



Q1 2019: RICS UK Construction and Infrastructure Market Survey

Housing activity supports growth amidst uncertainty

- Market confidence indicator nears a six-year low but is still consistent with moderate growth
- Outlook for workloads and employment growth improves as capacity constraints linger
- Financial constraints deepen as credit conditions tighten

The results of the Q1 2019 RICS Construction and Infrastructure Market Survey signal a continued deceleration in the pace of output growth. A net balance of 9% report an increase in total workloads, down from 11% recorded in the previous quarter and the lowest reading in six years. Capacity remains a constraint on activity, however, with 41% more surveyors having to increase headcount in the past three months to support new work despite ongoing recruitment challenges (Chart 10).

Growth moderated across nearly all sectors with the commercial and industrial segments at a standstill for the second consecutive quarter. That said, **private housing** activity held steady with a net balance of 21% of respondents reporting a rise, compared to 20% in Q4 (Chart 2). In the near term, the contribution to growth provided by permitted development rights (PDR) is likely to remain supportive, but recent [RICS research](#) on commercial to residential conversions has identified several areas of concern related to quality and design. Any prospective extension of PDR to retail space, and its contribution to the government's target of delivering 300,000 homes, will therefore need to ensure that regulatory safeguards and minimum dwelling standards are upheld. Meanwhile, workloads in the **public sector** moderated with net balances of 6% and 4% of contributors reporting a rise in activity in the housing and non-housing components, respectively. The extent to which the lifting of the HRA borrowing cap announced at Autumn Budget 2018 is able to stimulate growth going forward remains to be seen.

The pace of growth in **infrastructure** workloads moderated to 11% from 18% in Q4. In his recent [Spring Statement](#), Chancellor Hammond reiterated a "deal dividend" from a soft Brexit that could provide stimulus to this sector – the OBR estimates over £26 billion in extra spending power if a no-deal option is taken off the table. With so much uncertainty hinging on how Brexit eventuates, we expect a cautious approach to the public spending review that will accompany the Autumn Budget later this year. That said, rail and energy are the subsectors expected to see the strongest growth in output over the coming 12 months.

At the headline level, net balances on new workloads and R&M were both modestly positive in contrast to averages of 33% and 22%, respectively, over the past six years. When asked how **business enquiries** for new projects or contracts have fared in the past three months, 12% more respondents reported an increase rather than a decrease compared to 10% in Q4 (Chart 9).

Prolonged political and economic uncertainty has taken its toll on sentiment, with the RICS **market confidence indicator** (a composite measure of workload, employment and profit margin expectations over the coming twelve months) at a near six-year low of +13%. Even so, 28% more contributors expect activity to rise rather than fall, up from 24% in Q4, and a net balance of 17% foresee an increase in hiring. Although **tender price** expectations have moderated recently, its still strong growth momentum reflects higher input costs and ongoing capacity constraints across the industry. Competitive bidding pressures for business, however, have led **profit margin** expectations flat for the third consecutive quarter in Q1 2019.

Financial constraints are reported by 81% of surveyors to be by far the most significant impediment to building activity, the highest reading recorded in over five years. Comments from some respondents suggest that stricter conditions being placed on firms, and SMEs in particular, by financial institutions are limiting growth. When asked how **credit conditions** have changed over the past three months, 19% more respondents report a deterioration rather than improvement (unchanged from the prior quarter). Although this negative sentiment becomes more pronounced at the three and twelve month horizons, the near-term outlook has marginally improved relative to Q4 (Chart 11).

Meanwhile, concerns regarding **planning** delays and restrictive regulations have moderated since the start of 2018 and, while still elevated, are now in-line with the average of the past six years. While this has the potential to ease the housing crisis and speed up the delivery of developments, the competing priorities of housing, infrastructure and the need for commercial space should be balanced. The challenges posed by the shortage of **skilled labour** are cited by 41% of respondents in Q1 as an obstacle to growth, the lowest in five years. The imbalance is nuanced across occupations, however, with the deficiency most acute for professional services such as quantity surveying (Chart 6).

In terms of geographical breakdown, housing and infrastructure activity have supported growth in the South West, Wales, the Midlands, East and North; workloads remain broadly flat elsewhere (Chart 3). While new hiring in the past three months was strongest in London and the South East, infrastructure was the only sector in the region reported to be growing. Year-ahead expectations for workloads and hiring are the most resilient in the North with net balances of +43% and 26%, respectively (Chart 12).

Key indicators

Chart 1

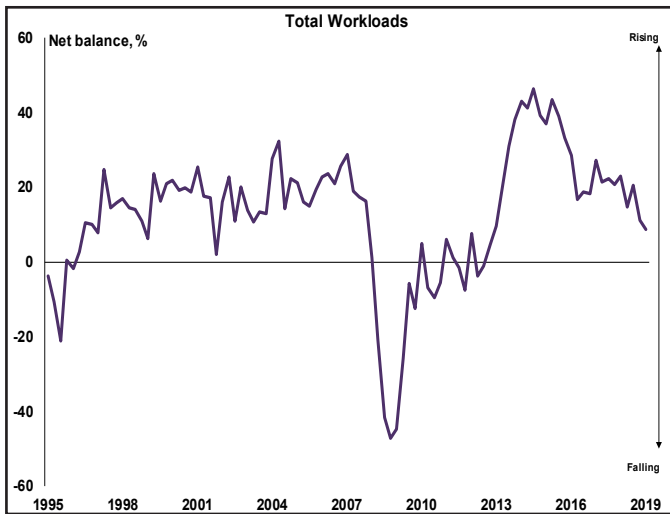


Chart 2

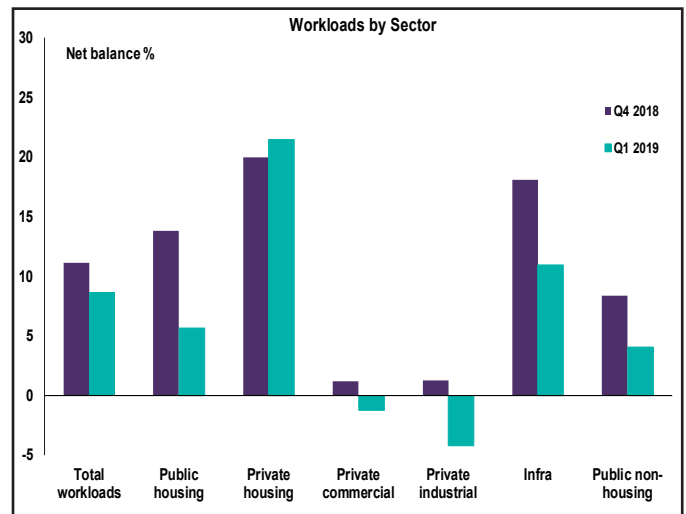


Chart 3



Chart 4

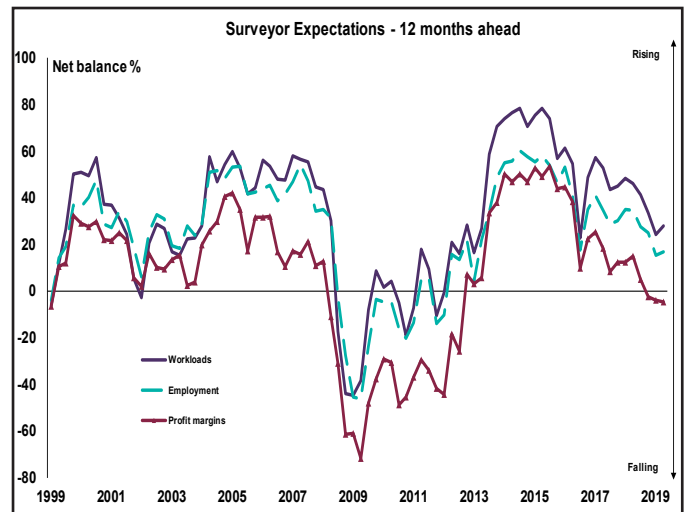


Chart 5

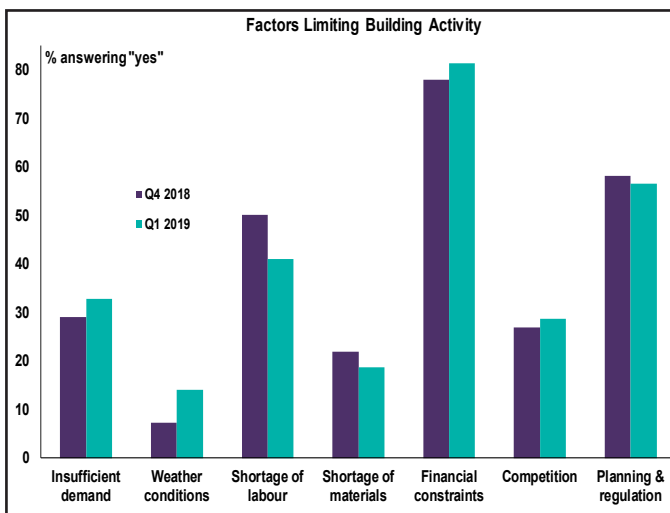
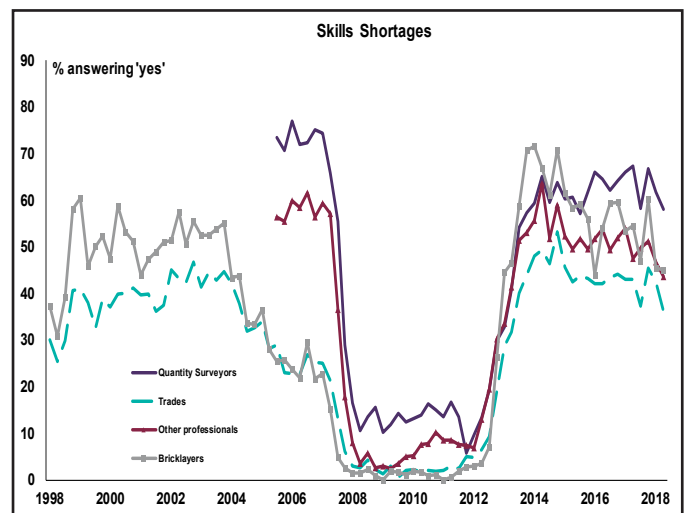


Chart 6



Key indicators

Chart 7

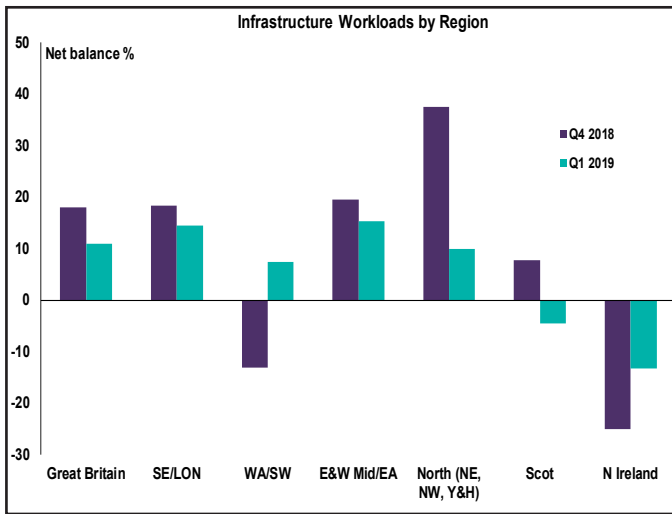


Chart 8

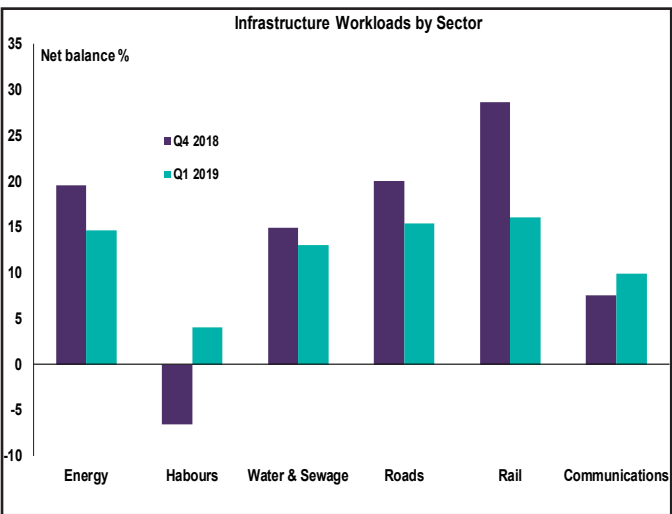


Chart 9

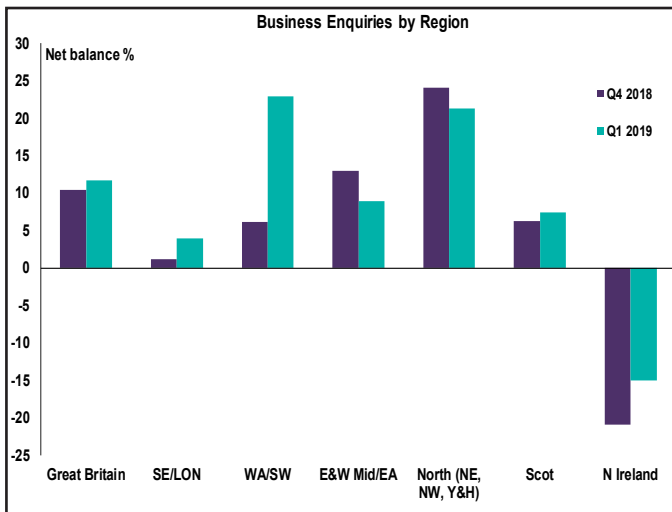


Chart 10



Chart 11

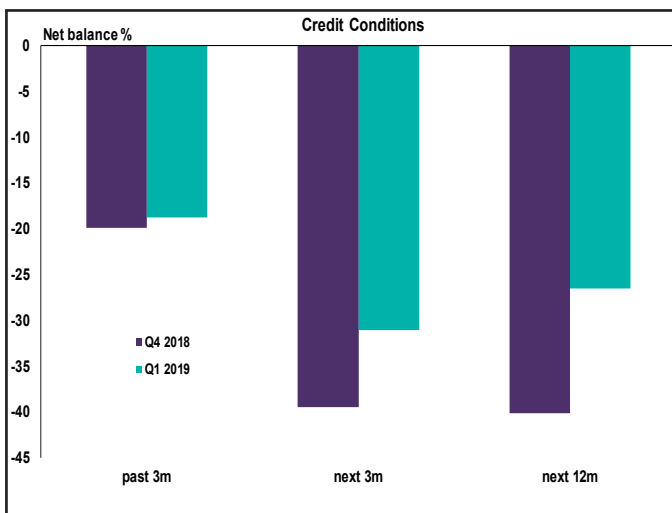
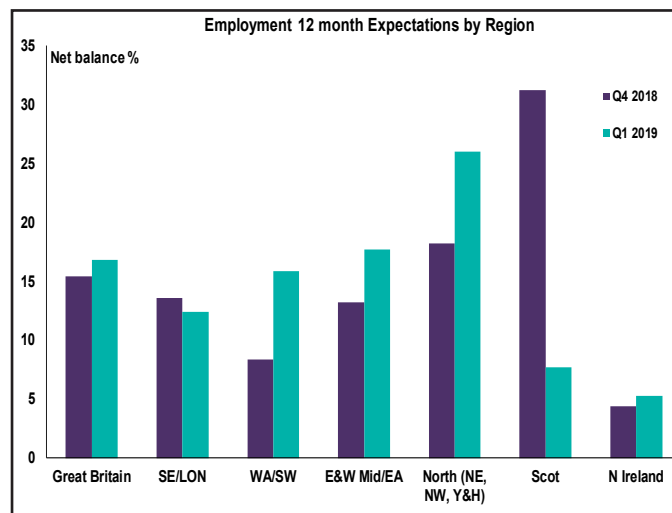


Chart 12



Key indicators

Chart 13

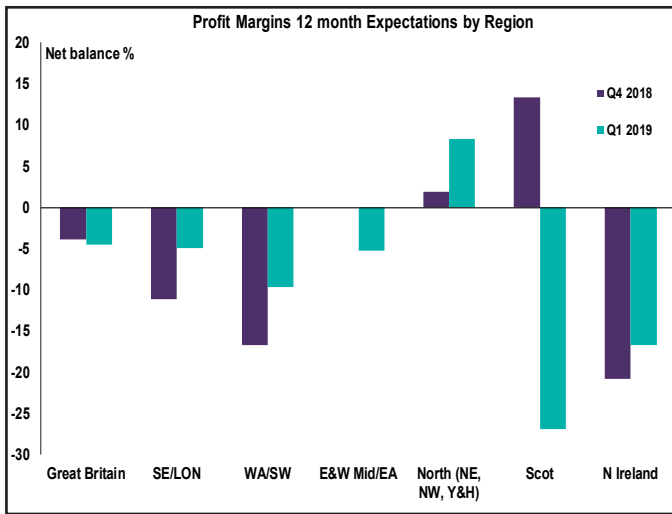


Chart 14

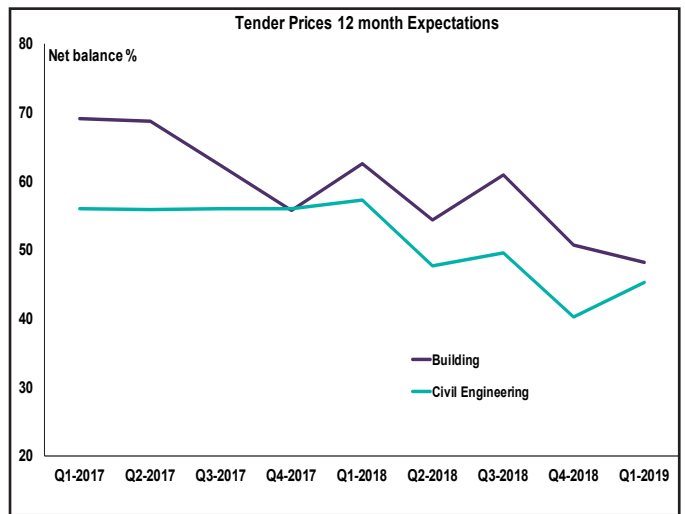
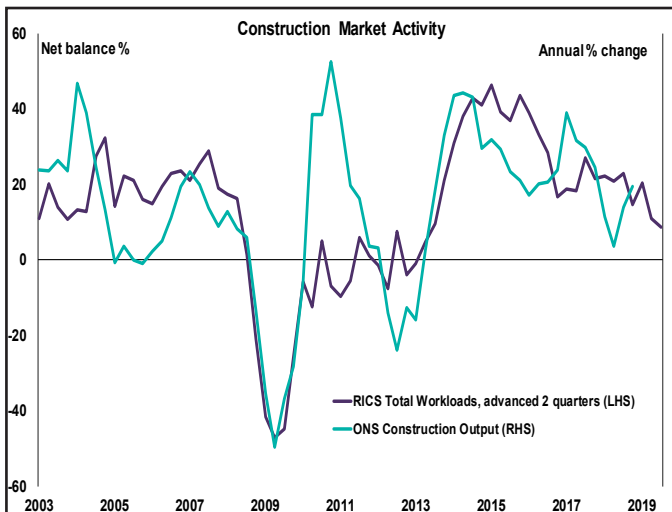


Chart 15



Chartered Surveyor market comments

London

Alex Longmate, London, Longmate Consultants, a.longmate@ntlworld.com, 07467400318 - Brexit.

Enda Lynch MRICS, London, Direct QS LTD, endalynch76@gmail.com, 01923721423 - Brexit and the disastrous handling of Brexit is holding up growth in the industry.

William O'Mahony, Barnet, Jacobs Engineering, omahonyliamk@gmail.com, 00447958200459 - Brexit. Reduced confidence in the sector.

Sriyani Harper MRICS, Chiswick, London, CLR Associates Ltd, sriyani.harper@clrassociates.co.uk, 0208 995 1750 - Brexit. Still suffering from the financial crisis in 2008; Brexit finished it off.

Hugh Cross, London, Hill Cross, hugh@hill-cross.com, 07801931721 - Investment in the Private Housing Market is depressed due to the Brexit effect.

Ian Saunders MRICS, Canvey Island, Sir Robert McAlpine, ian.r.saunders@me.com, 07533125151 - The announcement in the budget statement that new homes will shortly not be fitted with gas will put additional focus on electrical demand and distribution.

Leslie Reed AssocRICS, London, CBRE, leslie.reed@ntlworld.com, 07966 563 389 - Value for Money - spend on what is absolutely necessary to maintain safe operation (refurbishment / renewal of building infrastructure).

Andrew Venn, Sutton, Wicksteeds (QS & FM) Consultants LLP, AndrewVenn@Wicksteeds.co.uk - Wicksteeds has received many promising enquiries in recent months and clients are increasingly keen to ensure tender documents are complete before releasing them to the market.

South East

Joe Evans Bsc (Hons) MRICS, London, Martin Arnold Limited, jevans@martinarnold.co.uk, 0203 260 3805 - Shortage of skilled construction labour and an increased demand for Affordable Housing.

Sam Dudley, Haslemere, aquila forensics, samfinlandudley@gmail.com, 01428659390 - Appalling management and lack of focus in the housing association sector.

Ian Paton, Oxford, Cluttons LLP, ian.paton@cluttons.com, 01865 728000 - As everything changes to electricity (heating, cars, etc) in the hope that this energy can ultimately be provided entirely from renewable sources, the distribution infrastructure needs significant investment and upgrade to cope.

Kevin Learoyd, Guildford, Madlins, k.learoyd@madlins.co.uk, 07941160740 - Brexit uncertainty.

Alan Stokes, Gravesend, APS Advisors Ltd, apstokes64@yahoo.com, 07956 233330 - Greater accreditations being demanded by clients who treat this cost as a freebie when cost recovery is requested.

Matthew Sears MRICS, Dorking, Matthew Sears, Building Surveying & Design, matthew@msears.uk, 01306884477 - Lots of design work on hold due to uncertainty due to Brexit. Foreign private housing developers not investing in UK due to insecurity in UK due to Brexit.

Chris Gill, Darlington, J C Gill and Co Limited, chris@jcgill.co.uk, 07783896634 - Quality control remains a huge issue; there are still too many defects plaguing projects across all sectors, and the industry and clients must address this - if there is the will to do so!

Keith Gale, Winchester, Hampshire County Council, keith.gale@hants.gov.uk, 01962 847271 - The uncertainty in Brexit is causing delay in funding decisions as government departments are busy with supply chain considerations. This also appears to be having an impact on the bidding decision making process from international suppliers. The political uncertainty with Brexit seems to be affecting materials prices due to currency fluctuations.

North East

Mohamed Haris Deen FRICS, Woolmer Green, Knebworth, Time and Cost Solutions (PVT) Ltd, deenmohamed835@gmail.com, 01438815712 - Although there is demand for most of the construction sectors, financial constraints and Brexit uncertainty has caused deterioration of expectations for investment. Furthermore, attractive overseas jobs is the main cause of skill shortages.

Lee Gilbert, Newcastle upon Tyne, Siemens Plc, leegilbert@siemens.com, 07921239212 - Siemens Energy - Generation, Transmission & Distribution Sector.

North West

Martin Bennett, Bolton, the vinden partnership, mbennett@vinden.co.uk, 01204362888 - An uncertain marketplace at present but good opportunities for cash rich / long term investors / landlords.

Peter Vinden FRICS, Manchester, The Vinden Partnership, pvinden@vinden.co.uk, 07801021000 - Brexit uncertainty has undoubtedly damaged investor confidence and will continue to have a negative impact on UK construction until we have certainty of outcome.

Eric Roberts, Manchester, Black Cat Building Consultancy, eric.roberts@bcconsultancy.co.uk, 07747 008428 - Market still buoyant although some practices with bigger teams and overheads have had more difficulty in obtaining work.

Wayne Gales MRICS, Billinge, Weaver Vale Housing Trust, waynegales@hotmail.co.uk - Supply of good quality SME contractor capacity.

Chris Seddon MRICS, Liverpool, Kilhey Consultancy, chris@kilhey.co.uk, 07795606325 - The market within the North West is currently very buoyant. There is, however, still the uncertainty surrounding Brexit.

Gordon Clark FRICS, Carlisle, Johnstons Chartered Quantity Surveyors, gordon@johnstons.co.uk, 01946 694970 - The ongoing uncertainty surrounding Brexit and its impact on future trading with Europe and the rest of the world has led to investment decisions being deferred.

Yorkshire and Humberside

Robert Baverstock, Sheffield, Castle Owen, b.baverstock@castleowen.com, 07811443460 - Brexit.

Chris Pursehouse, Sheffield, Fern Glen Business Management, chris.pursehouse@outlook.com, 07581 476 421 - Client indecision.

Chris Sheard, Leeds, Sheard Associates Ltd, chris@sheardassociates.com, 07772831770 - It is without doubt time to invest in connecting the North properly.

South West

Alan Dickinson FRICS, Hull, Dukes Sutton & Dickinson, dickinsonqs@dickinsonqs.karoo.co.uk, 01482 657371 - Brexit still effecting the industrial and commercial market.

Malcolm Watford FRICS, FCABE, MIFireE, Folke, Sherborne, Dorset, Malcolm Watford Building and Fire Engineering Cons, watford2024@gmail.com, 01963 210713 - Government investment required to build social housing.

Chartered Surveyor market comments

Michael Riley FRICS, Taunton, Michael Riley Associates, mriley@ricsonline.org.uk, 07776130999 - Hinckley Point new nuclear power station construction has caused a shortage in professionals and some initial trades.

Mark Gazzard MRICS, Bristol, Cushman and Wakefield, mgazzard76@gmail.com, 07891948201 - Lack of skilled construction workers (i.e. stone masons).

Elizabeth Thornton, Poole, Poole Borough Council, ejthornton123@gmail.com - Not enough young people are being trained to enter RICS - over fifty percent of members are over fifty. Future proofing needs to be fully addressed.

Henry Farmer, Wellington, Keith Farmer Building Services Ltd, keith.farmer@keithfarmer.co.uk, 07919050812 - Planning delays on smaller projects.

Jestyn Coke, Blandford, A Jestyn Coke, ajc@ajestyncoke.co.uk, 01258 454029 - The impact of green legislation on commercial and residential property with less than adequate insulation is likely to impact on construction activity as investors seek to maintain the rents being produced.

Steve Foxon, Exmouth, Taylor Lewis, stevefoxon@taylorlewis.co.uk, 01392 825778 - Uncertainty over Brexit may impact in the medium term.

Peter Fell FRICS, Bath, Somerset, Watson Bertram & Fell, peter@wbf-bath.co.uk, 01225337273 - Uncertainty over the economy following Brexit affecting long term investment decisions.

Jonathan Davies, Newport, Network Rail, jonathan.davies@networkrail.co.uk, 07786338825 - We are currently at the end of our Control Period 5 and are awaiting further funding for the next control period.

West Midlands

Andy Irvine BSc. FRICS, West Midlands, Cushman & Wakefield, andy.irvine@cushwake.com, 07771 604550 - 29th cometh and who knows what it will deliver and, importantly, when. Clarity when it does arrive will be well received by financial markets and sectors.

Stephen Wallace, Birmingham, S Wallace Developments Ltd, swallacedevelopmentsltd@blueyonder.co.uk, 07790603477 - Insufficient help and assistance given by local councils, especially in trying to repair and refurbish older buildings. They seem to think that all clients can spend vast sums on refurbishment and do not apply common sense.

Jamie Babber MRICS, Dudley, BAM Construct UK Limited, jamiebabber@aol.com, 07707896303 - Projects with long programmes are suffering with labour due to tender prices being 'X' amount of years out of date and rates on projects tendered within the last 12 months have been a more attractive offer as the prices are better.

Akeel Aziz MRICS, Birmingham, Gleeds Building Surveying Ltd, akeel.aziz@gleeds.co.uk, 07718804036 - The uncertainty around Brexit is affecting business. A lot of businesses and investors are holding out to see what the outcome is and how markets react.

Gordon Harrow, Birmingham, AA Projects, gordonharrow@aaprojects.co.uk, 0121 788 1344 - There is definitely an air of uncertainty over the whole Brexit issue.

Hugh Raven, Bromyard, The Raven Partnership, h.raven@ravenpartnership.co.uk, 07974 243 565 - Too little margin, poor management and too high expectations lead to way too many costly disputes.

Pete Roston, Warwick, CMP Quantity Surveying Ltd, pete.roston@cmpqs.co.uk, 01926882625 - We work nationally and into Eire. I am unaware of a QS that operates regionally apart from one man traders.

East Midlands

Simon Collin, Loughborough, Addison Hunt Ltd, simon.collin@addisonhunt.co.uk, 07825219263 - Problems with Consultees in the Discharge of Planning Conditions.

Nigel Tate, Matlock, Nigel Tate Associates, nigelate@w3z.co.uk, 01629581650 - Tightening of bank credit.

Eastern

Robert Franklin, Bedford, Robinson & Hall LLP, rjf@robinsonandhall.co.uk, 01234352201 - Many contractors continue to be committed with longer lead-in start times for new projects. Shortages of labour and materials make it extremely challenging to manage current projects and clients' expectations.

Jonathan Nelson FRICS, Norwich, Richard Utting Associates LLP, jonathan.nelson@richarduttingassociates.com, 01603628194 - Many developers pausing projects for next three / four months to 'see what happens'.

Ian Toates FRICS, Peterborough, Henry Riley LLP, ian.toates@henryriley.com, 01733578786 - Many larger projects reliant on external investment from abroad are paused awaiting firm decisions being made on the Brexit process.

Nick Curran FRICS, Bury St Edmunds, Fusion Commercial Associates, nick@fusion-commercial.co.uk, 07710479574 - Uncertainty over Brexit.

Scotland

John Edwards, Glasgow, PMP, Johnedwards@pmpplc.co.uk, 07384469424 - A quieter end to 2019 may be on the cards if the slowdown in investment in Q1 and Q2 is realised. Glasgow and Edinburgh remain attractive for commercial property development.

Leanne McDermott, Glasgow, EPCA, leanne.mcdermott@epca.co.uk, 0141 471 5406 - Brexit.

Stewart Marshall, Glasgow, Marshall Inverallan Ltd, stew.marshall@btinternet.com, 01786825459 - Disguised lowest cost tendering continues to be an issue, featuring potentially unsustainably low margins.

David MacDonald, Glasgow, JC+P, david.macdonald@jcampd.co.uk, 01412216607 - Lack of quantity surveyors resulting in higher costs. Furthermore, graduate skill sets are poor.

John Mc Kinney, Glasgow, Galbraith & Lawson, J. Mckinney2006@tidcali.co.uk, 07946602908 - Planning costs and timescales hold back developments.

Tommy McQuade BSc(Hons) MRICS RICS Registered Valu, Oban, Morham & Brochie, admin@morhambro.co.uk, 01631563721 - Severe lack of tradespersons/skilled labour dramatically increasing tender levels.

David Carswell MRICS, Strathaven, Exacta Concrete Flooring Ltd, davidcarswell@hotmail.co.uk, 07450256201 - The number of enquiries we have received over the last 3 months are much the same as the previous 3 months; however, there have been more large projects in this period. In particular, the Glasgow area has seen a number of large projects commencing.

Chartered Surveyor market comments

Northern Ireland

Mark Hughes, Belfast,
McNicholl & Hughes, mark@
mcnichollhughes.com,
07976879678 - Brexit is
having a huge impact in NI at
present holding back possible
investment.

Oliver Smith, Ballymena,
SurveyLink [NI] Ltd, ollie.smith@
tiscali.co.uk, 07890 555108 -
Lack of Stormont Executive
in Northern Ireland continues
to have a significant negative
impact on all areas of the
construction industry.

Michael McCaughey,
Dungannon, M.J.McCaughey
Ltd, info@mjmccaughey.com,
028 87727270 - Presently growth
is very slow in our area.

Adrian Petticrew MRICS, Belfast,
Kier Limited, adrian.petticrew@
kier.co.uk, 02890834101 -
There is dearth of new public
expenditure-backed capital
projects coming forward due
to the absence of a local
government. Civil Service is only
able to make limited expenditure
decisions. Most companies are
undertaking substantial works in
GB/ROI.

Fred Rea, Saintfield, PQS
Chartered Quantity Surveyors,
fred@projectqs.com,
07748677002 - Uncertainty and
uneasiness with investors, etc.

Methodology

About:

The RICS Construction and Infrastructure Market Survey is a quarterly sentiment survey of Chartered Surveyors who operate across the UK. Data collection began in 1994 with additional questions introduced subsequently.

Total responses in Q1 2019 = 401.

Regions:

- The 'headline' national readings cover Great Britain.
- Specifically, the five regions that comprise the national figure are: (1) London and South East, (2) South West/Wales, (3) Midlands/East Anglia, (4) North West/ North East/ Yorks & Humber, and (5) Scotland. Data on Northern Ireland are not included in the headline figure.
- The national data are regionally weighted.

Questions Asked:

1. How has the level of workloads changed over the last three months?
 - 1b. How have business enquiries for new projects or contracts fared in the past three months?
2. With regards to infrastructure, how have workloads changed across the following sub sectors over the last three months?
 - 3a. Which infrastructure subsector do you think will see the strongest growth in output over the coming 12 months?
 - 3b. Regarding the infrastructure sector, what type of investment is most needed in your area? (R&M, new projects)
4. How has the total level of New and R&M workloads changed over the last three months?
5. Have any of the following factors impacted building activity over the last three months?
6. How have credit conditions changed over the past three months? How do you expect credit conditions to change over the next three/twelve months?
7. What are your company's expectations in each of the following areas over the next 12 months? (Workloads, headcount, profit margins)
8. Have you hired anyone new (additional) in the past three months to support new workloads?
9. Has your company (or your contractors) experienced skills shortages in the latest three months for the following occupations:
10. What are your company's expectations for tender prices in each of the following areas over the next 12 months?

Net balance data:

- **Net balance = Proportion of respondents reporting a rise in prices minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%).**
- The net balance measures breadth (how widespread e.g. price falls or rises are on balance), rather than depth (the magnitude of e.g. price falls or rises).
- Net balance data is opinion based; it does not quantify actual changes in an underlying variable.
- Net balance data can range from -100 to +100.
- A positive net balance implies that more respondents are seeing increases than decreases (in the underlying variable), a negative net balance implies that more respondents are seeing decreases than increases and a zero net balance implies an equal number of respondents are seeing increases and decreases.
- Therefore, a -100 reading implies that no respondents are seeing increases (or no change), and a +100 reading implies that no respondents are seeing decreases (or no change).
- In the case of the RICS price balance, a reading of +10 should not be

interpreted as RICS saying that house prices are going up by 10%, but that 10% more surveyors reported increases rather than decreases in prices (over the last three months).

- A change from +30 to +60 does not mean that the variable grew by 30% in one period and by 60% in the next period, but it does indicate that twice as many surveyors reported an increase compared to a decrease than in the previous period.
- Likewise, if we get a reading dropping from +90 to +5, this still means that more respondents are reporting increases than decreases overall, but the breadth of those reporting increases has fallen dramatically; meanwhile, a shift in the reading from -90 to -5 still means that more respondents are reporting decreases than increases overall, but the breadth of those reporting decreases has fallen dramatically.

Contacts

Jeffrey Matsu

Senior Economist

+44(0)20 7695 1644

jmatsu@rics.org



Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.

United Kingdom RICS HQ
Parliament Square, London
SW1P 3AD United Kingdom
t +44 (0)24 7686 8555
f +44 (0)20 7334 3811
contactrics@rics.org
Media enquiries
pressoffice@rics.org

Ireland
38 Merrion Square, Dublin 2,
Ireland
t +353 1 644 5500
f +353 1 661 1797
ricsireland@rics.org

Europe
(excluding UK and Ireland)
Rue Ducale 67,
1000 Brussels,
Belgium
t +32 2 733 10 19
f +32 2 742 97 48
ricseurope@rics.org

Middle East
Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates
t +971 4 446 2808
f +971 4 427 2498
ricsmenea@rics.org

Africa
PO Box 3400,
Witkoppen 2068,
South Africa
t +27 11 467 2857
f +27 86 514 0655
ricsafrica@rics.org

Americas
One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA
t +1 212 847 7400
f +1 212 847 7401
ricsamericas@rics.org

South America
Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil
t +55 11 2925 0068
ricsbrasil@rics.org

Oceania
Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000, Australia
t +61 2 9216 2333
f +61 2 9232 5591
info@rics.org

North Asia
3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong
t +852 2537 7117
f +852 2537 2756
ricsasia@rics.org

ASEAN
10 Anson Road,
#06-22 International Plaza,
Singapore 079903
t +65 6635 4242
f +65 6635 4244
ricssingapore@rics.org

Japan
Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan
t +81 3 5532 8813
f +81 3 5532 8814
ricsjapan@rics.org

South Asia
48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India
t +91 124 459 5400
f +91 124 459 5402
ricsindia@rics.org