



INSIGHT

COVID-19: A SECTOR OVERVIEW

APRIL 2020

RLB

Rider
Levett
Bucknall

CONTENTS

Introduction	1
A sector overview	2
Aviation	2
Central Government and Local Authorities	2
Commercial	3
Data Centres	3
Education	4
Healthcare	4
Hotels, Hospitality & Leisure	5
Industrial & Logistics	5
Infrastructure	6
Residential	6
Retail	7
Sport	7
Conclusion	8
About Rider Levett Bucknall	9

INTRODUCTION

Never has a few weeks felt so long and had such a sudden impact on the financial stability of our industry.

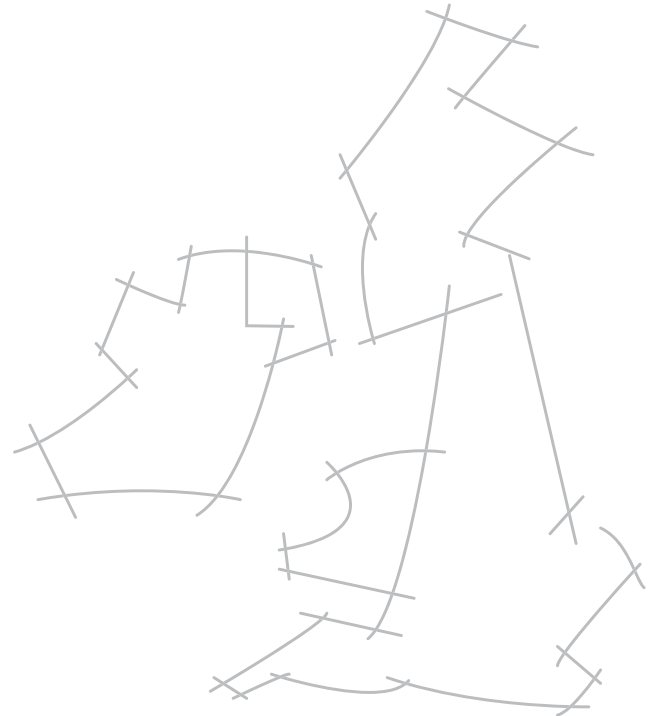
As we navigate uncharted waters across the whole of the built environment, the RLB UK team brings a Sector Special report with our insights into the impact of COVID-19 on individual sectors and the overall construction industry in the UK.

In the main, we have seen a uniform decline in output and productivity within the sectors, with the obvious exceptions of online retail, logistics and elements of the healthcare system.

Although there has been a clear division in thinking between contractors shutting down sites to mitigate health and safety issues and the government guidance to keep construction open, the overall result is an industry working hard to maintain levels of productivity and output under very difficult circumstances.

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A SECTOR OVERVIEW

AVIATION

Aviation companies and operators are registering significant losses, not just in specific regions of COVID-19 impact, but globally, given the realities of network interconnectivity and preventative norms now being carried to limit international mobility.

Urgent action needs to be implemented to limit the impact of COVID-19 on the aviation and tourism sectors. Governments across the world will have to consider offering financial aid packages and incentives.



CENTRAL GOVERNMENT AND LOCAL AUTHORITIES

Within central government and local authorities, resources are being directed towards core services that must carry on and the majority of non-essential development is now closing or has already stopped. Like all other sectors, there is a paucity of contractual clarity, and this means that clients need some clear guidance on their changing liabilities over this period. This is something that RLB's Global Director and CLC member, Ann Bentley and others within RLB's senior team are discussing with the Construction Leadership Council and the Confederation of British Industry to agree a government stance.



A SECTOR OVERVIEW

COMMERCIAL

With every non-essential workplace having been instructed to close down and legislation forcing a cessation of construction on development, the commercial sector has seen a major slowdown. As a result, fund managers have postponed investment into the office sector whilst they wait to evaluate the impact on valuations, and occupiers have delayed decisions to commit to additional or change in space needs. Going forward, we believe the general stance will be progression with caution with commercial clients and investors requesting a greater level of certainty around actual space requirement, higher levels of due diligence, fund monitoring, and covenant testing of the contracting and specialist supply chain a must-have.

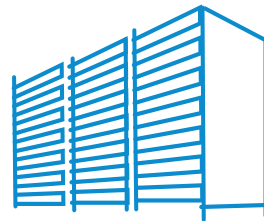
The instant effect on the income stream for coworking providers must be hard hitting and it remains to be seen how these businesses react once this current situation is relieved.



DATA CENTRES

The increased usage of data, both on a professional level as people operate from home offices but also on a personal level as more virtual methods of communication become essential to stay in contact with friends and family, has led to at least short term increase in data centre demand. Potentially the use of remote working platforms may increase indefinitely in response to familiarisation and acceptance of new ways of working (for example remote factory acceptance testing and switching to on-line in lieu of face-to-face meetings).

Developers have endeavored to maintain site activity as best as possible although productivity has inevitably declined and pre-planning of some projects may be accelerated to meet anticipated demand and to be 'ahead of the game' when things return to normal.

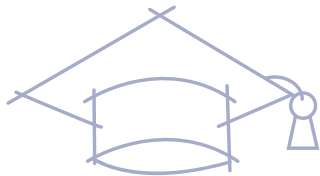


A SECTOR OVERVIEW

EDUCATION

Higher Education continues to operate as closely to normality as it can with many campuses still open but all teaching now remote. This in turn has led to a focus on maintaining services in order to get students to the end of the academic year.

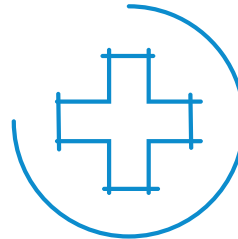
The Department for Education's current stance for schools and Further Education is to move any construction projects planned forward to later in the year but without a desire to stop any that are currently up and running. Some schools are using the closure to pupils as a way to advance essential maintenance work outside of a live school environment, yet this will be offset by labour, materials and supply chain impacts.



HEALTHCARE

Unsurprisingly, hospitals and other healthcare facilities are concentrating fully on utilising their existing facilities while adapting them to the changing requirements brought on by COVID-19. Although some have said they will proceed with design appointments, the focus looks likely to be on providing as much capacity as possible, adapting existing space to accommodate the additional ICU provision and looking at new spaces such as Excel/NEC - NHS Nightingale that can be converted into interim healthcare facilities.

The mid to longer term view might see flexible facilities such as modular wards considered, yet the real hope is of larger investment in the healthcare sector to bring much needed modernisation and resilience to the NHS.

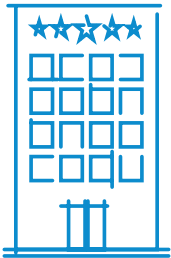


A SECTOR OVERVIEW

HOTELS, HOSPITALITY & LEISURE

The hospitality industry has been one of the sectors most badly impacted by the COVID-19 pandemic. Despite the global increase in nationwide lockdowns and inbound travel restrictions, some demand for hotel rooms still remains.

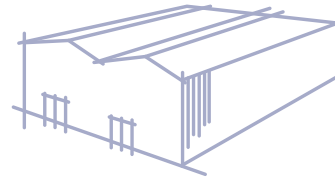
Unexpectedly, some hospitality and leisure operators are looking to bring forward renovations during this 'quiet period' but again this will be curtailed by supply chain volatility. The food and beverage industry has stopped all capex projects with immediate effect as a mechanism to protect cash flow.



INDUSTRIAL & LOGISTICS

Hand-in-hand with the bounce up of the e-commerce sector, the industrial and logistics sector continues to be buoyant. With more online sales comes the increased need for fulfilment centres, last mile distribution and returns processing facilities, with every £1bn increase in online spending requiring an additional 1m ft² of warehouse space. Already we are seeing last 1/4 mile delivery pop-ups to accommodate home isolation challenges, as grocers, restaurant and fast food chains adapt to maintain sales.

Longer term opportunities might arise as logistics operators inevitably look to upgrade their facilities to improve the wellbeing of their staff. However, companies will need to make balanced business decisions over the best use of their funds to determine whether to invest or maintain business continuity.

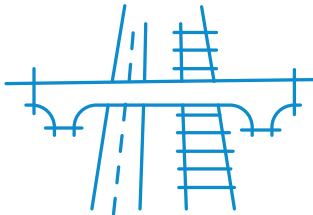


A SECTOR OVERVIEW

INFRASTRUCTURE

Although the lockdown has encouraged many to stay at home and prohibits travel, much essential business relies on transportation and we have seen an upturn in short-term reactive rail network maintenance and enhancement activity as well as an acceleration of road network upgrades.

As mentioned, one exception to the rule across the infrastructure sector is aviation with investment seeing a significant downturn with the loss of summer trade in the northern hemisphere and the inevitable re-evaluation in relation to the necessity to travel post COVID-19.



RESIDENTIAL

Government restrictions on movement and travel have led to a sharp fall in activity with market sales immediately deteriorating in the short-term.

The full impact on the housing market of the COVID-19 pandemic will depend on the duration of the current movement restrictions and on economic conditions once these are lifted. The current consensus is that the market will be disrupted in the short term and likely to recover in early 2021. The market will return to robust transaction levels but this is very dependent on confidence in future house price growth and sales. The weakened consumer sentiment will impact on prices, however the relatively short time span of the crisis means declines may be limited.

Developments under construction have been severely disrupted by site closures but a number are now starting to re-open following safe working reviews to align with the government requirements. If the house-build market particularly is slow to recover then we will see a continued demand for sites by Build to Rent developers. We are also likely to see a real strong push by the government for the delivery of social housing.

A SECTOR OVERVIEW

RETAIL

Out of all the sectors, retail has seen the largest diversity between its sub-sectors – driven in part by the government directive to close non-essential retail and leisure and hospitality. Food retail has seen a sustained Christmas trading peak with construction projects unaffected. However, this will become unsustainable as the construction supply chain is adversely affected.

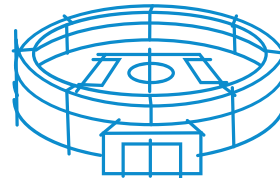
There is no doubt that these changing times will bring the advancement of digital optimisation further to the forefront for all retailers with pressure to streamline existing project management operations and automation of store-based activity.



SPORT

As has been clearly dictated by government there has been almost a blanket cessation of sport within the UK and globally with key sporting events such as the Olympics, Formula 1 and Wimbledon being curtailed for 2020. The long-term impact of this will be the underlying commercial and broadcast rights contracts that have minimum provision clauses meaning in the medium term, if contracts are not fulfilled many sports teams and franchises could fold due to lack of funds. This, in turn, would affect the sports sector with development plans for stadia already put on hold and many others possibly cancelled if revenue from sports has a long-term decline.

However, there might also be an opportunity in terms of new ways of watching with stadia and arenas reviewing their design to support 'new normal measures' to enable games and events to be viewed safely. This could lead to redesign and refurbishment of existing sport estates.



CONCLUSION

ADAPT | ALIGN | ADVANCE

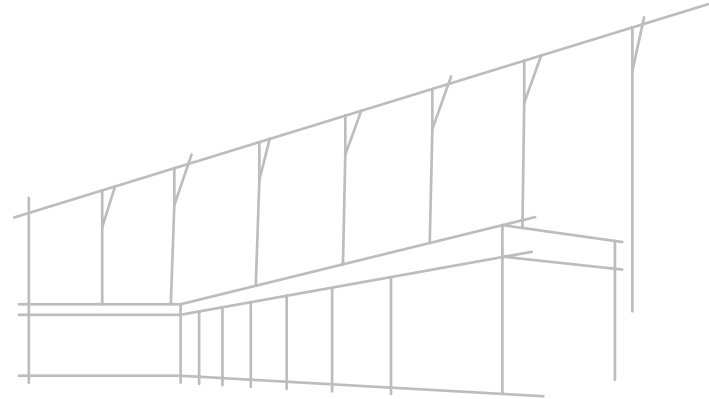
COVID-19 is causing unprecedented disruption, impacting the global economy and creating unique challenges for all sectors, including the built environment.

We believe the speed of the construction market rebound will depend on a proactive three-phased plan:

- How we **ADAPT** to address the immediate challenges including the lockdown, health & safety, the impact on the workforce, the supply chain, project delivery and productivity.
- How we **ALIGN** to the new normal, ensuring business continuity whilst evolving and supporting our clients as they respond to these temporary constraints and demands.
- How we **ADVANCE** and evolve new ways of working within the built environment, taking a long-term view of the implications post COVID-19, including how businesses operate, workforce expectations, space utilisation, transportation plans, digital solutions and how we understand and remodel the new norms.

Projects will resume as the socio-economic turmoil calms down in line with a reduction in reported cases of the outbreak and a phased relaxation of lockdown restrictions.

RLB will evolve post COVID-19 by working collaboratively with clients, consultants and contractors within the built environment, and by providing solutions aligned to our clients' business needs and value drivers.



ABOUT RIDER LEVETT BUCKNALL



Fresh perspective

We are a global independent construction, property and management consultancy. We bring a fresh perspective combining technical expertise and technology to deliver service excellence.

Flawless execution

We offer a range of complementary cost consultancy, project management, programme management, building surveying, health & safety and advisory services. We work from conception, through design, construction and operational performance of facilities to their eventual disposal or reuse.

We are committed to developing new services and techniques aimed at enhancing our clients' businesses in the long term.

Independent advice

Our clients have rapid access to the latest industry intelligence and innovations, which serve to enhance value and mitigate risk.

We provide expert management of the relationship between value, time and cost from inception to completion. We do this through our global and local team of experts, who possess a passion for both core services and innovation.

Our services:

- Cost management
- Project management
- Programme management
- Building surveying
- Health & safety
- Specification consultancy
- Design management
- Strategic facility management
- Sustainability consultancy
- Contract advisory

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