



Turner & Townsend

# London fit-out summer 2017 survey

Market update



making the **difference**

## Key themes



Impact of clients delaying decisions to invest now being felt



Reduced pipeline resulting in increasing levels of competition and keener pricing strategies



Skills shortages across the fit-out market remains a persistent challenge



Single stage tendering back in vogue



Firm commitment to projects in advance of tendering is recommended to secure the best team

# London fit-out update

One year on from the Brexit referendum, the exact scale of the economic challenges the market will face continue to be difficult to quantify. Our summer survey shows the fit out market to be contracting moderately, with competition increasing and keener pricing strategies being evidenced. This, however, is likely to be driven by shorter-term uncertainty, rather than fundamental industry change.

The London fit out market has cooled following the Brexit result and the reduced pipeline of work is now starting to feed through to consultants, contractors and trade contractors. Most expect this trend to continue until there is greater clarity on what the Brexit deal may look like for businesses.

Still, the weak pound is making London attractive to overseas investors and a spike in space uptake from technology and media firms means that the market remains optimistic. London remains a hub and the commitment of firms like Google, Apple and Amazon to large scale projects is likely to encourage others to follow suit. It is notable that Dublin has seen a large rise in workload as it seeks to position itself to compete with London for talent and investment.

Single stage tendering is back in vogue, particularly on larger projects where there is much more appetite for competition. Although this means more opportunity for clients, the right market engagement strategy is key to securing interest.

Clear messaging to the market is important in securing the best teams, both from the consultant and the contractor side. Firm commitment to projects in advance of tendering will allow your supply chain to identify and position their best people, meaning stronger teams and more competitive bidding. The resource stretch at management level seen throughout the industry is a major challenge and the more that clients can do to provide visibility of their pipeline and communicate with the market, the more successful the procurement exercise is likely to be. Short tender periods with little notice is unlikely to secure the highest quality resource or make the most of the increasing level of competitiveness in the market.

Our forecast is that inflation levels will be approximately 3.4 to 3.8 percent for the next 24 months. Volatility in commodities pricing is creating some pressure for certain trades and there has been a persistent reporting of skills shortages across most areas of the fit-out market. These factors appear to be the most significant challenges facing the sector, particularly as the Brexit deadline looms without any transitional deal in place.

## Tender price inflation



### Labour

Skilled labour continues to be in demand, with supply of specialist trades constrained



### Overheads & profit

Remained static at an average of 3.1%



### Materials

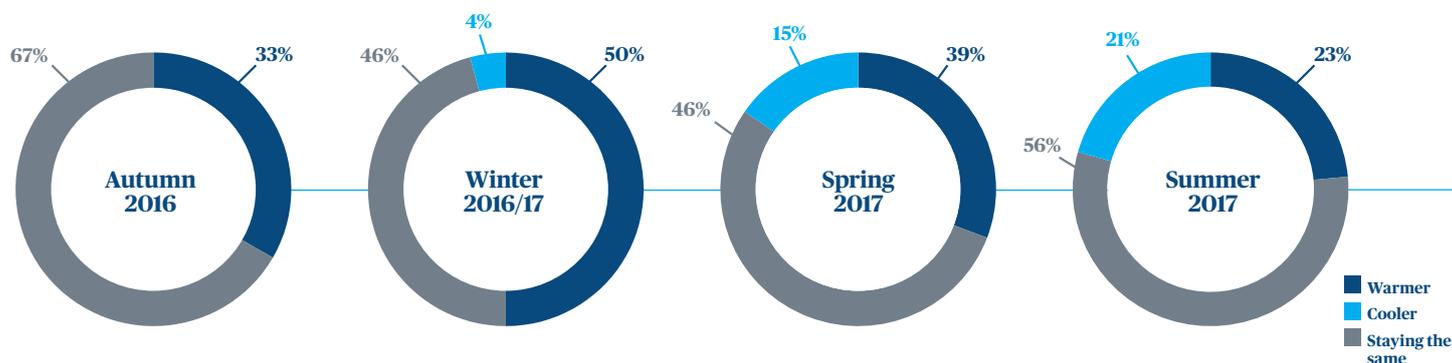
Increases evident, but at a slower pace of growth in comparison to previous quarters



### Preliminaries

Remained static at an average of 7.4%

# Market outlook



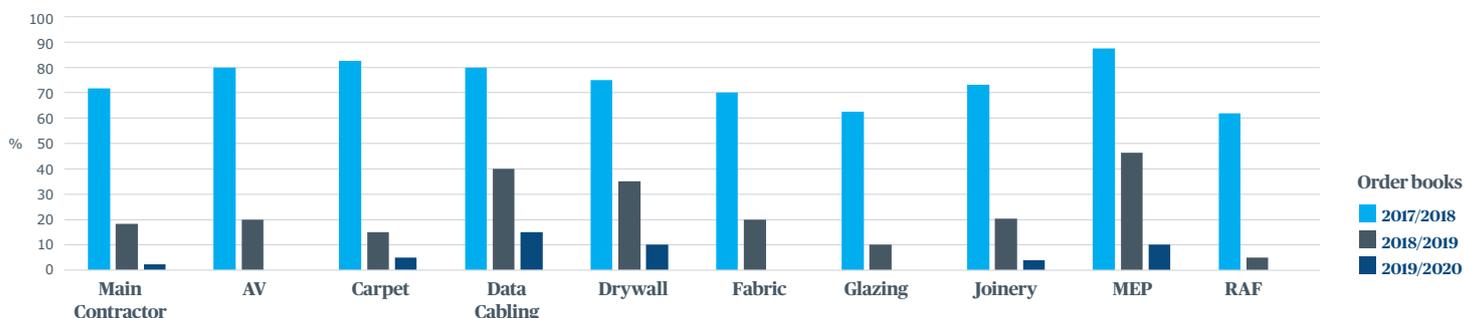
## Clients adopting a 'wait and see' approach

The majority of respondents across the design, contractor and trade contractor disciplines felt that the market would remain the same over the next year. There is good visibility of the pipeline for larger projects and clients remain committed to these, independent of the political landscape.

It is noticeable, however, that the number of respondents that felt the market was getting cooler has increased over the past three quarters; 15 percent in our summer survey to 21 percent this quarter. The number of smaller lease transactions dropped in the immediate aftermath of the Brexit referendum result and this has had a knock on effect over the past two quarters, with fewer projects coming to market. Clients appear to be adopting a 'wait and see' approach where there is no imminent lease event.

## Order books

Capacity constraints across all surveyed contractors continue to show signs of easing, with order books dropping from 82 percent to 72 percent as an average. Sub-contractor order books remain healthier than the main contractor market (80 percent against 72 percent), with MEP remaining the highest at 88 percent for 2017/18. In fact, order books for MEP trade contractors look strong through to 2018/19 at 46 percent.

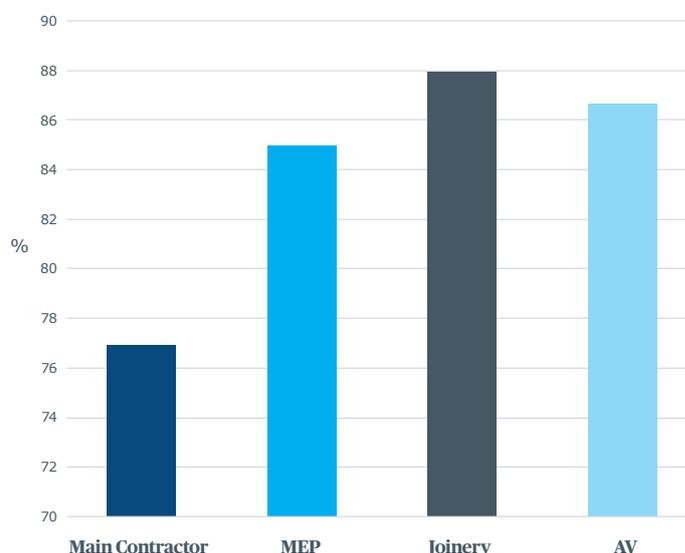


## Capacity Utilisation

Capacity utilisation is relatively high across the board. While there is capacity at main contractor level, senior management teams are stretched, particularly for major projects. This is also true for key trades such as MEP, AV and Joinery, where capacity utilisation is reported above 85 percent. As a result there will be challenges in securing the best teams and a longer term market engagement strategy will need to be adopted. Longer pre-construction and mobilisation periods will become common where clients are looking to secure teams earlier.

## Persistent reporting of skills shortages

There has been a persistent reporting of skills shortages across most areas of the fit-out market. This can be seen as the biggest challenge facing the sector. Both craft and professional skills - particularly design, commercial management and skilled tradesmen remain a concern. Within the trades, wet trades and joinery are common areas of concern when relating to skill shortages, along with glazed partition works and MEP.



Capacity utilisation 2017

# Tendering conditions



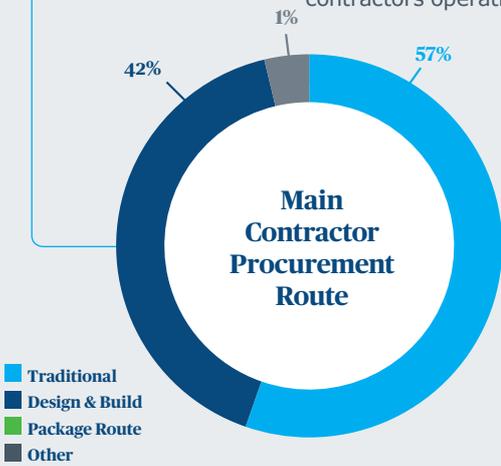
## Clients continuing to delay their decision to invest

Tendering conditions continue to show signs of cooling for main contractors. The impact of clients delaying decisions to invest, particularly on smaller projects where lease transactions fell last year, is now being felt at main contractor level. Competition will therefore become much stronger.

This is not echoed by trade contractors however, where moderate competition is widely reported. Many key trades are reporting a hot market with work easy to come by.

## Single stage procurement remains popular

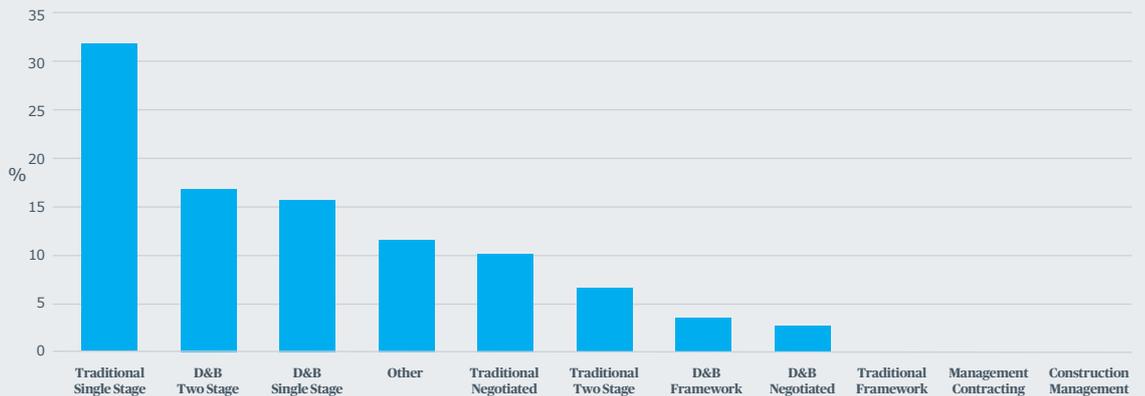
Single stage traditional procurement remains the most common procurement route for main contractors and trade constructors. Traditional tendering currently represents 57 percent of the main contractor market, with Design & Build at 42 percent. Package routes remain relatively rare in the market, with few contractors operating in this space.



*We are seeing a high level of competition and aggressive pricing sub £5m projects. We are also seeing some smaller contractors increasing their capacity of project scale, as well as a trend towards larger projects procured on fixed price. A strain on supply chain to maintain prices as material and labour costs increase is evident.”*

**Contractor**

## Procurement Routes



“

*Lead times are increasing, but our main issue is the long term volatility of steel prices.”*

**Ceilings and Drywall**

“

*The biggest supply chain challenges are labour shortages and security of costs, as well as not many equipment suppliers willing to provide fixed prices on long term projects with the uncertainty of Brexit.”*

**MEP**

“

*Program Slippage and labour resources continue to be a constant headache, we predict this will be the case for the next 6-9 months.”*

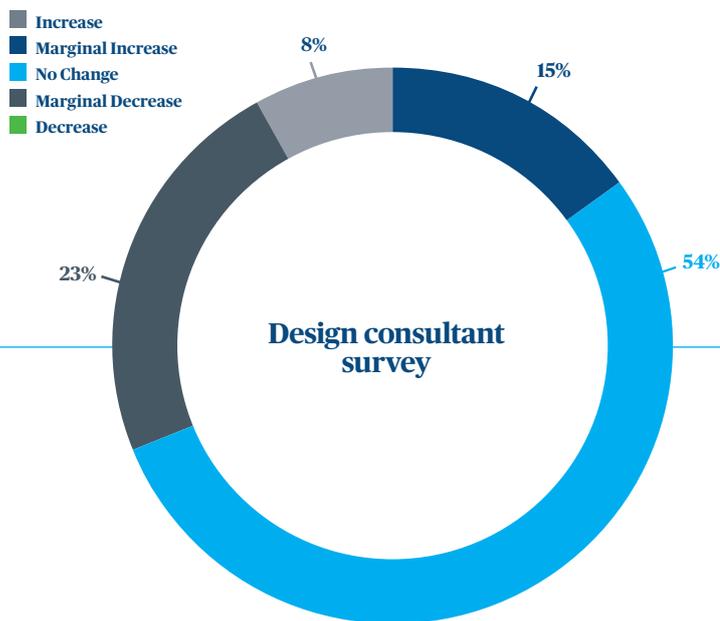
**Soft flooring**

# Consultant market outlook

## An increasingly competitive market

The uncertainty in the post-Brexit market is also reflected in our survey of design consultants. The majority are reporting that fee levels have remained the same over the past three months. Recruitment of quality delivery level designers was widely reported as the key challenge facing the design market. The desire of clients to secure the best teams means that while some can afford to be more selective on the projects they bid for, others are having to bid in an increasingly competitive environment.

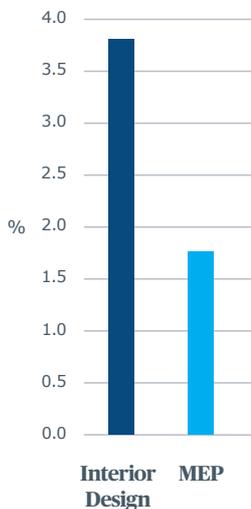
More interestingly, over the next three to six months, there is an expectation that the market will be more competitive. The reduction in the number of opportunities coming through, together with the demand from clients to be more efficient and drive down the cost of a project, means increased competition and a reduction in fee bidding levels.



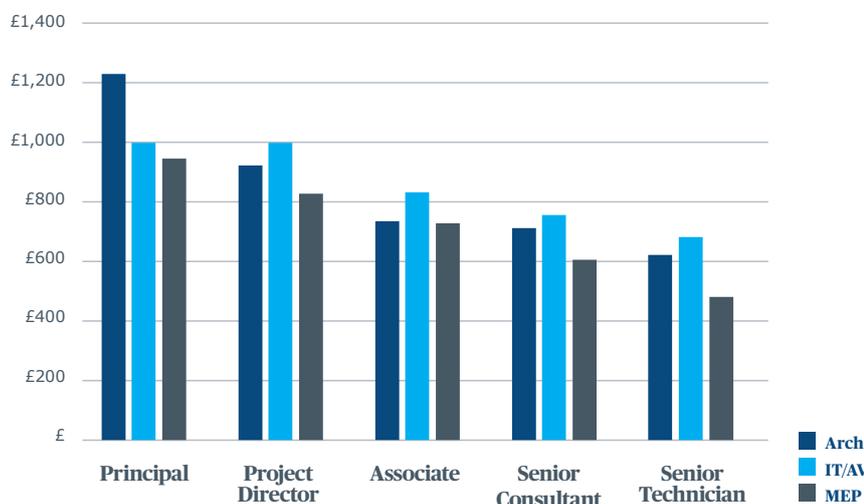
“ We see a drop off in demand from clients for new space through 2018. We expect to see an increase in work place strategy led projects to facilitate consolidation and optimisation ”

### Interior design

Design consultant survey: fee bidding expectations over the next 3-6 months



Average fee percentages



Average day rates by grade

“

*Decision making has certainly been affected in this uncertain market and economic backdrop”*

**Interior design**

“

*Key for us is recruiting and retaining high quality staff in an uncertain market that could see a dip at any time.”*

**MEP Engineer**

“

*We expect a reduction in medium to large scale projects which will bring increased competition on smaller jobs, making them harder to win.”*

**Architecture**

# About Turner & Townsend

We are an independent professional services company specialising in programme management, project management, cost and commercial management and advisory across the real estate, infrastructure and natural resources sectors.

With 104 offices in 44 countries, we draw on our extensive global and industry experience to manage risk while maximising value and performance during the construction and operation of our clients' assets.

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