

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

May 2017

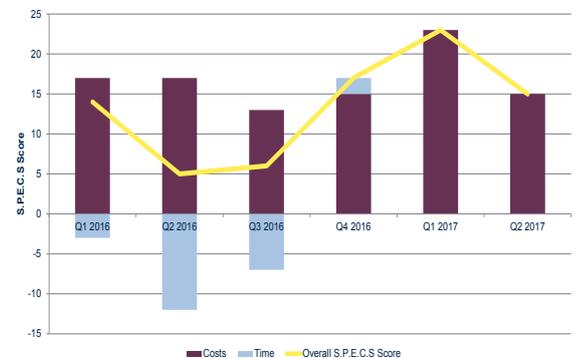
## Cost stability arrives in some sectors

- The previous edition of S.P.E.C.S suggested that in 2017 uncertainty was the only certainty. This has most definitely been the case geopolitically as the UK is now braced for another General Election and we have seen political outsider Emmanuel Macron win the French Presidency.
- Property, financial and commodity markets are now starting to stabilise following the events of 2016 meaning greater clarity is being seen in relation to property development pipelines and tender price inflation which remains unchanged at 2.5% according to G&T.

## Q2'17 S.P.E.C.S Score

- Our overall S.P.E.C.S score for the second quarter is 15, a slight fall from the record score reached in the first quarter of the year.
- Timescales in all sectors and geographies remain static as the development pipeline of new projects remains steady. Whilst most sectors are still seeing costs rise it is interesting to note that some sectors have stabilised, warehousing in particular, and that costs for occupier fit outs in regional markets have a downward pressure which could be attributed to higher than normal contractor availability.

GRAPH 1  
S.P.E.C.S Q2 2017



Graph source: Savills Research

“With a level of stability now appearing to return to some markets it is interesting to note that some sectors and geographies are starting to see build costs plateau, and in regional office markets fall. Whilst not yet impacting timescales developers or occupiers could look to now take advantage of these market conditions.” Simon Collett, Head of Division

TABLE 1  
Q2 2017

## 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

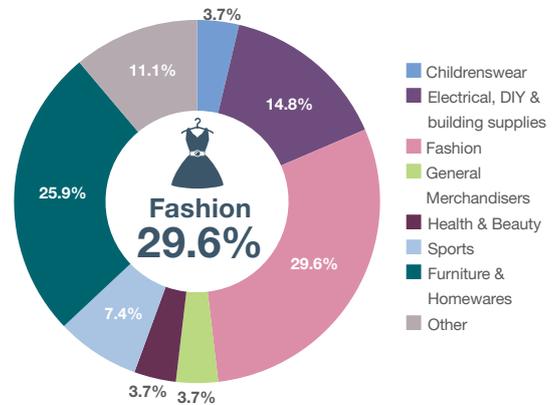
→ **The evolution of retailing placing new demands on the physical store**

- The structural shift currently taking place within retailing due to the growth in online is having a number of impacts on retailer estate strategies and in turn retail property.
- However, it is not a case of offline vs online. For example, some of the biggest online retailers operate a physical store network, John Lewis being a prime example. We are also seeing a number of 'pure play' e-tailers make the leap to bricks and mortar retailing. Fashion brands have been the most active in making this transition accounting for almost 30% of pure play retailers who made the transition to omnichannel retailing with the opening of stores (Graph 2). Customer preferences to 'touch and feel' product before purchase being a key part of this move to physical retailing. The most recent and high profile example of this being Missguided who opened their first store in Westfield's Stratford centre.
- The transition of e-tailers into physical retailing highlights the continued role the store can play in promoting the brand, driving both online and in-

store sales. All the more important in light of the projected slowdown in online sales growth and the fact that for some parts of the retail market the majority of sales will continue to take place in stores. GlobalData, for example, forecast that online sales growth will slow to 4.8%, with only 11.5% of health & beauty spend to take place online by 2022.

- While the 'store' will continue, what is changing in light of the growth in online is the size and number of stores required by retailers. However, it is the digitisation of the in-store experience, across all parts of retailing, and the new ways retailers are using their stores, that will perhaps have the most significant impact on retail property going forward.
- For landlords the potential impacts of this evolution range from facilitating the delivery of super fast wifi, ensuring space flexibility for innovative fit-outs, facilitating easier customer returns to examining options for an evolution of the landlord and tenant relationship.

GRAPH 2 **Pureplay transition to omnichannel by sector**



Graph source: Savills Research Retail Revolutions: From Digital to Physical

.....  
**“The retail revolution presents a number of practical realities for the industry. These include how to deliver innovative retail space, as well as ensuring operational trading requirements are met when combining brands and services under one roof, all of which can lead to higher costs and a longer delivery programme.”** Claire Hood, Associate Director, London  
 .....

Please contact us for further information



**Simon Collett**  
 Head of Division  
 +44 (0)20 7409 5951  
 scollett@savills.com



**Paul Davies**  
 Offices - Central London  
 +44 (0)20 7409 8992  
 pdavies@savills.com



**Gary Bulloch**  
 Offices - Regional  
 +44 (0)161 227 7247  
 gbulloch@savills.com



**Claire Hood**  
 Retail  
 +44 (0)20 7877 4572  
 chood@savills.com



**James Kelway**  
 Warehousing  
 +44 (0)20 7409 8977  
 jkelway@savills.com



**Jim Wickens**  
 Residential  
 +44 (0)20 7409 8041  
 jwickens@savills.com



**Stephen Morgan**  
 Midlands  
 +44 (0)121 634 8454  
 swmorgan@savills.com



**John Gallagher**  
 Scotland  
 +44 (0)141 222 5852  
 jgallagher@savills.com



**Nick Ireland**  
 South  
 +44 (0)23 8071 3918  
 nireland@savills.com



**Kevin Mofid**  
 Research  
 +44 (0)20 3618 3612  
 kmofid@savills.com

.....  
**Savills plc**  
 Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.