

gleeds

Holding Steady

Autumn 2020 UK Market Report



Gleeds' UK Market Report is published quarterly, exploring current and anticipated future UK construction market conditions. It draws on the experience of main contractors, sub-contractors, suppliers and colleagues in the UK construction market, collected through an online survey conducted in September 2020. This release summarises activity in the UK market for Q3 2020 with a view to Q4 2020 and beyond. The report was written in October 2020, after local distancing measures were revised by the UK Government during the week commencing 12th October 2020.

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Executive summary



DOUGLAS MCCORMICK
Executive Chairman UK, Gleeds

The power of resilience

Through the past seven months, the construction industry has demonstrated its adaptable approach in the face of change. As global markets steer their way through choppy waters, there has been a conscious, collaborative drive to keep things moving.

We have ensured cost-efficient shut-down and reopening of sites; turned to innovative construction approaches, such as modern methods of construction (MMC) and maximised the use of digital tools, supporting revised site healthy and safety procedures.

Construction programmes have been extended due to the impacts of COVID-19 and contractors are finding alternative ways of working in response to social distancing measures. 72% of contractors responding to our survey detailed within this report said current site productivity was at 80-100%, and 94% said they expected levels to hold steady or increase, notwithstanding another national lockdown.

Through new levels of collaboration, innovation and flexibility, the construction industry has demonstrated great resilience to keep the development of our hospitals, offices and homes moving ahead.

At the end of Q3 2020, market data indicated a sharp increase in UK construction activity. The headline seasonally adjusted HIS Markit / CIPS UK Construction Total Activity Index registered 56.8 in September, up from 54.6 in August, with the strongest performing category noted as housebuilding. New orders also continued to rise, with the index panellists mentioning release of pent up demand. In addition to understandable investor caution however, there are concerns around whether this project pipeline and upward trend will continue.

Whilst there is market uncertainty due to COVID-19, and with the impacts of Brexit on the horizon, there is investment potential for those who look at the longer-term picture. There are opportunities for the industry to maximise recovery and to adapt and reinvigorate itself to meet future challenges and requirements using MMC and digital tools. 65% of contractors responding to our survey said they would incorporate a greater percentage of MMC into their projects as a result of the pandemic.

The need for homes and to regenerate town centres and high streets continues, reflecting the changing needs of residents and consumers. The growth of blended home and office working will drive an increased focus on employee wellbeing, efficient, flexible space use and the environmental performance of commercial workspace.

As we move forwards, the buildings we construct now and in the future will embody the resilience demonstrated during the pandemic. Flexible for adaptation to alternative uses, innovative in design from the outset and future-proofed with the needs of their occupants at the heart.

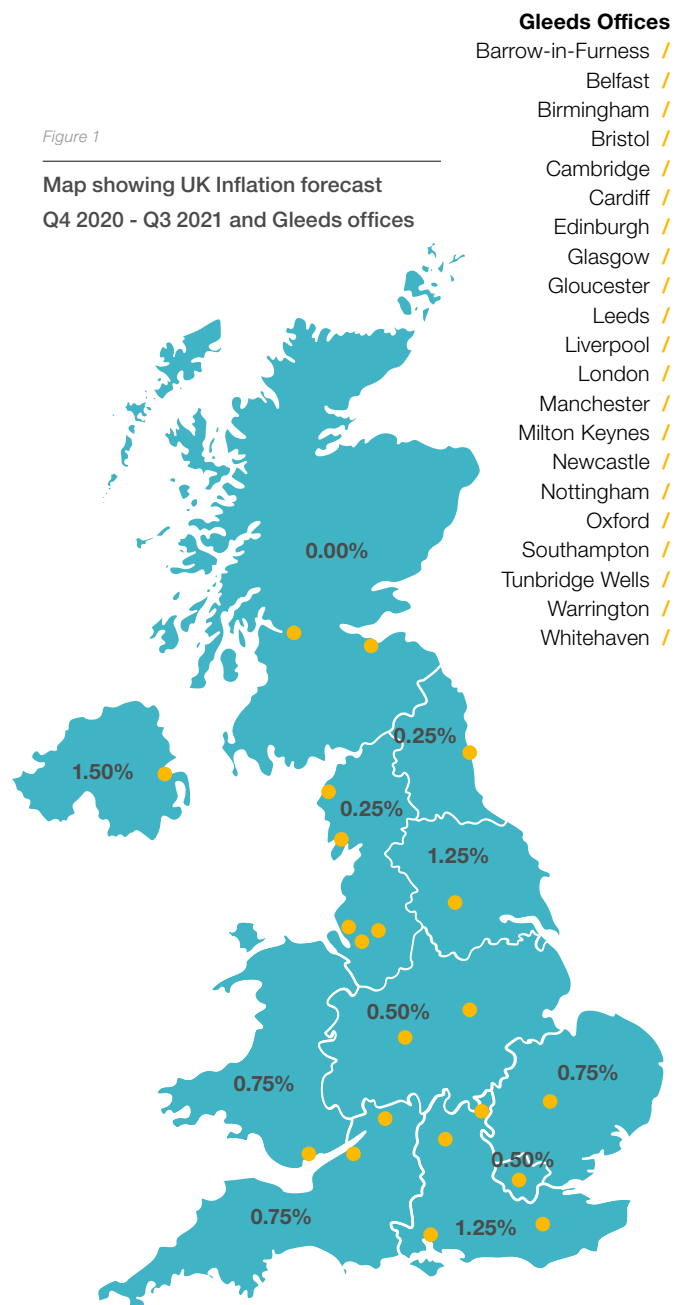
Holding Steady examines the construction industry’s journey over the past quarter, looking at the potential impact of inflation. We address contractual, tendering and claims scenarios stakeholders may be faced with, looking ahead by sector to the changes in the industry’s working practices.

With a fluctuating market and a new set of conditions to adapt to, our teams located across the breadth of the UK remain your constant advisors to support your growth, and we hope *Holding Steady* will prove a useful guide to aid your decision making as you move ahead through the coming months.

“As we move forwards, the buildings we construct now and in the future will embody the resilience demonstrated during the pandemic.”

Figure 1

Map showing UK Inflation forecast Q4 2020 - Q3 2021 and Gleeds offices





General market intelligence

The pandemic has had a major impact on the UK economy and the latest data from the Office for National Statistics (ONS) shows that although UK GDP grew by 2.1% in August 2020, it remains 9.2% below the February level, highlighting the unprecedented size of this contraction.

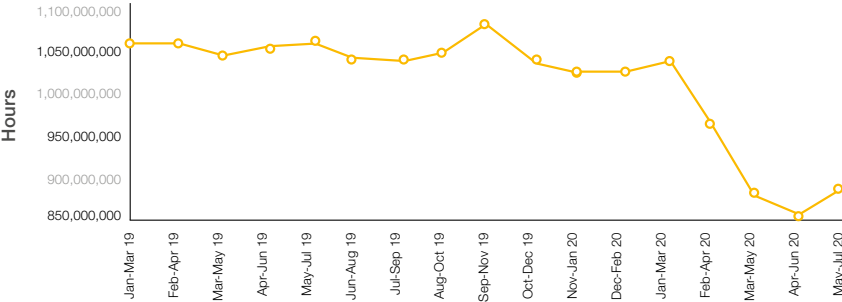
Unemployment levels reached 4.5% in the three months to August, which is the highest level in three years, however it is said that this does not fully reflect the dramatic effect that COVID-19 has had due to the Government's job retention scheme.

Labour market analysts suggest looking at hours worked for a truer picture and data from the ONS shows 183,057,840 hours less worked in May to July 2020 to May to July 2019.

With the furlough scheme being replaced and some companies making large numbers redundant, there is concern for unemployment levels and whether alternative jobs can be found.

Figure 2

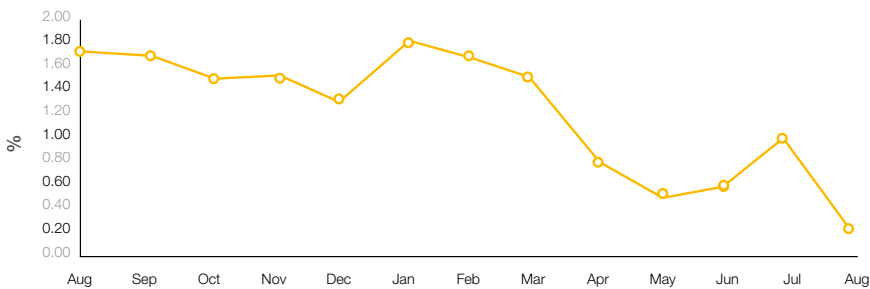
Actual weekly hours of work (not seasonally adjusted)



According to ONS data, the Consumer Price Index (CPI) measure of inflation fell to just 0.2% in August, this has been attributed to the Government's 'Eat Out to Help Out' scheme, which caused a 2.8% reduction year on year for the cost of items under the 'restaurants and hotels' group for the first time since records began in 1989. Restrictions on travel also meant that plane tickets were cheaper between July and August. It is difficult to forecast what will happen next; however, economists think that August will be a low point but with a weak economy consumers may continue to be cautious.

Figure 3

CPI 12 month rate (%)



The pandemic has also affected habits. The latest figures from ONS show that retail sales have increased since lockdown restrictions were eased in June and they have grown for four consecutive months. However, the pandemic has accelerated the shift to online shopping, with footfall data compiled by Springboard and the Department for Business Energy and Industrial Strategy remaining just below 80% of pre-pandemic levels, this is lower on high streets.

Property prices hit an all-time high in September, with Nationwide saying that the average UK house price rose above £225,000 for the first time in its latest index released in September to £226,129. The increased activity in the housing market is believed to be related to pent up demand from during lockdown and also the stimulus provided by government of a stamp duty holiday for properties worth up to £500,000.

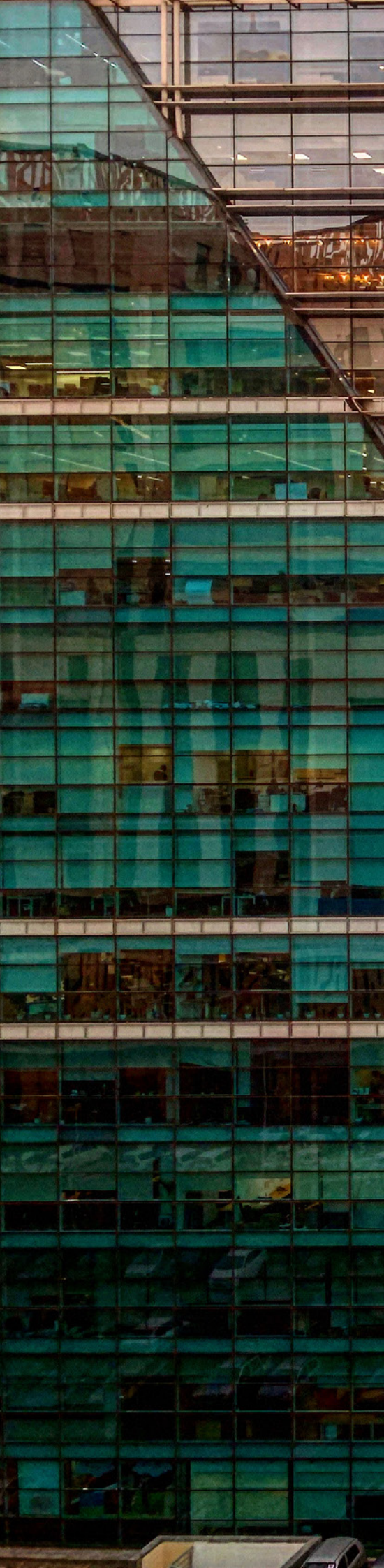
It is also believed that COVID-19 and lockdown have caused people to re-evaluate their housing needs following lock down with estate agents reporting increased interest in larger properties outside of cities and properties with more space to facilitate working from home. Some think that house price increases are unsustainable in the context of a recession and increasing unemployment, this may increase caution on house purchases along with reduced pent up demand.

Construction industry

Recently published data has indicated a sharp increase in UK construction activity at the end of the third quarter – the headline seasonally adjusted HIS Markit / CIPS UK Construction Total Activity Index registered 56.8 in September up from 54.6 in August with the strongest performing category noted as housebuilding. New orders also continued to rise with panellists mentioning release of pent up demand.

There is concern whether this upward trend will continue as these orders will largely have come from projects planned before the pandemic. Investor caution is noted due to economic uncertainty and also from changing attitudes to use of space brought about by the pandemic.

However, there are opportunities for investment for those who look at the longer term picture – the need for homes and to regenerate town centres and high streets, the new way of working will not spell the end of the office and will increase focus on employee wellbeing and sustainability. Government promises of funding to “build build build” will also support the construction industry in the uncertain period ahead.



Market snapshot: India



BEN HUSKISSON
Country Director, Gleeds

Lockdown eased from 1st June 2020 with most businesses opening. There has been further easing of restrictions since then and in the latest change cinemas have opened at 50% capacity, but schools and colleges remain closed. The unemployment rate averaged 6.7% in September 2020, down from 24% in April 2020 following the reopening of businesses.

Results from recent Indian survey conducted by Gleeds India:

- Business as usual estimated in Q1 2021. Healthcare sector still performing strongly as well as warehouse and data centres, but all sectors are slowly picking up.
- About 40% fall in productivity envisaged due to social distancing, workforce shortage, supply chain hindrance, transportation restrictions etc.
- Construction costs are anticipated to increase by 5% to 10%, the main contributors of the increase are preliminaries (workforce camps, health and hygiene, PPE) and labour shortages.
- Workforce trickling back to cities to work on construction sites after the lifting of lockdown regulations. Increase in tender prices of 2.5% - 5% predicted.
- High level of competitiveness amongst contractors as a 20% drop in tender enquiries is envisaged.





Site productivity

72% of contractors who responded to our survey reported current site productivity of 81-100% with 94% of contractors expecting productivity levels to remain steady or increase for the remainder of the year providing there isn't another national lockdown.

Figure 4

Average site productivity at present (Contractors)



Figure 5

Notwithstanding another national lockdown, how do you anticipate site productivity levels on your projects to change until the end of the year? (Contractors)



There was some concern that it may be harder for social distancing measures to be implemented in the colder months, as some contractors used marquees or similar in the summer to provide increased ventilation to their welfare offerings, however 70% of survey respondents disagreed or strongly disagreed with the statement “It will be difficult to implement COVID-19 safe measures on my projects during the winter period”.

Figure 6

Do you agree the statement: “It will be harder to implement COVID-19 safe measures on my projects during the winter period”?



The impact of social distancing measures on productivity continues to be linked to the stage of construction and layout of the project, where social distancing can be more easily implemented in the earlier stage of projects and in the latter stages of projects where there are multiple cores and one way circulation routes can be established.

36% of contractors who responded to our survey advised that Modern Methods of Construction (MMC) approaches are used on at least 60% of their projects and 35% of contractors who responded said that MMC had been increasingly incorporated into their projects in 2020. 65% of contractors who responded said that they would look to incorporate MMC in their projects going forward as a result of the pandemic – this will help to improve predictability of delivery, improve quality and also reduce site labour which would be particularly beneficial for continued social distancing measures.

Figure 7

What proportion of your projects incorporate MMC? (Contractors)



Figure 8

How has incorporation of MMC in your projects changed during 2020? (Contractors)



Figure 9

Will you incorporate greater percentage of MMC into your projects as a result of the pandemic? (Contractors)



Contractor quotes on how technology will be used on construction projects in the future:

- “BIM will be used on wider selection of projects”
- “More use of BIM enabling VR/AR, better design, compliance checking, better information in use. More use of robots and augmentation for workers”
- “More off-site construction, greater use of equipment to replace manual labour, e.g. lifting equipment”
- “Will be used to generate an off-site manufacturing revolution”

Whilst site productivity has improved since social distancing measures were first introduced and contractors seem have gained confidence in working within these parameters, many in the industry do not think site output will reach 100% until social distancing is fully relaxed and labour on site is at full capacity.

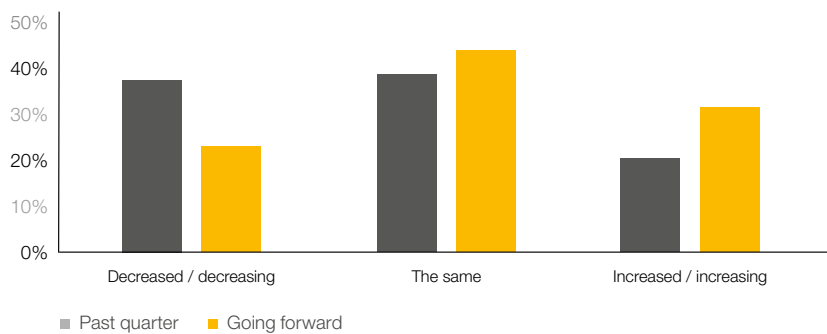


Tender opportunities and tendering

39% of respondents to our survey observed that tender opportunities have decreased in the last quarter, and 67% of respondents think that tender opportunities will remain at the same level or decrease further in the next period.

Figure 10

Have tender opportunities decreased or increased over the past quarter?
How about going forward to the next quarter?'

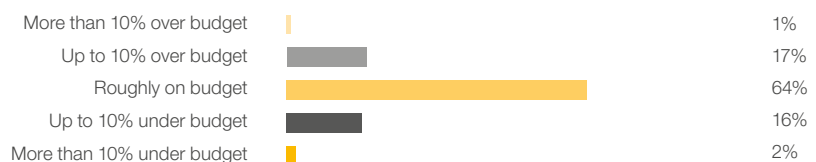


At the time of our last report, some issues were noted as a result of staff being furloughed, meaning that contractors and subcontractors were more selective about the tenders they pursued, returns were slower / late and generally there was less engagement. This is being overcome now, as data from the HMRC shows that there was a reduction of 62% of construction employees furloughed as of 31st July compared to the peak use of the furlough scheme on 14th April.

64% of tender returns were roughly on budget according to survey respondents, the remaining returns were under budget (18%) and over budget (18%). There is evidence of competitive pricing for schemes which are soon to start and have a quick programme.

Figure 11

How have recent tenders returns, since July 2020, compared to the budget?



For projects which are more complex or with a longer programme, a wider range of returns are being seen as contractors take a view on an upcoming uncertain period and assess materials and labour costs against decreased demand. 64% of contractors who responded said that they are seeing supply chain movement on previously agreed prices where projects have been delayed or postponed. 78% of contractors said that disruption to the supply chain is resulting in shortages of key materials and giving rise to price increases.

Respondents thought that tender opportunities would be coming from key sectors for the remainder of the year – publicly funded education, health, infrastructure projects and warehouses. Some opportunities were seen in other sectors where projects are being planned to adapt or respond to working / lifestyle changes brought about by COVID-19.

Market snapshot: China



Ray Chisnall
Country Director

China quickly returned to positive growth and our business is very busy bidding for new projects and starting site works. Key growth areas (outside government led infrastructure investments) include data centres and logistics, to support the ever-increasing move to e-commerce in a country which is one of the world leaders.

Most COVID-19 restrictions are light across the country as there are very few cases and almost all are from people arriving from abroad. Borders remain tightly controlled which is still affecting multinational corporations who need to get key personnel and families back into China, but this is continuously improving. We are currently on our mid-autumn national holiday during which it has been estimated over 500 million people will travel within China.





Contracts and claims

Commercial pressures remain for contractors, through continued social distancing measures and prolongation of programmes. Only 6% of contractor respondents said that the measures had no effect on programme.

Figure 12

What impact have social distancing measures had on programme? (Contractors)



71% of respondents from the last survey thought that a more adversarial approach to contracts was coming, but in this survey only 41% of respondents said they had noticed a more adversarial approach during the period.

Many in the industry are taking a longer term view, recognising the importance of supply chain stability and smarter, more collaborative procurement to achieve better project outcomes.

One client respondent noted that 'Clients have been willing to absorb COVID-19 costs to help contractors. It has to be a two-way thing.'

It remains important to ensure that tender documents are robust, and that risk allocation is fair and appropriate to avoid conflict. It is also sensible for the client's solicitor to draft proposed amendments in relation to COVID-19 so that these can be reasonably negotiated.

Procurement and tendering strategies should also be carefully considered in the current market. Contractor respondents are favouring strategies which allow them to understand the project and consider the risks.

Strategy (average % acceptability according to contractors)

Contractors were asked to rank the acceptability of the following procurement / tendering routes in the current market. This diagram shows their average scores.

96%

Negotiated

78%

Two stage
Design and Build

55%

Single
stage traditional

55%

Management
contracts
(management contracting /
construction management)

43%

Single stage
Design and Build

Serenada Shopping Centre, Poland





Inflation forecasts

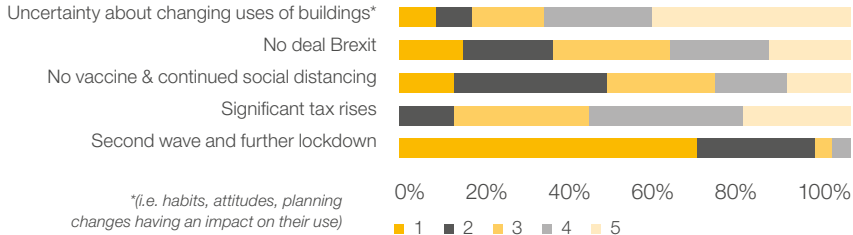
Due to the ongoing impacts of COVID-19 and Brexit discussions, there is an uncertain time ahead. Contractors ranked a second wave of COVID-19 and a potential further national lockdown, no vaccine and continued social distancing as top threats to the construction industry.

Following this was a no-deal Brexit as this could exacerbate issues with labour, materials availability and skills shortages.

Generally, for the next twelve months it is thought that inflation will be minimal. It is anticipated that there will be reduced demand in many sectors, but the associated reduction in the market could be outweighed by labour and materials cost pressures.

Figure 13

Rank threats to construction industry in order (greatest threat = 1) (Contractors)



The survey conducted in September 2020 asked for views on inflation for the next three years, which we then analysed and moderated. These forecasts are shown in the table below but have been updated for the year ahead at the time of writing to reflect COVID-19 restrictions announced during the week commencing 12th October 2020.

	4Q 2020 - 3Q 2021 (Moderated forecast)	4Q 2020 - 3Q 2021 (Survey results)	4Q 2021 - 3Q 2022	4Q 2022 - 3Q 2023
Eastern	0.75%	1.25%	2.50%	3.25%
Greater London	0.50%	1.50%	3.00%	3.75%
Midlands	0.50%	1.50%	2.50%	3.75%
Northern Ireland	1.50%	1.50%	2.25%	3.50%
North-West	0.25%	0.50%	2.00%	2.50%
North-East	0.25%	1.50%	2.00%	2.50%
Scotland	0.00%	0.50%	2.00%	3.00%
South-East	1.25%	1.50%	2.00%	3.00%
South-West	0.75%	1.25%	2.50%	3.75%
Wales	0.75%	1.25%	2.25%	3.50%
Yorkshire and Humberside	1.25%	1.25%	2.25%	3.25%

Note: This assessment is based on collated views from an internal survey of Gleeds experts and these forecasts reflect tender price inflation only and do not account for additional costs associated with extended programmes due to social distancing measures.

The consequences of any significant issue, such as a further national lockdown or a no-deal Brexit will undoubtedly have a substantial impact upon these forecasts and all potential scenarios should be considered when setting budgets and populating risk registers.



Regional updates

Scotland



LAURA BANKS

Associate Director, Edinburgh Office

It is an understatement to say that the past few months have been challenging for the Scotland region construction market - even more so perhaps than for our neighbours in the south of the UK. Some main contractors experienced a shut-down to around 60-70% of their sites following the lockdown briefing from Scottish Government. As of June, those sites were able to re-open and, as a result, the market looks set for a slow, and hopefully steady recovery. Exactly when the recovery will lead to pre COVID-19 market conditions is still ambiguous, although the current consensus suggests this is likely to be nearer 2023.

The responses from our Scotland region survey have shown some interesting insight, and some key statistics are noted below:

- 73% say that the average site productivity is at 60-80% at present on their projects
- 64% predict a steady increase on site productivity levels until the end of the year (notwithstanding another lockdown)
- 36% say that tender opportunities have decreased in the July – September period, versus 45% who say these have remained the same
- 64% consider that disruption to the supply chain is resulting in shortages of key materials and giving rise to price increases

From speaking to the contractor market, there is a concern for smaller subcontractors who may only be able to ‘unfurlough’ staff if there is a definite work stream. One contractor noted that weekly payment terms were being considered for certain subcontractors in a bid to keep them afloat.

There looks to be a backlog of materials due to the re-opening of so many sites over the same period and this could potentially lead to programme delays.

In terms of inflation forecasts, our forecast of tender inflation to Q3 2021 is likely to be no more than 0% - 1% and some commentators are predicting below 0%. Looking further ahead the general consensus is that tender inflation would increase to levels in the region of 3% by 2023.

It is possible that the need to win work is stronger than other external influences and this could lead to attempts to recover loss-making scenarios. QS and PM teams will need to ensure tender and contract documentation is as watertight as possible.

In terms of dominant sectors, the public sector is a potential lifeline for many with some contractors restructuring their teams in order to have the capability to respond to more public sector bids. This will in turn mean a more saturated market.

Education, residential, health, industrial and infrastructure sectors are also potential areas of growth in Scotland, as are regeneration of town centres and out-of-town business and retail parks.

However ambiguity remains the prevailing sentiment. In the Fraser of Allander Economic Commentary (dated 30th September), Mairi Spowage – Deputy Director of the Institute notes that – Scotland has “reached a crucial crossroads in our recovery from the crisis.” “What happens next will depend on the evolution of the pandemic, measures taken to protect public health, and how governments, households and businesses respond to these factors. All of these remain hugely unclear.’

There is so much uncertainty that we just have to hope that the Scottish construction market will weather this storm and come out stronger on the other side (however far away that other side is).



New Waverley - Adagio Aparthotel Edinburgh

North East



PETER BURNS
Director, Newcastle office

The North East appears to be going through something of a resurgence, backed primarily by a number of large projects in the industrial and manufacturing sectors and, almost surprisingly in the COVID-19 era, the commercial sector.

Investors such as L&G are increasing their involvement with Sunderland Council with a £50m industrial investment at Hillthorn Park to add to the £100m they have invested at the Vaux Site, where two new commercial projects have been submitted for planning.

The new offshore wind energy project at Dogger Bank has resulted in the need for industrial investment at Port of Tyne, which will be the site of the operation and maintenance base, with spin-off requirements at other North East ports.

The manufacturing sector is also boosted by the significant inward investment and search for a new site for an automotive battery plant with a number of follow-on phases.

Logistics (specifically for a major on-line retailer) has seen a steady stream of major projects across the region over the last few years with recent completions and some just hitting site or in the planning process.

Newcastle has seen recent development of The Helix site progress and attention is currently turning to the Taras Properties development of Pilgrim Street and the recent award of the contract to build 120,000ft² of Grade A Office at Bank House. The commercial sector is also boosted by the search for a site for the new HMRC Hub in Newcastle, which is a total requirement of around 580,000ft².

Teesside is also seeing activity across sectors with the commercial development of BOHO X going ahead, the redevelopment of the former SSI steelworks at Redcar and the redevelopment of rail stations at Stockton and Darlington.

Whilst these major projects would indicate a buoyant market, they are somewhat the exceptions rather than the rule, and the marketplace for the “normal” kinds of projects remains highly competitive in open competition, both in contracting and consulting.

So, whilst the number of opportunities have been increasing in recent months, firms are looking more at the use of frameworks to create more favourable tender conditions to minimise bidding costs or for direct awards.

North West



ALEX HALLIDAY
Director, Manchester office

Despite uncertainty in the market associated with COVID-19 and Brexit on the horizon, construction across the North West has not slowed down on the whole. We are seeing strong stable growth in healthcare, although certain sectors are slowing down.

Contractors who have been involved in health projects, in particular the emergency measures put in place as a consequence of COVID-19, have seen an increase in opportunities to tender for / deliver further health schemes due to the reputation and trust garnered over the past six months. Although margins on public sector works are generally lower than the private sector, due to the 'guarantee' of payment from a government backed scheme, the increased opportunities in the public sector have enabled contractors to tender for the more riskier private sector work. The risks are being off-set by their ability to gain better margins, albeit repeat business and negotiation is still deemed the favoured route for procurement.

The medium sized contractors we regularly deal with are busy and still choosing the works they tender for. Tender responses on open tender lists have not been particularly high which can be indicative of sufficient works in the market, although we have started to see an increase in main contractors looking for work commencing towards the end of next year in order to keep their order books full.

Contractor workload remains very busy in Manchester city centre, with a large number of residential projects currently on site for the next couple of years. A number of commercial offices, that were tendered pre-contract, have recently gone into contract in the period, however we understand some of these have been pre-let in part. We are experiencing pressure on appraisals for projects that are still in the design and cost planning phase, this is following advice from agents on future values, which has resulted in us having to undertake value engineering at the same time as factoring in additional with costs associated with COVID-19 secure design.

Manchester City Council's early implementation of net-zero carbon targets has marked increased costs for projects in cost planning stages, examples being the removal of gas fed systems and replacing with ASHP technology and 10% improvements on building regulations.

The key risks to the market are undoubtedly COVID-19 and Brexit, either directly impacting operations on site, or indirectly in terms of supply chain availability and a lack of fixed price sub-contract tenders. There is an emphasis on material-heavy packages such as cladding and glass, particularly as there is a trend for the complexities of schemes increasing with these packages being integral to the design and performance of the building.

Construction insurance is also experiencing a very challenging period, but this is not limited to the North West and is attributable to the lack of availability in terms of companies offering the insurance policies requested by clients.

Overall, the outfall of COVID-19 and Brexit will not be experienced fully until late 2021 and 2022.



Yorkshire and Humber



ANDREW MCNULTY
Director, Leeds office



MRI Scanner Suite, Leeds Teaching Hospital

The pandemic has affected the region less than some others due to the strength of public sector works – public sector spend remains strong in the region, specifically in Local Authority, residential, education and healthcare sectors.

The Primary School Expansion Programme by Hull City Council and highways works generally across Leeds city centre remain under construction and there has been funding made available for health and housing projects. Local Authorities generally seem to be continuing with their plans at present.

The university sector has slowed due to the pandemic and uncertainty associated with delivery of services. We are also seeing a number of commercial developments paused in the region as a result of COVID-19 and Brexit implications, albeit developers remain positive regarding the longer-term outlook.

Due to the strength of the public sector pipeline, in the short term we anticipate inflation in the region at 1.0% – 1.5%, increasing in the longer term to 3.0 – 3.5% as subcontractor price increases and subcontractor demand drives margins which are passed up through the supply chain.

Wales



NIGEL WATKINS

Director, Cardiff office

Despite the effects of COVID-19 lockdowns, in South Wales the market continues to be reasonably strong, especially within the main city areas of Cardiff, Swansea and Newport where a number of privately funded commercial and residential developments are progressing well on site. A significant number of large public sector health, education and infrastructure schemes are also currently on site providing a stable workload for the local supply chain.

The majority of pre-construction opportunities being progressed through planning and procurement have however been predominantly driven by the public sector, drawing from Welsh Government and City Deal funding. Contractors are therefore seeing a reasonable pipeline of work for 2021, which is giving confidence to the overall supply chain resulting in tender pricing levels remaining relatively stable.

If for whatever reason we see a reduction in public sector opportunities being tendered in Q1/Q2 2021, confidence amongst the supply chain will significantly reduce as public sector work has historically underpinned the local market.

Regional survey findings

- 53% of Welsh survey respondents said that the current average site productivity on their projects was 81-100%
- 63% of those who responded to our survey from Wales are seeing supply chain price movement for previously agreed prices where projects have been postponed or delayed
- 78% of Welsh survey respondents have submitted or received an Extension of Time request on the basis of COVID-19

HMS Cambria, Cardiff



Midlands



JAMES MARSHALL

Director, Nottingham Office

The Midlands has a very diverse base, primarily agricultural and low population density to the far east, with engineering and manufacturing served from large conurbations to the west. Gleeds' recent clients and partners survey found the most active sectors in the recent past being:

- Health
- Education
- Data centres; and
- Commercial

Prior to the lockdown, the West Midlands regional economy was growing faster than anywhere outside London according to the ONS. Now, however, it is expected to be one of the worst hit regions given heavy reliance on the automotive industry (accounting for 6% of the local economy with JLR being the predominant manufacturer) and the severe pandemic impact on hospitality & tourism; KPMG is forecasting that the region's economy will shrink by 10.1% in 2021.

For the East Midlands, KPMG is predicting the economy will shrink by 10%, a worsening on the June forecast at 7.8%, the hardest hit being Derby – probably due to more engineering-based business when compared to Leicester and Nottingham. 2021 unemployment rate for Nottingham is anticipated at 17%, this is typically mirrored across the other main East Midlands cities.

Like many regions across the UK, predicting recovery and hence appetite for growth post the immediate impact of the COVID-19 pandemic is proving difficult. This is certainly true for the property and construction sector, that whilst noticeably primed by the public

sector, it will no doubt be addressing tough questions before committing projects from the drawing board to site. However, there are many positives, with public and private sector bodies committing to long term developments across the region.

Transport and Infrastructure

- HS2 phase 1 has benefitted the West Midlands for the past few years leading to a building boom with Birmingham seen as a viable alternative for Corporate HQ relocations from London, bringing with it the demand for high quality residential and leisure facilities. Phase 2b, is being heavily lobbied by the East Midland Councils to attract the same outcomes.
- Awarded £66m of government funding (Getting Building Fund) a series of new railway stations and other transport infrastructure projects are planned in the West Midlands.
- Of particular note in the East, is the activity around the A46 growth corridor with East Lutterworth and Newark North by-pass being progressed in their planning.
- Nottingham's pursuit of carbon neutrality by 2028, will see further development of Green Corridors for 'active travel' and an extension of the tram network, whilst also future proofing the electricity network to support their planned re-imagining of the city.

Education

- HE establishments continue to be a source of work, albeit slowing to first understand future on-site demands, however, many were planning for resilience and compliance works to their properties. Lincoln University is active, in partnership with the County Council, in the development of a science park and food enterprise zone.
- Rationalising of the Further Education estates continues. Our landmark project with Nottingham College is nearing completion, a combination of a new hub in the centre of the city and



WGIS Insurance, Manchester

refurbishment and repurposing of their retained estate. To the south, Milton Keynes is planning an Institute of Technology. Continued activity can be anticipated across a number of FE institutions given the increasing potential to retrain post the job losses from the pandemic.

- The region is benefiting from the Government's EFA schools programme, plus notable programmes being driven by both Nottinghamshire and Leicestershire County Councils.

Commercial Offices

A number of schemes are on the drawing board and hoped to still go live, together with those committed has seen good activity across the Midlands region, notable schemes being:

- 3 Snowhill: For Ballymore, 420,000 sq. ft, the largest ever speculative office scheme outside of London
- One Chamberlain Square: 172,000 sq. ft prime Grade A office space- fit out works for PwC
- Beorma Tower, Digbeth: 170,000 sq. ft of prime Grade A office space; progressed to RIBA Stage 4 for Salhia Real Estate
- HMRC Nottingham: 275,000 sq. ft to house over 4,000 employees
- Crocus Place, Nottingham: 150,000 sq. ft adjacent the train and tram stations

Consideration is turning to repurposing offices that are believed to remain vacant following the pandemic and the increasing demand for flexible workspaces.

Residential

There are numerous PRS / BTR schemes progressing in the Midlands as well as a significant student residential scheme in Nottingham city centre and multiple major neighbourhood re-development schemes in Milton Keynes.

Health

Health is a strong performing sector in the region with the following undertaking projects:

- Sandwell & West Birmingham NHS Trust's £280m Midlands Metropolitan University Hospital
- North Nottinghamshire mental health trust
- Leicestershire mental health trust
- Leicester NHS trust

East



MARTIN HALL
Director, Cambridge office



ARM, Cambridge

The strongest sectors at the moment in the Eastern region are seen to be infrastructure, warehouses, health and residential.

Over the past quarter, clients have been reviewing their business arrangements, identifying new solutions for their built assets and often scaling back or holding their final decision making in the present climate. Leisure sector operators have been particularly affected. Across all sectors, clients are reconfiguring and consolidating their buildings to ensure efficient space use rather than focussing on new projects.

Clients in the Higher Education sector have been focused on developing their safety management plans, ensuring safe delivery of education to their students through revised space use to take social distancing measures into account.

Committed infrastructure projects in the region, such as the A14 widening project, have been able to proceed due to less disruption to complete works, but planned projects in the pipeline are under consideration. Projects in the healthcare sector, such as at Addenbrookes Hospital, continue to move forward.

It is reported that contractors in the region are running sites well with social distancing measures and many have temperature checks and track and trace recording of site visits. There are concerns in the region about the end of the furlough scheme and what the impact will be.

Regional survey findings

- 63% of respondents say that site productivity is at 80-100% with productivity steady or increasing until the end of the year
- Tender opportunities steady in the last quarter and expected to remain so
- 69% of respondents consider disruption to the supply chain is causing shortages of key materials and giving rise to price increases
- 87% of responses have MMC on up to 40-60% of their projects, 64% would incorporate a higher amount of MMC going forwards as a result of the pandemic
- 94% of respondents said social distancing measures have added up to 15% to programme length

Greater London



MATTHEW SUMPTER

Director, London office

COVID-19 has impacted the productivity of sites and resulted in some backlog of materials arriving to both sites and the UK. Since the lockdown was eased from late-June we have seen these starting to revert back to pre COVID-19 levels. However, one emerging trend that we are seeing is the impact on the workforce as a result of isolation and track and trace regulations which have come into force.

There is an element of nervousness around financing of projects currently due to the longer unknown impact on the property and commercial market. However, in recent weeks there has been some good news such as Google looking for an extra 70,000sqft of office space close to its new £1bn headquarters which is currently under construction next to Kings Cross railway station. We continue to see an increased interest in alternative schemes such as BTR and PRS schemes as well as affordable housing for which there remains considerable demand. It is also important to note that the residential market within central London is predominantly overseas bought and the GBP remains an attractive investment for a lot of markets.

Modern methods of construction remain at the forefront of the industry whereby COVID-19 and Brexit could exacerbate the existing skills shortage and productivity issues of the industry, whilst aspirations remain to deliver large volumes of housing and infrastructure projects. This is an area that we foresee significant investment and utilisation over the upcoming period to improve quality and predictability of projects.

In the upcoming period there may be an increase in opportunities for refurbishments to hotels and offices to align to current demand to meet social distancing requirements and for the longer term to allow greater flexibility and future proofing for once the COVID-19 situation has improved.

Generally, the Greater London region remains buoyant with a strong pipeline of projects.

Regional survey findings

- 22% of respondents from the Greater London region said that tender returns since July 2020 had been up to 10% under budget
- 78% of contractors who responded in relation to the London market had not noticed a more adversarial approach to contracts from June
- 63% of respondents from London said that social distancing measures has increased programmes by up to 10%

South East



GARY SOUCH
Director, Oxford office

Local issues

During 2Q/3Q 2020 clients have generally been appointing consultants for smaller commissions or feasibilities as opposed to full projects. Although tender activity has been high, the decision to undertake full projects has slowed on previous years. This will mean that there will be less construction activity in 2021/2022, which could cause reductions in staff or even companies going out of business. This is likely to cause contractors to be more competitive to secure the work that is available.

Key Sectors

Those surveyed indicated that key sectors were as follows:

- Health
- Education
- Warehouses
- Data centres
- Infrastructures

This generally follows a trend that public sector is becoming more popular and doesn't tend to be slowing down, but also diversification into sectors that are essential now that companies have found alternative ways of working.

Many councils are looking to utilities their site assets, either by developing sites themselves or selling them. There are a number of new towns planned which will need development support.

Summary

Tender prices are likely to remain on an upward trajectory for 4Q20/1Q21 whilst projects are available and national factors like Brexit and COVID-19 impact labour, materials and contractual terms.

Despite government efforts to keep the economy strong and new sectors being realised for alternative ways of working and living, there has to be an impact on tender prices as less projects will be available in 2021. The key factors will be around investor appetite and the full effects are not yet known.



Kingsway Business Park, Rochdale, United Kingdom

South West



NEIL PEARCE

Associate Director, Bristol office

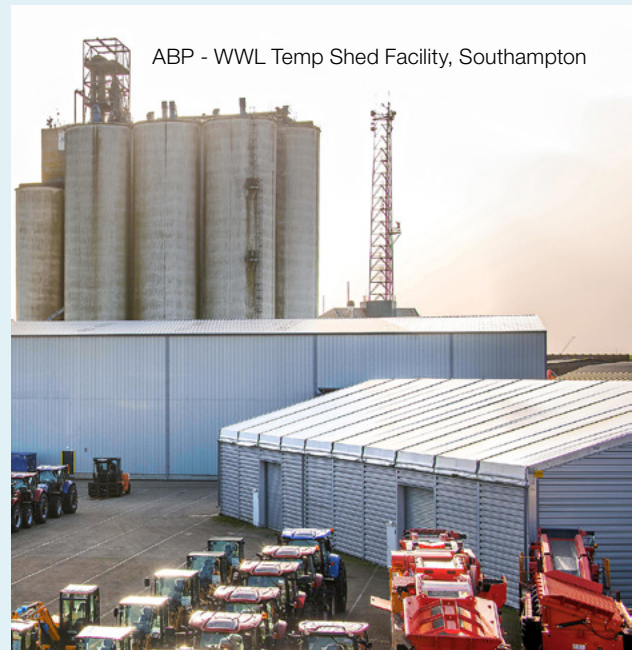
The impact of COVID-19 on the construction industry in the South West varies greatly from site to site. Whilst almost all in the region felt the effects of the full lockdown, we have seen that the ability to maintain programme (or mitigate time loss) with the current revised working practices is largely dictated by the typology of the building, a site's access and restrictions, and the stage of construction that a project is at.

Just like the wider society the virus is not impacting us all equally: commercial buildings with large open plan footplates and multiple stair cores have been impacted far less than residential blocks where access and egress into apartments are generally via narrow circulation spaces.

It is noted from local clients, consultants, and contractors that we have witnessed a slowdown in new projects progressing, but whether this is a temporary pause to take stock or a wider slowdown remains to be seen. In general, there appears to be a widespread optimism that in 2021 the current workloads will either remain stable or increase indicating that our peers believe the worst of the COVID-19 impact has now been accounted for.

As competition for work increases the inevitable consequence is that fees and margins reduce. All firms spoken to have warned against buying work to maintain workloads. Whilst competition will drive down tender prices this has been offset by additional costs and risks such that recent tender returns are in line with budgets.

Additional costs have been noted for increased programmes (and therefore overheads) caused by restricted working practices. Further risks relate to the delivery of plant and equipment potentially being impacted by local/national restrictions either at the source, destination or in transit along the supply chain. The conclusion and publication of the Brexit trade deal with EU could still have further influence too (the transition period ends on 31st December).



The public sector remains particularly buoyant in the South West, notably in education and health where the Government and local authorities are still committing to their expenditure programmes.

This is all supported by additional investment in infrastructure: in Bristol a large upgrade to Temple Meads Station is planned for completion in 2023 and a new station at the Portway has also received funding. Also planned here are further highway works as the city adjusts its traffic flows to reduce pollution, encourage cycling, and meet its longer-term emission targets.

Locally the strong demand for residential developments remains unabated, and new residential buildings continue to emerge on the Bristol skyline. Local agents have reported that COVID-19 has adjusted people's requirements for their home with a noticeable increase in Londoners seeking a different lifestyle. Bristol's excellent publicity over the last few years as a 'hot city' to live has assisted in creating additional demand.

Northern Ireland



GEOFF WARKE

Director, Belfast office

Northern Ireland construction activity has experienced a time of great uncertainty with both COVID-19 and Brexit causing reductions in output going forward.

The total volume of construction output in the first quarter of 2020 decreased by 1% compared with Q4 2019, was 3.3% lower than the same quarter in 2019 and 2.45% on a rolling quarter basis. The decrease in Q1 2020 from the previous quarter was driven by a 10% decrease in repair and maintenance and offset by a 1.1% increase in new work. Also increases in housing (7.4%) and infrastructure (2.8%) and decrease in other work (-8%) compared with previous quarter.

The above captures the first direct effect of the COVID-19 pandemic on the Northern Ireland economy.

Most of the growth in 2020 has come from infrastructure works and 22nr City Deal projects. Following the post – election deal between the Conservatives and the local Assembly, £2bn of new money is now being spent on infrastructure projects such as the Belfast Transport Hub, York Street Road Interchange project and numerous City Deal projects. This will be a timely boost to the local construction market during 2020/21.

According to PWC , Northern Ireland is expected to deliver a below average growth performance of 0.80% in 2020, down from 1.00% in 2019 and it is really impossible to predict 2021 with the twin uncertainties of COVID-19 and the Brexit issues running in tandem.







Sector insights

Residential Accommodation



COLIN FIELD
Senior Director

There has been a recent breakthrough, with the four largest housing providers - NHBC, BLP, Premier Guarantee and LABC Warranty - agreeing to a memorandum of understanding around assessing the reliability and durability of off-site built homes. This is accompanied by undertaking to use the same standards to assess homes, so that insurers and mortgage lenders know what has been tested, will help to give more confidence.

Build to rent is expected to continue to be a strong sector with good quality accommodation being attractive to investors in the long term as there will be a continued need for well-managed rental accommodation in cities. The service model of purpose-built rental accommodation with onsite support and amenities will be attractive to tenants post COVID-19 with the potential that amenity spaces could support home working.

[There is also the opportunity for the conversion of empty or underused buildings in town and city centres to build to rent uses to help reinvigorate places.](#)

Whilst there have been recent challenges to care homes with COVID-19, the long-term drivers for sector remain robust due to the UK's ageing population and it is expected that demand will outstrip supply in the future. There is also a need to replace out-dated stock. Therefore, it is expected that care facilities will continue to be developed for a long-term investment, but lessons learnt from the pandemic will be factored into future designs. Legal & General and Newcastle City Council have recently announced a charitable partnership to test the latest innovations and products; including telehealth, telemedicine and remote monitoring using the "internet of things", to help support ageing and environmental sustainability. The funding will also help to construct a 20/25-bed "new model" residential care home with its design and operation incorporating key lessons learnt from the COVID-19 pandemic around infection control, lockdown operation and "support bubbles" to minimise negative effects on residents in similar situations.

Market snapshot: USA



CHRIS WILLIAMS

President of Americas

In the USA we are seeing an increase in competition from contractors, particularly in the commercial sector, which is likely to drive down fees and general conditions (preliminaries). The architectural billings index (ABI) has been trending down for the last four months and there is a concern that there will be a slowdown in projects coming out for construction. "It's clear the pandemic continued to contribute to uncertainty in business conditions, especially as cases spiked in states across the country," wrote AIA Chief Economist Kermit Baker, in the ABI breakdown. "While clients expressed interest in exploring new projects, many are hesitant to sign onto new contracts with the exception of the multifamily residential sector, which came close to seeing billings growth in July."

Hotels



GILLIAN BREEN
Director

The Summer of 2020 was not so much a wash out as a sell out in some key locations around the UK. Devon and Cornwall most notably saw a significant uptick in demand with hotels, holiday homes and Air BnB accommodation being booked out within days of COVID-19 lockdown restrictions being lifted. This translated into healthier occupancy and RevPAR levels in the UK's top regional holidaying hotspots, establishing the Staycation firmly and squarely in the zeitgeist and bringing with it some much needed economic relief in these locations. Hotel developments in traditional seaside towns, like that of The Fragrance Group in Paignton and the Hampton by Hilton in Torquay will see their day and it seems that the "Great British Seaside Holiday" is in for a resurgence.

Now that the optimism of summer has passed and we head into cooler months, many of us are seeking a change of scene as the monotony and practical limitations of working-from-home, or living-at-work, hit home.

The major hotel operating groups have been quick to pivot launching the likes of Accor's "Hotel Office" and IHG's "Meet with Confidence" programmes, where workers and businesses can find solace in an upgraded working from home experience and take advantage of easily accessed in-house restaurants, bars, MICE and wellbeing amenities - all subject to availability and social distancing.

This shift has no doubt been borne out of necessity and, like other sectors, is bringing about accelerated change with the expansion of the hotel concept at a pace more rapid than before COVID-19 - a trend exemplified by the launch of SoHo Farmhouse in the Cotswolds and more recently Birch in Hertfordshire where membership is sought by those eager to escape the day to day working-from-home doldrums to a simple yet more fulfilling, connected way of working away from the office and one which promotes belonging and community. A similar evolution of amenity concept is being seen in the Build -To-Rent and Co-Living sectors as



influence and operating models across the rented accommodation sector continue to blur and blend.

Meanwhile, city centre hotels are re-opening and, while occupancy levels are still at an all time low, we are seeing some interest in hotel refurbishment and value added schemes, as clients explore ways to take advantage of low occupancy and RevPAR levels. There is a careful balance to be struck here - the planning and timing of projects being essential in optimising capital expenditure when revenue levels are so low and constrained. We have also seen a number of significant hotel schemes being designed and submitted for planning consent in the hope and expectation that the remaining design, procurement and construction phases will take place while the COVID-19 situation resolves.

Finally, the last quarter of 2020 will see the opening of some fantastic new hotels in London that will play to the shifting backdrop of the current COVID-19 situation - these are challenging times and yet there is much creativity and optimism that we believe will bolster the sector through the storm and we remain committed to supporting our hotel, serviced apartment and hospitality clients as the situation unfolds and moves forward.

Commercial office



PAUL SWEENEY
Head of London Region

Much is being made of the return to the office and firms with offices located where there is less reliance on public transport are having an easier return. Recent Knight Frank research indicated that in UK regional cities, 90% of offices are below ten storeys with staircase access a viable option reducing congestion of lifts. Additional demand for office space could be seen in the regions going forward, as firms assess their resilience and conclude that a spread of offices, including in the regions, could help to improve this for the future.

A hybrid way of working, with working from home complementing the office, is expected in the future and this may lead to less office space required. However, it is recognised that offices are important for enforcing a company's brand and culture and that interaction and culture are important parts of business.

Quality office space will be important with a focus on the space being flexible and meeting various requirements for client meetings, knowledge exchange, training and innovation. Greater services and amenities are expected, and a continued emphasis will be placed on sustainability and wellbeing. Companies will be looking to offices to support them in attracting and retaining talent. Landlords may improve buildings to make them more sustainable and flexible to attract tenants.

Serviced offices and coworking spaces in local town centres could help those without space at home to work to "work closer to home" supplementing office working and allow all employees to benefit from improved work life balance and less commuting that the hybrid approach offers. This would also support the reinvigoration of high streets.



KARA THOMPSON
Senior Director and Head of London
Project Management

'Whilst COVID-19 has accelerated much needed change in the industry, it is important to note that with five generations in the workplace, the change in demographics, as ever important climate change agenda, the changing face of technology and the competition of the cities there was always and is significant transformation ahead within the next 10 years across all sectors.'

The way we approach the commercial office sector won't just be about the physical space providing diversity in its uses, both for the building and fit out, it will be equally important to create a sense of purpose and place for teams to be, grow, learn and collaborate with each other, remembering the importance of the natural learning environment allowing intellectual osmosis to take place.'



Vaux Building 1, Sunderland

Higher Education



HEATHER MAKIN
Director

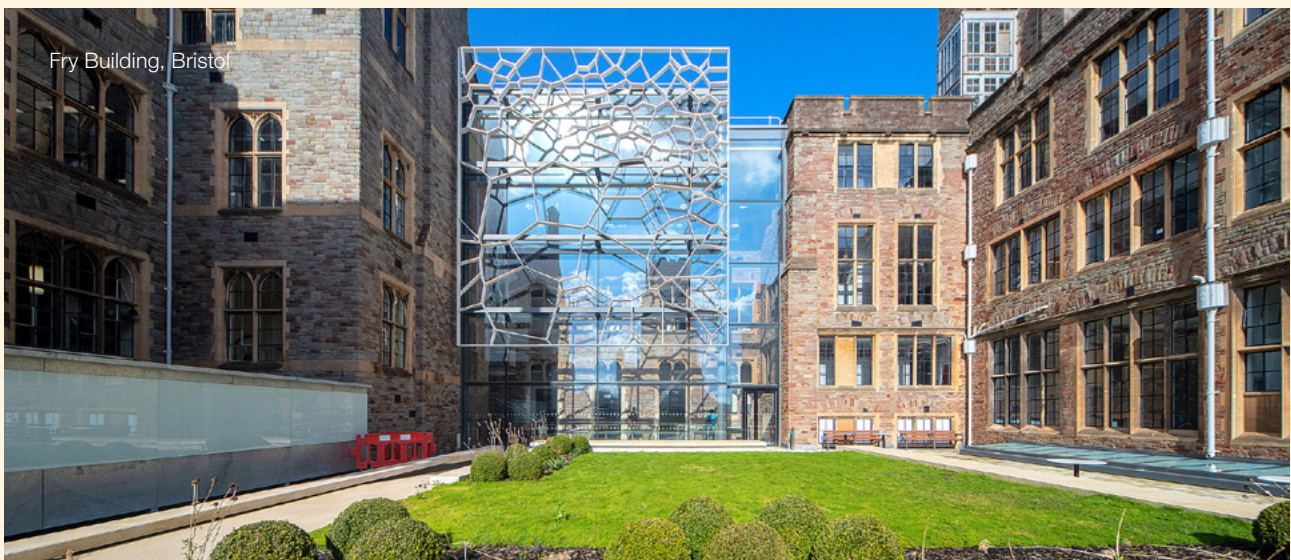
Universities have been heavily disrupted by COVID-19 and student return is a careful balance with large numbers of students self-isolating. They are also experiencing financial pressures from empty campuses and lack of income from summer schools, conferencing and student accommodation. The Institute for Fiscal Studies has estimated long-term losses could be anywhere between £3bn and £19bn which equates to between 7.5% and nearly half of the sector's overall income in a year.

University estates will need to balance virtual and in-person learning. In the short term, it is expected that there will be smaller projects to repurpose space to create more space for social distancing and to maintain the social and community elements of studying which are important to students. The reduction in the use of buildings may give opportunity for maintenance to be undertaken and allow consideration for how these can be made more sustainable and improve student wellbeing.

In the longer term, it is expected that universities will look for opportunities to create ongoing revenue streams or dispose of excess space. There may be a hub and spoke approach to spread out buildings and former offices and retail buildings could be converted to give a presence in town centres and help to rejuvenate high streets. Back office functions may move away from campus to create more space and to reflect changing work practices.

Universities are essential for research and to help find the much-anticipated vaccine for COVID-19, therefore it is expected that there will be vast sums of public and private investment. Building magazine recently reported that the University of Oxford has added projects to its capital projects portfolio as a result of the COVID-19 pandemic "including a rapidly delivered modular COVID-19 vaccine trials unit and two similarly rapidly delivered COVID-19 early alert test and track modular units within the city."

With the recession and associated impact on employment, it is expected that there will be an opportunity for universities to support with upskilling people for employment in new greener and more sustainable sectors.



Infrastructure and Public Sector



JONATHAN STEWART
Managing Director

Boris Johnson unveiled plans on 30th June 2020 with a promise to “build build build”, bringing forward £5bn of infrastructure projects and spending including £1.5bn for hospital maintenance and building, £100m for road projects and a £1bn school programme amongst others.

These projects will provide much-needed support to the construction industry and it is expected that many schemes will be delivered using modern methods of construction (MMC) for faster delivery of projects enabling the benefits of the investment to be felt sooner – it will also continue to drive modernisation of the industry.

In January, the Department for Education announced the winners for its offsite schools’ framework which is anticipated to deliver 30 schools a year with a projected pipeline of £3bn over the next four years. £2bn of the projected spend is for secondary schools above 6,000m² with the remainder for primary and secondary schools 750 – 6,000m².

The lessons learnt from recent school construction using MMC are being used to develop 10,000 more prison spaces. With the prison currently under construction in Wellingborough using MMC and four new prisons planned to be constructed over the next six years as well as many modular extensions to existing prisons.

“Boris’s mantra of “Build, Build, Build” is absolutely the right call with the significant multiplier effect spending on social and economic infrastructure generates for the wider economy. It is this public sector investment that is going to fuel the economy over the next 2 years let’s pick up the mantle and “Deliver, Deliver, Deliver”.



Market snapshot: France



RENAUD PORCHER
Senior Cost Manager

In France, contractor sentiment on recent activity continues to improve (September 2020 Insee study). The cost construction index (BT01) has been stable during the past 3 months and is slowly starting to increase again (+0.72% compared to 12 months ago).

The Parisian market is still driven by infrastructure projects related to the Grand Paris Express (new metro system) and by the various projects related to the 2024 Olympics (Olympic village, sports facilities, offices, residential).

We are seeing that some sectors remain active and dynamic: logistics, co-living, residential mixed-used whereas the office, retail and hotel sectors are struggling. Despite the €100bn government “plan de relance”, positively seen by the French Economist Nicolas Bouzou, the evolution of the pandemic and the risk of a new lockdown continues to contribute to uncertainty.

Health and Care



ROGER PULHAM
Director

Public Healthcare:

Throughout the first months of the COVID -19 pandemic the NHS was on the front line in the thinking of government and the general public. Building capacity was the top priority with massive investment in 'field hospitals' across all UK countries bringing professional consultancies and contractors together with a clear common goal to 'protect the NHS'. Procurement rules were relaxed as building 'at pace' was required and the national framework contractors worked collaboratively, sharing access to scarce materials and skills.

Government has recognised the need for redesigning service pathways from points of entry to exit points, a £300m programme of COVID-19 proofing A&E's and other front door services in advance of the annual winter pressures impacting on the beleaguered Acute services NHS Trusts has been approved and a further £150m has been allocated to 25 hospitals to tackle lack of space and infection control shortfalls in their A&E departments. A collaborative approach is again needed to make this objective happen within the required timeframe.

Postponement of Procure 22 partnering framework has been relaxed with its replacement Procure 2020 being advanced. The majority of all Exchequer Funded health care capital projects in England are to be delivered via this new six year regional and national framework with as much as £20bn of approved projects. Membership of this framework will give selected suppliers and their supply chain members access to compete for one of the largest government funded programmes in a generation.

Mental Health patients' privacy and dignity has been acknowledged with a new multi million pound budget to eradicate dormitory style wards in favour of 'bedrooms'. This is in direct support of the five-year programme of investment to modernise mental health services.

The Estate Technology Transformation Fund (ETTF) finishes on the 31st March 2021. An alternative funding route for GP surgeries and Primary Care premises is expected to be announced shortly.

Care Homes:

The Prime Minister has appointed an advisor to drill into how this sub sector needs to be organised and funded in the future. Self-funded residents are likely to be unaffected, however most care home beds will come within the brief of the advisor.

Land for Housing:

A white paper outlining changes in Planning legislation (Use Classes Order) could speed up redundant residential institutions (Hospitals) to be used for housing as change of use will no longer be required. Amendments to the 1987 Use Classes Order were made on the 20th July 2020, the white paper (consultation document) can bring about improvements for developer contributions to social infrastructure.



The Royal, Liverpool

Data Centres, Logistics and Warehouses



CHRIS TREW
Senior Director



Panattoni Logistics Parks, Krakow

The increase of online shopping and food deliveries during lockdown is expected to continue in line with the trend of a significant shift to online sales over the past few years. Increased numbers of warehouses and logistics centres are expected to be built to meet demand, with increasing amounts of automation with robotics. Key components for warehouses are external cladding and steelwork - insurers are making increasing demands on external cladding and in particular insulation which is increasing façade costs,

we are also seeing lead-in times in the order of 16-18 weeks for steel including application of intumescent coating which needs to be factored in to project planning.

There has been an increase in data centre enquiries and projects due to the trend for home working as businesses look to improve back up to internal systems and mitigate the risks of down-time with built-in reliability and resilience off-site.

Town Centre Regeneration



SARA BOONHAM

Head of Cost Management and Lead for
Town and City Centre Regeneration

In the words of Albert Einstein “within every crisis lies great opportunity.” 2020 will certainly go down in history as not only a global crisis but one of the property industry’s most extraordinary years with the onus on us all to identify and capitalise on the opportunities presented.

The global pandemic has enticed shoppers all around the world to dramatically shift their shopping behaviours with the socio-economic effects of the COVID-19 crisis resulting in the transformation of everyday life. The crisis has certainly taken retail out of its comfort zone and has functioned as a trend accelerator with e-commerce gaining further momentum, digital technologies providing the means by which consumers can be contacted, contactless payment methods have become the norm and localisation and local commerce are now favoured.

As such by mid-September approximately 14,000 shops pulled down their shutters for the final time which is a 25% year on year increase and non-food retailers have lost more than £9bn in sales. It is feared that if restrictions continue 1 in 10 shops could disappear for good and 12 million square meters of retail space could be lost. Noting of course that business rates remain a huge issue for retailers and leisure operators alike with an extension to the “current pause” being requested and much lobbying of government on lowering the business rate multiplier.

Meanwhile Britain’s unpaid rental bill for commercial premises during the pandemic is likely to reach £4.5bn by mid-September with final quarter rents for shops, offices and warehouses being billed on 29th September with £2.7bn becoming due. The Government’s extension this month of a blanket ban on property companies evicting tenants or taking recovery action to collect rent until the end of the year is understandably of concern to landlords and foreign investors alike.

Undoubtedly footfall to our urban centres remains the biggest concern with August footfall across UK down 34.3% year-on-year with the major cities hit hardest. Whilst improvement month on month is being realised, the fresh wave of COVID-19 cases and the Government’s latest call for employees to work from home where possible will stall this upwards trend and be a further blow to the commercial real estate industry as a whole.

An upturn in spending in August does not hide the fact that sales are still below pre-pandemic levels and the lack of people in our high streets and urban centres is having a devastating impact on shops operating in places once thronged with workers. Indeed in-store sales of non-food items were almost 18% lower in the three months to August than in the same period of 2019.

However it must be acknowledged that many of the key trends now being witnessed were driving our businesses before COVID-19, including the digitalization of retail, and the focus on sustainability, urbanization and community engagement, and these trends are now simply here to stay.

With so many aspects of our lives being touched by the pandemic, a lasting shift of some kind is inevitable but the “new normal” will take time to develop. For the foreseeable future, many people will choose not to travel far from home for their holidays and social interactions. However social cohesion and collaboration will remain a valuable component in people’s lives and the provision of the context to facilitate the social atmosphere will be more important than ever.

Healthy, sustainable living will also become a primary focus in our urban centres and beyond with the use of parks and other outdoor spaces increasing as people seek locations for gathering, sports, exercise, and walks.

Of course acknowledging that the repurposing of redundant space in our urban centres is not new with 40% of developers reporting that their town and city centre voids (primarily retail) were already subject to remodelling and indeed much capital has now been earmarked for further repurposing to enliven our centres and entice footfall yet again.

It is however recognised that many investors are sitting on their assets awaiting further market stability but investment in UK property (and retail assets in particular) from global investors and developers is becoming more attractive with falling values offering a baseline for long term investment.

As we emerge from the life changing event that is COVID-19 which was a massive shock to property markets, experiences, personal transformations and enduring legacies will take centre stage. We need to respond by moving beyond the concept of single property asset classes and adapt our investment strategies and modelling to reflect to location unique, mixed use offerings of appropriate size and scale across the UK to offer both convenience and community led destinations as well sensitively phased, large scale urban regeneration.

Public and private partnership will need to become the norm once again to support the viability journey and form a platform for further investment whilst offering much needed support to the local economy. Innovation and creative thinking is required from collaborative development teams working alongside informed stakeholders. If you are up for change then this is one massive opportunity waiting to be realised.

Market snapshot: Germany



FELIX BEHRNDT

Managing Director

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- The real estate market in Germany has remained relatively strong throughout 2020 despite COVID-19. We only are experiencing now a price correction in assets such as retail and hotels.
 - There is caution around senior finance from banks on funding of commercial living and a few other speculative projects.
 - International interest seems to be getting stronger.
 - COVID-19 will change the office sector, while office was the best performing asset class in 2019 and 2020, it seems to be slowing down in 2021. Research says, that due to the rise of the home office, there is an approximately 1,000,000 m² office space that needs to be wiped off the Frankfurt market and we are seeing the first projects to convert offices to residential.
 - There is a shortage of qualified staff on client and consultant sides.
 - Gleeds Germany is still experiencing an increasing amount of request for proposals and we have a positive outlook into 2021.

Energy



ANDY ELLIS

UK Regional Director for Energy

Despite challenging conditions in the oil and gas sector with reduced demand (energy use is down 24-30% from the same time last year) mainly as a direct result of the COVID-19 lockdown, Gleeds Energy and our sector remain busy and productive as a whole. This is largely due to the fact that our nuclear clients cannot stop or slow down, e.g. decommissioning and dealing with the UK nuclear waste legacy and associated risk.

We have seen growth in the building, refurbishment, and maintaining nuclear submarines and associated site redevelopments and the planning and construction of nuclear new build plants.

The COVID-19 pandemic has provided us with the means and tools to develop better collaboration, innovative ways of working within the industry making us more effective in providing support to our customers. Our adoption of working practices accredited to ISO44001 (Collaborative Business Relationships) have stood and will continue to stand us in good stead, working closely with our clients and their supply chains to drive out inefficiency.

There is continued development on the UK's energy policy to align with the 2050 net zero carbon targets and the Government is expected to issue a White Paper (the Energy White Paper, Heat Strategy and Buildings Strategy) in the coming months setting out the United Kingdom's future plans in regards to energy; demand, security, affordability and decarbonisation. This paper is expected to clarify plans to achieve the desired energy mix, incorporating low carbon technologies such as tidal lagoons, geothermal and on/offshore wind, as well as new nuclear power, both large scale new build and small modular reactors, also carbon capture and storage, and how generators and end-users reap the benefits as energy systems shift in line with electrification and digitisation. This should align to the National Infrastructure Strategy (NIS) which is also due for release in 2020 setting out measures on achieving the 2050 net zero carbon targets.

Government is embarking on its spending review and the impact of COVID-19. There are challenges ahead for the sector as significant investment is required to achieve the 2050 net zero targets alongside the creation of sustainable technologies, there is a need for a project financing system for nuclear new builds. We believe the market has cause for optimism with significant opportunities and support materialising to bring about cost effective delivery. The Nuclear Sector Deal, which was agreed between the UK Government and the nuclear industry in June 2018, builds on the same partnership that enabled the UK to become a worldwide force in energy. This is central to the Clean Growth Challenge and to maximise UK industry opportunities of the move to cleaner forms of energy and potential economic growth.

At the same time, nuclear site license companies and authorities need the support of the supply chain. It is equally important that the nuclear legacy is dealt with safely and efficiently alongside the creation of future production technologies.

It is also important that the right balance is struck in the development of delivery models in terms of risk and reward in the supply chain, with fair and reasonable terms that are conducive to driving performance and innovation, rather than stifling them in commercial protectionism. Our industry is stepping up to this challenge, with new collaborative delivery models moving away from transactional arrangements to aligned shareholder models, designed to foster joint risk mitigation, provide more certainty in delivery and enhance whole life outcomes.

Through collaborative delivery models and more strategic contractual relationships, we can drive continuous improvement and innovation which support the development of a more sustainable and highly skilled industry for the future.





Summing up

The construction industry has demonstrated great resilience over the past quarter, with a notable increase in levels of collaboration to keep developments of the UK's urban centres moving forwards.

Many in the industry are taking a longer term view recognising the importance of supply chain stability and smarter, more collaborative procurement to achieve better project outcomes.

Through navigation of social distancing on construction sites and impacts of the pandemic to the supply chain, the role of innovation, for example through the use of modern methods of construction, is vital to aid project delivery.

As we head towards the end of 2020, flexibility, adaptability, collaboration and innovation will continue to be key watchwords to help the construction industry navigate choppy waters.

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