

Is the office construction growth bubble about to burst?

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Construction



Recent construction growth statistics show UK office development has been on a firm growth trend over the last three years. And indeed, the forecast for office construction for 2016 is a 49% increase in office starts compared with 2015.

However, can the industry sustain these figures – or is the bubble about to burst?

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increase in office starts
compared with 2015

When we asked you what you thought, your overwhelming opinion was quite clear:

67.5%

of you agreed that the market will continue to grow.

However, not everyone is as positive about the wider construction industry.

Potential risks to the positive growth forecast

Despite remaining generally positive about growth, the Construction Products Association (CPA) has warned that uncertainty over the EU referendum, due 23rd June, among other global issues, is stalling projects. CPA economics director Noble Francis explains the potential risks he sees to the positive forecast:

“First is the uncertainty regarding global economic prospects. The chief concern remains weakness in China and the effect it can have on other countries. Second is the EU referendum, likely due this year. While we make no assumption about the result, we note the uncertainty around the issue is already affecting investment decisions. Third and perhaps of most importance for the industry is the urgent challenge around skills shortages. The availability and cost of skilled labour has clearly impacted the house-building sector; the recovery in other sectors is already showing a similar vulnerability.”

The purchasing managers' index (PMI) for the construction sector (compiled by research group Markit) also indicated a slightly more conservative start to the year than predicted – dropping from 57.8 in December to 55.

While any reading above 50 indicates growth, the industry will certainly be hoping the downward trend reverses as the year progresses.

David Noble, chief executive at the Chartered Institute of Procurement & Supply, co-publishers of the PMI, is certainly optimistic:

“Supply chains were weighed down by the pressures of a shortage of bricks and blocks as delivery times became longer in an attempt to fulfil recent orders from last year. Optimism was still high, however, as business expansion plans continued although at a slightly more muted pace.”

Meanwhile the FMI predicts that, while construction growth will slow to 8% in 2016, it will still be well ahead of GDP.

“2016 will challenge contractors' growth plans, and there will always be new challenges to face. However, economic factors for construction are about the best we have seen since the recession, and we are looking for continued progress in 2016.”

And the good news is that office construction is one of the areas that is highlighted for most notable improvements in growth – achieving almost double the general growth prediction from the CPA.

“**2016** START”

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So despite a more conservative general prediction for construction growth in general in the UK, there are plenty of reasons why we can expect great things from office construction throughout 2016. Maybe that bubble isn't quite ready to pop just yet.

Sources

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