



### CSA Insight – UK building services

CSA, the commercial due diligence consulting firm, completed a number of client mandates in the building services sector in H1 2017. David McClelland, director, summarises his observations of an industry undergoing both cyclical and structural change...

#### Sector cyclical

Business owner/managers and their financial backers must contend with all the economic ‘lumps and bumps’ that characterise UK construction industry output. No more so than in the industrial property market.

The 2008/09 financial crisis saw industrial new build work effectively stop, with developers allowing the existing bank of building capacity to run out. As construction activity recovered more sustainably in 2012, demand for premises exceeded supply and in recent years the industry has adopted something of a “build as quick as you can” philosophy.

In the refit/refurb sector of the industry; warehouses, for example, typically require upgrade and refit every 3-4 years. Building services contractors had an effective 10-year run of continuous activity up until 2008/09 and, allowing for the moratorium that followed the financial crisis, much of that stock has become fairly out of date and in need of refurbishment. Each new mezzanine floor added or replaced, for example, requires new or upgraded HVAC, lighting and fire-alarming and other building services, adding to the bonanza.

#### eCommerce as a driver

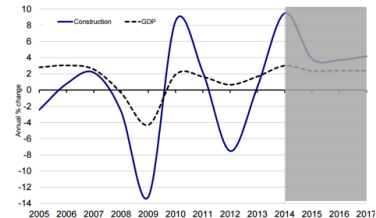
eCommerce in the UK represented a market valued at €170bn in 2016. In 2010, 75% of parcel carrier delivery was for B2B customers and B2C was 15%. At the end of 2015, B2B had dropped to 55% and B2C risen to 35% with the balance of 10% made up of C2C. It is estimated that online’s share of total UK retail will reach 20% in 2018. This structural change in trading patterns is also driving demand for building services support as retailers adapt their supply chains to the rapid growth of internet retailing.

Parcel delivery fuelled by eCommerce further drives a corresponding requirement for warehousing services across mechanical, electrical, fire & security and data. For example, the UK is the 3<sup>rd</sup> largest regional market for security surveillance products with annual revenues of \$400m.

#### The future

The result of the EU referendum has yet to have much impact on occupier and investor demand for well located, modern urban warehousing. Up-take exceeds availability, vacancy rates remain low with construction rising – maintaining demand for mechanical & electrical services and facilities management generally. Should consumer disposable incomes decline, given increased uncertainty in the jobs market on the back of higher inflation and falling business confidence, this may change. Meantime online retail trumps Brexit in its impact on building services.

Growth in UK construction output and GDP



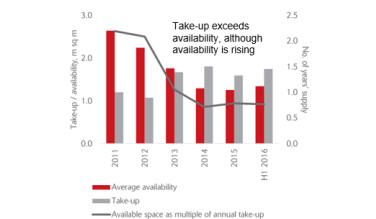
Online share of retail trade in the UK



UK parcels market



UK big-box supply-demand dynamics



Regional market for video surveillance equipment

