

CALM BEFORE THE STORM

FIRST QUARTER 2020 CONTRACT PERFORMANCE REPORT



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CALM BEFORE THE STORM EXECUTIVE SUMMARY

The UK construction industry marched into 2020 with measured confidence and cautious optimism. Having finished 2019 on a high with almost £5 billion of new contract awards recorded in the month of December, the sector registered a £7.7 billion monthly total in January to reinforce the positivity carried over from the previous year. Another £7.3 billion in February exceeded all expectations, only to be surpassed by a massive £7.9 billion haul in new contract awards just a month later in March according to data collected by Builders' Conference, Build UK's partnered body who collects evidenced based construction contractual information.

With a figure closer to £4 billion per month now considered customary, these monthly figures would have been exceptional in any previous quarter. However, the figures for January, February and March were even more noteworthy as they were delivered amidst growing fear and concern about the possible and then very real threat of the Coronavirus (COVID-19) pandemic.

In January, the virus had just made landfall here in the UK. In February, it moved up the industry agenda. By the time the end of March rolled around, much of the UK was in lockdown; marking the £7.9 billion recorded in that month even more remarkable.

During the first quarter of 2020, Builders' Conference researched & reported on almost 2,000 individual projects (1,957) worth a combined £22.9 billion across 893 individual companies. That represents a 19% percent rise in the number of projects and a 29% percent rise in contract value compared to Q4 of 2019.

Interestingly, however, compared to the same period last year it equates to a fall of 13% percent in the number of projects and a 10% percent fall in the total contract value.

It will come as no surprise to learn that housing was far and away the largest single sector, delivering more than 40% percent of all construction projects recorded. It is also worth noting that this excludes mixed-use developments where it is impossible to discern the true value of the housing element of projects.

The infrastructure sector accounted for approximately £3.2 billion of the near £23 billion quarterly total, while offices (£1.4 billion) and education (£1.3 billion) came next.

London maintained its position as the largest and busiest geographical area, with £6.4 billion of new projects awarded during the quarter, but both the Midlands and the North West (£3.6 and £2.2 billion respectively) enjoyed an upswing in new contract awards.

However, a closer look at the quarter's figures will give pause for thought.

The split between private and public sector works has continued to shift in favour of the private sector, accounting for three-quarters of all new contract awards in Q1 2020. With the true impact of the COVID-19 pandemic still unclear, the private sector's ability to carry the industry must surely be in question.

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Also unknown will be the dominance of the housing sector and the wider construction industry's ability to rely upon its traditional bellwether. Only when the government's Coronavirus Job Retention Scheme comes to an end will we know the full economic impact of the Coronavirus pandemic.

If – as most economists are predicting – the nation slides into recession, it could have a major impact upon employment and – by association – house purchases.

That being said, the industry has demonstrated remarkable resilience during the COVID-19 crisis, displaying tangible positivity in the midst of an unprecedented global pandemic. The question now is whether the industry can convert new contract awards into actual projects on sites. Social distancing and a widespread lockdown will likely impact upon the availability of building materials; while a prolonged lay-off or furlough could lead to a backlog in operative training and the issuing of the competence cards that allow operatives to work.

Regardless, the UK construction industry will surely emerge changed from the pandemic. The sector has already demonstrated its resolve and its ability to collaborate during a time of crisis. Now as never before, UK construction needs to work collaboratively, sharing information, best practices and adopting greater levels of transparency.

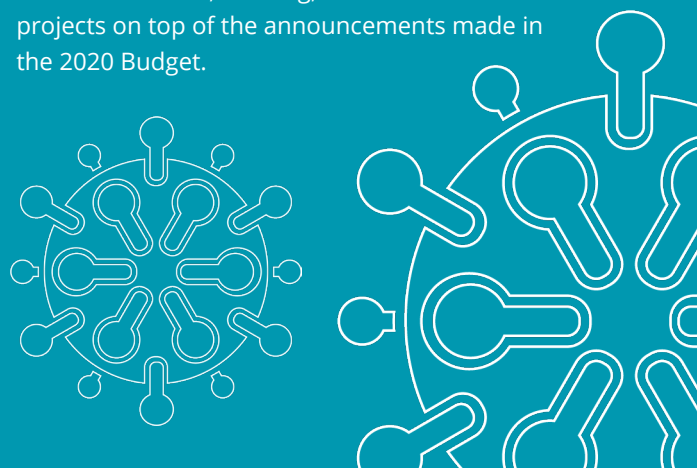
Closer working relationships and access to independent, reliable, validated and evidence-backed data will not prevent a repeat of COVID-19, but it would make the industry better prepared if that day should ever arise.

Build UK Members

Approximately 32% of all new construction contracts awarded in the 1st Quarter of 2020 were to Build UK contractor members with a total value of £7.3 billion. Kier Group topped the list with 69 contracts valued at approximately £750 million which means they have won one new construction project every working day. The largest of their projects was a new dual carriageway bypass in Liverpool. Morgan Sindall Group secured the second highest number of construction projects with 46.

Other significant projects in Q1 include Laing O'Rourke securing the new £500 million, 52,000 capacity stadium for Everton football club in the Bramley Moore Dock area of Liverpool with the old stadium being sold to property developers once the new venue is complete. Also a £200 million mixed-use development at Ludgate House site on Blackfriars Road in London has been awarded to Multiplex Construction comprising of offices, hotels apartments & retail areas. In Manchester, Laing O'Rourke has secured a £200 million mixed-use development including offices, public spaces, hotel rooms & replacement synagogue.

How the rest of 2020 will fair undoubtedly depends on the length of time the COVID-19 social distancing and lockdown rules stay in place together with having a clear route map of the easing of restrictions. A strong and focused economic recovery plan is essential, even possibly bringing in extra expenditure for infrastructure, housing, health and education projects on top of the announcements made in the 2020 Budget.



New housing projects out performed all other categories in Q1

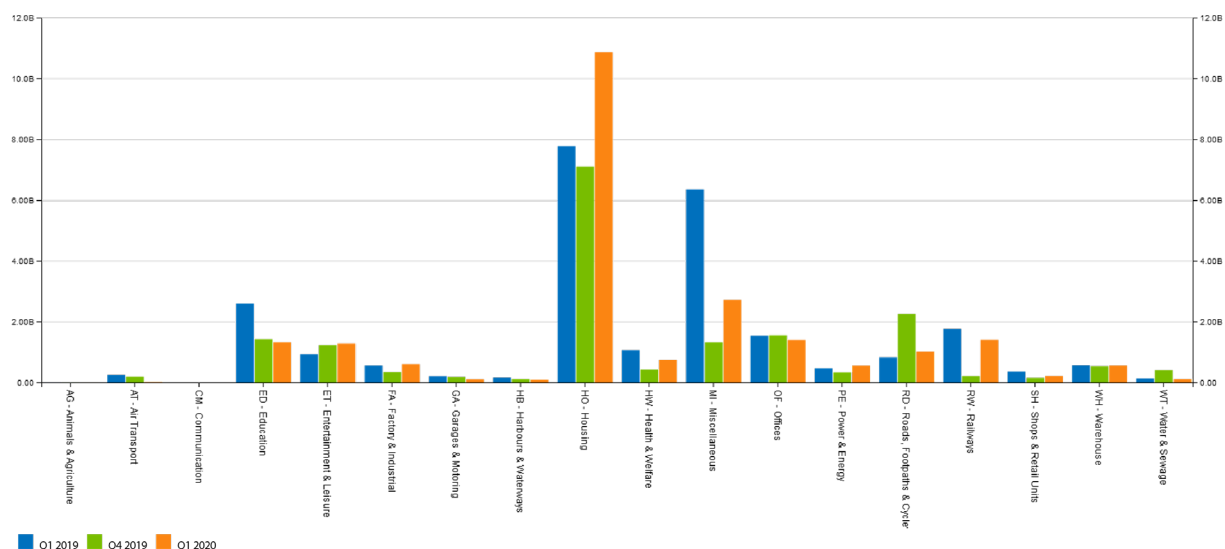
MARKET SECTORS

The housing sector throughout the UK in Q1 2020, out performed all other categories even without the inclusion of mixed-use developments (Miscellaneous category), delivering a staggering £10.9 billion by value (47%) and 830 by number (42%) of all contracts awarded.

When Builders' Conference researched this category even further it revealed that 83% of new housing projects were privately funded, identifying the reliance of construction on cheap loans from financial institutions.

Combining Infrastructure categories shows £3.2 billion by value (14%) & new offices (excluding mixed-use development) a further £1.4 billion (6%).

Quarterly analysis of contracts awarded by Project Category for Q1 2020



The data in this analysis directly taken from research undertaken by Builders' Conference accurately analysed from verified sources across the sector.

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Mixed use development Manchester
image source placenorthwest

REGIONAL ACTIVITY

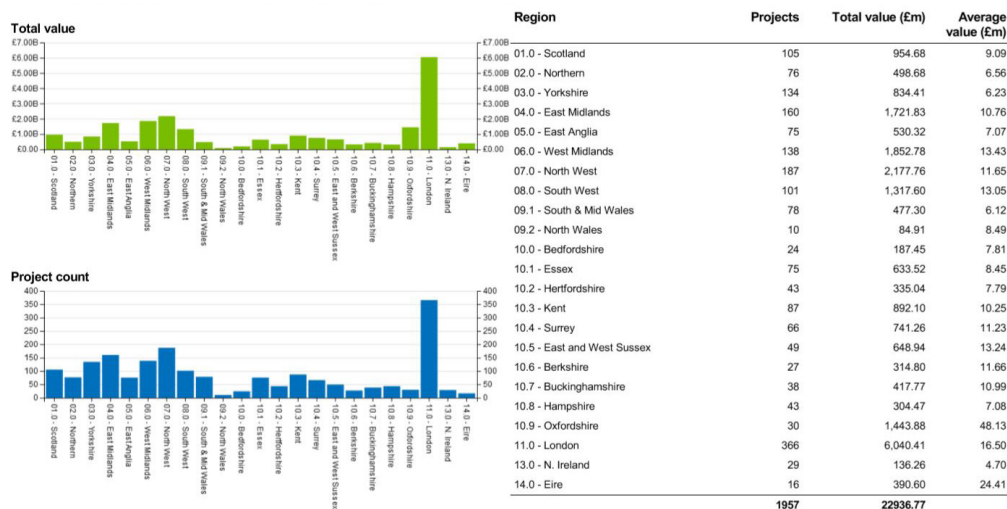
Regionally in Q1 2020, London remained the principal region for all new construction activity with £6 billion by value (26%) and 366 by number (19%). Build UK contractor members were responsible for approximately £1.9 billion by value (32%) of the quarterly total and the largest individual project win was a £400 million mixed-use development at Elephant & Castle, awarded to Multiplex Construction.

The Midlands region produced £3.6 billion of new projects and the North West £2.2 billion both regions buoyed by significant infrastructure investment.

New projects in Scotland in Q1 2020 were 15% greater than Q4 2020 however compared to the same period in 2019 this quarter declined by 28%

Regions in the Home Counties improved in Q1 2020 compared to the previous quarter with over £5.9 billion of new projects. This figure was boosted by the largest project during Q1 the £1.2 billion reestablishment of rail links between Oxford & Cambridge undertaken by a consortium EWRA which includes Laing O'Rourke & Volker. Kent also had a significant improvement due mainly to ISG plc winning a £120 million project in Dartford.

Quarterly analysis of contracts awarded Analysis by Region for Q1 2020



Builders' Conference platform is able to record every contract award by its region, producing an accurate overview of where construction activity is concentrated throughout the UK.

From this quarter

KEY PROJECTS

Reestablishment of rail link between Oxford & Cambridge - awarded to The EWRA a pure Alliance which includes Laing O'Rourke, Volker Rail, Network rail & Atkins SNC Lavalin *(approx value £1.2 billion)*

New 52,000-seater stadium for Everton FC - awarded to Laing O'Rourke *(approx value £500 million)*

Mixed Use Development, Elephant & Castle London - awarded to Multiplex *(approx value £400 million)*

New Offices, Islington London - awarded to Skanska Ltd *(approx value £250 million)*

Mixed Use Development Blackfriars London - awarded to Multiplex Construction Ltd *(approx value £200 million)*

Lewisham Gateway Housing, London SE13 - awarded to Balfour Beatty Ltd *(approx value £200 million)*

Mixed Use Development, Manchester - awarded to Laing O'Rourke *(approx value £200 million)*

Mixed Use Development Tower Hamlets, London - awarded to Sisk Group Ltd *(approx value £170 million)*

Dual Carriageway A5036, Liverpool - awarded to Kier Group Ltd *(approx value £130 million)*

Mixed Use Development Tower, Reading Berkshire - awarded to Mid Group *(approx value £125 million)*

New 400kV Substation & Ancillary Buildings - awarded to ISG plc *(approx value £120 million)*

What lies ahead?

Government and Local Authority new construction tenders are still pressing forward with the release of the new financial year monies in April 2020. There are other significant privately funded projects currently out for tender, however what effect COVID-19 will have on these and their proposed start dates, only Nostradamus would know this.

Once we are over these extraordinary times we will then have to mention the Brexit word again, which currently has a definitive date of 31st December 2020.



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