

Savills ProgrammE and Cost Sentiment Survey



Lowest S.P.E.C.S score on record

As the political jousting continues in both London and Brussels with regard to Britain's exit from the EU many property markets have been in "business as usual" mode.

Occupier demand in many office and industrial markets has remained surprisingly robust with records being set in many regions. Structural change in the retail sector has led many to consider "re-purposing solutions", which we examine in more detail overleaf.

However, many factors contributing to build costs and programme duration have been much more volatile. Currency fluctuations have impacted the price of raw materials and uncertainty remains around tariffs that the USA, China and Europe may impose on each other. With employment in the U.K being at record levels and a continued fall in migrant labour wage costs are expected to increase. It would seem however that contractors are in the process of filling their order books as these costs are being absorbed as detailed with

G & T reporting just 1% tender price inflation for 2019. This is reflected in our S.P.E.C.S index for the start of 2019 with a score for of two, which is the lowest quarterly score since the start of our survey.

S.P.E.C.S Q4 2018



Source Savills Research

Q4 2018 S.P.E.C.S Indicators

	New build and refurbishment costs	New build and refurbishment timescales*	Occupier fit-out costs	Occupier fit-out timescales*
Offices - Central London	↑	↔	↑	↔
Offices - Regional	↑	↔	↔	↔
Warehousing <100,000 sq ft	↔	↔	↔	↔
Warehousing 100,000 - 500,000 sq ft	↔	↔	↔	↔
Warehousing 500,000+ sq ft	↔	↔	↔	↔
Central London prime residential	↔	↔	↔	↓
Central London mid-market residential	↔	↔	↔	↔
Regional mid-market residential	↔	↔	↔	↔
Foodstores	↔	↔	↔	↔
High street retail	↔	↔	↔	↔
Out of town retail	↔	↔	↔	↔
Shopping centre	↔	↔	↔	↔

Source Savills Research Note *Time taken from project sign off to commencement including procurement and delivery of building components

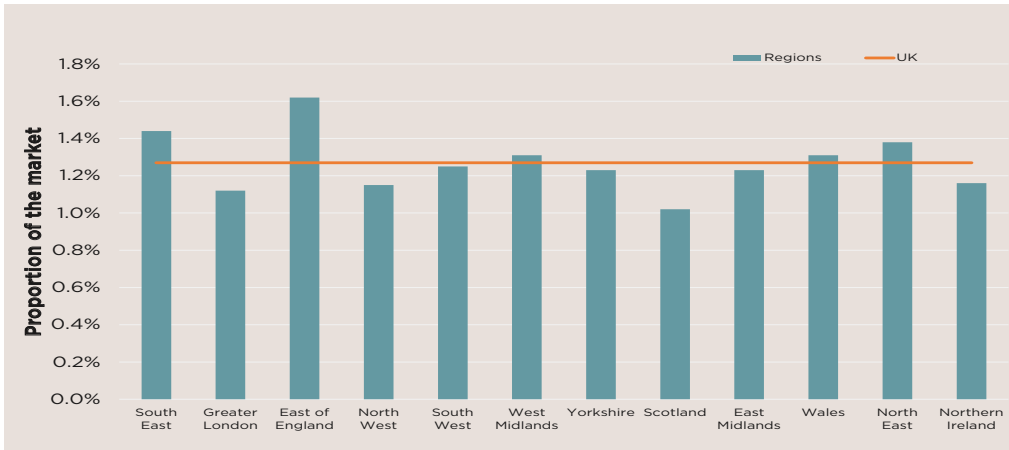
WITH NO GREATER CLARITY EMERGING REGARDING THE UK'S EXIT FROM THE EU MANY CONTRACTORS ARE FILLING THEIR ORDER BOOKS WHICH IS SUPPRESSING MOST INCREASES IN COST AND PROGRAMME. ANY GEOPOLITICAL SHOCK IN 2019 HAS THE POTENTIAL TO CHANGE THAT SITUATION QUICKLY.

Simon Collett, Head of Division

METHODOLOGY & APPROACH

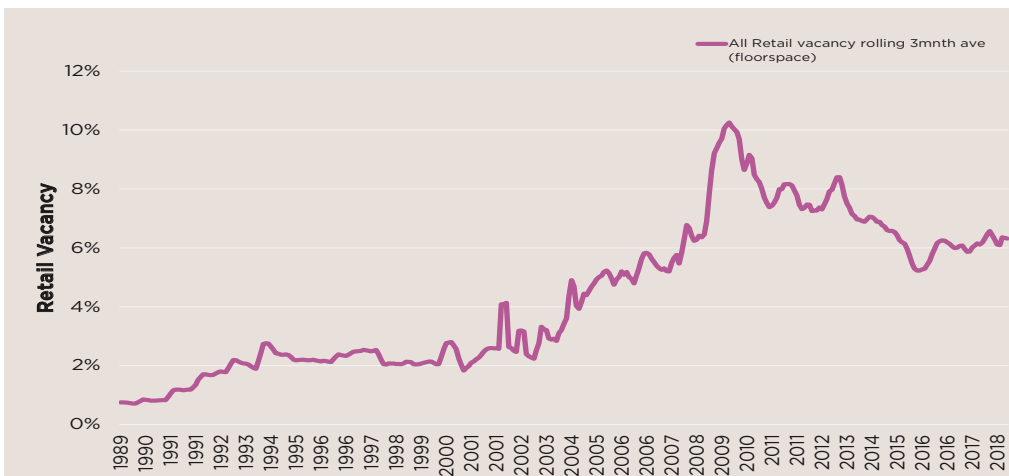
Savills Building and Project Consultancy sector experts track build cost and programme timescales sentiment across 48 separate markets and sectors. A high S.P.E.C.S score would mean that most sectors are experiencing upward cost and timescale pressure whereas a highly negative score would suggest that most markets and sectors are experiencing downward pressure. A score around zero suggest that build costs and programme timescales are largely static.

UK CVA activity only accounts for small part of total market



Source Savills Research

All retail vacancy still lower than GFC



Source MSCI

IS RE-PURPOSING RETAIL A SOLUTION TO LONG TERM VACANCY?

The continued challenges around the retail property sector have led to many commentators suggesting that “re-purposing” certain types of retail use to another use is a simple solution.

It is worth initially pointing out that many of the key indicators are demonstrating that the headlines may be a touch over zealous. For instance, whilst further CVA’s can be expected in 2019 only 1.27% of the market has been impacted so far. The vacancy rate too remains at 6.3%, comparable to the industrial sector where the headlines are much more positive.

However within these headlines there are of course individual properties or schemes with long term vacancy or other structural issues that make re-purposing a potential solution. Greater clarity is needed however around the catch all term of re-purposing as in reality each scheme must be assessed on its own merits. Large solus out of town units

for example could potentially be used for last mile logistics. This isn’t a panacea situation however as any potential logistics occupier will be looking for a large number of doors for vehicle access, no (or few) restrictions on hours of use and town planners may not be receptive to the change of use.

More importantly land value will continue to be the key driver which impacts development viability. In the South East we expect re-purposing solutions to actually focus more on intensification of the existing retail use rather than change away from it all together. This may involve reducing or concentrating the amount of retail space on a scheme and developing residential or other commercial uses on the balance.

With further pressure on retail rents and therefore values there will be more sites appearing across the country where the viability of re-purposing starts to become feasible.

SAVILLS ACTIVITY IN RE-PURPOSING INITIATIVES

Continued structural change in retailing is creating opportunities to re-purpose prime sites to meet our changing lifestyles.

Delivering mixed-use schemes remains vitally important to the vibrancy of communities and our social fabric.

Savills Building and Project Consultancy, with our in-house multidisciplinary teams, are working on schemes to regenerate

cities with build to rent, social housing, hotels, last mile distribution and reconfigured retail to rebuild valuable and desirable assets.

Savills team

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