

MCA

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FOR THE ECONOMY

The New Norm

Property and Construction



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PROPERTY AND CONSTRUCTION

As part of the **New Norm Series**, which explains the prospects for the business landscape after the recession, the Management Consultancies Association (MCA) has surveyed its member companies, whose clients include 90 percent of the FTSE-100 and FTSE-250, with a particular expertise in the property and construction sectors. This report looks at the state of those sectors today, and in the future, and how property and construction businesses can prepare to thrive in the upturn.

Key findings

- No end appears to be in sight for the recession in the property and construction industries.
- Mortgage lending will remain low for the foreseeable future.
- Property and construction companies have weathered this recession better than previous ones.
- But only one in ten is seizing the opportunity of the recession to invest while prices and the value of property is low.
- Government spending cuts threaten recovery as public sector housing projects are reduced.
- The return of highly skilled migrant workers to their own countries will result in a shortage of specialised labour.
- Property and construction firms need to address their cash-flow difficulties and be willing to innovate if they are to survive the recession and thrive in the upturn.

What will the new norm in the property and construction sectors look like?

All of this means that the “new norm” for property and construction companies is likely to be an extended period of low growth. But lower growth will not mean lower complexity and costs:

- **The marketplace stays global:** Few consultants expect to see these sectors retrenching into narrower, more regional or domestic markets.
- **The environment is even more important:** The vast majority believe that environmental and sustainability issues will become even more important, not less, in the future.
- **There is a high risk of fewer jobs being combined with skills shortages:** Almost half of consultants think that the sector will not generate sufficient new jobs to make up for those that have been lost but, at the same time, 53 percent believe that the return of migrant workers, many of whom are highly skilled, to their own countries will result in a shortage of specialised labour in some areas. And with a high proportion of London’s construction workforce from overseas³, projects in the capital could be under the biggest threat.
- **The timing of government spending cuts threatens recovery:** Over 85 percent believe that Government spending cuts will threaten recovery as public sector housing projects are reduced.
- **Demand is easier to forecast:** Perhaps the only benefit is that demand may be easier to forecast as the period of greatest economic and financial uncertainty has passed.

How well are the UK property and construction sectors positioned to respond?

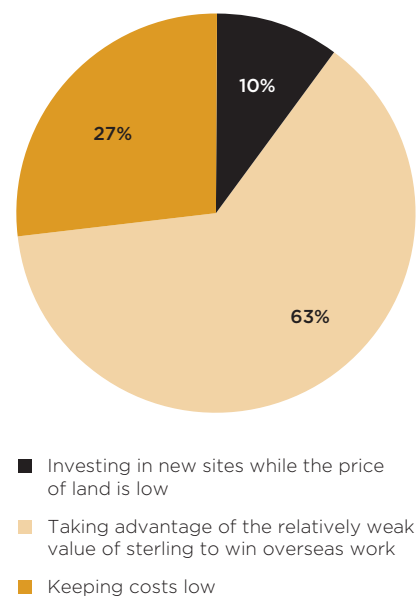
But there are some areas where the recession will have a material impact on the long-term structure and dynamics of the UK manufacturing sector:

Despite this bleak outlook, four fifths of consultants consider the UK property and construction sectors to be quite well positioned to meet the challenges involved, and opinion is evenly divided as to how this compares to the situation in other countries. The vast majority of consultants do not think that the UK will be any less attractive to inward investors.

“The UK property and construction sectors are more transparent than other markets, with a regulatory environment that promotes inward investment. The weakness of sterling also makes the UK attractive to foreign investment.”

Greg Attwood, PricewaterhouseCoopers

Figure 2 Primary responses of property and construction companies to the recession



³ Despite only 6 percent of the national construction workforce being migrant workers, 40 percent of London’s construction workforce is from overseas. <http://www.hse.gov.uk/press/2009/e09077.htm>

“However, a skills shortage may develop and recovery is likely to lead to increased value of the pound against the Euro and other currencies.”

Duncan Goodwin, Diagonal Consulting

The response of around three quarters of construction and property companies has been to cut costs, then keep them as low as possible. However, only around a quarter have been taking advantage of the lower value of sterling and one in ten have been using the recession to invest in new sites while the value of land and property is low – areas where firms could be looking for opportunities (Figure 2). “Given the ongoing challenging economic conditions, it is understandable that investors are still being risk aware, preferring to invest where there is a robust business case and perceived low risk forecast cash flows,” says David Cox, Mott MacDonald. “The economic stimulus provided by the government was a step in the right direction, however the willingness of banks and other financial institutions to lend is a crucial factor in restoring investor confidence and encouraging growth in the construction and property sectors. Caution amongst lenders will continue as economies around the world gradually stabilise and emerge from recession, most likely followed by a sustained period of low growth.”

Most property and construction companies were prompt in making cutbacks but have been slow to seize the opportunities a recession can bring, suggesting a lack of innovation in this sector. Indeed, a very high number (57 percent) of consultants pointed to the industry’s poor record on innovation when asked to identify the most significant barrier to recovery.

Not surprisingly, lack of funding and/or cash-flow problems are identified as the most substantial barrier. However, the consultants surveyed also highlighted the poor quality of middle management and companies’ inability or unwillingness to invest (Figure 3).

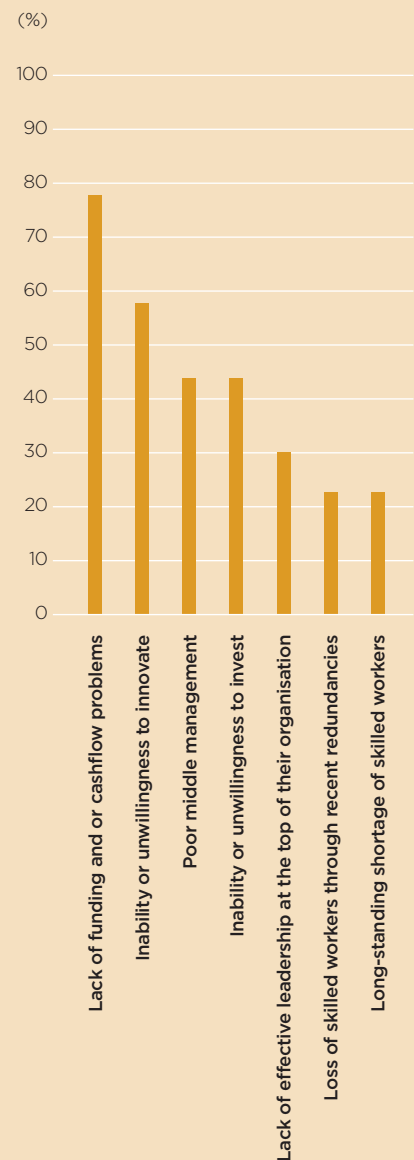
The top four business areas where property and construction companies need to focus their energies in coming months are:

- Keep a tight rein on cash-flow.
- Prioritise innovation.
- Work to strengthen middle management.
- Stretch to invest.

This report on the property and construction sectors is part of an MCA series looking at what the future business landscape will look like and what businesses need to do to survive and thrive in this “New Norm”.

www.mca.org.uk/newnorm

Figure 3 The key barriers property and construction companies face in preparing for recovery



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