Gravesham Borough Council

Commercial Services Cabinet Committee

Members of the **Commercial Services Cabinet Committee** of **Gravesham Borough Council** are summoned to attend a meeting to be held at the Council Chamber, Civic Suite on **Tuesday, 25 January 2022 at 7.30 pm** when the business specified in the following agenda is proposed to be transacted.

S Walsh
Service Manager (Communities)

Agenda

Part A
Items likely to be considered in Public

1. Apologies
2. Minutes (Pages 3 - 6)
3. Declarations of Interest
4. To consider whether any items in Part A of the agenda should be considered in private or any items in Part B in public
5. Economy and Property Market Update (Pages 7 - 16)
6. Any other business which by reason of special circumstances the Chair is of the opinion should be considered as a matter or urgency.
7. Exclusion

   To move, if required, that pursuant to Section 100A(4) of the Local Government Act 1972 that the public be excluded from any items included in Part B of the agenda because it is likely in view of the nature of the business to be transacted that if members of the public are present during those items, there would be disclosure to them.

Part B
Items likely to be considered in Private

Members

Cllr Lenny Rolles (Chair)
Cllr Sarah Gow (Vice-Chair)

Councillors:	Gurdip Ram Bungar Samir Jassal Leslie Pearton Anthony Pritchard Tony Rana Tony Rice Gurbax Singh Denise Tiran
Substitutes:	To be notified

Commercial Services Cabinet Committee

Tuesday, 9 November 2021 7.30 pm

Present:

Cllr Lenny Rolles (Chair)
Cllr Sarah Gow (Vice-Chair)

Councillors:	Gurdip Ram Bungar Samir Jassal Leslie Pearton Anthony Pritchard Tony Rana Tony Rice Gurbax Singh Denise Tiran

Melanie Norris	Director (Communities)
Sarah Parfitt	Director (Corporate Services)
Lisa Nyon	Assistant Director (Corporate Services)
Elizabeth Thornton	Service Manager (Property & Regulatory Services)
Chris Wakeford	Committee Services Manager (Minutes)

13. Apologies for Absence

No apologies were received.

14. Minutes

The minutes of the meeting held on 9 September 2021 were signed by the Chair.

15. Declarations of Interest

Cllr Lenny Rolles, Cllr Sarah Gow and Cllr Tony Rice all declared an other interest in Item 5 – Corporate Performance Update: Quarter Two 2021-22 in that all the above named Councillors were appointed Directors of Rosherville Limited and Cllr Lenny Rolles was also Chair of the Board.

16. Corporate Performance Update Q2 2021-22

The Assistant Director (Corporate Services) presented Members of the Commercial Services Committee with an update against the Performance Management Framework, as introduced within the council's Corporate Plan, for Quarter Two 2021-22 (July to September 2021).

The Assistant Director (Corporate Services) highlighted the following:

- PI's 45 and 46 are annual indicators and results would be presented in Quarter 4.
- PI 47, total amount secured through contractual social value is provided on a quarterly basis. For Quarter Two this year no social value contributions were secured.

The Committee noted the Corporate Performance Update Quarter Two 2021-2022.

17. Update on Town Centre initiatives

The Committee received a presentation from the Director (Communities) on Town Centre Initiatives.

The presentation highlighted the new St George's Arts Centre and can be viewed here:
https://democracy.gravesham.gov.uk/ieListDocuments.aspx?CId=445&MId=4656&Ver=4

During the presentation, and following questions from the Committee, the Director (Communities) highlighted the following:

- The new Arts Centre in the St George's Centre will officially open on 11 December 2021.
- The Arts Centre will include a multi-functional open space, a pop up cafe and vending provision with a fully serviced office facility which is hoped will be rented out
- The new Arts Centre will provide the opportunity for culture-led regeneration in the Town Centre and turn the shopping centre's 'cold spot' into a thriving retail area and will hopefully increase footfall into the shopping centre
- The Arts Centre will be managed by the Council (Mandy Hare, General Manager, The Woodville). A bid will also be made to get an artist in residence in the Arts Centre.
- The vision for the Arts Centre includes; a gallery space, a thriving café, a series of workshops / readings, local community group use, outdoor events in the summer (e.g. buskers, choirs etc.) and a different theme for each month e.g. National Storytelling Week in February.
- The council is working with partners to ensure a thriving arts culture is achieved within Gravesham.
- The aim is to provide a vibrant Arts Centre programme that will encourage footfall in the Town Centre.
- The Arts Commission for Christmas is called 'Twinkle, Twinkle' and will involve stars with messages, atmospheric lighting and creative projections. Artists will be holding workshops to create star installations. It was envisage that the outdoor space would be used for street food and bar facilities in December but this will now happen in January.

The Committee thanked the Director (Communities) for an informative presentation and welcomed the opening of the St George's Arts Centre.

18. Exclusion

Resolved pursuant to Section 100A(4) of the Local Government Act 1972 that the public be excluded during the following items of business because it was likely in view of the nature of the business to be transacted that, if member of the public were present during this item, there would be disclosure to them of exempt information.

19. Property Information Dashboard

The Service Manager (Property & Regulatory Services) provided the Committee with the Property Information Dashboard and highlighted the changes since the previous Committee meeting.

The Committee noted the Property Information Dashboard.

Close of meeting

The meeting ended at 8.04 pm

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 Agenda Item 5

Classification: Public
Key Decision: No

Gravesham Borough Council

Report to:	Commercial Cabinet Committee
Date:	25^{th} January 2022
Reporting officer:	Service Manager (Property and Regulatory)
Subject:	Economy and Property Market Update

Purpose and summary of report:

To share the RICS publication 'Economy and Property Market Update' with Members

Recommendations:

1. That the report is noted

1. Summary of report

1.1 Not unexpectedly the rate of inflation remains a cause of concern given the potential impact on prices / pay negotiations going forward.

1.2 In respect of commercial property the report notes that the industrial sector has performed strongly and the market within Gravesham is no different.

1.3 As has been well reported the residential property market performed strongly post lockdown, assisted by the stamp duty break. First time buyers represented approximately 50% of all house purchases financed with a mortgage although unsurprisingly the majority were in the top 40% of earners (EGi / The Times / The Guardian).

1.4 Rising costs, scarcity of skilled trades and resultant pressures profit margins are challenges facing the construction industry currently albeit activity is expected to increase.

2. Background Papers

2.1 There are no background papers relating to this report.

IMPLICATIONS	APPENDIX 1
Legal	None
Finance and Value for Money	None
Risk Assessment	N/A
Data Protection Impact Assessment	*A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.*
	a. Does the project/change being recommended through this paper involve the processing of personal data or special category data or criminal offence data? A definition of each type of data can be found on the Information Commissioner's Office website via the above links.
	b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice? N/A
	c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdpr@medway.gov.uk. N/A
Equality Impact Assessment	a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer. N/A
	b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer. N/A
	In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above
Corporate Plan	N/A
Climate Change	N/A
Crime and Disorder	N/A
Digital and website implications	N/A
Safeguarding children and vulnerable adults	N/A

RICS

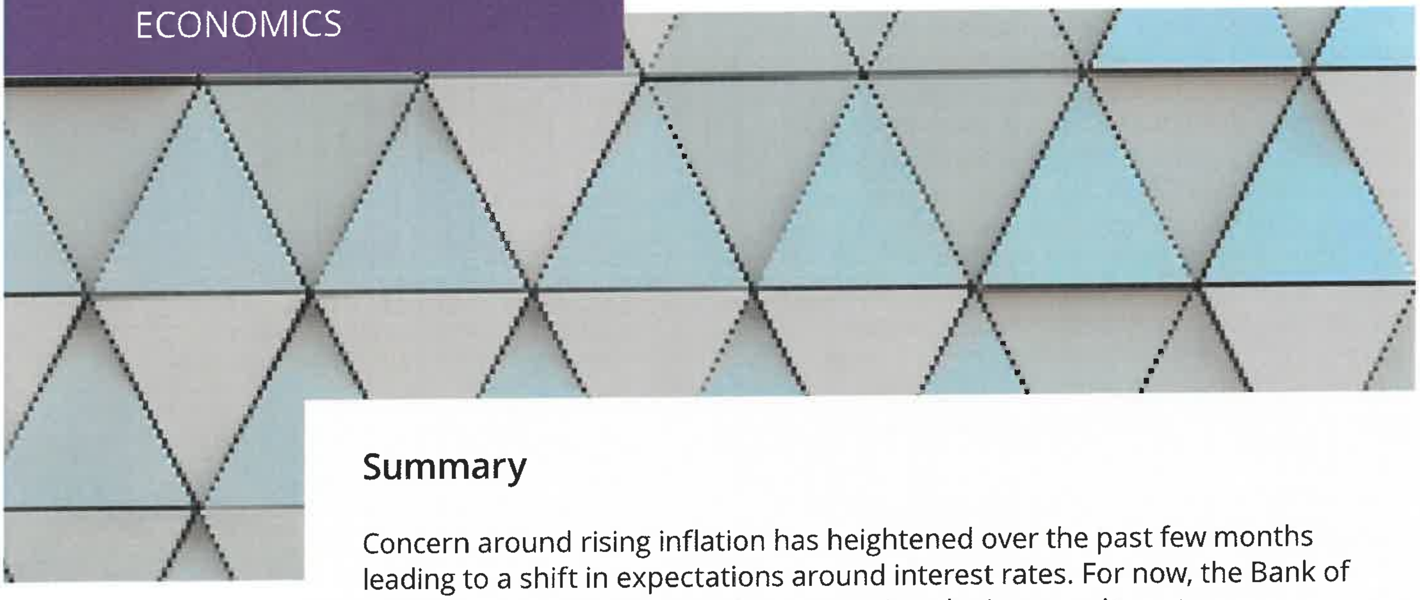
Sponsored by: awh anderson wilde & harris EXPERTS IN PROPERTY

Economy and Property Market Update

November 2021

More positive trend in construction and real estate but rising inflation raises interest rate risk

ECONOMICS



Summary

Concern around rising inflation has heightened over the past few months leading to a shift in expectations around interest rates. For now, the Bank of England (amongst others) continues to view the increase in cost pressures as likely to be temporary, rather than becoming embedded in expectations. Nevertheless, some tightening in monetary policy is still probable if only as a precautionary measure. That said, the scale of any move by the authorities seems unlikely at this point to derail the better tone coming through in parts of the commercial real estate market and the construction sector.

Economy

The key focus of policymakers continues to be on the unfolding inflation story. Supply chain bottlenecks and component shortages are continuing to push up global goods prices while raw material costs are being squeezed higher; Brent crude is hovering around the $80 per barrel mark compared with $50 at the start of the year. This is reflected in manufacturers' input price inflation highlighted in chart 1 which now stands in excess of 11%. The measured rate of consumer price inflation remains a little better behaved but it has still pushed above 3% and the recently updated forecast from the Bank of England suggests it will go higher in the near term. Indeed, the latest projections point to inflation reaching 4.5% YoY at the end of the year and approaching 5% in the early part of 2022.

How the picture plays out beyond this remains to be seen. Base effects should gradually become more helpful but labour market pressures are growing, albeit at this point in specific sectors. One concern of the Bank is that this become more broadly based with the inflation psychology becoming more embedded in pay negotiations and settlements. And, as an indication of its unease, its projection for inflation three years out on unchanged rates, is 2.6% (end of 2024). For the record, this is the highest forecast for inflation over this time horizon that it has ever published (Chart 2). As such, it represents a strong signal that some tightening in policy will be required in the year ahead. The decision not to move rates in November was partly down to the majority of decision makers at the Monetary Policy Committee wanting a bit more time to evaluate the impact of the unwinding of the furlough scheme. However, we doubt this is more than a temporary stay of execution.

On a more positive note, the Budget presented the Chancellor with the opportunity to revisit his fiscal numbers in the light of the stronger than anticipated performance of the economy (compared with forecasts made in March). Some of the gain was reflected in the higher spending numbers announced but the remainder was banked and can be seen in the downward projection for debt as a share of GDP (Chart 3). It is now projected to return towards pre-pandemic levels by the middle of this decade. That said, the debt ratio will remain significantly above where it was prior to onset of the global financial crisis. This points to the risk of higher servicing costs as interest rates rise although UK debt has relatively lengthy maturities providing some protection.

Chart 1: Key measures of inflation continue to move upwards

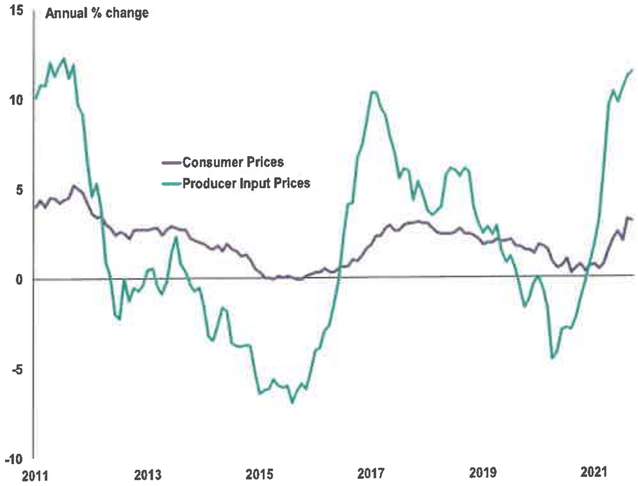


Chart 2: BoE's forecast of where inflation will be in 3 years' time on the assumption of unchanged interest rates

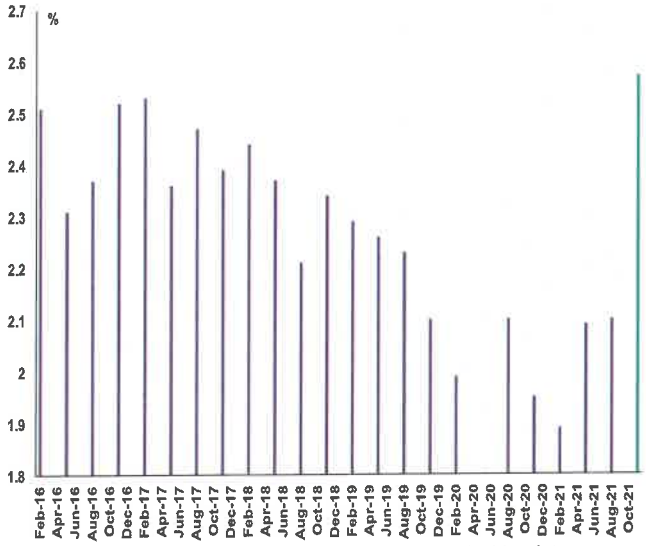
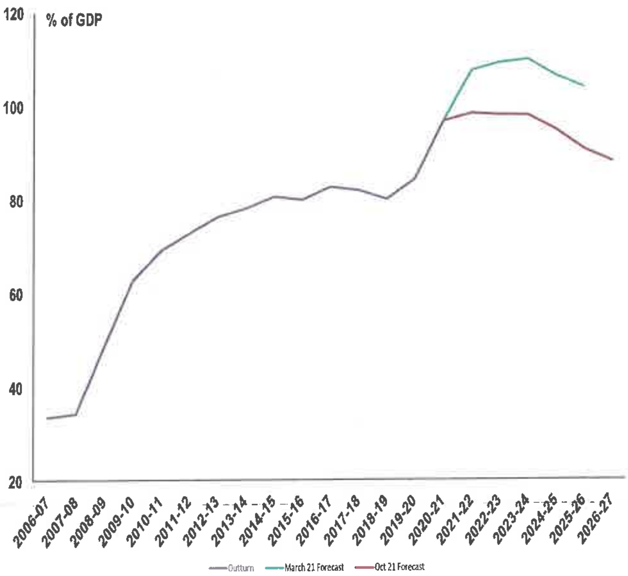


Chart 3: The Office for Budget Responsibility scaled back its expectations regarding the growth in public debt in the Budget



Commercial Property

Hard data shows investment transactions (in terms of deal value) are now running ahead of 2019 levels and are only slightly below when viewed from the perspective of deal numbers. This is clearly evident in Chart 4 which also demonstrates the importance of activity in logistics and retail parks in driving this performance. Indeed, in the last twelve months, industrial transactions have accounted for more investment volume than any other sector (31% of the total.) London offices, which used to be the dominant subsector, have a share of activity over this period of 16%. Unsurprisingly against this backdrop, transaction yields in industrials continues to slip to new lows with the latest Property Data figures showing them approaching the 3.5% area.

The generally more positive mood regarding the outlook for the commercial real estate market is also very visible in the results of the Q3 RICS UK Commercial Property Monitor (CPM). Around two-thirds of respondents now view the market to be in the early or mid phase of the upturn in the cycle. As Chart 5 shows, this is the highest proportion taking this view since the back end of 2015. Meanwhile, less than one in five contributors to the survey still see the market in a downturn. This tone is also captured in the more forward looking indicators, with the 12 months expectations metric for capital values climbing in net balance terms from +1% (in Q2) to +11% which is actually the best headline reading since the early part of 2018.

This is also being reflected in the occupier market, with the CBRE all-property rental value index edging up in recent months and, in the process, posting its first annual gain since the early part of 2019. Tenant demand remains particularly firm in the industrial sector, with the RICS CPM recording a net balance of +56% for this indicator; this is marginally down from the +63% posted in Q2 but is still consistent with a strong appetite to take-up space. Meanwhile, as Chart 6 illustrates, the picture regarding offices is beginning to improve as the demand metric moved back in positive territory (albeit only marginally) and the availability measure eased back a little. Disaggregating the data a little further does point to some improvement in the numbers for London but this comes after hefty falls previously with the jury still out as to how the hybrid model of working will impact big city office usage. The headline retail indicator for occupier demand, while still negative in Q3, was the least so since Q3 2017.

Chart 4: Property Data figures show the extent of the rebound in commercial real estate activity this year

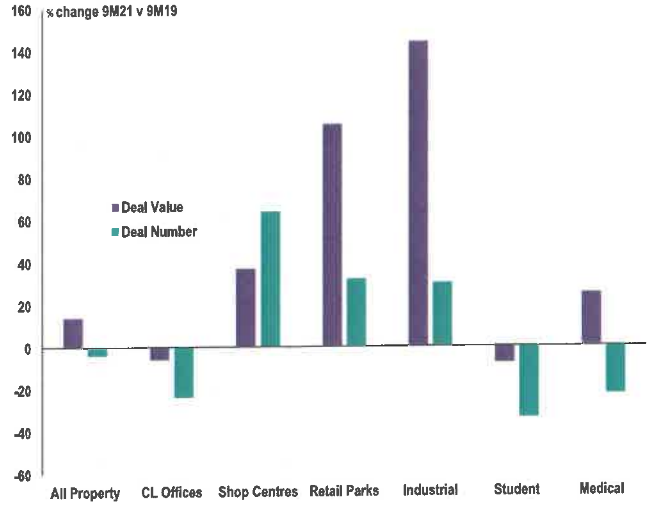


Chart 5: The rising share of respondents to the RICS Commercial Property Monitor whio view the market in an upturn phase

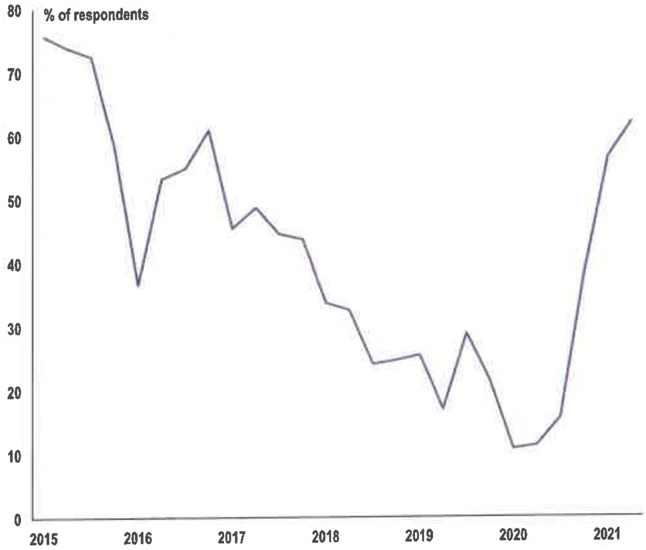
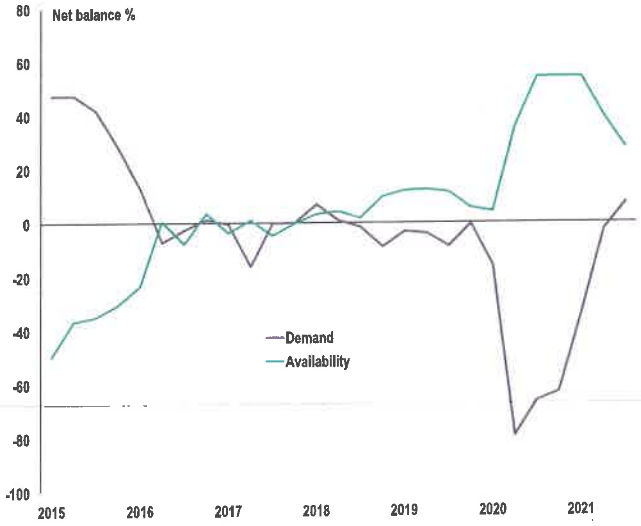


Chart 6: The RICS Monitor also shows an improving picture in the office sector with tenant demand metric now in positive territory



Residential Property

In the wake of the expiry of the tapered stamp duty break at the end of September, it was not surprising that official data collated by HMRC showed another large rush in activity to complete before the deadline. Although some revision to the latest estimate is probable, it is currently indicated that 161k transactions took place in the final month before the tax perk was fully removed. More significantly, it implies that a hefty 1.562million sales were completed in most recent twelve month period which is an the upper end of the historic range (see chart 7).

Looking forward, there are some encouraging signs from the monthly RICS Residential Market Survey that the drop off in activity may not be as dramatic as might have been expected. The closely watched New Buyer Enquiries indicator, which tends to lead mortgage activity, increased in October after a few softer months (net balance of +10%). Meanwhile, the near term Sales Expectation series recorded the same result. Interestingly, the twelve-month Sales Expectations net balance was close to zero which also suggests that respondents are not anticipating the (underlying) volume of activity to change very much over the period. However, one ongoing challenge remains the level of new instructions being received by agents. The latest data shows another drop (net balance of -20%) which has contributed to pushing the average stock on agents books on the RICS measure back towards historic lows. And, with the number of appraisals down on where they were a year ago, it remains questionable whether this trend will be reversed anytime soon.

The lack of stock may not just inhibit activity going forward but could also contribute to further price growth; the headline RICS price balance is still showing a very strong reading (Chart 9) and twelve month expectations are also elevated. The shift in tone regarding interest rates has the potential to influence sentiment towards residential purchases although it remains to be seen whether the increase over the coming months is sufficient to do so. The strong employment picture allied to the high proportion of existing borrowers on fixed rate mortgages provides a good basis for not anticipating a material near term impact on the market. Consultancy, Capital Economics, have estimated that Bank Rate would have to rise to over 2%, and mortgage rates to more than 3.2%, for affordability to deteriorate enough to risk a correction.

Chart 7: HMRC property transactions over the past twelve months has been near previous highs

Chart 8: RICS sentiment data is pointing to a stable trend in underlying levels of activity in the housing market

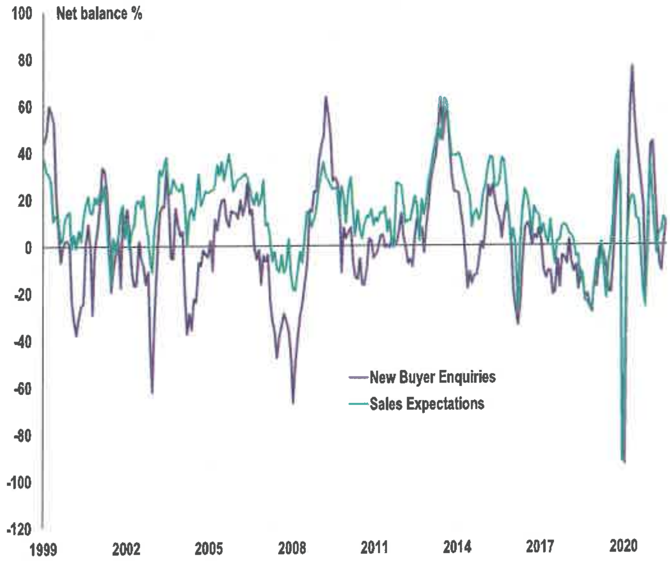
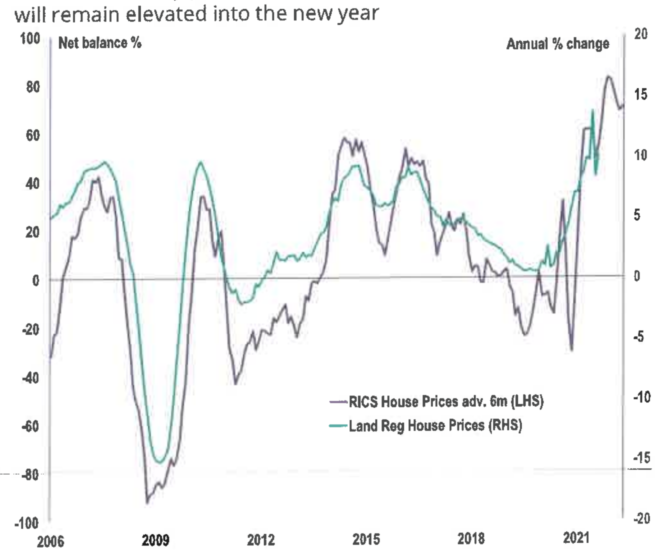


Chart 9: RICS key price indicatorsuggests house price inflation will remain elevated into the new year



Construction

Official data suggests that while construction output is currently around 10% up on a year ago (August numbers), it still around 3.5% lower than in the summer of 2019. The ONS often ends up revising this dataset and it would not be a surprise to see the current picture upgraded over the coming months. This is because, looking across the sectors, it shows sharp falls in output in new build private housing and r&m over the past quarter; this seems inconsistent with much of the anedotal insight. Indeed as Chart 10 highlights, feedback to the the Q3 RICS Construction Monitor shows infrastructure and private residential seeing the strongest uplift in workloads at the current time.

Major challenges for the industry are presented both by the rising costs of materials and issues around labour and skills. In the latest RICS Monitor, around 90% of respondents identified availability of materials as a problem. Against this backdrop, UK construction materials annual price inflation in the 3 months to September 2021 was put at more than 22% according to BEIS. The fastest inflation rates remain in primarily imported products such as timber (& timber-related products) & steel (& steel-related products). Feedback to the RICS survey suggests that the biggest difficulty on the labour front is around the recruitment of skilled trades but that there also appears a renewed scarcity of quantity surveyors; over half of respondents noted this which is the highest reading since the first three months of 2019.

These pressures are also evident in the RICS metric designed to capture the current trend in profit margins, which remains in negative territory (-11% net balance). Looking forward, respondents suggest the increase in construction costs, on average, will continue to outstrip the likely rise in tender prices (Chart 11).

That said, a strong reading for the RICS New Business Enquiries indicator (+54% net balance after a +50% reading in Q2) suggests the activity trend will be upbeat into the New Year. Updated forecast for industry output from the Construction Products Association are contained in Chart 12. These suggest that activity will increase by close to 5% in 2022 after a 14% rise this year. Within this, infrastructure is likely to remain at the forefront, posting another 10% increase in output with industrial work rising by nearer 8%. Repair and maintenance is likely to contribute a smaller share of the work after a strong 2021.

Chart 10: RICS Q3 Construction Monitor shows current workload momentum strongest in infrastructure and private housing

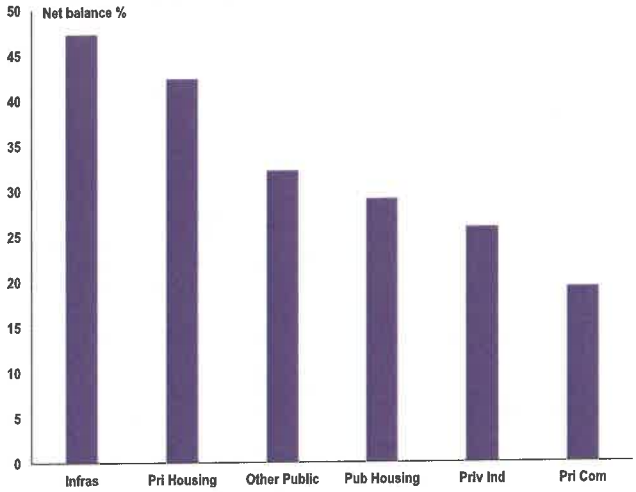


Chart 11: Twelve month expectations provided by respondents to the RICS survey suggest that profits will remain under pressure

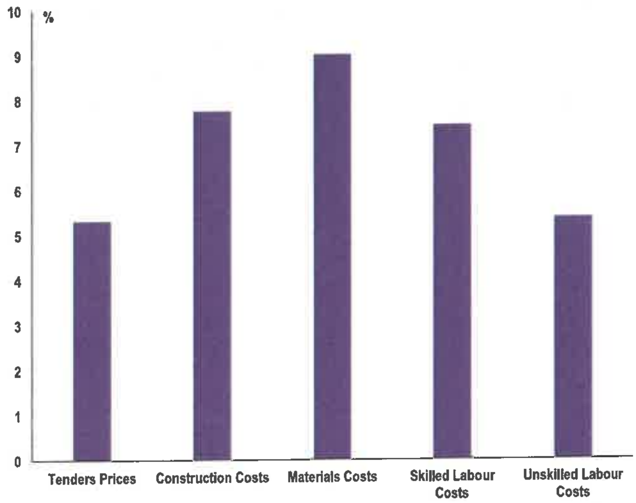
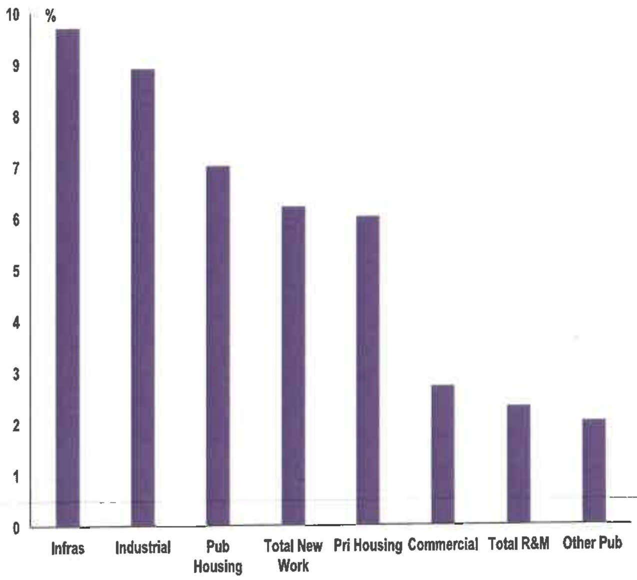


Chart 12: The Construction Products Association's forecasts show infrastructure and industrial work likely be most buoyant in 2022



For enquiries about the Economy and Property Update and the use of the charts, please contact:

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Delivering confidence

We are RICS. Everything we do is designed to effect positive change in the built and natural environments. Through our respected global standards, leading professional progression and our trusted data and insight, we promote and enforce the highest professional standards in the development and management of land, real estate, construction and infrastructure. Our work with others provides a foundation for confident markets, pioneers better places to live and work and is a force for positive social impact.

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Agenda Item 8

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