



Turner & Townsend

London fit-out spring 2017 survey





Market update

making the difference

London fit-out update



Our recommendations

- 
Early market engagement is crucial in securing interest
- 
Look beyond traditional tendering models to secure a better price
- 
Agree contract terms up front before tendering
- 
Market test before you buy

The London fit-out market continues to be buoyant, although the political events of 2016 and the recent General Election have slightly eased the pressure. A number of larger projects are coming to market in 2017, which is leading clients to explore more intelligent ways of positioning their project to attract more interest from the supply chain.

Inflation closed out at approximately 5% in 2016 and the future outlook is easing in terms of inflation expectations over the coming 24 months - although at a notch down from previous expectations. Both public and private sector exhibit firm pipelines of work, with central government bringing a selection of big programmes to the market, providing repeat and sustained business opportunities. As a result, inflation within the fit-out market looks set to be approximately 4% per annum over the coming years.

The availability of key trades in the supply chain looks to be a persistent limitation in a heated market. Often supply chains are over committed and the stretched capacity of estimating teams is affecting the quality of tender enquiries/returns, leading to trade contractors being more selective.

Insolvency remains a risk and there have been recent examples in the sector. Early involvement of consultants can pay dividends in helping clients navigate the range of options in the market.

Tender price inflation



Labour

Specialist trades still in demand (mechanical, joinery)



Overheads & profit

Remain static at an average of 3.1%



Material

Rising input costs and weakened pound are increasing costs



Preliminaries

Remained static at an average of 7.4%



Market outlook

A relatively stable market expected

The market outlook suggests a move back towards similar levels seen in the Q3 2016 period, immediately post-Brexit. 54% of respondents state that the market will stay the same and an increasingly larger proportion advocate that the market will cool.

The large selection of project delays evidenced in 2016 has flowed into project completion in 2017 and this may well have had a bearing on recent levels. It is expected that going forward the market will be relatively stable.

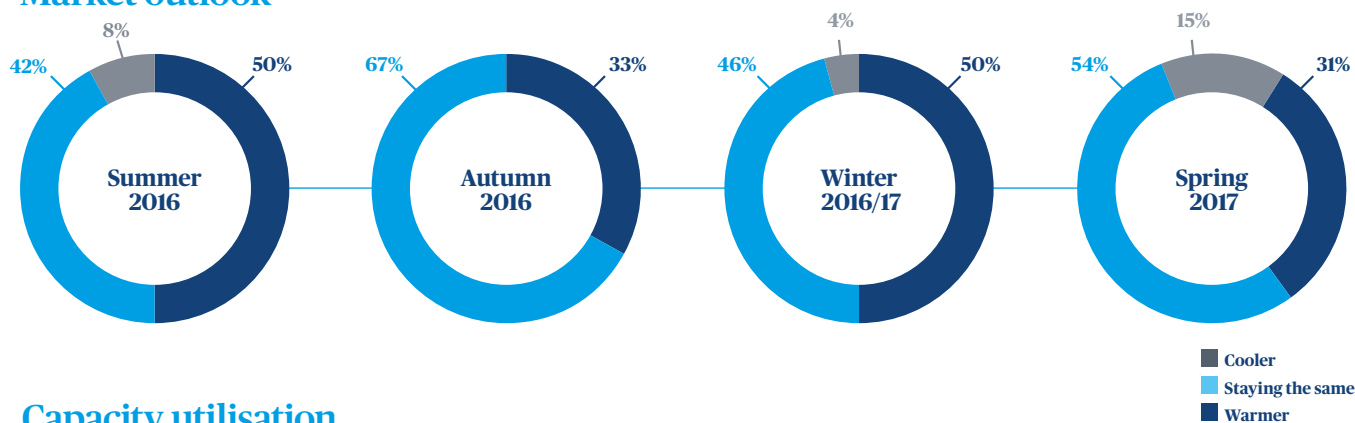
Main contractor capacity constraints easing

Capacity constraints across all surveyed contractors in London are showing signs of easing. Aggregate survey results for London trades show that capacity is returning to the market. Responses state that contractors are operating at 82% capacity on average. This is down 4 percentage points from 86% in Q4 2016. However, main contractor management teams continue to see resource pressure.

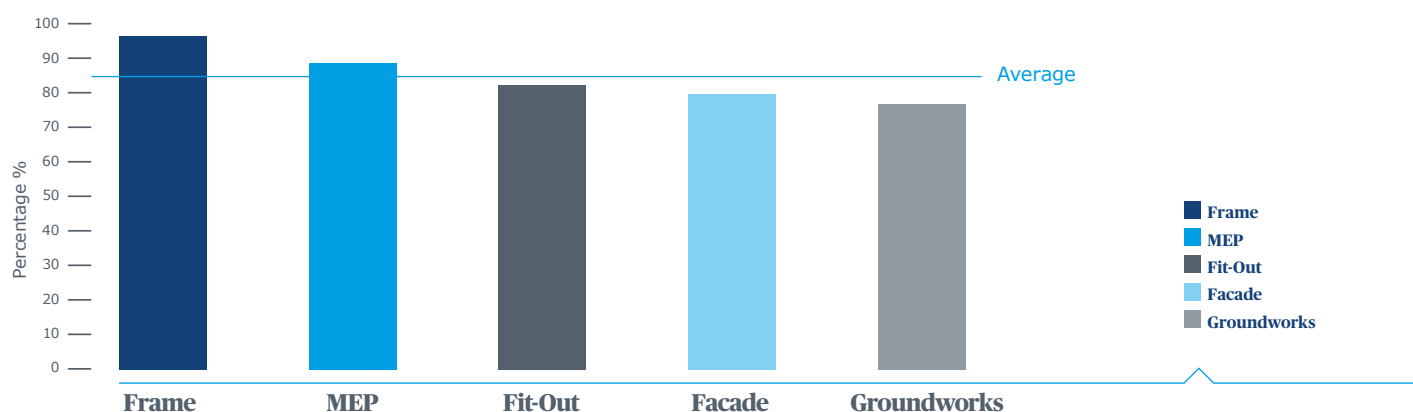
MEP trades continue to be in high demand

Still, fit-out contractors look to be relatively in-line with the London average and MEP trades continue to be in high demand. Within these categories, it is specialist trades, such as joinery, security and sprinklers that typically post values above the London average.

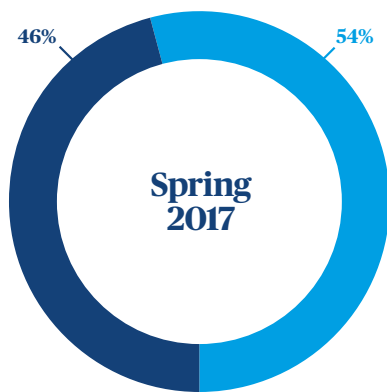
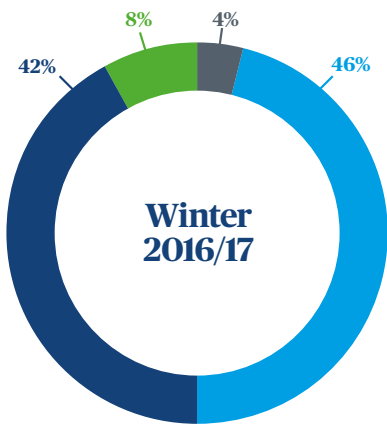
Market outlook



Capacity utilisation



Tendering conditions



- **Cold**
Intense competition, not much work, prices low.
- **Lukewarm**
Strong competition, moderate tender prices.
- **Warm**
Moderate competition, moderate tender prices.
- **Hot**
Reduced competition, work easy to get, tender prices high.
- **Overheating**
Shortage of builders, minimal competition, prices very high.

Tendering conditions

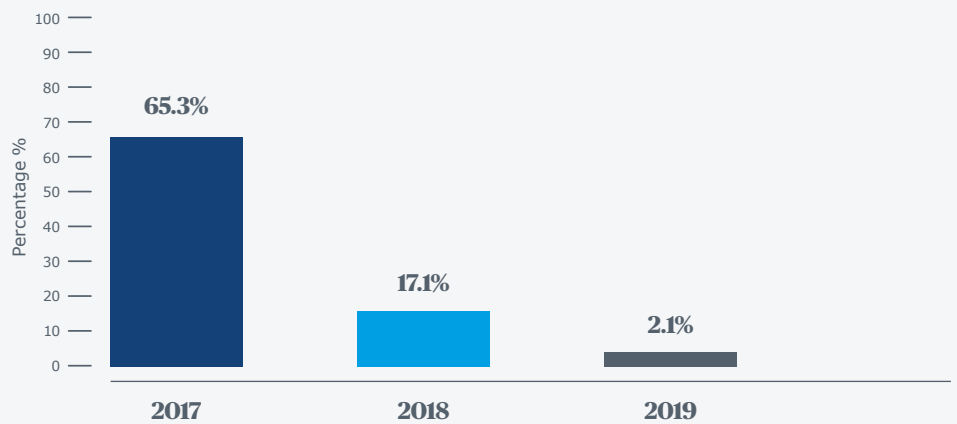
Appetite for competition has increased

Tendering conditions in Q1 2017 have cooled. 54% of the sample suggest that there is strong competition and keen tender prices – 8 percent down on previous results. The remaining proportion – 46% - suggest that there is moderate competition and moderate pricing. It is reported that on major projects there is good competition but limited capacity which is placing upward pressures on prices. This seems to be absent on smaller scale projects, where there is an increased amount of opposition and keener pricing strategies.

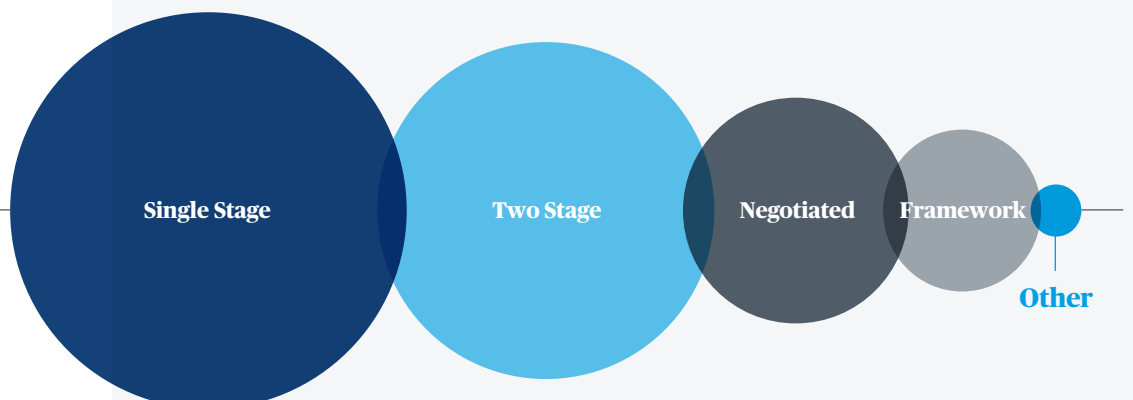
Procurement route profiles remain unchanged

Current procurement route profiles remain similar to Q4 2016. Small increases are seen in negotiated tenders and frameworks. Single stage tendering is still commonplace for smaller projects, while two stage routes and hybrid arrangements are more common for larger projects.

With the 16/17 financial year passing, focus is now aimed at the coming financial years. Contractor order books have been boosted over the past three months, seeing a rise in 17/18 by 16.5 percent to 65.3% secured, and a 5.2 percent rise in 18/19 to 17.1%. Opportunities remain present further down the line as 19/20 rests at 2.1%.



Proportion (%) of your current contract/tender negotiation



Inflation rates

Labour cost inflation higher compared to other sectors

Labour cost inflation expectations within the fit-out sector, when looking to the coming 12 months, appear to be higher when compared to other sectors. Site foreman was the area anticipated to show the greatest cost rises. The overall increase in labour cost is expected to be 5.4%.

Plumber /
Electrician
5.2%

Site
Foreman
7.5%

Carpenter /
Bricklayer
6.3%

Carpet layer, Tiler,
Plasterer
5.5%

General
Labourer
5.8%

“

Contractor

This year there has been an increase in tender opportunities especially within the London area. We have found that our supply chain are also in a similar situation which has resulted in an increase in cost due to workload. As a result of the current market trends the smaller sized contractors have been given more opportunity to tender and secure works that during market lows only larger contractors were able to compete on.”

“

There appears to be a strong pipeline of work ahead with an increased demand for framework type tendering as the government are planning a significant spend via a new national framework. We are noticing an increase in the typical project values in the market place.”

“

Soft flooring

The fit out market still seems to be pretty buoyant. Lots of people talking about lots of projects but information is being guarded more than it was 12 months ago. Clients still seem to have a certain level of indecision due to Brexit although we are personally yet to see a large project shelved. Residential projects are still on the increase for us within central London. Cambridge is also an area that is appearing to be extremely busy with plenty of future opportunities. Fit out hasn't changed for us, still an awful lot being priced for 2017/2018, 2019 appears to be the unknown entity for all.”

Survey return *commentary*

“

Joinery

We are currently seeing a drop off in the number of CAT B Fit out enquiries - albeit the larger fit-out enquiries in excess of £5m are still visible. The smaller enquiries and numbers seem to have reduced in quantity. We are seeing value engineering on projects becoming the norm rather than an option. We are sure Brexit will have an influence but as yet this is not apparent.”

“

Internal glazing

Project sizes are smaller. Tenders remain buoyant. Some concerns with regard to glass price increases and labour costs.”

“

Raised access floors

Increased competitor activity. Increase in size of projects out for tender. Margins being hit harder. Substantial increases in costs especially on products heavily reliant on steel and chipboard.”

Our team



Colin Wood
Director

t: 44 (0) 20 7544 4136
e: colin.wood@turntown.com



Kristoffer Hudson
Economic Analyst

t: 44 (0) 113 205 4832
e: kristoffer.hudson@turntown.co.uk

www.turnerandtownsend.com

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