



INSIGHT

# COVID-19: A SECTOR OVERVIEW

OCTOBER 2020

RLB

Rider  
Levett  
Bucknall

# CONTENTS

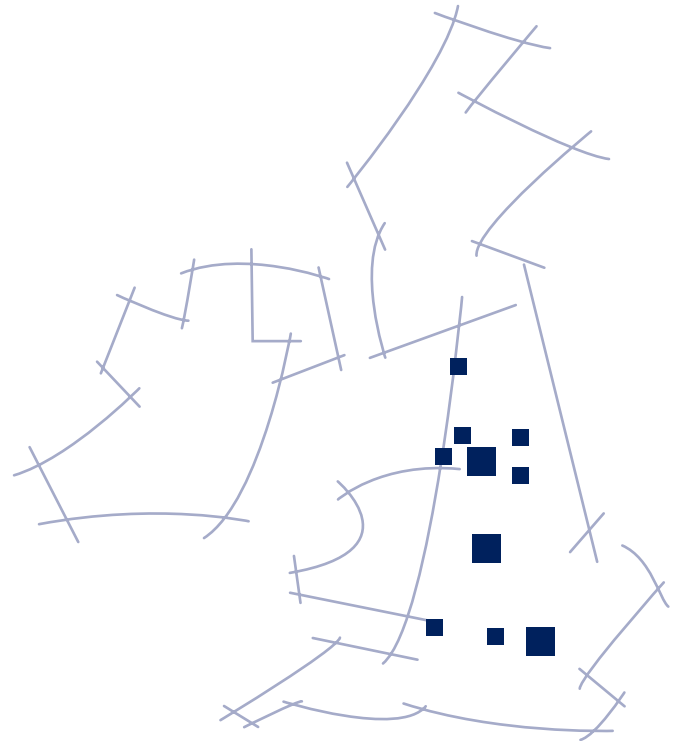
|  |    |
|--|----|
| Introduction                             | 1  |
| A sector overview                        | 2  |
| Aviation                                 | 2  |
| Central Government and Local Authorities | 2  |
| Commercial                               | 3  |
| Data Centres                             | 3  |
| Education                                | 4  |
| Energy                                   | 4  |
| Healthcare                               | 5  |
| Hotels, Hospitality & Leisure            | 5  |
| Infrastructure                           | 6  |
| Logistics                                | 6  |
| Residential                              | 7  |
| Retail                                   | 8  |
| Sport                                    | 8  |
| Conclusion                               | 9  |
| About Rider Levett Bucknall              | 10 |

# INTRODUCTION

In April 2020 we issued our first Sector Overview report looking at the impact of COVID-19 on the built environment sector-by-sector.

Acknowledging that we were in extraordinary times globally, in the UK we were at the beginning of our pandemic journey, not sure what was ahead - both from a healthcare and economic viewpoint.

Six months on, although we have now established a new level of normality, with the vast majority of construction sites open and many of us adopting new working practices, there is still much uncertainty about the future. Project delays driven by site closures and a decline in productivity as a result of social distancing, labour limitations and materials not readily available has resulted in the last quarter's output down by nearly 25%. In turn, this has impacted sector growth with many areas still experiencing slowdown, or approaching stagnation. The exceptions to the rule remain online retail, logistics, data centres, healthcare, education and Infrastructure.



# A SECTOR OVERVIEW

## AVIATION

The ongoing COVID-19 pandemic has resulted in a full-scale crisis with the imposition of travel restrictions and reduction of flights in a global effort to contain the spread of the virus. Whilst there are a mix of countries slightly retightening travel restrictions, others are continuing a phased reopening.

The actions that governments, industry leaders and individual airlines take during this period will influence how deep the crisis reaches, how long the effects last and how quickly the industry recovers. Airlines have an array of choices to make including putting people first, transforming the supply chain, adapting to consumer shifts and repurposing people and assets. The balance of these choices will determine the airlines which will emerge relatively stronger than their peers.



## CENTRAL GOVERNMENT AND LOCAL AUTHORITIES

Many aspects of pre-pandemic operations will be difficult or impossible to resume, at least in the near term. From court hearings to physical inspections, governments will have to find different methods of service delivery.

However, the government has made it clear that construction is a lever for driving the economy through difficult times to come, but the cost of survival for jobs and companies during 2020 will be an even greater focus on efficiencies in the future.

Central government departments should strive to transform their operations not only in healthcare but in areas like service delivery, workforce, regulation and procurement. Equally, local authorities will need to adopt a new operating model based on the uncertain environment and radically accelerate key developments such as digitisation.



# A SECTOR OVERVIEW

## COMMERCIAL

Having dealt with short term operational challenges around remote working, businesses will now be focusing on building financial resilience. They will also reassess their real estate needs and reflect on costs, required occupancy ratios, ability to deliver and sustain critical functions, adaptability and flexibility to any ongoing changes in working restrictions, ease of access and overall business resilience. This is likely to include postponing their office plans, seeking cheaper and less space than originally planned and pursuing concessions from landlords.

There remains a lack of supply of high-quality office space in London, Birmingham and Manchester, and this requirement is likely to provide some mitigating effect on the overall transaction market.

Although agile or flexible working is a trend that has been accelerated by COVID-19, most organisations will be prioritising the health, safety and wellbeing of their workforce by ensuring their offices are to the highest COVID secure standards and looking at improvements to their current facilities for returning employees.

## DATA CENTRES

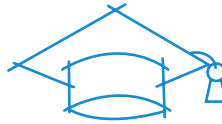
We are now all au fait with getting ready for Teams or Zoom calls and so it comes as no surprise, with the increase of virtual meetings, online social gatherings and the adoption of The Internet of Things (IOT) as more people remain at home, that the data centres market remains buoyant.

There is no doubt that this will continue, especially now we are seeing a nationwide second spike of the pandemic and the government's advice is again to work from home for the foreseeable future.

COVID-19 has probably singlehandedly accelerated digitalisation within the construction industry - something that we have long talked about, and many already adapted to, but this will be the time that the majority of our sector - from contractors to consultants - will really embrace the digital world.



# A SECTOR OVERVIEW



## EDUCATION

Higher Education (HE) projects were immensely affected following 'lockdown' as universities sought to address fears about the impact of COVID-19 on student numbers and the potential consequences for their finances. The latest data from Universities and Colleges Admissions Service (UCAS) paints a more optimistic picture however, with student numbers up 4% overall and, perhaps more surprisingly, international students up by 9% on 2019 numbers. Universities still face a challenging time though, delivering socially distanced learning whilst maintaining the student experience particularly during local lockdowns and it will be some time yet before a clearer picture emerges of what the impact will be on their long-term estate development plans.

School and Further Education (FE) development has also been affected by delays in funding announcements and procurement processes as government resources were refocused on dealing with COVID-19. These blockers have now started to ease and positive announcements from central government about investment in schools and FE colleges is welcome. The outcome will depend on the long awaited Spending Review in the autumn and whether this asserts the promise to "Build, Build, Build" with hard cash.

## ENERGY

The last 6 months saw a 15-20% reduction in total electricity demand as many economic sectors halted. The impact of COVID-19 has re-prioritised certain goals, but whilst it is vital to urgently tackle the new challenges, it is still important to keep delivering on net-zero action to reach the 2050 target and a significant build-out of renewable capacity is needed for the UK to attain its net zero targets.

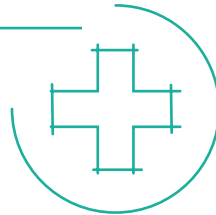
The UK government is committed to being at the forefront of wind power generation, targeted to produce more than enough electricity to power every home in the country by 2030, based on current electricity usage, boosting the government's previous 30GW target to 40GW. Therefore, there is a great opportunity for the energy sector to spur economic recovery post-covid if the challenge of covid + net zero are tackled in an interlinked manner. With all operational UK's nuclear power plants set to shut down by 2030, and only one currently under construction, the UK has 4 planned and proposed sites to generate a further 16GW of power that could well see investment in a new generation of nuclear power plants.

# A SECTOR OVERVIEW

## HEALTHCARE

One of the overriding government strategies over the last few months has been how to flatten the curve to allow hospitals and other healthcare facilities to fully utilise their existing facilities while adapting them to the changing requirements brought on by COVID-19.

Months on, the landscape has changed slightly with the emphasis now on understanding the impact of the pandemic and healthcare estate managers now looking at how they maintain existing healthcare portfolios and new builds with lessons learned from the COVID-19 outbreak. The mid to longer term will be focused on how we keep these healthcare provisions as flexible as possible allowing the NHS and private healthcare estates to be as resilient to a second outbreak and future plan concurrently.



## HOTELS, HOSPITALITY & LEISURE

The hospitality industry is one of the hardest hit by COVID-19. It is anticipated that it may take until 2023 to reach a level of recovery pre-COVID as occupancy levels from March to August 2020 have been at their lowest.

The Government's 'Eat out to Help out' scheme during August was a huge success in driving customer habits to shift back towards visiting. However, many operators are now back operating in sub optimal trading conditions, especially with the 10pm curfew being implemented since September, and are now having to tempt customers with post initiative deals which are seeing some success.

Some interesting developments to get trade moving in this important sub sector have also emerged with large operators in the pub sector partnering with new emerging brands helping them to gain scale quickly by rebranding premises and adding these alternative brands to their portfolio.



# A SECTOR OVERVIEW

## INFRASTRUCTURE

The last few months have seen a significant shift with more people staying local and working from home where possible, meaning much of the traditional infrastructure network, such as transportation links, have remained relatively quiet. This has allowed essential reactive maintenance to continue; anecdotally national infrastructure asset operators have reported increased output levels as a consequence of reduced customer use.

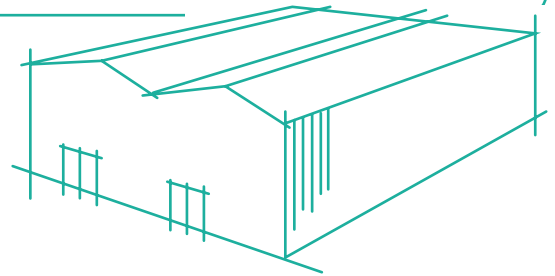
The challenge now is to ensure that we identify the long-term outcomes that we want to achieve, which will better inform the planning of investment. By applying a macro mindset to programmes and projects, where evaluation and selection are determined by whole-life benefit, we will improve the quality and value of the delivered assets for clients. This is also our opportunity to drive efficiencies by consistently adopting new digital technology and Modern Methods of Construction (MMC) and embrace collaborative methods of delivery across the sector.



## LOGISTICS

Clearly, no commercial real estate asset class is immune to the immediate and long-term impact of COVID-19. However, industrial real estate is in the best position to return to a place of strength once the short-term pain and uncertainty has passed.

The logistics sector remains a strong asset class in the private sector and is proving to be the most resilient during pandemic challenges. The rapid growth of online grocery shopping, as well as wider acceptance of e-commerce, has sustained the demand for logistics space and the hardiness of the sector is strengthened by its ability to support multiple facets of consumer spending, leading to fewer long-term uncertainties.





# A SECTOR OVERVIEW

## RESIDENTIAL

Since the lift of lock down restrictions in May 2020, we have seen a 'V-shaped' recovery in the housing market spurred on by pent-up demand, low interest rates and the temporary reduction in stamp duty. This has led to high transactions during August and September this year and an increase in house prices over the short term.

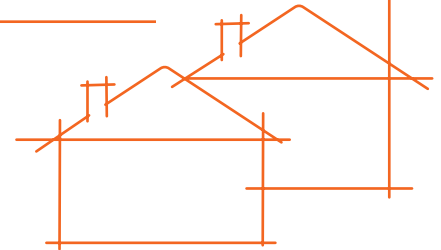
With a weakening economic backdrop and the added complication of Brexit and the end of the stamp duty holiday in March next year, there is nervousness in the market that the recovery will not be sustainable in the longer term moving through next year. This will all be dependent on market confidence, impact on planning reforms, unemployment levels and any progress with the COVID-19 vaccine.

We anticipate the strongest growth in sales values over the next few years to be away from London and the South East and this is where developers and house builders are currently focusing their land buying activities.

We are seeing some activity in London where private high wealth investors / developers are seeking to take advantage of unviable projects or distressed assets particularly in prime areas.

We continue to see institutional investors enter the build-to-rent market particularly in joint venture partnerships and the size of the market in the regions will continue to expand over the next few years.

Around 180,000 new homes are to be built under the new affordable homes programme starting next year, and the government will spend £11.5bn on the five-year programme between 2021 and 2026.



# A SECTOR OVERVIEW

## RETAIL

Retail remains one of the sectors heavily affected by COVID-19 and social distancing. However, we are seeing a significant rise in activity levels for essential food retailers and in some cases expansion into ultra-local markets suggesting that retail is preparing for a long COVID-19 haul. Previously over spaced retailers are taking advantage of under-utilised space to adapt to increased online ordering, order preparation and deliveries.

For owners and asset managers, the rapid realisation that there has been a significant shift in their market is driving radical rethinking of estates, new uses and significant attitude shifts towards lease arrangements with more flexible terms. With no changes on the horizon regarding business rates this is driving great deals and tempting some retailers to consider locations they anticipate can achieve shorter term business case returns.



## SPORT

COVID-19 continues to have an impact on the sport sector. The UK Government and Safety Advisory Group (SAG) has allowed a number of small-scale test events to enable the return of fans to stadia and arenas, however in the main, venues remain closed, and sport programmes are being continued behind closed doors. Arts events and shows in auditoria remain extremely limited.

The largest challenge for the sector is to model, test, and successfully deploy systems and criteria to allow the safe return of fans to stadia and arenas. This is underway, led by leagues, venue operators, and the UK government centrally.

New build facilities and refurbishment of facilities have not ceased in being planned, however, with owners' revenue streams being limited by lack of ticket and event day sales, investment in construction is, not surprisingly, subdued at present. As safe admission systems are developed, we anticipate an increase in activity although this might be slightly delayed by a second spike of the pandemic.



# CONCLUSION

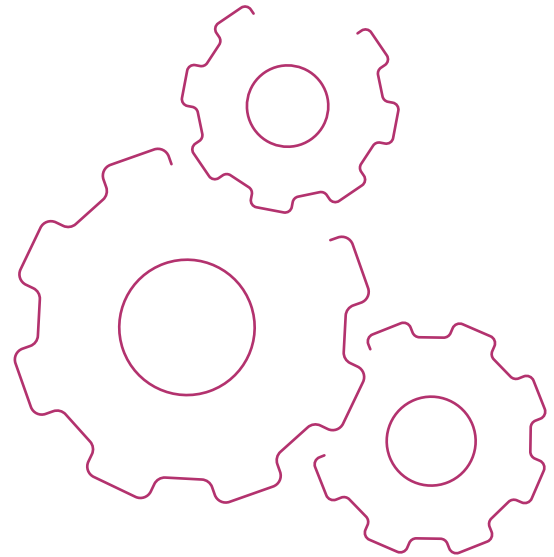
As we head towards the end of the year and look forward to 2021, we know that the impact of the pandemic will continue to shape our industry across all the sectors we operate in.

We need to ensure we prioritise those areas where there is increased demand - whether that be consumer-led from online retail or datacentres - or less public facing - through projects such as infrastructure and blue light emergency services.

And we need to work collaboratively to support the whole supply chain to allow us, as an industry, to be agile and able to adapt to the changes taking place regionally, nationally and globally, whatever sector we operate in.

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# ABOUT RIDER LEVETT BUCKNALL



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