



Project & Programme Services (PPS)

# CONSTRUCTION INTELLIGENCE REPORT

Q4 2024 UK & Ireland





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# INTRODUCTION

As expected, the July election brought a change in government, with Labour replacing the Conservatives and returning to power for the first time in 14 years. It brought with it a change to a seemingly more construction-friendly attitude which includes the construction of 1.5 million new homes in the next five years, as one of the central points of the manifesto.

This will be a monumental challenge and requires planning changes such as the identification of the new grey belt, new local planning strategies and more government intervention to drive projects forward. Who will supply the housing, and how the shortage of suitable skilled labour will impact delivery, are yet to be determined.

With changing end-user needs, renewed government commitment towards net zero targets, the growing importance of the repair

and maintenance (R&M) sector, and local planning departments favouring redevelopment of existing stock over new build, the construction sector faces many questions.

In the last few months, we have seen an increase in construction output and new orders, assisted by the August base borrowing rate reduction. This was the first cut since the upward cycle of interest rates that began in February 2022, to counter the growing threat of inflation.



The 0.25% cut is expected to be followed by further interest rate cuts before the end of spring 2025. However, the Bank of England is keen to prevent domestic spending affecting its key target of low inflation. Therefore, barring any major economic downturn, a return to the low interest rate levels we enjoyed between 2008 and 2022 should not be expected.

Risk remains a problem; insolvencies continue to be a major concern, with many regional contractors and specialist sub-contractors going under. As a result, contractors are retreating from markets they consider risky or unprofitable.

The Government intends to make regulations to set a new date for the commencement of the Procurement Act 2023 on 24 February 2025, with the intention of providing government bodies with value for money, streamlining the procurement process for SMEs and increasing visibility of the intended pipeline. We look at what this might mean for the sector.

Accounting for 2.5% of global carbon emissions, the aviation industry is on a path of profound transformation, with intense pressure to decarbonise. In July 2022, the UK published its Jet Zero Strategy, which sets out a vision for net zero aviation sector emissions by 2050, and a 2040 target for aviation buildings. In a special sector report we look at how the challenges are being tackled.





# ECONOMIC OVERVIEW

The UK economy produced a stronger than anticipated performance in the first half of the year, thanks to the faster than expected fall in inflation. While inflation is expected to increase slightly in the second half of the year, it will fall back through 2025 and 2026. The figures suggest stronger growth than in the Eurozone, but expect this to be steady rather than overwhelming.

Personal spending has driven UK economic growth for some time and members of the Bank of England Monetary Policy Committee (MPC) are concerned that low interest rates will trigger a consumer spending spree, making inflation reaccelerate. It's likely that the next cut to interest rates will be November or December, allowing the MPC to analyse the pressures it says affect long-term inflationary trends. The committee will also get a chance to judge the impact of the government's first budget, scheduled for 30 October, on growth and inflation.

**"Brighter conditions are expected to be matched by a rise in business investment in 2024, followed by an even more significant uptick next year. Private sector investment and consumer spending should be the key drivers for UK growth going forwards."**

**Ernst Young ITEM Club Summer Forecast, July 2024.**

Looking at the bigger picture, most analysts agree that wise government investment in improved public services, green industries, energy and infrastructure is needed to increase productivity, sustain growth and counter the austerity cuts of 20 years ago.





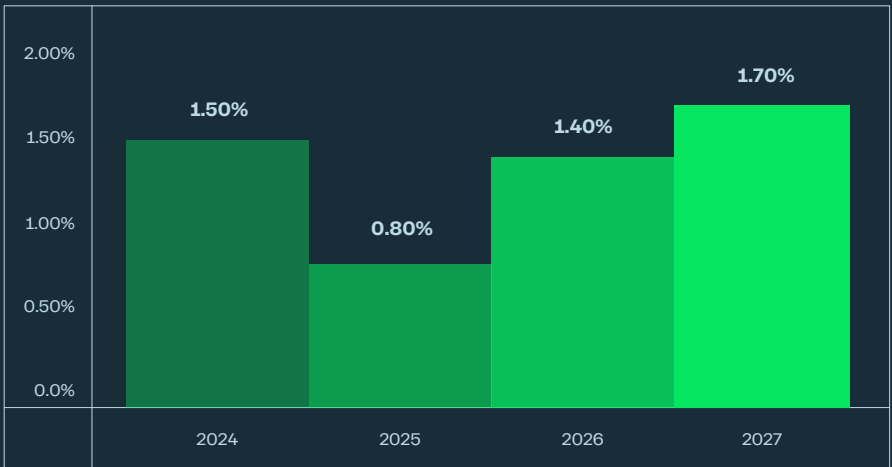


## GROSS DOMESTIC PRODUCT (GDP)

Recent published quarterly GDP growth was better than predicted for the first half of 2024, having picked up quite sharply at the start of the year. Having dipped in the second half of 2023 and briefly entered a recession, GDP growth was 0.7% in the 1st quarter 2024, driven primarily by the services sector, and continued strong growth in the 2nd quarter.

The ONS August statistics estimate that UK GDP grew by 0.6% in the 2nd quarter 2024, following growth of 0.7% in the previous quarter. When compared with the same quarter a year ago, real GDP is estimated to have increased by 0.9%.

### GDP % CHANGE PER ANNUM



Source: Bank of England Monetary Policy Report Aug 24

This growth exceeded many forecasts. However, slower growth is expected in the second half of the year as high interest rates act as an inhibitor of economic growth.







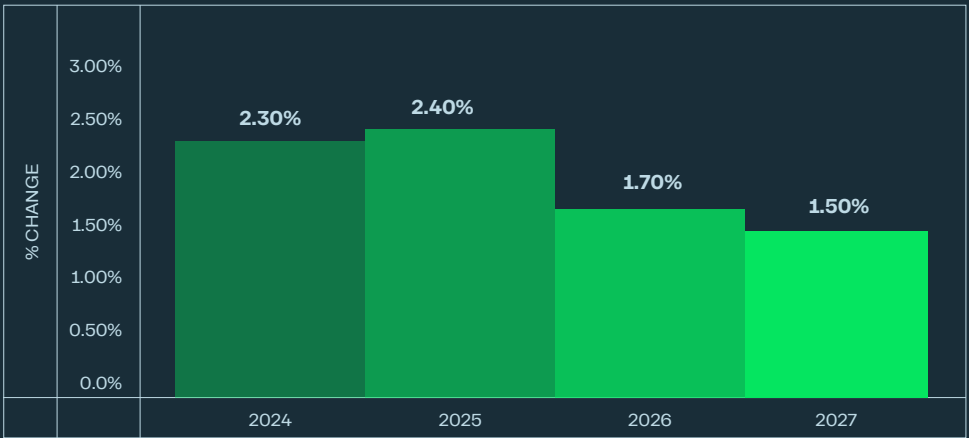
## CONSUMER PRICE INFLATION (CPI)

Having peaked at 11.1% in October 2022, CPI has fallen steadily and reached the government and Bank of England target of 2.0% in May 2024. As the effects of 2023 energy price reductions fall out of the annual comparison, the rate of CPI is expected to increase to around 2.75% in the second half of this year, fuelled by service sector price rises and a resilient UK jobs market. These inflationary pressures are forecast to fade, leading CPI inflation to fall back to 1.7% by 2026 and to further drop to 1.5% in 2027.

This has affected average weekly earnings growth which has fallen to 5.6% in the three months to May. The Bank of England anticipates that the fall in headline inflation, and a return to normalisation in many indicators of inflation expectations, will contribute to weaker pay and price-setting dynamics.

The Bank of England is expected to continue to cut its base rate, to 3.5% before the end of 2025. It issued a warning that while interest rates may have started to fall, monetary policy needs to remain restrictive to keep inflation around the 2% target for the medium term.

BANK OF ENGLAND CPI % FORECAST AUGUST 2024



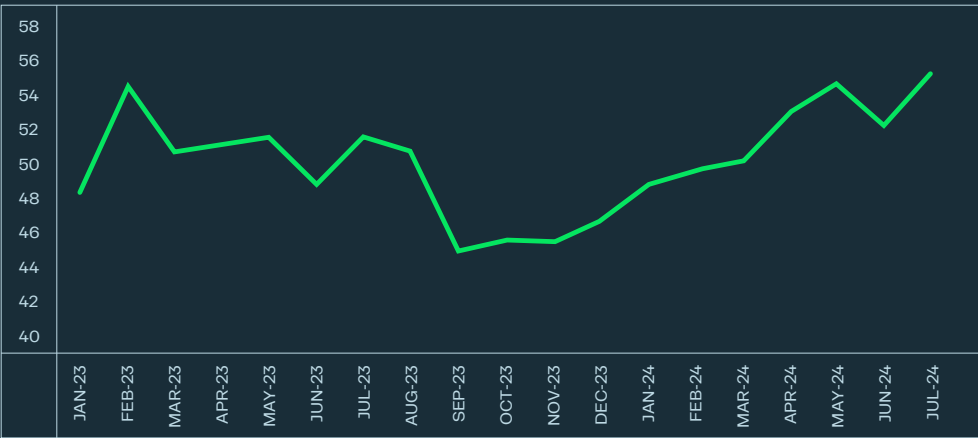
Source: Bank of England Monetary Policy Report Aug 24

## CONFIDENCE LEVEL

As the UK economy recovers from the shallow recession, and the property sector reacts favourably to the Labour government, recent movement in the headline S&P Global UK Construction Purchasing Managers' Index (PMI) has been upwards. After stalling in June as the industry waited for the election result, the index reached 55.3 in July; the rate of increase from June was the largest since May 2022, with increases in both activity and new orders recorded.

Reports indicated that activity and new orders increased during July, with firms looking to increase staffing levels again. This comes with the warning that these factors have placed some pressure on supply chains, and input costs increased at a faster pace. Since the interest rate cut, there are already reports of increased house prices and house-buying activities as increased consumer sentiment filters through.

IHS MARKIT CONSTRUCTION CONFIDENCE SURVEY



Source: IHS Markit



# CONSTRUCTION OUTLOOK

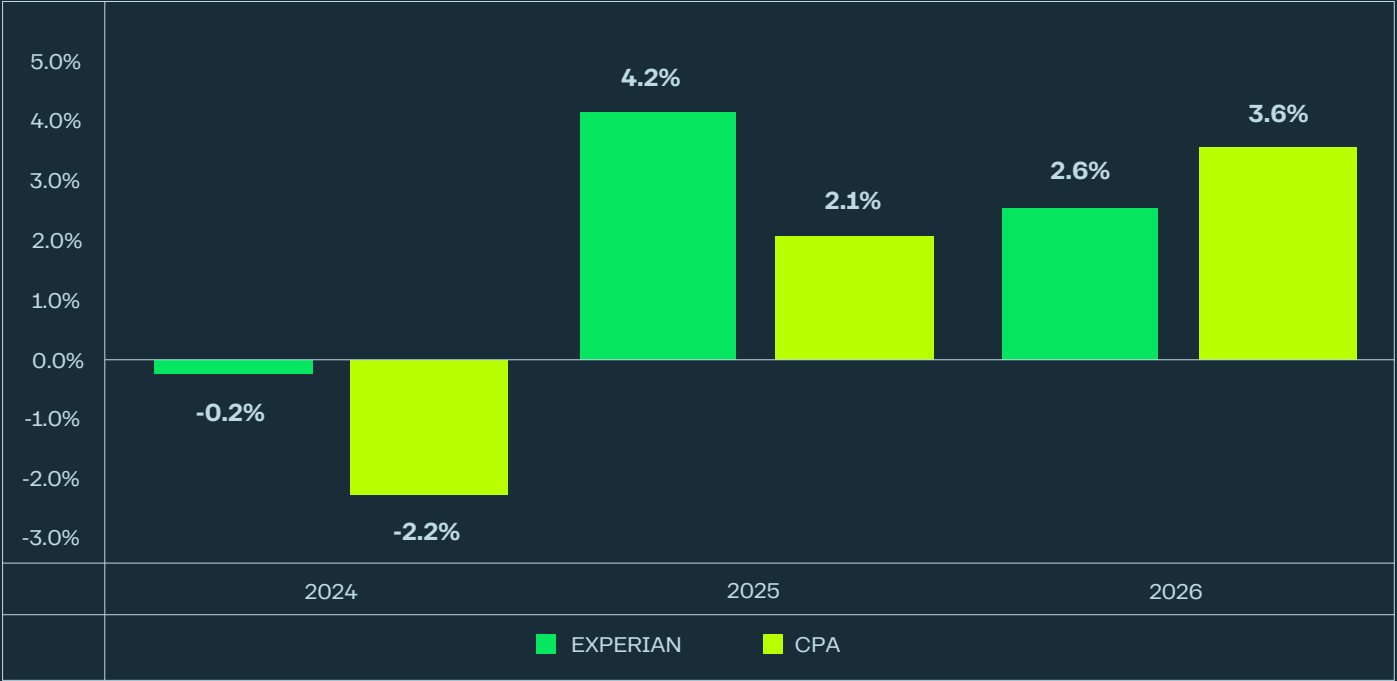
## OVERVIEW

In the 12 months to June 2024, total construction output fell by 1.7%, driven by the fall in new work due to affordability or viability issues. Repair and maintenance (R&M) work cancelled out a larger fall, sustaining its growing importance in the sector.

Yet despite output falling in the 2nd quarter by 0.1% due to April's inclement weather, there are encouraging signs: Output grew by 1.7% in May and a further 0.5% in June, as both new work and R&M increased.

Another optimistic note was 16.5% (£1,771m) growth in construction new orders in 2nd quarter 2024, compared with 1st quarter 2024. This was due to orders for new work in the private commercial and infrastructure sectors.

TOTAL CONSTRUCTION OUTPUT % CHANGE FORECASTS



Source: Experian Spring 2024 Forecast & CPA March 2024





During 2024, housebuilding output has remained suppressed in both private and social sectors, and activity is down on last year. Significant housing association funding has been diverted to repairs and maintenance, which, along with office fitouts/ refurbishments and residential improvements, has grown compared to last year.

**Forecasts by Experian and CPA indicate a decline in output through 2024. Recovery is predicted in 2025 and 2026, due to the government's determination to drive forward housing schemes, and the anticipated resurgence in housing demand as a result of the recent fall in the base borrowing rate and mortgage rates.**

Given the significance of the housing sub-sector, which accounts for around 40% of total output, any impetus will lead to more overall output.

Commercial developments have been impeded by high finance and build costs, which have made viability a concern. Output has been below average for the last couple of years,

although data from the 1st quarter 2024 showed an upturn in new orders and activity as an improved wider economy encourages delayed schemes to enter the delivery pipeline.

One of the government's aims is to attract private investment into construction projects. For the last few years, we have witnessed poor conditions for investment as world events have stretched supply chains and inflation. Investment is required to undertake construction work, and projects must be financed before any returns are made. The combination of high borrowing costs, high material inflation during late 2020 through 2022, wage agreements to combat domestic inflation and financial returns not keeping up with these increases, have led to stalled, postponed or cancelled projects.

As a result, private investment has been at a reduced level over the last few years and the government has realised that it must create a more stable environment to attract capital spending. The first steps have been announced, including the creation of the National Wealth Fund with a target of attracting £3 of private investment for every £1 of public investment. To provide support for this initiative, a 10-year infrastructure strategy will be developed, giving the private sector certainty about project pipeline.







Private investment is needed, as government expenditure is under tight control in order to reduce the public debt accrued since the pandemic. A £22bn gap between announced projects and available capital has recently been revealed, and there are fears that this will lead to tax increases which will in turn deter investors from building.

**With improved economic conditions and the first steps in reducing borrowing rates, a rise in business investment is expected in late 2024, becoming a key driver of growth.**

While we have seen the first cut in base interest rates after a year where the base rate reached 5.25%, the cost of borrowing remains high. The Bank of England has stated that a return to the interest rate levels witnessed between 2008 and 2020 is unlikely, unless there is an event that requires the reduction of interest rates to stimulate the economy. As noted in the Economic Overview above, the Bank of England is concerned that personal spending will cause an increase in inflation and may hold base rates.

The August reduction is the start of the process. We need the continued growth of the UK economy, coupled with ongoing falls in borrowing rates and a tax structure that looks favourably on businesses and investment.

The government has confirmed it will create the National Infrastructure and Service Transformation Authority (NISTA), combining the National Infrastructure Commission (NIC) and the Infrastructure Projects Authority (IPA). Its aim is to 'tackle inertia at the heart of government to get Britain building again.' By setting strategic infrastructure priorities and overseeing the design and delivery over a 10-year period, NISTA will provide a cohesive national strategy which ensures projects are connected and gives the private sector confidence about the project pipeline.

The government also aims to drive projects through the planning process, potentially updating national planning policy to allow government intervention to bring forward projects of national significance; for example, infrastructure projects including new roads, railways and reservoirs, as well as newer infrastructure sectors such as laboratories, digital infrastructure and gigafactories.





## THE PROCUREMENT ACT

### Increasing visibility of the pipeline

Given the importance of government expenditure within the sector, and the pressures faced by SMEs, the Procurement Act's objective of modernising and streamlining the current public procurement rules should be welcomed. The Act emphasises value for money, public benefit and integrity; it received Royal Assent in October 2023 and becomes live in October 2024.

Building on the post-EU environment, the Act introduces a central digital platform where interested parties register their details once only. The Find a Tender system, which replaced the Official Journal of the European Union (OJEU) process in 2021, is now linked to this digital platform. The Find a Tender system will also be used to publish the significant number of new notices required under the procurement reform.

This is a key service as one of the Act's objectives is to provide pipeline visibility. Public sector organisations with an annual spend of over £100m will have to publish an 18-month view of procurement opportunities worth £2m or more and are expected to

release pre-market engagement notices encouraging conversations with the supply chain. Public sector buyers are now allowed to design their own procurement processes to ensure a greater level of dialogue and engagement during the tender period and beyond, to obtain better value for money.

It's not just a carrot, as the Act introduces the use of KPIs and expanded exclusion rules. Where contracts have an estimated value of over £5m, contractors will be required to include three KPIs and results will be in the public domain.

Exclusion grounds have been expanded. If you are bidding with sub-contractors as part of a consortium, they too will be subject to exclusion rules, as will other 'connected persons' such as parent or subsidiary companies. Existing exclusion grounds have been widened; for example, for poor performance or improper behaviour. Excluded suppliers may be entered on to the government's central debarment list, preventing them from winning public sector work.



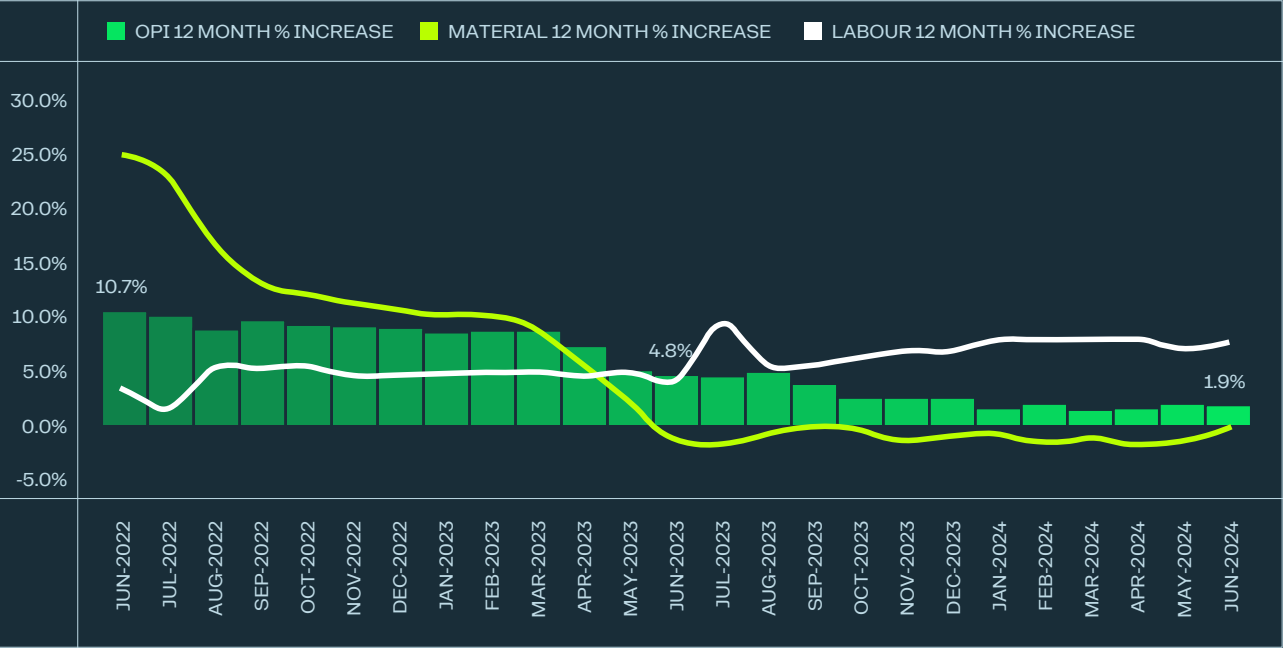


OUTPUT COSTS

In the last 12 months, input costs, such as raw materials and energy costs, have remained flat or have fallen, assisted by weak global and domestic demand. As a result, finished goods and manufacturers’ domestic prices have been held down. Impacts from conflicts and the Red Sea shipping disruption have been limited to date; however, political volatility is increasing and disruption could yet lead to raised costs and delays.

Since June 2022, the rate of output cost rises have softened from 10.7% to a low of 1.4% in March 2024, before increasing to 1.9% in June 2024. Material prices have steadied because of reduced demand and resolving supply chain issues. The recent upturn in activity has seen the BCIS Materials Cost Index rise, a trend noted by many analysts. Meanwhile, as the graph below shows, labour costs for both consultants and site operatives have also risen, due to wage agreements to meet the high level of consumer inflation and shortage of suitable labour.

% CHANGE OVER PREVIOUS 12 MONTHS FOR OPI VS MATERIALS VS LABOUR



Source: ONS & BCIS

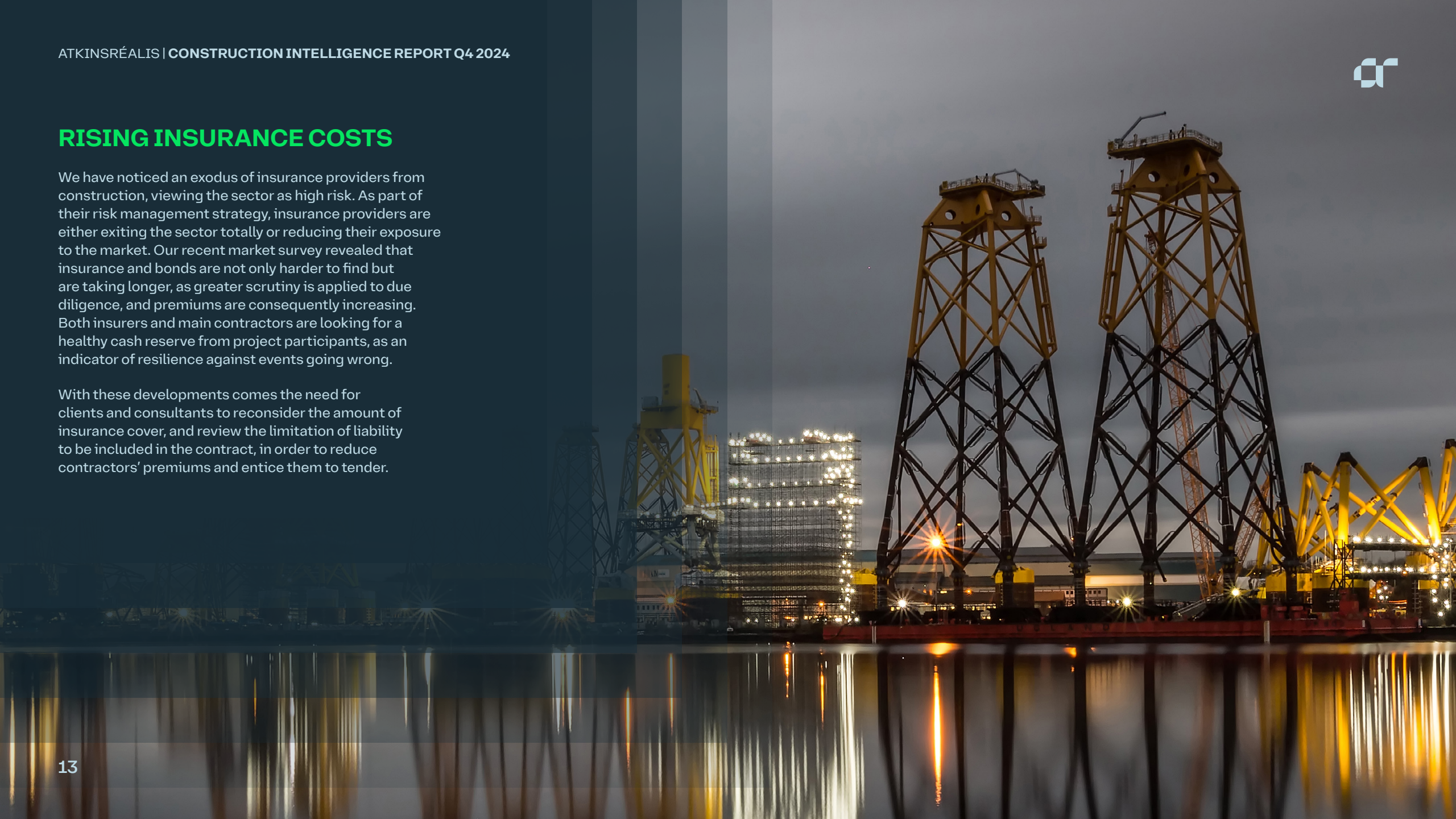




## RISING INSURANCE COSTS

We have noticed an exodus of insurance providers from construction, viewing the sector as high risk. As part of their risk management strategy, insurance providers are either exiting the sector totally or reducing their exposure to the market. Our recent market survey revealed that insurance and bonds are not only harder to find but are taking longer, as greater scrutiny is applied to due diligence, and premiums are consequently increasing. Both insurers and main contractors are looking for a healthy cash reserve from project participants, as an indicator of resilience against events going wrong.

With these developments comes the need for clients and consultants to reconsider the amount of insurance cover, and review the limitation of liability to be included in the contract, in order to reduce contractors' premiums and entice them to tender.







## LABOUR

Labour remains a critical issue, with an ageing workforce and skills shortages across all disciplines, encompassing white, blue and green collar workers. The Construction Industry Training Board (CITB) predicts that an extra 251,000 workers will be needed by 2028 to meet expected levels of output, reversing the past five years' trend of a net decrease in the industry's workforce. This long-term problem highlights the need to attract and retain younger workers, with initiatives like the government's recently launched Skills England programme.

Once construction activity picks up as anticipated, these shortages will be amplified and the usual scramble to recruit and retain suitable workers will once again take hold. Labour shortages are not limited to the UK; our European neighbours are also suffering and face competition from global mega-projects.

The labour shortage will be reflected in the increase in tender inflation and delays to projects. With the cost of materials remaining steady, the cost of employing suitably qualified workers is now the main cost driver. To date, the use of offsite manufacture hasn't been as successful in the UK and Ireland as in mainland Europe, but adoption of these methods would be one way to reduce costs. We also wait to see if the growing noise around AI will help solve the problem of professional vacancies and limit cost increases. Before these potential solutions bear results, the current cost implications of the labour market have been built into our tender price forecast later in the report.

To get a perspective on the problems facing the wider market, we'll now take a look at two different sectors. We'll now take a look at how the Defence & Renewables sectors are affected





## THE DEFENCE LABOUR MARKET

The UK defence industry has experienced significant growth in recent years, driven by increasing activity and urgency. This expansion has made the market and workforce more rigid compared to the general labour market. Several factors contribute to this in-elasticity: construction projects are often located in remote areas, making them less accessible to potential recruits; the nature of the work is less familiar to many candidates; and personnel often need to be vetted, with some roles requiring sole UK nationality. These challenges limit the ability to grow the construction workforce within the sector.

Despite these constraints, the UK defence industry has achieved notable employment growth, particularly in construction, supported by increased exports and research and development (R&D). In 2023, defence spending with UK industry surpassed £25bn for the first time, supporting over 209,000 jobs across the country. Regions such as Yorkshire and the Humber, Wales, and Northern Ireland have seen substantial increases in defence expenditure, highlighting the sector's critical role in regional economies. 31.5% of the defence workforce is now

based in the north-west of England, underlining how important the region's contribution is for the defence sector.

Looking ahead, the defence industry is expected to continue expanding, driven by ongoing investments in construction, R&D and advanced technological capabilities. The government's commitment to increasing defence spending is set to further enhance employment opportunities and support the development of high-productivity, highly skilled and well-paid jobs. The industry is also addressing key challenges such as skills shortages in the nuclear sector and the need for more agile supply chains. Efforts are focused on attracting and retaining talent, particularly in STEM fields, and improving supply chain resilience to maintain efficiency in production and delivery amid global uncertainties.



**Hugo Terry**  
Director





## RENEWABLES

The government has lifted the local complaints planning barrier for onshore wind farms and proposes to integrate these projects into the National Significant Infrastructure Projects plan, which would allow government intervention over planning concerns. The sector is now gearing up for the next wave of onshore wind farm building.

In September, the next round of offshore wind farms will be auctioned (AR6). The previous auction (AR5) failed to secure any offshore wind bids because the administrative strike price (ASP) was set too low and did not reflect changing economic and market conditions, putting energy security and climate targets at risk. The forthcoming AR6 now has additional uplifts to enable companies to bid competitively.

For the last decade, the development of onshore wind farms has been in limbo, with planning consent constraints raised by small numbers of objectors and causing

projects to stall. As a result, the UK has lost skilled consultants and green collar workers from this field. Ageing demographics are also an issue, with over-50s making up the core of the labour force. In-house retraining and upskilling is helping meet demand, but the industry needs to attract younger talent as new technology and innovations are introduced. Additionally, transferable skills in project management, risk management and engineering must be brought across from non-renewable sectors such as petroleum. These strategies will require collaboration from industry, government and academia to enable the UK and Ireland to retain talent and obtain investment.



**Carly Gilley**  
Regional Director





## MATERIALS

The downturn in construction activity has allowed products to be restocked and, as a result, product availability has increased. Associated with this are reports that manufacturers have been unable to make price increases stick. As discussed in the previous report, supplies of materials were reduced during downturn, to accommodate reduced demand. To increase supply, manufacturers must accurately forecast when they need to increase capacity to meet increasing demand. As we saw after the Covid lockdowns, ramping up production generally takes up to three months. Therefore, we could face a short period of demand outstripping supply, requiring collaboration to source materials.

Even in the early stages of recovery, the recent S&P report warned that, with increasing demand, there are early signs of inflationary pressures as suppliers will look to increase prices. This has also been observed in the BCIS Materials Cost Index.

The impact of stretched global supply chains and the uncertainties of regional conflicts have led to a new trend of governments aiming to revitalise local supply chains. While the media headlines centre on the creation of domestically produced energy, including improving renewables and reducing reliance on imported oil and gas, the supply chain issue also applies to other sectors. By adopting a local supply chain where possible, greater quality control is facilitated, alongside shorter lead times as shipping and customs clearance are not required. However, goods which would otherwise be produced in low-wage economies will cost more in developed countries' supply chains.





# CONSTRUCTION FORECAST

In the previous Construction Intelligence Report forecast, we increased our prediction by 0.25% for the rest of the year. The resultant figures released on input and output prices and construction output gives us confidence in the level of forecast. For 2025 there is growing optimism that output and investment will continue to rise. Historically, as output rises so does inflation, which our tender price forecast reflects with increases for the next three to four years as increased demand will drive inflationary pressures. The question is, how will the pre-eminent cost drivers influence tender prices?

Construction output will be limited, as planning delays continue to blight schemes due to lack of planning resources and poor direction. As a result, developments are taking longer to get to site. These are issues that the government intends to address. The procurement of more planning resources will take time, and other supply chain constraints such as labour shortages and a reduction in suitable contractors will limit the total increase in construction output.

As a result, continued interaction with the supply chain is essential. The last few years have left contractors scarred and a period of retrenchment has commenced as they pulled out of certain market sectors; for example, moving away from high-rise residential to focus on other areas. Contractors are re-evaluating their major areas of work, looking for increased margins and the potential for future work on similar schemes. Pre Covid, contractors may have appeared interested in tendering but are now less likely to, especially when working with an unfamiliar supply chain.

The withdrawal of Lendlease from all markets except their Australia homeland came as a surprise to many within the UK construction sector. In practical terms it also reduces the list of Tier 1 contractors available for large complex buildings. As a result, Tier 2 contractors are being approached to undertake work, but there is uncertainty around their ability to deliver the projects. Although no Tier 1 contractors have gone into administration since Carillion, the same cannot be said of Tier 2 /regional contractors and specialist installers. The figures are stark: 17% of all UK insolvencies in the last year were from construction.







The specialist installers are especially affected, accounting for over 60% of construction administrations. Although alternative sources of contractors and subcontractors can be found in larger metropolitan areas, this may bring risk, in quality, cost or time. Outside of the larger markets, the lack of resource becomes especially noticeable, with traditional tender lists decimated because of the demise of established contractors.

There are early signs that inflationary pressures are beginning to commence; the supply chain is more limited than a few years ago and this reduces the previous competitive edge. Contractors and specialist sub-contractors are pushing back against designing parts of the project with incomplete or conflicting information, resulting in refusal to tender or increased tenders sums to cover risks. We advise clients to avoid additional costs and delays by providing early and detailed information.

There is still downward pressure. Recent government statements on the shortfall in funding promises were followed by cancellation of several infrastructure works and announcements that ‘things will get worse before they get better.’ We have been warned to expect tax rises and this raises concern over their spending plans. There is a nervousness about the path that the government will follow, but they are certainly retaining tight control of spending limits and this is unlikely to change in the October budget.

With many analysts stating that the next economic cycle will be fuelled by private investment, there are fears of tax increases and other unwelcome news. These pose some threats that may deter or limit the immediate amount of private investment available. For contractors still looking to complete their order books for 2025, a smaller than anticipated pipeline of opportunities will force a continuation of competitive tender bids.

Our forecast remains positive; it allows for an increase in output, along the lines forecast by the industry and accommodating a degree of planning reforms and a slight increase in the labour force. The government is taking a more active and interventional approach to projects, whether housing or infrastructure. Looking further ahead, if the planning reforms are successful and quickly implemented, the usual scramble for resources may occur, leading to potentially higher tender increases and delays. As always, we recommend early and good communication with all members of the supply chain to achieve the best results.

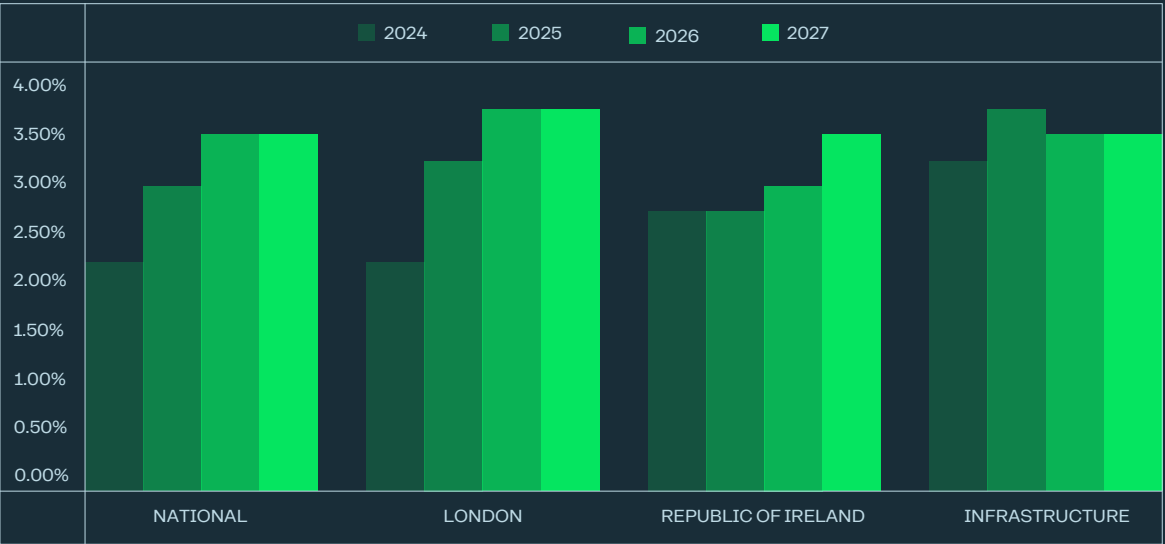
**Max Wilkes**  
Associate Director



ATKINSRÉALIS TENDER PRICE FORECAST 2024-2027

AREA	2024	2025	2026	2027
National	2.25%	3.0%	3.5%	3.5%
London	2.25%	3.25%	3.75%	3.75%
Ireland	2.75%	2.75%	3.0%	3.5%
Infrastructure	3.25%	3.75%	3.5%	3.5%

ATKINSRÉALIS TPI FORECASTS 2024 - 2027





# SECTOR UPDATES



# COMPLEX INFRASTRUCTURE

The government's policies include the introduction of legislation to reform rail franchising and bring train operators into public ownership.

This carries both risks and opportunities, including the likelihood of significant investment in upgrading and expanding the existing rail structure through the formation of Great British Railways (GBR). Procurement processes may change and, rather than dealing with multiple private operators, suppliers may have to work directly with a GBR streamlined bidding process and public sector regulatory frameworks.

The publicly-owned Great British Energy (GBE) is to be created with an initial capital investment of £8.3bn. It aims to accelerate investment in renewable energies such as offshore wind, aligning with Labour's goal to make the UK a 'clean energy superpower' and achieve a fully decarbonised power system by 2030.

The National Wealth Fund has been set up to support strategic infrastructure investments. This will benefit renewable energy projects, gigafactories for electric vehicle batteries, green hydrogen manufacturing and clean steel production.

The government's fiscal policies will look to boost investment in renewables and infrastructure but will need to be balanced with the Bank of England's monetary policies. If the Bank raises interest rates to combat inflation while the government increases spending, this could lead to a clash between fiscal expansion and monetary tightening, thus complicating economic management.





## Aviation sector

Airport footfall has now returned to pre-pandemic levels, and rising demand means that many airports are trying to improve the passenger experience with extensions and upgrades to terminals. From a financial and social perspective, the sector is very aware that it needs to do this to remain viable.

The emphasis is on using modern methods of construction (MMC) and optimising energy efficiency in hub design. As there are only a small number of entirely new-build airports, especially within western Europe, most schemes will involve refurbishment of existing buildings and the construction of new buildings. The connection between new build elements and existing infrastructure is a key component of airport development and this needs careful consideration. With much of the work taking place in refurbishment environments or as an interface with new build, the associated problems of unexpected discoveries may emerge.

Working at an airport brings many challenges. First is the scale; even a small airport can be considered a large area when the whole footprint including runways is considered. Airports have heavy footfall that needs to be accommodated, often in a frantic setting.

Projects involve a substantial element of civil engineering, including the repair and maintenance of aprons, runways, drainage and lighting, together with airside buildings such as hangars and fuel depots.

Airport construction is usually undertaken at night, when there is less flight activity, with strict schedules timed to work around flight times and minimise disruption. Operatives require security clearance before working airside and will have to go through security every day. Projects can take longer to plan and construct, due to their scale and to the limitations described above, bringing greater bureaucracy and increased costs. This is especially the case for airside work, which can cost considerably more than properties outside this environment.

The government introduced new regulations in 2022, for completion in 2024 (although this has since been delayed), relaxing the rules on liquids and electrical goods in hand luggage, to reduce waiting times at security. Specialist screening machinery requires installation expertise, alongside the remodelling of security halls. Birmingham Airport has taken the opportunity to revamp its security hall at an estimated cost of over £40m. The introduction of the machines prompts the need to review existing M&E plant capacity and consider upgrading.

All this is around the need to ensure that passenger navigation is as easy as possible, providing clear wayfinding and limiting travel around the airport, especially for those with restricted mobility.



## Decarbonising airports

An article by the World Wide Fund for Nature (WWF) has highlighted that **‘if the entire aviation sector were a country, it would be one of the top 10 carbon-polluting nations on the planet.’** WWF’s comment is an example of the increasing pressure the aviation sector is under, to instigate change and decarbonise as an enabler to accompany growth. This is within the context of increasing demand for air travel, and alongside the government’s strategy to reduce in-sector emissions.

In July 2022 the Department for Transport published its updated Jet Zero Strategy, setting clear goals to achieve net zero UK aviation emissions by 2050 and for all airport operations in England to be zero emissions by 2040. The aviation sector is vital to the UK economy, but significant challenges in decarbonising the sector are evident.

Although airports contribute only 2.5% of all aviation emissions, they stand at the forefront of the transition, because decarbonising aircraft emissions is impossible without the right infrastructure and systems on the ground. Both air and ground components of the aviation ecosystem therefore need to move forward in unison. Airports are in a privileged position to lead this collaboration across stakeholders, to navigate transition risks and to act as a catalyst for aviation decarbonisation.

One immediate challenge is delivering energy security at the initiation of a substantive energy transition, while also planning to decarbonise both ground and air operations. The issue of achieving decarbonisation, while navigating a sustainable economic platform to drive growth, compounds the complexity of securing and allocating financing. To stand up to these challenges, while maintaining uninterrupted services, requires a whole-life system thinking approach.

Heathrow Airport has recently made progress towards this, with 95% of its airport operational vehicles now running on greener biodiesel. Following the opening of the Elizabeth Line 43% of passengers now use public transport to access the airport, highlighting the need for an integrated airport/public transport system to reduce carbon emissions.

The AtkinsRéalis-developed Decarbonomics™ Airports concept is based upon an award-winning property platform that provides a data-driven, systems level approach to enable decarbonisation of existing assets and ground fleet. The platform future-proofs infrastructure decision-making for ongoing and future works, through the development and implementation of cost and programme-optimised net zero pathways that are informed by pragmatic delivery experience and expertise.

The approach constructs a framework, benchmarking current carbon footprints, developing strategic roadmaps for intervention,

overseeing implementation and following this through with long-term measurement and verification to ensure benefits are realised. To meet the individual demands of airport infrastructure, a holistic approach is followed. Alongside optimising building fabric, servicing solutions and energy usage, the tool interrogates ground-fleet operations and airport infrastructure to support the transition to zero carbon flight.

For further information on how AtkinsRéalis can assist with Decarbonomics™ in the aviation sector, please contact [matthew.wilson@atkinsrealis.com](mailto:matthew.wilson@atkinsrealis.com)



AtkinsRéalis used the latest in data-driven, digital engineering to help maximise investment, future-proof, and decarbonise Dublin Airport

### Key Benefits:

- Cost-effective decarbonisation
- Systems level reporting
- Future-proofing complex assets
- Robust investment cases
- Empowered decision making
- Operationalising strategic intent



**Mathew Wilson**  
Senior Project Manager



# REGIONAL UPDATES



# WEST MIDLANDS

The West Midlands construction industry has seen significant growth in recent years and plays a crucial role in the region's economy, reflecting both its industrial heritage and its ongoing transformation into a modern, diversified economic area.

Office development in the West Midlands is undergoing a transformative phase, driven by a combination of urban regeneration, infrastructure investments and changing work patterns. Birmingham, as the region's economic heart, is at the forefront of this evolution, with significant new office projects reshaping the city's skyline.

The development of Paradise Birmingham, a masterplan that AtkinsRéalis has been heavily involved in and the location of our Birmingham office, is a prime example of high-quality office space in a central location. This mixed-use development is part of Birmingham's broader strategy to

attract businesses and investors, positioning the city as a leading business hub. Similarly, the Snow Hill district continues to expand, with its office spaces attracting major corporations mainly from the financial and professional services sectors.

Coventry and Wolverhampton are also experiencing increased office development, spurred by investments in local infrastructure and efforts to revitalise their urban cores. These developments reflect a broader trend of decentralisation, where businesses are looking beyond London for modern, well-connected office spaces.







The post-pandemic shift towards hybrid working has influenced office design, with developers now focusing on flexibility, sustainability and wellness. New office spaces in the West Midlands increasingly feature adaptable layouts, energy-efficient designs, and amenities that promote employee well-being, catering to the evolving needs of businesses and their workforce.

The importance of the HS2 high-speed rail link between London and Birmingham cannot be overstated as a key driver for an influx of investment and increased construction activities in the West Midlands over recent years.

Build-to-Rent (BTR) development in the West Midlands has gained significant momentum in recent years, becoming increasingly popular as cities like Birmingham, Coventry and Wolverhampton experience population growth and urban regeneration.

Birmingham in particular has emerged as a key hub for BTR development. The city's ongoing transformation has attracted both domestic and international investors to the BTR market. AtkinsRéalis' award-winning project The Goodsyard in Birmingham's Jewellery Quarter is an example of large-scale BTR projects that cater to young professionals and families seeking modern, amenity-rich living spaces in central locations.

These BTR projects offer a range of amenities, such as on-site gyms, communal spaces and professionally managed services, appealing to a demographic that values convenience and community. The growth of BTR in the West Midlands is also supported by the region's strong rental demand, driven by a mix of young professionals, students and transient workers.

We have seen a higher percentage of single-family BTR investments compared with multi-family developments over the past year. The temporary slowdown of multi-family BTR investment may be partly influenced by regulatory and financial challenges faced by developers. However, with Birmingham rents hit by an average increase of more than

10% [Ref: JLL Big Six Residential Development Report H1 2024 (13 Aug 2024)] over the past 12 months, BTR is still very much an attractive asset class for institutional investors.

We are also starting to see more large-scale regeneration projects emerging in the peripheral commuter towns such as Solihull, Sutton Coldfield and Walsall. With a focus on community and placemaking, these schemes set out to increase, diversify and improve housing stock, rejuvenating tired retail precincts into thriving hubs. Schemes are likely to benefit from local authority-administered levelling-up funding to aid viability.



**Andrew Davis**  
Associate Director



# LONDON

Sentiment in the London and South East market is varied. In certain specific sub-sectors of commercial property, positivity and momentum exists; meanwhile in other sub-sectors, there remains a hesitancy to progress developments at pace.

Sectors that are performing well and enjoying a period of high demand are life sciences and data centres. Large, high value data centres are reaching the end of their lifecycle or becoming out-dated, and operators intend to renew facilities. Additionally, updates in technology such as AI are taking over, and the south-east of England is a hotspot for this type of development. Certain contractors are benefiting from this, especially those who can diversify and capitalise on these opportunities.

However, contractors remain at risk of insolvency, as demonstrated by government data showing that the number of insolvencies in June 2024 was 17% higher than June 2023. Over half of these insolvencies were specialist sub-contractors, who are typically more vulnerable to fluctuating changes in cost and viability of materials and labour, which are often based on fixed-priced contracts. Although

there has been a 0.9% decline in prices for construction materials for 'All Work', BCIS reported that building costs are likely to increase by 15% over the next five years. Currently, there are cost pressures on specific MEP equipment such as lifts and switchgear, and on specific specialist tasks such as cable-pulling due to limited labour and pipeline uncertainty. The bond and insurance markets are experiencing high pressure due to ongoing insolvencies. Some clients are exploring alternatives to traditional performance bonds and are using retention mechanisms such as Project Bank Accounts as a method of protection.

Following the formation of the new government, the residential sector is expected to benefit from update of the National Planning Policy Framework (NPPF). This aims to restore mandatory housing targets, to deliver 1.5 million homes over the next five years



(an average of 300,000 a year). A London-specific goal is to build at least 40,000 new affordable homes by 2030, as well as 6,000 homes as part of the first phase of the 'rent control' homes proposal.

To accelerate the process of development, the government proposes an increase in the number of planners, greater use of brownfield land, and implementation of a 'grey belt' strategy. So-called 'poor quality and ugly areas' within parts of the green belt (examples include old petrol stations and car parks) could have development potential; 11,000 sites have been identified, with just over 40% located in Greater London.

Alongside demand for new housing, retrofit has been in the spotlight this year. According to the UK's Climate Change Committee, residential retrofits will reach 500,000 homes per year by 2025 and one million homes per year by 2030, to achieve the UK's net zero target. Additionally, there are further commitments within London for retrofitting works to be completed on 500,000 social housing homes by 2030.

Commercial office developments experienced a drop of 18% in the volume of new starts by the end 2023. Nevertheless, commercial office construction activity is still well above the 10-year average.

This high level of activity is largely driven by the tightening of minimum energy efficiency standards. This is evidenced by the volume of refurbishment work, which currently exceeds new build activity. Although demand for premium office space continues to increase, tenants require more than office space to attract workers to the workplace. The trend to diversify offices into multi-use space is demonstrated by Canary Wharf Group's proposed retrofit of the HSBC tower (8 Canada Square) in Canary Wharf, which is set to be transformed into workspaces, entertainment, education and attractions such as a roof-top viewing gallery. Viability

concerns remain for large-scale office developments, due to the cost of finance and other factors. Until economic conditions improve, constraints in activity may continue.



**Charlie Radbone**  
Regional Director



# NORTH AMERICA

Throughout the report we have referred to global events and supply chains affecting the UK market. One of the benefits of AtkinsRéalis is that we can draw upon our colleagues' knowledge from around the globe.

While we have had our general election, the USA is gearing up for its own. We will be affected by the result—look at the Trump/Trudeau clash that saw European timber prices escalate because of the trade measures that took place. The election result and subsequent economic performance will have an impact on investment in the UK and Ireland.

The forthcoming election may cast a shadow. Much of the current construction activity, and a primary reason for the healthy construction market in the past couple of years, has been the Biden administration passing the Infrastructure Investment and Jobs Act (IIJA) which has driven transportation construction spending. The Chips & Science Act is similarly driving semi-conductor spending, and the

Inflation Reduction Act (IRA) is doing the same for EV battery and solar manufacturing spending. The IIJA and Chips & Science Act are bi-partisan and unlikely to go away, but the IRA is a Democrat bill that Trump has stated he would repeal, so, coupled with some challenges in the EV market for automakers, this could have a major negative impact on construction investment in the USA. A recent report for Dodge Data & Analytics shows that while US construction activity has been increasing well during the past two years, this is disproportionately driven by mega-projects that are heavily dependent on these government programmes. Smaller projects have been decreasing in activity, and the big driver for that is high interest rates making developer-led projects unaffordable.



## Inflation, Interest Rates and Increased Risk of a Hard Landing

The financial markets were spooked by a recent jobs report showing some signs that unemployment might be trending upwards, with new vacancies reducing, as a potential leading indicator of a recession in the US economy. Whether or not this is a short-term blip, it has raised the debate around interest rates and whether the Federal Reserve might have waited too long to lower them. With inflation falling in July to 2.9%, this may present the Federal Reserve the opportunity to cut rates. Like the UK at the end of 2023, the concern is that if we are already

entering into recession territory, the delay between the decision to lower interest rates, coupled with the impact of those cuts working through the economy, may mean they now come too late to avoid a hard landing. Any reduction in interest rates will be welcome news for developers, especially in the residential sector where there is significant demand for new housing. However, the onset of a recession may challenge demand as witnessed in the European markets. The candidates for both major parties have made it clear they intend to tackle the high cost of housing in the USA, so there is potential for more favourable

government policy to increase the supply of new housing and for the easing interest rates to support greater home-buying activity.

The semi-conductor industry is also highly sensitive to economic slowdowns, so some of those mega-projects still in their early phase of planning could be endangered. This, coupled with concern over the future of continued support for mega-projects, especially those green technology focused if there is a Republican victory, means that contractors and design firms face the prospect of a tough time through the last months of 2024 and into 2025.

However, if a recession does arrive then that demand may well evaporate, and it would be highly concerning for those contractors and design firms that don't have a good share of the mega-project market, as they are already having a tough time this year.



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