REPORT

COVID-19: GLOBAL SURVEY

THE IMPACT ON THE CONSTRUCTION SECTOR ACROSS THE WORLD

JUNE 2020 – ISSUE 2

RLB Rider Levett Bucknall

CONTENTS

INTRODUCTION

This is the second report of our rolling global surveys, which provide a snapshot of the current impact of COVID-19 and the range of disruption the pandemic is having on the built environment in countries around the world.

In order to identify and understand how different cities in different countries are reacting, RLB colleagues across the world are providing regular updates sharing their views on where they are on the pandemic journey, how it is affecting the construction industry and how they are reacting in their respective locations.

This report is based on data collected on the 4 May. Within it we undertake trend analysis to document the current position as well as a comparison with data collected in our first survey on 14 April. As time progresses, we are starting to see countries moving through different levels with regard to easing restrictions and dealing with the next set of challenges for the construction industry.

Throughout this series of reports, we will be identifying how the responses evolve as the effects of the pandemic are gradually resolved.

Methodology: Colleagues from around the world were asked a series of questions, and their responses were ranked, so that comparisons could be made. The aim was to produce numerical and visual analysis of their views, reflecting their current position regarding the COVID-19 outbreak. One survey response per city was collected, completed by a senior colleague, who adopted an industry-wide local appreciation of marketplace effects.

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HIGHLIGHTS

14 April | 4 May

Relaxation steps for country's lockdown

49% vs **4%**

Productivity

60%

of respondents expect less than **30%** drop in productivity

Effect of lockdown on construction activity

52% vs **50%**

Significant but manageable

Tender enquiries

45%

of respondents report less than **20%** drop-off in tender enquiries

Not more than **20%** construction sites closed

58%

>15 months recovery time after lockdown

25% vs **13%**

UK and Europe **least** affected cities by sector

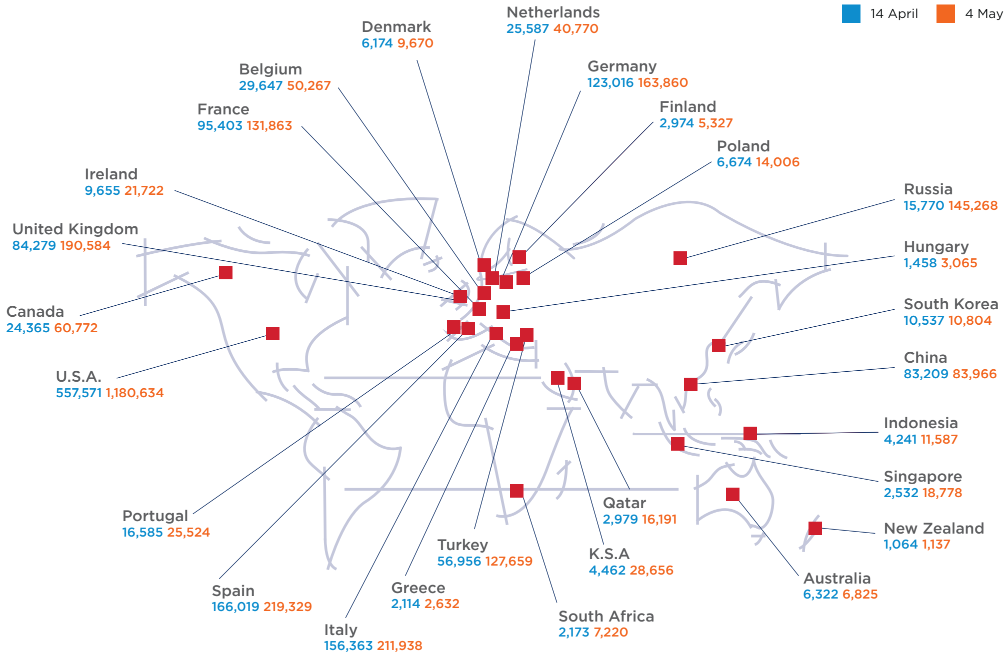
LONDON
AMSTERDAM
BUDAPEST

UK and Europe **most** affected cities by sector

ATHENS
DUBLIN
MADRID
MOSCOW

GLOBAL SURVEY

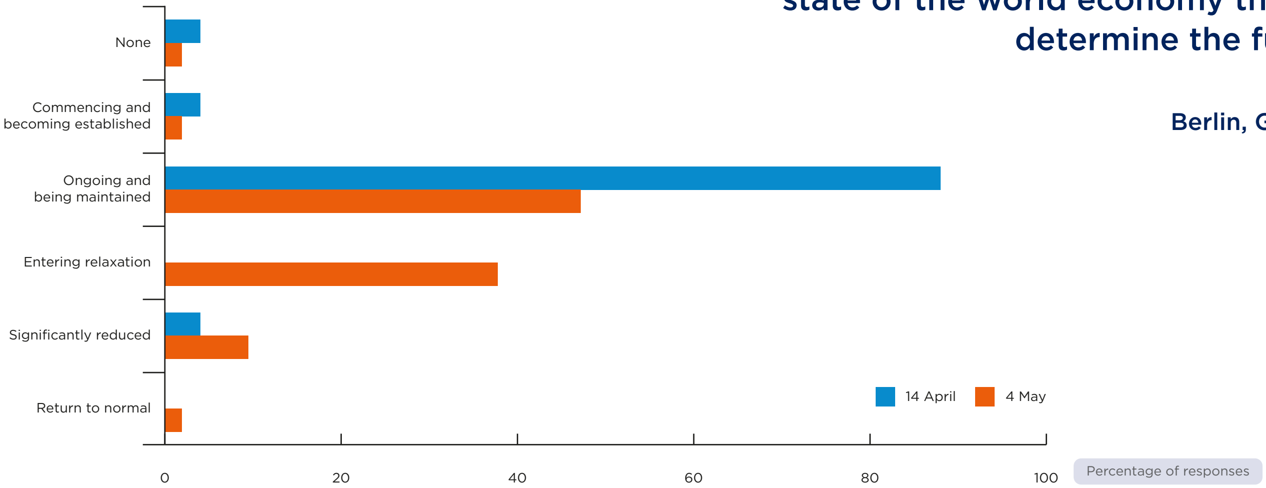
The map of the world shown below indicates the RLB offices that have contributed to the survey. We have represented in blue the number of COVID-19 cases in each country as at 14 April and in orange the number of cases as at 4 May 2020.



ANALYSIS

1. WHAT IS THE CURRENT STATE OF SOCIAL LOCKDOWN IN YOUR LOCATION DUE TO COVID-19?

Whereas our first survey was dominated by locations showing social lockdown measures being implemented and maintained, this second survey shows a more-developed lockdown, with a large number of cities reporting the beginnings of, or significant, relaxation of constraints.



Over 49% of respondents stated that their city has either started to relax or has already significantly reduced the lockdown restrictions. For the first time, we have one respondent, Hong Kong, reporting a complete return to normal.

“However well individual countries may come out of the lockdown, it will be the state of the world economy that will determine the future”

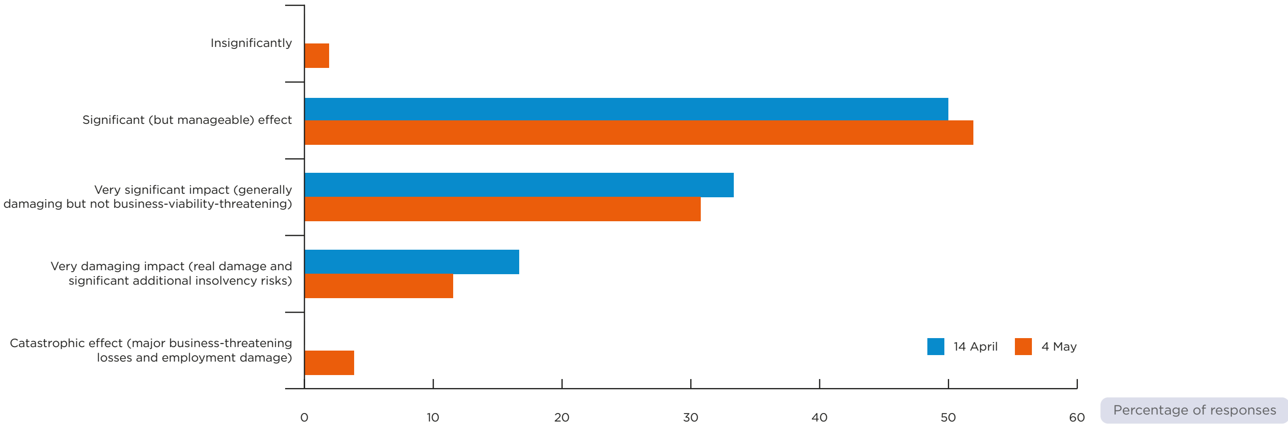
Berlin, Germany

2. HOW SIGNIFICANTLY HAS THE LOCKDOWN AFFECTED NORMAL CONSTRUCTION ACTIVITY?

The effects of lockdown were reported in similar terms, in comparison with our first survey. This is most clearly shown in the percentage analysis, which is marginally weighted toward the more serious effects.

"Roads in and out of areas, with partial lockdown, are blocked causing major traffic congestion. Materials are not delivered to construction sites on time, and workers remain worried and cautious"

Jakarta, Indonesia



2. HOW SIGNIFICANTLY HAS THE LOCKDOWN AFFECTED NORMAL CONSTRUCTION ACTIVITY?

At its most damaging, 4% of respondents stated that the effect of the lockdown on construction activity was catastrophic, while at the other end of the scale 2% stated the impact was insignificant.

Comments we received in relation to the lockdown's effects across various countries include the following:

Australia and New Zealand - The measures vary by state. In Australia construction activity has generally been ongoing throughout the pandemic as considered an essential service, whereas in New Zealand sites are just about to re-open in Wellington, Auckland and Christchurch after a pause of four to five weeks but with a concern around a possible future recession.

Berlin - Ongoing projects seem to be continuing but limited new starts.

Italy - Interrupted projects are now being completed but uncertainty is hindering future project development.

Middle East - Many sites have been closed and developments put on hold. In Riyadh most sites have been closed and many labourers were repatriated to minimise the transfer of COVID-19 within workforce camps. In Dubai, developers are prioritising those projects close to completion and putting others on hold. Reduced sales and delayed payment on sold units is causing cash flow worries in the residential sector.

South Africa - Considerable concern remains around the catastrophic impact on construction if the lockdown remains in force beyond May.

Spain- The effect on construction will be detrimental, especially for future projects due to the whole economic impact.

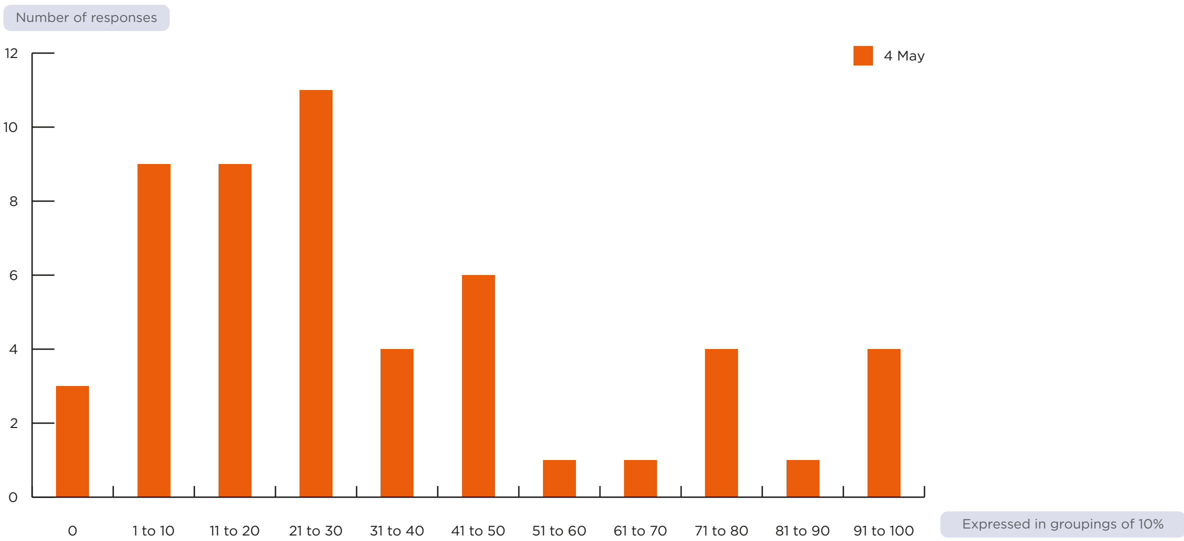
UK - In London, Birmingham and Manchester normal construction activity is allowing many sites to continue operations with varying degrees of productivity as the industry is coming to grips with government guidance and best practice.

US - The lockdown restrictions vary from state to state with the picture varying from city to city. For example in Oregon, where construction has been deemed essential there has been only moderate disruption, construction work is progressing in Chicago whereas in Michigan all sites are closed and union workers laid off, which may lead to uncertainty regarding availability of labour when the construction sites are re-opened.

3. WHAT IS THE ESTIMATED PERCENTAGE FALL IN PRODUCTIVITY OF ON-SITE CONSTRUCTION OPERATIONS?

This question was not asked in Survey 1 in April. The intent, this time, is to gather an insight on excess costs being incurred on-site, which will impact contractors and sub-contractors' overall costs, liquidity and profitability throughout the remainder of the outbreak and possibly beyond.

While there is a broad spread of views, 60% of the respondents believe there will be a productivity fall of not in excess of 30%.

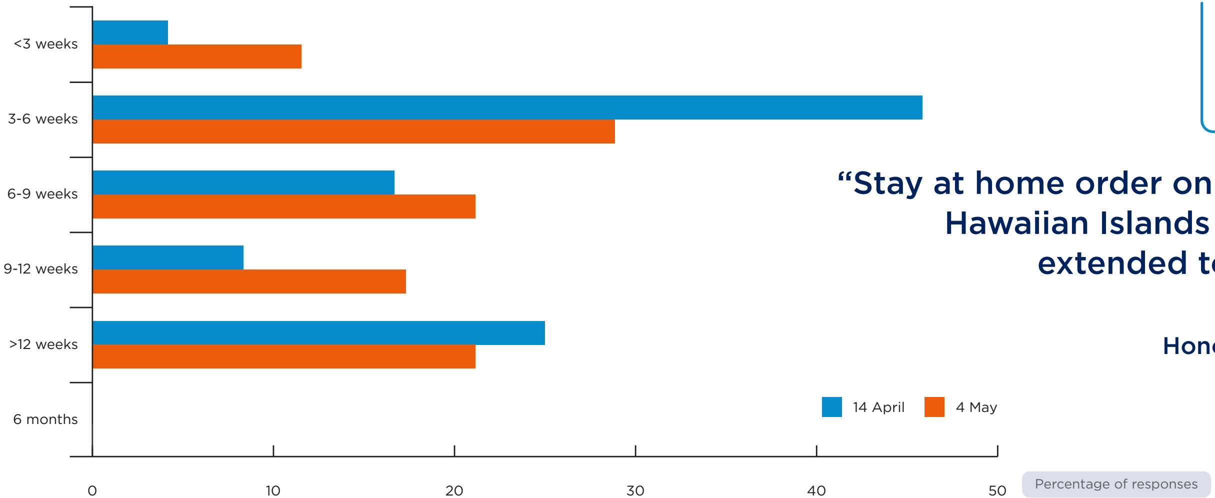


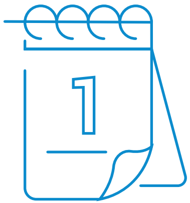
4. FROM THIS POINT, HOW LONG DO YOU FORECAST FOR LOCKDOWN TO BE COMPLETELY REMOVED?

As with our first report, the timing of removal of social lockdown prompted a broad sweep of responses, although the emphasis that could be seen in our first survey, on the shorter timeframes, was missing in this current data.

This may be due to the effect of the survey being global as cities, as we know, are at varying points in their responses to the outbreak.

However, it is also the case that more is known now, and that the current responses reflect the greater insights acquired over the last few weeks.





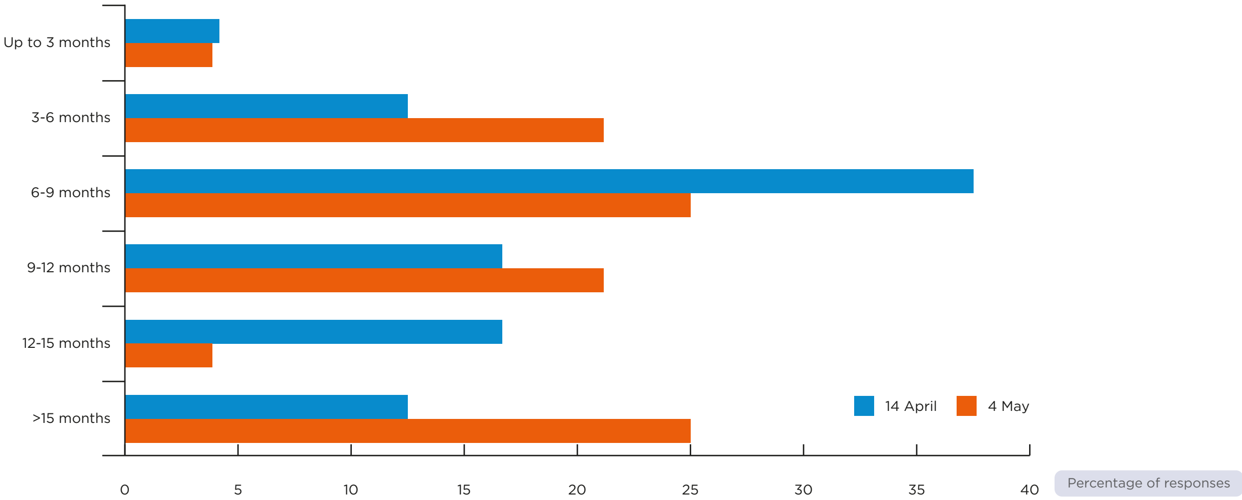
"Stay at home order on all of the Hawaiian Islands has been extended to 31 May"

Honolulu, Hawaii

5. AFTER RELAXATION OF LOCKDOWN, WHAT IS THE ESTIMATE OF RECOVERY TIME FOR YOUR LOCAL MARKET?

Our second survey shows that the estimated time for construction industry recovery is slightly weighted toward the longer periods, with 50% of respondents stating they thought the recovery time for their local market would be more than nine months, as against 46% in the first survey.

At the lower end of the timeframes set, there is however a moderation of views which may be indicative of the range of countries' responses, the phasing of progress and the uniqueness of the situation.



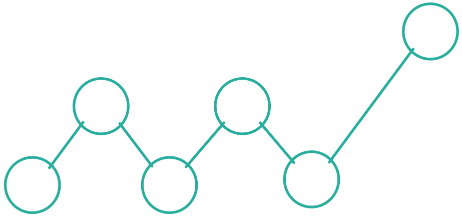
5. AFTER RELAXATION OF LOCKDOWN, WHAT IS THE ESTIMATE OF RECOVERY TIME FOR YOUR LOCAL MARKET?

This broad range of views is understandable as some respondents tied their views to the full lifting of lockdown.

Auckland, Honolulu and Chicago - Stated that certain sectors such as retail and hospitality could take years to recover in their region.

Belgium and UK - There was also speculation in Europe, about the full economic impact and the prospect of future recession.

US - There was speculation as to whether recovery may be slowed by the election in November 2020.



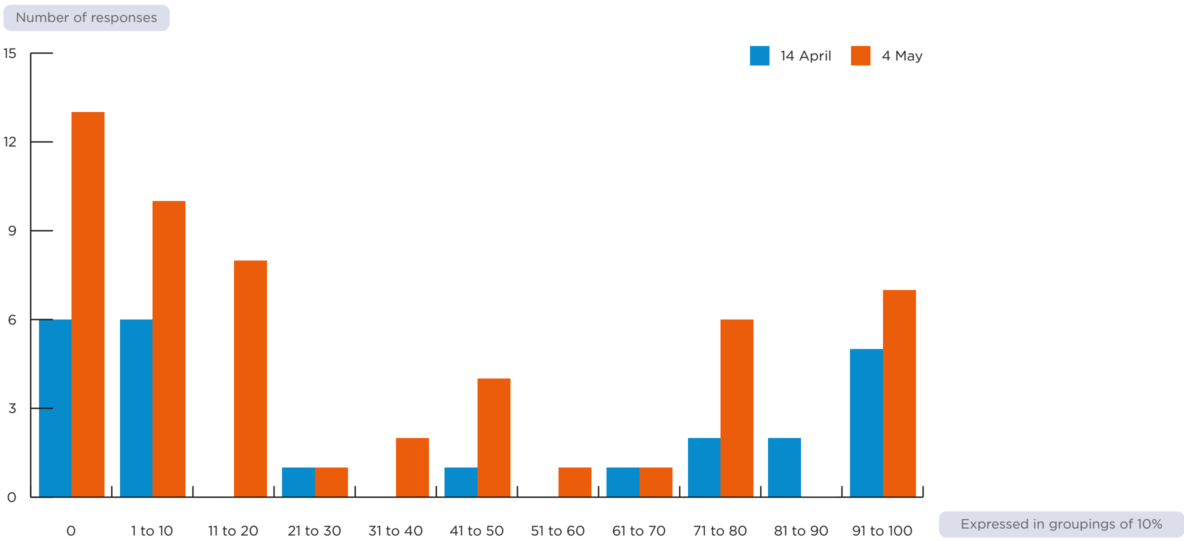
"Vietnam ended the social isolation regulations on 22 April. However, some restrictions continue to remain in the hospitality, retail and entertainment sectors"

Ho Chi Minh City, Vietnam

6. WHAT PERCENTAGE OF CONSTRUCTION SITES ARE CURRENTLY CLOSED?

The responses to this question indicate that over 58% of respondents believe that up to 20% of their city's sites are currently closed.

An interesting feature of the comparison between this survey and the previous edition is that 50% of respondents believed approximately 10% or less of their sites were closed.



6. WHAT PERCENTAGE OF CONSTRUCTION SITES ARE CURRENTLY CLOSED?

This time around, one key change is the new prevalence of the band between 10 and 20%, together with the relative fall in numbers at the upper end of the overall range. This seems to reflect the slow softening and removal of constraints in different regions.

Some of the responses received include the following:

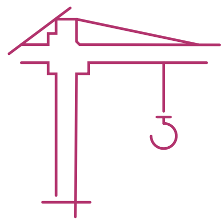
China – All sites are open as they come out of phase one of the pandemic.

Hong Kong - Hong Kong avoided the need for a full lockdown by implementing strict measures early on and sites remained open throughout although there was some disruption caused by the lockdown in mainline China causing delays on construction materials.

Russia - In Moscow all sites are closed however there is activity in other parts of the country.

South Africa - The private sector remains 100% closed with the public sector just opening in Cape Town. Similarly, in Pretoria only current projects are open.

US – Sites have only just started to open back up with San Francisco and Chicago all expecting more sites to open in early May. In Washington DC most sites remain open however some have needed to temporarily shut due to the workforce not turning up because of concerns around the transmission of the virus.



"Construction has been considered as a critical industry and construction sites have been allowed to stay open"

Dubai, UAE

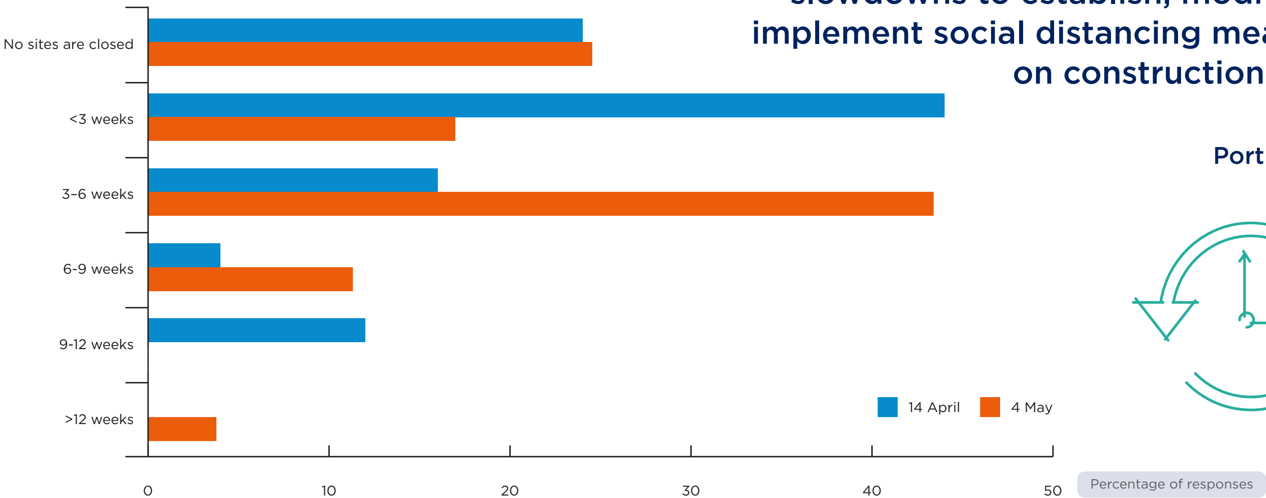
7. ON AVERAGE, FOR SITES THAT ARE CURRENTLY CLOSED, HOW LONG HAVE THEY BEEN CLOSED?

As we move through the pandemic cycle, the stated length of site closures moved from the predominance of less than three weeks, to the 3-6-week range in this current survey.

However, even given the wider net of the city responses gathered in this survey, the proportion of cities with no sites closed is broadly the same as in our first survey.

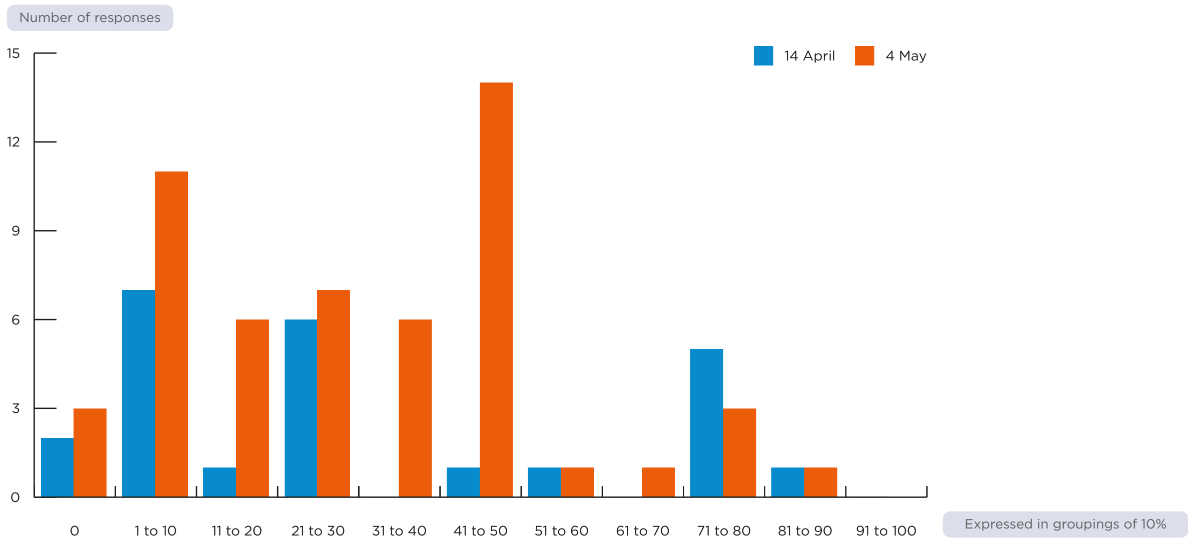
"The only site closures I have come across are related to testing of specific individuals on site and periodic slowdowns to establish, modify and implement social distancing measures on construction sites"

Portland, US



8. WHAT PERCENTAGE OF PROJECTS (BY NUMBER) HAS BEEN PUT ON HOLD AT PRE-CONSTRUCTION STAGE?

As we saw in Issue 1 of this report in April, the impact of COVID-19 on activity at pre-construction stage varies extensively between countries, with some regions claiming it has had zero effect and others over 80% impact. The outlook in May looks slightly more positive than in April with fewer respondents believing a higher proportion of projects will now be on hold at pre-construction than before.



8. WHAT PERCENTAGE OF PROJECTS (BY NUMBER) HAS BEEN PUT ON HOLD AT PRE-CONSTRUCTION STAGE?

Nearly 89% of respondents reported up to 50% of projects experiencing a delay as a direct result of the pandemic. This is no real surprise with the impact of COVID-19 in many countries now taking its toll and the consequences of the pandemic being felt right across the construction industry.

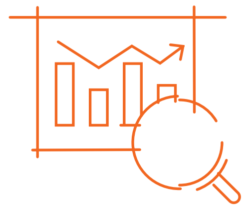
Some of the comments received include the following:

Australia - In Melbourne, they stated a 35% average, going up to 50% in some states, of projects being put on hold at pre-construction stage.

Hong Kong - It was suggested that the number of projects put on hold at pre-construction stage was insignificant. There has been a general slowdown in the statutory approval and consent process due to the government's work from home policy.

UK – In London and Birmingham the proportion of projects on hold varies between sectors, with higher value projects tending to be less impacted.

US – San Francisco, Portland, New York, Phoenix and Seattle were reporting little, if any, impact on pre-construction projects.

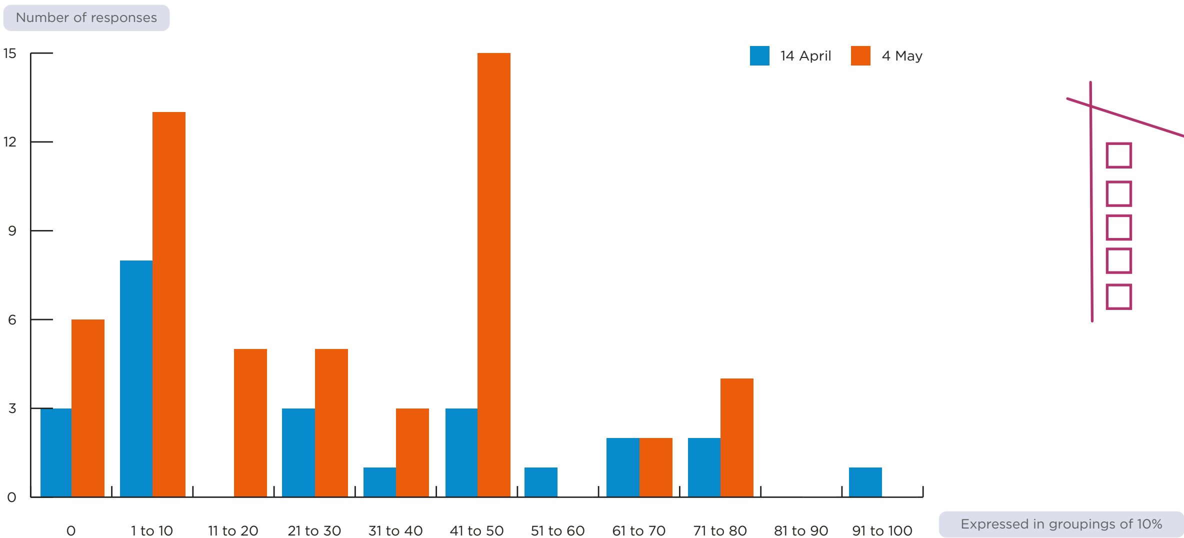


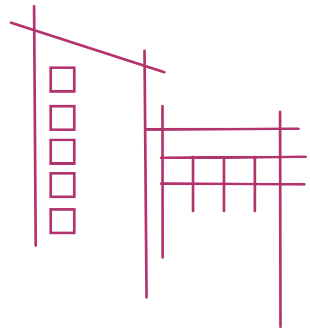
"The number of new projects will fall in the remainder of this year as investors and developers are reassessing their plans against the overall economy, locally and globally"

Hong Kong, China

9. BY WHAT PERCENTAGE HAS THERE BEEN A DROP-OFF IN THE NUMBER OF TENDER ENQUIRIES?

Effects on tender enquiries have also moderated toward the lower end of adverse effects, 89% now reporting drop-off not exceeding 50%. This is set against the Survey 1 report, in which 25% believed that there was a drop-off exceeding 50%. However, the improved situation does include a significant proportion (28% of the total), that sees a drop-off of between 40 and 50%.





9. BY WHAT PERCENTAGE HAS THERE BEEN A DROP-OFF IN THE NUMBER OF TENDER ENQUIRIES?

Although May saw a higher average rate, the overall range of the drop off of tender enquiries was less than in April where the percentage had varied from 0-100%.

Most countries put this drop off in tender enquiries down to clients going into “damage control mode” and uncertainty, especially in greater risk sectors including tourism, hospitality, retail, aviation and car manufacturing.

Some of the comments received include the following:

Germany - In Berlin they reported that they haven't received any framework enquiries in the last month.

Caribbean - Unsurprisingly, tourism was mentioned in Castries where a large percentage of Caribbean businesses are related to tourism and resort development which currently is non-existent.

Middle East - Riyadh reported “an increase in bidding activity; however, conversion into commissions as always is the measure; and the timescale for that is unknown currently.”

South Africa - Cape Town ascribed the drop off in tender enquiries to the decrease in tourism and closures of hotels.

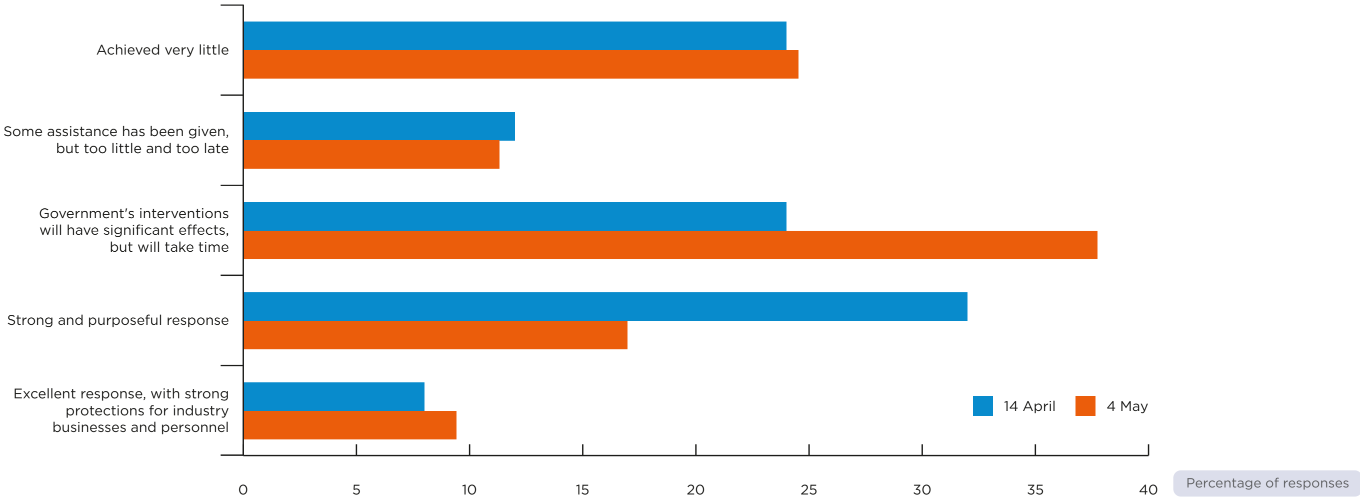
US - In New York, expected Request for Proposals (RFPs) have been put on hold. In San Francisco, whilst this period is typically a very busy time of the year, the number of RFPs has been declining since February.

“Due to the construction sites restrictions and COVID-19 lockdown, investors are approaching new developments with a greater emphasis on risk and cost management”

Istanbul, Turkey

10. HOW HAS YOUR NATIONAL GOVERNMENT'S ACTIVITIES IN RELATION TO THE COVID-19 PANDEMIC AFFECTED THE CONSTRUCTION INDUSTRY?

When asked how their national government's response to the pandemic had affected the construction industry in their country, the respondents again were split in their opinions.



10. HOW HAS YOUR NATIONAL GOVERNMENT'S ACTIVITIES IN RELATION TO THE COVID-19 PANDEMIC AFFECTED THE CONSTRUCTION INDUSTRY?

Nearly 25% reported that any government support had achieved little and a further 11% felt some assistance had been given but it was too little and too late. The majority were more positive about their government's interventions, with 64% claiming that government support would have an effect, but within that, 38% stating it would take time. Less than 1 in 10 respondents felt that their government actions had been excellent. The overall percentage of those that received government support, and responded that this action will have a significant effect, remains consistent with our previous survey.

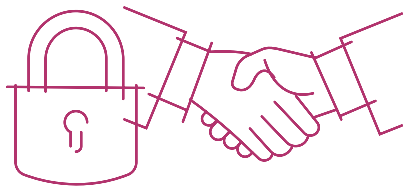
City commentary:

Italy - In Milan they reported that "the general concern is that the damage will be greater than the assistance."

Hong Kong - In Hong Kong it was felt that the government's support measures are seen to help the industry to prepare for the future.

New Zealand - In Auckland there was an expectation that "central government will fill some of the void left by the private sector but the extent is yet to be fully understood."

Portugal - In Lisbon there was a feeling of relief from government support as they stated "The main action was to let the construction industry continue to work."

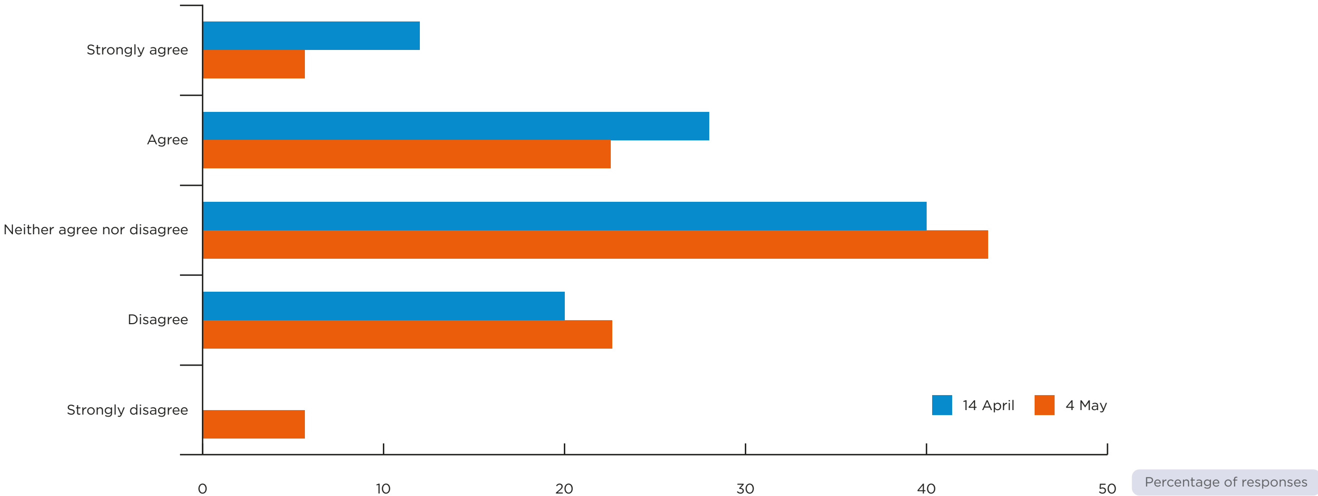


"As the government has very little recourse to funds it has been very difficult to support the construction industry."

Castries, St Lucia

11. WILL THE AFTERMATH OF THE PANDEMIC INCLUDE RELAXED PLANNING CONSTRAINTS AS A STIMULUS TO SPEEDY RESUMPTION OF ACTIVE DEVELOPMENT?

As in Issue 1 in April, May's survey reports a mixed response to whether there will be relaxed planning constraints as a stimulus to speedy resumption of active development post the pandemic, with 43% of respondents neither agreeing nor disagreeing.



11. WILL THE AFTERMATH OF THE PANDEMIC INCLUDE RELAXED PLANNING CONSTRAINTS AS A STIMULUS TO SPEEDY RESUMPTION OF ACTIVE DEVELOPMENT?

Equal percentages, 28%, agreed and disagreed on whether there would be an easing on planning constraints. This reflects a more negative attitude to thinking that there would be a more relaxed planning approach post the pandemic than in April, when 40% agreed there would some planning stimulus to aid active development.

Local government and governance seemed to come into play, on a city-by-city basis, affecting policy.

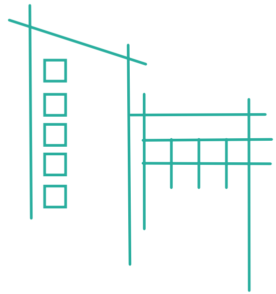
Some of the comments received include the following:

Australia - In Melbourne they reported an improved, sped up process already announced in most states around the country.

Germany - In Berlin, where there remain strict planning regulations, it is felt to be unlikely that there would be much, if any, relaxation.

South Africa - In Cape Town it was thought unlikely that there would be expedited planning approvals, with many local authorities not having the resources to facilitate this.

UK - In London it was felt that planning might be relaxed for certain sectors such as healthcare.



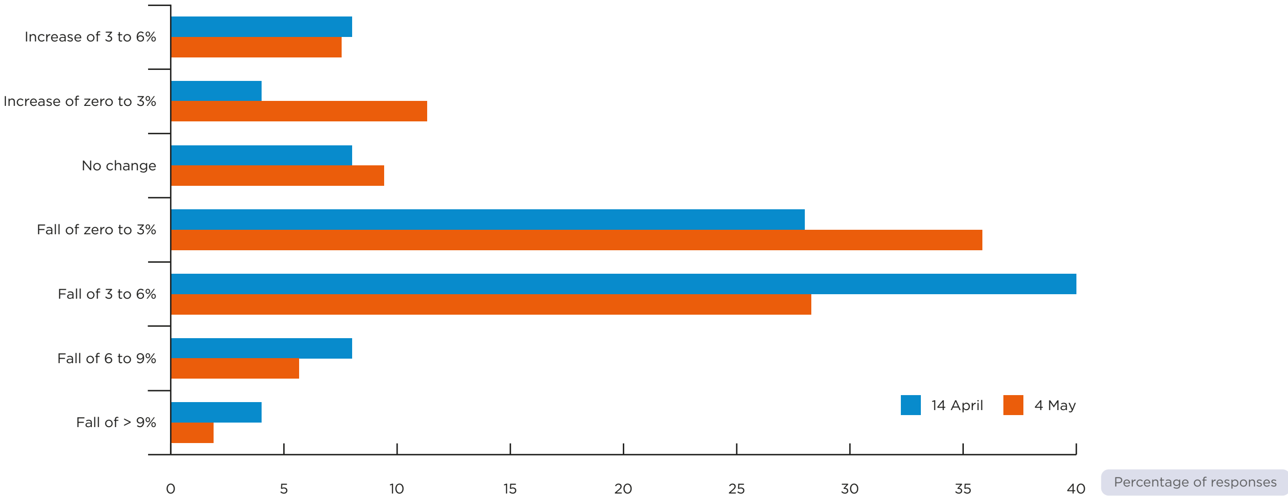
“Planning processes are not expected to be significantly streamlined, but other interventions are expected to act as a stimulus”

Birmingham, UK

12. HOW WILL TENDER PRICES BE AFFECTED FOR THE OVERALL YEAR 2020?

Not surprisingly the picture still looks concerning for tender price forecasts, with 72% foreseeing a fall of up to 9%. However, the largest grouping, 34%, felt that the decline would be between 0 and 3%, although 28% quoted between a 3% and 6% fall.

This was slightly more optimistic than in April, when 80% forecast a fall in tender pricing, with 12% of those quoting a fall of between 6% and 9%. Much of this moderating in opinion is a result of the advent of more understanding of likely increased costs, in association with market effects, and is closely related to developing knowledge of issues regarding productivity and post-pandemic social distancing requirements, which are themselves inextricably linked.



12. HOW WILL TENDER PRICES BE AFFECTED FOR THE OVERALL YEAR 2020?

Some of the comments received include the following:

Canada - In Toronto the feeling was that, while there would be a big demand to get projects back on track, the result would be an increase in labour costs, with additional cost also arising from reduced productivity.

Hong Kong – As one of the countries where the impact of the pandemic has been felt for longer, there was talk of adding to an already downward trend with a further -2 % to -3% forecast.

Hungary - In Budapest they reported strong tender price increases before the outbreak due to the overheated market, so the feeling was that a more "normal pricing" will return.

New Zealand – In Auckland and Christchurch they felt that tender pricing will be dependent on the complexity of the project, sector, risk profile and programme, with simpler construction experiencing price decreases but increases in larger complex projects.

Wellington reflected that many on-going projects have continued, therefore not affecting the short-term prospects, but future work beyond six months to a year could be affected, with more competition for each job going into 2021-22.

South Africa – In Cape Town they continued to feel that there would be a decline in the market, suggesting prices would decrease. However, this could also lead to supply chain and industry capacity issues, which could, by contrast, lead to an increase.

UK - It is expected that there will be significant variances by project type and contract type, as contractors exposed to different sectors react differently. Volatility is anticipated and converting a tender return to a contracted price is expected to be challenging.

US – It was anticipated that labour costs will fall but cost of materials will rise due to a lack of supply, with manufacturing plants closing and increased freight costs.

"There may be increases in larger, complex projects, given local industry capacity and skills in this space, which could suffer from contractor failures and lack of investment."

Auckland, New Zealand

SECTOR ANALYSIS

WHAT IS THE GENERAL EFFECT OF THE PANDEMIC ON CONSTRUCTION SECTORS?

Globally, individual sectors are differently affected, as they began from varied starting points. However, there is broad consistency in the view that levels of construction activity in healthcare and data centres may be positively affected by the COVID-19 outbreak, as would be expected, from a facilities-provision standpoint.

What is interesting is the change from April to May, with healthcare coming out of a slightly negative average impact of -0.13 in April, to a positive +0.43 globally by May. This reflects the recognition of a need for additional or refurbished healthcare provision, and the urgency of industry-response in the sector. The swing in the data centres sector also reflects changing demand, with the increase in average expectations +0.04 in April to +0.21 in May illustrating the prospect of increased demand, perhaps as a consequence of working from home and more people communicating via online platforms.

Other sectors appear to be consistently adversely impacted, particularly commercial, hotels, hospitality and leisure, retail and sport. For other sectors, the impact appears less severe, but all of this has to be overlaid on individual locations' existing markets, in order to show the wider, local picture.

Methodology: The narrower single width entries reflect a respondent's view that a particular sector has been positively or negatively affected (value + 1 or -1).

Double width bars indicate major positive or major negative effects in a particular sector (value + 2 or -2).

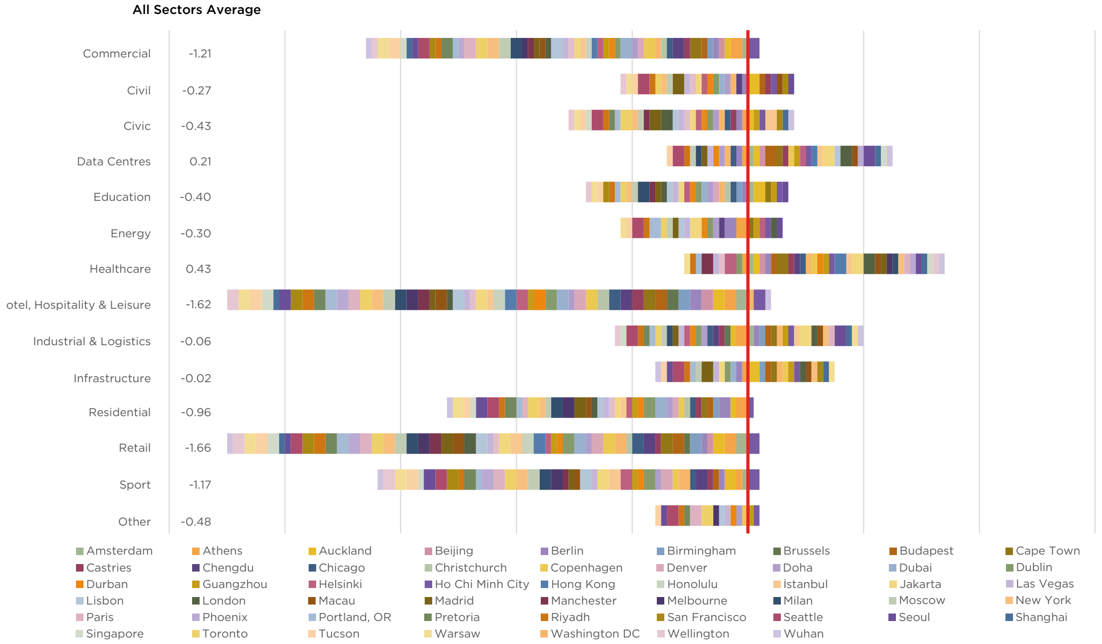
Where a respondent indicated no effect on a sector, that sector has a bar with nil length (effectively does not exist).

"Industrial & Logistics activity, as a consequence of the boom of on-line shopping, has been impacted positively as developers and end-users continue to have confidence in the sector and increased stock piling to improve product availability"

Birmingham, UK

CITY ANALYSIS BY SECTOR

This stacked bar chart presentation is a consolidation of the cities' sector summaries, showing how each city contributes positively or negatively to overall global sector performance.



SECTOR ANALYSIS BY CITY

Where cities are seen to have broadly very negative "stacked bars" of sectors, these are the worst impacted, in the views of the respondents, and are ranked accordingly.

Similarly, a positive view of a sector will weight that city's overall bar toward the right of the chart. Cities showing balanced bars, positive and negative equal, will appear as 0.00 in the overall average and be ranked accordingly.

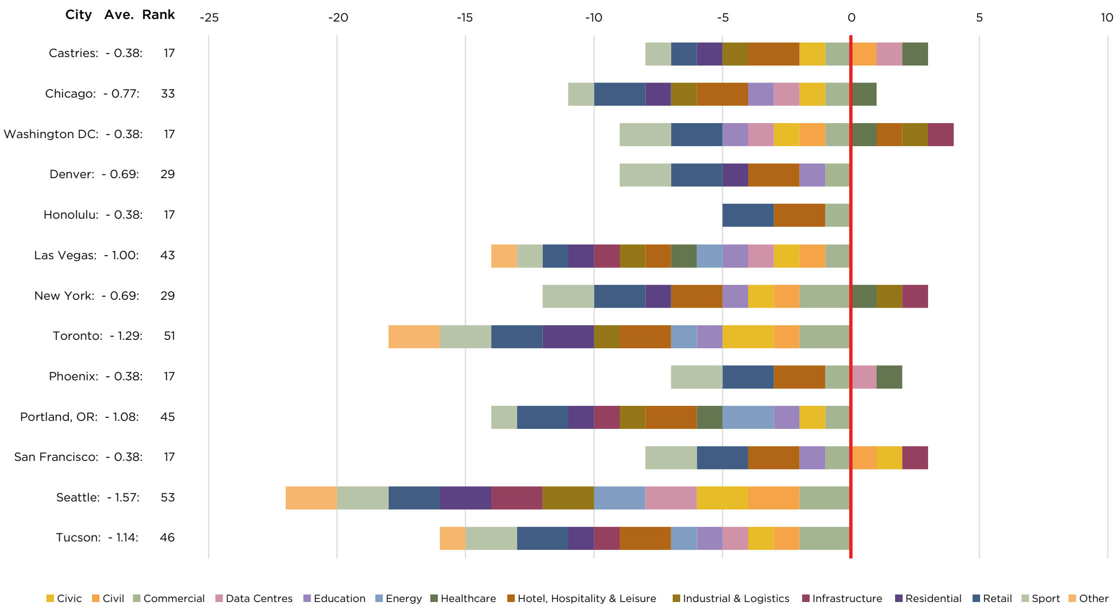
"The impact of COVID-19 will be greater for locked-down sectors such as retail and hospitality.

After almost no housing transaction activity in London during lockdown, we are now seeing very early "green shoot" signs of recovery after the government has recently allowed transactions to resume under social distancing rules. House-builder sales teams and estate agents have now returned to business."

London, UK

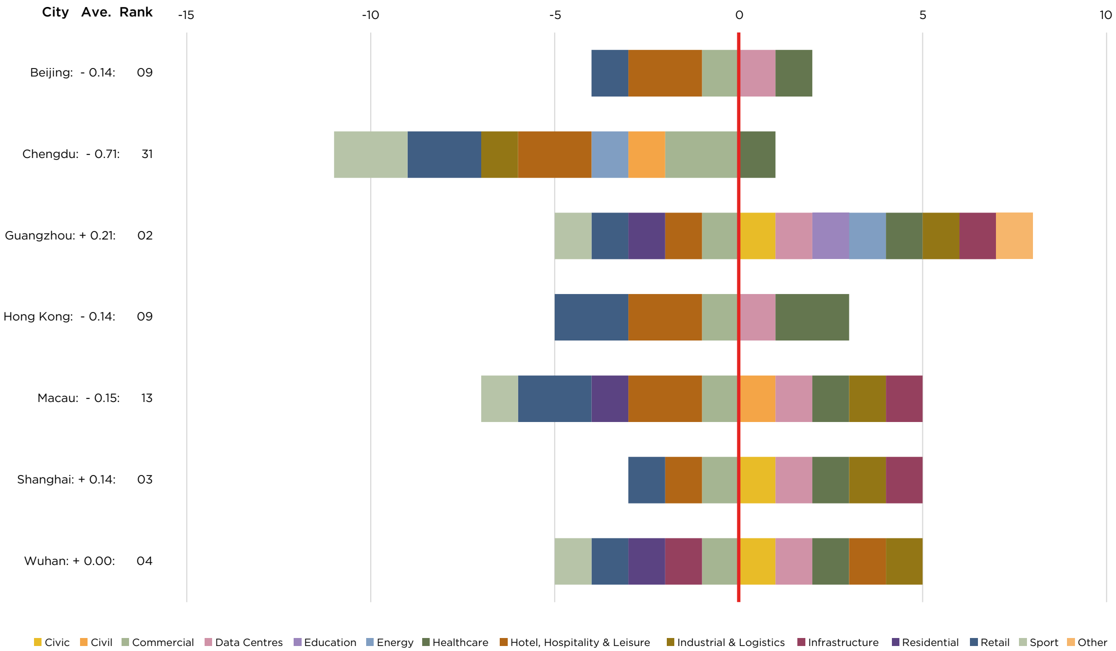
SECTOR ANALYSIS BY CITY (AMERICAS)

The survey encompasses 53 cities, so rankings above 45 places these cities in the top 15% of impacted locations. Seattle, Toronto and Tucson stand out as many of their sectors are being adversely affected.



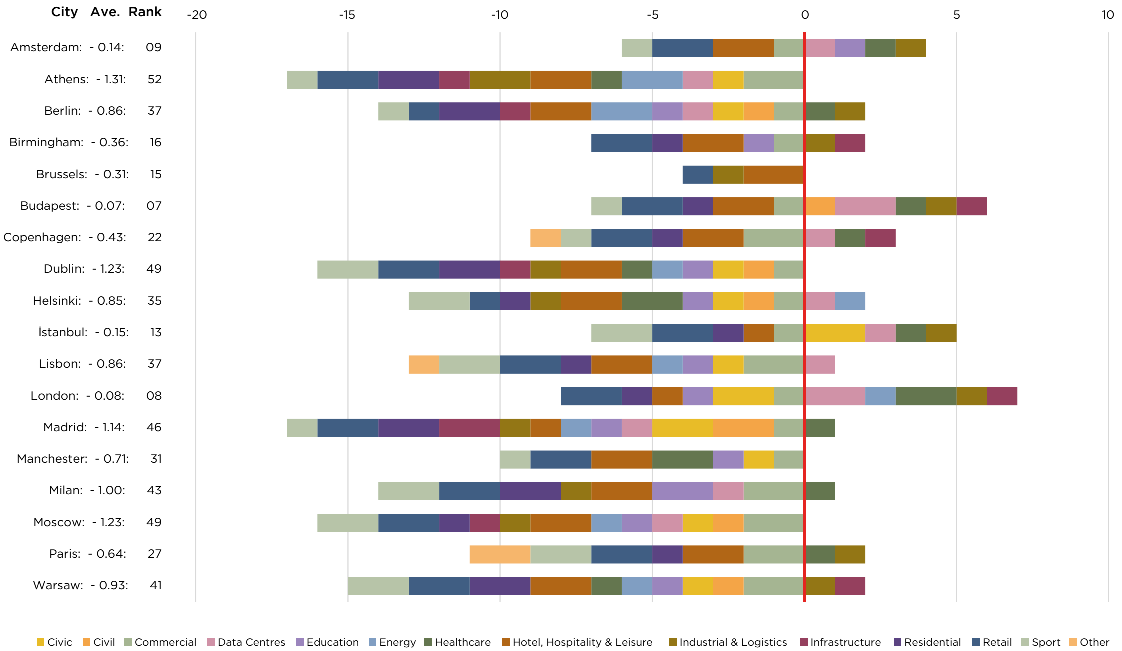
SECTOR ANALYSIS BY CITY (CHINA)

All Chinese cities show at least one sector positively affected, and some, such as Wuhan, are balanced or nearly balanced. Most rank in the top 25% of cities least adversely affected.



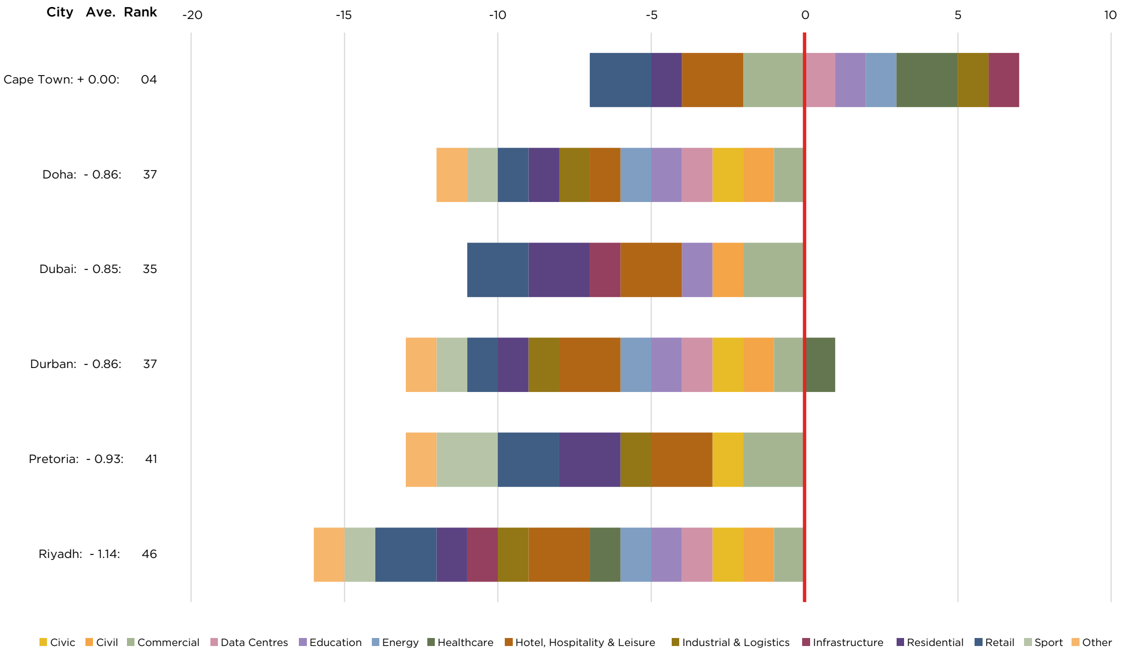
SECTOR ANALYSIS BY CITY (EUROPE AND UK)

Best performing cities are those with sectors positively affected, such as London and Budapest. Where all or most sectors are negatively affected, rankings are poor as shown in the graph below for Athens, Dublin, Madrid and Moscow.



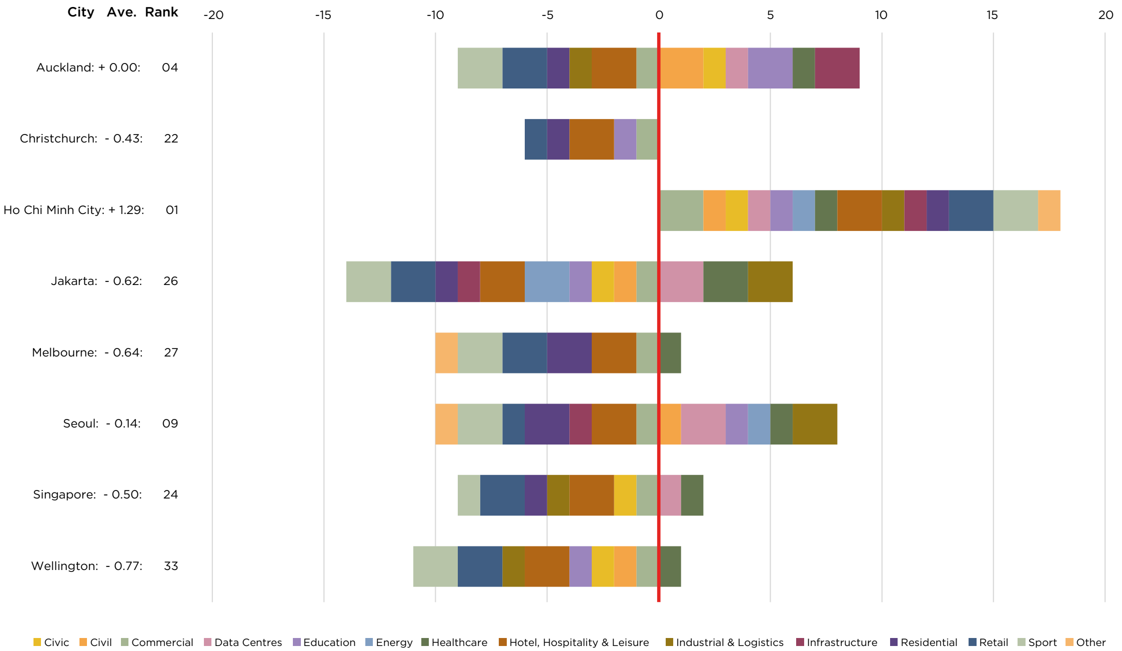
SECTOR ANALYSIS BY CITY (MIDDLE EAST AND AFRICA)

Other than in Cape Town, where the effect on sectors is balanced, other locations are heavily impacted, and consequently rank far down the list, all in the lowest third overall.



SECTOR ANALYSIS BY CITY (OCEANIA AND SOUTH ASIA)

The end of social isolation in Vietnam, including in Ho Chi Minh City (HCMC) shows a unique position with positive effects across all sectors.



CONCLUSION

A month on from our first report in April, May shows those cities which first experienced the pandemic moving to a more relaxed working environment with less restrictions on activity.

Where this would ordinarily be seen as the turning of a corner, many are still hesitant and are advocating a slowly-slowly approach to be applied, in order to protect workers' safety as projects revive and be mindful of the caution about economic recovery in the months ahead.

Post COVID-19 productivity levels and cost fluctuations differ with a broad spread of output and market-related concerns and with no rulebook to follow, many see this as new territory ahead.

Where previously curtailed, projects are resuming in line with reductions in locally reported cases and phased relaxation of local lockdown restrictions, but with ongoing social distancing provisos. So, the longer term effects globally will only become clearer over time, and country-by-country.

RLB will continue to monitor, comment and advise on the situation as the experience evolves across our network of offices with the next issue of our rolling Global Survey due in mid June. This will develop our understanding and views on the long-term effects of the pandemic on the industry and bring a robust picture of how fast different regions are embracing this new norm and the impact on their productivity and output levels.

ABOUT RIDER LEVETT BUCKNALL

RLB Rider Levett Bucknall

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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.

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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.

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- Cost management
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- Health & safety
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