The EU referendum result is in and the people have made their decision. After a long and tumultuous campaign Brexit is the choice.

We understand that for many of our clients, the direct and indirect implications of the vote are significant. We can also see that a key debating point of the campaign – the impact of uncertainty – will now start to play out. Over three or more years will unfold the long, hard haul to turn Brexit into a reality. The challenges of making Brexit work can wait for the time being. In our view, it is the immediate implications of the process – rather than the long-term chances of a successful outcome – which we need to focus on now.

We cannot be certain what the long-term consequences will be. However, we do know that most short-term forecasts of Brexit impacts have been negative. Based even on a relatively positive scenario, construction needs to plan for immediate falls in foreign direct investment, a short-term recession, further depreciation of sterling and the choking of the European labour supply.

In our view, the key impacts on development and construction markets will be driven by the direct consequences of Brexit uncertainty.

- **Government focus.** Housing and infrastructure have been key priorities since the election. Can the government keep its foot on the throttle as the new leadership team is established?
- **Lower GDP.** HM Treasury’s forecast for best and worst case loss of GDP is between three and nine percent. Construction historically overshoots boom and bust. Will this turn in the cycle be any different?
- **Weaker sterling.** It is too early to forecast the impact of Brexit on the future value of sterling. Up to June, the 13 percent fall of the value of GBP against the euro has driven prices up by up to three percent since last summer. Who in the construction value chain – client, contractor or specialist – will pick up these costs?
- **Labour.** More than 200,000 construction workers in the UK are from the EU. Can the labour force continue to grow to meet demand whilst new systems are worked out?

Whilst we can still only speculate about the scope of the Brexit deal, our view is that it will take more than the minimum two years set out in the exit process to withdraw. The UK is entering a period of sustained, deep uncertainty. We expect construction market conditions to become more volatile, prompting not only the need for proactive and positive solutions to individual problems – but also a joined-up approach to sustaining the capacity and capability of UK construction.

**SO WHAT SHOULD UK CONSTRUCTION INDUSTRY BUSINESSES DO TO MITIGATE THE RISKS?**

**Pursue counter cyclical opportunities**

We anticipate that demand for construction will fall in some sectors. High-end residential, industrial and commercial development in UK cities are likely casualties, but less obvious sectors including repair and maintenance could also feel the effects.

This could take some of the pressure out of over-stretched markets enabling other sectors to secure the resources needed to deliver their pipelines. Housing and infrastructure, for example, may be able
to secure capacity at a lower cost but critically need to keep building, as the UK needs investment and our industry cannot afford another crash. Rather than waiting for the market to fall, clients and contractors need to re-focus and ramp-up production in the ‘counter cyclical’ sectors – PRS for example – which currently faces viability challenges. Working together to reduce the cost of delivery and improve access to resources is the best way to avoid another downturn. If not, UK plc will have ‘wasted another crisis’.

**Seal the deal... or ride the market**

Markets hate uncertainty but love volatility. Given the levels of uncertainty that will occur over the next few years, there will be plenty of opportunities to lose or make money as markets fluctuate. What we do know is that construction clients and their suppliers are significantly exposed to currency and commodity price fluctuation whilst contracts are finalised. Delays in negotiations could cost a client dear and a currency wobble could affect a party’s negotiating position. Future uncertainty regarding exchange rates will likely result in extremely high hedging costs, so what other affordable options are there to manage the risk? Deliberately fast-paced negotiation is one option, as is the pre-purchase or pre-allocation of currency. Another might be to adopt a floating currency approach to payment – especially if the value of GBP is weak. What all of these approaches point to is the potential growth in risk and opportunity associated with transactions – skills in sealing the deal will become very valuable in a post-Brexit world.

**Make better use of the people we have.**

Construction labour is currently a scant resource, and with the loss of Europe’s ‘infinite’ labour market, is about to get a lot more scarce. But how well do we use construction labour? Do we really know how much is wasted because of poor sequencing of activities, materials shortages or rework? Productivity in construction has flat-lined for 20 years. Lack of investment is one cause but lack of process and poor skills are others.

The people we have are the industry’s opportunity. Operatives will be harder to find in the future so what actions are needed to make better use of the existing resource? Collectively the industry will need to invest in skills and the management of projects so that resources are used more effectively. At the same time, by using more offsite components manufactured in the UK we can improve industry working conditions. Under Brexit, European labour will no longer be a safety-valve, so we must look at the workforce differently. The potential benefits won’t just be better trained and more motivated workforces, but potentially lower costs too.

**Look beyond the UK**

Paradoxically, as our ties to Europe are loosened UK design and construction should look overseas, not only for opportunity but also for resource. The UK construction industry has a global reputation for excellence, with world class capability across planning, design, construction, consulting and more. Latest data suggests that construction and engineering exports total circa £3 billion which is a great foundation for further growth. With the potential for greater competitiveness as a result of a weaker pound, the whole industry has the opportunity to further grow exports, cementing the UK’s role as a global ‘go-to’ hub for construction related services. But the industry should not stop there. Digital solutions mean that not only can we work anywhere in the world, but that people based anywhere in the world can work for us. Global Excellence Centres, enabling UK businesses like Arcadis to deliver high quality design, analysis and reports around the clock from around the world will be a key step in freeing the sector from self-imposed constraints of the UK labour markets.

**Work smarter, not harder**

One or two optimistic commentators have described Brexit as an opportunity for re-invention. Whether or not the vision will become reality, it is true that the shock of Brexit should be used to drive change. Given the UK’s poor record on construction productivity growth, there are huge opportunities to secure both quick wins and long-term gains for clients and the supply chain.
We know that the UK construction industry has a track record of confronting and rising to huge challenges but that sometimes the solutions we adopt are short-term and ultimately damaging. As a result, our final recommendation is to use the Brexit shock as the trigger for an ambitious vision for our industry. The challenge for the construction industry is not simply to respond to Brexit, but to respond to the opportunities that Brexit will bring.

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**Areas where smarter working should deliver benefits**
include lean design and construction as well as collaboration – eliminating waste, reducing duplication of effort and maximising workforce utilisation.

Similarly, better coordination of design will reduce waste and risk – eliminating uncertainty and increasing profit. The ultimate smart investment has to be in automation and the clients and suppliers that break through the barriers of construction industry short-termism will have a bright productive future. To make these changes stick, business models will need to fundamentally change when it comes to skills and innovation. Given the shock that Brexit will bring, now is the time to grasp the opportunity.

**Long term implications**

Brexit is a game-changer. To say that the UK is entering uncharted waters is no exaggeration. The range of known and unknowns associated with Brexit will take time to unfold, identify and understand. The potential for shocks and opportunities, forward steps and backward slips can only multiply. In the short term, the impact on the industry could be severe, with falling investment, evaporating demand and a distracted government. Yet from these conditions are forged genuine transformations.