

Savills ProgrammE and Cost Sentiment Survey

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Upward cost pressure in some sectors

Since the last update to our index the property and construction markets have adapted well to the challenges faced with bringing forward new schemes in a pandemic. New working practices have, generally speaking, increased project timescales and increased costs have been absorbed by contractors who have been busy trying to fill their order books.

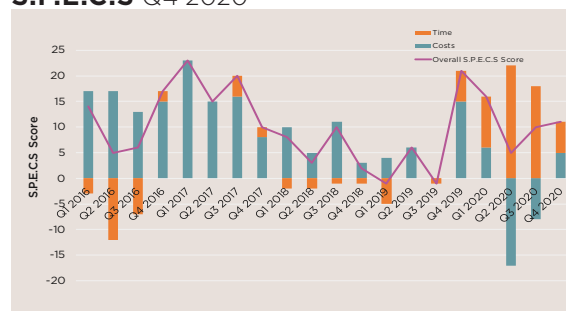
The main property sectors have been performing differently however, which impacts the make-up of our index. The logistics sector has seen record levels of take-up and build to suit development meaning resources are stretched and contractors are being more selective. The retail sector, on the other hand, is adapting to a world where dwell time is no longer important, and the speed at which the consumer can pass through the store is a key factor, meaning that contractors are busy refitting and redesigning stores to reflect the new normal.

According to data collected by the Construction Products Association there has been a 28% fall in the number of EU nationals working in UK construction suggesting an upward pressure on wages for the remainder. And whilst product is generally making its way through the UK border there remains

congestion at the ports and container rates have risen by over 163% since June 2020. Whilst the industry has proved adept at absorbing cost rises so far, a tipping point can be expected if circumstances remain the same.

This is reflected in our S.P.E.C.S index for Q4 2020 with a score of 11, showing that both costs and timescales are increasing after a period of volatility. Into 2021 macro-economic factors, combined with a lack of labour, will put greater upward pressure on costs.

S.P.E.C.S Q4 2020



Source Savills Research

Q4 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

At present, Covid-19 restrictions continue to affect capacity, but the industry has seen a significant acceleration in digital innovation, including BIM, drones and virtual reality, all of which are here to stay. Overall, construction prices have seen minimal increases since the start of 2020, partly due to contractors looking to secure work into 2021. Although we could start to see more selective tendering as a consequence of potential strain on labour and materials, along with supply chain disruption following the EU trade deal. **Simon Collett, Head of Professional Services**

METHODOLOGY & APPROACH

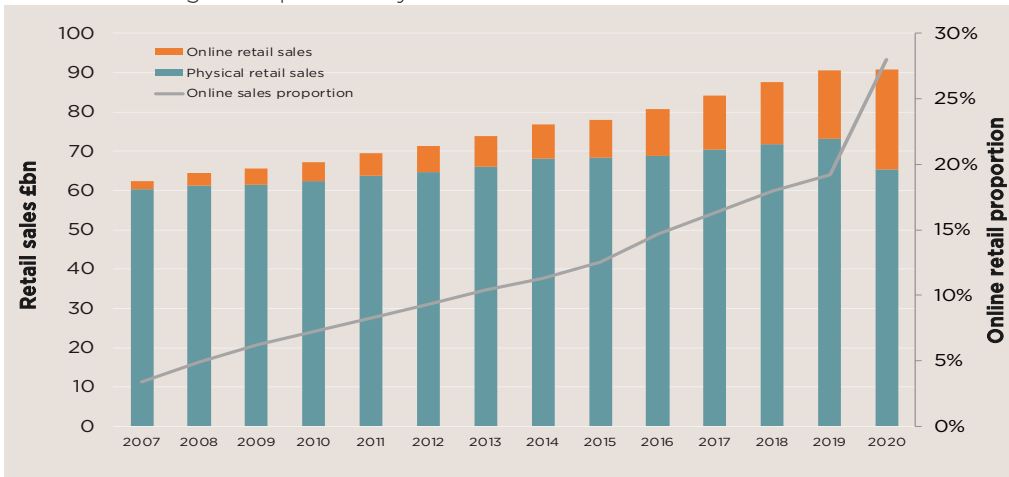
Savills Building and Project Consultancy sector experts track build cost and programme timescales sentiment across 48 separate markets and sectors. A high S.P.E.C.S score would mean that most sectors are experiencing upward cost and timescale pressure whereas a highly negative score would suggest that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

Retail warehousing the only part of retail where investment grew in 2020



Source Savills Research using Propertydata.com

Online retail grew exponentially in 2020



Source ONS

PRACTICAL ISSUES ASSOCIATED WITH CONVERTING RETAIL TO LOGISTICS

The onset of Covid-19 has accelerated many of the structural trends which already existed before the pandemic, a key one being the growth in online retailing which reached 33% of all retail at the height of the initial lock-down, up from 20% just months before.

One property market trend has been the relative out performance of the retail warehouse sector as investors see this area bouncing back strongly post Covid-19 but also benefiting from a potential change of use to logistics in the future. Investors such as Prologis, M7 and Tritax have all made such purchases with strategies ranging from a rebuild to a conversion of the existing structure.

Whilst a rebuild will address any operational issues it is not always possible or indeed financially viable and many investors will be looking to repurpose existing units. From a construction

perspective there are many challenges that arise from such a conversion, which in turn may make a project unviable.

Any logistics occupier would require sufficient eaves height, adequate floor loading, a large yard for HGV's and the provision of more loading doors to facilitate the fast throughput of goods. If these issues can be addressed then a further consideration, rapidly increasing in importance to logistics occupiers, is the provision of energy. This relates to the potential install of warehouse automation but also the charging of electric vehicles which are increasing in use within the logistics industry. Consideration too, must be given to cladding and sound proofing as many potential conversions are in residential areas, often not a strong combination with a 24/7 logistics operation.

Whilst each potential conversion must be viewed on a case by case basis experience from Savills suggests a cost of conversion ranging from £10- 25 per sq ft.

LOGISTICS ISN'T THE ONLY OPTION

The accelerated evolution of retail is extraordinary. In 2020 we saw a shift in consumer behaviour like never before and

capturing the moment is the recently released [Re:Imagining Retail#2](#). The paper examines sustainable repurposing initiatives and discusses

how a mix of uses have a role to play in our retail landscape. Uses such as co-working space, maker spaces and life science operators

who want to bring lab space into the urban environment are all emerging as potential new users of redundant retail space.

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