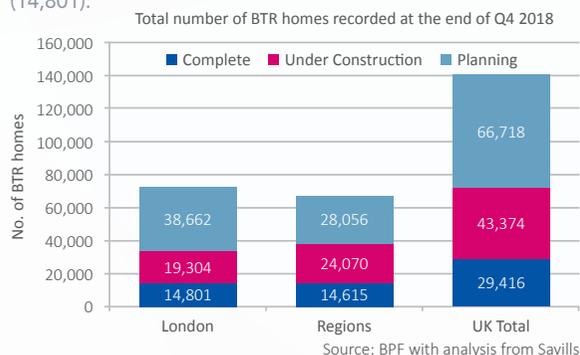


CONSTRUCTION

- The Construction Products Association (CPA) has reduced its construction output forecast for the next two years as a result of Brexit uncertainty and the knock-on effect it is having in delaying investment decisions. In its winter forecast, the CPA now forecasts that output will increase by 0.3% in 2019 and 1.6% in 2020 - down from its previous autumn forecast of 0.6% in 2019 and 1.9% in 2020. The CPA also forecasts:
 - Office construction in the UK to fall by a fifth (20%) in 2019, with a further 2% dip in 2020
 - Retail construction expected to fall by 4% in 2019 but remain flat in 2020
 - Infrastructure likely to rise by 8.8% in 2019 and 7.7% in 2020 as a result of several large scale projects such as Thames Tideway, HS2 and Hinkley Point C
 - Private sector housing to continue to benefit from the Government's Help To Buy scheme and rise by 2% in 2019 and 1% in 2020
- In December, a Thomson Reuters Asset allocation poll reported that firms are looking to put just 1.6% of their global balanced multi-asset portfolios in UK property in 2019. The average in 2018 was 3%.
- Recently published research by The British Property Federation (BPF) shows that the total number of build-to-rent (BTR) homes in the UK under construction has increased by nearly 40%. There are now 139,508 BTR homes complete, under construction and in planning across the UK – an increase of 22% over the last year.

Additionally, the total number of completed BTR homes across the UK regions (14,615) has nearly caught up with the London total (14,801):



- The National Audit Office (NAO) has released a report on local authority governance flagging concerns over councils' commercial real estate investments. The report notes that there was a £2.5bn increase in council spend on land and property between 2015-16 and 2017-18, a large proportion of which was for commercial investment. Surrey Council, the local authority investing the most in commercial real estate, has invested nearly £950m in the past five years.
- TfL has been told by the London Assembly's Budget and Performance Committee to make its future capital project priorities public. TfL's prioritisation programme (which ranks the priority of its projects in order of importance) should be published so that information about projects likely to be at risk of curtailment, delay or cancellation are in the public domain.
- Members of the London Assembly have demanded that talks about the funding of Crossrail 2 need to happen with the 'utmost urgency'. This follows a decision to reallocate funds earmarked for the project to the late-running Crossrail scheme. London Mayor Sadiq Khan is planning to divert business rates and levies – paid for by tenants around Crossrail stations – from Crossrail 2 in order to cover rising costs.
- Leo Quinn, the boss at Balfour Beatty, has told ministers that ongoing uncertainty related to Brexit is hurting the construction sector's long-term future. He said:

“The enemy of business is delay and procrastination, and the construction industry will face large-scale restructuring where it cannot carry the resources it will need over the next 25 years, and capability will have to be let go.”

“Once resources are lost to industry it is very difficult to get them to come back; the next six months are critical.”

- The Construction Leadership Council is to convene a high-level emergency summit on Brexit at the end of January to discuss how to mitigate the fall-out from leaving the EU. More than 100 chief executives will attend the conference which will address the

potential problems created by a no-deal Brexit, such as access to labour, import tariffs and delays at the border.

UK ECONOMY

- Capital Economics believes investor caution will continue throughout the first half of 2019. However, an Article 50 extension may help full-year GDP grow to 1.5%. In this scenario, many economists believe that this will entice the Monetary Policy Committee (MPC) to raise interest rates in 2019, putting upward pressure on property yields.
- Theresa May's proposed Brexit withdrawal agreement was rejected in a House of Lords vote by a majority of 321 to 152. Shortly afterwards MPs voted on a motion of no confidence in a bid to remove the Government from power. However, rebel Tory and DUP MPs who had earlier rejected the Prime Minister's withdrawal agreement, subsequently voted to keep her in Downing Street.
- Real wages in the UK have grown at their fastest pace for two years. Figures published by the ONS showed that average weekly earnings, excluding bonuses, rose 3.3% year on year in the three months to November. Adjusted for inflation, regular pay was up 1.1% year-on-year.
- ONS figures show that UK Government borrowed more than expected in December. Overall the Government borrowed £3bn during the month (£300m higher than the same month in 2017) as spending exceeded receipts. City economists had expected borrowing to fall to £1.9bn in December.
- Retail sales fell 0.9% in December from the previous month according to the ONS. The decline came after a 1.3% rise in retail sales in November, helped by Black Friday promotions. However, for the whole of the year, retail sales growth was up 2.7% on the previous year in terms of quantity bought.

WORLD NEWS

1. US homebuilder confidence bounced from a three-and-a-half year low in January. The National Association of Homebuilders' housing market index rose 2 points to 58 this month – beating expectations for it to remain unchanged at 56. Whilst the reading is still well below the 2018 average of 67, a decline in mortgage rates in recent weeks is thought to have helped sustain builder sentiment and revive housing activity.
2. Chinese foreign direct investment in the US has fallen by 84%, from \$29bn in 2017 to \$4.8bn in 2018 - its lowest level in seven years. As relations between the two economies continue to sour, potential deals are being more closely scrutinised by Washington and Beijing is tightening capital controls.
3. Chinese exports dropped sharply in December. Exports have fallen by 4.4% from a year earlier, showing that demand faltered in most of China's key markets. Imports also slipped by 7.6% over the same period reflecting waning levels of demand at home.
4. The Bank of Italy has signalled that the country's economy may have edged into a technical recession (two consecutive quarters of negative growth) in the last quarter of 2018. The bank has also revised down its growth forecast for this year from 1% to 0.6%.
5. The annual World Economic Forum in Davos commenced on Tuesday 22nd January. The theme of this year's meeting is Globalization 4.0: Shaping a Global Architecture in the Age of the Fourth Industrial Revolution. This, and related issues such as tackling climate change, fixing our broken economic system and preparing ourselves for the jobs of the future will all be explored over 350 sessions.

COMMODITIES & MATERIALS

1. Södra, a Swedish materials firm, has expressed concerns about the impact a no-deal Brexit will have on getting its product to customers in Northern Ireland. The firm has said that confusion over the Irish border situation has meant that some freight companies have been unwilling to provide quotes on the cost of getting materials into Northern Ireland because they do not know how much a no-deal Brexit would add to the price. Södra

has so far been stockpiling its product in Scotland and the Republic of Ireland and plans to hold 10 weeks' worth of timber by 29th March 2019.

2. In a presentation to analysts, US aluminium producer Alcoa indicated that global demand for aluminium is likely to grow by 3-4% this year - its slowest pace since 2009. Aluminium is often seen as a health indicator for the world economy due to its use in a variety of sectors. The price of aluminium on the London Metal Exchange has dropped 16% from its peak in early October 2018.

ANNOUNCEMENTS IN THE CONSTRUCTION PRESS

1. **The Crown Estate** has launched its first flexible co-working office space at One Heddon Street, W1. Its offering provides 350 desks across five floors and will adopt a tiered membership model. The Crown Estate plans to expand its range of office products, with at least three more projects currently being planned.
2. A five-acre development on Royal Street, close to **London's Waterloo Station**, is being sold by Guy's and St Thomas's Charity. Estates Gazette reported that Canary Wharf Group, Landsec and Stanhope are battling for the £200m development, which could include a medical facility on site.
3. **Keystone** and the **GLA** have submitted plans for 5,000 homes at Silvertown's £3bn hybrid regeneration project at Thameside West. Construction will begin in 2020 and the proposals include 200,000 sq ft of office space, 80,000 sq ft of retail, a new primary school and a DLR station.
4. German contractor **Hochtief** has been appointed to provide enhancement works at three west London stations on the Crossrail route. The firm will be responsible for the construction of new buildings at both Southall and Hayes and Harlington, as well as carrying out major refurbishment works at West Drayton.
5. The chief executive of **Kier**, Hayden Mursell, has left the contractor with immediate effect. After its recent rights issue, the board believes that, 'now is the right time for a new leader to take Kier forward to the next stage of its development'. Kier's chairman, Philip Cox, has been asked to act as executive chairman to oversee the group's operations while searching for Mursell's replacement.

6. **Hitachi** has suspended building operations on the nuclear plant at Wylfa Newydd after failing to secure backers or a workable deal with the Government. Horizon Nuclear Power, the vehicle through which Hitachi planned to build the plant, will make almost all existing employees redundant in what it describes as, "a reduction in roles to a minimal core". Hitachi said it has lost £2.1bn on the project and has:

"...decided to suspend the project at this time from the viewpoint of its economic rationality as a private enterprise"

7. **Greenwich Council** is seeking a single "turnkey" provider to design, manufacture and install new homes using off-site manufacturing. Under the £320m deal, the successful contractor will be required to undertake feasibility studies and develop schemes through the entire design phase including obtaining full planning consent. The selected firm will also be responsible for the offsite manufacture of buildings and carrying out all site construction to deliver the new homes.
8. **Diller Scofidio + Renfro** has unveiled designs of a new concert hall for the City of London's Centre for Music. The tower, planned for the current site of the Museum of London at the south-western tip of the Barbican estate, has been budgeted at £288m and will come from private donations. The concept includes a pedestrian plaza and foyer above which would sit an "acoustically perfect" 2,000-seat concert hall for the London Symphony Orchestra. Rising further would be four floors of commercial space, a restaurant and, at the top, a smaller venue with views towards St Paul's Cathedral.
9. Toby Courtauld, the boss of **Great Portland Estates (GPE)**, believes the developer is in "great shape" despite concerns over Brexit and wider macroeconomic issues. In a recent trading update the group emphasised its ability to attract occupiers to its brand of high quality and sensibly priced space. During the quarter GPE secured 16 new lettings, totalling 51,400 sq ft and generating annual rent of £4.3m.