



# The Thomas Consultancy



## UK Market Forecast

In a declining market at the end of 2008, there are still some areas of growth to focus on over the next 2 to 3 years. Largely featuring the public sector, they include education, health, infrastructure and hotels.

1. The UK construction market is in its first recession for 15 years and it is likely to get worse before it recovers, with any recovery delayed until at least 2010.
2. The recent move by the government to bring forward £3bn of spending (split 47% education, 26% housing and 24% transport) will provide a short-term boost, but it may be at the expense of longer term public expenditure.
3. The two major forecasters (CPA and Experian) are currently producing regular updates, but as at December 2008 we see potential UK construction output in current prices along the follows lines:
  - 2007 - £83bn
  - 2008 - £80.5bn (-3%)
  - 2009 - £78.5bn (-2.5%)
  - 2010 - £77.5bn (-1%)
  - 2011 - £79bn (+1.5%)
  - 2012 - £81bn (+2.5%)
4. **Residential** (35% of total new work in 2007) – depressed prices, shaken confidence plus tougher lending terms will see this sector continue to struggle. New private sector orders are now 50% below 2007's level and recovery before 2010 is unlikely.
5. **Offices** (14% of total new work) - the London market (which has traditionally accounted for up to half of the UK) has been particularly hit by job losses and concerns over the future of the economy. Once current pipeline is completed, future build looks shaky.
6. **Retail** (7% of total new work) – reliant on strong pipeline recently, but with loss-making retailers, declining retail sales and consumer confidence, future is generally very uncertain. Some major retailers still seeking to spend on new or refurbished stores.
7. **Education** (11% of total new work) – this remains a key government priority, with the heavily criticised Building Schools for the Future programme, a £7bn Primary Schools Capital programme and £8bn to be spent on further education in the next five years, as well as a healthy university programme. The recent government initiative has brought forward a total of £1.42bn for schools, further and higher education projects.
8. **Health** (5% of total new work) - with a total of £15bn due to be spent in the health sector over the next 3 years, this is clearly a promising one. There are currently 25 PFI projects under construction with an annual spend in excess of £1bn and up to 150 polyclinics are due to be built over the next 10 years.
9. **Infrastructure** (10% of total new work) - the government has planned £70bn expenditure between 2007 and 2011 on infrastructure. Although there are doubts that this will be all spent, it is a significant sector and one which has strong prospects, especially in the current climate.
10. **Hotels** (c1% of total new work) – still strong demand, especially for the budget hotel sector. There is apparent demand for at least 100 new budget hotels a year (c£500m construction spend) but obtaining funding may be the biggest challenge.

