European Construction Sector Observatory

Stimulating favourable investment conditions

Analytical Report

January 2019

Executive Summary

This analytical report is provided by the European Construction Sector Observatory (ECSO) and aims to provide insights into the **Thematic Objective 1 (TO1) "Stimulating favourable investment conditions"** of the EU Construction 2020 Strategy. The main focus of the TO1 is on building renovation and Trans-European Networks projects, which are expected to contribute to the growth of the construction sector and achieve the objectives of the European Energy, Transport and Cohesion Policies. This analysis offers an overview of the investment trends in and by the construction sector in the EU Member States (EU-28), and identifies the main driving forces and obstacles to investment in the sector. It also presents policies that have an effect on strengthening investment in construction, particularly in residential, non-residential and infrastructure markets in several Member States and considers the potential policy directions for the sector in the EU-28.

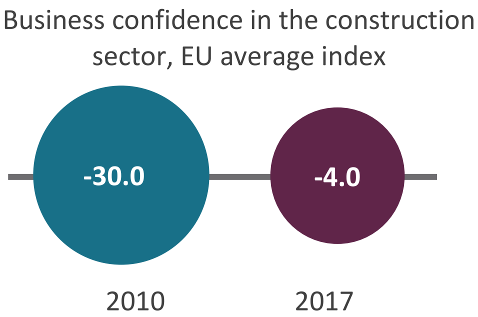
1. Investment landscape in construction and the construction sector

The investment situation in construction activity varies across Member States. The impact of the economic crisis is continuing in some Member States, while austerity is diminishing investment in public infrastructure development across the EU. Investment in the construction sector is influenced by a number of factors which can be linked to the wider economy or are specific to the industry.

The **ratio of the gross operating surplus to the gross value added** of the sub-sectors of the broad construction is **higher overall for the real estate sector compared to other construction sub-sectors** (manufacturing of construction products, narrow construction and architectural services), and stood at 77% on average for the EU in 2015. The average ratio for the other construction sub-sectors is around 35%.

Notably, the **soundness of the sector's output** contributes to higher rates of investment. It also provides comprehension of the fundamental factors influencing competitiveness. Similarly, the **gross operating surplus** gives an indication of the sector's profitability which also attracts investment. As a general tendency, turnover and gross operating surpluses follow a similar pattern, with the leading countries in terms of turnover having relatively high surpluses, and countries where there is low turnover accounting for small surpluses.

Business confidence in the construction sector is another vital measure, which provides insights into the sector's investment climate. The EU-28 average has generally shown an improvement since 2013, signalling that the construction sector is set on a recovery path.



2. Drivers for investment in construction

Economic and **demographic growth** require the expansion of **public infrastructures** and **housing.** In turn, these need to be **maintained and renovated.** All together, these factors drive **investments in the EU construction sector.**

House price index in the EU, evolution 2015-2017 **10.0%**

In parallel, **innovation** is another leading indicator. Innovative work processes make construction more efficient by increasing capital and labour productivity and reducing the expenses and risks of construction projects. In particular, emerging new technologies, new materials, recyclability and digitalisation will improve the efficiency of construction processes and increase the quality of buildings and their safety, working conditions and environmental compatibility. In terms of digitalisation, the use of **Building Information Modelling (BIM)** provides a platform for central integrated design, modelling, asset planning and cooperation during the construction phase. It gives all stakeholders a digital representation of a building's characteristics during the whole life-cycle – including maintenance, occupancy, renovation and demolition - and thereby holds out the promise of large efficiency gains, and other benefits such as fewer errors, less reworking and design data.

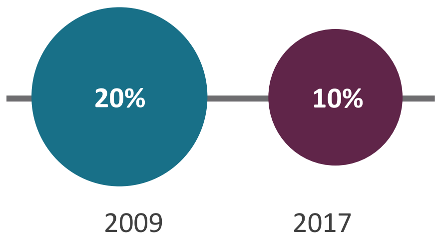
BIM has the potential to provide gains in productivity, time and cost savings and allow construction companies to consistently assess their performance and keep accurate track of their work.

3. Obstacles to investment in the construction sector

Despite the upturn in economic activity in construction across the EU, a number of barriers to the sustainable growth of the construction sector still remain present. The most common barriers to investment are linked to **regulatory uncertainty, fragmented markets, poor public planning and project preparation capacity** as well as **financing obstacles**.

Particularly **uncertainty about the investment prospects** in the sector also plays a significant role in investment decisions. On the other hand, **difficulties in accessing finance**, particularly for small businesses, are often considered one of the main constraints for the development of the construction sector.

Share of EU companies having access to finance the most pressing problem



Construction companies find the uncertainty about the investment prospects to be a barrier to investment at the national level **70%**

In general, buildings are assets with a long lifetime with a common trend for low replacement and refurbishment rates. There is also a general lack of understanding among households and building owners of their energy use, as well as savings opportunities related to various energy efficiency measures. **The lack of attractive financing products, limited information on building stock, limited uptake of efficient and smart technologies** are also among important factors that contribute to obstacles and/or delay in investment.

While **innovation in construction processes** is among the main drivers for **efficiency gains** in the construction sector, its slow uptake across the industry and the EU in effect represents an obstacle to investment growth - current inefficiencies at the construction site lead to less buildings at higher costs

Last but not least, the **insufficient availability of labour** with the appropriate skills is among the main long term barriers to investment in the EU overall and specifically in the construction, where a recent survey of EU firms found that nearly 70% of all firms consider it to be an investment obstacle.

EU companies consider lack of labour to be an obstacle for investment

70%

4. Policy initiatives

In order to uphold a stimulating investment climate for the construction sector, Member States have introduced a variety of **policy instruments, measures, schemes** and **initiatives** in support of the **residential** and **non-residential building market** as well as to expand and improve **public infrastructure**.

Financial instruments play an important role in **rental housing policies**, which should be of a considerable scale to make a sustainable difference on the rental market.

In terms of the **housing policies** introduced in the EU Member States, the general focus is based on four aspects of housing issues that these policies aim to address:

- Policies supporting the **expansion of the residential building stock**;
- **Rental housing** policies to boost social rental housing;
- Policies for **promoting home-ownership**;
- Policies supporting **energy performance home improvements** and **renovation works**.

Financing for non-residential buildings for public use needs to involve private investments in public-private partnerships.

For the **non-residential building market**, a number of policies have been put in place on the national level to revive investments in non-residential construction in a number of Member States. However, national initiatives supporting investments are diverse and depend on the individual country. In terms of the size of investments, the available budgets foreseen by national governments to support non-residential building policies differ considerably between Member States, depending on the breadth of required interventions.

With regards to **public infrastructure development**, in order to foster investment in infrastructure Member States rely on both EU policies and their own national strategies. Transport infrastructure is of particular importance since a well-developed network is the basis for competitiveness, cohesive territorial development and enhanced market opportunities. Thus, transport policy has long featured in the financial priorities at the EU level offering a number of investment incentives through the European Structural and Investment Funds (ESIF), the European Fund for Strategic Investments (EFSI), the Loan Guarantee Instrument for TEN-T (LGTT) and others.

5. Conclusions

Future efforts should be focused on **addressing the underlying barriers to investment**, including **high risk levels, low productivity, inefficiencies, skills shortage** and **lack of access to finance** in order to maintain sustainable construction sector growth.

In order to achieve this result and take full advantage of the potential of construction, the following remarks should be considered:

- **Accelerating the integration of digitalisation and innovative technologies** and practices in the construction holds major potential for improving the sector's efficiency, effectiveness and profitability.
- While **access to finance for construction firms and consumers** has improved substantially since the economic and financial crises, increased focus on measures that target the remaining barriers will be important to ensure continued investment growth. .
- Increased focus on policy measures that **improve access to housing** in the most constrained markets will be an important measure to both support construction activity and improve society welfare.
- The public sector will continue to play an important role in housing and infrastructure investment and therefore it is important that **innovative financial instruments** are used to leverage public funding and draw in investments from the private sector.
- Across the board, **policies supporting the non-residential market** were limited. Yet, such policies could play an important role in order to address the poor quality of non-residential buildings for public use and foster the construction or redevelopment of hospitals, schools as well as commercial or retail properties which could in turn support inclusive growth.