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## Real Estate



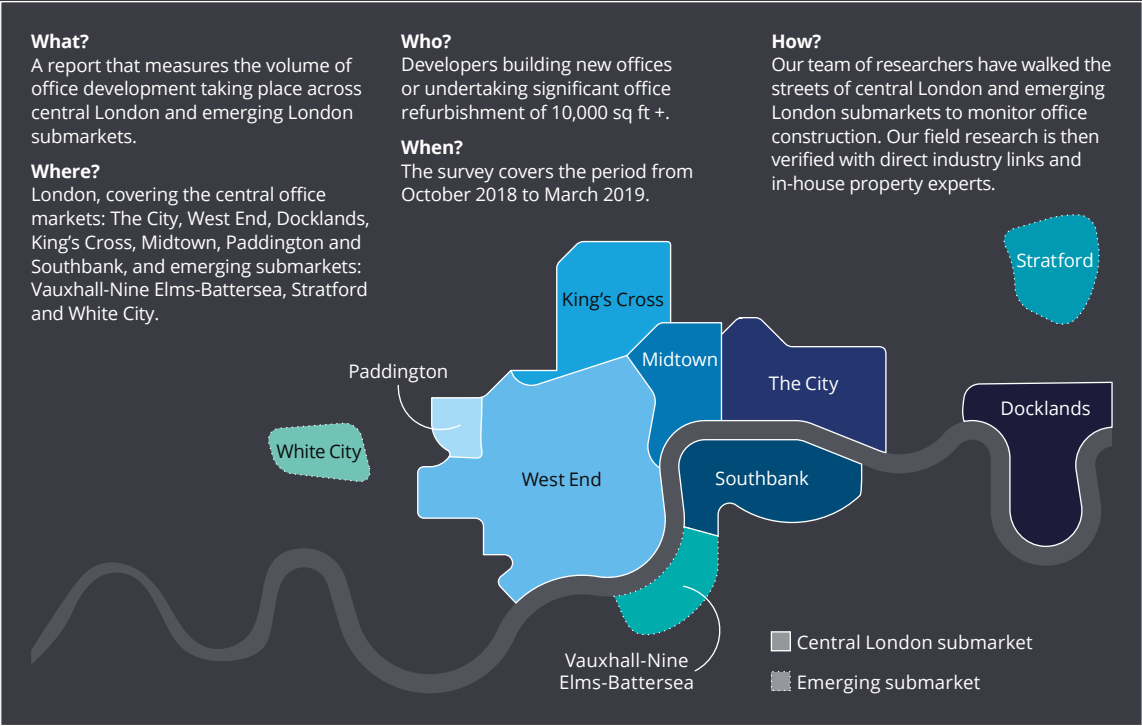
## Navigating through uncertainty

London Office Crane Survey

Summer 2019

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# Foreword

Welcome to Deloitte's Summer 2019 London Office Crane Survey – a barometer of business and developer sentiment as well as future workplace supply. In its 23rd year, we once again examine construction activity in detail across London's established and emerging submarkets.

In an effort to understand the potential impact of ongoing political uncertainties on the London office market, our team of researchers have brought together a wealth of data including walking the streets to track changes in office construction. We have also surveyed many of London's largest office developers in order to understand their development plans going forward as well as their current concerns around navigating in the current market.

The past two years have seen strong and sustained demand for office space in London, supported by sizeable commitments from some of the largest international technology firms. Office leasing demand in both 2017 and 2018 exceeded 13 million sq ft, comfortably exceeding long-term averages. Given ongoing political uncertainties around Brexit this has been very encouraging and somewhat counter to expectations.

Leasing take-up in Q1 2019 has, however, notably reduced suggesting that occupiers and investors are now delaying their decisions in the run-up to the UK's EU departure. Since the date to leave the EU has now been delayed, will the slowdown in demand continue, and will this also start to impact office construction levels?

As a global city London continues to successfully attract corporates, benefitting from a stable pro-business environment, transparent regulatory and tax systems. Corporates seek to attract the best employees and see the depth of talent in the London market as a huge magnet. Ensuring an adequate pool of skilled labour, both home-grown and individuals attracted to London from around the world remains critical. Developers and occupiers in turn need to respond to these evolving needs in the way they deliver office space.

Developers tell Deloitte that construction costs remain a key challenge to development. To investigate this further and to complement the Crane Survey, Deloitte's cost consultancy team carry out a bi-annual construction market survey, capturing market sentiment from contractors on workload, price and related issues.

We would like to thank developers and contractors who assisted with the data and took part in our surveys. We hope you find our survey results and insights useful and thought-provoking, and we welcome your feedback.



**Michael Cracknell**

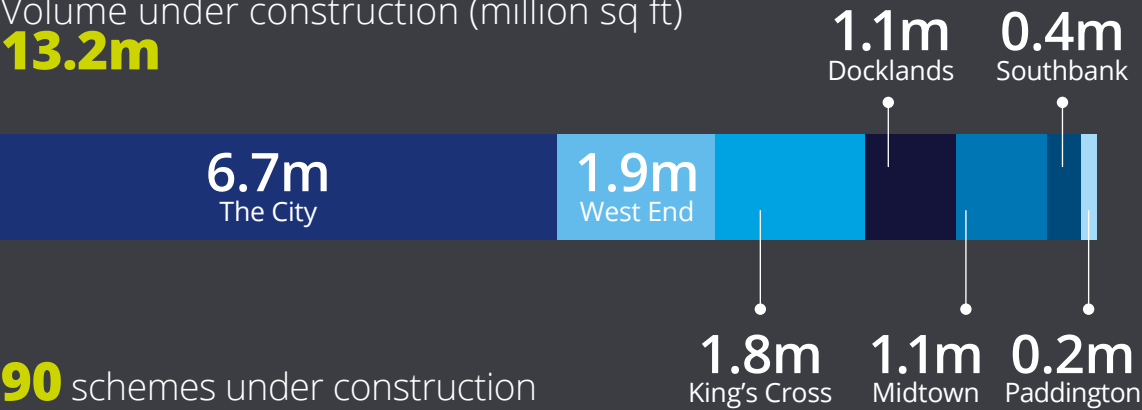
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# London Office Crane Survey key findings

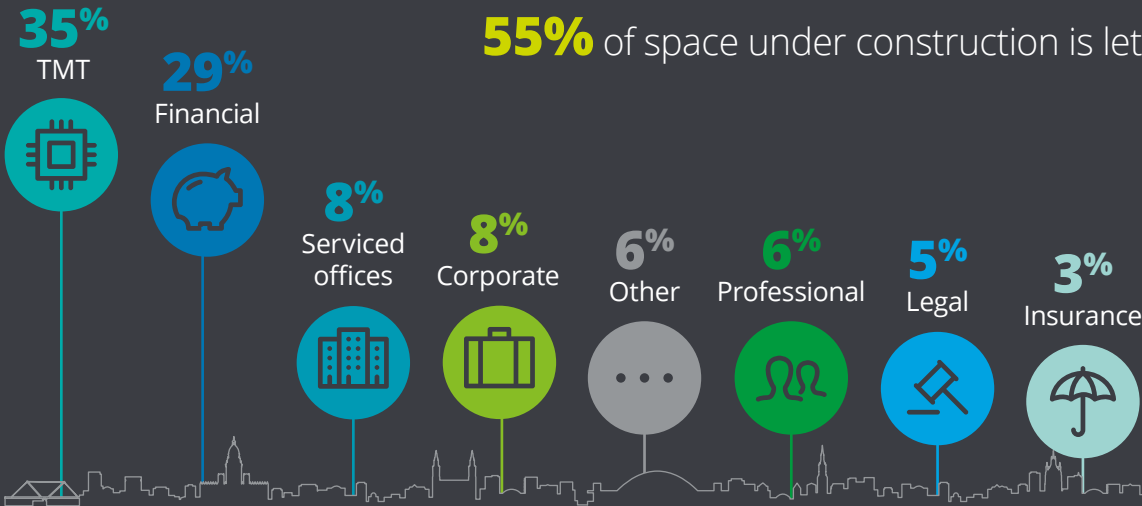


Volume under construction (million sq ft)  
**13.2m**

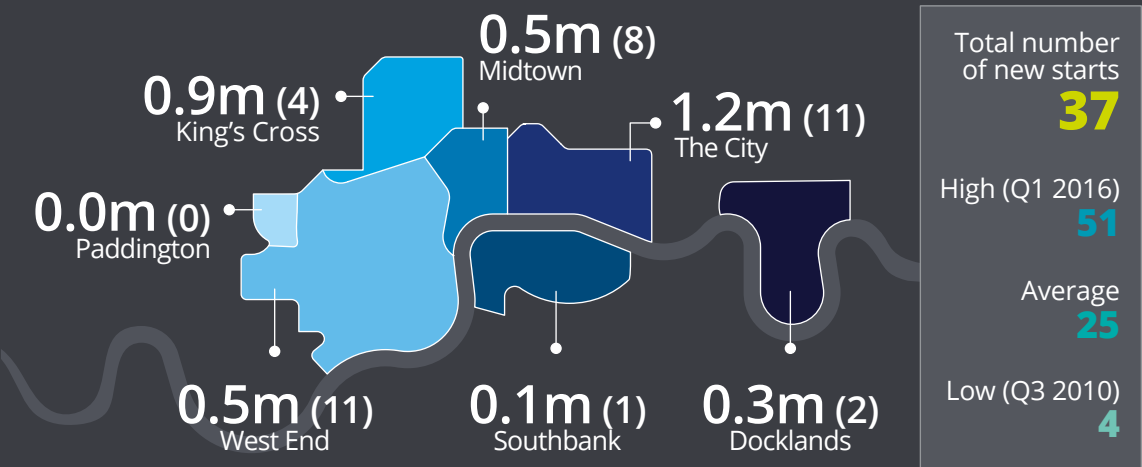


**90** schemes under construction

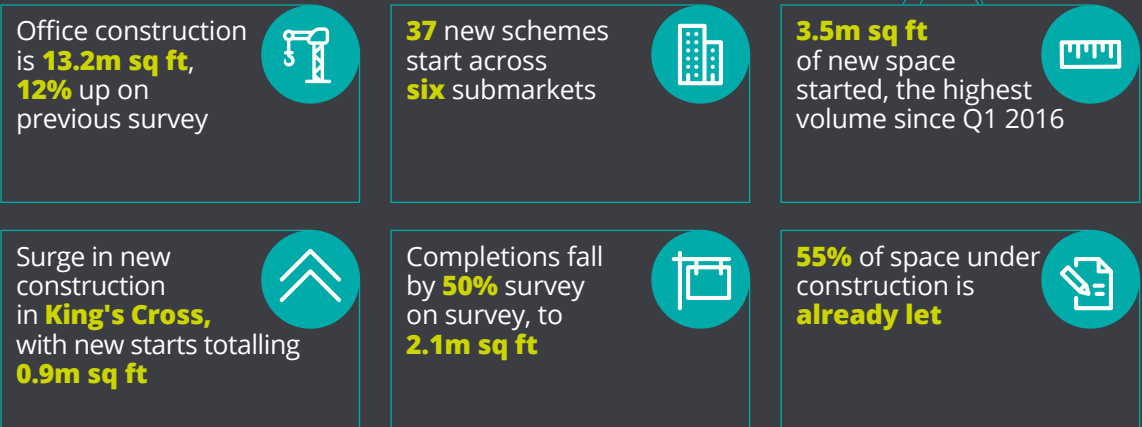
Percentage of pre-completion space let by sector



New construction starts: volume (million sq ft) and number



Headline results



Outlook



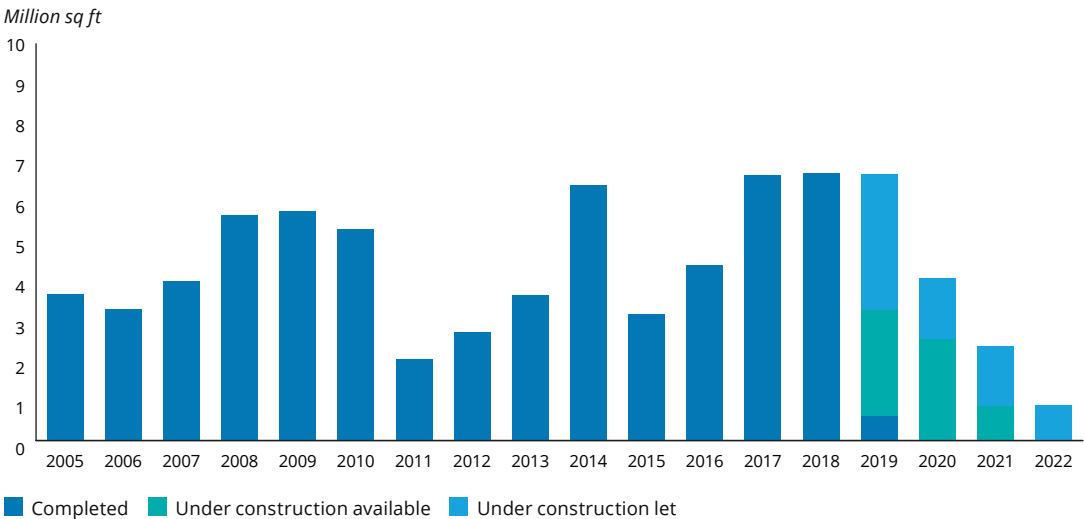
# Central London Crane Survey Results



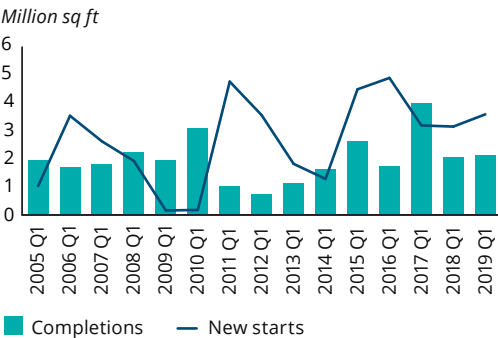


# Overview Central London

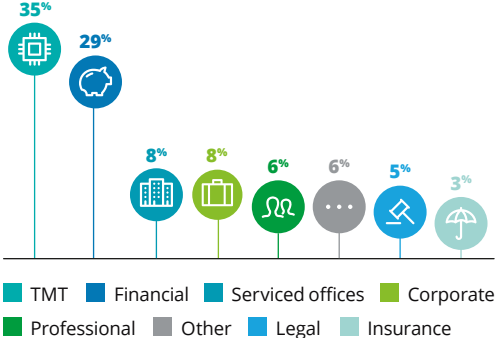
## Central London office pipeline



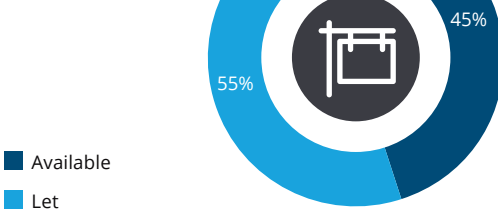
## Volume of new starts and completions



## What sector is taking the most space?



## Let vs. available space under construction



## New-build vs. refurbishment volume under construction



# Crane Survey Summer 2019 – results in detail

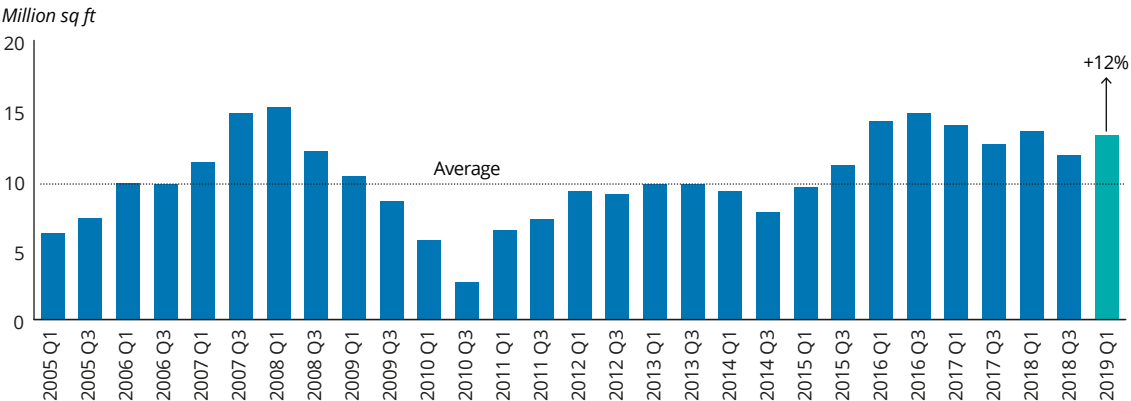
Notwithstanding ongoing uncertainties surrounding Brexit, the last couple of years have demonstrated that demand for office space in London is strong, from both investors and occupiers, including significant commitments from some of the largest international technology firms. However, as in the period around the original EU referendum in 2016, transaction volumes in Q1 2019, when the UK was expected to be leaving the EU, have unsurprisingly been subdued, with businesses delaying leasing and investment decisions. Since the date to leave the EU has now been delayed, will the slowdown in demand continue, and will this also start to impact office construction levels?

### Construction activity is up, driven by more new starts

Following a small dip in construction activity in our previous survey, total office space under construction between October 2018 and March 2019 amounted to 13.2 million sq ft, 12% up compared to the previous survey ('survey on survey') and above the long-term half-yearly average of 10.5 million sq ft. Construction volumes since Q3 2015 have been averaging 13.1 million sq ft.

Encouragingly, the volume of new starts is also the highest since our Q1 2016 survey, during the lead-up to the EU referendum. With 3.5 million sq ft of new office construction activity across 37 new schemes, the volume is 38% higher than in the previous survey. The average size of new developments also increased, from 80,000 sq ft to 96,000 sq ft.

### Central London: Total volume under construction per survey



Source: Deloitte Real Estate



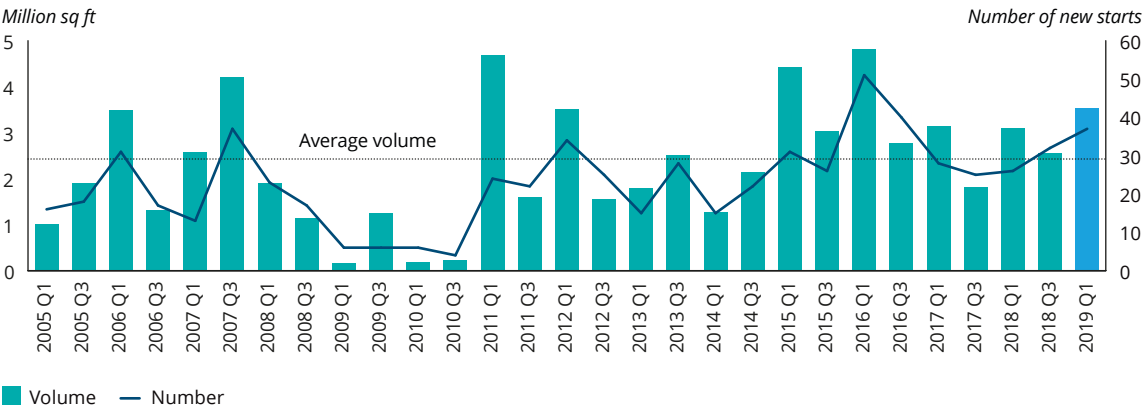
A new start that boosted the figures in this survey was a 611,000 sq ft development across two buildings in King's Cross, fully pre-let by Facebook. The new offices are expected to complete in 2021, when the technology giant will double its current floor space capacity in London. Work also began on 1 Finsbury Avenue, to refurbish 245,000 sq ft of City office space.

The uptick in construction activity in the run-up to the originally scheduled EU departure date of March 2019 is remarkable, given the magnitude of political and economic uncertainty. It demonstrates that developers have not delayed their construction plans and have confidence in the London leasing market over the long term. The impact on regional construction levels appears to have been even less. Our latest regional crane surveys, published earlier this year, found that construction activity has hit record levels across office and residential sectors.

Our survey, which monitors what is already under construction in London, strikes a more upbeat note than the latest IHS Markit's construction sentiment survey. While there was a marginal increase in overall construction output in January, commercial construction remains the worst-performing area. This may indicate that construction starts are likely to fall in the next six months, due to businesses being more reluctant to commit to major spending decisions amid market uncertainties.

Following a small dip in construction activity in our previous survey, total office space under construction between October 2018 and March 2019 amounted to 13.2 million sq ft, 12% up compared to the previous survey and above the long-term half-yearly average of 10.5 million sq ft.

Central London: Volume and number of new starts per survey



Source: Deloitte Real Estate

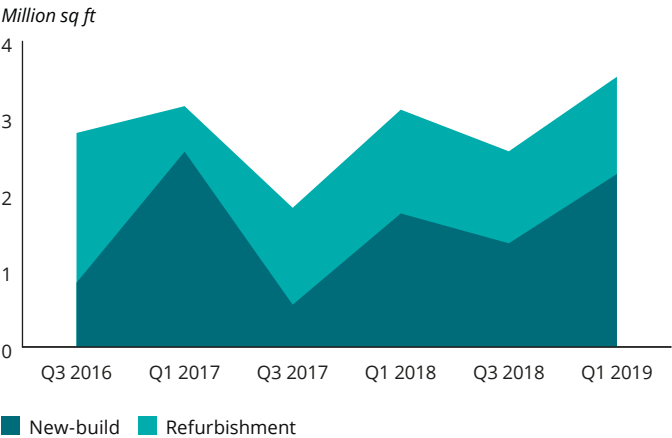
**King's Cross submarket boosts new-build starts, while the City turns to refurbishments**

Construction of new schemes jumped by more than a third survey on survey, and it is interesting to examine the underlying trends. Our findings show that new-builds made up two-thirds 64% of all new starts in 16 schemes, amounting to 2.3 million sq ft: this is the highest proportion since our summer 2017 survey. Refurbishments accounted for just over one-third of the total.

New-build construction in King's Cross, in four buildings, represented a sizeable 39% of all new-build starts. The City accounted for just 21%, followed by Midtown 14%.

The City, which typically accounts for the majority of new-build construction in central London, saw a shift to refurbishments. Developers began work on as many as eight refurbishments, totalling almost 0.8 million sq ft. This is equivalent to 59% of all refurbishment starts in the six months to March 2019. The West End, which in previous surveys led the refurbishment market, represented only 24% of the volume of new refurbishments in central London.

**Central London: New starts – new-build vs. refurbished**



Source: Deloitte Real Estate

**Construction levels go up across most submarkets**

The City submarket continues to dominate construction activity in terms of volume, representing 51% of the total office development in the capital, followed by the West End 14% and King's Cross 14%.

The City submarket saw an increase in office construction, up by 13% since the previous survey (6.7 million sq ft under construction across 33 schemes). This higher volume of active developments in this submarket is due largely to more new construction starts, with 11 new schemes commencing between October 2018 and March 2019.

The uptick in construction activity in the run-up to the originally scheduled EU departure date of March 2019 is remarkable, given the magnitude of political and economic uncertainty. It demonstrates that developers have not delayed their construction plans and have confidence in the London leasing market over the long term.

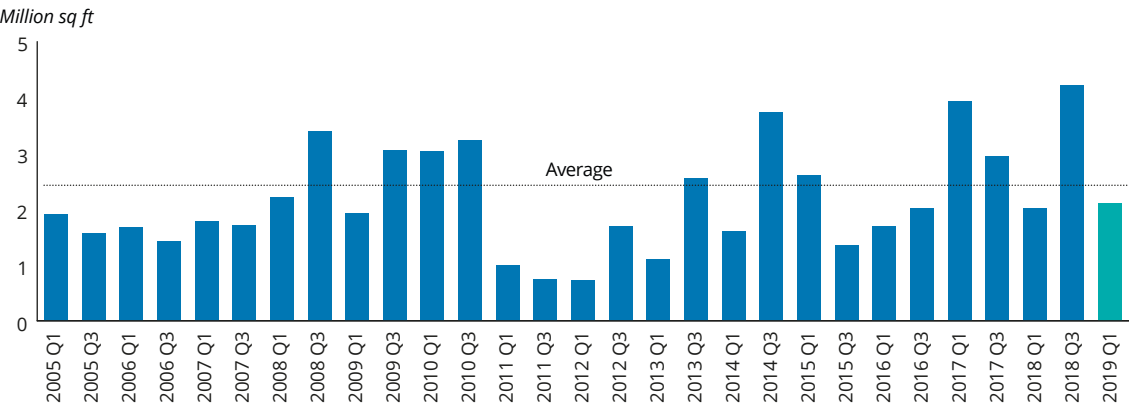
2019 is also expected to see record levels of office completions in the City, bolstered by the 1.3 million sq ft scheme at 22 Bishopsgate and 0.9 million sq ft at 100 Bishopsgate, both completing in 2019. The City's so-called 'Eastern Cluster', home to London's most iconic skyscrapers, also has several schemes in the pipeline that are yet to start construction, including 1 Undershaft and 100 Leadenhall (known as Cheesegrater 2).

Going forward, the City is likely to see more tall office buildings as the new Local Plan supports the need to develop the City Cluster in order to close the physical gap between the so-called 'Walkie-Talkie' at 20 Fenchurch Street and the other office towers. At street level, key proposals in the Local Plan will see the implementation of a 15mph speed limit and a target to reduce deliveries by 30% through use of consolidation centres; while the UK's first large-scale Ultra-Low Emission Zone is already being implemented across central London, including the City.

The West End currently has 1.9 million sq ft under construction in 27 different office schemes. This is 10% up on the previous survey following an increase in new starts over the past year. Midtown and King's Cross also experienced a rise in construction levels, increasing square footage by 7% and 65% respectively. The increase in King's Cross construction was due to four new office buildings.

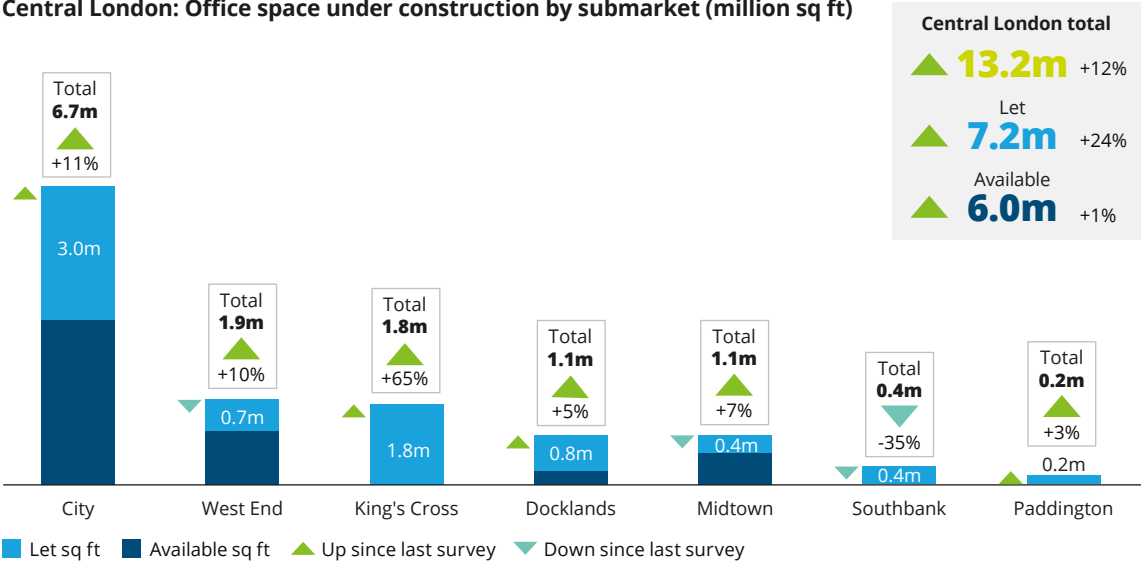
Following worsening activity in the Docklands in previous surveys, there was an uptick in construction levels here, with two new starts representing 0.4 million sq ft. Southbank was more subdued with just two small starts, while construction activity by floor area shrank by 35% survey on survey.

Central London: Total volume of space completed per survey



Source: Deloitte Real Estate

Central London: Office space under construction by submarket (million sq ft)



Source: Deloitte Real Estate

Completions fall by half but large schemes are nearing completion

Our current survey shows a 50% drop in completion of office space compared to the previous survey, representing 2.1 million sq ft. The decline in completions follows a historical high of 4.2 million sq ft in previous results, with only a handful of sizeable schemes were scheduled for completion between October 2018 and March 2019, the largest being 302,000 sq ft at 70 St Mary Axe.

However, the total completion volume for 2019 is set to match the 2018 figure, because of several significant schemes that are due for completion. We expect another 6 million sq ft to be completed by the end of the year, matching last year's total.

In the City alone, 3.8 million sq ft of office space is set for completion in 2019, surpassing the 2018 total by 8%. Docklands will see one million sq ft completed, predominantly the 690,000 sq ft Bank Street scheme in Canary Wharf.

Pre-letting is on the rise

Pre-letting is reaching new heights in London, driven by a number of factors: lack of Grade A space; the increasing importance of work space in attracting talent; a corresponding desire by occupants to influence design and layout; and a declining appetite for speculation by developers. Of all the space currently under construction, 55% has already been committed to, which represents a gradual uplift over the past few years. We found in this survey that leasing prior to completion was especially prominent for size ranges above 100,000 sq ft, where 78% (6.5 million sq ft) has already been committed to.

Securing space prior to completion has become more prevalent as occupiers look to secure preferred office accommodation well in advance of 'lease events', such as rent reviews, lease expiries or break clauses. Tenants with larger requirements also cannot afford to wait for schemes to become available, particularly since locking in the right space is often crucial for attracting talent and driving business growth.

Leasing activity prior to completion increased especially in those submarkets where new-build construction is typically triggered by a sizeable deal, such as King's Cross, Paddington or Docklands. King's Cross, for example, saw all its new office stock committed to before construction began, followed by Southbank (89%); both these areas continue to appeal to office occupiers with a varied retail offering and creative vibe. At the other side of the scale, the West End is typically seeing fewer pre-commitments, due mainly to the lack of large new build stock and higher rents. Our latest survey confirms this, since only a third of active developments secured a pre-letting commitment in the area.

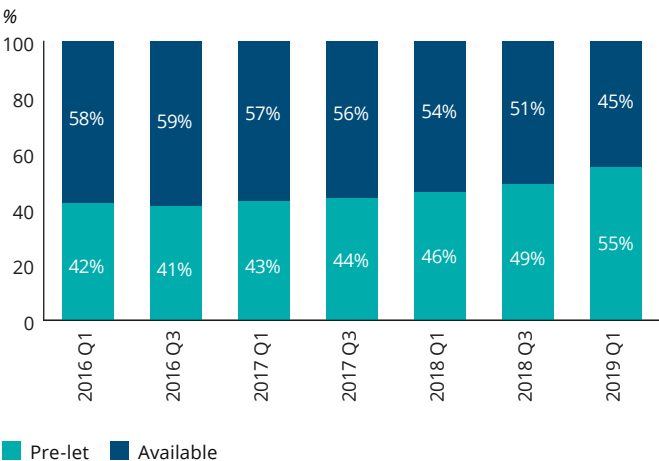
**Financial services pre-lets increase**

Following subdued pre-letting activity from Financial Services occupiers in our previous two surveys, the latest figures show a rise in leased space under construction by 50% to 2.1 million sq ft. Financial Services increased its share from 24% to 29% survey on survey, suggesting that the sector remains committed to London.

Technology, media and telecoms (TMT) has also further increased its proportion of acquired space under construction, from 29% to 35%. At 2.4 million sq ft, this is 24% higher than in the previous survey, confirming the continuing importance of the TMT sector in the London leasing market. Submarkets, such as the City and Canary Wharf, which have traditionally competed for financial workers, are now looking increasingly to lure TMT tenants from other submarkets.

Serviced office providers are currently the third largest tenant group pre-letting office space in London, amounting to 8% (0.7 million sq ft) of space under construction, more than traditional sectors such as the Professional, Legal and Insurance industries. However, there has been no increase in pre-letting activity by serviced office providers over the past three surveys, which could indicate maturing and stabilisation of this sector.

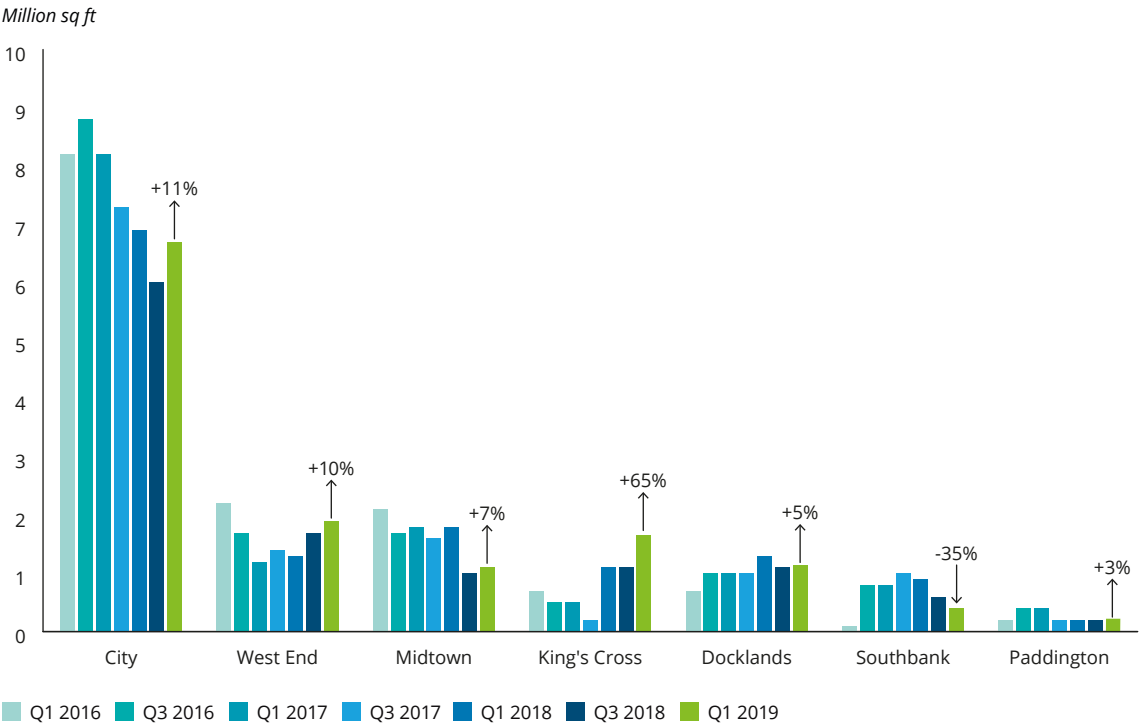
**Central London: Pre-let and available space under construction**



Source: Deloitte Real Estate

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Central London: Total volume under construction per survey



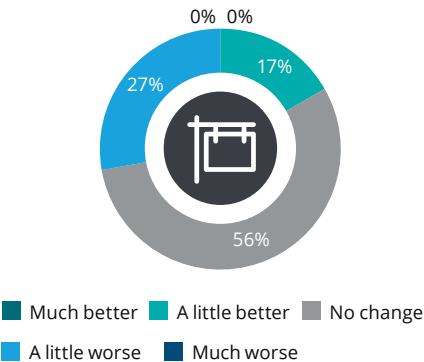
Source: Deloitte Real Estate

Take-up dips but landlords see little change in leasing demand

As described earlier, the past two years have seen strong and sustained demand for new and refurbished office space in London. This has been somewhat counter to expectations in some quarters, given ongoing uncertainties around Brexit. Nonetheless, London office leasing demand in both 2017 and 2018 exceeded 13 million sq ft, comfortably exceeding long-term averages. The take-up in Q1 2019 was, however, notably reduced, suggesting that occupiers and investors are delaying their decisions in the run-up to the UK's EU departure.

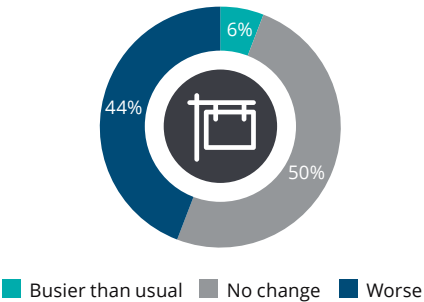
However, the majority of landlords (56%) told us that, compared to the previous six months, they saw no change in leasing demand: 27% detected 'a little less interest' and 17% who viewed office demand in the capital as 'a little better'. This is a strong indication that even though we experienced a slowdown in the first quarter, businesses are not abandoning their office relocation or expansion plans, but are postponing their decisions until there is greater political certainty.

Landlord survey: “Compared to six months ago, how do you currently perceive leasing market?”



Source: Deloitte Real Estate

Landlord survey: “What is the current impact of Brexit on your business?”



Source: Deloitte Real Estate

The volume of new starts is the highest since our Q1 2016 survey, during the lead-up to the EU referendum. With 3.5 million sq ft of new office construction activity across 37 new schemes, the volume is 38% higher than in the previous survey. The average size of new developments also increased, from 80,000 sq ft to 96,000 sq ft.

# Central London submarket snapshots



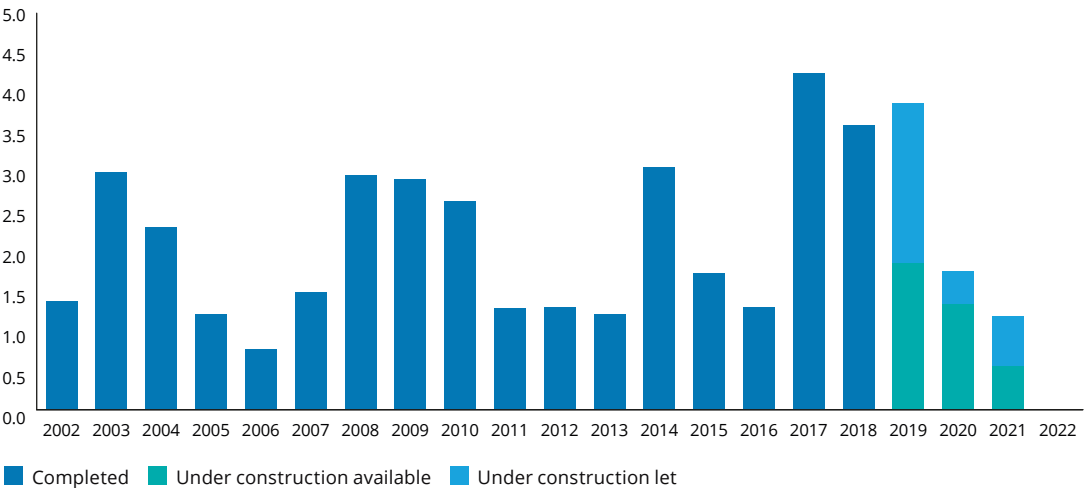


# Submarket snapshots

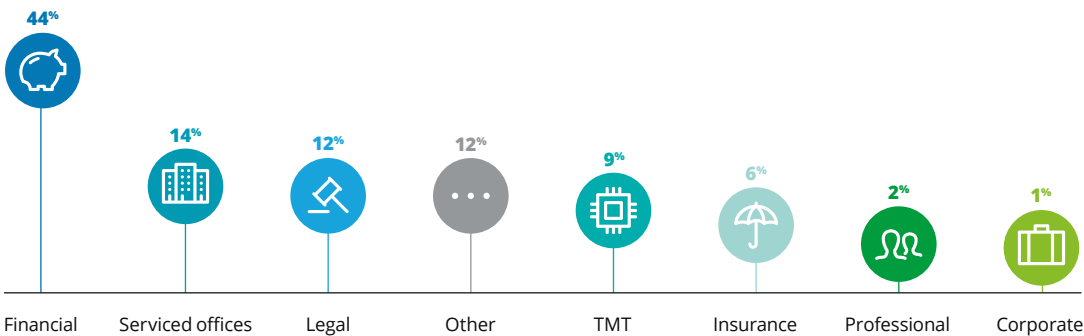
## The City

### The City office pipeline

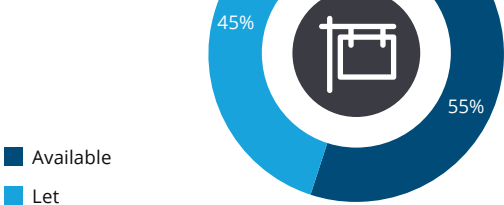
Million sq ft



### What sector is taking the most space?



### Let vs. available space under construction



### New-build vs. refurbishment volume under construction

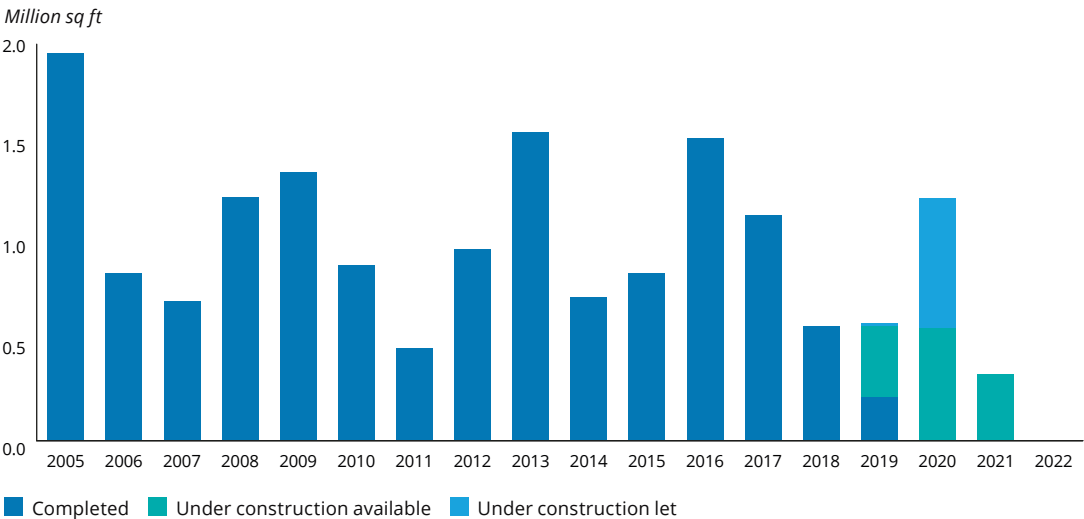




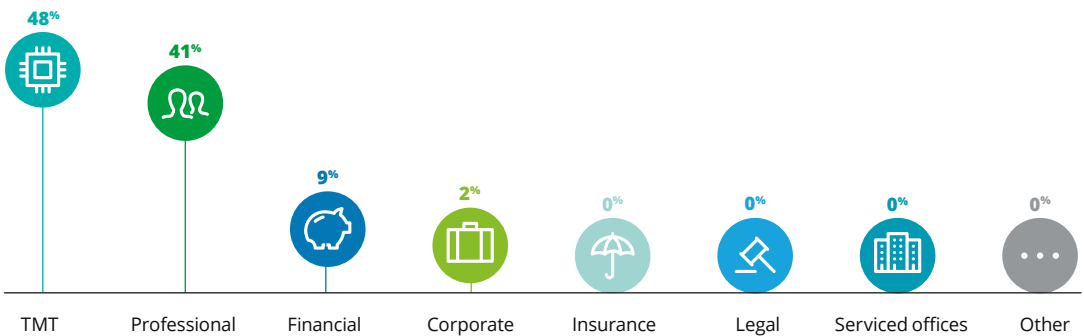
# Submarket snapshots

## West End

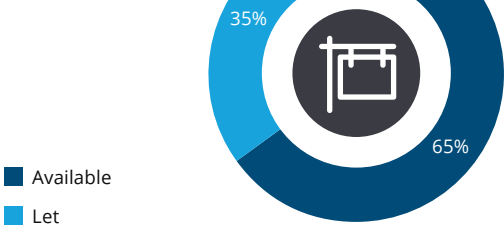
### West End office pipeline



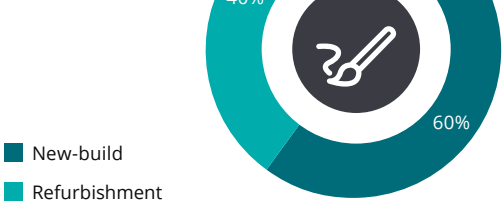
### What sector is taking the most space?



### Let vs. available space under construction



### New-build vs. refurbishment volume under construction



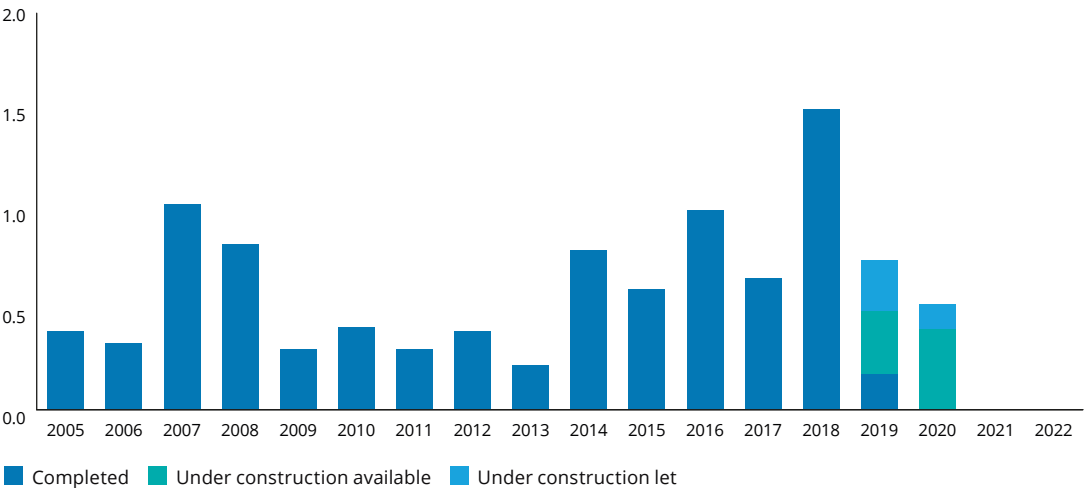


# Submarket snapshots

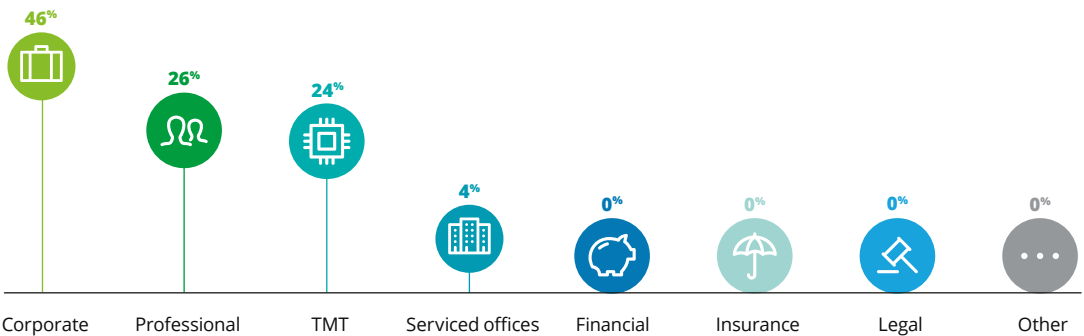
## Midtown

### Midtown office pipeline

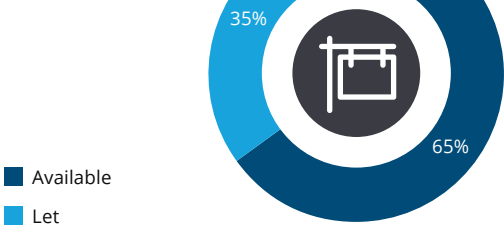
Million sq ft



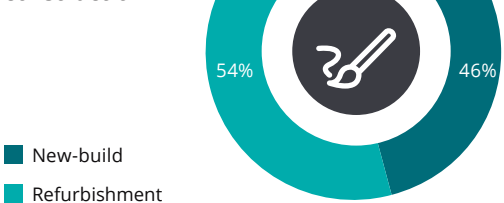
### What sector is taking the most space?



### Let vs. available space under construction



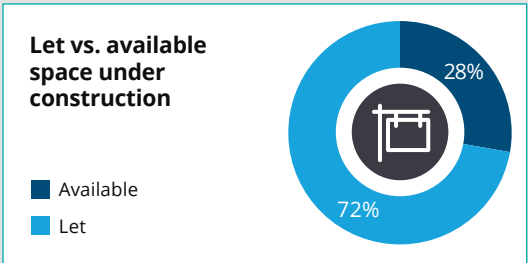
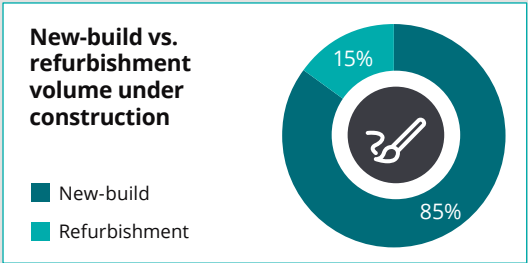
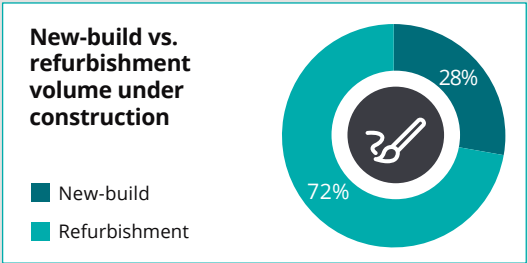
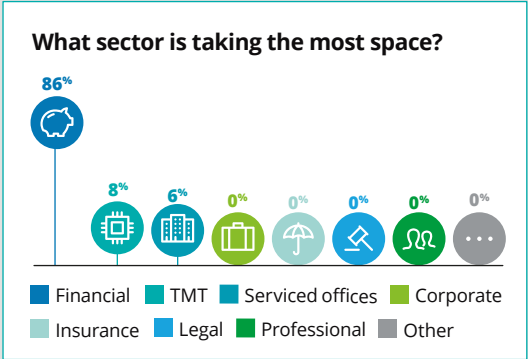
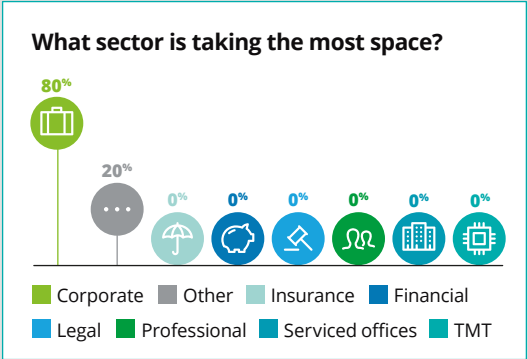
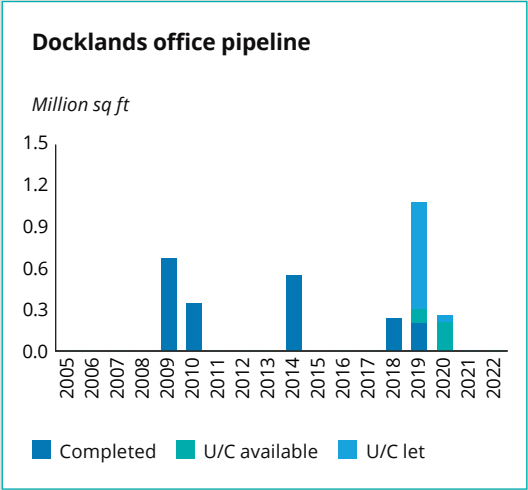
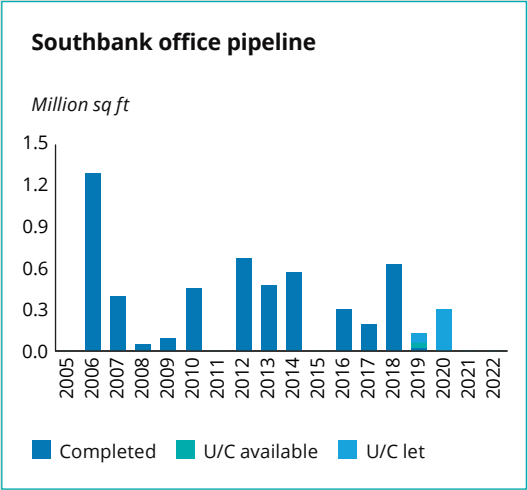
### New-build vs. refurbishment volume under construction





# Submarket snapshots

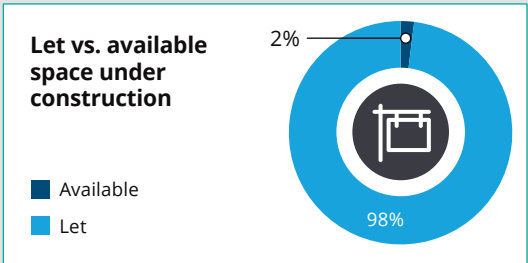
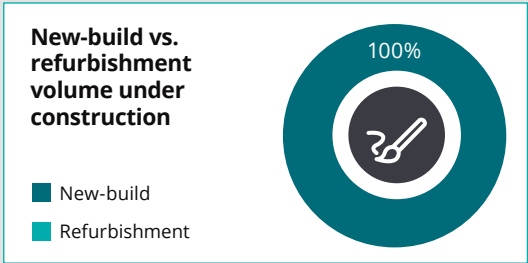
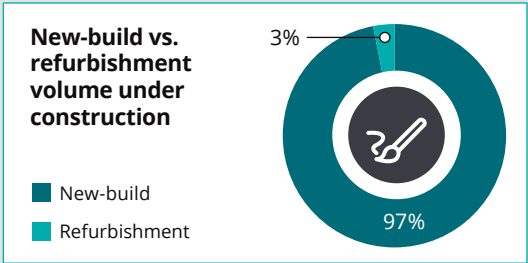
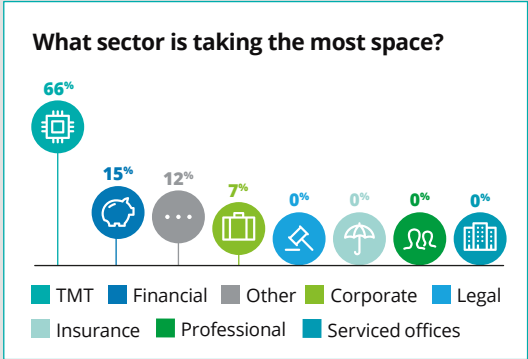
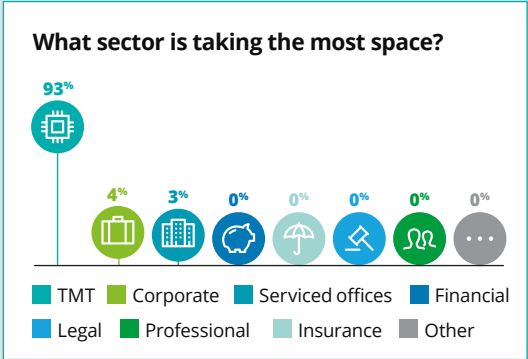
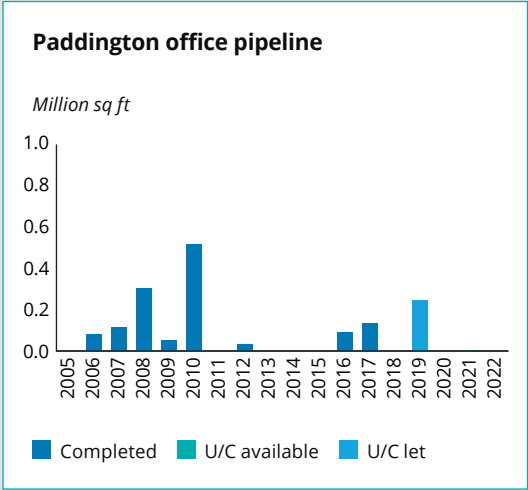
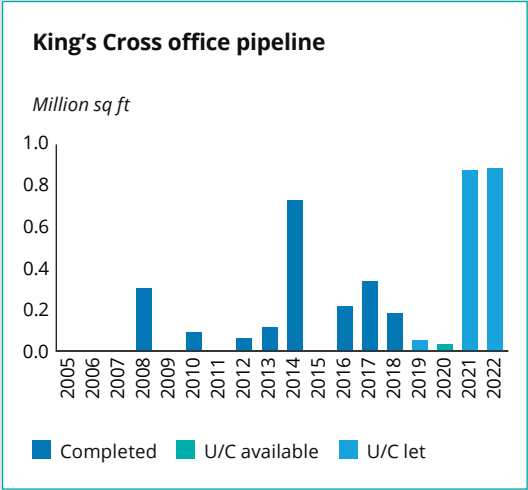
## Southbank and Docklands





# Submarket snapshots

## Kings Cross and Paddington



# Emerging submarkets



# Emerging submarkets Crane Survey results

## Construction activity in emerging submarkets is unchanged

Construction activity in emerging London submarkets, which include Vauxhall-Nine Elms-Battersea (VNEB), White City and Stratford, has remained unchanged since our previous survey, due to no new starts or completions. The emerging submarkets currently have four schemes under construction, totalling 1.5 million sq ft.

The extension of the Northern Line is expected to be a game-changing economic catalyst for VNEB, with the area set to create 25,000 jobs and 3 million sq ft of office space. Phase 1 of Battersea Power Station is due to complete in Q4 2020 when it will deliver 540,000 sq ft, and the ‘next phase’ of construction will commence in Q2 2021, adding 750,000 sq ft to the office stock.

In Stratford, office demand has been boosted by the new Elizabeth Line. The current development of the International Quarter and 14 Westfield Avenue has provided a stimulus for occupiers to consider relocating to the area. Notably, the rent and business rates costs for new Grade A space in Stratford are significantly lower than in Central London, and it has already attracted several government agencies, such as the Financial Conduct Authority.

There is currently no construction activity in White City, but this submarket is likely to continue its appeal to technology and life sciences occupiers due to its transport links and proximity to the Imperial College campus.

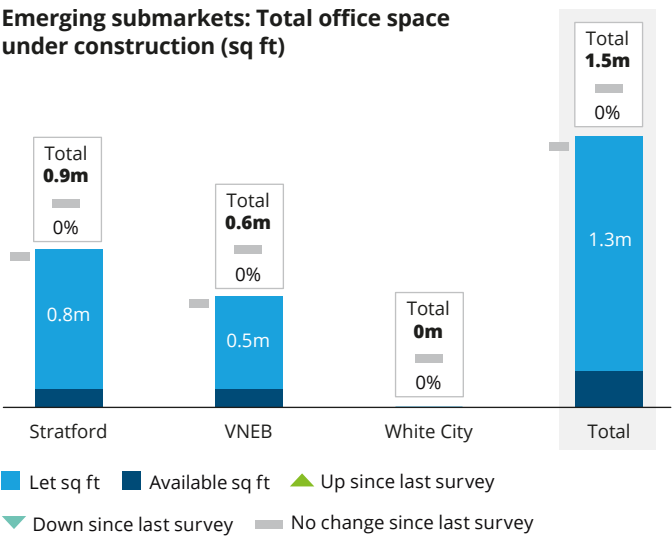
## Pre-lets will trigger new construction

Construction activity in emerging submarkets is driven primarily by pre-lets, which together with their more modest scale, make the development pipeline more volatile in these areas. Demand is driven typically by large occupiers endorsing new locations, especially where a major pre-let has kick-started the development.

Due to the lack of new activity, pre-letting levels in emerging submarkets remained unchanged, with 85% of space under construction currently committed to. With the vast majority of space already secured, there is only 218,000 sq ft available across three schemes.

What is clear is that emerging submarkets have been attracting a diverse range of tenants, from large technology firms, to serviced office providers, to research charities and the public sector. As speculative development is still relatively low in these areas, it is occupier-led demand that will provide the stimulus for new construction going forward, unless a developer steps in with a major ‘bold play’ proposition.

Emerging submarkets: Total office space under construction (sq ft)

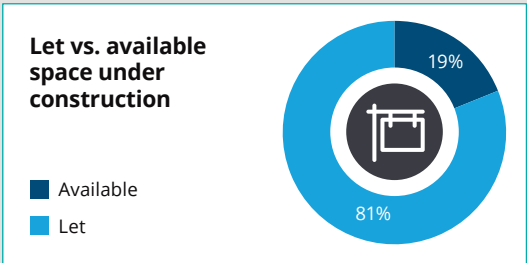
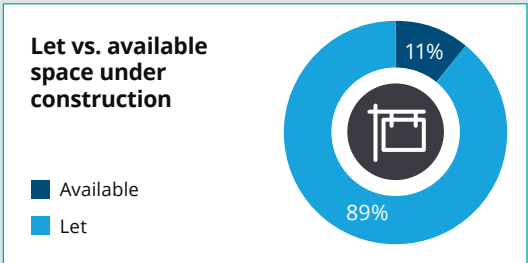
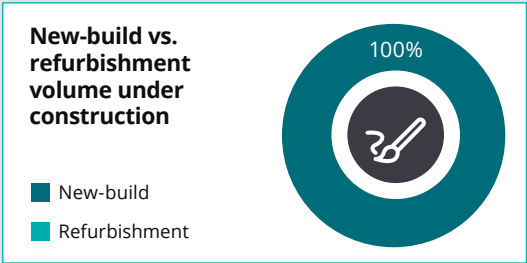
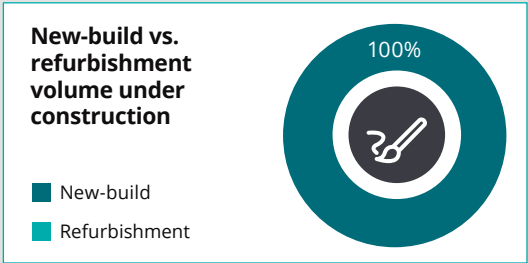
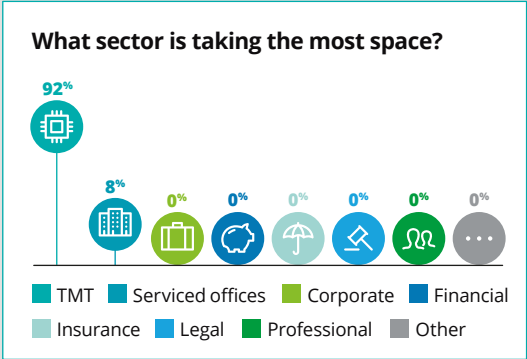
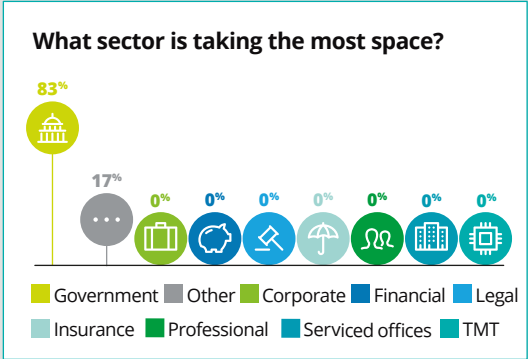
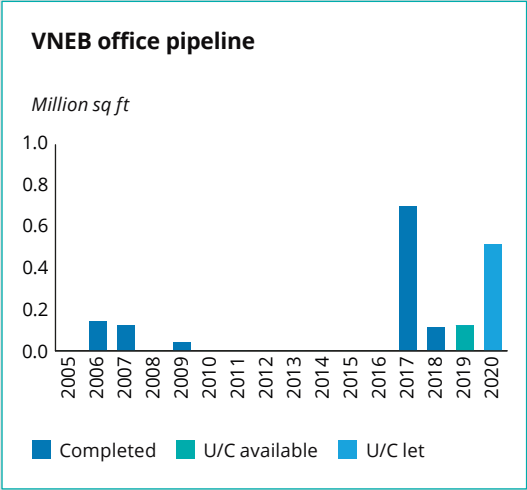
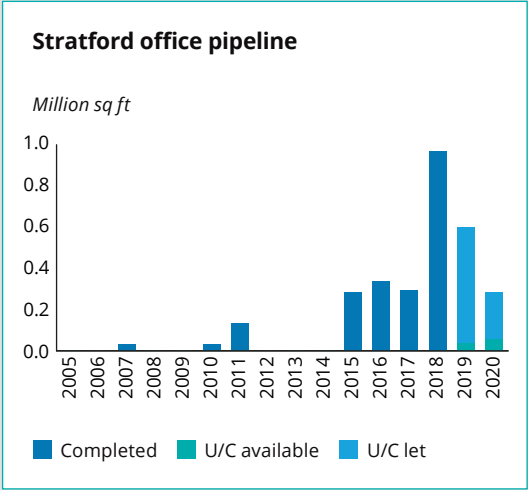


Source: Deloitte Real Estate

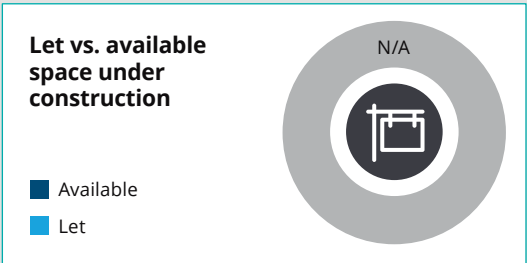
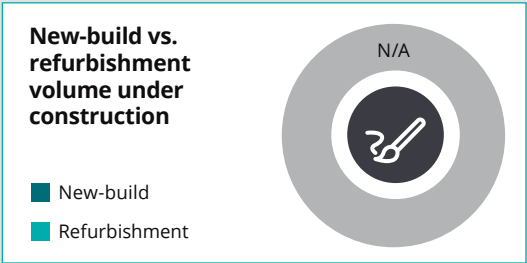
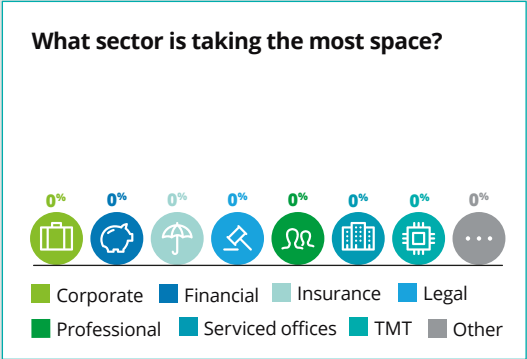
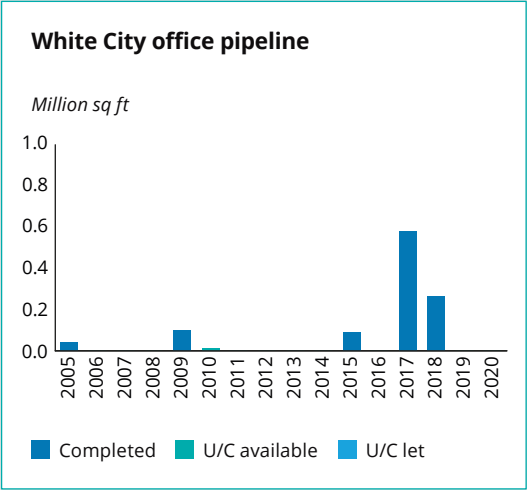


# Emerging submarket snapshots

## Stratford, VNEB and White City







Construction activity in emerging submarkets is driven primarily by pre-lets, which together with their more modest scale, make the development pipeline more volatile in these areas. Demand is driven typically by large occupiers endorsing new locations, especially where a major pre-let has kick-started the development.

# Outlook



# Outlook

## UK corporates focus on costs in the face of political and economic headwinds

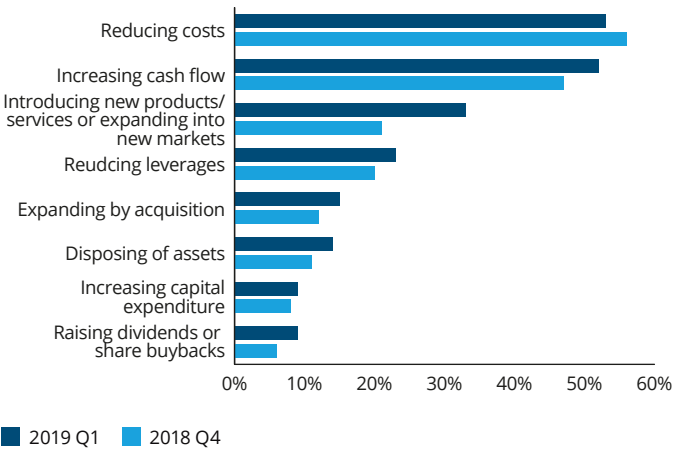
The deferral of the UK's date for exit from the European Union has temporarily reduced the risk of a no-deal Brexit. Nonetheless, the delay and associated political uncertainties mean an ongoing lack of clarity regarding the UK's future. Combined with weak demand in the UK and concerns around global economic headwinds it is little surprise that, according to ONS figures, the UK economy grew at just 1.4% in 2018, the lowest increase in six years, and it could slow further in 2019.

Deloitte's latest *CFO Survey* found that corporates are currently placing greater emphasis on cash accumulation than at any time since 2010. Cost pressures are increasing, especially wages, as average earnings have grown at close to their fastest pace in 11 years. CFOs are therefore set to prioritise defensive strategies, such as cost reduction and improving cash flow.

## London remains competitive and attractive as a global city

Following the EU Referendum in 2016, some commentators predicted an exodus of UK, and London specifically, occupiers and jobs to European cities such as Frankfurt, Dublin and Paris, effectively diminishing the importance of London as a global city. A number of functions have indeed been transferred to these cities, but so far the job numbers have been considerably lower than those originally expected. London's employed workforce currently stands at a record high.

% of CFOs who rated each of the following as a strong priority for their business in the next 12 months



Source: Deloitte *CFO Survey: Q1 2019*

Fundamentals, such as access to a large and diverse talent pool in London, a stable pro-business environment and transparent regulatory and tax systems, are seen as a real advantage. The UK currently ranks eighth out of 140 countries in terms competitiveness, according to the World Economic Forum. Deloitte's *Power Up: UK Inward Investment* report found that the UK hosted 57% of European headquarters of the Fortune 500 firms in 2018. London alone was home to 43%, compared with only 4% in Geneva and just 2% in Amsterdam, Brussels and Dusseldorf respectively.

“Cost pressures are increasing, especially wages, as average earnings have grown at close to their fastest pace in 11 years”.

Ian Stewart, Chief Economist

**TMT sector continues to grow.  
Fintech to follow...**

Government figures show that in 2013 the number of people employed in the TMT sector in London overtook those working in Finance and Insurance combined, thanks to rapid expansion by major digital firms. TMT companies have been attracted to London as one of the top global business and financial hubs, with a large and diverse pool of skilled talent.

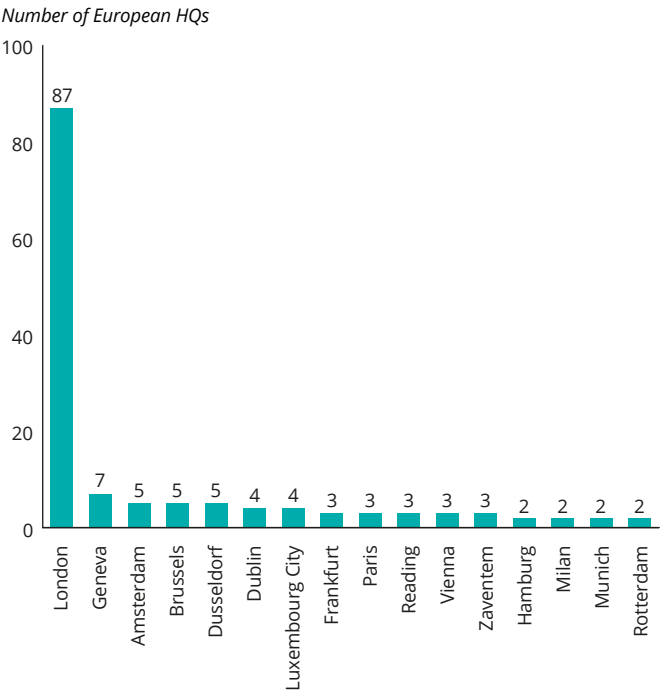
Fintech organisations, as well as insurtech, legaltech and medtech, have the potential to continue this growth. The UK’s government Fintech strategy aims to anchor London’s position as the global centre of Fintech. Both the TMT sector and Fintech are therefore likely to be a continuing source of office demand in London.

**A potential skills crunch?**

London and the UK can continue to attract corporates whilst it has an adequate pool of skilled labour, both home-grown and individuals attracted to London from around the world; but with UK unemployment at historically low levels and accelerating wage growth, the UK could be facing recruitment difficulties.

Deloitte’s *Power Up: the UK Workplace* found that more than one in three of the 3.4 million non-British workers in the UK are considering leaving the country over the next five years. This is particularly true of highly-skilled EU workers leading to the prospect of a short-term skills shortage. EU employees in highly-skilled sectors, such as information and communication, financial and professional services, that currently dominate London office demand, may face challenges in retaining staff.

**Location of European HQs of Fortune 500 companies in 2018 by city**



Source: Deloitte *Power up: UK inward investment*

“Fundamentals, such as access to a large and diverse talent pool in London, a stable pro-business environment and transparent regulatory and tax systems, are seen as a real advantage”.

**Angus Knowles-Cutler, UK Vice Chairman and London Office Managing Partner**

Conversely, despite Brexit-related uncertainties, the latest figures from the Universities and Colleges Admissions Service (UCAS) show an increase by 1% in the number of applicants from the EU, and an increase of 9% of university applicants from outside the EU – a record number of 63,690 in total. The surge in university applications from outside the EU comes largely from Chinese students, who along with students from Hong Kong now make up almost a third of all non-EU applicants to British universities.

The increase in third-level applications is important, as overseas students have a propensity to remain and work in the UK in general and London in particular after they graduate. Longer term, they can also become informal ambassadors for London, having developed an emotional bond with the UK during their studies.

### Real estate as a service

The recent rise of co-working is also changing the real estate industry fundamentally, and the ways that people use space. Real estate is shifting from being a fixed physical product towards being a flexible, customer-focused service – a renter's market. As a result, landlords are having to respond to requirements for flexibility, in terms of both the specification of accommodation and lease terms offered.

In our survey, one landlord told us "[occupiers want] enhanced amenity, access to fresh air and outdoors, planting and greenery, sense of community", while another specifically cited the trend towards 'smart and WELL buildings'. As an example 22 Bishopsgate, which is currently under construction, will boast facial-recognition technology and an indoor 'climbing window' with dramatic 42nd-floor views, and 'intelligent' air and lighting systems. In an attempt to lure a variety of tenants, it will offer both flexible office space set-ups and longer leases.

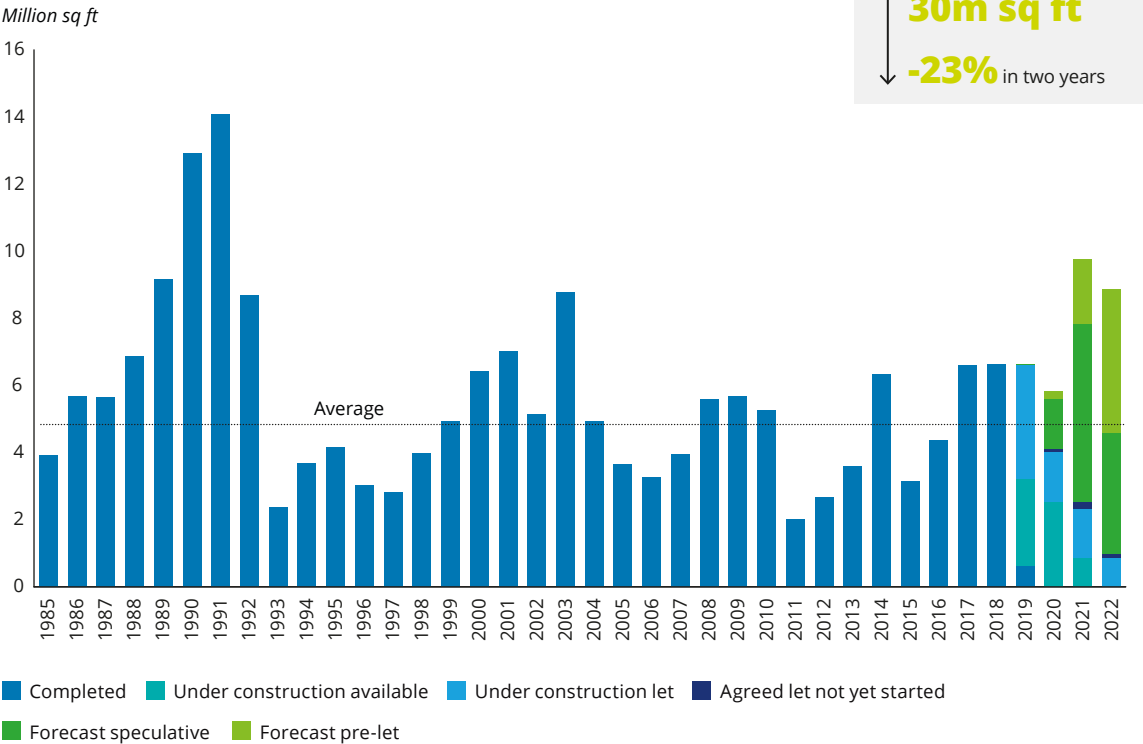
### Long term pipeline is diminishing

Paradoxically, despite CFOs' focus on costs, businesses have been giving increasing priority to creating high quality space. The demand for Grade A offices makes sense in this context given the importance of real estate in attracting and retaining the best talent, where staff account for much higher proportion of cost than does space.

Occupiers are also utilising office space more efficiently. Thanks to changing working patterns the proportion of staff in the office at any one time has fallen. Research from *Seaforth Land* shows that the office space required per average worker has reduced by almost a fifth, from 98 sq ft 20 years ago, to 79 sq ft today. Intelligent occupiers are therefore driving value and reducing costs by creating high quality space but occupying less space overall.

As office density is increasing, what does it mean for future take-up and the construction pipeline? Our Crane Survey found that even though there was an uptick in office construction levels in this survey, the overall four-year pipeline of under construction and proposed schemes has declined by 23% over the past two years. It currently stands at 30 million sq ft, which is a considerable drop from 39 million sq ft in 2017. This suggests that available Grade A supply in London will decrease over the next few years and that pre-letting activity will increase further. While businesses are likely to focus on better utilisation of space, the potential growth of sectors in London, such as TMT and Fintech, should continue driving office requirements in the years to come.

Central London: Office pipeline forecast



Source: Deloitte Real Estate

When asked what the main challenges to development are, almost a quarter (21%) of developers in our survey mentioned 'Brexit uncertainty'. Clearly this is a current problem, but Brexit ranked behind perhaps the longer term issues of 'lack of development sites' (29%) and 'construction costs' (29%), which are the top two concerns for landlords.

**Hurdles for development, a tale of two markets**

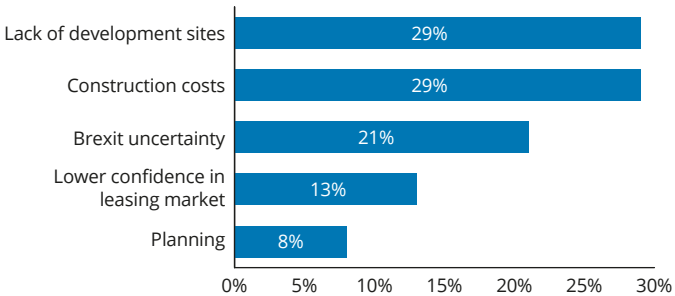
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While demand for Grade A office space remains resilient, over 70% of available office stock remains poor quality, creating a divergence between new and second-hand buildings. In fact, rental levels on prime office space in London are expected to rise by about 2% annually over the next four years, whilst for secondary stock, rents are forecast to fall over the same period.

The rise of serviced office providers has also supported the Grade A market and contributed to the growing amount of un-let secondary office space. As larger businesses release older accommodation, smaller occupiers turn to co-workers for a better choice of space on more attractive lease terms. The surplus of second-hand offices is unlikely to be taken up quickly and is in danger of accelerated obsolescence.

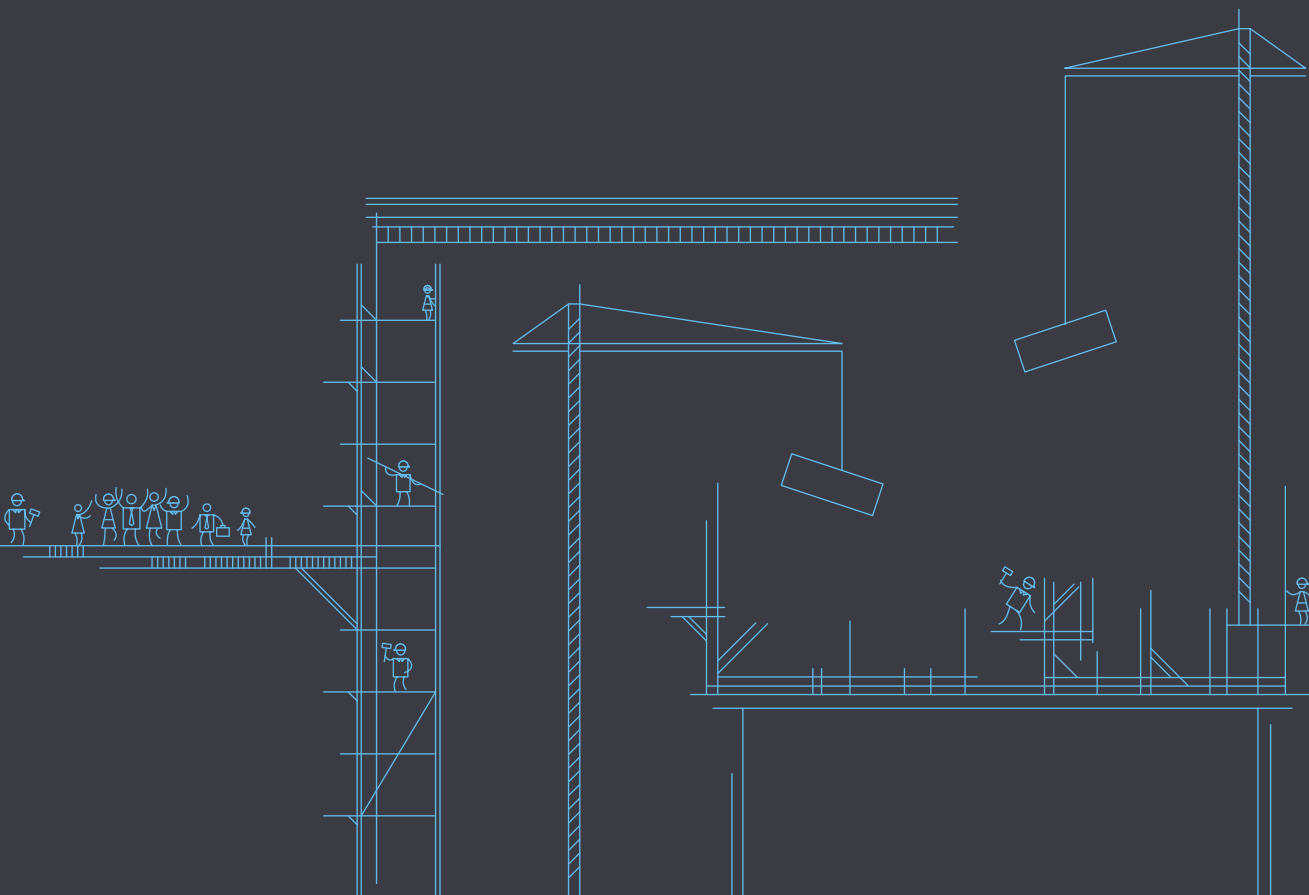
While new office design has become more energy-efficient in the past decade, there has been little focus on the carbon impact of demolitions and new construction. Our survey confirms that new-build office construction shows no signs of slowing, especially those triggered by large pre-lets. Refurbishments, which can offer a more sustainable solution to tackling climate change, have remained static. Is the tide about to turn for second-hand office space as the industry seeks more sustainable construction?

**Landlord survey: “What are currently the biggest challenges to development?”**



Source: Deloitte Real Estate

# Construction and workload costs survey





# Construction cost and workload sentiment survey

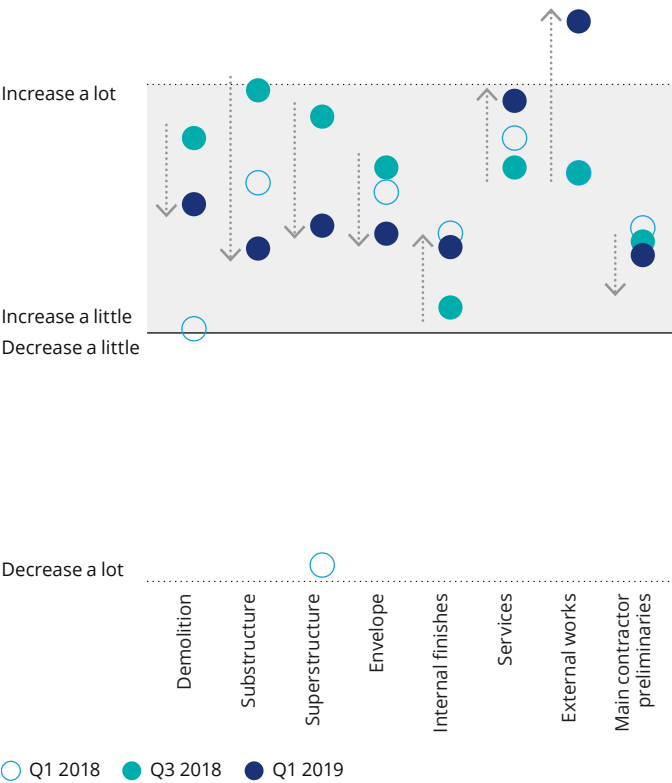
To complement the London Office Crane survey research, Deloitte’s cost consultancy team carry out a bi annual construction market survey, capturing market sentiment on workload, price and related areas. Our latest data marks the sixth survey in which main, trade and sub contractors have responded with their outlook.

### Workload sentiment indicates limited growth over the next 12 months

Given the increase in construction volumes in the Crane Survey, it is perhaps not surprising that the construction sentiment survey shows an improvement in workload sentiment for London projects in the next 12 months. The average response from most trade groups suggest that workload will “increase a little” and exceptionally for the External Works element group, “increase a lot”.

The arrows on the workload graph show the change in sentiment over the past six months. Most arrows point downwards, so although responses are still positive this is less than six months ago and getting close to suggesting no growth at all. The Internal finishes, Services and External Works element groups go against this trend and show an improvement in sentiment in the past six months. As we have seen in previous surveys, this divergence between element groups can be explained by the duration of construction projects: early trades are looking at new projects, whereas the internal / finishing trades are still concentrating on completing existing schemes. The Crane Survey results support this view, predicting significant volumes of projects completing later in 2019.

### Workload sentiment for the next 12 months



Source: Deloitte Real Estate

Given the increase in construction volumes in the Crane Survey, it is perhaps not surprising that the construction sentiment survey shows an improvement in workload sentiment for London projects in the next 12 months.

A further consideration around workload sentiment is evidenced in replies to one of the supplementary questions in the construction sentiment survey. We ask about the drivers or sources of workload change. It is interesting to note that only 32% of expected workload increases come from anticipated increases in the actual size of the market. Other drivers of the expected workload increase are due to organisations increasing their market share or operating in a wider market area, i.e. not growth in the overall market. This supports a view that market growth in the next 12 months may be very limited.

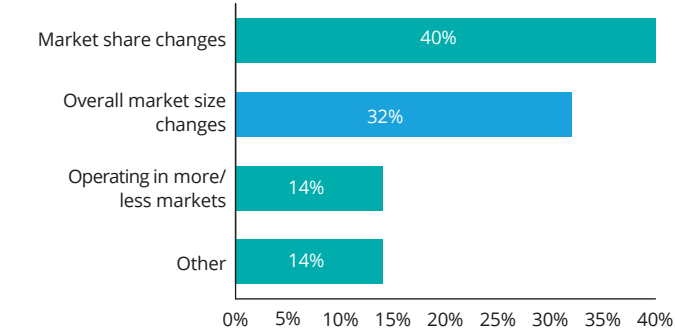
**The rate of price rises likely to decrease over the next 12 months**

Above-average construction volumes in the London office market over the last three to four years have resulted in similar strength in workload and price sentiment. The results around price sentiment in our Q1 2019 survey suggest an average increase of over 3% in prices over the next 12 months very similar to the figure reported our Q3 2018 survey. Anticipated price changes across the element groups are far from consistent however, and it is therefore important to look behind the ‘average’ numbers.

There is generally a strong correlation between workload and price sentiment data, i.e. contractors expressing increases in workload are generally able to pass on increases in input prices and hence their own prices.

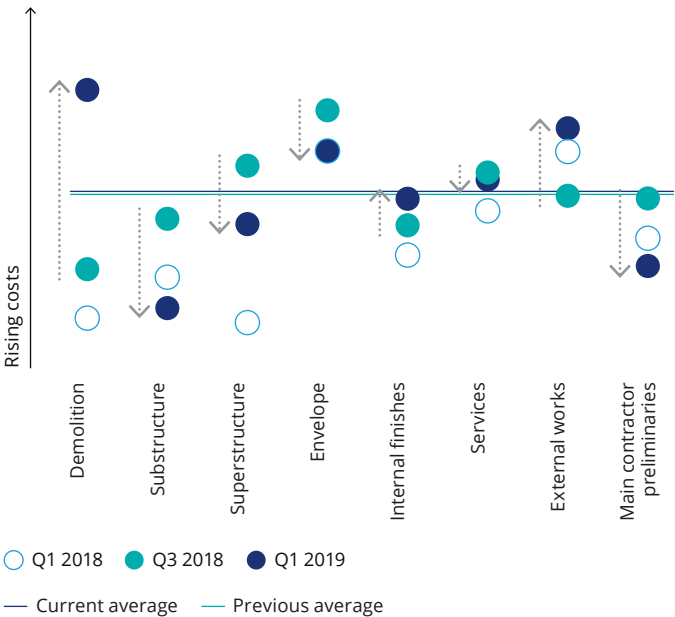
The Substructure, Superstructure and Main Contractor Preliminaries element groups expect limited workload increases and lower price increases, well below the average – but increases nonetheless!

**Workload drivers**



Source: Deloitte Real Estate

**Price change sentiment for the next 12 months**



Source: Deloitte Real Estate

Prices for the Envelope element group are expected to increase at an above average rate, but by less than before. The Internal finishes and External works element groups expect higher rates of price increase, consistent with predictions of increased workload. Services element groups show price increases remaining reasonably steady. The exception to these findings is the Demolition element group which suggest significant price increases, which skews the overall average and are not aligned with only limited workload.

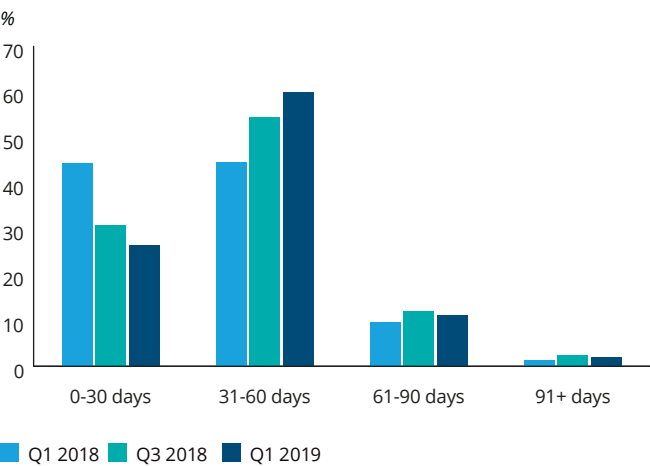
The key drivers of price increases are typically labour and material costs. In recent surveys increases in labour costs have been more significant, but this now seems to be changing, with most element groups reporting that increases in material prices are the main driver of their overall price changes. It is also interesting to note that increases in Overheads and Profit as a driver of price increases have become less significant in this latest survey, perhaps reflecting anecdotal evidence of a ‘tightening’ of the tender market.

Overall whilst the survey data suggests an average increase of over 3% in prices in the next 12 months, Deloitte believes that price increases may turn out to be more subdued, due to the impact of reduced leasing and investment activity (reflecting Brexit and more global uncertainties).

**Payments periods increasing, suggesting harder times**

Further evidence of a ‘tightening’ environment is shown in the responses to our survey question on payment periods. In just the last 12 months, there has been a deterioration in payment periods. Payments within 0-30 days have fallen from over 40% to less than 30% of the total.

Payment periods



Source: Deloitte Real Estate

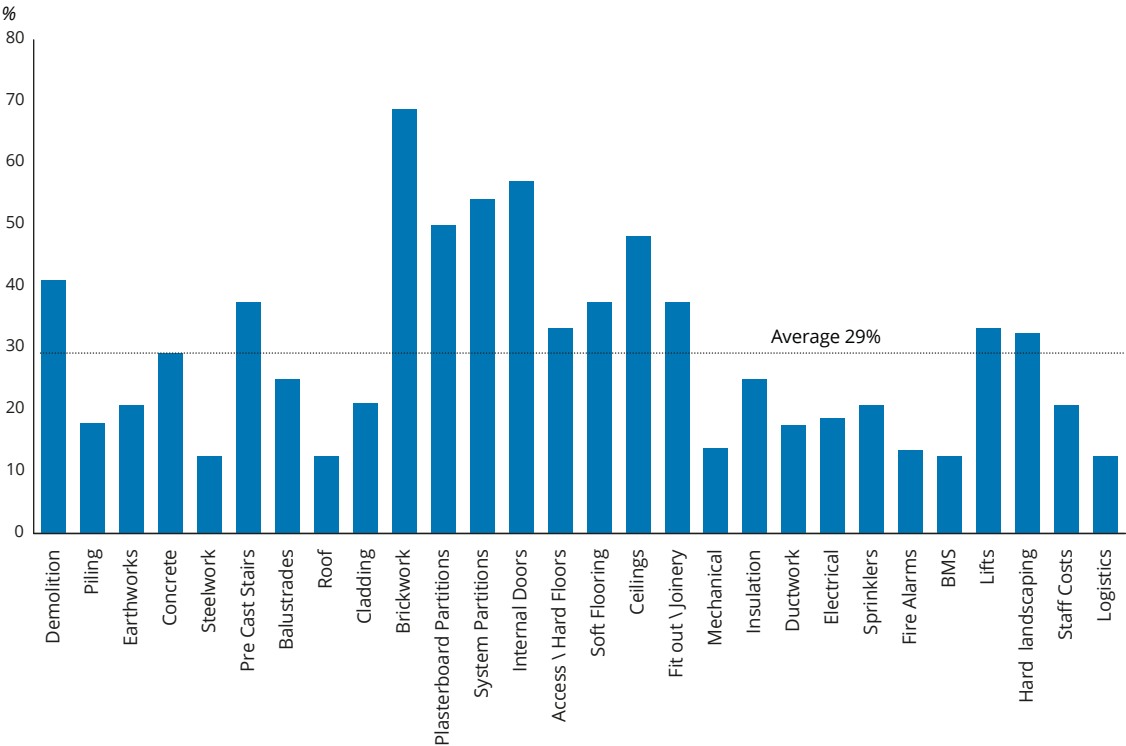
Further evidence of a ‘tightening’ environment is shown in the responses to our survey question on payment periods.

Levels of non-UK workers remain a concern for some trades

With the UK failing to attract young construction workers at the same pace as older workers retire, contractors operating in the London market in particular have come to rely on a significant proportion of non-UK workers to supplement their workforce. The impact of Brexit as well as the attractiveness of other buoyant European centres may mean that labour will once again become the dominant driver of construction prices. Our survey found that contractors operating in London had on average 29% of non-UK labour in their workforce. Again this 'average' masks much higher levels in trades such as brickwork and internal partition/joinery (see graph).

With the UK failing to attract young construction workers at the same pace as older workers retire, contractors operating in the London market in particular have come to rely on a significant proportion of non-UK workers to supplement their workforce.

Non-UK workforce



Source: Deloitte Real Estate

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## Further information

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[www.deloitte.co.uk/cranesurvey](http://www.deloitte.co.uk/cranesurvey)

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