MANAGEMENT
CONSULTANTS

BUILDING RETURNS

OPPORTUNITY THROUGH THE INFRASTRUCTURE UPCYCLE

Enabling growth, managing risk

BUILDING RETURNS

We believe that the 21st century scenario of high population growth and low investment in critical infrastructure is not dissimilar to that seen at the beginning of the 20th century, after which followed a sustained period of peacetime growth that ran into the 1950s and peaked in the 1960s.

Our research shows that this pattern looks set to repeat. There are now 58 £1bn+ projects that are in planning with contractors already appointed, and infrastructure new orders are at the highest levels since ONS records began in 1955.

In the context of huge fundamental demand for more built environment, we have analysed data on the largest projects in the UK. This paper explores the ways in which participants can get ahead.

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After a generation of underinvestment in infrastructure, we are in the early stages of a reversion to the levels of construction activity that you would expect in an economy the size of the UK. The level of investment has doubled since the recession and is set to grow 50% over the next four years. The combination of a backlog of underspend and strong population growth is driving the need for power, transport and housing. This trend is expected to run and run – much of it unconnected to the wider economic and construction cycles.

Sebastian Chambers, Managing Partner

KEY MESSAGES

There is significant opportunity through the infrastructure upcycle and we have identified some common themes that winners in the market will share:

Improving rates

A busier market should drive up fees on one hand and skilled labour costs on the other, with winners able to get more out of less through a combination of workforce engagement and adoption of efficient construction methods.

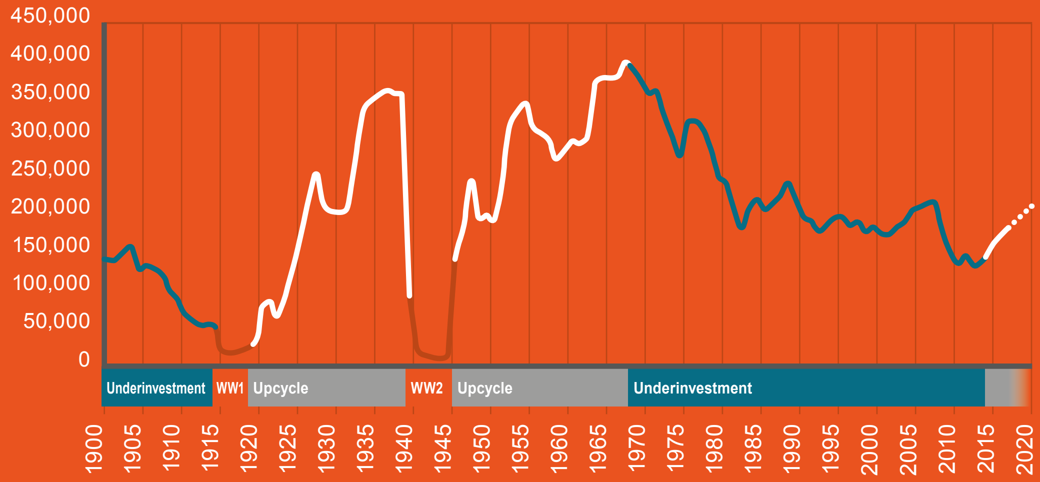
Use of data feeds

Our work shows that this is a forecastable market where major contracts can be mapped and winners should be able to track leads, monitor conversion and automate sales activities.

Moving out of London

With spend moving out of the capital, winners should be focusing on regional expansion plans in the medium term.

Number of housing completions, UK



2012 marked the lowest peacetime level of housebuilding and related infrastructure activity since the 1920s.

THE INTERGENERATIONAL PROBLEM

The UK has underspent on infrastructure for more than a quarter of a century.

Recent unfulfilled promises

Beyond temporarily filling the nation's potholes, transport infrastructure was neglected under the coalition government.

The gap between housing demand and supply widened and the Northern Powerhouse remained a Northern pipedream.

Poor long term planning and monument building

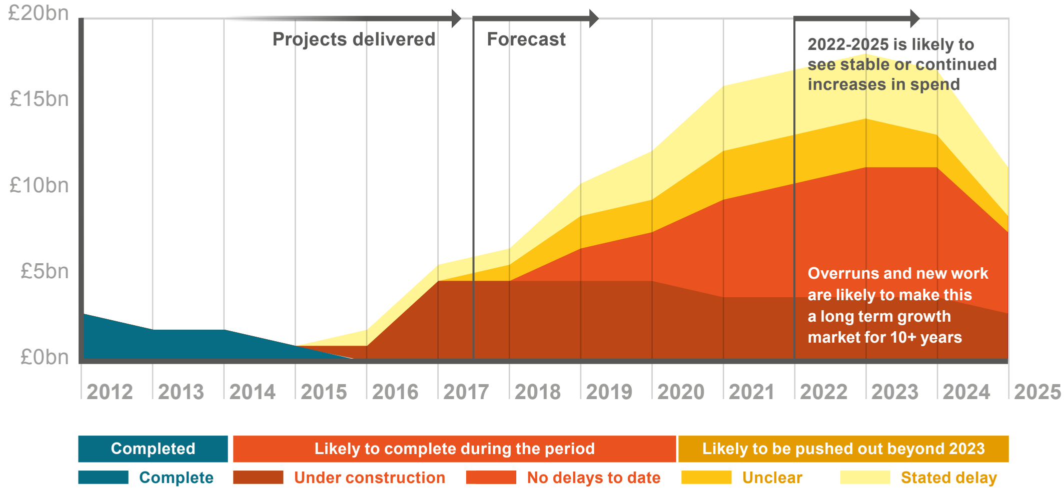
Governments tend to think in the short term and often sideline comprehensive infrastructure improvement in favour of statement projects. The current government has been no exception, even if it is starting to move in the right direction.

A good example is HS2. For the £56bn cost of the project, we estimate that you could build c.470k homes: one home for every metre of track. This would virtually eliminate the housing shortfall that has emerged since 2008.

Back to the 60s

We have been here before. The graphic above shows the sustained period of peacetime growth in housebuilding, after the period of underinvestment seen at the turn of the 20th century. Alongside spending on other critical infrastructure, this trend ran through the 1950s and peaked in the 1960s.

UK major works pipeline, projects >£1bn



Note: Adjusted for known delays and cancellations. Projects with estimated value >£1bn.
Source: CIL major infrastructure model, Barbour ABI, trade press.

WHAT IS CHANGING?

Responding to the referendum

The Brexit referendum result marked a change in government policy. Within months, three major projects were signed off: £20bn for Hinkley Point, £14bn for a new runway at Heathrow, and £56bn for HS2. Departmental road and rail budget increases followed in the context of further support for housebuilding.

Cross-party support for spending

The British Social Attitudes Survey shows a trend away from support for austerity policies since 2013, and governmental support for spending is now cross-party.

It has already begun

The budget for Highways England has doubled for 2020-25 and Network Rail's latest funding round shows a 25% increase in spend on operations and maintenance. We have analysed planning and contractor data to map the 58 £1bn+ projects to be delivered in the UK. This shows a market for major works that is already in a long-run period of strong growth.

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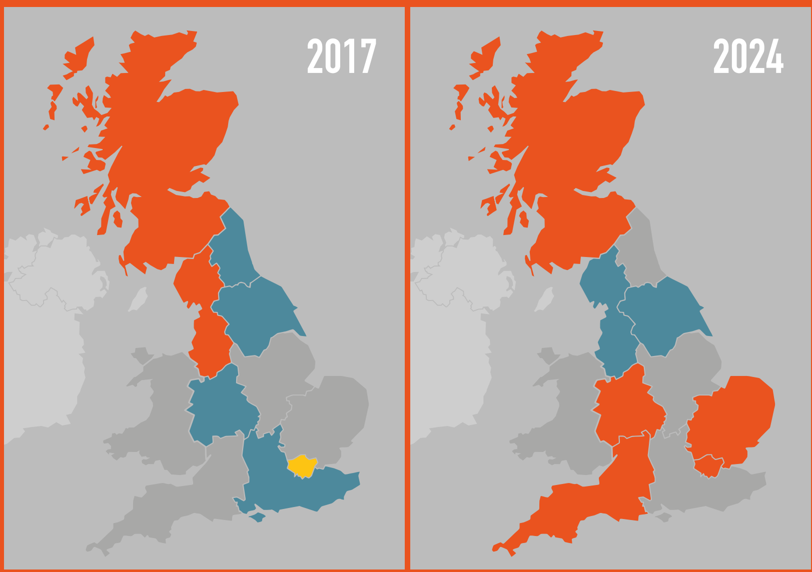
The Government are investing record sums to deliver the transport infrastructure that Britain needs. The Department for Transport's annual capital spending will more than double over this decade.

Chris Grayling, Secretary of State for Transport, July 2018

Spend is moving out of London



Our analysis of major works also shows that London has had the lion's share of recent infrastructure spend, but that activity is finally moving out of the capital.

Share of major works spend by region

Percentage of total infrastructure spend

- 0-5%
- 6-10%
- 11-15%
- 16%+

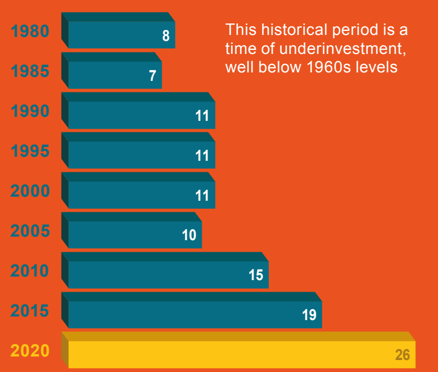
A GROWTH OUTLOOK

Our core view

UK infrastructure output has doubled in the last ten years, driven by wind energy projects and power station decommissioning. The core outlook is for maintenance spend to remain at c.£1bn a month, with major projects continuing to lift the market by a further 50% to c.£30bn in the early 2020s. This period will be characterised by a shift away from onshore wind and into offshore and new nuclear power, alongside delivery of nationwide transport projects. The long-run theme of infrastructure growth is likely to have legs well into the next decade and beyond.

Demand for services and materials should support volumes and rates improvement throughout the value chain. Winners will have professionalised sales practices and an ability to manage stretch on the supply-side.

GB infrastructure output (£bn)



Note: Inflation adjusted

Our recent work includes:

Asphalt production sites based around London

Aggregates and quarrying near the Hinkley Point site

Major new timber milling and merchanting group

Specialist powered access equipment hire provider in the UK and the Middle East

Provider of equipment services to the rail, road and construction industries

Provider of services and products for the protection of critical power supplies

Testing, inspection and compliance services to UK infrastructure

Provider of temporary traffic management for key road improvement projects

Midlands-based housebuilder, part of the Countryside Group

For more information, please contact:

Sebastian Chambers

Partner

schambers@cilconsultants.com

+44 20 3829 2810

James de La Salle

Associate Director

jdelasalle@cilconsultants.com

+44 20 3829 2755

MANAGEMENT
CONSULTANTS

Enabling growth, managing risk

30 King Street, London, EC2V 8EH

T. +44 20 3829 2700

W. cilconsultants.com