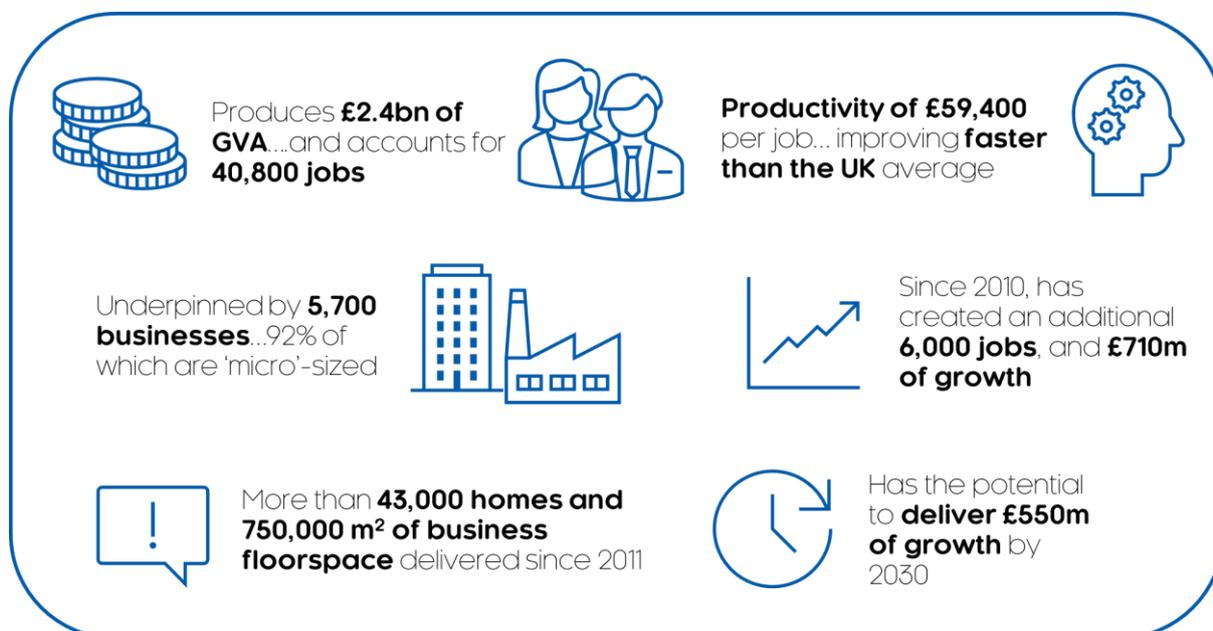


Sector profile: Construction and Development in Leicester and Leicestershire



Produces £2.4bn of GVA...and accounts for 40,800 jobs

Productivity of £59,400 per job... improving faster than the UK average

Underpinned by 5,700 businesses...92% of which are 'micro'-sized

Since 2010, has created an additional 6,000 jobs, and £710m of growth

More than 43,000 homes and 750,000 m² of business floorspace delivered since 2011

Has the potential to deliver £550m of growth by 2030

Source(s): See Economic and growth indicators.

Defining Construction and Development

The construction and development sector engages in the construction of new buildings (both residential and commercial) and making repairs or alterations to existing properties, as well as the construction of civil engineering projects such as roads, bridges, and railways. It also includes associated support activities, such as real estate agencies and housing associations, architecture and planning services, and quantity surveyors.

Market and economic outlook

Global market

Covid-19 resulted in a slowdown in construction activity globally. Across all regions surveyed by the [RICS International Construction and Infrastructure Surveys](#), construction and infrastructure professionals reported a marked downturn in workloads and activity in the first quarter of 2020. The severity of slowdown, however, appeared to depend on the timing and severity of the outbreak, and when lockdowns took effect. With the Asia-Pacific region experiencing the slowdown first, market activity then weakened in North America and Europe.

The impacts of Covid-19 varied, depending on the severity and timing of the pandemic in each country, and the government measures implemented. Across the globe, costs have been rising faster than tender prices, suggesting further financial pressures ahead. There may

be a more resilient outlook for infrastructure as part of the fiscal stimulus for recovery in many nations.

According to Global Construction Perspectives and Oxford Economics global construction output will grow by 85% to \$15.5 trillion worldwide by 2030, with three countries – China, US and India – leading the way and accounting for 57% of all global growth. They estimate that average global construction growth will be 3.9% per annum to 2030, outpacing that global GDP growth by over one percentage point, driven by developed countries recovering from economic instability and emerging countries continuing to industrialize.

It is forecast that China's share of the world construction market will increase only marginally as growth slows in the world's largest construction market to 2030. In comparison, US construction will grow faster than China over the next 15 years – growing by an average of five percent per annum. Meanwhile, India's construction activity will surge, as it overtakes Japan to become world's third largest construction market by 2021.

UK market

During the Covid-19 pandemic, most construction sites shut down for a month during the first lockdown from April 2020. They were one of the last areas of the economy to close and one of the first to reopen. [According to PwC](#), With 80% of the sector supply chain located in the UK because of transport economics, construction products have largely escaped global supply volatility.

On the demand side, there are significant uncertainties. Public and private sector budgets may become severely restrained – due to high unemployment, low GDP growth and growing national debt – and behavioural changes to reduce virus transmission are creating uncertainty about how and what to build. Repair, maintenance and improvement projects have become more popular than new builds as property owners invest in their existing properties. This trend is likely to continue as commercial property and housing are adapted for social distancing and home working.

There are signs of recovery and growth in Construction, as evidenced by Monthly construction output growing by 5.8% in March 2021 compared with February 2021, the largest monthly growth since July 2020 when output grew by 17.8%. The level of construction output in March 2021 was £14,251 million – the highest since September 2019 when it was £14,381 million.

There are several key future short-term trends which are likely:

- **Greater focus on cost controls and supply chain management.** Contractors, housebuilders and suppliers must have the necessary liquidity to continue operating. That means a focus on managing inventory to reduce working capital and control cash flow. Merchants should onshore supply chains, while larger national housebuilders should not overstretch. Raw material suppliers operating with a large degree of automation are likely to find a return to work easier than those who rely on manual and close proximity working conditions.
- **Increasing diversification** to reflect the increased demand for conversions, extensions and environmental retrofitting. Large offices may need to be converted into smaller modules or something else, such as accommodation or parking. As

households spend less on holidays, they may spend more on conversions, extensions and garden enhancements.

- **Modular construction** has long been trailed as a growth market in the UK, but the industry has been slow to respond. It is an ideal COVID-19 solution. It is more cost-effective than bespoke design and can reduce onsite transmission risks because it is pre-assembled offsite.
- **Digitising the supply chain.** Product manufacturers have a one-time opportunity to embrace technology and robotics to reduce labour and increase quality, repeatability and productivity. Using lessons from other manufacturing sectors such as automotive and aerospace could be key.
- **Increasing demand for digital infrastructure.** At this stage, it is not known whether there will be radical changes in working patterns which reduce the need for large-scale, physical infrastructure projects may reduce once working patterns change. However, it is clear that there has been a transformation in digital business and work and making ultra-high-speed internet access an infrastructure imperative across the UK is necessary.
- **Shortage of workers.** An exodus of EU workers from the UK over recent years has left the British construction industry facing an acute shortage of labour in some specialist trades. Employment in the construction sector fell from 2.3 million in 2017 to 2.1 million at the end of 2020, representing a 4 per cent fall in UK-born workers and a 42 per cent fall in EU workers, according to the Office for National Statistics. More than 500,000 UK-born construction workers are expected to retire in the next 10 to 15 years.

In the longer-term, the following trends are critical:

- **Commercial property demand is going through a phase of uncertainty.** If many white-collar employees continue to work from home post-lockdown, the future of city centre offices is uncertain. Some businesses have already downsized their offices to reflect this. There is a risk of overcapacity and a need to reinvent the space as smaller, social distancing-ready office modules, new forms of accommodation or something else.
- **Retail property demand is likely to contract sharply.** Consumers are unlikely to rush back to large scale, out of town shopping malls in the medium term. Notable multiple retail chain closures have occurred in the past 24 months, accelerated by the Covid pandemic. Most market commentators suggest that 30% of retail floorspace in the UK is excess to requirements. There will be a need to consider change of use and adaptation of retail premises.
- **Transport use and demand has fallen, whilst government has signalled an appetite for significant investment.** Fewer commuters, reduced public transport capacity and greater dependence on cars and bikes will encourage changes to transport infrastructure. For example, planners may need to design train stations and bus stops that accommodate social distancing – more space for fewer travellers – while creating additional cycle lanes and pedestrian-friendly urban landscapes. Meanwhile, the call for increased road building will become louder, with concerns

about the environmental impact offset by the greater availability of electric vehicle charging points.

- **The location and shape of our homes may change.** If the necessity of commuting declines, fewer people will need to live in or near to their places of work – typically urban areas. As our dwellings become our place of work, in-home office areas will become a necessity, as will outside space or purpose-built gyms. Planning laws will need to reflect these changing needs.
- **Shift to low carbon / net zero.** The coming years will be the toughest the engineering and construction industry has faced in a generation. In addition to its wider challenges of the shift to a net zero agenda, the sector often characterised as conservative and staid now has an opportunity to adapt and thrive. It can do so by adopting new operational models, overhauling building practices, and reimagining the public and private places we all inhabit.

Activities and key organisations in Leicester and Leicestershire

There are a number of significant construction and development companies with national headquarters in Leicester and Leicestershire including Barratt Developments, which has an annual turnover of £4.8 billion and has its UK headquarters in Coalville, Leicestershire.

Other major firms include Aggregate Industries (aggregates, Markfield), Caterpillar (UK) (construction machinery, Desford), Topps Tiles PLC (tile retailer, Leicester), Davidsons Developments (housing developer, Ashby), JCB (plant equipment, Leicester), Jelson Holdings (House builder, Leicester), East Midlands Housing Group (social housing and care, Coalville), Broadthorpe (William Davis) (Housebuilder, Loughborough), Lafarge Caudon Ltd (Cement supplier, Markfield), Konecranes Demag UK (Crane supplier, Ashby-De-La-Zouch), Sowden Group (Property development, Leicester), Harlow Bros Holdings (Timber Merchants, Loughborough) and Paul John Construction (Leicester) (Building engineers, Coalville).

The Leicestershire Construction Training Group also supports construction training and skills development. Construction skills training is also provided by Leicester College, North Warwickshire and South Leicestershire College, and Stephenson College. There is also a specialist Construction Employment Hub in Leicester and Leicestershire.

Economic and growth indicators

Table 1: Summary of key economic and growth indicators for the Construction and Development sector in Leicester and Leicestershire

	Value, 2019	% of economy total	% of economy total (UK average)
GVA (£m)	2,422	9.9%	9.7%
Jobs	40,800	7.4%	8.1%
Businesses	5,675	11.4%	13.0%
Productivity (£)	59,400	133.4%	120.2%
	Value, 2010-19	% change p.a.	% change p.a. (UK average)
Real GVA growth (£m)	710	3.9%	2.4%
Jobs created	6,000	1.8%	1.3%
New businesses	990	21.1%	24.4%
Productivity growth	-	2.1%	1.1%

Source: ONS, Cambridge Econometrics.

Worth £2.4bn and accounting for 40,800 jobs (according to official statistics – see [Table 1](#) above), Leicester and Leicestershire’s strong economy and attractive location for development has supported a large and successful construction and development sector.

Recent growth has buoyant, with the sector creating 6,000 additional jobs since 2010, driving GVA growth of £710m. Equivalent to an increase of 3.9% p.a., growth is currently exceeding the UK sector average (2.4% p.a.), and amongst the fastest of all sectors.

Productivity is also fast improving, growing by almost twice the UK average since 2010. This has seen the sector close the productivity gap with the national average in Leicestershire, which stood at 15% less than a decade ago.

The sector is underpinned by almost 6,000 local businesses, of which 92% are ‘micro’-sized (employing <9 people), reflecting the high levels of self-employment and sole proprietorship in the sector. With high rates of enterprise and business churn, an additional 990 businesses have been created in the sector since 2010.

Additional evidence and research

Additional indicators and research on the sector in Leicester and Leicestershire show:

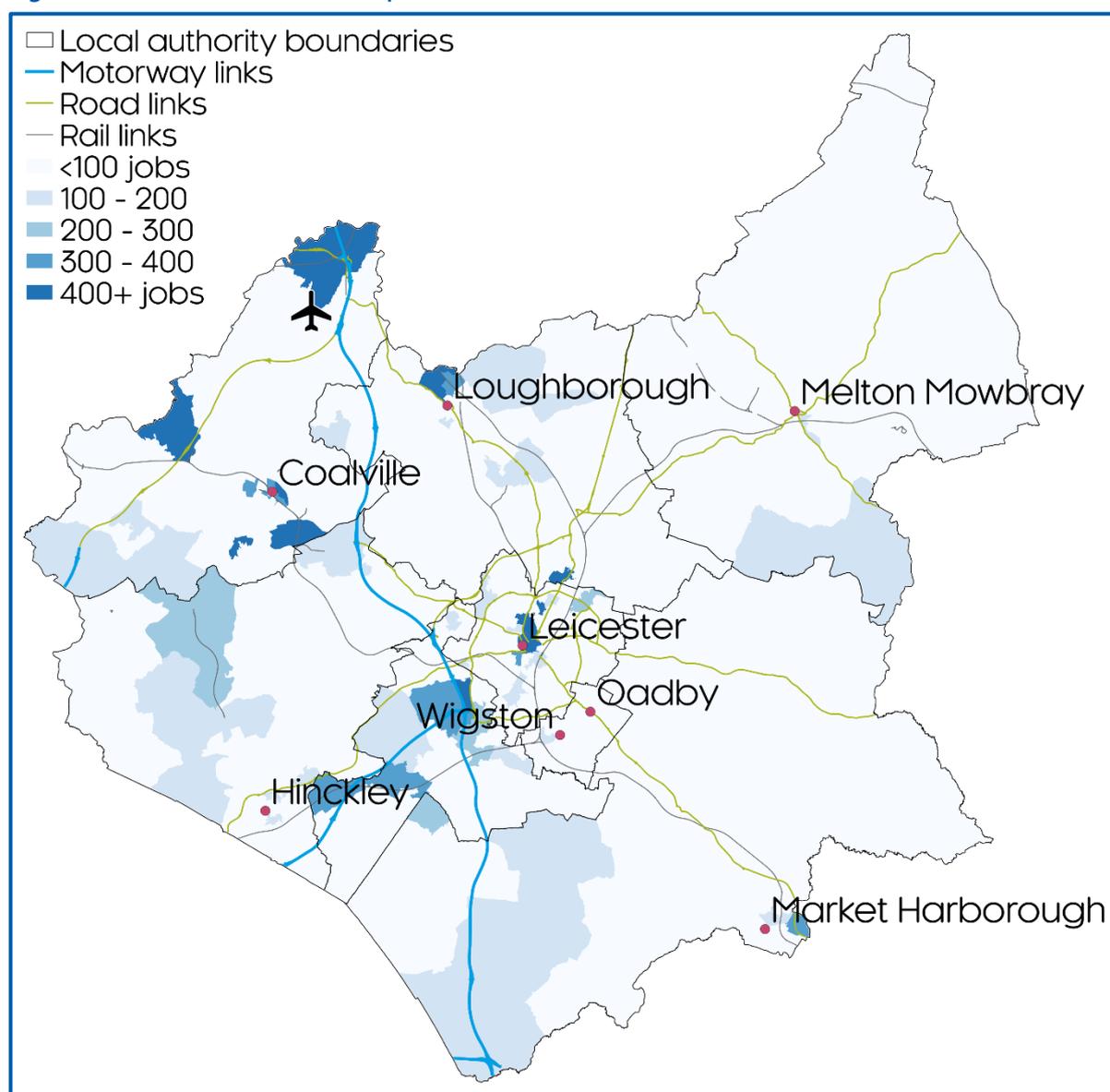
- [Analysis by the CITB](#) in 2019 suggests that the Leicester and Leicestershire area can expect sustained spending on new construction projects of more than £1.3 billion per year. New housing accounts for 34% of anticipated spend on new projects; private commercial developments 25%, and infrastructure 21%

- The same research also found the area accounts for 22% of construction related training across the East Midlands region. Around 65 training providers have delivered construction related training over the last five years (including apprenticeships)
- [VOA](#) and [MHCLG](#) data shows that the sector has helped deliver an additional 43,000 homes and 750,000 m² of business floorspace in Leicester and Leicestershire since 2011, with [further delivery in the pipeline](#)

Spatial structure and clusters

The sector is well represented across Leicestershire, particularly to the west of the county along the M1, M69 and M/A42 corridors, as [Figure 1](#) below shows. The excellent connectivity afforded by these locations ensures the sector remains within reach of a large and growing market area, with region-wide work opportunities, and good proximity to suppliers.

Figure 1: Construction and Development clusters in Leicester and Leicestershire



Smaller, often local service clusters are also evident in more rural parts of the county and market towns, such as Coalville, Hinckley and Loughborough.

It should be noted that in contrast to other sectors, construction activity often (if not exclusively) occurs away from a companies registered office, with the sector highly mobile and often undertaking work on a regional, and in some cases, nation-wide basis.

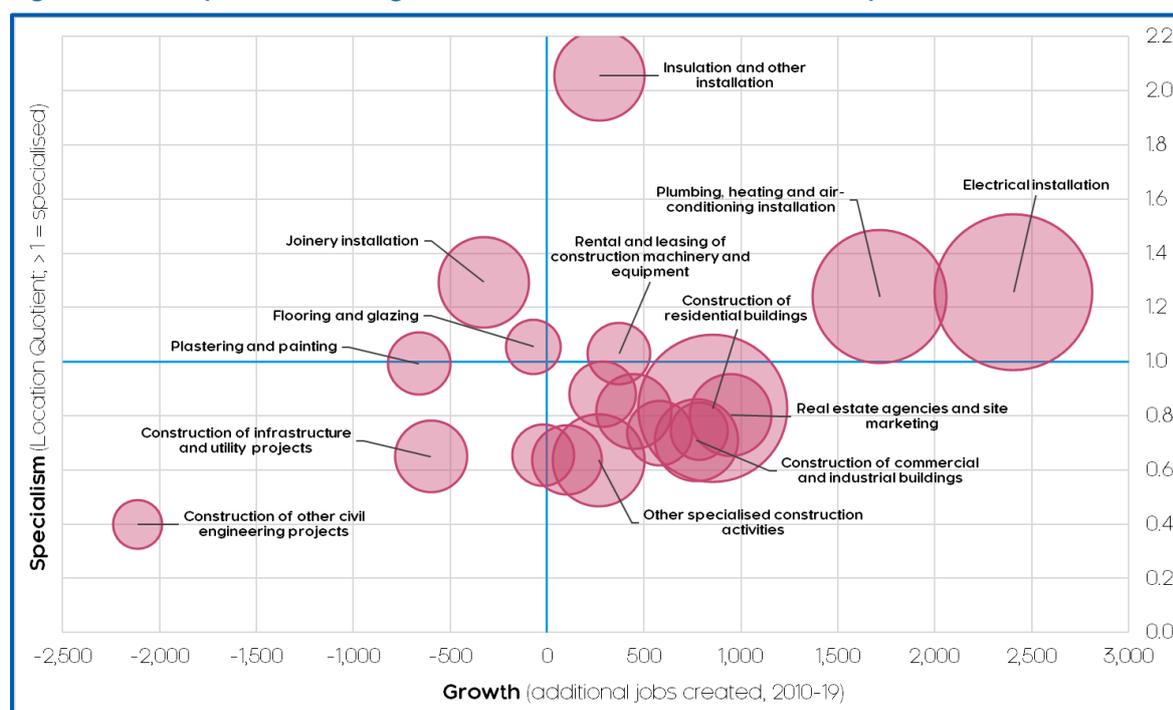
Industry structure and specialisms

The construction and development sector in Leicester and Leicestershire is universally strong, though a number of niche specialisms exist, as Figure 2 below shows.

Given the focus on a 'Green Recovery' following the Covid-19 pandemic, and the urgent need to address net zero ambitions locally, it is particularly interesting to note **Leicester and Leicestershire's specialisms in areas with extensive low-carbon and sustainable build opportunities** and crossover, including:

- **Insulation and other installation** - 2,300 jobs, £120m GVA: the most specialised activity within the sector
- **Electrical installation** – 6,800 jobs, £370m GVA: the largest and fastest growing activity, and also highly specialised
- **Plumbing, heating and air-conditioning installation** - 4,900 jobs, £260m GVA
- **Joinery installation** - 2,300 jobs, £110m GVA
- **Construction of residential buildings** - 6,000 jobs, £410m GVA: a large and fastest growing activity, capturing a diverse range of housebuilders
- **Construction of commercial and industrial buildings** - 1,900 jobs, £130m GVA

Figure 2: Local specialisms and growth within Construction and Development



Source: ONS, Cambridge Econometrics. Note: Size of bubbles relate to size of activity (in jobs terms). Bubbles above the blue horizontal indicate a specialism. Bubbles to the right of the blue vertical indicate growth (in jobs terms).

Sector prospects in Leicester and Leicestershire

Economic impact and recovery from Covid-19 and Brexit

The Covid-19 pandemic will trigger a short and sharp contraction in the sector, given reduced demand and ‘lockdown’ interruptions. During a difficult 2020 – with construction activity coming to an effective halt during the spring - GVA losses could total £250m locally. As **Table 2** below shows, this contraction is in line with the UK average, although job losses locally could be notably higher.

Table 2: Covid-19 impacts and recovery prospects for the Construction and Development sector in Leicester and Leicestershire

Forecast Covid-19 impact (2020)			
	Value, 2020	% change	% change (UK average)
GVA impact (£m)	-253	-10.4%	-10.5%
Jobs impact	-1,100	-2.8%	0.4%
Productivity impact	-	-7.9%	-10.8%
Forecast Covid-19 recovery (2021-30)			
	Value, 2021-30	% change p.a.	% change p.a. (UK average)
Real GVA growth (£m)	555	2.3%	2.7%
Jobs created	1,800	0.5%	0.7%
Productivity growth	-	1.8%	2.0%

Source: Cambridge Econometrics Spring 2021 Forecasts.

There is the potential for a robust recovery, given the wider economic rebound, alongside ambitious policy aspirations around housing delivery, infrastructure and commercial space in Leicestershire. The £550m of growth expected by 2030 will more than offset the losses of 2020.

Furlough and related support will dampen the employment impact, whilst the adaptable nature of the sectors labour market could see a rapid return to pre-Covid levels. Skills shortages and reduced migrant labour have the potential to put a drag on the pace of hiring and employment growth, despite potentially buoyant demand.

Skills needs and challenges

Though the need for technical, STEM-based skills is becoming more widespread - given increasingly advanced, technology-led methods, machinery and materials, particularly low-carbon related - dependency on traditional, skilled trades will remain high, [according to research by UCKES](#). Good management skills will also be required, given increasingly advanced and diverse building projects.

By 2024, UKCES expects almost a third of the construction workforce in the East Midlands will require high-level (QCF4+) qualifications, up from one-fifth a decade ago. The sector has the potential to continue providing good, well-paid opportunities for those without such qualifications, particularly through vocational and technical training routes.

According to the CITB, to meet anticipated demand a total construction workforce of around 42,100 people is required in Leicester and Leicestershire. The current workforce available appears to be short of what is currently required, and with significant demand anticipated across the Midlands there are risks that Leicester and Leicestershire may not be able to meet demand for many occupations. With an aging workforce, resulting in increased retirement, and reduced migration that challenge may become more extreme.

Appendix A: Sector definition and sources

Data has primarily been sourced from [Cambridge Econometrics LEFM](#). For a full and detailed overview of definitions, sources and forecasting methodology, please refer to the Technical Summary report accompanying this profile.

The sector has been defined using 5-digit [Standard Industrial Classifications \(SICs\)](#), detailed as follows. These have been informed by government and/or industry recommended definitions, and aim to capture as much of the sectors value chain as possible:

- 39000: Remediation activities and other waste management services
- 41100: Development of building projects
- 41201: Construction of commercial buildings
- 41202: Construction of domestic buildings
- 42110: Construction of roads and motorways
- 42120: Construction of railways and underground railways
- 42130: Construction of bridges and tunnels
- 42210: Construction of utility projects for fluids
- 42220: Construction of utility projects for electricity and telecommunications
- 42910: Construction of water projects
- 42990: Construction of other civil engineering projects nec
- 43110: Demolition
- 43120: Site preparation
- 43130: Test drilling and boring
- 43210: Electrical installation
- 43220: Plumbing, heat and air-conditioning installation
- 43290: Other construction installation
- 43310: Plastering
- 43320: Joinery installation
- 43330: Floor and wall covering

43341: Painting

43342: Glazing

43390: Other building completion and finishing

43910: Roofing activities

43991: Scaffold erection

43999: Specialised construction activities (other than scaffold erection) nec

64203: Activities of construction holding companies

68100: Buying and selling of own real estate

68201: Renting and operating of Housing Association real estate

68310: Real estate agencies

71111: Architectural activities

71112: Urban planning and landscape architectural activities

71200: Technical testing and analysis

74902: Quantity surveying activities

77320: Renting and leasing of construction and civil engineering machinery and equipment

