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

February 2017

Market resilience starting to push costs

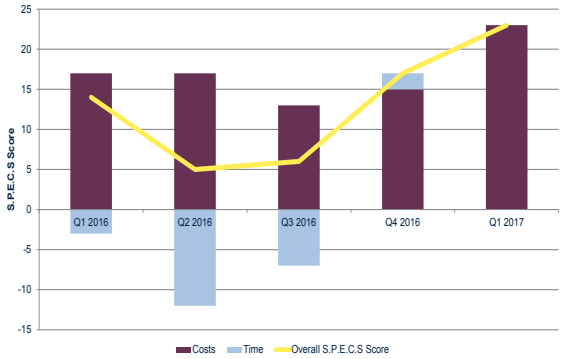
- With many occupational markets remaining resilient into the second half of the year, developers have continued with development and refurbishment projects across all sectors.
- Into 2017, uncertainty remains the only certainty, with the pound still remaining weak, the cost of imported materials remains an issue. Construction companies will have to establish if these costs are to be passed to the end user or if the pressures will alleviate as greater certainty arrives once Article 50 is triggered.

Q1'17 S.P.E.C.S Score

- As material price inflation starts to filter through, we have recorded the highest S.P.E.C.S score of 23, the highest level reached in our index.
- Every sector and geography we monitor is seeing new build and heavy refurbishment costs rise.
- Whilst timescales in most markets remain static, the dynamics of the regional office market, which we examine in more detail on the next page, mean that developers and landlords are rushing to complete projects to capitalise on potential extra demand for business space.

GRAPH 1

S.P.E.C.S Q1 2017



Graph source: Savills Research

"With current economic circumstances having an impact on project costs and timescales, our S.P.E.C.S indicators are in step with these movements showing a close correlation between our project work and the prevailing economic climate. As the world gets used to a Trump Presidency and the UK prepares to invoke Article 50, we expect even further volatility to project costs and delivery timescales." Simon Collett, Head of Division

TABLE 1

Q1 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

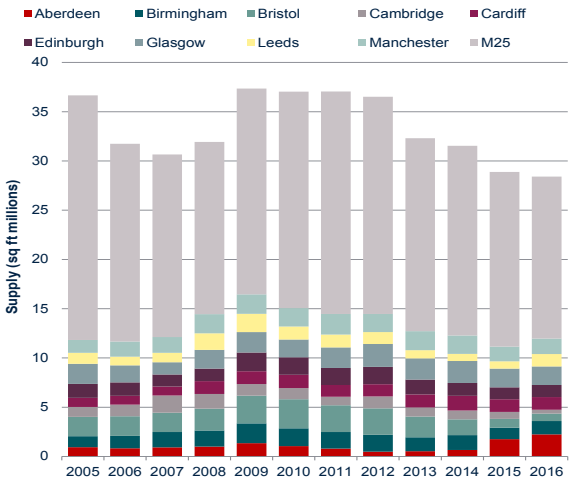
Table source: Savills Building and Project Consultancy

Costs increase and timescales come in as developers seize the moment

- In the months after the vote to leave the UK was confirmed, a perception that regional office markets may prove to be more resilient than central London has emerged. In the most part, this is driven by the fact that regional occupiers tend not to be focussed on international banking, finance and insurance, and therefore regional occupier demand should remain closely linked with the economic cycle as opposed to the Brexit negotiations.
- For the fourth successive year take-up in the regional office markets has surpassed the long term average of 9.1m sq ft reaching 9.6m sq ft. Amongst the stand out performers were Manchester, where 1.2m sq ft of take-up was recorded, and Cardiff, where 675,000 sq ft was taken, its best performance for 15 years.
- This strong level of demand has resulted in supply levels decreasing across all regional office markets, with supply in 2016 falling to 28.4m sq ft, a fall of almost a quarter in just five years.
- With Gardiner & Theobald forecasting that input costs are expected to rise 2.5% in the regions in 2017, landlords and developers now have a window of opportunity to commit to new build and refurbishment projects in order to capitalise on this sustained occupier demand.
- Examples include Churchgate House in Manchester, where Savills have project managed a rolling refurbishment programme on a floor-by-floor basis. With limited supply of good quality space in this market, recent deals have even been on a pre-let basis, and the unit is now fully let for the first time in 15 years.
- With average regional office rents set to fall by 0.3% in 2017, according to RealFor, the delivery of good quality stock in supply starved markets will see the greatest potential for rental rate increases.

GRAPH 2

Regional office supply falls again



Graph source: Savills Research

"Given the uncertainties around material prices, contractors are starting to factor in allowances to counteract any future fluctuations. Into 2017, we are seeing developers and landlords wishing to proceed with even greater pace than before in order to capitalise on the current market conditions." Gary Bulloch, Director, Manchester

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