REPORT

COVID-19: GLOBAL SURVEY

THE IMPACT ON THE CONSTRUCTION SECTOR ACROSS THE WORLD

APRIL 2020 – ISSUE 1

RLB Rider Levett Bucknall

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INTRODUCTION

COVID-19 is causing unprecedented disruption, impacting the global economy and creating unique challenges for all sectors, including the built environment. In order to identify and understand how different cities in different countries are reacting, we have approached our colleagues across the world to gain their views on how the pandemic is affecting the construction industry in their respective locations.

Different countries are at different phases of the COVID-19 outbreak and regular updates will allow us to track how each country is progressing and to undertake trend analysis. The data in this report is based on a survey taken place on 13 April, and comparative data will be reflected in the next issue.

We will be producing a series of reports and identifying how the responses evolve as the effects of the pandemic are gradually resolved.

Methodology: This is the first report containing analysis from a regular survey we are carrying out around the world with our global offices. The intention is to issue regular iterations of the survey to keep pace with this fast-moving situation.

The survey, comprising 12 questions, was completed by senior leaders across 24 countries indicating their views on their national/regional market. The survey questions also covered the effect of the pandemic on existing projects on construction sites, as well as pipeline work and pricing of projects at pre-construction phases.

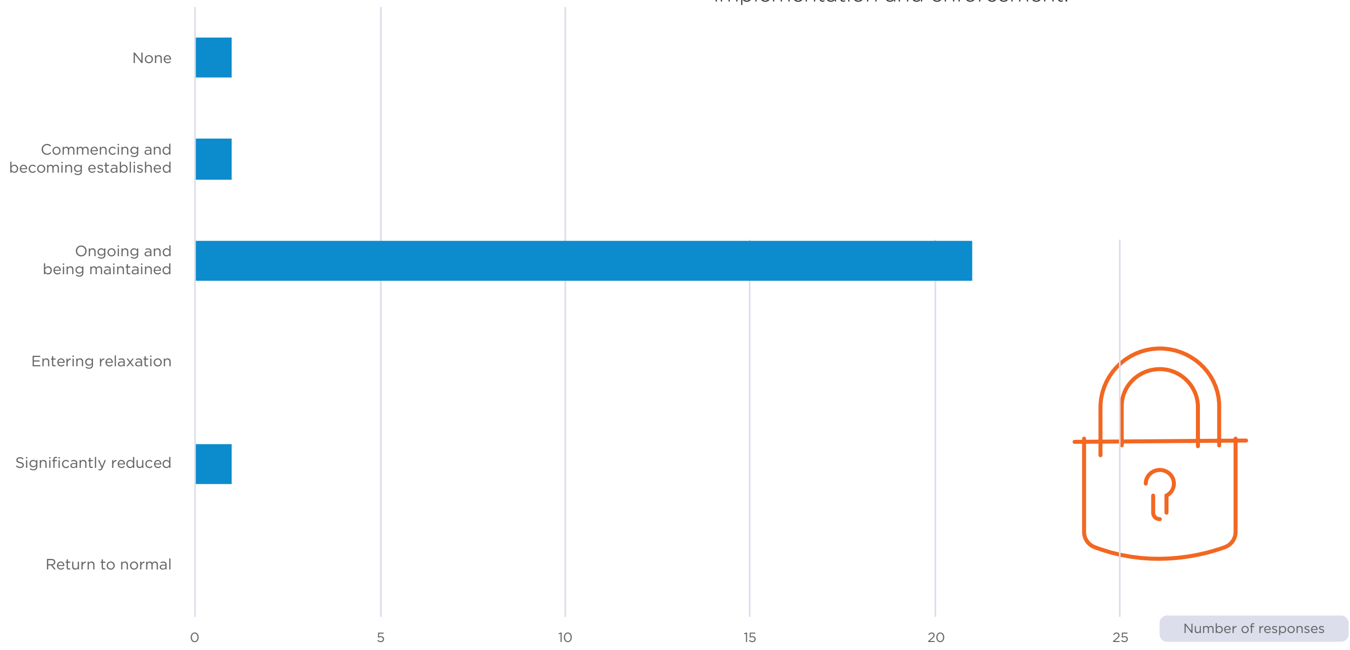
GLOBAL SURVEY

The map of the world shown below indicates the RLB offices that have contributed to the survey. We have represented in red the number of COVID-19 cases in each country as at 13 April 2020.

ANALYSIS

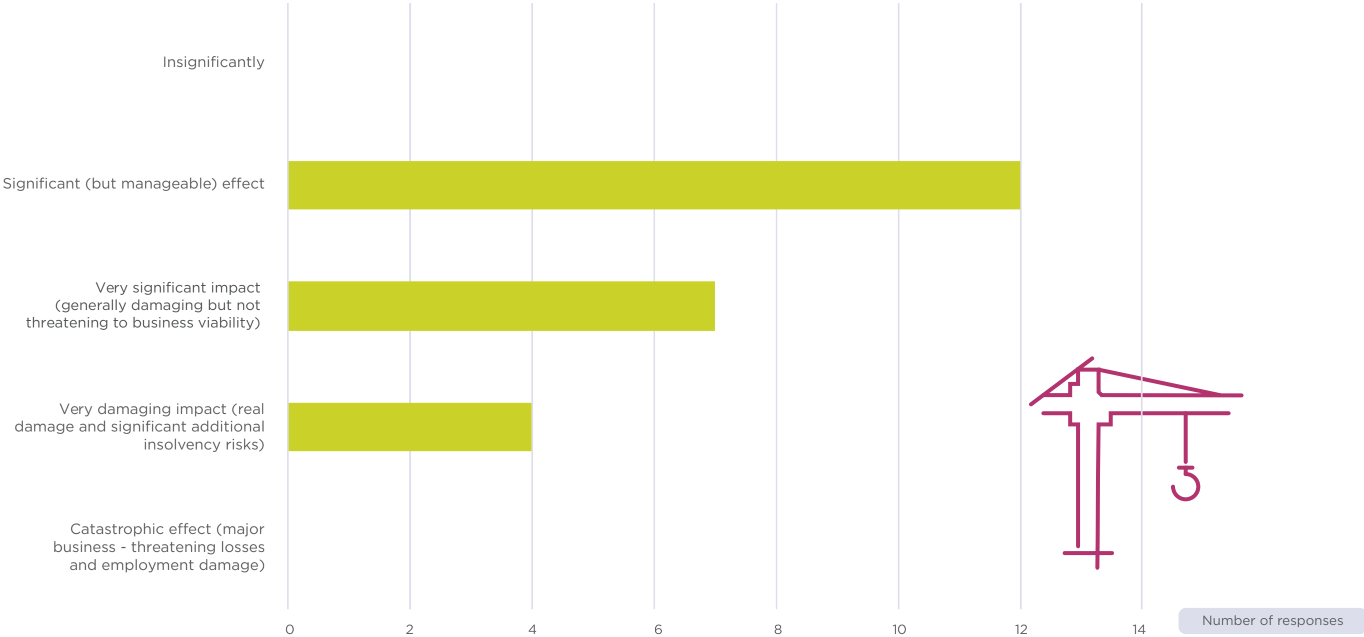
1. WHAT IS THE CURRENT STATE OF LOCKDOWN IN YOUR LOCATION DUE TO COVID-19?

All but one of the respondents indicated that ongoing and maintained lockdown provisions were in place, although it must be noted that the definition of lockdown is variable, country by country, as are the means and extents of implementation and enforcement.



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

All the respondents stated that lockdown was damaging the sector at some level. Nearly half of the respondents indicated that in their opinion, the damage was very significant and/or very damaging.



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

Comments we received in relation to the lockdown's effect in various cities include the following:

Auckland - Level 4 (L4) lockdown is in place for four weeks minimum with restrictions anticipated to be eased at the end of that period. Should current L4 restrictions be maintained for an additional four weeks, which seems unlikely, the effects would be extremely serious.

London - London's concern is focussed on reduction of turnover for most stakeholders, with particular damage accruing to smaller companies, both consultants and sub-contractors.

Macau - The public sector is not highly affected but some private projects, in particular the gaming projects, have been slowing down.

Melbourne - Construction sites remain operational in Melbourne and across the Australian States as it has been deemed an essential service, therefore post contract commissions remain status quo.

Phoenix - Some Phoenix construction sites have implemented more stringent policies/requirements than others. Design and planning are still going, full-steam-ahead, with a few exceptions.

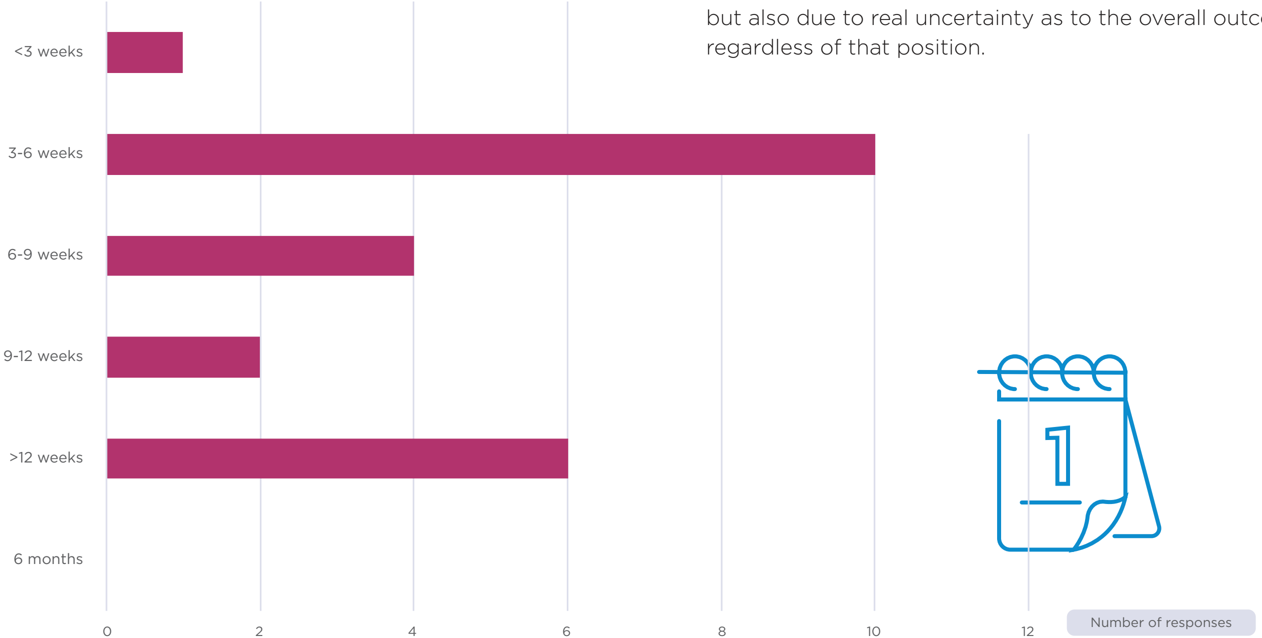
Pretoria - In Pretoria, the team reports a very damaging scenario, as the lockdown will only end on the 30th April.

"The situation is still evolving and has not peaked yet. The world we know will never be the same again"

Singapore

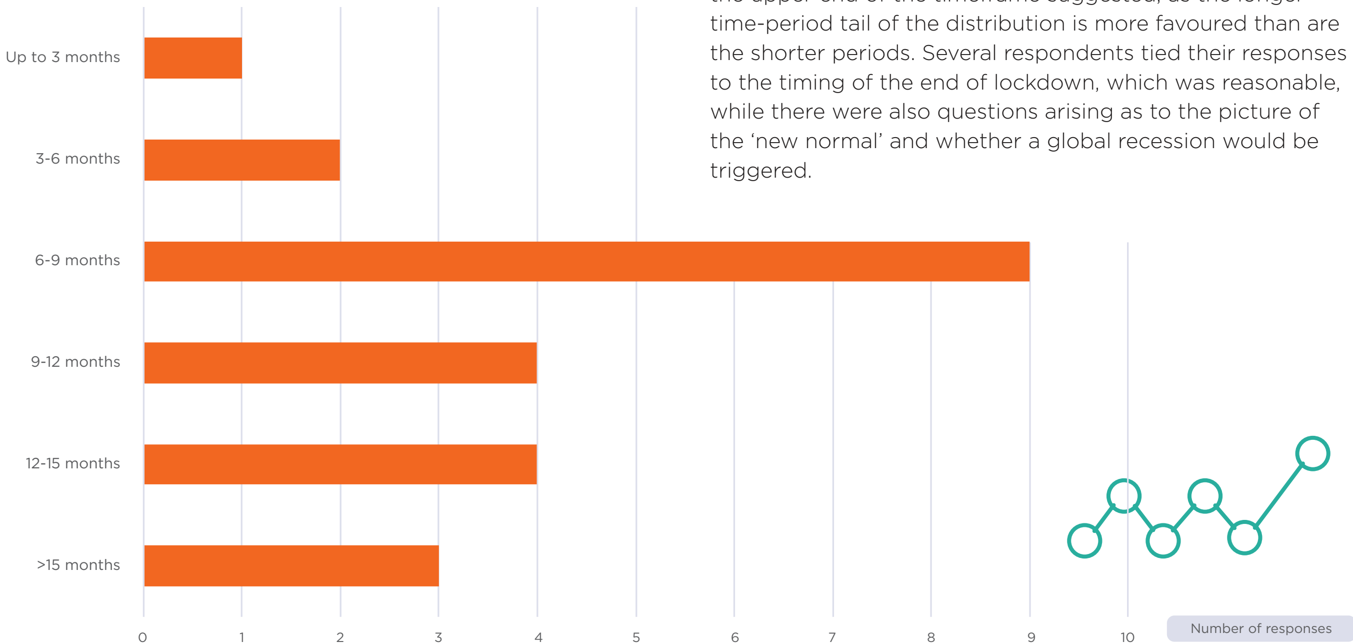
3. FROM THIS POINT, HOW LONG DO YOU FORECAST FOR LOCKDOWN TO BE COMPLETELY REMOVED?

Whereas the answers to the previous question indicated a general agreement on damaging effects, the wide spread of answers to this question is suggestive of a much lesser certainty. This is due in part to the stages of the lockdown process that different respondents find in their particular city, but also due to real uncertainty as to the overall outcome, regardless of that position.



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

Almost 90% of respondents suggest that the expectation is in excess of six months, assuming that normality is 'pre-COVID-19' normality. Although views appear evenly spread, it is worth pointing out that overall, they are weighted towards the upper end of the timeframe suggested, as the longer time-period tail of the distribution is more favoured than are the shorter periods. Several respondents tied their responses to the timing of the end of lockdown, which was reasonable, while there were also questions arising as to the picture of the 'new normal' and whether a global recession would be triggered.



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

The estimated recovery time by city is represented below:

Auckland, Brussels and Milan - Reported greater than 15 months.

Brussels - The view was that physical distance measures will stay in place for as long as there is no vaccine, which may mean 12-18 months from now.

Finland - Reported less than 3 months.

London – The view was 9-12 months, based upon the public sector being possibly 6-9 months, assisted by a streamlined procurement process. The private sector could be 12 months or more, with residential forecast to return more rapidly than commercial.

Melbourne - Predicts 6-9 months but it may be longer if lockdown remains in place for 6 months or more. There will also be variations from state to state, and influences from market conditions.

Pretoria - The construction industry had been on the slippery slopes of disaster for the past 30 months and would have been in trouble regardless.

"We expect to see more contingencies/"fat" buried in pricing ... we will want to see substantial provisions, clearly disclosed, justified by price, labour and supply chain uncertainties"

Phoenix

5. WHAT PERCENTAGE OF CONSTRUCTION SITES ARE CURRENTLY CLOSED?

The average percentage provided for sites closed was almost 42%, but that masks wide disparity from 100% down to 0%. The responses received by city are represented below:

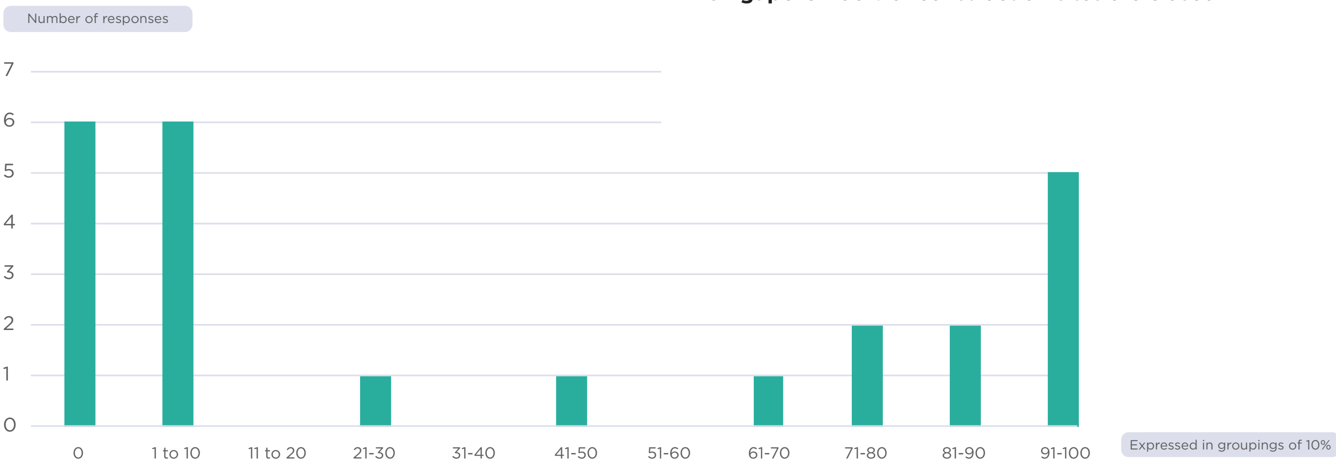
Amsterdam, Hong Kong, Macau, Melbourne, Oslo and Phoenix – These cities are at the lower end, reporting zero site closure.

Auckland - 90% of construction sites are closed.

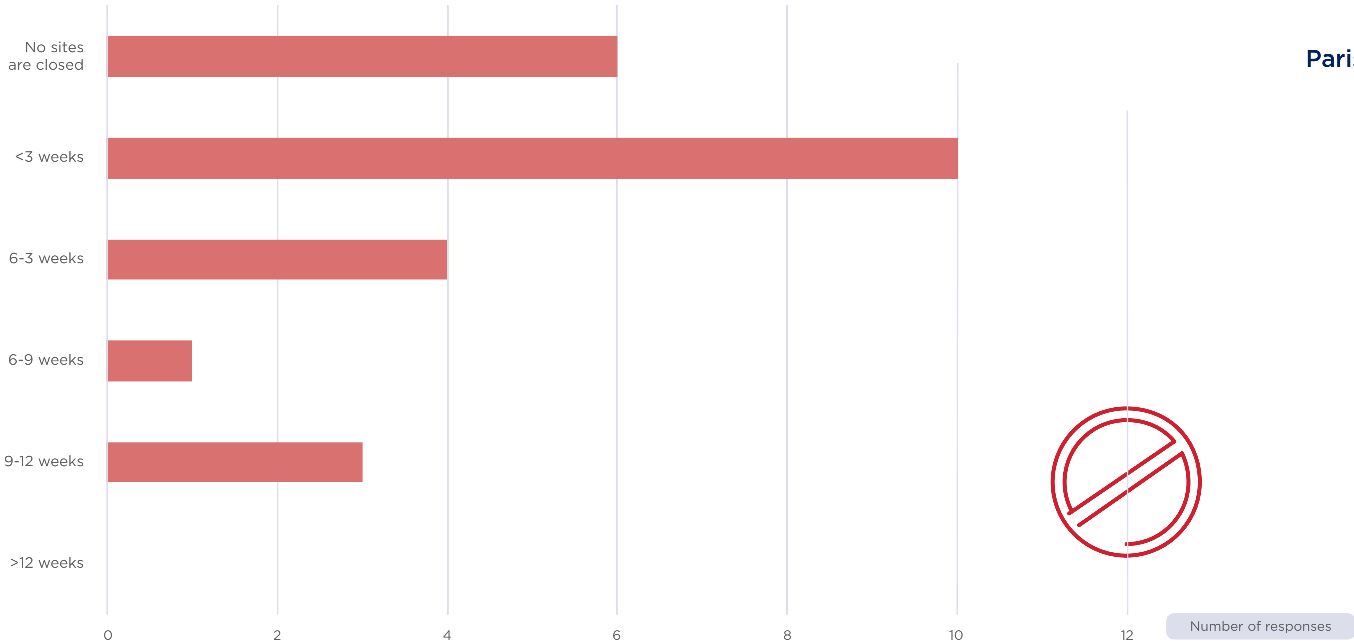
London - The figure is approximately 50%, but as noted some sites were re-opened after the Easter break.

Madrid, Milan, Paris and Pretoria – Reported a 100% shutdown.

Singapore - 95% of construction sites are closed.



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



“We are going into a strong recession for many companies”

Paris

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

The largest group referred to closures of less than three weeks, which accounted for just under 42% of all the responses. The effect is that exactly two thirds of cities report absence of closures, or closures of less than three weeks.

Some of the responses received by city are represented below:

Athens – Reports closures of between nine and 12 weeks.

Auckland - The construction sites are under a four-week lock-down.

Brussels - 75% of sites are reported closed since the lockdown on 16 March.

Hong Kong - There has been no major site closure since the outbreak of the pandemic, although there was widespread disruption to site activities in February when the supply chain from mainland China was put on hold and some workers were unable to return to Hong Kong after the Chinese New Year.

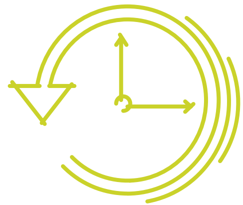
London - Construction sites have been closed for less than three weeks, with some of these sites having been closed for two weeks.

Melbourne - Reports that a few sites have had an incident of a worker testing positive for COVID-19, and then the site being shut down for a maximum of 48 hours, cleaned, etc and re-opened.

Pretoria - The lockdown began on the 26 March and sites remained closed up until 30 April.

Seoul - Reports closures of between 9 and 12 weeks.

Shanghai – Reports closures of between 9 and 12 weeks.



"Too early to say much.... situation changes by the hour"

Copenhagen

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

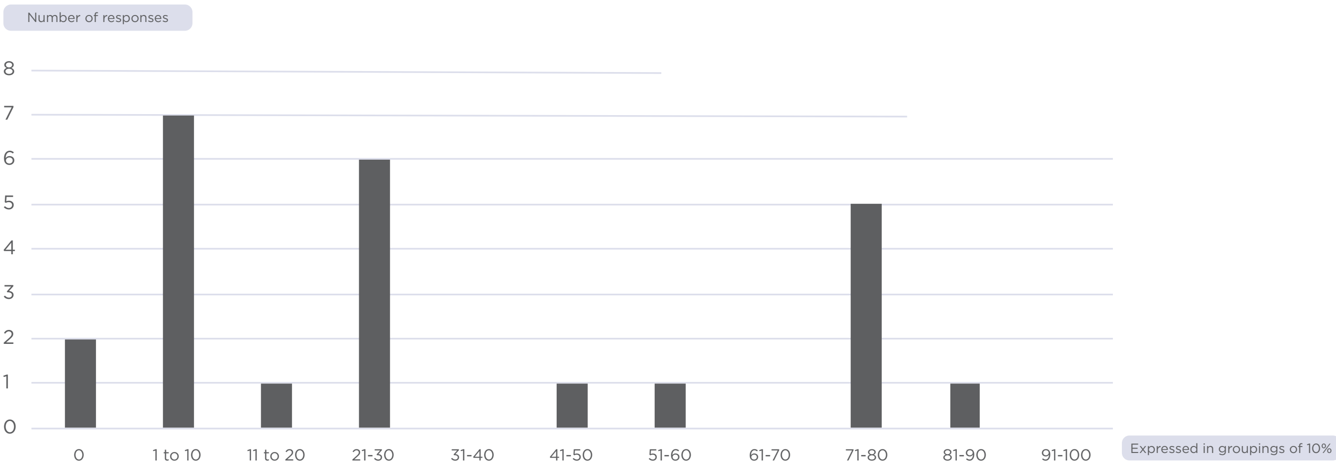
Answers to this question again varied substantially, covering the range from 0 to over 80%, with an average of 34%. Responses received city-by-city are grouped as shown below:

Hong Kong and Paris - Report no impact on pre-construction work progressing.

London - Reports 25% of projects on hold.

Milan, Seoul, Warsaw, Auckland, Riyadh and Madrid – Report 80% for project deferrals.

The effect of such large-scale deferrals of work raises inevitable downstream issues in relation to workload for consultants and contractors. Pipeline of work will need to be built to replace projects running through to completion.



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

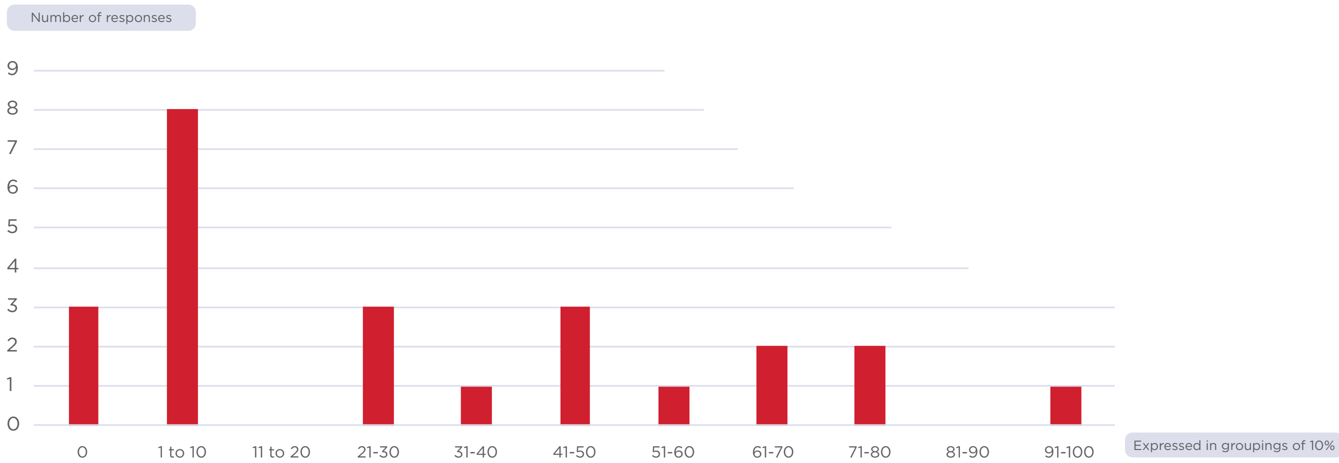
Whereas the question about pre-construction slowdown returned a range from 0 to just over 80%, the current question showed the full range from 0 to 100%, although the average was slightly lower, at 33%. The variability reflects phase of process and nature of response, as well as commercial and business imperatives.

Some of the responses received by city are represented below:

Amsterdam, Macau and Moscow - Report no drop-off at all.

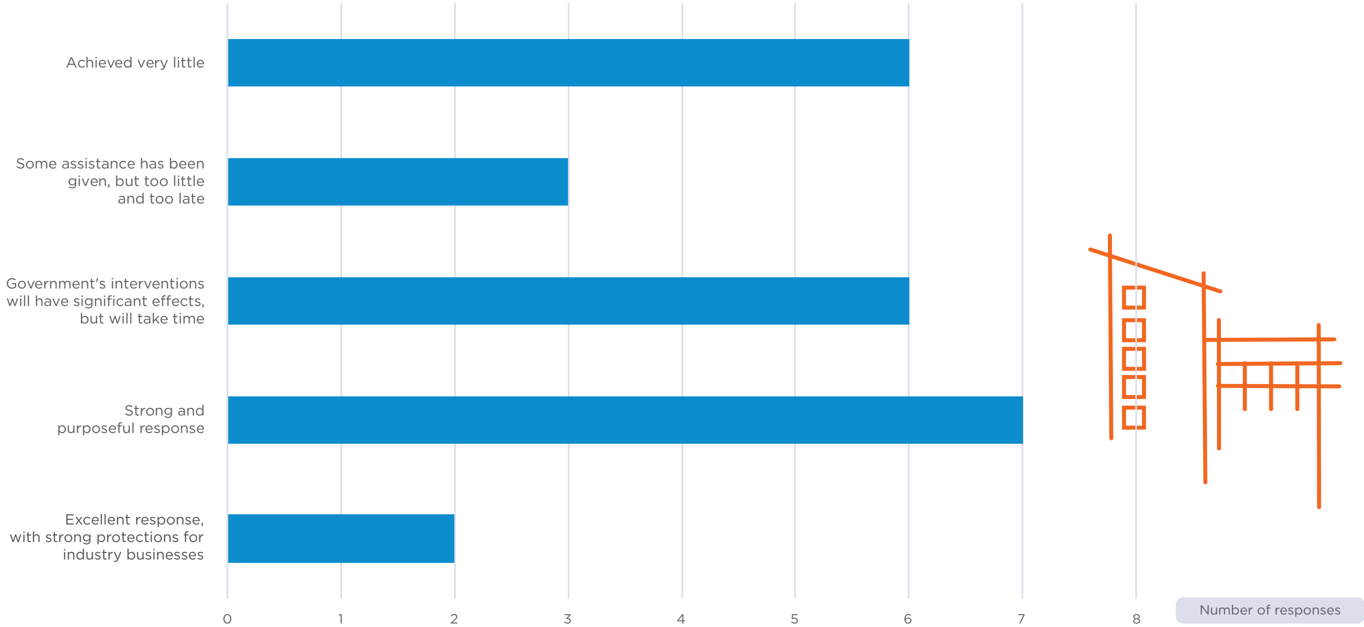
Madrid - The drop-off has virtually eradicated enquiries for now.

London - Reports a 10% drop-off.



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

This question produced a wide variety of answers, with approximately 63% overall accepting that government support had significantly affected the construction industry in their country.



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

Key comments include the following:

Singapore - The Emergency COVID-19 (Temporary Measures) Act 2020, enacted on 7 April makes provisions in relation to construction work (schedule contract). The main objectives of the Act are to help contractors who are affected by the disruption of the supply chain and to prevent employers from taking damaging actions against contractors who are unable to meet contractual obligations due to COVID-19.

New Zealand - Lockdown of all non-essential contracting projects is obviously devastating for the industry. A wage subsidy scheme has assisted a little, but should full lockdown continue beyond four weeks then this will be "too little too late".

Australia - While construction being deemed 'essential' has provided a strong positive effect, the lockdown of tourism, hospitality and retail has had a significant effect on overall economy and shattered confidence within the property industry.

The state of New South Wales has announced measures to speed up the planning approval process, which should also see a positive response from private and public developers. The Federal Government is also pushing ahead with their projects and looking to fast track, to keep things going.

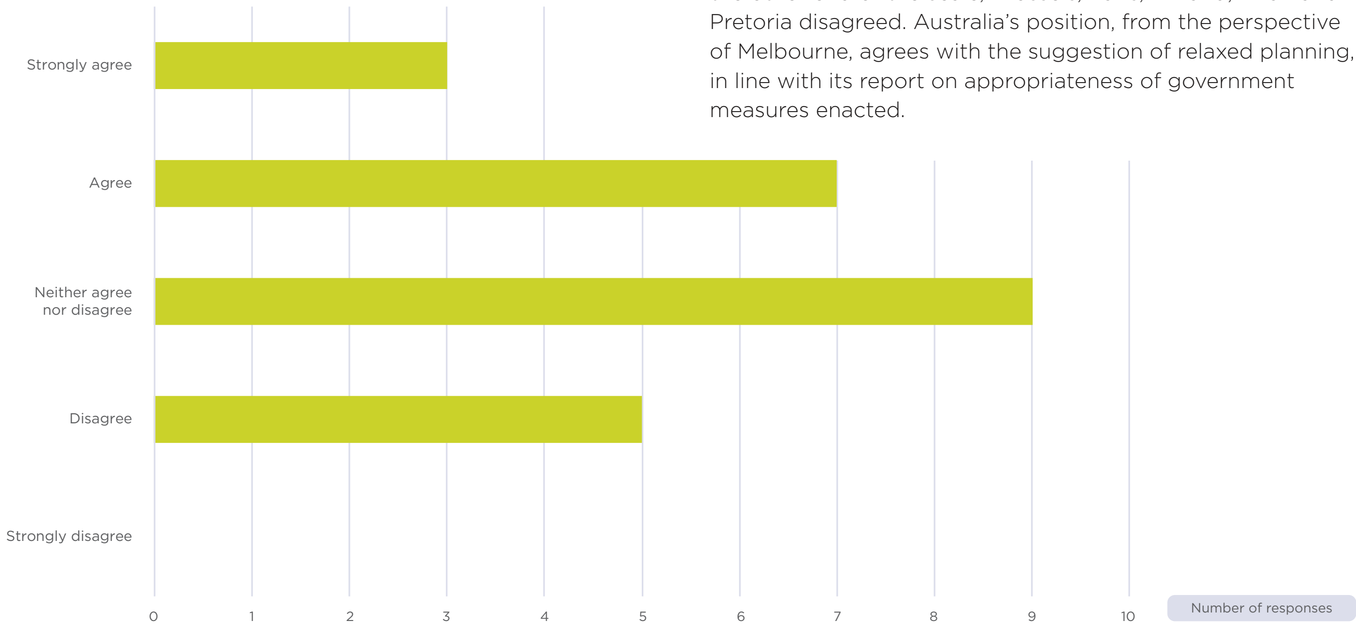
"The biggest issue is that we have no end date, as one still could say we are in the early stages of lockdown, therefore clients are reluctant to push ahead with any new/planned projects"

Melbourne

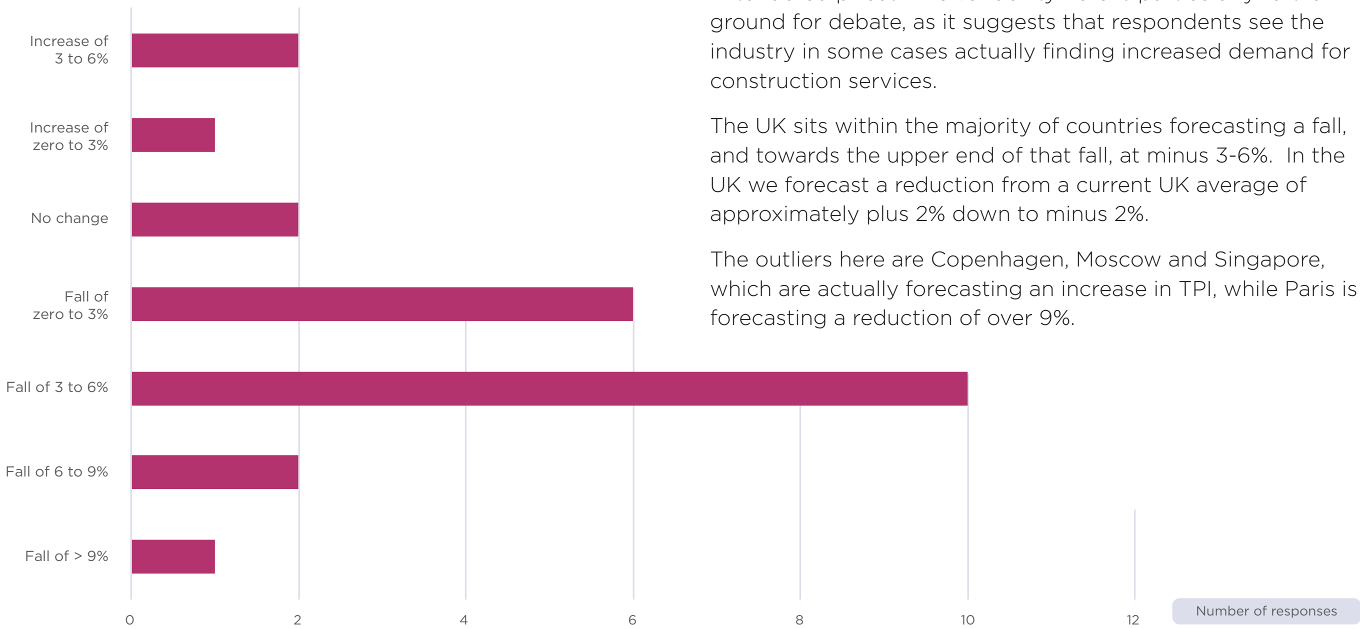
10. WILL THE AFTERMATH OF THE PANDEMIC INCLUDE RELAXED PLANNING CONSTRAINTS AS A STIMULUS TO SPEEDY RESUMPTION OF ACTIVE DEVELOPMENT?

This question provided mixed views on what will likely happen with regard to planning after the immediate crisis has passed.

The London view is among those that strongly agree with this proposition, along with Auckland and Madrid. However, at the other end of the scale, Brussels, Paris, Finland, Milan and Pretoria disagreed. Australia's position, from the perspective of Melbourne, agrees with the suggestion of relaxed planning, in line with its report on appropriateness of government measures enacted.



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



The answers reflect the change on tender price movement forecast at December 2019.

Again, broad interpretation of the effects of the pandemic, ranging from significant cost imposts to very significant falls in tendered prices. The variability here is particularly fertile ground for debate, as it suggests that respondents see the industry in some cases actually finding increased demand for construction services.

The UK sits within the majority of countries forecasting a fall, and towards the upper end of that fall, at minus 3-6%. In the UK we forecast a reduction from a current UK average of approximately plus 2% down to minus 2%.

The outliers here are Copenhagen, Moscow and Singapore, which are actually forecasting an increase in TPI, while Paris is forecasting a reduction of over 9%.

SECTOR ANALYSIS

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

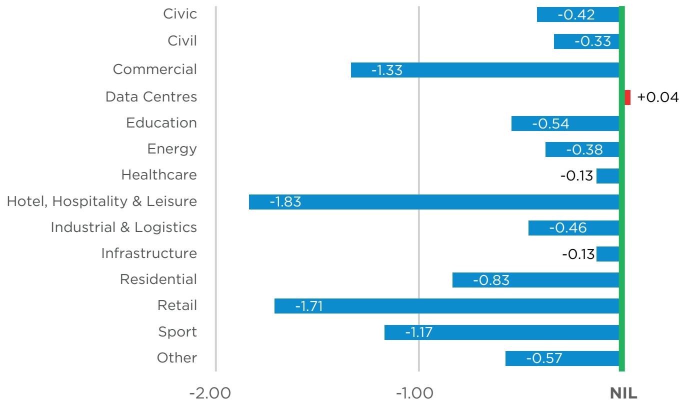
This question addresses views on the current impact on 14 individual sectors.

Methodology: Respondents were given a five-point scale on which to input a 'grade' reflecting the effect of the COVID-19 outbreak and its consequences on the respective sectors. Each 'answer' has been given a value to allow statistical analysis as follows:

Answer	Value used for analysis
Major negative effect	-2
Negative effect	-1
No effect	0
Positive effect	+1
Major positive effect	+2

In this way, respondents' subjective views were transformed into measurable values for comparison city-to-city and sector-to-sector.

Overall, the consolidated analysis of all of the 24 respondents' answers for each sector, unweighted for individual sector significance, produced averaged global sector figures as follows:



The chart above demonstrates quite clearly the fact that almost all of the impacts across the sectors show negative effects, with only data centres showing a slight overall positive effect. The sectors worst affected are; hotel, hospitality & leisure, commercial and retail.

WHAT IS THE GENERAL EFFECT OF THE PANDEMIC ON SECTORS?

The following two charts, on pages 20 and 22, use a horizontal stacked chart approach to depict more detailed city-sectoral return analysis. The overall bar for a sector represents the stack of all of the cities' responses regarding that sector.

Readers should note that the overall bars feature 'single width' entries and 'double width' entries.

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).

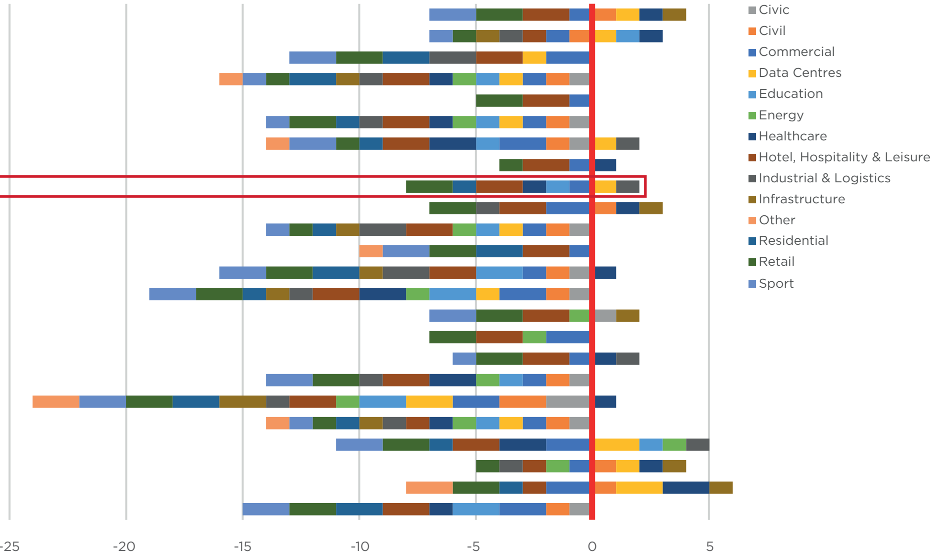
"Tender price movement is a topic that, in itself, is hard to predict. We could lose significant industry resource if there is a major collapse. In a small market we could see costs actually increase, despite a reduced volume of available work including loss of contractors, loss of skill, supply chains etc"

Auckland

CITY ANALYSIS BY SECTOR

In the chart below, cities' overall rank figures show that the least adversely affected is Shanghai, and most affected is Pretoria (rank 24).

City	Average	Rank
Amsterdam	-0.21	3
Athens	-0.31	5
Auckland	-1.00	15
Berlin	-1.14	20
Brussels	-0.36	8
Copenhagen	-1.00	15
Helsinki	-0.86	14
Hong Kong	-0.21	3
London	-0.46	10
Macau	-0.31	5
Madrid	-1.00	15
Melbourne	-0.71	13
Milan	-1.15	21
Moscow	-1.46	23
Oslo	-0.38	9
Paris	-0.50	12
Phoenix	-0.31	5
Prague	-1.00	15
Pretoria	-1.64	24
Riyadh	-1.00	15
Seoul	-0.46	10
Shanghai	-0.07	1
Singapore	-0.14	2
Warsaw	-1.15	21



CITY ANALYSIS BY SECTOR

In terms of ranking, London is number 10 of the 24 locations. A key facet of the London outcome is that both Data Centres and Industrial & Logistics sectors were shown as being affected in a positive direction, so offsetting some of the rest of the negative effects.

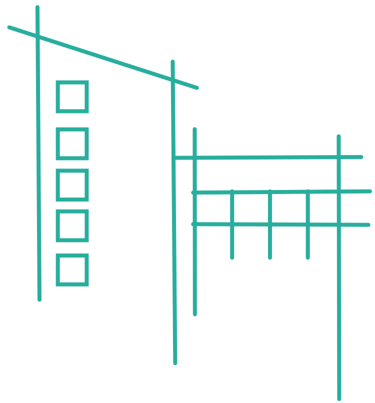
Interestingly, the city least adversely affected is Shanghai, although even Shanghai is showing a marginal overall negative impact by sector . The most adversely affected in the survey is Pretoria, largely due to the multiple severely affected sectors.

However, it should be noted that this analysis applies no weightings to sectors, so the effect is that each sector is considered to be of equal significance in each market.

From the London standpoint the outstanding feature of this overall outcome is that London is one of just over half of the respondent locations that report sectors having felt a positive effect of the situation.

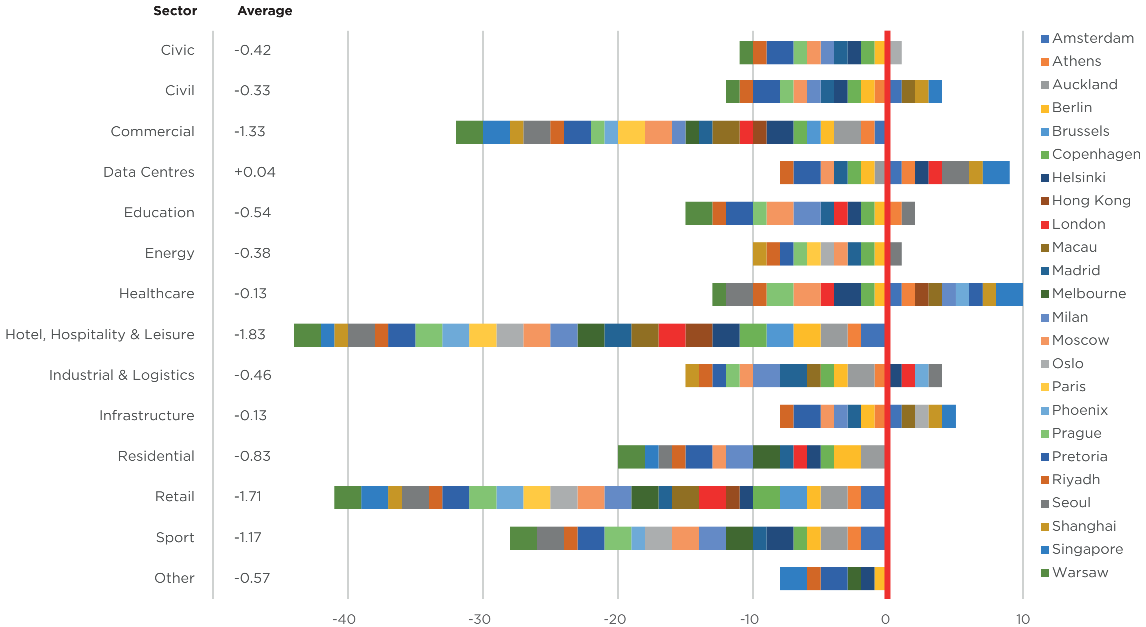
There are even a few examples of sectors feeling strongly positive effects in certain locations, but these are concentrated in Seoul and Singapore, which can be described as being further on in the progress of the outbreak. At the time of the survey, Singapore had enacted significant social and business constraints, and the total number of COVID-19 cases per million of population stood at approximately one third that of the UK. South Korea meanwhile was reporting half of the Singapore figure per million.

All of this underlines the complexity of the effects and the staging, upon the timing and strength of impacts and on countries' recovery scenarios.



SECTOR ANALYSIS BY CITY

The key to the chart below shows London in red font. Overall, the chart shows that London had very adverse sectoral effects for hotel, hospitality & leisure and retail, which aligns well with the overall global view of these sectors.



CONCLUSION

Reponses from RLB offices around the world clearly demonstrate the diversity of experiences, effects and outcomes flowing from the COVID-19 outbreak. There are myriad programmes of activities, financially, socially and economically, in process, as the one consistent fact is that we are facing an altogether unprecedented situation. The current and ongoing human tragedy stands on its own as governments everywhere struggle to cope with attempts to keep their people safe and protected, while somewhere, further down the road, having to find viable solutions to exiting the varying degrees of lockdown that have had to be imposed.

The very nature of the pandemic has ensured that all economies and all sectors have been affected, so the solutions have already required unprecedented levels of government intervention right across the spectrum of political shades of government. The fall-out of that will have to be dealt with eventually, but meantime, understanding the respective countries' positions is important as there will no doubt be learnings available from those that pioneer the beginnings of re-opening of economies, so the rest of the world may gain from the experiences of those that have been best-able to control spread of the virus while creating a basis for recovery.

As noted previously, this survey will be followed-up in 3-weeks' time, when RLB offices' respondents will review the situation in their respective cities and countries, providing a rolling coverage of perspectives as the COVID-19 situation plays-out.

The next edition of our analysis will feature not only the then current situation, but also the change that has taken place around the world in the interim.

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