

Covid-19 construction briefing #2

Over the last week we have seen a large increase in the number of projects that have been identified as delayed from the Coronavirus pandemic, with construction sectors other than residential starting to see more widespread shutdowns.

We provide an update to last week's briefing on:

- **developments in the UK economy,**
- **conditions in the construction industry, and**
- **insights drawn from our planning data.**

We continue to experience normal volumes of planning activity: new planning applications, planning approvals and tender awards remain relatively strong.

For Barbour ABI subscribers we are also providing project-level information where we have identified projects that are confirmed or likely to be delayed, put on hold or cancelled as a result of the pandemic.

The situation continues to change daily. We are endeavouring to provide timely and accurate information to allow our clients to effectively manage their businesses at this difficult and unprecedented time.

Economic conditions

The flow of information slowed slightly this week after a plethora of initial bad news and the announcement of government stimuli and support schemes. We still lack official data and are reliant on incomplete information to understand the full impact of the Covid-19 pandemic. New information on the economy has focused on the shape of the recovery and the experiences of firms and citizens. Headlines from the last week include:

- Nearly 1 million people in the UK have applied for Universal Credit in the last fortnight, implying that the unemployment rate is rising fast.
- A survey of firms by the British Chambers of Commerce found that over half have less than 3 months of cash reserves left to cover running costs.
- Almost a fifth of small businesses are at risk of collapsing over the next month, according to a survey carried out by the Corporate Finance Network.

In some positive news, the Chinese Purchasing Managers' Indices strengthened in March, at a rate significantly more strongly than expected, leading to hopes that the Chinese economy is returning to normal.

Construction industry

We have continued to collect evidence from our colleagues and partners in the construction industry. We now have a wider sample of responses to draw from when attempting to understand how firms are coping with the situation.

A very wide range of approaches are being taken to continuing construction activity, across all types of companies. From our discussions so far:

- around half of firms have closed all sites,
- circa 10% are restricting activity to essential work only, and
- the remainder are taking a mixed approach, from:
 - continuing ongoing activity but not starting new work,
 - cutting working hours,
 - shutting smaller sites, or
 - taking a site by site approach considering worker safety among other factors.

We have also been collecting anecdotal evidence about how construction and manufacturing companies are managing their businesses in this difficult time. The most frequent issue encountered is customer-led closures and managing the drop in demand. Other common issues are:

- difficulties sourcing materials,
- lack of clear messaging and information from government
- a slowdown in the project pipeline, and
- difficulties planning effectively given the uncertain length of time restrictions are likely to persist for.

Construction project information

We have identified 4,253 projects with a total value of £67.7bn that have been delayed or cancelled as a result of Covid-19. This is a significant increase from last week's total of 1,051 projects with a value of £25.6bn.

Our research team are validating each project to ensure our information is accurate through the process of our research activities and have changed their behaviours to maximise the quantity and quality of data they are collecting.

In terms of the planning pipeline we are still experiencing normal levels of activity coming through the planning pipeline, both in terms of new projects and decisions on those in the planning process. For example, over the last few weeks, contracts have been awarded for the following sites:

- A 200-flat and 200-bed hotel development with a value of £94m in Newcastle
- £60m and £48m mixed residential-commercial developments in Clapham Common and Salford Docks, Lancashire
- A £50m goods yard redevelopment in Camden

Tenders are still being approved, with the following projects recently

- Crocus Place, a £250m office development in Nottingham
- PHE Science Hub in Harlow, a Bioscience Laboratory with a project value of £160m
- A £150m redevelopment in Haymarket, Edinburgh

Other planning information to be updated to detailed approval includes:

- The Chiltern Tunnels HS2 project, worth £1.3bn
- A £600m hotel, retail and offices development in Westminster
- UCL Neurology building with a project value of £281m

We have received some anecdotal evidence that some companies are starting to put a hold on new contract awards. We will be looking closely at this over the coming days and weeks.

Impact by sector and region

Most Covid-19 project delays so far continue to be in the residential construction sector. However other sectors have started to catch up: 53% of delayed projects by value (57% by number) are residential compared to 62% (and 71%) last week. The residential sector therefore remains the most affected, but others have caught up.

The largest changes over the week have been in the Infrastructure and Industrial sectors, both increasing in terms of the value of projects from £3.2bn to 14.8bn (+354%) in the infrastructure sector and from £0.6bn to £2.3bn (+315%) in the industrial sector. The sector that has so far seen the lowest level of cancellations is, understandably, the Medical sector. The following table shows the change in delayed project value from last week to this week.

Table 1: Change in delayed project value

Sector	Value last week (£bn)	Value this week (£bn)	% change
Commercial & Retail	3.1	8.6	+180%
Education	1.6	3.3	+102%
Hotel, Leisure & Sport	1.0	2.7	+154%
Industrial	0.6	2.3	+316%
Infrastructure	3.3	14.8	+354%
Medical & Healthcare	0.2	0.3	+40%
Residential	15.8	35.8	+127%
All sectors	25.6	67.7	165%

The table below shows the value of delayed projects by sector and region.

Table 2: Value of Covid-19 delayed projects by sector and region

Covid-19 delayed project value (£m)	Commercial & Retail	Education	Hotel, Leisure & Sport	Industrial	Infrastructure	Medical & Health	Residential	All sectors
East Midlands	46	70	70	391	95	0	2,039	2,711
East of England	183	561	102	257	93	7	3,126	4,328
London	6,559	834	958	91	5,093	215	7,063	20,814
North East	79	85	55	327	116	0	1,773	2,436
North West	234	96	468	107	656	21	3,918	5,499
Scotland	849	1,045	573	189	7,622	58	6,273	16,609
South East	212	181	191	306	493	20	3,807	5,209
South West	169	94	68	168	194	5	2,573	3,270
Wales	20	120	8	40	146	0	666	999
West Midlands	93	171	114	345	78	7	1,941	2,749
Yorkshire & Humber	140	34	58	109	181	7	2,509	3,038
Great Britain	8,583	3,291	2,664	2,332	14,767	338	35,756	67,730

Across the UK, the largest change has been the updating of Scottish projects. The Scottish Government has taken a harder line than the rest of the UK in its mandatory closure of construction sites.

London remains the UK region with the largest value (£20.8bn) of delayed projects, however Scotland has now seen £16.6bn of projects delayed, and the largest number (1,294) of all UK regions. However other regions have also experienced large increases in the closure of sites and the delay of projects:

- Scotland +827% (all sectors)
- East Midlands +388% (especially in the Industrial sector)
- Yorkshire & Humber +167% (especially in the Commercial, Medical and Infrastructure sectors)
- South East +143% (especially in the Hotel, Leisure and Sport, and Infrastructure sectors)

The table below shows the value of Covid-19 delays and cancellations relative to baseline construction activity levels. Values are expressed as the percentage more or less than normal splits of activity.

Table 3: Variance of Covid-19 delays compared to baseline activity levels

% by project value	Commercial & Retail	Education	Hotel, Leisure & Sport	Industrial	Infrastructure	Medical & Health	Residential	All sectors
East Midlands	-6%	-5%	-2%	+2%	-11%	-4%	-1%	-4%
East of England	-4%	+4%	-2%	-1%	-10%	-3%	0%	-3%
London	+28%	+11%	+2%	-2%	+24%	+38%	-3%	+9%
North East	-2%	-2%	0%	+10%	-2%	-2%	+2%	0%
North West	-6%	-5%	+4%	-7%	-9%	-8%	-1%	-4%
Scotland	+5%	+21%	+12%	+4%	+36%	+5%	+10%	+16%
South East	-8%	-11%	-3%	-3%	-4%	-6%	-3%	-4%
South West	-2%	-5%	-5%	0%	-5%	-9%	-2%	-2%
Wales	-1%	0%	-3%	0%	-2%	-5%	-1%	-1%
West Midlands	-3%	-4%	0%	+3%	-3%	-4%	-2%	-2%
Yorkshire & Humber	-2%	-5%	-4%	-5%	-15%	-1%	-1%	-4%
Great Britain	0%	-3%	-5%	-8%	+2%	-2%	16%	

Impact by planning stage

While most projects identified as delayed are under construction, there has been a significant increase this week in projects that have not yet started but are at the contract award stage.

The two regions with most delays identified so far at the contract award stage are those in London and Scotland – the two regions with by far the most advanced level of all project delays. These regions have £4.9bn and £3.9bn project value respectively of delays at the contract award stage.

The table below shows values and number of delayed projects at each construction stage.

Table 4: Covid-19 delays by construction stage

Project value	Value (£m)	Number of projects
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Detail planning	81	6
Approval	91	8
Tender	5	4
Contract awarded	10,012	533
Under construction	57,308	3,674
All projects	67,497	4,225

Impact by project value

The average value of projects impacted by Covid-19 is concentrated in the £10-50m (£27.4bn of projects) and £100-500m (£24.5bn of projects) categories when considering project value.

When considering the number of projects, the most delays are in the £10-50m category (1,338 projects) and the £1-10m category (1,902 projects).

Table 5: Covid-19 delays by project value

Project value	Value (£m)	Number of projects
£1-10m	7,851	1,902
£10-50m	27,439	1,338
£50-100m	7,732	120
£100-500m	24,446	77
More than £500m	0	0
All projects	67,468	3,437

Next steps

We will continue to provide weekly updates, including any themes we uncover as further information becomes available.