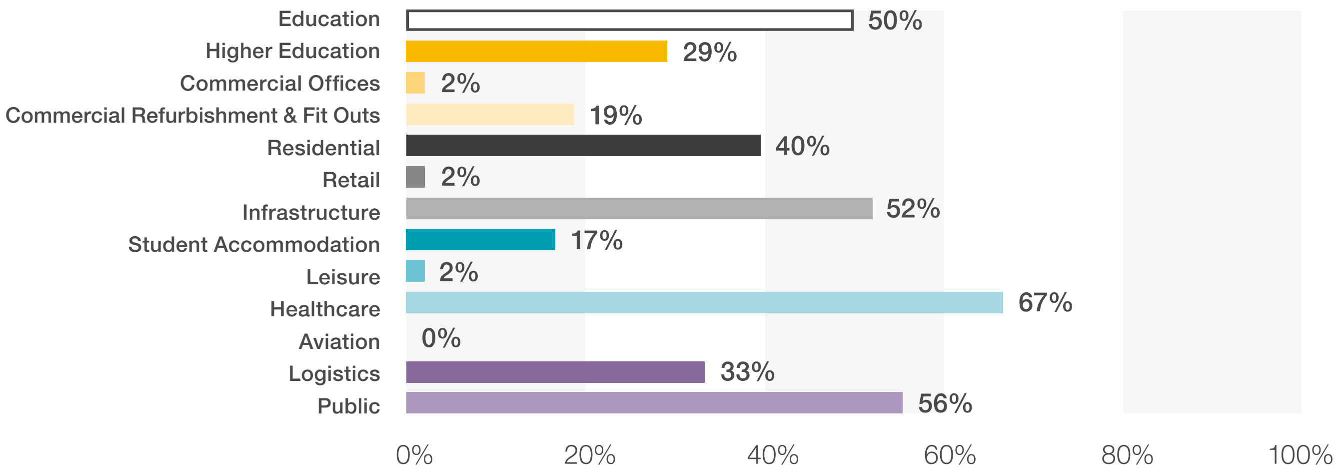


Figure 9

Which UK construction sectors will be most positively affected by market conditions in 2021 and beyond?



Competitive tender returns are being seen in some areas and sectors where there is less work, particularly for projects which are quick to start on-site as contractors look to fill a 2021 pipeline. For complex projects or those with a longer programme, contractors are tending to take a more cautious view as they balance labour and materials pressures against decreased demand.

ABP - New Cruise Terminal Feasibility, Southampton

Contracts and claims

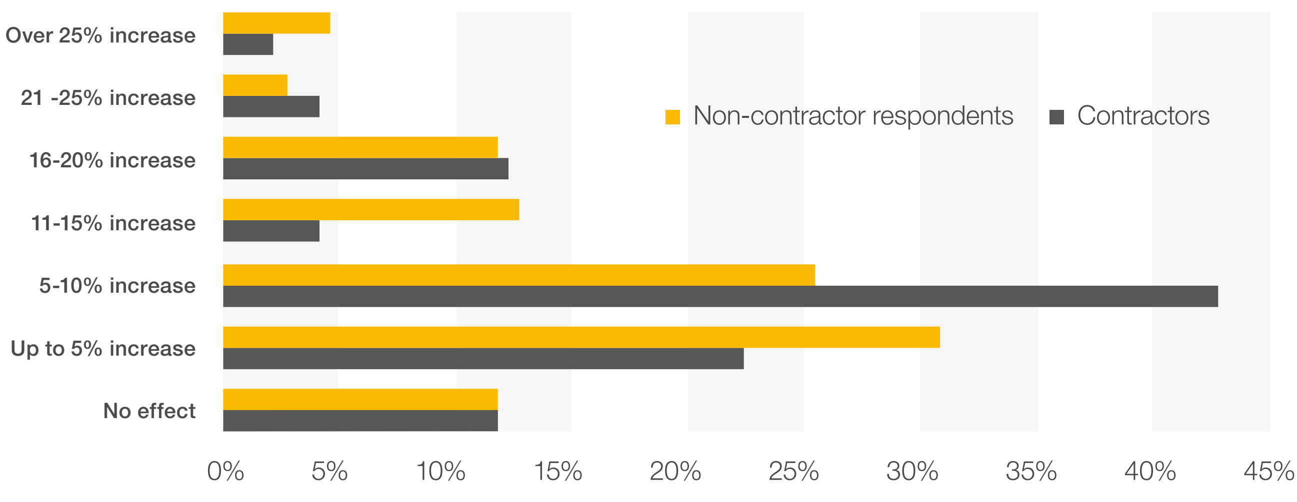
Commercial pressures remain for contractors due to social distancing measures and prolongation of programmes. Many are also incurring additional costs associated with keeping sites COVID-safe, such as welfare, cleaning and testing. It was found that 12 percent of both contractor and non-contractor survey respondents said that social distancing requirements have had no impact on their programme, however, 69 percent of both groups said that programmes were up to 15 percent longer due to the measures, with 43 percent of contractors indicating a 5–10 percent increase to programmes. This may also have an effect on preliminaries costs within tender submissions.

The effect of social distancing on projects can be of a different magnitude depending on the type of project (new-build or refurbishment), size (whether there is space to implement a one-way system) and what stage of the programme the project is at (earlier on, e.g. piling in the open rather than later on in the programme fitting-out an enclosed space with multiple trades).

Similar to the Autumn 2020 survey where only 41 percent of respondents said that they had noticed a more adversarial approach in the previous quarter, 44 percent of respondents said in this survey that there had been a more adversarial approach taken on their projects. It seems that many in the industry are continuing to take a longer-term view to ensure supply chain stability and to achieve better project outcomes.

Figure 10

What impact have social distancing measures had on programme?



Currently, 92 percent of contractor respondents advising that they are making requests for contract amendments related to COVID-19 and 86 percent asking for contract amendments/fluctuations provisions or similar for Brexit. It is sensible for the client's solicitor to draft proposed amendments so that these can be reasonably negotiated. Tender documents also need to be robust with fair and appropriate risk allocation to avoid conflict.

There is also pressure from the insurance market. A series of major losses has led to a large number of carriers withdrawing from underwriting construction business which is resulting in a challenging environment for construction companies. This is again worth considering when negotiating with the supply chain — are appropriate levels of insurance being asked for?

Inflation forecasts

The survey conducted asked for views on inflation for the next three years. The survey period was between the end of December and beginning of January, during which period there were many developments with Brexit and COVID-19.

Boris Johnson advised on 11 December 2020 that the European Union (EU) and UK's negotiating positions in regard to Brexit were "far apart" and there was "prospect and possibility" of reaching the end of the transition period without a trade deal. He advised the UK to prepare for such, but a deal was reached and announced on 24 December 2020.

Early December saw hope and light at the end of the tunnel for COVID-19, with the Pfizer andBioNTech vaccine approved for use in the UK and vaccinations starting shortly afterwards. However, a new, more infectious strain was reported on 18 December, revising Christmas plans and thought to be responsible for a significant rise in infections. This led to new lockdowns being announced across the four nations between 20 December 2020 and 5 January 2021. Vaccinations have continued at pace in January, with the boost of the Oxford-AstraZeneca vaccine having been approved on 30 December 2020.

Figure 11

Timeline of key events

Positive		Negative
2nd – Pfizer and BuioNTech vaccine approved	DECEMBER 2020	
8th – First Pfizer and BuioNTech vaccine given		
		11th – UK and EU say no-deal Brexit is now most likely outcome
		18th – New strain of coronavirus identified
		20th – Wales national lockdown
24th – UK and EU agree Brexit trade deal		
		26th – Northern Ireland national lockdown
30th – Oxford-AstraZeneca vaccine approved		
4th – First Oxford-AstraZeneca vaccine given	JANUARY 2021	4th – England national lockdown
		5th – Scotland national lockdown

Any difference to survey responses either side of the agreed trade deal are of interest. Brexit became more of a concern in December than in our previous Autumn report, with 62 percent of contractors who responded in December ranking no-deal Brexit/Brexit related issues, for example, logistics, as the top threat compared to only 14 percent in the Autumn. Whilst the impact of Brexit has remained a fear in January, with 24 percent of contractors still ranking it as a top threat, the COVID-related threats related to vaccine roll-out and further waves and lockdowns are clearly seen to be the main threats to the industry.

This is further supported by the results of our recent LinkedIn poll results, with 73 percent of respondents saying that the vaccine roll-out will give clients the confidence to push ahead with projects.

Inflation forecasts submitted by respondents became more conservative in January, reflecting a tougher picture ahead for the first part of 2021 with the NHS and key workers under immense pressure and tough restrictions anticipated until the Spring. Although, later in the year, there is optimism that there will be a much-improved picture thanks to the vaccine roll-out, a reduction in the need for social distancing, and pent-up demand.

Figure 12

Rank the greatest threat to the construction industry (Contractors) - December 2020 vs January 2021

1 = greatest threat - 5 = limited threat

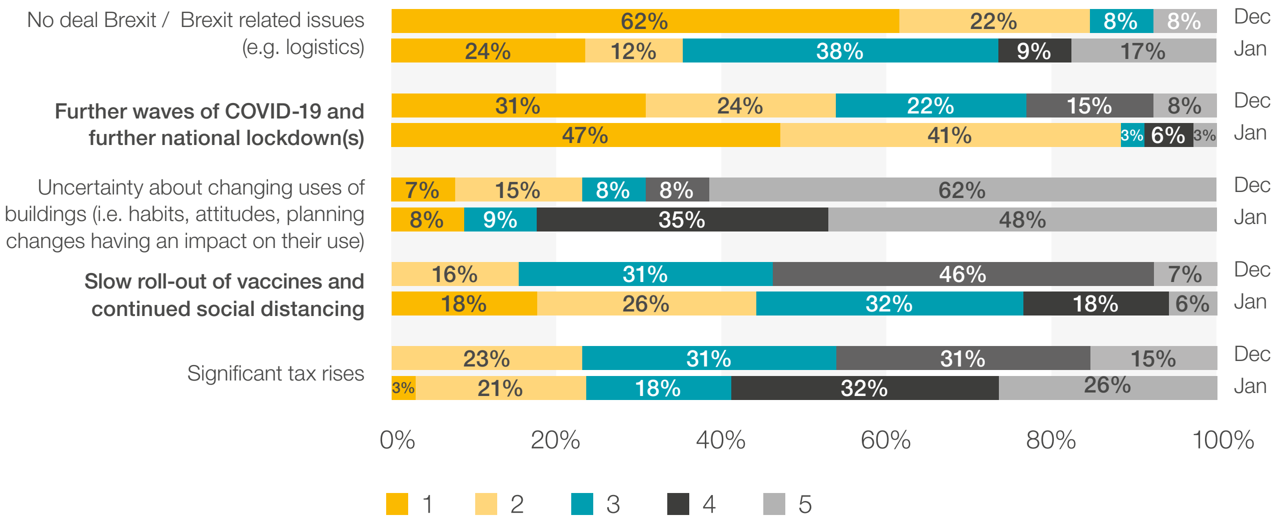


Figure 13

Which of the following do you think will give clients the confidence to push ahead with projects?

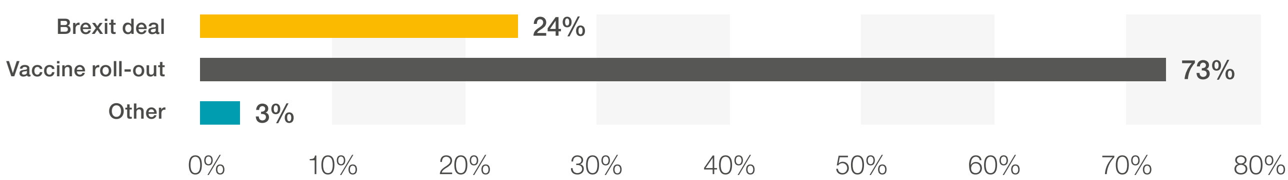


Figure 14

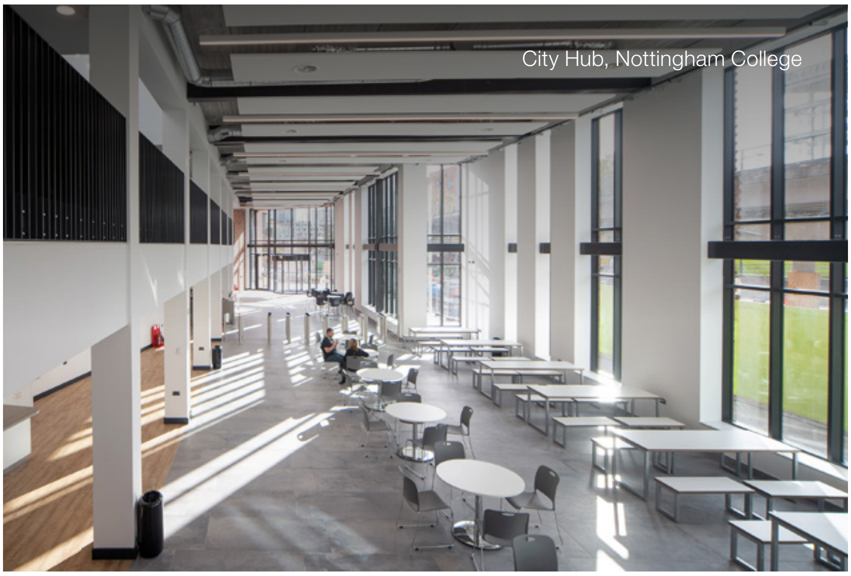
Inflation table

	1Q 2021 - 4Q 2021		1Q 2022 - 4Q 2022		1Q 2023 - 4Q 2023	
East	1.00%	1.25%	2.50%	2.75%	3.25%	3.25%
Greater London	1.25%	1.25%	3.00%	3.25%	3.50%	3.75%
Midlands	1.25%	1.00%	2.75%	2.75%	3.50%	3.75%
Northern Ireland	1.75%	1.75%	2.50%	2.50%	3.50%	3.50%
North West	0.75%	0.75%	2.25%	2.25%	2.75%	2.50%
North East	1.00%	0.75%	2.00%	2.25%	2.50%	2.50%
Scotland	1.00%	0.50%	2.50%	2.25%	3.00%	3.00%
South East	1.50%	1.50%	2.75%	2.25%	3.50%	3.00%
South West	1.00%	1.25%	2.50%	2.75%	3.50%	3.75%
Wales	1.00%	1.25%	2.75%	2.50%	3.75%	3.50%
Yorkshire and Humberside	1.50%	1.50%	2.50%	2.50%	3.25%	3.25%

Moderated forecast   Autumn 2020 report forecast for equivalent period*

**Autumn 2020 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.*



City Hub, Nottingham College

Whilst we are forecasting modest positive inflation in 2021, the year is very much expected to be a tale of two halves. A slow and flat first half is anticipated, due to ongoing COVID-19 restrictions and a smaller pool of projects. The second half sees inflation picking up, with the emergence of larger projects for which there is a smaller, suitable contractor base and with labour and materials cost pressures being felt.

In addition to the pressures of materials costs due to Brexit, steel prices have recently surged as a result of global demand, following both the restart of the industry after the pandemic, and increases in raw material costs. With the rising emphasis on low carbon, it is thought that there could be similar cost increases to cement replacements as they are a finite resource, and major infrastructure programmes are tending to target high levels of carbon reduction.

It is hoped that the government's promise to "build, build, build" is followed through. The first new schools by the Department for Education (DfE) are expected to start on-site in September and large infrastructure programmes are progressing such as HS2 and Sizewell C. The impact of the public sector was also seen in respondents' views on inflation forecasts, with higher inflation forecasts seen from those who worked on public sector projects than those who didn't.

It is also envisaged that other sectors will pick up activity in the latter half of 2021. It is expected that the vaccine will lead to reduced social distancing restrictions, and there will be pent-up demand when people are able to socialise again, helping the economy and giving confidence to the market.

Q1 and Q2

- Reduced number of tender opportunities creating a competitive market
- Subdued market, affected by COVID-19 restrictions and effects of project approvals having slowed down/been put back during 2020
- Wider economy struggling due to lockdowns and restrictions

Q3 and Q4

- Emergence of larger projects
- Large infrastructure programmes continuing
- Public spending e.g. first DfE school sites are due to start on site September 2021
- Contractors have fuller order books
- Cost pressures from Brexit (labour and materials) and global demand for materials (e.g. steel)
- Economic growth from reduction in social distancing requirements and pent-up demand

150 Bishopsgate, London

Sector insights

Residential

COLIN FIELD
Senior Director

TESSA BROOKS
Director

Market activity

The stamp duty holiday rejuvenated the property market after the slowdown in the early stages of the pandemic. Bank of England data shows that mortgage approvals rose to 105,000 in November 2020 following a low point of 9,400 in May. With people re-evaluating their living conditions following the pandemic, demand is expected to continue. However, due to rising unemployment, there are concerns of the market faltering and activity reducing if the stamp duty holiday isn't extended.

Projects continue in the Build to Rent (BTR) and later living sectors as the drivers for demand remain both strong and suitable for long-term investment. First-time homes are also being planned and developed. It has become harder for first-time buyers with smaller deposits, due to stricter lending criteria from banks and building societies.

Key trends

With recent planning changes, schemes are coming forward that are converting commercial space into residential space. Quality homes must be created, but there are challenges in some locations, particularly retail parks, such as how to make new destinations where people would want to live.

Recladding schemes are ongoing. Government funding has reached £1.6 billion, made up of £600 million for the removal of aluminium composite material (as used on Grenfell tower), and a further £1 billion via the Building Safety Fund for non-aluminium composite materials. The period for full applications has also been extended. There are estimates in the region of £15 billion for remedial works required to all buildings, and there are calls for additional funding and/or funding mechanisms to allow works to progress.

Sustainability has become a key consideration. Carbon calculations have become part of funding decisions and increasing numbers of buildings, and developments are being constructed to meet the Passivhaus standard.

Bath Western Riverside, Bath

Risks

There is uncertainty due to the stamp duty holiday and what may happen once it ends. Large numbers of mortgage approvals were seen at the latter end of 2020; however, it is now uncertain whether as many house moves will progress once the stamp duty saving is no longer on offer. This, coupled with increasing uncertainty around employment, may falter consumer confidence for new housing/ homeownership despite demand continuing to outstrip supply.

COVID-19 has impacted on living requirements as more people are living and working together in the same space. This has led to a demand for larger areas to facilitate home-working and larger amenity spaces that will allow for social distancing, which raises the questions of values and viability.

Opportunities

It is hoped that the news and roll-out of the vaccines for COVID-19 will help the economy bounce back and increase confidence in the market.

There remain opportunities in the alternative living tenures, particularly specialist retirement living products, which will allow people to downsize. This is expected to lead to an increase in market mobility, and mixed tenure developments are being brought forward.

With the change of habits brought about by COVID-19, BTR is spreading further out with the rise of people working from home and looking for more space.

Use of MMC continues to increase, particularly pre-manufactured components, to help improve site productivity and quality. This is particularly beneficial for the façade construction and providing confidence in quality and performance to customers and insurers.

Hotels and Hospitality

GILLIAN BREEN
Director

Market activity

There is a hint of deja-vu. A definite sense that we have been here before. While this time, there is good cause for optimism, one cannot but feel that the fates have turned (albeit temporarily) with us sliding down snakes rather than climbing up ladders. Lockdown 3.0 is casting a long shadow over the hotel and hospitality sector again, with devastating consequences. Survival continues to be the aim of the game while the sector stands still, in stasis, until the situation improves sufficiently to allow easing of current restrictions.

Key trends

And yet, in spite of all this, sentiment and rhetoric indicate that this sector is not giving up without a fight. Even in these dire straits, there are stalwart efforts to endure and overcome current challenges, and in the spirit of true hospitality, benevolence prevails. Hotel businesses are supporting the NHS, providing thousands of beds as overspill accommodation for recovering COVID-19 patients while our hospitals prioritise admissions for those needing the most acute and intensive care.

The sector is also playing an important role in maintaining ongoing post-Brexit trade. Transportation into Europe is being supported by providing quarantine quarters for hauliers before embarking on outward journeys, and hosting quarantined inbound travellers, in support of the nation's efforts to contain and prevent the spread of mutant COVID-19 strains from overseas.

Risks

The reality is that the hotels and hospitality sector has ground to a halt, with many hotel businesses having to make serious decisions. Sadly, there will be casualties, but perhaps not as severe as we feared back at the outset of lockdown 1.0. We certainly saw some optimism return to the sector in the fourth quarter of 2020 before the advent of the

Roux at Skindles, London

new variant, and fortunes have, without a doubt, made a turn for the better with the vaccine programme now underway. This optimism will bring with it an improved confidence, particularly as the spring and summer season approaches, and many of us are again looking forward to some respite and recuperation when lockdown 3.0 is lifted. It looks like the "Staycation" will again, out of necessity, be the nation's holiday of choice — an opportunity that has not gone unnoticed by major investors, with rumours of Blackstone looking to invest £900 million with Bourne Leisure, the owners of Butlins, Haven Holidays and Warner Leisure Hotels.

Opportunities

Gleeds' activity in the sector has continued throughout 2020, and we remain committed to supporting our clients throughout 2021 to make the most of their development opportunities and projects. We are looking forward to seeing the sector open up again and have confidence that the summer of 2021 will present a brighter picture that we can all look forward to and enjoy.

Commercial Office

PAUL SWEENEY
Head of London Region

KARA THOMPSON
Senior Director and Head of London Project Management

Market activity

COVID-19 continues to have an impact on the commercial office market as the latest restrictions encourage working from home unless it is absolutely necessary to attend the workplace. The great "working from home experiment" of 2020 has shown many employers that a blended approach of working both from home and the office may be the way forward. In the future, some employers with a traditionally large centralised office may look to a spread of regional offices. For instance, Jes Staley, the chief executive of Barclays, said the bank would look at a more de-centralised approach to staff working, including the prospect of local branches becoming satellite offices for more employees.

Key trends

The hybrid way of working will change space requirements and layouts. There will be focus on collaboration spaces, quiet and telephone booths, and touch down spaces rather than traditional desk layouts, as much of the focussed task list will be completed at home. Employers will need to persuade some employees back to the office so a higher quality space which meets their requirements will be desired, however, costs savings may be achieved by smaller area requirements. It will be important that company values are signified in the office and that collaboration and innovation are encouraged and facilitated. Knowledge transfer and training are also important and are particularly key for developing staff.

Risks

There will be an expectation that offices are equipped to cope with a similar pandemic in the future, and there may be costs associated with making changes to achieve this. Flexible space that can adapt for social distancing will be important, along with an expectation for anti-microbial finishes, good quality ventilation, smart technology and personal care facilities.

Tenants will expect high-quality buildings, and investments may be required from landlords to attract tenants. Sustainability, net-zero carbon (NZC) and wellbeing are becoming increasingly important considerations for companies, who are often competing to attract and retain talent, so carbon reduction targets and sustainability credentials will continue to be important to landlords and investors. Biophilic design considerations will become more commonplace with natural materials, living plants, etc. to reduce stress.

Opportunities

Serviced offices and co-working spaces in local town centres may also help with the local agenda and assist those with little space at home to gain the benefits of improved work-life balance. Increasing numbers of mixed-use developments are seen to be coming forward and this trend is expected to continue, with complimentary uses helping to create a destination and encourage footfall.

In the short-term, there will be refurbishments to meet requirements that have arisen from the pandemic. There will also be many projects converting commercial buildings for other uses, for example, residential, laboratories, education etc., assisted by the planning changes which came into effect on 1 September 2020 allowing many types of commercial premises to be repurposed quicker, in order to respond to local needs.

ARM, Cambridge

Higher Education

HEATHER MAKIN
Director

Market activity

It continues to be a difficult time for universities as they have been, and continue to be, heavily disrupted by COVID-19. Following some issues with COVID-19 outbreaks at the start of term last year, having returned home for Christmas, many students are caught up in the latest new year restrictions and are unable to return to campus, causing a mental health impact and also frustration with regards to tuition fees and accommodation costs. These commercial considerations are equally impacting universities who are facing the prospect of giving refunds on accommodation and tuition fees at a time when income has been compromised as a result of empty campuses and the lack of income from summer schools and conferencing.

Key trends

The student experience is heavily impacted by the restrictions and social distancing measures as collaboration and the opportunities to learn from others are fewer online. University estates are needing to adapt to allow for more space to respect social distancing guidelines, and to maintain the social and community elements of studying which are important to students.

Risks

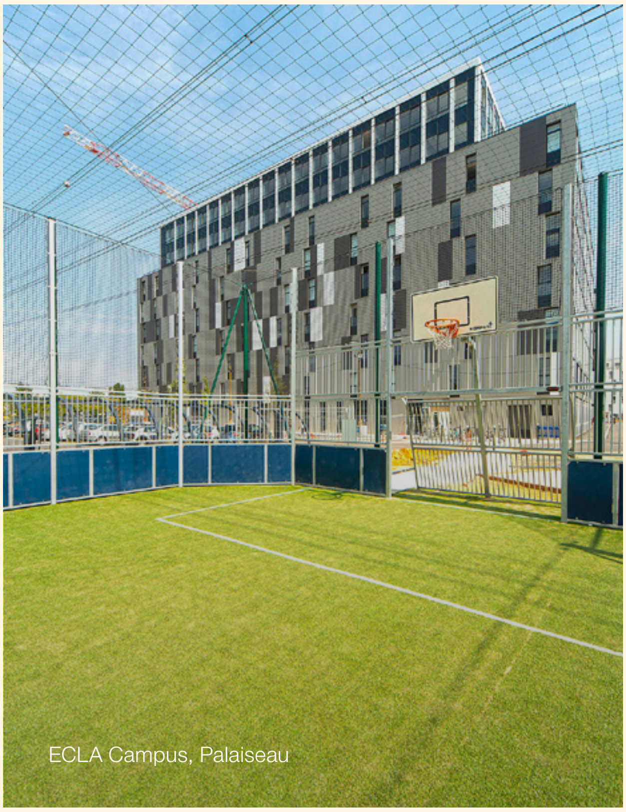
As a result of financial pressures, some universities will look for opportunities to create ongoing revenue streams or dispose of excess space. There may also be university mergers, and some back-office functions may move away from campus to generate savings and reflect changing work practices.

There is concern about the impact of Brexit on higher education and whether it will make the UK less attractive to academics and prospective students from the EU. There are also concerns about the discontinuation of research funds, and the impact of the UK no longer participating in the Erasmus scheme and how this will affect staffing levels.

Opportunities

In the longer-term outlook, there appears to be a brighter picture in the sector. Universities have played important roles during the COVID-19 pandemic, such as the Oxford-AstraZeneca vaccine, and the research led by Imperial College London on community coronavirus transmission. It is expected that university/private company partnerships for research will continue, particularly in the life sciences sector, where private pharmaceutical companies continue to position themselves close to academia and world-leading hospitals/health care facilities.

There is also the opportunity for universities to support the upskilling of people for employment in new greener and more sustainable sectors as jobs are created in different sectors during the drive for economic recovery.



ECLA Campus, Palaiseau

Public

JONATHAN STEWART
Public Sector Lead

Market activity

Activity has slowed down in some areas where the focus is on frontline delivery related to COVID-19. There are some capacity issues where people have been diverted to work on immediate issues which have arisen.

There is also strain on local authorities who have needed to divert funds due to COVID-19, some of which are facing severe financial pressures.

3 March is the date set for the Budget, and in a written ministerial statement to Parliament, Rishi Sunak has said: “It will set out the next phase of the plan to tackle the virus and protect jobs.” There is concern about the effect of COVID-19 on the economy and whether there will be a tightening of purse strings. This could affect departmental budgets, and slow project pipelines at a time when the construction industry needs positive leadership and intervention from the government.

Key trends

The Construction Playbook has recently been launched, which sets out principals and 14 key policies to transform how public works projects and programmes are assessed, procured and managed. The focus is to achieve better outcomes with standardised design, longer-term contracting, and by driving innovation and focussing on sustainability.

The government’s presumption in favour of MMC continues for various reasons, including improved quality, programme certainty and reduced disruption to live environments, amongst others. The Department for Education established its modular framework last year, and the Ministry of Justice are also embracing MMC, especially for the current procurement of the extension of six existing prisons.

Risks

There is concern that if departmental budgets are scaled back, it may affect workflow and performance continuity.

The ONS said that GDP fell 2.6 percent month-on-month in November 2020, following restrictions related to COVID-19. Some economists believe that there could be further decline in the first three months of 2021 due to further restrictions, and there is concern that if the government’s “build, build, build” plans are scaled back, there could be severe implications for the construction industry with mass redundancies.

Following the decline in the commercial office market, some companies are shifting staff from a private sector to a public sector focus, meaning skill gaps/capacity issues could be seen on public sector projects.

Opportunities

Whilst there will be challenges for the construction industry from Brexit, particularly around labour and skills shortages and with importing materials, it gives the industry a chance to focus on modernisation and increasing efficiency using digital and MMC practices. With Brexit and the launch of the ‘Find a Tender’ service for public sector procurement, there are opportunities for UK contractors and consultancies.

Some public projects are taking advantage of the slowdown to accelerate plans and programmes, with a view that investment in construction projects will help with economic recovery.

There are opportunities for sustainable construction, particularly around the NZC agenda. Retrofitting buildings will be important to achieve this and offers an opportunity for the construction industry to meet the challenge.

Health and Care

ROGER PULHAM
Director

JOHN WALKER
Director

Market activity

Both health and adult social care are focussing their attention on resourcing for the current situation with COVID-19 and the new variant. This is in addition to the usual winter pressures of bed blocking, flu and elective care deferrals.

There has been considerable government funding across the four UK nations to ensure cross-infection risks have been fully addressed by January 2021 on a short-term basis, and with permanent solutions in the medium-term.

Reconfiguration schemes, as well as pathway management, have been given full attention by NHS Trust technical teams at the expense of other priority infrastructure and transformational schemes. Additional 'surge' capacity has been planned and is now being implemented where in-patient services are delivered, including Mental Health Units.

Care homes are again under pressure to open more capacity for elderly adults who urgently require stepdown solutions to relieve pressure on hospital ward accommodation.

The Royal, Liverpool

Key trends

In addition to measures to address short-term pressures; usual maintenance, minor capital and Sustainability and Transformation Partnership schemes will continue.

New guidance has been published by the Government Commercial Function which provides a range of hot topics to be addressed in business cases and applications for new scheme funding including:

- Greener NHS regimes and carbon-reducing measures
- Delivering at pace — use of MMC/new ways of working/streamlined procurement/risk mitigation
- Social dividends — affordable housing by repurposing fixed assets and land reuse
- Extending the localism agenda to the advantage of small and medium-sized enterprises (SME's) and local suppliers — delivering much needed capacity
- Creation of local and regional framework structures to drive enhanced value plus supporting local communities.

In addition to the pan-England Health Infrastructure Plan (HIP) programme of 35 Westminster government-funded schemes, the devolved governments of Wales and Scotland both have major schemes in the pipeline. A £1 billion project in South Wales has been proposed using lessons learnt from the recently completed The Grange University Hospital.

Risks

Capacity is a great concern to the sector as there are insufficient experts to manage the massive HIP programme, both in the host Trusts as well as the regulator who is charged to ensure projects and programmes are delivered in a cost-effective and timely way.

The Grange University Hospital, Llanfrechfa

New criteria are being introduced to streamline the delivery process as well as procurement regimes. The introduction of 'delivery partners' rather than design and build contractors is very apparent in the latest guidelines. Introducing further change in an already overheated market is a risk in itself. We have seen a slowdown in business case production, not due to lack of funding, but lack of those experts to process cases through approval gateways.

Opportunities

With Clinical Commissioning Groups (CCG's) now working much closer with Sustainability Transformation Partners (STP's) we are seeing a substantial increase in the production of business cases for Integrated Care Hubs, some including care beds, and this is a trend expected to continue and accelerate through to the latter end of 2021/early 2022.

The COVID-19 pandemic has forced the NHS and supply chain partners to work more closely and collaboratively. There is discussion in the sector about whether procurement rules should be relaxed on a permanent basis (subject to proper value for money controls) to speed up pre-contract processes and drive efficiency. Circa 70 percent of time and money spent is estimated to be related to proving and evidencing project requirement.

There are increasing opportunities for the use of MMC and NZC measures and solutions, including cutting-edge thinking. There is little doubt that the health sector has been — and continues to be — where effective change will be tested and proven useful or of no use.

Life Sciences and Pharmaceuticals

GALVIN TARLING
Director

Market activity

The recent COVID-19 vaccine developed from a collaboration between the University of Oxford and AstraZeneca has highlighted the importance of links between academia, the private sector pharmaceutical companies and world-leading hospitals/healthcare institutions. The fusion between academia and the private sector is key to the growth of "hot-spots" within the sector, and whilst market activity has been predominantly in Cambridge and Oxford, activity in London, Manchester and Liverpool is increasing.

Since the decline of the commercial office sector/market, institutional investors have developed a keener interest in the life sciences sector as they look to diversify their portfolios. Consequently, lower yields and inferior covenants have been entertained by investors. Even during the pandemic there has been a continued appetite for overseas funds to invest in the UK.

Key trends

Sustainable developments and buildings are of paramount importance and, generally, high levels of carbon reduction are targeted, although not necessarily through formal accreditations. Many life science research and development (R&D) companies will not tolerate the notion of destroying our planet whilst in the pursuit of preserving human life.

Sustainability is also important to the sector labour market; companies target highly educated people who have both a choice of employer and high expectations about their work and working environment. Standards of specification and fit-out and finish from the commercial office sector are now commonplace within the life science R&D sector.

Technology companies have now capitalised on the commercial value of health-related products and services and are becoming increasingly intertwined in the life science R&D market.

Risks

COVID-19 has been less significant in the life sciences and pharmaceuticals sector than other sectors. Generally, buildings are designed for research and to contain viruses although there have been some adaptions for social distancing and alterations, adaptations and upgrading of heating, ventilation, and air conditioning (HVAC) systems to counteract COVID-19. Many R&D facilities have remained operational throughout the pandemic, for example, the Genome Campus in Cambridge — their sequencing was significant in identifying a number of the mutated strains of COVID-19.

There continues to be some concerns regarding the effect of Brexit on importing materials and equipment, particularly MEP plant and equipment. To counter these risks, ahead of time ordering and delivery has been mutually agreed by employers and contractors.

Opportunities

It is expected that activity in the life sciences and pharmaceuticals sector will remain at an increased level due to appetite from investors and the strengthening bonds between universities, private pharmaceutical companies and hospitals/healthcare facilities.

Complimenting the life sciences sector, Agri-Tech has gained traction over the last three years, related to food security, climate change, vertical farming, etc. and it is anticipated that this will become more prominent over the next year due to Brexit forcing a reduction in reliance on food imports.

The sector is heavily influencing the Ox-Cam Arc, providing the initial stimulus to actively deliver the infrastructure and communities needed to support the continued growth and evolution of the sector.

Retail

EMMA WIGGIN
Director

Market activity

2020 was no doubt a challenging year for retailers. While there was hope for an improvement in December, the reintroduction of restrictions somewhat dampened this with the BRC-ShopperTrak footfall monitor showing a 46.1 percent reduction in footfall across shopping destinations compared with the same month in 2019. The high street and shopping centres saw the brunt of this with 49.5 percent and 47.3 percent drops respectively. Retail parks fared better with a 17.3 percent reduction.

Retailer performance has been affected by offering. Food continues to weather the shocks of the pandemic better and some, such as Morrisons and Sainsbury's, have announced improved profit expectations following strong sales in December. Although social distancing measures and staff self-isolating are holding back profits, customers are spending more as they can't eat out at pubs, restaurants, etc. and are instead buying premium ranges.

For traditional non-food retailers, it has proved difficult to make up for lost sales on the high street and the impacts of COVID-19 appear to be continuing to accelerate the shift online. Despite this, due to their business models, some retailers remain committed to the high street. For example, Primark says that it has no plans to sell its clothes online despite saying that if all of its stores stay closed until 27 February 2021, it expects to lose out on £1.05 billion of sales.

Key trends

Retailers are responding differently to the challenges depending on their offering. Some are cautious and have put their capital programmes on hold. Other are escalating their refresh programmes whilst stores are closed. Those with food offerings as well are extending their food halls, and many are investing in click and collect operations and their online operation.

Pop-ups, showrooms and experiences will help to attract people back to the high street, and shopping centres and some businesses are investing in these, ready for when restrictions are reduced. Adaptions are also being made to facilitate and improve the shopping experience despite social distancing measures.

Risks

Risks remain within the sector with the impact of COVID-19 and continuing social distancing and impact on staff. There is hope from some food retailers that supermarket workers will be considered key workers and that they will be prioritised to receive the vaccine once capacity is increased. For non-food retailers, there is concern about the length of time that lockdowns will impact on trade.

There is also concern about the impact of Brexit with the full effect of paperwork and checks not having been felt yet. There has been some disruption to food supply in Northern Ireland due to trucks arriving at Great British (GB) ports with incorrect or no documentation, which has been delaying crossings across the Irish Sea.

Opportunities

Following the impact of COVID-19, it is expected that people will have an increased focus on health and well-being. There has been a shift to shopping locally, and it is expected that this will continue. It is anticipated that food retailers will invest in convenience stores in urban centres, and that physical stores will help with online fulfilment.

There is also expected to be a huge, pent-up demand once restrictions are lightened or lifted with help from the vaccine. There is optimism in the longer-term for non-food retailers, particularly those focussing on customer experience and integration online with showrooms, pop-ups and experiences.

Town Centre Regeneration

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

Market activity

As we finally close the door on 2020, we celebrate the decline of materialistic consumerism, and in its place an emphasis on health and well-being, which will continue long after the pandemic becomes a distant memory. This will set the agenda for the redevelopment of our urban centres going forward.

Our high streets and urban hubs in 2020 remained too reliant on retail in a year which was a living nightmare for the majority of non-food retailers. This retail 'annus horribilis' witnessed stores opening and closing overnight in response to the pandemic, and demand for certain goods such as fashion, falling off a cliff edge whilst online shopping surged to unprecedented levels during one of the most unpredictable years in living memory.

As a result, retailers shed 176,718 jobs in 2020, and over 15,000 stores closed permanently as a result of the COVID-19 pandemic, deepening existing high street challenges centred around relevance, online retailing and increasing business costs. This is an increase of a quarter from 2019.

The leisure sector has fared no better after a start to 2020, which saw record sales for cinemas followed by enforced closures, declining consumer confidence and supply chain shortages, with film releases over 60 percent down. As such, box office figures showed a catastrophic decline of in excess of 70 percent in the worst year for cinemas since records began some 100 years ago.

Moving into 2021, and in the midst of lockdown 3.0, estimates show that non-essential retailers will suffer £2 billion a week in lost sales, with a grim warning that half of all hospitality businesses in the UK do not have sufficient cash reserves in the bank to make it through February. Surveys suggest that just one in five businesses in the hospitality sector are confident that they could survive beyond the end of March without greater government support. Indeed, The Centre for Retail Research is predicting that up to 200,000 jobs could vanish in 2021 as debt burdens, changes to legislation and continued online growth are set to weigh further on high street stores.

However, a brighter outlook for the second half of 2021 is predicted, with sales growth of up to 3 percent driven by the non-food sector and fashion, in particular. Pent-up savings and demand, a more confident consumer, and a successful vaccine roll-out, all of which would help to support the recovery of the UK's embattled retail sector. Similarly, whilst acknowledging screen drops as post-pandemic scarring in 2021, cinema volumes will return principally in the second half of the year as film releases increase and the next Bond film makes an appearance in the fourth quarter.

Tower Gardens, Skegness

Key trends

Local and neighbourhood shopping is expected to become even more prevalent in 2021. A focus on making stores and online purchasing work together more seamlessly will be a priority for retailers. Sustainability and experiential shopping will re-emerge as dominant trends. Consumers seek a more authentic and ethical experience whilst acknowledging that they need to use and support the high streets if they are not to disappear forever. Indeed, following a year of minimal social contact, consumers are expected to gravitate back to stores which may herald a new renaissance for the bricks-and-mortar shop and the surrounding context offered by our urban centres.

However, an extension of the one-year business rate holiday is vital in realising this recovery, along with a radical overhaul of the business rate system going forward, noting that business rates accounted for up to 50 percent of retailer's property costs pre-pandemic.

Risks

In addition further COVID-19 support and clarity is required from the Chancellor if his words in setting out the latest package of support measures during the third national lockdown, "The end is in sight" are not to be treated literally for the businesses fearing the termination of their very existence. The £4.6 billion of financial measures for the retail, hospitality and leisure sectors are welcome but simply will not be enough to support many businesses in securing a post-pandemic future who require the visibility of a long-term plan, not a short-term solution. Similarly, extensions to both the furlough scheme and temporary VAT cut beyond April would offer a clearer picture of the future for businesses needing to re-establish a roadmap for surviving and thriving, and whose long-term strategies have been overturned by COVID-19.

Brexit has also been hailed as a Christmas reprieve for the retail sector, and indeed, all businesses and sectors across the UK, offering a £660 billion free-trade deal with the UK's closest and formerly largest trading partner on Christmas Eve. A deal that will allow UK goods and components to be sold without tariffs and without quotas in the EU market is clearly welcome whilst realising new regulations and paperwork will inevitably follow.

Opportunities

As retail, leisure and hospitality start to recover and receive support, it is vital to ensure they remain an integral part in our towns and city centres. We continue to look to a mix of uses relevant to the area, as well as create relevant destinations. Purposes range from commercial through to residential, education, health and community, as learning and well-being become vital components in our urban offering and acknowledge the biophilic agenda.

The work-from-home revolution may have caused a huge mental shift and acknowledgement that remote working is possible, but the physical office still holds an essential purpose of coming together for ideas generation, relationship building and deal-making where physical and personal contact matters. Creativity happens when people are together, and peripheral vision is enabled, which is all too important in the fast-paced world in which we find ourselves.

The popularity of our urban centres has always been cyclical, and COVID-19 was maybe another stage in that cycle. We now have the unprecedented and large-scale opportunity post-pandemic to remodel our centres to facilitate trade, learning and fun, and ensure that they are the beating heart of their local community.

Indeed "building back better" is one of the aims of Ministry Housing, Communities and Local Government in injecting cash through the Future High Street Fund to transform high streets into vibrant hubs for future generations. The recent announcement of 72 high streets which have been selected to receive £831 million of investment to help fund their transformation is an indication of the massive opportunity and recognition that the year ahead will be a big one for the high street as it seeks to recover, adapt and evolve. This will shortly be followed by decisions on Towns Fund allocation, as those shortlisted finalise their Town Investments Plans in line with their local vision and recognise wider economic, societal and environmental considerations.

The High Street Task Force refers to place assurance, liveability and sustainability in creating multifunctional places, and we have much to do in this respect, which will serve us well in 2021 and beyond. More central and local government commitment and funding is vital, and maybe the £2 billion in business rate relief returned by the food retailers can be set aside to support in this respect, along with associated and vital private sector expertise and funding to truly unlock these urban transitions.

Market snapshot: Poland

JACEK KOSTRZEWSKI
Director

Although the COVID-19 pandemic has left hardly any business or industry untouched, and the real estate industry has also been affected, we estimate the latter coped quite well with the adversities.

Within the real estate industry, it appears that the retail sector was affected mostly due to government restrictions imposed on shopping malls. Whilst the growth of e-commerce in Poland is an undeniable fact, Poles are still more likely to choose traditional retail. There has been approximately 430,000 sq m of modern retail space completed and total retail space in Poland stood at 15.9 million sq m of Gross Lettable Area (GLA) at the end of 2020.

The second sector affected by the COVID-19 pandemic was the office market as many projects were stopped or postponed due to uncertainty. The coming quarters appear to be the time of redefining the office sector and many companies have introduced hybrid work models for their staff. However, some have also found that full-time remote work is not conducive to building organisational culture or relations between employees, so the demand for office space should not disappear.

The logistics sector not only turned out to be almost immune to the crisis, but greatly improved its position especially due to an increase in e-commerce and, in fact, could be seen as the winner of this specific time. It appears that this sector will continue to strengthen during the coming years, as due to its geographical location, there is an opportunity for Poland be one of the main logistics hubs in Europe.

In 2020, there were 9.2 percent fewer apartments started, in comparison to the record year of 2019, so it could be said that COVID-19 has not caused catastrophic effects. Despite the decline in the number of apartments being built, month-on-month improvement is visible. The market is supported by very low interest rates and less caution on the part of banks when it comes to granting financing.

The biggest challenges in 2021 will be the return to offices, in the context of changes to the way of working. Also, a radical change in shopping habits as shopping malls reopen.

Data Centres

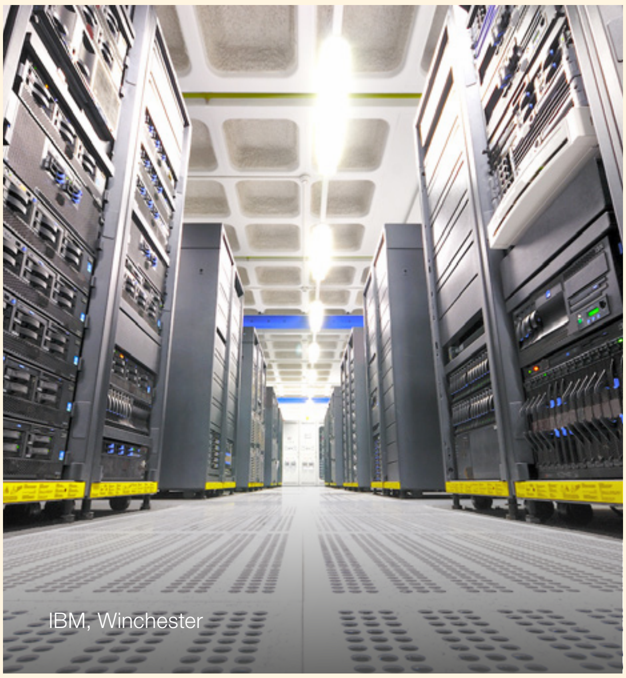
CHRIS TREW
Senior Director

Market activity

The outbreak of COVID-19, and subsequent restrictions and lockdowns that have followed, have changed living and working practices, with many of these shifting online. Data and mobile internet usage have soared, with BT reporting daytime traffic on its broadband network more than doubling during 2020, and its mobile network seeing a 45 percent increase in traffic for communications applications such as Whatsapp, Skype and Microsoft Teams.

Heightened data usage has been exacerbated by businesses operating virtually. For instance, video conferencing is now the norm rather than the exception, with Microsoft Teams seeing a drastic increase of 55 million active daily users from November 2019 to April 2020.

Over time, as IT requirements have grown in scale and complexity, companies have increasingly used data centre facilities and cloud resources, and the unprecedented demand during the pandemic has been dependent on data centre capacity.



IBM, Winchester

Key trends

Globally, hyper scale centres are being built to deliver greater capacity. A data centre is generally defined as 'hyper scale' when it exceeds 5,000 servers and 10,000 sq ft. This model allows scaling up or down quickly, which is paramount as businesses seek more agile, adaptable and intelligent solutions and increasingly prefer cloud storage.

Sustainability and minimising environmental impact are of key importance to the sector, and buildings are being designed and constructed with energy efficiency in mind.

Risks

Some projects under construction have slowed down due to social distancing measures. Data centre operators have had to enforce social distancing requirements with non-essential functions generally working from home.

The industry is estimated to account for between 2–3 percent of global power consumption. Due to enormous energy demands, relying solely on renewable power sources isn't possible, and the industry needs to look for other ways to become carbon neutral.

Opportunities

Data is increasingly being seen as the new currency of business, and the efforts to obtain it, as the new Gold Rush. As artificial intelligence and the Internet of Things develop, demand for data centre capacity will continue to rise and higher levels of sustainability will become ever more important. There appears to be an opportunity for the sector to further embrace MMC to meet demand faster.

Market snapshot: Germany

FELIX BEHRNDT
Managing Director

Despite COVID-19, we have achieved a growth in Gleeds' Germany by more than 20 percent in 2020. The market remains strong, but it is difficult to look into the future and investors have become more cautious.

COVID-19 has killed a few sectors completely, such as commercial living and hotels. However, while a lot of hotel projects have been cancelled and put on hold, Gleeds' Germany will still successfully complete several hotels/ commercial live projects in 2021.

The biggest and most successful market at the moment for us and others is still the logistics sector. The amount of sq m that is being developed in Germany, with its central location to Europe, is absolutely enormous.

The logistics sector has grown in recent years to be the third largest sector in Germany, behind car manufacturing and trade, and is larger than the well-known engineering sector. According to Frauenhofer SCS, the logistics sector now accounts for approximately €280 billion turnover and around three million employees in Germany.

Needless to say, logistics has grown to be our largest sector for Gleeds' Germany. Besides this, we are becoming stronger in construction management and one-stop delivery solutions for our clients, which is what modern developers and investors want: all their services in one place.

Infrastructure

PAUL KNIGHTING
UK Infrastructure Lead

Market activity

The number of public sector contracts up for grabs at the end of 2020 was 20 percent higher than the same period in 2019 — despite continuing uncertainty caused by the COVID-19 pandemic and the looming Brexit deadline.

Outlook remains strong, with government commitment to increase expenditure on infrastructure over the coming years. Indeed, the recent spending review confirmed an investment in infrastructure of £100 billion in 2021, the highest levels of sustained investment for 40 years. The government also announced a £4 billion fund for 'levelling up', to which any local area can bid for the funding of local projects.

Key trends

The UK will host the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow on 1–12 November 2021. The talks will bring together heads of state, climate experts and campaigners to discuss and agree coordinated action on climate change. The UK's commitment to achieve net-zero emissions by 2050 will continue to be a key consideration on projects and for funding.

Since 2009, the UK has struggled with a slowdown in the progress of productivity, and it is expected that the productivity challenge will be exacerbated by COVID-19 and Brexit. It is hoped that this can be addressed as part of the post-pandemic recovery, with investment in better vocational training and in IT, manufacturing, the green economy and infrastructure. It is expected that funding will be concentrated in these areas, particularly in regional economies.

Risks

Potential increases in the cost of materials due to the introduction of new customs declarations are the biggest risk to the construction sector this year, with the border chaos before Christmas a reminder of our heavy reliance on the EU trading relationship. This, coupled with restrictions placed on UK travel by countries around the world attempting to contain a new strain of COVID-19, will also restrict free movement of people in and out of the UK.

Opportunities

We are already seeing the acceleration of projects as part of Project Speed. This is part of the government's strategy to rebuild Britain and fuel economic recovery by accelerating investment in core infrastructure across all sectors, including health, education, town centres, energy, flood defences, waste, roads and rail. It will be led by the Treasury with the aim of cutting the delivery time and cost of projects.

Rail

PAUL ROBINSON
UK Rail Lead

Market activity

Market activity has increased massively in the past quarter. Some projects had been paused last year due to COVID-19 and the immediate challenges of keeping the railway running in a pandemic, but projects appear to be progressing now to the next stage of development. HS2 are now showing demonstrable construction progress and turning their focus to the procurement of the Railway Systems packages.

Network Rail undertook £111 million of railway upgrades, including track renewals, station upgrades, bridge maintenance and resignalling over the Christmas and New Year period, to provide more reliable services for passengers and freight operators, which was testament to the commitment and diligence of the supply chain to keep delivering in restrictive conditions.

ABP - New Cruise Terminal Feasibility, Southampton

Key trends

An increased focus on optimising passenger experience is expected to continue, and Network Rail are planning and implementing both large infrastructure projects and smaller initiatives to put passengers first. It is expected that COVID-19 will have a long-term impact on passengers' requirements, with space and hygiene being necessities and potentially changing the priorities and measures of what constitutes a 'good project' to promote.

There is also a focus on sustainability, particularly for larger projects and programmes such as HS2. Carbon footprints of projects are being assessed to benchmark and understand the payback period through the savings of carbon dioxide in operation, from factors such as the reduction in car journeys and replacement of diesel trains. In particular, work is being undertaken to target low carbon materials, particularly reducing the amount of cement used in concrete by using cement replacements for a proportion of the concrete mix. There are rapid developments in battery technologies and hydrogen fuel, with a current example in Teesside to ambitiously become the first hydrogen transport hub.

Risks

Due to the large programme of work, there is consequently a large skills requirement with clients, consultants and delivery partners all recruiting at the same time. Brexit could also have an impact on people/skills availability in the sector. Capacity could potentially be an issue, and collaboration is needed between the different parties to ensure that projects are successfully delivered as planned. Efficiencies must be realised in processes to achieve continual improvement and drive to remove waste effort.

COVID-19 has impacted on passenger levels and revenue. The Department for Transport put in place Emergency Measure Agreements/Emergency Recovery Measure Agreements with privately owned franchised train operating companies to mitigate the financial impacts resulting from the pandemic and ensure that key rail services could continue. There is some uncertainty on future passenger levels and revenue, which is affecting viability and payback periods. There are fears that this uncertainty will reduce the funding made available to Network Rail and local transport executives and providers.

Escalation on materials prices is anticipated. Recently, there has been particular volatility with steel due to global demand following the restart of industry, with shutdowns and slowdowns during the pandemic. With the low carbon agenda and demands for cement replacements, there may also be increased costs for these.

Opportunities

The restrictions to curb the pandemic have given unprecedented access to network for engineering works, and reduced passenger levels gives an opportunity for freight to obtain greater access and influence on the national rail network.

There is opportunity to accelerate the Northern Powerhouse Rail agenda and the efforts to rebalance the country and infrastructure investment, especially following the review of the Green Book with revised methodology to increase viability and provide increased local growth to 'level up' prosperity.

There is also the opportunity for long-term, complementary and integrated solutions to be considered and funded by the Department for Transport rather than projects being funded and delivered in isolation.

Leeds City Station

Energy

ADRIAN BLUMENTHAL
Project Director

Market activity

Market activity has remained steady despite challenging conditions with continuing restrictions and lockdowns due to COVID-19. In December, the government approved the start of negotiations with EDF about funding Sizewell C, a twin-reactor plant proposed in Suffolk. This is welcome news to the sector and the plant could generate 3.2 GW (gigawatts) of electricity, sufficient power for 7 percent of energy demand. It is seen as vital to meet net-zero emissions by 2050.

Key trends

Construction continues in the sector and efforts are ongoing to make engineering and construction output as efficient as possible. COVID-19 related challenges are being managed well and adaptations are being made to ensure safe project delivery, including measures such as larger buses and coaches to transport workers to facilitate social distancing. The pandemic has encouraged better collaboration and innovative ways of working that will continue going forwards.

Bunhill 2 Energy Centre, London

Risks

There are concerns related to Brexit and the effect on materials and services. There are also concerns related to skills and labour availability due to large programmes in the sector.

Opportunities

The long-awaited Energy White Paper was published on the 14 December 2020, outlining how the UK will reach net-zero emissions by 2050. It sets out how the UK's energy system, historically based on fossil fuels, will be transformed by generating emission-free electricity by 2050, with benefits seen earlier with overwhelmingly decarbonised power in the 2030s.

The paper also commits to investing £170 million of Advanced Nuclear Funding to the development of Advanced Modular Reactors, and explains that financing options for new nuclear will be explored, along with potential government finance during construction, and a commitment to deliver 40 GW of offshore wind by 2030. £1 billion is to be invested in state-of the-art carbon capture storage, to stop emissions escaping to the air from industrial processes. £1.3 billion of funding is also to be invested, to accelerate the roll-out of electric vehicle charge points, as well as up to £1 billion of funding to support the electrification of cars including the mass-production of batteries.

The paper also outlines the aspiration to make the energy retail market truly competitive and keep bills affordable for consumers, as well as supporting up to 220,000 jobs in the next 10 years. This includes key infrastructure projects alongside a major programme to retrofit homes for improved energy efficiency and green heat.

Market snapshot: China

RAY CHISNALL
Regional Director (Asia Pacific) & Country Manager (China)

As you will have seen in the media, China's economy has recovered strongly in 2020 and is forecasting continuing growth in 2021. Following the release of initial ideas for the 14th Five Year Plan covering 2021–2025 and development goals through to 2035, a key government focus is the environment. China hopes to play a leading role globally in climate change initiatives including renewable energy and switching to low carbon energy sources. Another key strand will be continuing to develop consumer-led growth and key brands and technologies, with a major focus on innovation and technology. There will also be continuing investment in the manufacturing base to upskill and move up the value chain. The formal issue of the Five Year Plan will be following the Congress in March this year.

Education is a continuing focus to keep on building the skills that China needs. Due to the impact of COVID-19, there is now thought being given to the relative merits of Chinese students studying abroad or international education providers establishing themselves in China.

Generally, China has a heavy focus on leading edge technology and its applications to society, including all the various "tech's" such as FIN (financial technology), ED (education technology), MED (medical technology), etc. There are also trials of autonomous vehicles (both land and in the air) in city locations.

COVID-19 continues to be actively controlled with very effective track/trace, testing, quarantine, and local district lockdowns to control any cases. There is now an ambitious plan to roll-out the vaccine — all with the active support of those living here, utilising masks and social distancing (where needed).

Regional updates

Scotland

LAURA BANKS
Associate Director, Edinburgh office

Market activity

We noted in our Autumn 2020 report how challenging these times have been for the Scotland region construction market, and we are not out of the woods yet. The landscape hasn't changed since Autumn as the uncertainty is still very much there, impacted by yet another lockdown. The recency of the current lockdown and uncertainty around its duration means we can't predict the impact on the market this quarter.

The Scottish construction industry expected a potential closure of non-essential sites to be included in the First Minister's briefing mid-January and, although this did not materialise, it cannot yet be discounted. The situation is dependent on infection rates and the vaccination process.

The avoidance of a no-deal Brexit appears to be good news, but it's very early days and the effects/implications of Brexit are not yet fully known. In addition to supply chain issues, the impact of workers returning to the EU remains to be seen.

There is a general feeling of optimism and a lot of evidence of investment plans and projects close at hand. As we noted before, the infrastructure and public sector remain dominant sectors with projects still moving forward. Having said this, there is an element of caution and many projects tend to be progressing gradually.

New Waverley - The Arches, Edinburgh

Key trends, risks and opportunities

Certain programmes of work have been delayed, or in instances cancelled, and this continues to have an impact on main contractors' order books with affected firms keen to secure tender opportunities to fill gaps in their workload, which may have a corresponding impact on tender pricing levels.

Other contractors have noted that — although they may be fairly busy right now — they are still to experience the full repercussions of COVID-19 and they expect a slowdown over the course of 2021/2022.

Contractors without key experience in the public sector are now looking to expand their skillset. Productivity is generally down approximately 20 percent depending on the works, causing programme extensions and further commercial pressures.

Although undergoing changes, the office fit-out market is showing progress as buildings are reconfigured/repurposed. One fit-out contractor noted they were undertaking a lot of office alterations to meet COVID-19 requirements going forward. There is a question over large scale privately funded long-term projects. However, the current situation may only be a blip as investment opportunities arise over the coming months.

North East

PETER BURNS
Director, Newcastle office

Market activity

The North East continues its resurgence in the last quarter with further investment in the industrial and manufacturing, health, infrastructure and commercial sectors.

Investors such as Legal and General are increasing their involvement with Sunderland Council, with a £50 million industrial investment at Hillthorn Park to add to the £100 million they have invested at the Vaux Site, where two new commercial projects have been submitted for planning.

The new offshore wind energy project at Dogger Bank has seen continued investment at Port of Tyne, and the acquisition of the former Swan Hunter Shipyard will provide further development for the offshore energy sector. Following the decision during late 2020 by Envision to invest in a “Gigaplant” for a new automotive battery plant in Sunderland, news of a similar £300 million scheme by Britishvolt in Blyth, Northumberland shows the confidence in the region for this developing technology.

Newcastle has seen recent development of The Helix site progress, and attention is currently turning to the Taras Properties development of Pilgrim Street and the recent award of the contract to build 120,000 sq ft of Grade A Office at Bank House. The commercial sector awaits the decision on a site for the new HMRC Hub in Newcastle, which is a total requirement of around 580,000 sq ft. A number of other sizeable public sector enquiries are allowing developers to draw up proposals.

Gateshead Council is now progressing to contract on the new arena, and a number of other projects including commercial, residential and retail developments totalling around £300 million are about to progress around the Quays area. Teesside sees activity across all sectors, with the redevelopment of the former SSI steelworks at Redcar, and the redevelopment of rail stations at Stockton and Darlington. Sunderland is seeing further projects coming forward as part of the Sunderland Riverside programme including the new Culture House, significant residential schemes and a new pedestrian bridge over the River Wear.

Health Trusts across the region are fairly active with works at many sites being considered or now progressing, such as the new Sunderland Eye Infirmary.

Key trends, risks and opportunities

The marketplace remains highly competitive in open competition, both in contracting and consulting. Firms continue to look at the use of frameworks to create more favourable tender conditions and minimise bidding costs or secure direct awards.

There are currently some cost pressures in the local market, including labour supply issues, and we have seen some hold-ups when importing materials and components from Europe. Although the materials and components were only held up for around a week, claims have been made for additional time and cost. Until there is a better understanding of the implications of Brexit, it is likely that contractors will factor in potential costs to tender prices as they try to assess the risks.

Generally, contractors are operating COVID-secure sites, and many consider that the roll-out of the vaccine will help to ease some of the additional cost pressures from social distancing measures, but not until later in 2021.

North West

ALEX HALLIDAY
Director, Manchester office

Market activity

Local market activity has remained steady in the last quarter, and contractors are reporting that tender enquiries are being received in line with their forecasts, However, decisions on projects are being delayed in some instances.

Generally, Manchester is bucking the trend for the country, and construction is still buoyant. The city centre is ever-expanding, and people want to live and work in that area. Healthcare, education and manufacturing are currently key sectors for the North West. There is 288,000 sq ft of office space being constructed for The Hut Group as their landmark base at Airport City Manchester, and Manchester Metropolitan University's new-build and refurbishment project for their Faculty of Science and Engineering has just started on-site. There are also several distribution centres being planned and constructed. The Island Site with HBD is a significant, new-build city centre commercial office scheme which Gleeds is providing cost management services for and is due on-site in the first quarter of 2022.

For the Liverpool City Region and surrounding areas, the market remains active in terms of opportunities, with major successes such as Paddington Village and Peel's ongoing developments at Liverpool and Wirral Waters. Key to wider development is the deliverability of long-term schemes including Everton's new stadium and the associated regeneration of the North of the city, Mersey Tidal Gateway, Pall Mall and Festival Gardens amongst others, which are important drivers of the property sector.

Other cities/regions such as Chester, Bolton and Warrington, amongst others, have all commenced with significant developments or brought large scale regeneration plans forward, leading to increased confidence for forthcoming years.

Key trends, risks and opportunities

Contractors have adapted to COVID-secure practices on sites, with additional welfare and measures such as regular testing and monitoring using facial recognition thermometers. The numbers of operatives are limited, so in some instances, site productivity has reduced, and some contractors are looking to off-site manufacture and MMC to reduce on-site labour requirements.

With the new strain of COVID-19, some contractors are reporting a large increase of positive cases which also has the knock-on impact of teams self-isolating. There is concern from operatives attending sites and working in close proximity to others, and there are some reports of labour struggling to return to the UK after having taken a break and needing to self-isolate.

There are a large number of reinforced concrete (RC) frame projects being undertaken in the region which are causing labour supply issues and potentially increasing costs. Some reports of increased costs due to Brexit have also been received, as well as global demand for steel and rising steel prices.

There is concern that the full effects of the pandemic are yet to be felt, and the longer the pandemic continues, the slower the return to confidence will be for property and development. It's anticipated that projects in the coming year will largely be related to healthcare, infrastructure and public spending, although some further regional expansion is expected. Depending on the pandemic and its economic impact, it's thought that there could be a reduction in contractor workloads in 2022 if projects do not come forward or decisions are stalled.

Yorkshire and Humber

ANDREW MCNULTY
Director, Leeds office

Market activity

Market activity has continued at a similar pace to the previous quarter with reductions in private sector developments remaining challenging. However, funders are now looking to invest in the market on projects that have previously been placed on short-term hold. A strong public sector pipeline remains, specifically local authority programmes of work such as Leeds City Council and Rotherham Metropolitan Borough Council.

The logistics sector is seeing increased activity, notably with online retailer activity in response to increased demand from consumers. The healthcare sector also remains strong, with projects moving forward in acute hospital settings in direct response to COVID-19. Larger planned developments such as Leeds Teaching Hospitals NHS Trust's proposed new children's and adult services hospitals anticipate commencing contractor procurement in the next quarter.

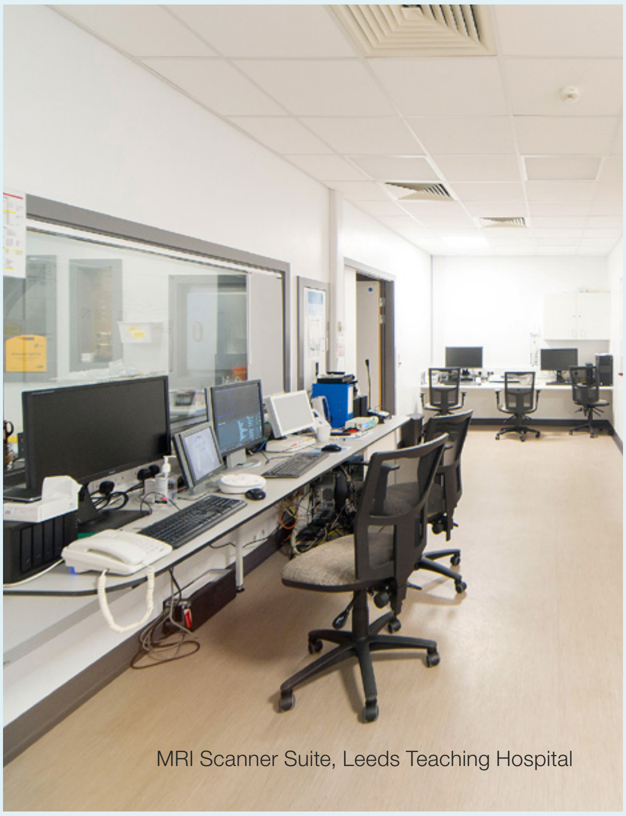
Construction activity in the education sector continues to respond to increasing capacity requirements. Work is set to commence in Hull on an £8.2 million, 630 place primary school prior to its demolition of the existing facility on completion. The project, on which Gleeds provide commercial support, includes one of Hull's first purpose-built bases for young children with autism.

Key trends, risks and opportunities

Site productivity remains strong with minor impact from COVID-19 despite the increased restrictions introduced. Constraints remain in place on sites to manage operative movements. Despite being managed, COVID-19 remains a high risk to construction output. With infection rates and East Yorkshire and West Yorkshire alike being placed in Tier 3 and now subject to the national lockdown, any further restrictions imposed by the government may impact the operation of construction sites.

Main contractors are managing their supply chains and taking appropriate actions to secure labour and materials that may be impacted by the UK's withdrawal from the EU. In order not to directly impact operations on-site, contractors are known to have pre-ordered and stockpiled materials in the UK to mitigate potential short-term supply issues.

Initial challenges with securing some sub-contractor trades have now eased, however securing dry liners in advance of programme requirements in some locations remains difficult. With an increasing tendency to move towards MMC to address aggressive building programmes, specifically off-site modular methods, manufacturers are reporting that they are at near capacity in the short-term. This is introducing procurement challenges with suppliers picking and choosing which schemes they quote for.



MRI Scanner Suite, Leeds Teaching Hospital

Wales

NIGEL WATKINS
Director, Cardiff office

SIMON WILLIAMS
Regional Director, Cardiff office

Market activity

Local market activity has remained pretty steady in the past quarter. Wales has always had a strong reliance on the public sector which remains the case as we begin 2021.

Healthcare is very strong, with a number of projects currently on-site and also being procured. Education is another buoyant sector, with a number of schemes currently on site predominantly from existing frameworks. There is a pipeline of schools being procured via the 21st Century Schools initiative set up by the Welsh government.

The commercial sector has certainly stalled with few new commissions, but major schemes such as Central Square in Cardiff which started on-site prior to the COVID-19 epidemic is progressing as planned. Infrastructure is also strong with projects such as the South Wales Metro, the Heads of the Valleys Road Improvements and Cardiff Parkway Railway Station development.

Enzyme Fermentation Facility, Cardiff

Key trends, risks and opportunities

Site productivity has remained constant, and COVID-19 does not appear to have had a significant effect. However, naturally, the duration of local COVID-19 lockdowns is a risk to future opportunities and the effects of Brexit on material prices, which is already being seen in structural steelwork, for instance. As with any period of uncertainty, there is a risk that individuals who may have been furloughed will not return to the construction sector, which, in turn could result in a future skills shortage

Public sector funding such as the City Deal, Welsh government Health and Infrastructure support will continue to sustain the local construction market. Cardiff City Council, for instance, has recently announced a masterplan for Atlantic Wharf in Cardiff Bay utilising the new arena as a catalyst to create a 30-acre mixed-use development including 1,000 new homes.

Most Tier 1 contractors remain optimistic about the pipeline of work in South Wales, with many of them only interested in bidding for two-stage procurement opportunities or direct negotiation.

Midlands

JAMES MARSHALL
Regional Director, Nottingham Office

Market activity

Market activity appears to be steady in the Midlands region. The private sector residential market is showing signs of a revival following a COVID-induced period of slowdown in 2020, with a number of large schemes in the pipeline. This is being driven by a significant number of student residential schemes in the East Midlands, as well as the consensus that West Midlands activity is being driven by the formal approval, in April 2020, for construction to commence on the Phase 1 London – Birmingham leg of HS2.

Industrial and logistics remain strong in the region, most notably Jaguar Land Rover, which is close to completing a deal for a new, global aftermarket parts distribution centre in North West Leicestershire. There are also further announcements for new-build units in Towcester, Derby Infinity Park and DHL expansion at East Midland Gateway.

Coventry is the UK's City of Culture for 2021 and it is envisaged that this will provide an economic boost to the UK's ninth-largest city. Similarly, the 2022 Commonwealth Games to be held in Birmingham will further enhance the city and contribute to the post-pandemic economic bounce back.

Nottingham City Council (NCC) is promoting key sites for redevelopment in the City, including Broadmarsh Shopping Centre where enabling works have commenced ahead of finalising thoughts for the site as a whole. Public consultation for ideas on future use of the space have begun with 'The Big Conversation'. NCC are currently collating these to inform the next stage of master-planning in this important gateway zone. In addition, the Island site, also in the City of Nottingham, has revealed plans for the initial building to the site; a multi-occupation of hotel, residential and workspace.

The last quarter of 2020 saw Gleeds successfully managing to complete five Border Control facilities, handed over on 31 December, in time for Britain's exit from the European trading union. This was achieved through exceptionally quick procurement and construction timelines with fit-out works during ongoing construction works, accelerated construction and extended working hours all whilst complying with the Construction Leadership Council's (CLC) Site Operating Procedures. Further sites are being enabled through 2021.

The Midlands got a fair share of the government Future High Street Fund initiative, with three towns receiving full funding and over a dozen more given provisional funding offers. Aimed not only at reviving the high streets post-pandemic, it looks to encourage further investment in order to sustain long-term activity.

Key trends, risks and opportunities

COVID-19 continues to affect the local region and the new variant is posing significant risks to construction activity and industry supply chains. There is speculation that the CLC's Site Operating Procedures may be revised to include wearing of protective face masks. There is also concern that Brexit and additional border procedures and paperwork will result in increased costs and supply chain delays.

The health and care sector is buoyant in the region, with Gleeds involved in significant mental health spend programmes in the East of the region. Work continues at the high-profile Midlands Metropolitan University Hospital project which is due to complete in 2022.

The technical design for the landmark £100 million+ Beorma Tower project in Digbeth, Birmingham is now complete and Gleeds is engaging with the marketplace for the procurement of a main contractor partner to undertake the construction of the 30-storey mixed-use tower.

The proposed adaptive repurposing of the now closed Birmingham Debenhams department store into a mixed-use office, residential and retail development is gaining attention as an example of what centre city building repurposing could achieve. The development would add three new floors and roof terrace to the Festival of Britain-era landmark.

East

MARTIN HALL
Regional Director, Cambridge office

Market activity

2020 was a slow year for the region. Clients were often scaling back or putting on hold decisions on their built assets and concentrating on reconfiguring and consolidating their buildings to ensure efficient space use rather than focussing on new projects. Things seem to be picking up at the start of 2021, and it is hoped that some of the projects which were placed on hold may be revived this year. Some clients are making the decision to accelerate the next phases of work, having been able to achieve funding and better tender returns than expected.

Key trends, risks and opportunities

Contractors continue to manage the implications of COVID-19 well. However, there has been an impact on sites from the new, more infectious strain with some outbreaks occurring and workers needing to self-isolate over Christmas.

Life sciences and R&D, healthcare and public are the strongest sectors in the region currently. The new link road from the A14 into Huntingdon was recently opened, and it is reportedly reducing journey times by twenty minutes and providing benefits to local communities by ensuring connectivity. Essex County Council are also making road improvements. Plans are being developed for the Cambridgeshire Autonomous Metro (CAM), a public transport network to serve the region connecting towns, villages, key employment sites and the city of Cambridge. Three suppliers have been chosen to develop conceptual designs to inform the delivery of CAM, and they are due to present their designs in March. The scheme would reduce reliance on cars, provide better air quality, and give an economic boost to the region.

The University of Cambridge has seen little impact to their student intake despite the challenges COVID-19 has brought. Some of the colleges are continuing work, including Magdalene College in constructing their new library. Collaboration between academia, the private sector, pharmaceutical companies and world-leading hospitals/healthcare institutions remains key and Cambridge continues to be a hot spot in the life sciences sector.

Carbon reduction has become a key consideration for clients, with some reviewing earlier design stages to check for opportunities to improve the scheme in terms of sustainability. To counter some of the risks associated with Brexit and importing materials, ahead of time ordering and delivery has been agreed to mitigate programme risk.

Magdalene College, Cambridge

Greater London

MATTHEW SUMPTER
Director, London office

Market activity

COVID-19 continues to impact the productivity of construction sites within the region. Compared to lockdown 1.0, the Tier restrictions and further lockdowns have not impacted live construction sites as much due to social distancing measures and increased procedures that have remained in place from the initial months of the pandemic. However, one emerging trend that we are seeing is the impact on the workforce as a result of the new COVID-19 strain and increased testing, track and trace legislation and self-isolation requirements putting pressure on workforce numbers. Consequently, this also has an impact on manufacturing of materials, plant and site deliveries, etc. and therefore achieving key programme dates.

Contractors in the region are continuing to run sites well with social distancing measures, temperature checks, one-way systems and 'local' track and trace. Nevertheless, the full implications on projects within the region are not yet known, and we envisage this to be the case for at least the next six months.

Additionally, we are starting to see concern as to the effects of Brexit, specifically the impact on imported materials and components. This not only has a bearing on cost but also delivery times due to UK port congestion. We see this as having a potential impact on the desire to use increased modular and other MMC elements.

Key trends, risks and opportunities

While several large projects in London are approaching completion, some future projects will be put back as a result of COVID-19. Many contractors are starting to see availability within their order books for 2021. This will result in competition for work to increase. Inevitability, there will be a reduction in margins and buying work to maintain workloads, and consequently, a potentially competitive tendering market. There is a concern about the pressure this will put on contractors and their supply chain with increasing costs for labour and materials.

Meanwhile, and whilst the stamp duty holiday remains until March 2021, many of the greater London boroughs are seeing price increases of as much as 7 percent over the past 12 month period due to demand and people relocating out of central London. Property prices in some central London locations have seen a slight dip of around 5 percent. However, it is also important to note that the residential market within inner London is predominantly overseas buyers and sterling remains in good stead. Central London remains an attractive investment for a lot of overseas markets and investor opportunities. It is hoped that news of the vaccines and more certainty around Brexit will further improve market confidence.

As a result of the travel restrictions currently in place and the advice for extended home working, this has impacted London's hotel and commercial sectors. Both of these sectors fall into similar areas. There may be an increase in opportunities for refurbishments and adaptations to increase space for social distancing in the upcoming period. The intention would be to align with current demand and allow greater flexibility and future-proofing for when the COVID-19 situation has improved.

The strongest sectors within the region are seen to be infrastructure and mixed-use. Whilst generally, the Greater London region remains buoyant with a strong pipeline of projects, there is an element of nervousness that is causing projects to be put on hold or put back.

Kingsway Hall Hotel, London

South East

GARY SOUCH
Senior Director, Oxford office

Market activity

Where the end of 2020 continued the trend for the year of clients making appointments for smaller commissions or feasibilities, 2021 appears to be a "new year and new start" for a number of clients, with an increased number of enquiries in the first few weeks of the year.

There remains a large risk of a 'COVID-19 hole' in 2021 for contractors, and some are already experiencing this. Generally, there is expected to be a slowdown in contractor activity in the region until larger scale projects currently being discussed come online in the latter part of 2021 and during 2022.

Therefore, it is expected that early 2021 will see contractors being more competitive to fill the order books, but probably being more selective towards 2022 and prices rising as a result.

Key trends, risks and opportunities

There are concerns in the region about Brexit, particularly around labour shortages and materials price increases where there are limited options or issues with importing. There are workarounds in some cases like early procurement and storage of materials if feasible, but the uncertainty around these issues adds risk in some contract negotiations.

COVID-19 continues to impact contractors having to extend construction programmes, find alternative ways of working and provide additional site measures to overcome the virus. This is now becoming normal practice and contractors have become more confident with the procedures to make sites COVID-secure throughout the pandemic. Social distancing requirements on sites are likely to continue for a significant period of 2021 and maybe even beyond.

These factors are causing uncertainty in the market, and investors will likely continue to be selective, which will inevitably reduce opportunities. The true realisation of the economy will not be known until the furlough scheme ends, which is currently due to end in April.

Large scale housing enquiries continue to be high, but there are fewer enquiries related to student accommodation or private residences. Independent schools are focussing on essential maintenance and necessary refurbishments.

Higher education spend is anticipated to be reduced due to the commercial pressures of COVID-19 on university budgets. The region includes major universities where student intake has been almost unaffected through the pandemic, and therefore, there is optimism that capital expenditure will be reinstated towards the end of 2021.

The public sector has become the region's largest growth area and significant growth is expected due to works to adapt essential public buildings to make them safe to use and due to the reorganisation of city centres.

Healthcare enquiries are currently at a lower level, this could be because hospitals are concentrating on the current pandemic and emergency alterations to accommodate COVID-19 patients, therefore delaying expansions and alterations.

Tender prices are likely to remain on a slight upward trajectory in the first quarter of 2021 whilst projects are available and national factors are yet to be realised.

Despite government efforts to keep the economy strong and new sectors being realised for alternative ways of working and living, there is likely to be an impact on tender prices in some sectors as less projects will be available in 2021. The key factors will be around investor appetite and the wider economy, and the picture for these is uncertain.

South West

NEIL PEARCE
Associate Director, Bristol office

Market activity

Whilst COVID-19 continues to affect construction site output, the methodologies for safe working are now well engrained, and their impact accurately reflected in current and forecasted programmes. Construction firms can continue to work despite current/recent lockdowns. As such, the effect of COVID-19 seems to have now been largely incorporated into tendered/market prices.

Last quarter, it was noted that as competition for work increases, the inevitable consequences are fees and margins reducing. However, recent tender returns have included overheads and profit margins not greatly reduced from pre-pandemic levels. Clients who expect better buying power from a possibly tighter market are likely to be disappointed.

Key trends, risks and opportunities

The demand in Bristol for good quality, commercial offices remains high. Numerous projects in the city are either on-site or progressing through their respective design stages. Our Bristol office is supporting a range of clients with their developments. This upturn is also reinforced by an increase in tendering opportunities for new commercial schemes both within the city centre and in the South West's surrounding cities.

Locally, the robust demand for residential developments remains. Housing schemes, residential apartments, and Private Rented Sector (PRS) developments are all being procured across the city and wider region.

Whilst there are variances, most local contractors have stated that the workflow for the upcoming two quarters remains strong and not dissimilar to previous years.

Like many other cities, Bristol is struggling to reduce their pollution levels within those set by the government. The mayor recently announced that a city centre Clean Air Zone (CAZ) will most likely be required where, "older, more polluting commercial vehicles and private cars will have to pay a fee to enter". The outlined boundaries remain as per the previously announced initiative that proposed to ban diesels entirely from this zone. The government rejected this initial proposal in 2019. It is likely that construction costs of projects within the CAZ will therefore be affected. It should be noted that the pricing strategy (including a commencement date) has yet to be announced. This is one local variable to keep an eye on in the future.

Lakeshore Bristol

Northern Ireland

GEOFF WARKE
Director, Belfast office

Market activity

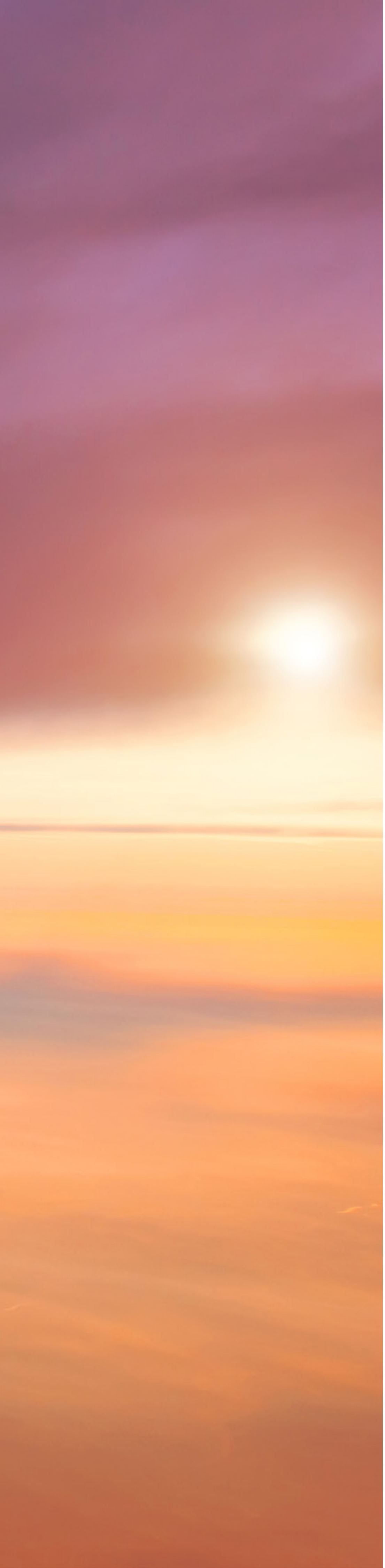
The Northern Irish construction industry continues to face significant uncertainty due to the ongoing impacts from Brexit and COVID-19. As a result, activity within the industry is currently reduced.

'The Irish Sea Border', the trade border between Northern Ireland and the rest of the UK, has caused border delays and product restrictions since 1 January 2021. These delays and backlogs are a result of customs checks, which are impacting site deliveries. There are also reports of hour-long delays at Irish ports and inefficient journeys being made, with lorries returning empty rather than carrying their usual load both ways. These issues will potentially cause cost increases to materials, and could be responsible for delays on-site if products or materials are unavailable. It is hoped that these initial problems will improve by the spring, but in the meantime, there are serious concerns around the impact of declaration paperwork checks and requirements.

Key trends, risks and opportunities

COVID-19 continues to be an issue. Non-essential construction sites in the Republic of Ireland were shut for at least three weeks from 8 January as part of new lockdown restrictions, and companies may only attend homes or businesses for essential maintenance. Only a few construction projects, such as those for critical transport and utility infrastructure, are exempt from the restrictions and these must meet stringent criteria. Whilst construction work continues in Northern Ireland, there are concerns that similar measures could be adopted although this is dependent upon the number of COVID-19 cases and pressure on hospitals and health care facilities.

Most of the growth in 2020 has come from infrastructure works and City Deal projects. It is hoped that public spending will continue in 2021 to ease the economic impacts of COVID-19 and Brexit.



Summing up

The construction industry continues to demonstrate great resilience, continuing work whilst there are lockdown restrictions across the four nations, with continued challenges arising from the pandemic.

Through navigation of social distancing on construction sites and the impacts of the pandemic and Brexit to the supply chain, the role of innovation, for example through the use of MMC, is vital to aid project delivery.

Flexibility, adaptability, collaboration and innovation will continue to be key watchwords to help the construction industry chart the course of 2021, with the Brexit deal and vaccine roll-out giving hope for both wider economic recovery and growth for the construction industry.

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