

Savills Programme and Cost Sentiment Survey



Largest ever jump in S.P.E.C.S score

As 2019 drew to a close the UK property market waited with anticipation as to what the result of the general election would be and what impact this would have on investor and developer sentiment.

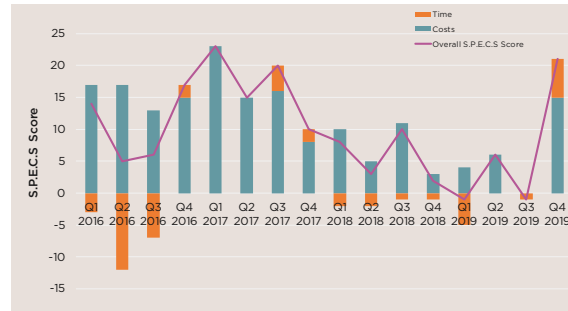
From a sentiment perspective many in the industry will now be looking forward to 2020 and beyond given the UK now has a government with a strong working majority. Plans for projects that previously have been on hold are being dusted off and returned to the contractor market for tendering.

However, given that many contractors spent 2019 absorbing cost inflation to ensure healthy future workbooks initial post-election evidence would point to that policy no longer being true in all cases.

Combined with the continued weakness of sterling, meaning that many raw materials costs are rising, we have seen very slight rises in tender prices in many of the sectors we cover.

This is reflected in our S.P.E.C.S index for the start of 2020 with a score for of 21, which is the second highest quarterly score since the start of our survey and also the sharpest rise we have ever recorded.

S.P.E.C.S Q1 2020



Source Savills Research

Q1 2020 S.P.E.C.S Indicators

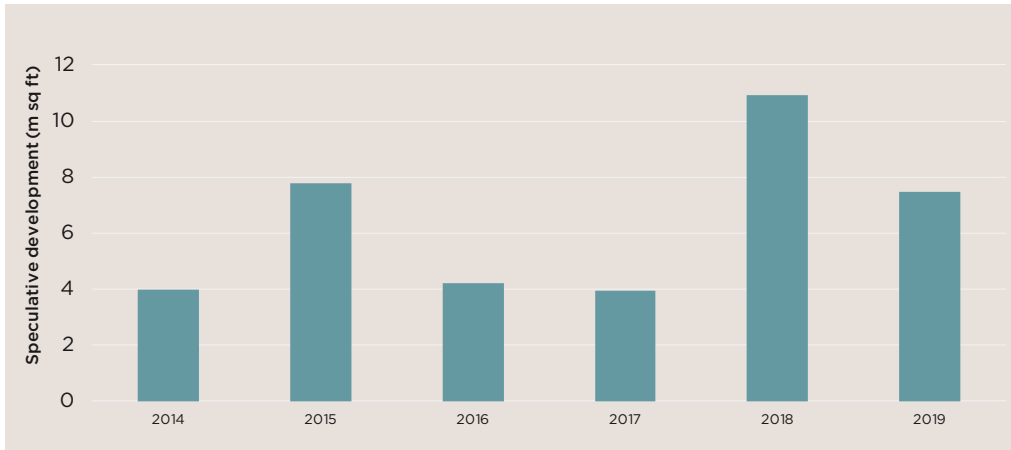
	New build and refurbishment costs	New build and refurbishment timescales*	Occupier fit-out costs	Occupier fit-out timescales*
Offices - Central London	↑	↔	↑	↔
Offices - Regional	↑	↔	↑	↔
Warehousing <100,000 sq ft	↔	↑	↔	↑
Warehousing 100,000 - 500,000 sq ft	↔	↑	↔	↑
Warehousing 500,000+ sq ft	↔	↑	↔	↑
Central 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

WHILST TENDER PRICE INFLATION REMAINS AT HISTORICALLY LOW LEVELS, IT IS INTERESTING TO SEE HOW CONTRACTORS ARE REACTING TO EXTERNAL ECONOMIC FACTORS AND THE CONTINUED HEALTH OF MANY PROPERTY MARKETS. WITH THE SLIGHT RISES IN COSTS WE HAVE SEEN ACROSS MANY SECTORS, THIS HAS PUSHED OUR S.P.E.C.S SCORE TO A LEVEL NOT SEEN SINCE JUST AFTER THE REFERENDUM
Simon Collett, Head of Division

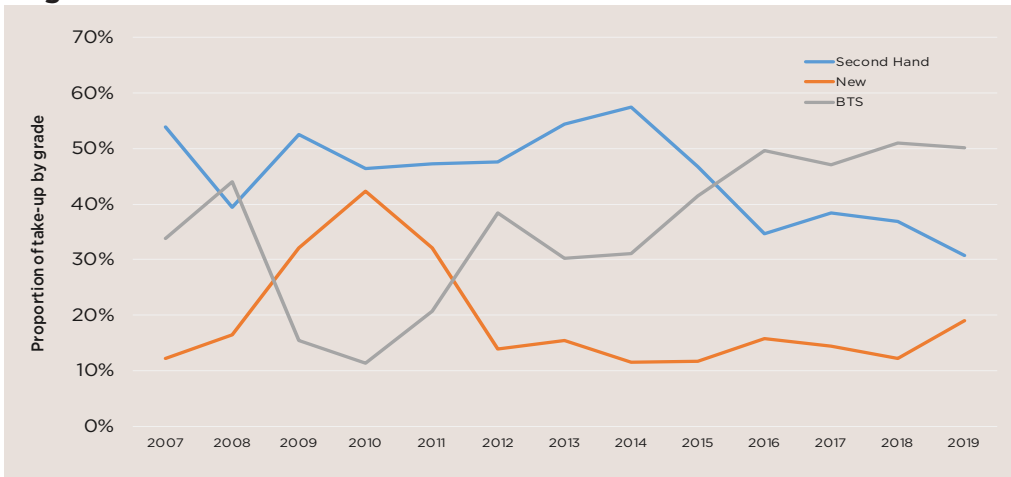
METHODOLOGY & APPROACH
Savills Building and Project Consultancy sector experts track build cost and programme timescales sentiment across 48 separate markets and sectors. A high S.P.E.C.S score would mean that most sectors are experiencing upward cost and timescale pressure whereas a highly negative 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.

Logistics speculative development fall on 2019



Source Savills Research

Logistics build to suit accounts for half of market in 2019



Source Savills Research

FALLING SPECULATIVE DEVELOPMENT KEEPS COSTS STABLE FOR WAREHOUSE DEVELOPMENT

Following record speculative warehouse development of 10.9m sq ft in 2018, continued Brexit uncertainty and occupier indecisiveness meant that development announcements fell by 32% to 7.4m sq ft. Build to suit announcements also fell in 2019 by 2m sq ft, compared to 2018, although proportionally accounted for half of the market. Combined, this has meant that contractors who had a full order book of work have had to make adjustments to their margins to obtain projects into 2020 and beyond.

However, as Brexit uncertainty rumbled on through 2019, the availability of labour has become much more of a pressing concern. In turn, this has had an impact on programme delivery timescales, with many warehouse construction projects taking longer to deliver than previously anticipated.

Moving into 2020 it is difficult to see how labour market conditions will revert to the pre-referendum

norm meaning that projects will either take longer or costs will rise as higher wages are paid to attract staff, which in turn will knock into build costs.

The conditions around the labour market could probably not have come at a worse time, taking the industrial and logistics market cycle into account. Indeed, with strong take-up levels of 34.2m sq ft recorded in 2019 and the shackles of Brexit and election uncertainty lifted, we expect continued high levels of demand which has the potential to see both speculative development and build to suit take-up rise from current levels.

Current initiatives around sustainability and the goal to deliver net zero buildings may also soon start to impact the contractor market. Last year saw the administration of a tier two contractor as cost pressures became too much to bear. As developers refine their product to be more sustainable this could amplify the gap between tier one and two contractors and also mean a potential rise in build costs as contractor supply chains try to adapt.

2020: A STEP CHANGE IN SUSTAINABILITY FOR WAREHOUSE CONSTRUCTION?

In conjunction with Property Week and warehouse developer Tritax Symmetry, Savills recently hosted a seminar where Chair

of the UK Government Committee of Climate Lord Deben addressed delegates. Lord Deben commented that the

commercial property sector has a key role to play in helping the UK meet the obligations of the Paris agreement. Regulation is expected

to rise exponentially in the coming years to enforce developers to deliver net zero carbon impact buildings.

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