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S.P.E.C.S
Savills ProgrammE and Cost Sentiment Survey

July 2016

Introducing S.P.E.C.S

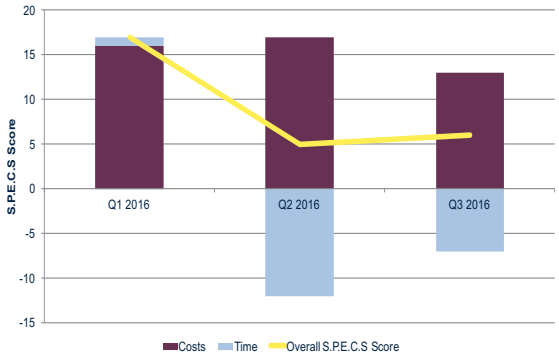
- Welcome to the first edition of S.P.E.C.S, a quarterly Savills Research report aimed at tracking the cost and time scale trends associated with new development and fit-out across different property sectors and regions.
- The data in table one is collected from Savills sector specialist project managers who track if market sentiment is causing project costs and time scales to be either increasing, decreasing or remaining static. Over time this data will form a time series allowing for further analysis.

Q3'16 S.P.E.C.S Score

- The data in table one has been given a numeric value and a net score calculated for costs and time scales. There are 24 indicators for each, a S.P.E.C.S score above zero demonstrates costs or time scales generally rising and a score below zero demonstrates a fall.
- For the third quarter of 2016 we have observed a cost score of 13 which shows that nearly all sectors and geographies are seeing costs for build and fit out rise. Timescales however have a score of -7 which shows that project delivery is getting quicker.

GRAPH 1

S.P.E.C.S 2016



Graph source: Savills Research

"Our first edition of S.P.E.C.S highlights how current macro events are impacting the construction industry. Cost increases are generally stabilising whereas timescales for larger projects are moving out faster in comparison to smaller schemes. The impact of the result to leave the EU will take a number of months to filter into our S.P.E.C.S scores, the direction of any change remains to be seen " Simon Collett, Head of Division

TABLE 1

Q3 2016

S.P.E.C.S Indicators

		New Build & Refurbishment Costs	New Build & 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 St Retail	↑	↔	↑	↓
	Out of Town Retail	↑	↔	↑	↓
	Shopping Centre	↑	↓	↑	↓

*Timescales definition: The time taken from project sign off to project commencement including the procurement and delivery of building components

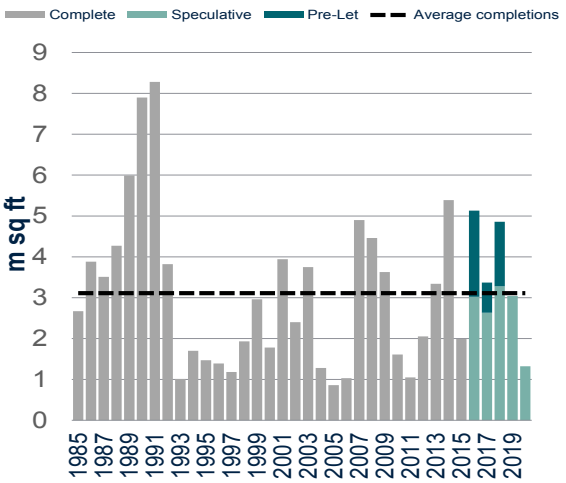
Table source: Savills Building and Project Consultancy

Lack of contractors in London push prices up

- With take-up in the City of London totalling 7.4m sq ft in 2015 and surpassing the long term average for the third consecutive year it is no surprise that the development and refurbishment pipeline of office space is also increasing. With vacancy rates in the City at 4.5% against a long term average of 9.7% more space is now set to come to the market.
- At the time of writing there are expected to be three consecutive years of above average completions expected to arrive within the City, with the greatest amount anticipated for 2016 at a total of 5.1m sq ft of which 2.1m sq ft is already pre-let. In fact, 27% of the future development and refurbishment pipeline is already pre-let, a trend which we expect to continue as larger occupiers are forced to look into the future to guarantee their property requirements are successfully satisfied.
- The result of this for the development market is that contractor availability has become a key issue. We remain in a strong contractor market where demand for their services is high but supply is being constrained due to an ongoing skills shortage. Contractors are dictating the procurement routes available to our clients with two stage and negotiated procurement being their preferred option. Contractors currently have little appetite for single stage design and build procurement as risk profile is perceived to be higher and their profit margins are constrained. There is still a general sentiment that sub contractors are in a stronger position in dictating tender pricing and can drive greater control over project programme and cost than the main contractors.
- Using data from Gardiner & Theobald we therefore expect UK average rates of tender price inflation to remain at 4% for 2016 and 3.5% for 2017, with a levelling off predicted in 2018.

GRAPH 2

Development pipeline above average



Graph source: Savills Research

"With strong levels of occupier take-up and three consecutive years of above average completions, refurbishment and fit-out construction costs have all risen. In the coming months we do not expect the result of the EU referendum to have any immediate impact on the predicted tender price inflation, but timescales and workloads could be impacted as occupiers and developers react " Paul Davies, Director City Office

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