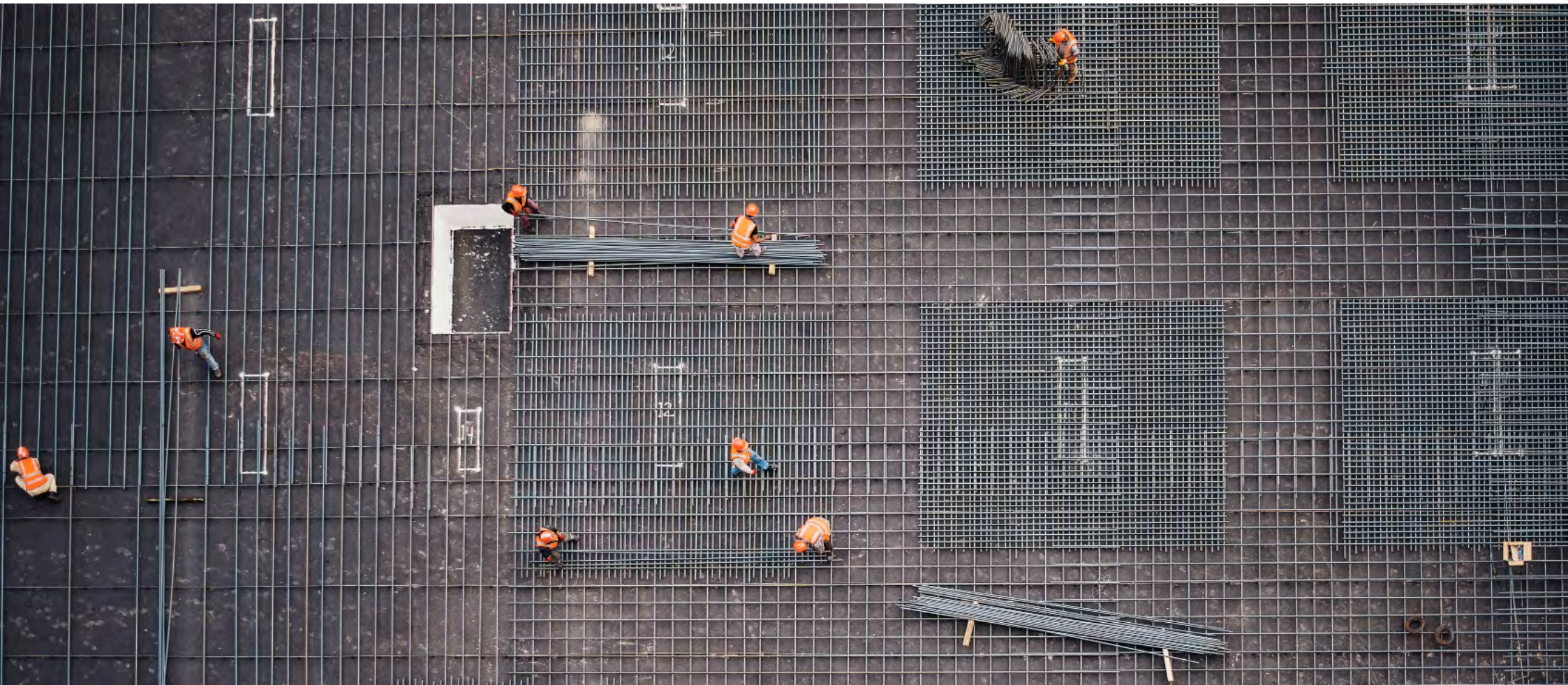


GB CONSTRUCTION: COVID-19 IMPACT

June 2020



DISCLAIMER

This report represents a draft discussion paper and should not be relied upon by any party, for any purpose.

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The report and our advice are primarily based upon information gathered from primary and secondary sources. We have inevitably relied on data and information provided to us by third parties and on enquiries and discussion with them. We have not verified the accuracy of the data or the information and explanations provided by third parties.

EXECUTIVE SUMMARY

2020 so far

- We issued our first estimate of the forecasted impact of COVID-19 on the construction sector at the beginning of April 2020.
- The impact of COVID-19 began to be felt as we entered lockdown at the end of March, with official statistics stating a ~4% YoY decrease (although likely to be revised).
- While we forecast total construction output to fall by ~65% in April, due to many infrastructure and public works sites opening from the second week in April, these sectors were more resilient than expected with total output falling by ~45%.
- May, however, likely saw an increase in activity as housebuilders returned to sites and the government encouraged people to go back to work, as long as social distancing remained in place.
- Online distributors, including large DIY players such as B&Q and Wickes, have seen significant increases in trading over the period as bricks and mortar merchants have closed.

Shape of the recovery

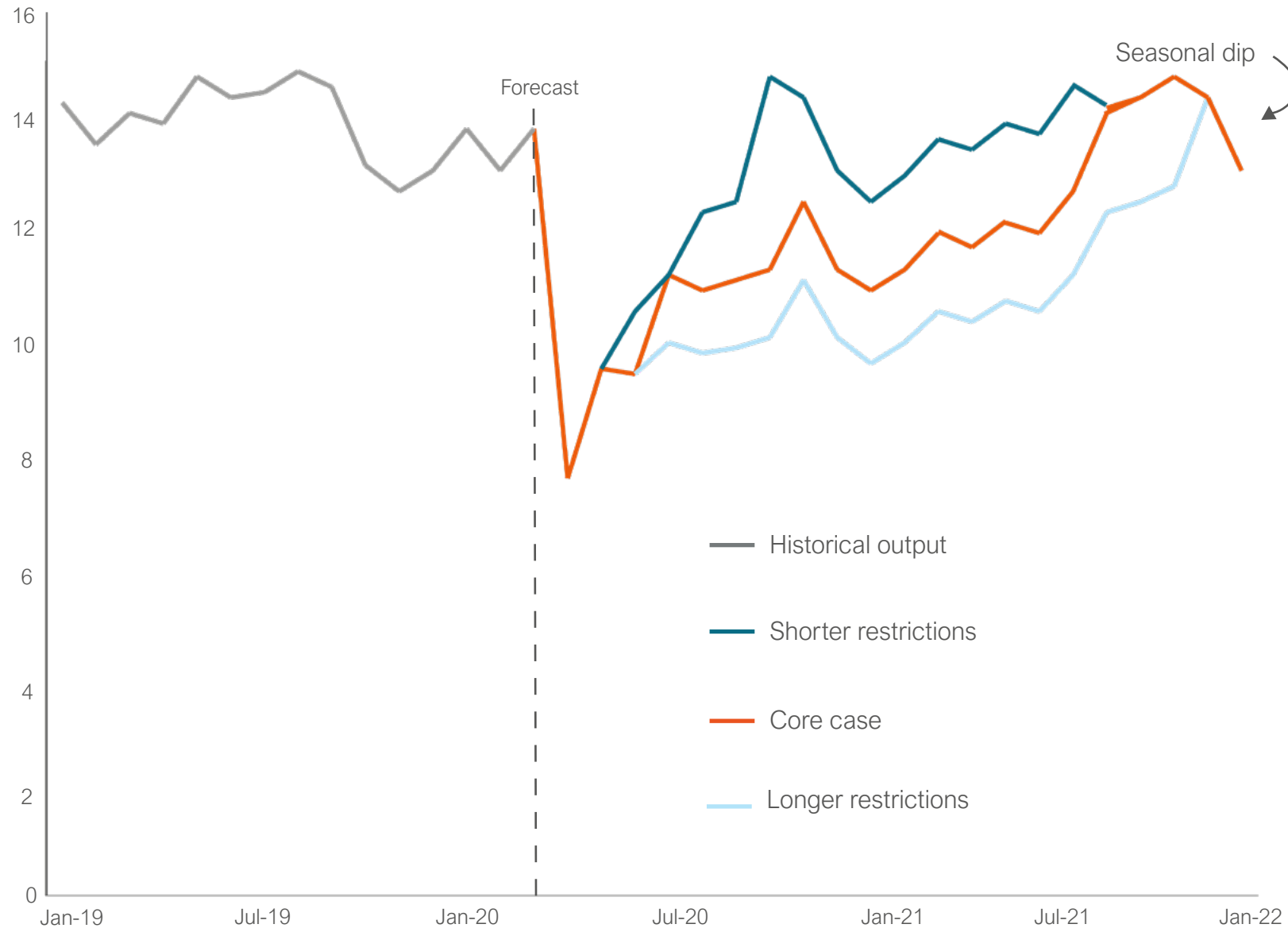
- The shape of the recovery is likely to be somewhat 'U-shaped', with social distancing restrictions being lifted in gradual increments.
- Our current forecasts assume a 20% decline in overall output for 2020, with commercial settings, already softening regardless of COVID-19, likely to be the worst hit.
- With this impact on productivity and a likely lag in rebuilding supply chains, we would expect to see 2021 trading at ~90% of value of 2019 levels.
- We anticipate output returning to similar levels as 2019 by 2022.

Key growth and investment areas

- From a sector perspective, there is likely to be ongoing investment in infrastructure through both major projects and much needed improvement work.
- While the demand fundamentals for housebuilding remain compelling, 2019 appears to have been a particularly strong year and we expect residential output to recover to 2018 levels by 2022.
- We anticipate a mix shift towards more apartment block building and an increase in more public housing over the longer term.
- Commercial property and high-end residential developments, particularly in central London, are likely to see a correction. While this is exacerbated by COVID-19, this represents a cyclical change that has been anticipated for some time.
- We are likely to see an increase in residential RM&I due to latent demand and some ability for consumers to invest following saving during the pandemic.
- The use of offsite construction methods and online distribution are likely to accelerate due to COVID-19. Ultimately, businesses that can maintain productivity while adhering to social distancing measures are best placed to win.

TOTAL CONSTRUCTION OUTPUT

By case, Great Britain, £bn, current prices

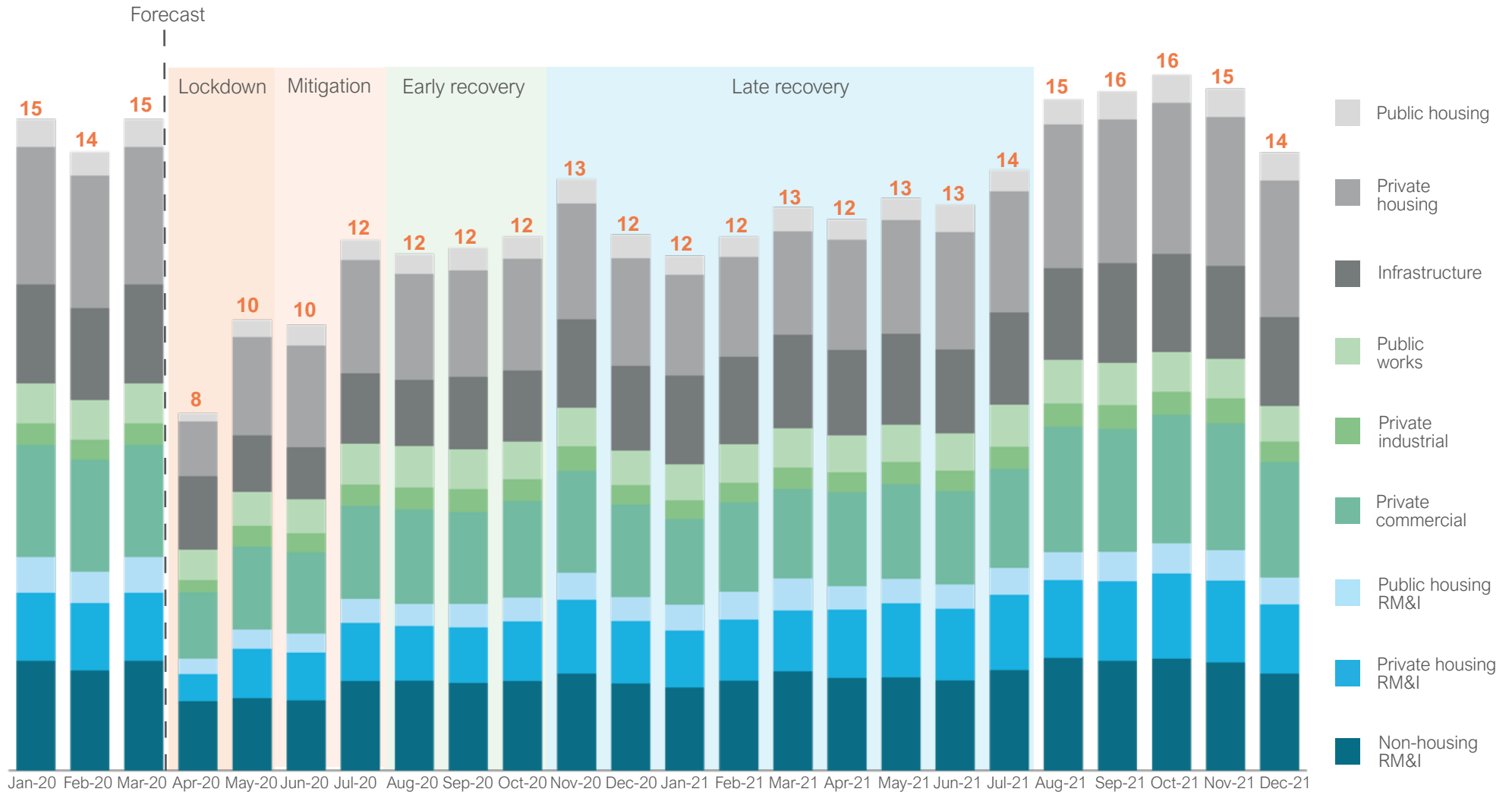


The impact of the COVID-19 pandemic has seen trading impacted by up to 45% of previous years' output. Slight easing of lockdown restrictions in May has seen some recovery, but the impact is forecast to continue until mid-2021.

CONSTRUCTION OUTPUT – CORE CASE

Monthly by sub-sector, Great Britain, £bn, current prices

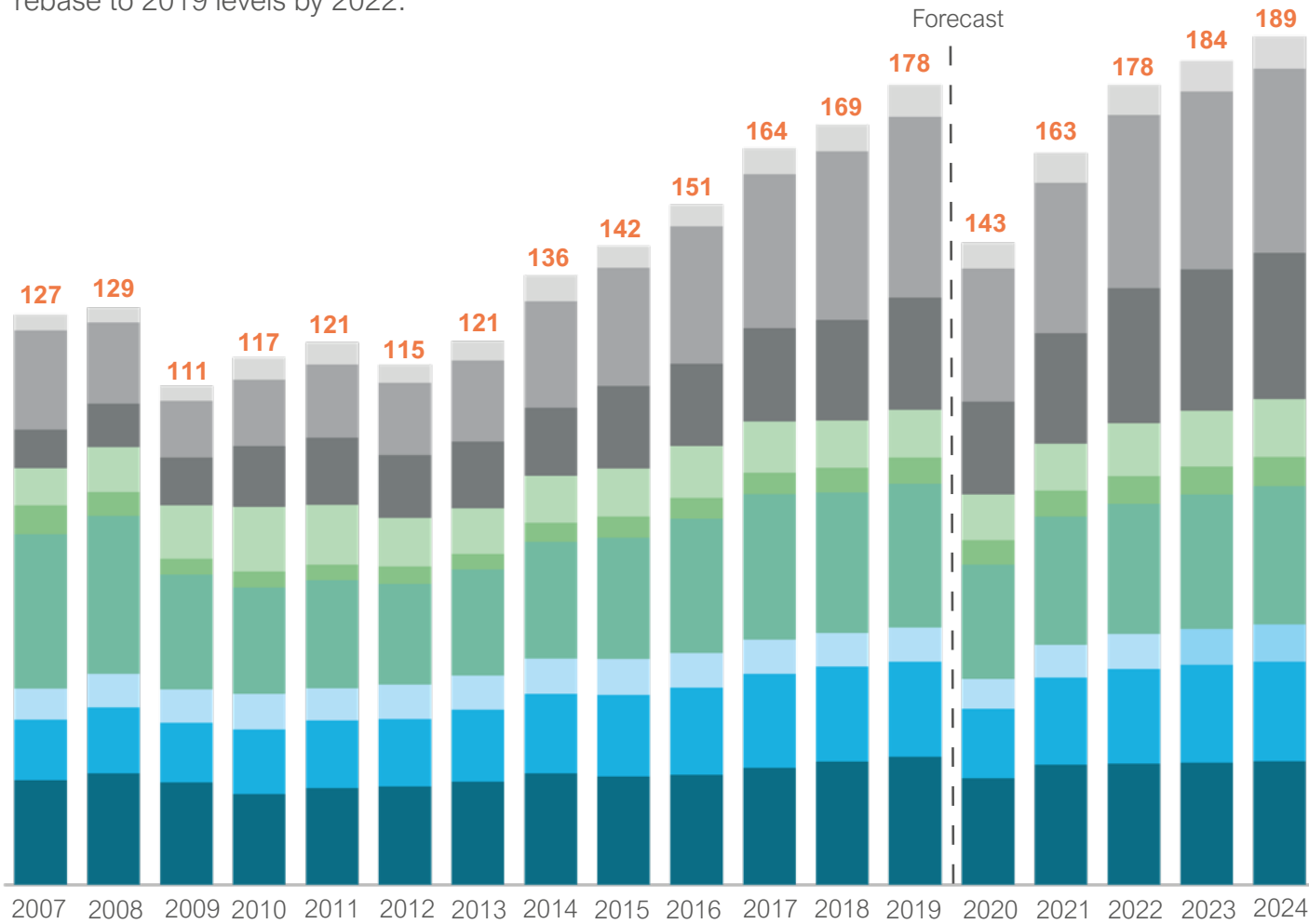
CIL's core case models the effects of the pandemic lasting approximately a year, with site delays caused by lockdown and mitigation periods followed by a longer-term supply chain recovery.



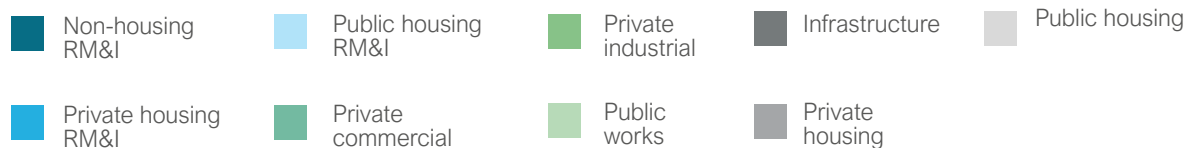
CONSTRUCTION MARKET FORECAST

By sub-sector, Great Britain, £bn, current prices

Longer term, CIL expects the construction sector to rebase to 2019 levels by 2022.



CAGR	2015-19	2019-23f
Total GB output	5.8%	0.4%
Public housing	9.6%	(0.9%)
Private housing	11.3%	(0.4%)
Infrastructure	7.8%	6.0%
Public works	(0.3%)	4.0%
Private industrial	5.9%	1.4%
Private commercial	4.3%	(1.6%)
Public housing RM&I	(1.2%)	1.2%
Private housing RM&I	4.0%	0.6%
Non-housing RM&I	4.2%	(1.1%)



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James de La Salle
jdelasalle@cilconsultants.com
020 3829 2755



David Moody
dmoody@cilconsultants.com
020 3829 2700



Toby Fisher
tfisher@cilconsultants.com
020 3829 2722



cilconsultants.com