

Savills Programme and Cost Sentiment Survey



Cost sentiment rises since start of year

With the UK Economy performing comparatively well in a global context many business space occupier markets continue to perform well with above average take-up levels.

This has meant that in the office and industrial sectors new build activity and refurbishment levels remain strong. As developers have undertaken competitive tendering processes and the need for contractors to fill their order books we are seeing little growth in new build costs or programme timescales.

The exception to this is the retail sector where a decline in the number of projects is pushing contractors to offer more competitive terms to secure the projects that remain.

This ties in with the latest analysis from G & T reporting just 1% tender price inflation for per year to 2021. This is also reflected in our S.P.E.C.S index for the third quarter of 2019 with a score for of three, showing a slight upward trend from

the start of 2019.

Should a disorderly Brexit occur it is likely that we will see a more volatile S.P.E.C.S set of indicators as markets react to price, currency, labour and tenant demand fluctuations.

S.P.E.C.S Q3 2019



Source Savills Research

Q3 2019 S.P.E.C.S Indicators

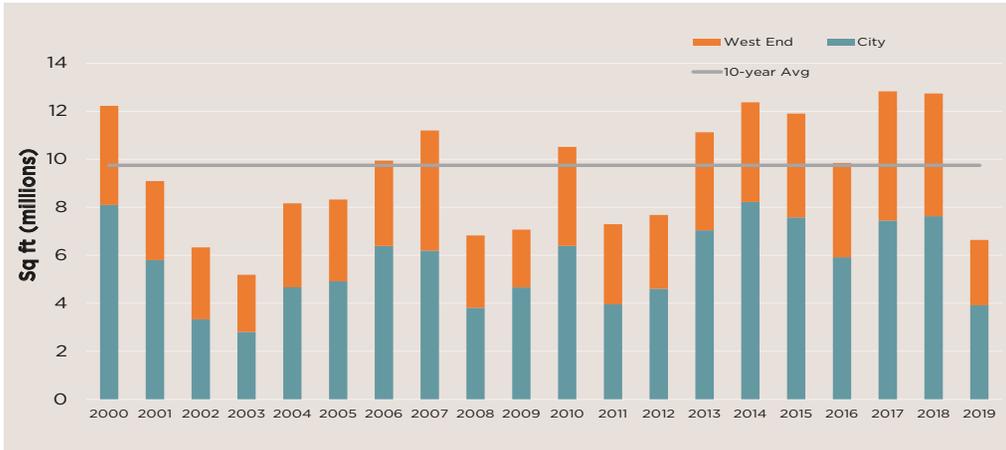
	New build and refurbishment costs	New build and refurbishment timescales*	Occupier fit-out costs	Occupier fit-out timescales*
Offices - Central London	↔	↔	↔	↔
Offices - Regional	↔	↔	↔	↔
Warehousing <100,000 sq ft	↔	↔	↔	↔
Warehousing 100,000 - 500,000 sq ft	↔	↔	↔	↔
Warehousing 500,000+ sq ft	↔	↔	↔	↔
Central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

STRONG OCCUPIER MARKET CONDITIONS COMBINED WITH CONTRACTORS BEING PREPARED TO ACCEPT LOWER MARGINS TO KEEP ORDER BOOKS FULL HAS MEANT WE HAVE SEEN LITTLE INCREASE IN COSTS OR TIMESCALES IN 2019. IN THE EVENT OF A NO DEAL BREXIT DEVELOPERS WILL NEED TO ENSURE SUPPLY CHAIN CONTINUITY WHICH MAY IMPACT PROGRAMME TIMESCALES.
Simon Collett, Head of Division

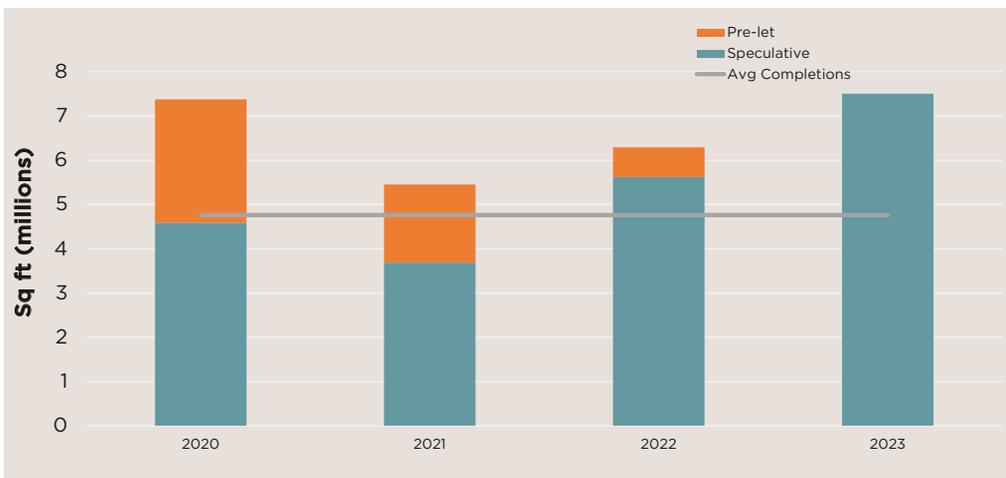
METHODOLOGY & APPROACH
Savills Building and Project Consultancy sector experts track build cost and programme timescales sentiment across 48 separate markets and sectors. A high S.P.E.C.S score would mean that most sectors are experiencing upward cost and timescale pressure whereas a highly negative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

Central London office take-up strong first half of the year



Source Savills Research

Central London office pipeline 26.6m sq ft due for delivery by 2023



Source Savills Research

LONDON OFFICE TAKE-UP DRIVES CONTINUED NEW BUILD AND REFURBISHMENT.

Defying the geopolitical headwinds around Brexit and the general economic climate the Central London office market has performed strongly in 2019 so far. By the end of August 6.6m sq ft of demand had been recorded for new office leasing deals across Central London, which is 3% above the long term average.

With historically low vacancy rates of 5.1% in the City and 4% in the West End developers and landlords are continuing to deliver new space to meet occupier demand. Indeed Savills are tracking 26.6m sq ft due for delivery in Central London by 2023, of which 5.2m sq ft has been pre-let.

This strong pipeline of supply is keeping contractors order books full and we are not seeing any sign of costs falling for new build projects notwithstanding the fact that competition between contractors remains strong with many preparing

cost effective bids for what they perceive to be trophy instructions.

On the refurbishment side we have noted a small decrease in costs mainly driven by competitive tendering processes.

Moving forward we expect there to be continued upward pressure on new build and refurbishment costs. This is driven by the aforementioned strong occupier demand for grade A properties. With a limited pool of contractors and labour availability likely to become more of an issue in a post Brexit environment it would suggest there is little scope for costs to fall or plateau.

In the event of a “no deal” Brexit it is likely that average rents for office space in Central London will fall slightly in 2020 before rebounding in 2021. In such an event developers may choose to limit the development pipeline, but with already low vacancy rates this would ultimately cause rents to rise further due to constrained supply.

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WHAT WORKERS WANT?

A recent survey of office workers across Europe by Savills has revealed some interesting trends about what workers

want from their office environment. Cleanliness, temperature and lighting all scored highly as factors most

important to office workers. However just 23% of respondents were happy with the environmental performance of the

buildings they are located. How such features can be improved will become key in the coming years.

