A state of suspension

London Office Crane Survey
Contents

04  Foreword
06  Key findings
08  Central London Crane Survey results
18  Central London submarket snapshots
24  Emerging submarkets Crane Survey results
28  Key themes and outlook
36  Construction cost and workload sentiment survey
42  Contacts
Since our last survey, the UK saw the sharpest contraction in economic activity in more than a century as a result of COVID-19. The easing of lockdown restrictions led to a surge in business activity over the summer months. However, the strong summer economic performance is now waning with the second lockdown, as well as the looming Brexit deadline at the end of the year.

In the latest Deloitte CFO Survey corporates expect the negative effects of COVID-19 to overshadow those of Brexit and all other threats, with 75% predicting the pandemic to have ‘significant’ or ‘severe’ negative effects on their businesses over the next 12 months.

Like many businesses we believe the London office real estate market is currently facing a ‘state of suspension’ as business occupiers pause to reflect on what the future of working will look like and how this might impact future workplace requirements.
• Completion of new office developments has been delayed as contractors work out how to build safely holding up planned moves.

• In the first lockdown developers were unable to market buildings as prospective tenants were unable to visit.

• Tenants facing lease expiries seek holding strategies before committing to new space.

• The UK government’s implementation of new, England-wide restrictions means that returning to the office has been delayed.

• There is much hope and anticipation that a vaccines programme will provide a way-out of the current situation.

• Developers and funders delay decisions on further speculative development until there is more clarity in the market, including occupier office strategies.

The homeworking experiment has given businesses potential options going forward but working out exactly what that might mean will take time. Faced with the impact of economic uncertainty, businesses have begun reviewing their real estate requirements; reflecting upon costs, required occupancy ratios, ability to deliver and sustain critical functions, ease of access and connectivity, as well as overall resilience.

In an effort to understand changes in office construction in central London, our team of researchers have once again walked the streets across all the established and emerging submarkets. We have spoken to London’s developers to understand their construction plans going forward, as well as their current concerns around the market.

What are the construction levels telling us about office supply levels in these challenging times? What actual impact will homeworking have on office demand in the future? Our survey provides you with a detailed analysis.

In this edition we also discuss what the future of work might look like, we consider the importance of ESG credentials and what a ‘flight-to-quality’ means to the secondhand market and we evaluate future supply levels and construction costs.

We would like to thank developers and contractors who assisted with the data and took part in our surveys, particularly during these challenging times.

With this report we have enhanced our interactive microsite for the London Office Crane Survey. It will allow you to navigate to the content you find most useful, including submarket snapshots and a development map.

We hope you find our survey results and insights useful and thought-provoking, and we welcome your feedback.

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Key Findings

Crane Survey findings

- Larger proportion of new starts are already pre-let, suggesting fewer new starts take place on a speculative basis.
- Following a record Q1 2020, new starts are down by 50% but in line with long-term average.
- Two-thirds of new starts are refurbishments, indicating refurbishments are on the rise.
- Volume under construction remains high due to significant delays in completions caused by the pandemic.
- Completion of over half of the schemes under construction has been delayed by at least one quarter, shifting many completions to 2021.
- Secondhand office availability has surged as businesses increasingly review their real estate footprint and release their existing space.
- Four in five developers see the weak leasing market as the biggest challenge to development today.
- Availability of funding also a major concern for almost a third of respondents as development finance becomes scarcer and more expensive, especially for speculative schemes.

Crane Survey outlook

- ‘Flight to quality’ to intensify, with more emphasis on sustainable, COVID-safe and ‘WELL’ buildings.
- In the competitive secondhand market, the landlords will increasingly need to improve their existing office stock to the highest standards in order to attract tenant demand and maintain value of their buildings.
- Developers predict that office demand will drop on average by 15% in the long term as a result of homeworking, partly to be offset by lower density occupation.
- Office to be repurposed as a hub for collaboration, innovation and creativity.
- Hybrid model of working from home, a satellite office and a central hub, is gaining popularity.
- Grade A supply levels are likely to undergo self-correction because of fewer new starts and delays in existing developments.
- There is a sense of ‘suspension’ as construction takes longer, occupiers adopt a ‘wait and see’ approach and new starts are being delayed or put on hold due to market uncertainty, weak tenant demand and limited development finance.

Volume under construction (million sq ft)

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<th>Area</th>
<th>Volume (sq ft)</th>
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<tbody>
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<td>The City</td>
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<tr>
<td>West End</td>
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<td>Midtown</td>
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<tr>
<td>Southbank</td>
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</tr>
<tr>
<td>Paddington</td>
<td>1.2m</td>
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</tbody>
</table>

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

2.6m sq ft in new construction starts

Percentage of pre-completion space let by sector

38% TMT

14% Serviced offices

11% Financial

11% Legal

7% Professional

6% Corporate

5% Utilities

5% Insurance

3% Other

45% of space under construction is let
Central London Crane Survey results
Submarket snapshots
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

Source: Deloitte Real Estate
Winter 2020 London Office Crane Survey – findings

In our previous Summer 2020 Crane Survey, we discussed how business confidence shifted from the positive, post-election market sentiment at the beginning of the year to the sharp economic downturn as a result of the COVID-19 pandemic.

Since then the easing of lockdown led to a growth in activity over the summer months, raising hopes for a quick recovery. However, the strong summer economic performance is now waning with rising cases of the virus and further restrictions coming into effect, as well as the looming Brexit deadline at the end of the year.

In the London office market, leasing demand plummeted in the second quarter as lockdown prevented prospective tenants from visiting buildings. Demand remained low in the third quarter, as staff largely continued to work from home, and businesses put longer-term workplace decisions on hold. A mere one million sq ft of central London space was leased in the three months to September, well below the 3.4 million sq ft recorded in Q3 2019. The UK government’s unexpected implementation of new, England-wide restrictions, running for 27 days from 5 November, raised further questions about when London workers might return to the office.

As we examine the latest survey results, covering the period between April and September 2020 inclusive, what are the construction levels telling us about office supply levels in these challenging times? What will construction delays mean to the office pipeline and what actual impact will homeworking have on the office market in the future?
New speculative construction declines

Our latest survey found a 50% decline in the volume of new construction starts (both new-build and refurbished projects) to 2.6 million sq ft across central London in the six months to September. Even though the drop is significant, the volume is broadly in line with the long-term average for the survey and comfortably exceeds new starts in the corresponding period in 2019.

A higher than average 40% of new construction starts in this survey had already been committed to as less speculative construction is taking place. Deloitte is aware of at least six speculative schemes that were put entirely on hold until there is more clarity in the market, with many more postponed until 2021.

In terms of numbers, 35 separate new schemes broke ground during the survey period – a figure noticeably higher than the long-term average, which currently stands at 24. Consequently, the typical size of a new development shrank by more than a third on the previous survey and a quarter on the long-term average, amounting to an average of 70,000 sq ft in this survey.

The largest new start between April and September was the 447,000 sq ft 20 Ropemaker, which is close to the new Crossrail entrance at Moorgate station in the heart of the City of London. Demolition work had already begun in 2019 and the scheme had attracted a 300,000 sq ft pre-let from Linklaters shortly before the pandemic, leaving only a third of the space available. This office building is expected to complete in early 2023.
Refurbishments are on the rise

The London office market has seen an uptick in refurbishment projects. Our survey found that more than two-thirds of new construction starts involved an extensive upgrade of existing office stock in as many as 28 separate schemes. By transforming outdated buildings into COVID-safe high quality workspace, developers are looking to upgrade the resilience of their offices in a market where occupational demand is increasingly discerning. The corollary of this trend is a concern that poorer quality offices will become increasingly exposed to accelerated rates of obsolescence which will undermine their value.

In contrast to refurbishments, just 0.8 million sq ft of new-build construction commenced, across seven schemes, between April and September, the lowest figure in three years. A total of 1.5 million sq ft of new-build new starts has now been delayed for another few months, while three new-build schemes with a combined volume of 0.5 million sq ft were paused indefinitely due to market uncertainty.

Our data further reveals 43% of new-build office construction that broke ground during the survey period is already pre-let. This compares to the long-term average of 26% and just 2% in the summer 2020 survey. The decrease in the proportion of availability in new starts suggests lower levels of confidence in the letting market near term.

“The main focus will be on tenants wishing to improve the quality of their accommodation, alongside improved layout and use.”

London office developer

A two-tier office market and a ‘flight to quality’

Availability of existing space in central London has risen considerably in the six months to September, with much of the vacancy rate (now at 6.5%, up from 4.5% at the beginning of the year) attributable to the rise in second-hand availability. An oversupply of poorer quality workspace is anticipated and is not expected to be absorbed even when the market recovers because occupiers will increasingly look for the best accommodation for their central London hubs.

In the competitive second-hand market, landlords will increasingly need to improve and refurbish their existing office stock to the highest standards to be able to attract tenant demand and maintain the value of their buildings. The ‘flight to quality’ is therefore likely to become more pronounced, with more emphasis on sustainable, ‘healthy’ and ‘WELL’ buildings.
New construction falls across most submarkets

Over the survey period, April to September, new construction fell across most central London submarkets. The City, which had a high volume of new starts in the previous survey, saw new construction drop by 60% to 1.2 million sq ft across ten schemes. Notably, just over half of the City new starts already have committed tenants, confirming lower developer appetite for speculative development.

Apart from the 20 Ropemaker development mentioned earlier, which accounted for 37% of new construction volume in the City, the submarket also saw refurbishment work commencing on the 280,000 sq ft Duo near Spitalfields and the 178,000 sq ft 2 Gresham Street in St Paul's.

New office construction in the West End remained at the same level as our previous survey, with 12 new starts commencing in the six months to September, equivalent to 0.5 million sq ft. Apart from one small new-build construction, all new starts were refurbishments, including the speculative work at 78 St James's Street (110,000 sq ft) and the fully pre-let Turner House (105,000 sq ft) in Soho.

Southbank saw five new starts amounting to 350,000 sq ft over the summer. The largest was The Forge – a 139,000 sq ft office development in Southwark, which is being built on a speculative basis. The building aims to be the UK’s first net-zero carbon commercial building, meaning it will be both constructed and operated in line with the UK Green Building Council’s net-zero carbon buildings framework. Beside Waterloo station, the much anticipated redevelopment of Elizabeth House is currently working through planning issues and is unlikely to start soon. It aims to replace the existing 1960s building and deliver 1.2 million sq ft of new workspace.

Midtown witnessed a small uptick in new construction starts during this survey, with eight new development projects, equivalent to 0.5 million sq ft, commencing. All new starts in this submarket were refurbishments, with the biggest being 260-266 Goswell Road (200,000 sq ft) and Templar House (140,000 sq ft).

There was no new construction in Docklands, Paddington and King’s Cross in this survey.

“The best product is likely to remain the most resilient.”

London office developer

Central London: Total volume under construction per survey

Source: Deloitte Real Estate
Large future schemes to commence later than expected

Looking ahead, there are a number of large schemes that are in the pipeline, such as the 1 million sq ft 1 Undershaft ‘The Trellis’, which received planning application in November 2019. That project would involve the demolition of the existing Aviva Tower, followed by the development of a 73-storey building. Our on-the-ground research found no evidence of demolition work yet, suggesting the construction work will start later than initially anticipated.

The proposed 35-story 50 Fenchurch with extensive vertical urban greening was also given a go-ahead earlier this year. The 645,000 sq ft scheme has no start date yet but its owners are targeting post-2023 when office supply is likely to be more constrained. In the City fringe, a decision on whether the Bishopsgate Goodsyard scheme will go ahead is due to be taken by the mayor of London by the end of 2020 – six years after the developer first filed plans. This scheme aims to provide a substantial 1.4 million sq ft of workspace in five buildings on Shoreditch High Street.

Construction volume remains high due to completion delays

The total amount of office space under construction remained at similar levels to the previous survey, at 15.1 million sq ft as developments took longer to deliver. Even though the government did not order construction sites to close during the initial COVID-19 lockdown last spring, many contractors did so initially while they tried to establish how to operate safely. Construction sites reopened relatively swiftly with social distancing measures in place but inevitably these reduced capacity and productivity levels thus delaying and slowing delivery.

The extent of delays on individual projects will depend on the stage of construction during the initial lockdown. Projects in demolition or during groundworks, where machines are more prevalent, should be able to avoid major impacts. In contrast, schemes nearing completion require people working indoors and in close proximity to one another. Hence, labour intensive fit-out trades will be impacted more significantly by the Site Operating Procedures, which were introduced by the main contractors in response to social distancing measures.

Central London: Total volume under construction per survey

<table>
<thead>
<tr>
<th>Year</th>
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Source: Deloitte Real Estate
Our data reveals 3.3 million sq ft of office accommodation that did not complete as scheduled between April and September and was, therefore, still under construction at the time of this survey. This includes the 1.3 million sq ft skyscraper at 22 Bishopsgate, which is now targeting November 2020 as its new completion date. Had the delayed projects completed on time, the volume under construction would have been almost a quarter lower than in our Summer 2020 survey.

Of all the office space presently under construction, 55% of schemes have pushed back their previous delivery dates by at least one quarter. With more than a third experiencing a delay of at least six months, the delivery pipeline is arguably self-moderating just at a time when take-up decisions have been pared back. This could help the market avert a near-term oversupply situation in new and refurbished stock.

**Delays shift completions to 2021**

Following very low completion levels in the Summer 2020 survey, central London witnessed 2.5 million sq ft of new and refurbished office stock being delivered in the six months to September. This is more than double our summer results, but broadly in line with the long-term survey average. The largest completion was the refurbishment of 100 Liverpool Street, providing 435,000 sq ft of office space in the heart of Broadgate. The building is now 85% pre-let to legal, financial and serviced office firms. Other significant completions include the fully pre-let One Braham in Aldgate (340,000 sq ft) and 80 Charlotte Street (321,000 sq ft) in West End.

Half of 2020 completions are now due to take place in the final quarter of 2020, bringing the full year completion total to 6.5 million sq ft. As a significant number of schemes have been delayed this year, 2021 is now expected to deliver almost double the level previously expected. This will bring 7.2 million sq ft of new and refurbished stock to the market, with 60% of this space already pre-let.

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**Central London: Volume under construction – completion delays**

- Ahead of schedule: 2%
- On time: 2%
- Delayed by 1 quarter: 24%
- Delayed by 2 quarters: 12%
- Delayed by 3 quarters +: 43%

Source: Deloitte Real Estate

**Central London: Total volume of space completed per survey**

Source: Deloitte Real Estate
New pre-lets drop as businesses put off decisions

Central London office take-up plummeted in the six months to September, with Q3 2020 recording just 1 million sq ft – two-thirds down on the long-term average and the lowest quarter on record. The disruption caused by the pandemic has led many businesses to adopt a ‘wait and see’ approach before committing to new office space. While uncertainty surrounding COVID-19 restrictions continues, occupiers are looking to ‘buy time’ through lease extensions as they review their accommodation needs, including occupational densities and location requirements.

Just as overall office demand has been ‘put on ice’ in the last few months, pre-letting activity also weakened between April and September. Only 0.9 million sq ft of new pre-lets for space under construction were committed to during this time, which is 41% down on the previous survey. New pre-lets still accounted for a strong 44% of the overall take-up in the six month to September, indicating that early marketed space remains the preferred option for many.

Larger occupiers facing lease expiry typically plan office moves years in advance and so are perhaps less affected. However, small to medium-sized requirements, especially those based on expansion plans, have witnessed a drop as companies defer such decisions until there is more business and economic certainty, and new approaches to work are fully assessed.

TMT still on a roll

The share of TMT (technology, media and telecoms) pre-lets in all space under construction, including new and existing construction, remained at 38%. Interestingly, however, when examining only new pre-lets that took place between April and September, TMT committed to 44% of all early marketed space under construction. This affirms the continuing importance of the TMT sector in the London leasing market and we examine why this sector is likely to emerge least affected by the pandemic in the **Key themes and outlook** section of the report.

The appetite of serviced office providers for London office space has inevitably decreased due to weaker tenant demand for short-term space as a result of increased homeworking and social distancing measures. However, the sector is seeing a small uptick in demand from tenants that are unable to agree terms to extend their leases with their current landlords and who simply need short-term space to assess their accommodation needs. (The continuing viability of the serviced office sector during such challenging times is discussed in the **Key themes and outlook** section.)

Financial services accounted for 11% of pre-let space under construction and 20% of new pre-lets in the six months to September. Notwithstanding, an adjustment in the sector’s demand for office space is anticipated as it reflects on the impact of the new ways of working and the opportunities it presents, balanced with the role of the office as a collaboration hub, client meeting point and important ‘tool’ in supporting risk management procedures.

### Central London: Percentage of pre-completion lettings by sector

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<th>Sector</th>
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<th>Q1 2019</th>
<th>Q3 2019</th>
<th>Q1 2020</th>
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Source: Deloitte Real Estate
Leasing demand the biggest challenge to new construction

Developers interviewed at the end of September were slightly more positive about the letting market than at the end of March 2020, when all respondents said that office demand was worse than in the previous six months. More than half (57%) of developers felt that demand had improved or stayed the same, albeit from a very low point at the start of the pandemic. 43% of respondents said that letting conditions were worse when compared to the end of March 2020.

Our data also reveals that the level of confidence in the leasing market is now the biggest challenge to new office development. An overwhelming majority (85%) of office developers pointed to weak tenant demand for office space as a major obstacle to starting any new construction. Until there is more clarity about occupiers’ office plans, developers will hesitate to embark on new projects, particularly, speculative ones.
Central London submarket snapshots
Submarket snapshots

The City

The City office pipeline

Million sq ft

- Completed
- Under construction available
- Under construction let

What sector is taking the most space?

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
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<td>Legal</td>
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<td>Other</td>
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</table>

Let vs. available space under construction

- Available: 63%
- Let: 37%

New-build vs. refurbishment volume under construction

- New-build: 74%
- Refurbishment: 26%

Source: Deloitte Real Estate
Submarket snapshots
West End

West End 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

Source: Deloitte Real Estate
Submarket snapshots

Midtown

**Midtown office pipeline**

*Million sq ft*

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<th>Year</th>
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<td>2023</td>
<td>0.3</td>
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**What sector is taking the most space?**

- Professional: 31%
- Utilities: 29%
- Serviced offices: 26%
- Association: 9%
- TMT: 5%

**Let vs. available space under construction**

- Available: 45%
- Let: 55%

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

- New-build: 37%
- Refurbishment: 63%

Source: Deloitte Real Estate
Submarket snapshots
Southbank and Docklands

Southbank office pipeline

What sector is taking the most space?

53%
47%
TMT
Serviced offices

New-build vs. refurbishment volume under construction

41%
59%

Let vs. available space under construction

32%
68%

Docklands office pipeline

What sector is taking the most space?

82%
18%
Utilities
Serviced offices

New-build vs. refurbishment volume under construction

34%
66%

Let vs. available space under construction

25%
75%

Source: Deloitte Real Estate
Submarket snapshots
King’s Cross and Paddington

King’s Cross office pipeline

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What sector is taking the most space?

- TMT: 96%
- Retail: 4%

New-build vs. refurbishment volume under construction

- 100%

Let vs. available space under construction

- 100%

Source: Deloitte Real Estate
Emerging submarkets
Crane Survey results
Emerging submarkets see steady activity

Construction activity in emerging submarkets tends to be more volatile than in the more established and mature business districts of central London. Development in these new submarkets often only starts when a major pre-let has been secured, endorsing the location and attracting other businesses to the area. This occupier-led demand provides the stimulus for new construction, unless a developer embarks on a major proposition or regeneration play.

In **Stratford**, 14 Westfield Avenue has now completed, providing 300,000 sq ft of space to the government, while the International Quarter S4, which broke ground a year ago, is expected to deliver 350,000 sq ft by 2023. The International Quarter has a further 1.9 million sq ft of office pipeline with planning permission, but the developers are expected to wait for a sizeable pre-let before beginning construction. Further south, the first phase of the wider Sugar House Island mixed-use scheme, Dane's Yard, has now delivered 100,000 sq ft of workspace targeted at the creative industry in eight new and refurbished buildings. The next phase of this regeneration scheme has recently received planning consent for 290,000 sq ft of offices with completion scheduled for 2023.

**Vauxhall-Nine Elms-Battersea** is expected to start coming of age with the opening of the Battersea Power Station development (postponed to Q1 2021), as well as the Northern line extension scheduled for late 2021. The neighbouring Embassy Gardens development is also moving ahead with its plans, with Eg:HQ breaking ground during the survey. The scheme is set to deliver 217,000 sq ft of workspace by 2022. The first phase, the 160,000 sq ft One Embassy Gardens, has now completed, providing accommodation for Penguin Random House.

Following little activity in **White City** in several previous surveys, construction has now begun on the 240,000 sq ft Gateway Central Building. The scheme will be occupied by L’Oreal which has pre-let 110,000 sq ft across six floors from 2023. The convenient transport links in White City and proximity to the new Imperial College campus and Westfield shopping centre are proving attractive to new occupiers. White City is also emerging as London’s hub for life sciences research and innovation, with Imperial College playing a key role in this ecosystem. The sector is expected to benefit from more investment and government spending on health-related research and development as a result of the pandemic.

**Are emerging submarkets set for a boost?**

Commercial real estate occupiers are rethinking their office strategies and many are questioning whether they need to occupy expensive city centre space. Will this lead to a shift in demand towards offices in emerging London submarkets? While there has been little evidence so far to suggest this, they are likely to continue to appeal to occupiers looking for good transport links, more space and lower rents.

Of all the office space currently under construction in the emerging submarkets, 59% remains available, which is an increase from 39% recorded in the Summer 2020 survey. The majority of available space is in the International Quarter S4, Eg:HQ and 1 Electric Boulevard. The emerging submarkets have been attracting a diverse range of occupiers for some time, from large tech firms, to serviced office providers, research charities and the public sector. As businesses look to reduce real estate spending, they might opt for either less space in a preferred location or perhaps cheaper alternatives in the emerging submarkets.
Emerging submarket snapshots
Stratford, VNEB and White City

Stratford office pipeline

<table>
<thead>
<tr>
<th>Million sq ft</th>
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<tbody>
<tr>
<td>0.0</td>
</tr>
</tbody>
</table>

- Completed
- Under construction available
- Under construction let

VNEB office pipeline

<table>
<thead>
<tr>
<th>Million sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0</td>
</tr>
</tbody>
</table>

- Completed
- Under construction available
- Under construction let

What sector is taking the most space?

- Stratford: N/A
- VNEB: 92% Corporate, 8% Serviced offices

New-build vs. refurbishment volume under construction

- Stratford: 100% New-build
- VNEB: 100% New-build

Let vs. available space under construction

- Stratford: 100% Available
- VNEB: 55% Available, 45% Let

Source: Deloitte Real Estate
As businesses look to reduce real estate spending, they might opt for either less space in a preferred location or perhaps cheaper alternatives in the emerging submarkets.
Key themes and outlook
Key themes and outlook

COVID-19 dwarfs Brexit concerns

After the sharpest contraction in UK economic activity in more than a century, the easing of lockdown restrictions led to a surge in business activity over the summer months. Following the initial strong recovery, economic rebound is expected to be more protracted as varying degrees of lockdown restrictions are applied to stem the pandemic. The latest Deloitte CFO Survey Q3 2020 found that corporates have pushed back their predictions for a full recovery, with almost two-thirds of CFOs not expecting business demand to return to pre-pandemic levels until after Q2 2021.

“Business leaders expect a longer haul back to pre-COVID levels of activity. With further restrictions coming into effect businesses have scaled back expectations and are focused on strengthening their businesses and their balance sheets. British businesses are gearing up for a long winter with COVID-19, with a full recovery on the horizon only after next summer.”

Ian Stewart, Chief Economist at Deloitte

Negative Effects of COVID-19 and Brexit

% of CFOs who rate the negative effects of the COVID-19 pandemic and Brexit on their own businesses, over the next 12 months

With the end of the transition period looming, and a possible ‘no-deal’ exit from the EU, nearly a quarter of finance leaders are expecting Brexit to have a negative effect on their businesses. However, CFOs expect the negative effects of COVID-19 to overshadow those of Brexit and all other threats: 75% of corporates expect the pandemic to have ‘significant’ or ‘severe’ negative effects on their businesses over the next 12 months. Faced with the impact of both the pandemic and Brexit, firms will be looking at ways to transform their businesses, with more focus on technology and innovation to drive efficiency and productivity.
The office as a hub

Working from home became a reality for millions of office workers during the coronavirus lockdown and this is likely to continue for some time. Returning to the office in central London has so far been slow, with the number of people in central London and other big commuter cities across the UK remaining well below pre-pandemic levels. When compared to other European countries, UK employees are the least willing to return to the office, with 72% saying they will work remotely more often in the future, according to Deloitte Voice of the Workforce 2020. However, compared to other parts of Europe the UK already had a more agile workforce prior to the pandemic, and lengthy commutes, especially for workers in London, will be a key factor in deciding whether to work remotely in the future.

Changing attitudes to return to the office

% of consumers who selected each statement, by age

<table>
<thead>
<tr>
<th>Statement</th>
<th>Under-35s</th>
<th>Over-55s</th>
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<tbody>
<tr>
<td>I would like my employer to introduce permanent flexible working policies after COVID-19</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>I find that I am more productive when working from home</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>I worry about not being able to connect and network with colleagues successfully if I continue to work from home</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>I find that working from the office is better for my mental health</td>
<td>90%</td>
<td>10%</td>
</tr>
<tr>
<td>I find that working from the office is better for my physical health</td>
<td>95%</td>
<td>5%</td>
</tr>
<tr>
<td>If my role became remote, I would consider moving to somewhere else in the UK</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>I worry about not being able to perform my work properly if I continue to work from home</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>I would be ready to return to the office sooner if I didn’t have to commute by public transport</td>
<td>90%</td>
<td>10%</td>
</tr>
<tr>
<td>I feel pressure by my employer to go back to the office</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>I would like to return to the office as soon as possible</td>
<td>90%</td>
<td>10%</td>
</tr>
<tr>
<td>I worry I might be at a higher risk of redundancy if I continue to work from home</td>
<td>75%</td>
<td>25%</td>
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</tbody>
</table>

Source: The Deloitte Consumer Tracker Q3 2020

“The value to companies of happenstance conversations and creative sparks from staff working in close proximity is underestimated/undervalued.”

International office developer

There will undoubtedly be an acceleration in agile working with employees pointing to the clear benefits such as saving time as well as the costs associated with commuting. However, the prolonged period of homeworking also poses major challenges to business growth, its brand and the culture. For example, training and gaining hands-on experience have become particularly difficult. According to the Deloitte Consumer Tracker Q3 2020, younger generations feel that not being able to connect and network is detrimental to their career growth and development, while the office provides a better mental health environment.

As businesses review their real estate strategies they will undoubtedly consider property costs and required occupancy ratios, but they will also increasingly look to repurpose their existing office premises to showcase their brand and culture. The office building will become a focal point for the business, where interaction with new and existing clients can take place. It is also likely to become a space to promote and support the wellbeing of employees, many of whom have faced isolation during the lockdown period as well as challenging working conditions. The office space will be intended to drive employee creativity and innovation and will be essential to attracting talent in the future.

Is the future of work hybrid?

The idea of a hybrid workplace (a mix of physical and remote working) is gaining popularity among businesses and employees. The Deloitte Consumer Tracker Q3 2020 found that office-based workers would like to work from home for half of their working week in the long term. The emerging ‘blended’ approach includes a truly agile working model that embraces working from home, a satellite office on the outskirts of a city and a central hub used for face-to-face collaboration.

However, striking a balance between home and office-based work poses a number of practical issues. It is relatively easy to allow all staff to work from the office or for all employees to work remotely but it is relatively challenging to make the hybrid model work from an operational point of view. Business leaders will not only need to make accurate assumptions about employee preferences, there will also need to be clearly defined job roles so that they can decide which tasks are best suited to home or office.
In addition, there are demographic differences to consider. The fact that younger generations benefit more from being in the office raises questions about how to justify the cost and size of the office if senior staff prefer to work from home.

Apart from employee considerations, business leaders will need to establish guidelines that will allow them to make an estimate on how much office space they will need. The key challenge will be to distribute homeworking and office-based hours across different days to avoid empty offices, or to allow any reduction in office space, for example on Monday and Friday. Videoconferencing technologies have facilitated meetings whilst working at home through lockdowns. It is unclear how well this will work when some people are ‘in the room’ and others ‘down the line’. Therefore, staff preferences will be taken into account but corporate guidelines need to be imposed for the hybrid model to work.

**ESG to the fore**

In many ways, COVID-19 and the climate change crisis have similarities: both are global emergencies that require a flattening (and reversing) of the curve. The speed of the pandemic has meant that governments have had to react rapidly and introduce drastic measures, something they will want to avoid in the future.

Prior to the pandemic, Environmental, Social and Governance (ESG) issues were already high up the agenda for office occupiers and landlords. A year ago, 23 of the largest property firms signed up to the Better Buildings Partnership, pledging to tackle the growing risk of climate change by delivering net-zero carbon portfolios by 2050. This applies to both new and existing office schemes, and covers operational and embodied carbon for the whole building, including the energy consumed by their tenants. Ultimately, asset owners that do not follow the ESG agenda are exposed to related risks that may lead to accelerated obsolescence and falling property values.
The debate on embodied carbon in buildings is likely to intensify. A key question is whether existing buildings should be demolished to make way for newer structures and, in doing so, increase the embodied carbon. We expect that there will be a stronger focus on remodelling and refurbishment, where buildings can be recycled and adapted to suit demand, without having to be demolished and rebuilt.

In addition, occupier requirements have evolved as a result of COVID-19 and changing commuting habits. With commuters currently viewing the Underground less favourably, being closer to major transport hubs could become more important in the future. Offices that employees can cycle or walk to, and that also have additional cycle spaces and changing facilities, are already in higher demand, suggesting that such ESG credentials are more relevant than ever.

There is also synergy between a sustainable building and one that promotes health and wellbeing, concerns that have grown as a result of the pandemic. Air quality, which includes fresh air, ventilation and air filtration is one of the most important factors for building and tenant health. Increasingly, landlords are likely to be communicating their values through sustainable and healthy buildings to their prospective tenants as they compete for office demand in the future.

Financial services sharpen focus on reducing footprint

In the pre-pandemic world, real estate was considered an essential operating cost for most companies. However, now an increasing number of companies are seeking to reduce office costs in order to maintain profitability.

For over a decade financial services (FS) occupiers have been working to reduce their real estate footprint, especially in central London. This has primarily been driven by a reduction in roles through automation, near-shoring and off-shoring. It has also been driven by more efficient use of space through increased space densities and remote working across many functions. COVID-19 has shown many more people can work remotely than previously thought and at great scale. Employees have communicated so far that they do not want to return to the pre-COVID model, with most now preferring to work remotely two days a week or more.

As a result, many FS occupiers are looking to permanently adopt remote working across a wider range of functions and to push the proportion of those working remotely at any point in time up towards 50%. Whilst this is being driven by a talent agenda, most FS occupiers also have a keen eye on the opportunities to release space (and cost) when leases or market opportunities allow. These changes are not restricted to just FS, they are being seen across all industry sectors. In TMT, many of the leading global players have already offered their employees the choice of where they work, driven by a need to attract the best talent.

Unlike most other sectors, large technology companies prospered thanks to the trend of working from home, with the biggest winners being cloud computing, e-commerce, gaming and online streaming. In a sign of its commitment to London and the future of office working, Google has recently signed for additional office space in central London, while Netflix is tripling its capacity in the West End. This is despite Google allowing all of its global employees to work from home until next year.

“Nothing we are seeing is new. All of these trends have been in play for a decade. What COVID-19 has done is accelerate the pace of them significantly.”

Russell McMillan, Deloitte Corporate Real Estate Advisory
In the City, where financial services dominated the market in the past, the proportion of smaller scale and more diverse types of occupiers is larger than ever before, a trend that started following the global financial crisis. Recently, the City of London revealed initial plans to encourage TMT businesses to locate in the submarket through start-up hubs and more affordable office space. The City is looking to reinvent itself in light of an expected permanent shift to more homeworking, even after the pandemic subsides.

**Social distancing and co-working: an ill-fated couple**

Following the enforced lockdown, the co-working sector witnessed a collapse in demand for short-term office space, with many firms resorting to discounts and extended rent-free periods. With social distancing measures likely to remain for some time, the co-working business model, where densities have been the highest, is being tested. While some providers have introduced more space between desks and layouts with more room to move around, this will translate into fewer tenants and a fall in rental income.

However, the sharp fall in demand for short-term accommodation could be offset by demand from businesses looking for temporary accommodation after being displaced by the pandemic. There has also been evidence for more appetite for flexible office in non-core city areas as occupiers seek alternative locations in commuter towns or city suburbs. The potential ‘hub and spoke’ model allows businesses to retain a city centre presence, while also utilising regional and local office hubs, which could include out-of-town co-working space. Given the current economic climate and shifting tenant requirements, there would have been more interest in short-term accommodation had it not been for social distancing measures. Longer term, serviced offices are likely to be a part of the new working patterns and the shift towards a greater choice of where and how we work.

**Homeworking dampens office demand**

The ongoing market uncertainty means that office decisions continue to be put on hold. Transaction levels are likely to remain subdued in the coming months, with mainly tenants with lease expiries expected to remain in the market. The overwhelming majority of businesses continue to assess their real estate footprint, and with a wide range of options still open, many are unlikely to make concrete decisions until 2021.

What is clear is that there will be a reduction in office demand as a result of homeworking as more people will work from home on a regular basis in the future. In our survey, developers expect that the new working patterns will shrink office demand on average by 15% in terms of square footage. Some of the loss is likely to be offset by the need for lower density, as tenants will want their office space to be more multi-purpose, for example to have more amenities, which require extra space.

“Workers will continue to work from home/remotely on a more frequent basis, so employers can justify higher levels of hot-desking, reduce their desk count and subsequent space requirements. However, this will be partly offset by the need to occupy space at a lower density to maintain social distancing. The days of dedicated desks are over.”

**London office developer**

**Landlord survey: What impact will homeworking have on the amount of office space tenants will be taking long term?**

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<tr>
<th>Percentage</th>
<th>Number of Landlords</th>
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<tr>
<td>No change</td>
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<td>10% less</td>
<td>47%</td>
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<tr>
<td>20% less</td>
<td>41%</td>
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<tr>
<td>30% less</td>
<td>0%</td>
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<tr>
<td>More than</td>
<td>0%</td>
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Source: Deloitte Real Estate
A state of suspension

We will consider all opportunities on merit but there is a reluctance to commit until there is more certainty in the market.

London asset manager

Development funding becomes scarcer and more expensive

In our latest developer survey almost a third of developers cited limited funding as the second biggest challenge to new office construction. The pandemic has had a considerable impact on development finance: as it becomes less available and more expensive, fewer lenders are willing to provide finance for a new speculative office scheme.

The latest Business School (formerly Cass) UK Commercial Real Estate Report: Mid-Year 2020 confirms a steep fall in real estate lending in the first half of 2020 as the pandemic took its toll. The cost of borrowing has risen by between 20 and 50 bps (basis points), with borrowing costs for prime office investment increasing to 225bps (year-end 2019: 205bps). Increasingly costly and limited development finance is likely to stifle new construction in the coming year, especially for projects developed on a speculative basis.

Compared to March, almost two-thirds of developers are now looking to maintain their construction pipelines in the next six months (31% in the previous survey). As occupiers, developers and funders pause for reflection, perhaps not surprisingly almost a third expect to decrease construction activity.

Fewer new construction starts, especially projects built speculatively, are likely to take place in the short to medium term as a result of weaker occupier demand, the lack of development finance and the economic downturn. This lower level of new construction and substantial delays in new office completions will have a major impact on future supply levels, leading to a self-correction which should prevent oversupply in the short term.

Developers and investors will be holding off before committing to new projects until there is more clarity in the market, including new office strategies.

“We will consider all opportunities on merit but there is a reluctance to commit until there is more certainty in the market.”

London asset manager
Landlord survey: ‘Compared to six months ago, how do you expect your pipeline to change in the next six months?’

- Increase: 64%
- Decrease: 29%
- Stay the same: 7%

Source: Deloitte Real Estate

“I believe in the recovery of the occupiers market in the long term, so I believe that developments with a longer development period with PC’s after two years could start.”

London-based asset manager

Central London: Office pipeline forecast

“Million sq ft

Source: Deloitte Real Estate"
Construction cost and workload sentiment survey
Construction cost and workload sentiment survey

To complement the London Office Crane Survey, Deloitte’s cost consultancy team carry out a biannual construction market survey, capturing market sentiment on workload and price. The construction industry is working through the impact of COVID-19 and has concerns about Brexit on the horizon.

Workload expectations reasonably steady following previous declines

The London Office Crane Survey shows a continuing high level of construction activity. However, this could be slightly misleading as COVID-19 has meant that many projects have been delayed and as such the same amount of work has taken longer and is often being done less efficiently, leading to a substantial fall in the workload of many individual trades. A number of trades have taken advantage of the government’s furlough scheme, with some having as many as 95% of their workforce furloughed although the average across all trades is 35%. This means that full recovery of overheads across the year will be difficult and that cash flow remains critical – as always.

Workload sentiment for the next 12 months

Source: Deloitte Real Estate
On a more positive note, the record volume of new construction starts in the pre-pandemic period, as reported in our Summer 2020 Crane Survey, supports the sentiment expressed in the construction market survey this time that the anticipated level of workload activity over the next 12 months will remain much the same as in the previous survey.

However, there are a few exceptions as shown in the graph on page 37 which tracks the last three surveys, with the dotted arrows illustrating the sentiment change in the last six months. In the previous survey demolition trades showed significantly positive sentiment, suggesting increases in workload. This time sentiment has reversed, which could be a self-correction, but which also could reflect the reduced amount of new construction starts particularly new-build projects, and perhaps a sign of things to come.

Conversely, substructure trades are showing positive sentiment this time and anticipate a rise in workload. Unlike the Crane Survey, the construction survey is not focused on London offices only. Substructure trades (piling, earthworks, etc.) have told us that while they have seen a slowdown in office work, private housebuilding and HS2 infrastructure work in particular are keeping them busy. Steelwork trades have suggested limited increases in workload, less London-focused and with sport being significantly affected by COVID-19, there is little in the way of stadia projects moving forward. MC Preliminaries reflects support trades such as site logistics, where up to 80% of staff were furloughed and therefore the suggested increase, we believe, is more reflective of a return to pre-pandemic working.

Our survey question around pipeline is closely related to workload sentiment. There is significant correlation between the two, particularly with respect to increased orders for substructure works.

**Pipeline: Percentage of pipeline secured**

![Graph showing percentage of pipeline secured by trade type, with Q1 2020 and Q3 2020 data.](Source: Deloitte Real Estate)
Construction prices rising?

Sentiment about future construction price changes in previous surveys had remained stubbornly upward, with contractors being confident of their ability to pass on labour and material price increases. However, in the Summer 2020 survey we saw a shift, with some trades expecting zero change or price reductions. Results in the current survey follow the trends we have seen in workload expectations: decreases in demolition and increases in substructure trades. The average price change expectation from trades has risen marginally from 1.7% pa last time to 2.0% pa now. Interestingly though, when asked about price modifications that trades have actually made in the last 12 months, the picture is somewhat different: the average change expressed by trades is zero, casting some doubt on the ability to achieve actual price increases in the future if competition remains high.

Even though there may be less scope to increase prices, trades are still reporting increasing costs – suggesting a 1.5% average increase in the last 12 months and a 2.5% increase in the next 12 months.

Price change sentiment for the next 12 months

Source: Deloitte Real Estate
“The average price change expressed by trades is zero, casting some doubt on the ability to achieve actual price increases in the future if competition remains high.”

As in previous surveys, we have sought to understand the drivers behind changes in prices and costs. In addition to staff, labour and plant, we asked respondents about the relative impact of COVID-19, Brexit and other factors.

**Demolition**: COVID-19 and the need for social distancing has created significant issues in particular for internal soft-strip demolition. Securing adequate workforce resources in the future is a concern for a trade that uses 50% non-UK labour.

**Substructure**: External works, much of which takes place in machines (excavators, piling rigs etc.) means piling and earthwork contractors are less exposed to COVID-related impacts. As with demolition, earthwork contractors rely on non-UK labour for 50% of their workforce and have some concerns about Brexit. However, the COVID-19 pandemic has delayed many project starts and cancelled others.

**Superstructure**: COVID-19 has impacted concrete contractors more than steelwork contractors, although both have experienced delays in project starts and a more competitive market.

**Envelope**: Clients are seeking façade contractors to take the risk on post-Brexit prices while brickwork contractors are seeing competition in pricing due to the drop in the workload. COVID-19 has caused some material shortages due to initial factory closures.

**Internal finishes**: COVID-driven issues dominate with some reduced productivity onsite, material shortages due to factory closures and increased lead-times, less pipeline clarity and associated difficulty in responding to short-term changes.

**Services**: COVID-19 has delayed many projects so contractors are seeing a drop in revenue for this year. Social distancing requirements are also increasing costs. Pricing for projects with imminent start dates are therefore competitive. However tenders for service trades are more typically for future projects in 2021 or 2022, which require contractors to take a view on the impact of Brexit.

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**Prices: What is driving the anticipated price changes?**

![Prices Diagram](https://via.placeholder.com/150)

[Source: Deloitte Real Estate]
Main contractors: On average 45% of main contractor staff were furloughed and a number of others have made significant redundancies. Main contractors are facing many project delays for which they are unlikely to be able to fully recover their costs. Both COVID-19 and Brexit are delaying new project starts adding to overall cost pressures.

It is clear that the impacts of both COVID-19 and Brexit affect the various contractor trades differently. The pandemic has meant that all are likely to see reduced revenues in 2020 leading to more competitive pricing, especially for short-term projects or projects with immediate starts. Brexit is likely to increase costs and, assuming workload levels rebound, prices will start to rise again. The major concern remains the ability of trades to secure sufficient labour for projects.
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