

# Savills ProgrammE and Cost Sentiment Survey



## Lockdown polarises market sentiment

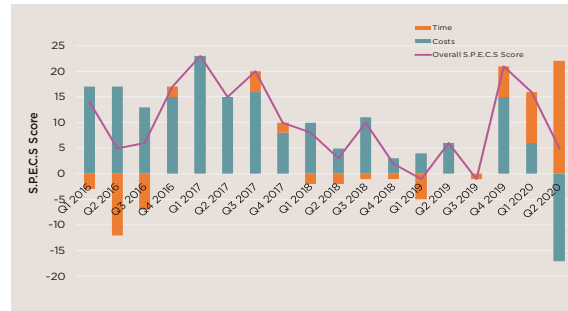
Since the last update to our index, it is extraordinary to think how much the world has changed. The personal and professional challenges resulting from the pandemic are unprecedented and, for everyone, the focus is now on the safe and responsible return to work and building back momentum.

Following a short hiatus, construction is continuing, albeit with physical distancing measures in place. This is not without its challenges as in many cases, the development of new processes has meant that projects are taking longer to complete, and programmes are being adjusted accordingly. This also has the potential to lead to higher costs as welfare provision increases and more machinery is needed to complete certain tasks.

As lockdown continued, the levels of speculative and turn-key development have declined, therefore contractors have been pricing projects accordingly to maintain previously strong order books. This has meant that we have not seen tender price inflation based on the price of labour or materials.

This is reflected in our S.P.E.C.S index for Q2 2020 with a score of five. However, our index has never been more polarised with sentiment around costs falling to its lowest ever level and sentiment around timescales rising to its highest ever level.

**S.P.E.C.S Q2 2020**



Source Savills Research

### Q2 2020 S.P.E.C.S Indicators

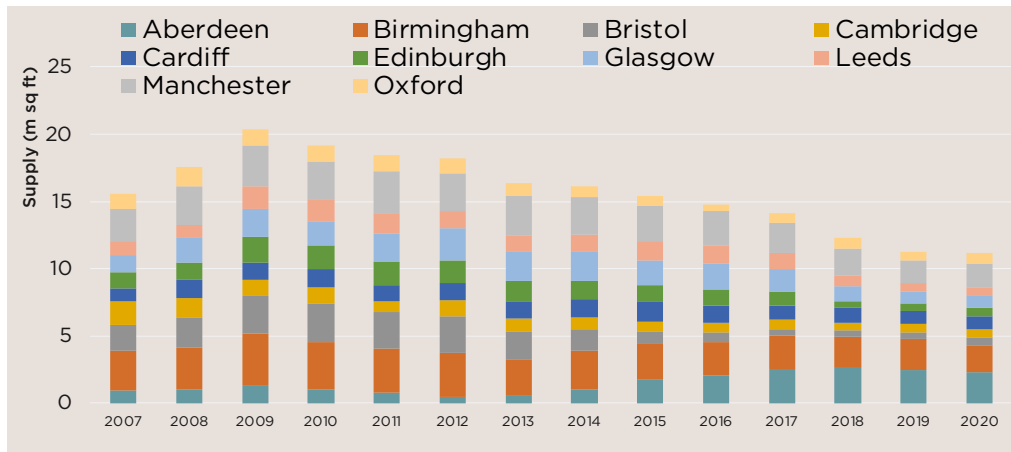
	New build and refurbishment costs	New build and refurbishment timescales*	Occupier fit-out costs	Occupier fit-out timescales*
Offices - Central London	↓	↑	↓	↑
Offices - Regional	↑	↑	↓	↑
Warehousing <100,000 sq ft	↓	↑	↔	↑
Warehousing 100,000 - 500,000 sq ft	↓	↑	↔	↑
Warehousing 500,000+ sq ft	↓	↑	↔	↑
Central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

**AS RESTRICTIONS HAVE BEEN LIFTED, IT IS PLEASING TO OBSERVE THAT CONSTRUCTION SITE PRODUCTIVITY LEVELS CONTINUE TO INCREASE. INTO H2 AND BEYOND, WE EXPECT THAT CONTRACTORS WILL CONTINUE TO PRICE KEENLY AS THERE WILL BE LESS NEW BUILD PROJECTS COMING FORWARD. HOWEVER, PHYSICAL DISTANCING MEASURES HAVE THE POTENTIAL TO REDUCE PRODUCTIVITY WHICH MAY RESULT IN LONGER PROJECT TIMESCALES**  
Simon Collett, Head of Division

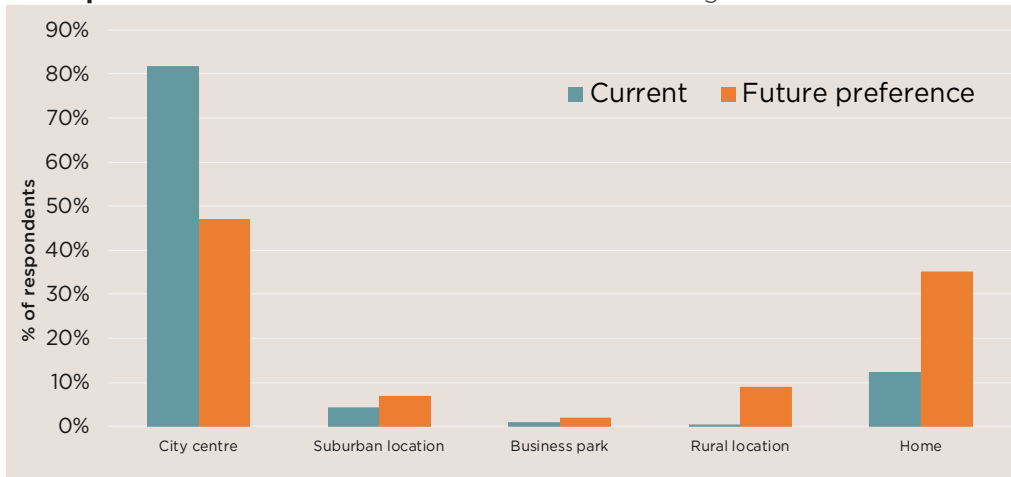
**METHODOLOGY & APPROACH**  
Savills Building and Project Consultancy sector experts track build cost and programme timescales sentiment across 48 separate markets and sectors. A high S.P.E.C.S score would mean that most sectors are experiencing upward cost and timescale pressure whereas a highly negative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

**Regional office availability** at record low levels



Source Savills Research

**Workplace location** London office workers want a change



Source Savills Office FiT

**WILL DEMAND FOR “HUB & SPOKE” OFFICES BENEFIT THE REGIONAL MARKETS?**

The world of work is at the very heart of life for many people, and recent events have had huge day-to-day implications for our engagement with work, the places where work happens and the organisations to which we belong. To identify key future trends, Savills Research has undertaken an extensive survey with the results recently published in our Savills Office FiT report.

Over many years we have seen a rise in the preference for city-centre locations, as demonstrated in the Savills Tech Cities programme ([www.savills.co.uk/techcities](http://www.savills.co.uk/techcities)). What has now emerged from our most recent survey is a potential for corporates to reassess their interest towards alternative locations including business parks, suburban locations and even rural areas – around 1 in 10 office workers in London would like to work in a rural location. It

seems likely that organisations may move to a ‘hub & spoke’ model, with a city centre presence but also regional and local office hubs. This potential shift in location strategy does, of course, vary by industry and workforce.

A significant shift in locational strategy is not without its challenges, however, as the supply of regional offices is now at a record low of 11.1m sq ft, reflecting a vacancy rate of just 9.6%. Stock has also been lost in recent years to alternative uses such as residential and student accommodation.

The overwhelming response to whether this period will have long-term impacts on the company office was “yes”. 71% believe that it will impact design and 74% believe that space and size will be affected.

We expect therefore to see an increased appetite for highly flexible office refurbishment projects but with longer timescales agreed as all parties take time to consider their options with the focus being “get it right” rather than “get it done”.

**CONSTRUCTION SUPPLY CHAIN IMPACTED BY LOCKDOWN**

Whilst contractors have been working closely with supply chains to mitigate lags in the delivery of materials, some issues remain.

Indeed, the extent of any material supply issues may not become truly apparent until demand ramps up later in the year.

Contractors are currently experiencing shortages in plaster, plasterboard, aggregates, bricks, plasterboard fixings,

internal and external insulation and partitioning metal; which are all contributing to continued programme delays.

**Savills team**

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