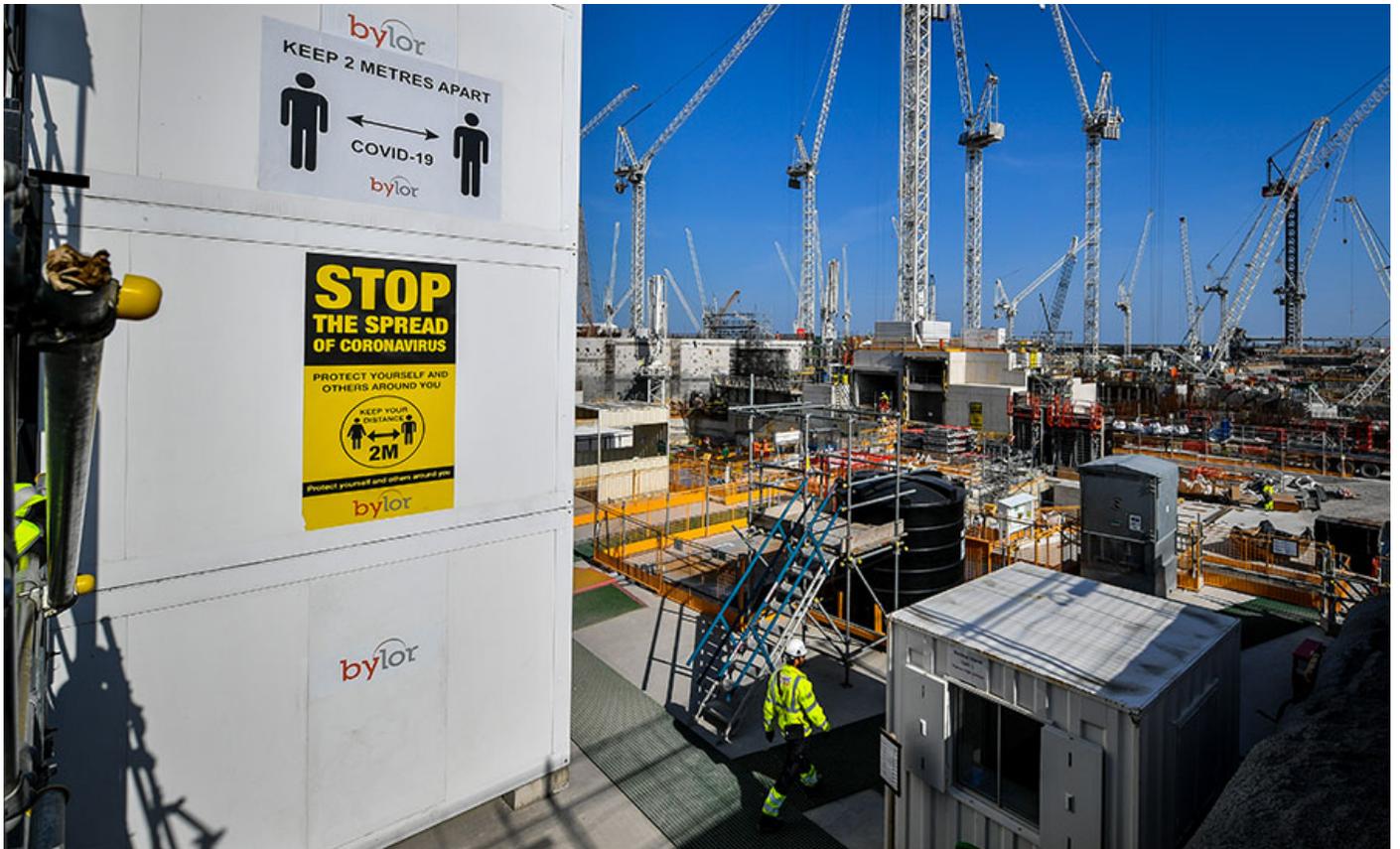


Q4 Cost Report

Global Industry Aims Past Bumps In COVID-19 Recovery



With new protocols for COVID-19 safety, construction continued this year at the Hinkley Point C nuclear power plant in England. The UK economy is set to rebound through 2021 but not return to pre-virus levels until late 2022.

PHOTO: Ben Birchall/PA Wire URN:55498316 (Press Association via AP Images)

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Debra K. Rubin

The last quarter upswing in global construction industry metrics, based on COVID-19 recovery due to better site protocols, has now given way to a spreading pandemic and more reimposed lockdowns. While this creates cost uncertainties in many geographies and

markets, outlooks for 2021 show signs of rebound sparked by pent-up demand and improved processes, says global industry cost and trends consultant Currie & Brown in its latest data and market analyses.

Fast-tracking of a vaccine could not be more critical for Europe as its second virus wave has a more harmful impact on construction than anticipated, says the firm.

National lockdowns and curfews in European Union countries have hampered supply chains and material deliveries, with the industry struggling to maintain productivity and control costs while complying with work halts and added health and safety protocols, says Rachel Personius, senior data analyst.

EU economic trends reporting agency Eurostat said construction output fell by 2.5% to 2.9% between August and September, with noticeable lockdown headwinds, she notes. France and Italy imposed lockdowns ahead of other countries, triggering output drops of 8.4% and 8.1%, respectively, for those two months—the most drastic.

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Germany, France Rebound

Currie & Brown Europe manager Damien Bouveresse anticipates construction output across the continent will face modest declines in the first half of 2021 before normalizing and rising in the second half.

Germany and France should be among the first to rebound, with the former's strong investment market and the latter's anticipated 2024 summer Olympics in France, he says. Activity was sparked last month with the completed removal of 200 tons of mangled steel scaffolding atop Notre Dame cathedral in Paris from the catastrophic 2019 fire. The government has committed to the iconic structure's rebuild by the start of summer games in late July 2024.

With a mid-December spike in coronavirus deaths that now leads Europe, Italy's market turnaround will be delayed, says Bouveresse.

In its latest quarter results reported Nov. 26, Italian contractor Webuild said it seeks to “de-risk the order backlog” with more infrastructure work there and elsewhere and to cut \$120 million in direct and indirect operating costs by 2023.

Labor Shortage Risks

A key risk to monitor is the continued shortage of labor, says Personius. Eurostat says construction labor costs have risen 2.5% in EU countries and 2.8% in the eurozone, those nations using the Euro as standard currency, between second quarter 2019 and this year’s Q2. This rise was most notable in Spain, at 9.5%, and Germany, at 5.3%, she says.

As the shortage continues, “we anticipate European labor costs will increase by an average of 3% in 2021,” says Personius. Partially offsetting those rising costs and continued supply chain constraints is boosted competition among contractors, leading to a modest increase of 1% to 2% in overall European bid prices.

UK Targets 2022

In the U.K., 2020 was a struggle for governments and firms to balance coronavirus mitigation measures and keep the construction sector and British economy going, says Richard Hill, Currie & Brown director in London. The national economy is forecast to rebound through 2021 but is not expected to reach pre-COVID-19 levels until fourth quarter 2022.

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– Rachel Personius, Senior Data Analyst, Currie & Brown

In its latest crane survey, consultant Deloitte said the amount of new office space being built in London dropped sharply between April and September, due to lockdown impacts, remote staffing and developer market unease.

According to its analysis, just 2.6 million sq ft got underway in that period, down 50% from the previous six months. About 88% of landlords say remote work will cut demand for future office space by 10% to 20%, although they still see it needed “as a focal point for business ... and to promote and support the wellbeing of employees.”

The U.K. government recently restressed its intent to bolster growth by prioritizing infrastructure, notably the HS2 high-speed rail project, and health and education investment, Hill says. The construction sector “learned a lot through the initial lockdown” and now operates at near normal productivity levels, he says.

Looking to 2021, Hill anticipates tier-one contractors will continue efforts to hold bidding prices steady and push supply chains to drive savings, with expectations that smaller contractors with fewer opportunities will provide competitive bids to secure future work.

A key risk to watch is Brexit, with the likelihood that the U.K. will leave the EU without a comprehensive free-trade deal, leading to some initial disruption to business. Hill sees tender price inflation of about 1% to 2% in 2021, similar to mainland Europe.

Middle East Optimism

With hope in sight of the pandemic's end, there is optimism that the Middle East-North Africa economy will rebound in 2021, based on recovering demand for energy exports, according to Doug McGillivray, Currie & Brown UAE managing director.

He still sees downward risks due to geopolitical tensions in the region and fragile financial positions from the pandemic and low cost of oil, but "we are projecting growth in the region's construction sector in 2021."

GlobalData forecasts 3.3% construction output growth in Saudi Arabia and 3.8% in the UAE next year, says Personius. "We saw Egypt's construction sector perform relatively well in 2020, despite its semi-lockdown, and GlobalData expects this to continue, with output growth forecast at 8.9% in 2021.

In Asia, China construction quickly rebounded after its early 2020 pandemic slowdown. Alan Lam, Currie & Brown's managing director there, expects strong industry output in 2021, making up for first-quarter losses.

Boosted activity also is forecast in Taiwan, with more facility development and expansion by local manufacturers and multinationals. But labor shortages due to entry restrictions on foreign workers and a materials price spike from higher demand have driven up construction costs "We anticipate tender price inflation of 5% to 10% in 2021," says Personius.

She says Hong Kong's construction rebound returned to pre-pandemic levels as of third-quarter 2020 and could grow by 1% next year.

Rob Fuller, Currie & Brown's Tokyo managing director, says construction costs in Japan will end the year slightly lower than they started. He anticipates minimal construction inflation in 2021, despite the continued skilled worker shortage.

Balancing Forces

The pandemic's effects on the U.S. construction industry have been mixed. Project costs are rising in some sectors and locations due to loss of productivity and supply chain delays, while others report price drops due to more competitive bids, says Currie & Brown. Longer-term projects have

been more likely to benefit from competition as contractors look to lock up work for an extended period.

“We anticipate these forces to continue to balance, resulting in construction costs escalating 3% to 4% in 2021,” says Personius. If the nationwide labor shortage worsens, costs could be pushed up, resulting in higher bid prices, she adds. “Industry also waits to see what changes come from a Joe Biden presidency.”

Reports from other analyses show salient cost trends in some key market sectors. In a November report, cost and asset consultant Turner & Townsend says “fierce competition for warehousing space has been driving up costs in the dominant global industrial markets.” It points to port-side U.S. locations such as Hamburg, Germany; Oakland, Calif.; and Long Island, N.Y., as key warehouse market locations that are close to major urban centers, with Hong Kong topping its cost index because of proximity to “consumer and industry hubs in China” that link to key Western markets.

“Previously one of the most fragmented sectors in real estate, warehouses today have developed into an institutional asset type, with occupiers requiring increasingly advanced and automated facilities,” says Turner & Townsend.

Data Center Costs Up, Renewables Down

Data center construction costs also are rising, says Turner & Townsend in a December report. It lists Zurich, Tokyo, Silicon Valley, New Jersey, London, Sydney, Stockholm, Copenhagen, Auckland and Mexico City as the most expensive building locations.

The report pointed to more urgent demand for data centers to meet rising capacity due largely to virus-generated needs. Despite rising costs, 85% of 162 experts surveyed predict higher data center demand in the year ahead, but with 55% seeing a rise in data center construction claims and litigation.

One sector with costs decreasing is renewable energy. The International Energy Agency said in June that the cost of solar energy generation decreased by 82% from 2010 to 2019, with offshore wind energy falling by 29%.

Construction participants are bullish on the market ahead. “There is no reason to think that, with COVID-19 brought to heel, we will not see even stronger growth,” says Raouf Ghali, president and CEO of construction and risk management consultant Hill International. “Contractors and suppliers adapted quickly to the pandemic, and now have processes and procedures in place to keep their projects moving.”

Recent Articles By Debra Rubin



As ENR Editor-at-Large for Management, Business and Workforce, Debra K. Rubin has a broad vantage for news, issues and trends in global engineering, architecture and construction—from corporate finance and executive management to regulation and risk, next-generation workforce and developing markets such as offshore wind energy.

Debra also launched and manages ENR's Top 200 Environmental Firms ranking, which defines a \$51-billion global market; and is editor of *ENR WorkforceToday* e-newsletter on industry talent management; She also is a key organizer of ENR's annual **Groundbreaking Women in Construction** conference, a major AEC industry forum for talent management and women's career advancement.

[Click here](#) for more detail on the 2019 conference in May in San Francisco and plans in formation for the 2020 event.

Debra's reporting for ENR on the 2001 Ground Zero attack damage, response and recovery is featured in the National September 11 Memorial & Museum in New York City.

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