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 Centre, Windmill Street, Gravesend DA12 1AU on **Tuesday, 24 January 2023 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 for Absence
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. Economic and Property Market Update (Pages 7 - 18)
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.

Civic Centre, Windmill Street, Gravesend Kent DA12 1AU

**Part B**

**Items likely to be considered in Private**



**Members**

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

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

Agenda Item 2

**Commercial Services Cabinet Committee**

**Tuesday, 8 November 2022** **7.30 pm**

**Present:**

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

| | |
|---|---|
| Councillors: | Samir Jassal<br>Leslie Pearton<br>Anthony Pritchard<br>Tony Rana<br>Tony Rice<br>Gurbax Singh<br>Frank Wardle |

| | |
|---|---|
| Lisa Nyon | Assistant Director (Corporate Services) |
| Elizabeth Thornton | Service Manager (Property & Regulatory Services) |
| Karen Gingles | Committee Services Officer (Minutes) |

## 14. Apologies for Absence

Apologies for absence were received from Cllr Denise Tiran (Cllr Frank Wardle substituted) and Cllr Gurdip Ram Bungar.

## 15. Minutes

The minutes of the meeting held on Monday, 1 September 2022 were signed by the Chair.

## 16. Declarations of Interest

Cllr Lenny Rolles, Cllr Sarah Gow and Cllr Tony Rice declared an other interest in the Corporate Performance Update: Quarter Two 2022-23, as they were appointed Directors of Rosherville Limited and Cllr Lenny Rolles was also Chair of the Board.

## 17. Corporate Performance Update: Quarter Two 2022 - 23

The Assistant Director (Corporate Services) presented Members with the Commercial Services Committee with an update against the Performance Management Framework, as introduced within the Council's Corporate Plan, for Quarter Two 2022-23 (July to September 2022).

The Assistant Director (Corporate Services) drew member's attention to the three performance indicators in the report. Key points raised were:

- PI 45 & PI 46 were annual performance indicators, and an update would be provided on these at the end of the financial year.

- PI 47 outlined the total amount secured, through contractual social value. The Committee were informed that within quarter 2, GBC secured £5,642 in contractual social value contributions. This element included new flooring at Malvern House and an afternoon tea for residents in an independent living scheme.

The Committee noted the report.

## 18. Economic and Property Market Update

The Service Manager (Property and Regulatory Services) presented the Committee with the RICS publication 'Economy and Property Market Update – August 2022'.

The Service Manager (Property and Regulatory) advised that as the RICS publication was written in August 2022, there had been economic changes since then and highlighted the following:

- The Bank of England raised the base rate to 1.75% at its August meeting, with further increases predicted. Inflation was predicted to reach 13% from 9.4% before easing in the second quarter of 2023 and returning to target levels in the latter half of 2024. The Service Manager (Property and Regulatory) advised inflation currently stood at 10.1%.

- Whilst vacancies still outnumber people looking for work, this was likely due to change over the coming months with the unemployment rate rising to circa 6%.

- In respect of house sales, a number of demand indicators had fallen, albeit price levels remained resilient due to demand outstripping supply. Rents were expected to rise due to reduced supply in the sector, as a result of changes to the tax regime and regulatory environment.

The Chair noted that the RICS publication was very informative and a good snapshot in the context of the Commercial and Retail Portfolio. It was observed that changes had occurred since August in relation to the economic situation.

In response to Members questions, the Service Manager (Property & Regulatory Services) advised:

- There was nothing within the RICS publication 'Economy and Property Market Update – August 2022', that would alter the Council's current strategy or approach with relation to long term investments.

- In relation to construction (p.21 of the publication) and the factors that could impact output, such as increasing cost of building supplies and potential insolvency of contractors, Members were advised that careful consideration and investigation was made when contracts were out for tender.

The Committee noted the report.

## 19. 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.

## 20. Property Information Dashboard

The Service Manager (Property & Regulatory Services) provided the Committee with the Property Information Dashboard.

**Close of meeting**

The meeting ended at 19:43

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**Classification:** Public
**Key Decision:** No

**Gravesham Borough Council**

**Report to:** Commercial Cabinet Committee

**Date:** 24th January 2023

**Reporting officer:** Service Manager (Property and Regulatory)

**Subject:** Economic and Property Market Update

**Purpose and summary of report:**

To share the RICS publication 'Economy and Property Market Update' November 2022 with Members.

**Recommendations:**

1. That the report is noted

| **Key Implications:** | |
|---|---|
| **Item** | **Implications** |
| **Legal** | None |
| **Finance and Value for Money** | None |
| **Corporate Plan** | Links to #3 Progress |
| **Climate Change** | The vast majority of commercial leased property must have an Energy Performance Certificate banding of C by 1st April 2027 and be a band B by 1st April 2030. |

## 1. Background

1.1 The RICS published their most recent Economic and Property Market Update in November 2022 and this is attached to this report. A brief summary of the document is set out below.

## 2. November 2022 update

2.1 The Economy

2.1.1 Interest rates were reported as being at their highest level in fourteen years albeit since the report was written the Bank of England Monetary

Policy Committee has raised them by a further 0.5%. Inflation is expected to average 11% in the final part of 2022 with inflation easing through 2023 and may fall close to zero by 2025.

2.1.2 Critical to this view is the assumption that output will fall for eight successive quarters resulting in a fall in GDP of circa 8%. Much will depend to what extent consumers use savings or borrow to bolster spending or take a more cautious approach and bolster savings. At present it appears that consumers are choosing to save as there is an overall increase in the amount held in bank accounts.

2.1.3 Unemployment levels remain low due to the legacy of Brexit and the number of over 50s who are economically inactive but this is predicted to change due to the growing pressure on profits.

2.2 Commercial Property

2.2.1 The impact of the turmoil in the financial markets in September and October has led to yields softening across all sectors. Transaction activity has fallen and there is also greater caution amongst occupiers in respect of demand for accommodation leading to increased availability of space in the office and retail sectors. Respondents to the survey also expect a likely reduction in office demand over the next 12 months due to the impact of hybrid working.

2.3 Residential Property

2.3.1 Current prices are now flatlining but enquiries have fallen sharply. It is difficult to predict what this will mean for the market given the uncertainty over the possibility of further interest rate rises and the impact on jobs but current predictions are for an average price decline of circa 10%. Given that approximately 90% of mortgages are fixed rate products the impact of the higher borrowing rates will be felt over time rather than immediately.

2.3.2 The challenges in the sales market are leading to increased rental demand with available stock lagging behind potentially due to changes in the tax and regulatory environment. This has led to significant rental increases on new lets.

2.4 Construction

2.4.1 The cost and availability of building materials continues to be a challenge and whilst the annual inflation rate for materials is falling it is still significant at 16.7% which is leading to a contraction in margins.

2.4.2 Construction output is estimated to be approximately 6% greater than a year ago and 2.5% above pre-pandemic levels however new business enquiries are slowing with infrastructure driving activity.

2.4.3 Recruitment continues to be an issue particularly amongst skilled trades and professionals with upskilling the existing workforce seen as a priority for increasing productivity over the next year.

## 3. Appendices

3.1 The following documents are to be published with the report: Economic and Property Market Update – November 2022

**Lead Officer:** Elizabeth Thornton

**Email:** elizabeth.thornton@gravesham.gov.uk

| **Secondary Implications** | |
|---|---|
| **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?<br>A definition of each type of data can be found on the Information Commissioner's Office website via the above links.<br>No |
| | b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice?<br>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.<br>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.<br>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.<br>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* |
| **Crime and Disorder** | N/A |
| **Digital and website implications** | N/A |
| **Safeguarding children and vulnerable adults** | N/A |

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# Economy and Property Market Update

November 2022

## Macro challenges shift real estate dynamics

ECONOMICS


### Summary

The increase in interest rates sanctioned by the Bank of England to try and curb inflation pressures has begun to take its toll on both the residential and commercial property markets. Transaction activity is already beginning to wane and price declines are viewed as likely with further monetary tightening probable over the coming months notwithstanding the more restrictive fiscal stance. For the construction sector, infrastructure is still seen as likely to provide some momentum in what is inevitably going to be a more difficult environment with credit becoming less readily available.

# Economy

Interest rates now stand at their highest level in fourteen years and financial markets are assuming there is further to go before the peak is reached, notwithstanding the recent shift in direction in the fiscal stance. Although there are increasing signs of pressure on the economy, the focus of monetary policy remains geared to tackling the challenge presented by inflation which is expected to average 11% in the final part of this year. Significantly, the latest projections from the Monetary Policy Committee (MPC) suggest that the inflation rate will begin to ease through the course of 2023, albeit remaining well above the target of 2%. However as chart 1 demonstrates, the picture continues to improve through 2024 and beyond according to this analysis; indeed, on the basis of current market interest rates, inflation could fall to close to zero by the end of 2025. Much will depend on how embedded the inflation psychology becomes in the wage bargaining process. And it is worth noting that the minutes of the last MPC meeting did indicate that the risks were viewed to be skewed towards the upside.

Critical to the inflation forecast from the Bank is its assumptions as how economic activity might play out. An important element of this is its judgement that output will fall for eight successive quarters resulting in a peak to trough drop in GDP of around 3%. A key area of uncertainty surrounds the extent to which households will be willing to bolster spending plans in the face of cost-of-living pressures by drawing on past savings and, quite possibly, borrowing more. Some households are clearly better placed (than others) to turn to the 'excess' savings that they were able to accumulate during the Covid pandemic. However, the negative news flow could just as easily encourage consumers to take a more cautious approach to their finances. Recent data (highlighted in chart 2) suggests that the latter force may be proving the more powerful driver with cash deposited by households in bank accounts jumping to £8.1bn in the past month.

For the moment the labour market picture remains remarkably solid with demographic factors, rising inactivity particularly amongst the over 50s and the legacy of Brexit contributing to this (chart 3). This is, however, unlikely to be sustained as consumer demand continues to be reined in and companies begin to adjust to the changing macro picture. Despite ongoing skill shortages in key areas of the labour market, the growing pressure on profits is likely to shift the needle regarding recruitment and result in rising unemployment from current lows.

**Chart 1**: Inflation expected to fall below the 2% target if current rates persist

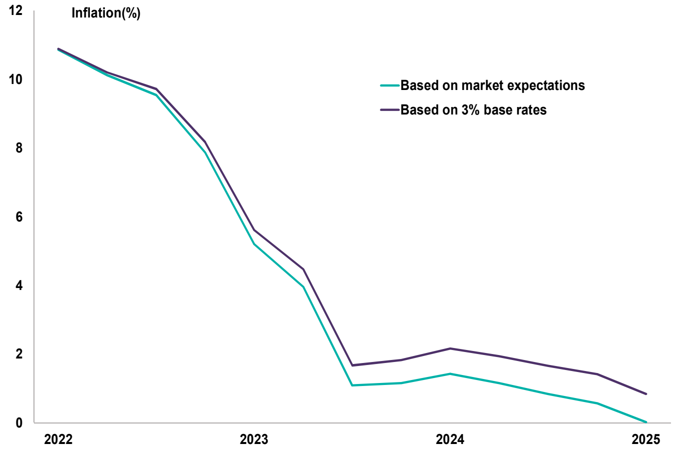



**Chart 2**: Household savings with the banking sector rose last month which could be indicative of growing caution

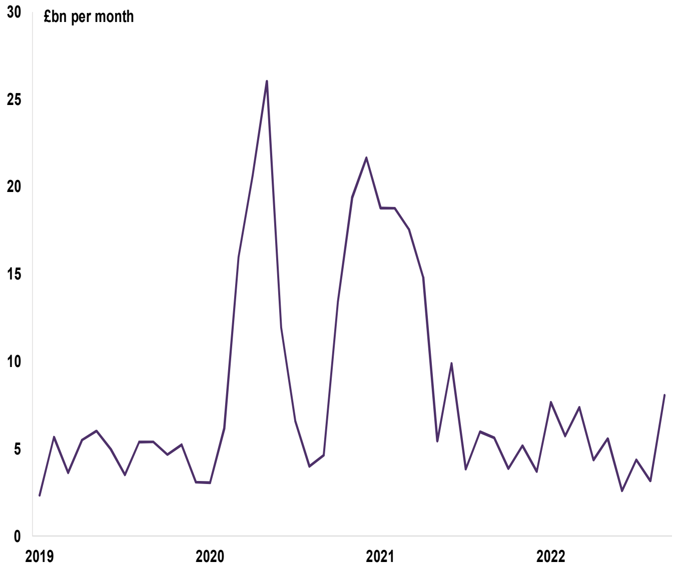
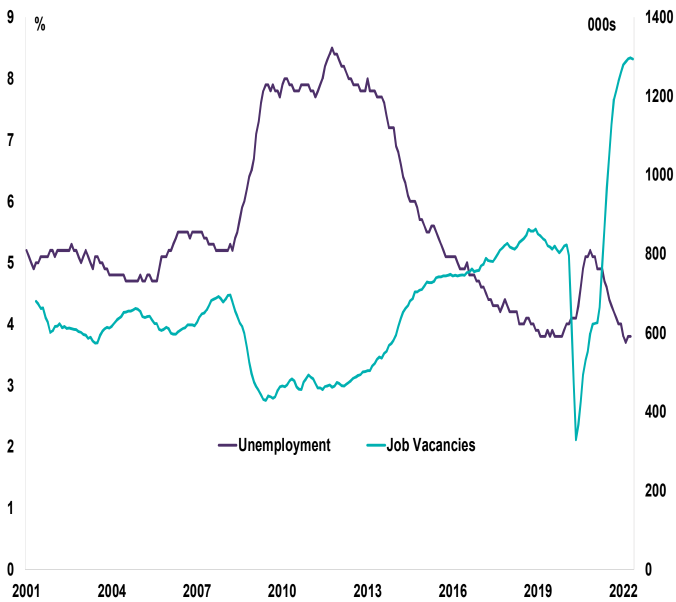



**Chart 3**: Labour market indicators remain strong for now



# Commercial Property

Concerns over the macro-outlook allied to the recent turmoil in financial markets, albeit that they have settled down more latterly, has set in motion a repricing across commercial property markets. For example, Savills estimate prime West End office yields have climbed from 3.5% in September to 3.75%, high street retail from 6% to 6.5% and industrial multi-lets from 4.25% to 5%. This is also being reflected in the tone of the feedback gathered as part of the Q3 RICS UK Commercial Property Monitor. The Investment Enquiries metric posted a net balance reading of -18% over the last three months compared with +12% in Q2. Within this, the retail indicator fell deeper into negative territory (-39% as against -13% previously) while the reading for offices was -31% after being broadly flat in the previous month period.

Meanwhile, chart 4 suggests that transaction activity slipped to £10.6bn in Q3 which is more than one-third down on the volumes recorded in the previous three month period. Interestingly, Lambert Smith Hampton note that impact was more notable at the larger end of the market. Q3 saw only 24 deals in excess of £100m compared to 38 in Q2 and way down on the recent high of 50 seen Q4 2021.

Underpinning this shift in mood from investors has been greater caution amongst occupiers which is clearly visible in the latest RICS data. Chart 5 shows the tenant demand series in net balance terms disaggregated at a sector level. The office read of -22% needs to be seen in the context of two positive results in the first half of the year but it does now strongly suggest this trend has stalled. Meanwhile, the retail indicator moved further into negative territory and the momentum in the industrial sector has slowed markedly. Availability data as compiled as part of the survey is predictably rising for both offices and retail. Meanwhile, data from Knight Frank provides evidence that this is translating into rising vacancy rates. Indeed, they estimate the vacancy rate now stands at 9.3% for city offices which is the highest level since the start of 2012.

Cyclical pressures are compounding on the ongoing structural shift in office demand as organisations grapple with the implications of the post-Covid hybrid working environment. Chart 6 shows the results to an additional question included in the Q3 RICS UK Commercial Property Monitor around the likely scaling back in the office footprint. Perhaps unsurprisingly given the results, around 85% of respondents also indicate they are seeing some repurposing of office space.

**Chart 4:** UK Commercial Property investment volumes fall sharply in Q3 according to Lambert Smith Hampton

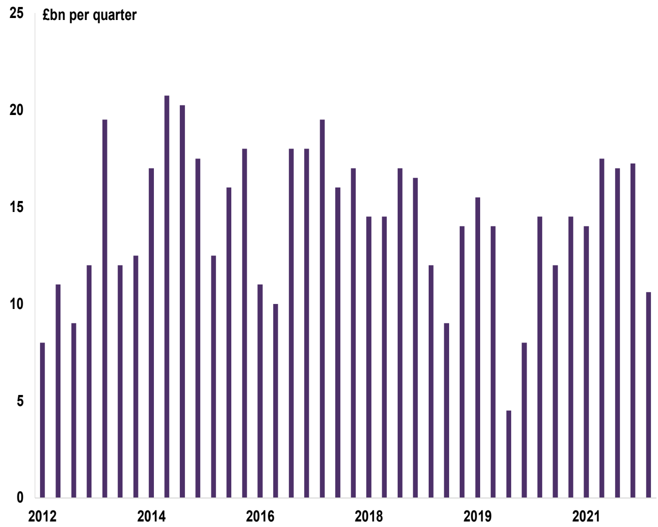



**Chart 5:** Occupier demand metrics softened for offices and retail in Q3 according to the RICS survey while industrials slowed

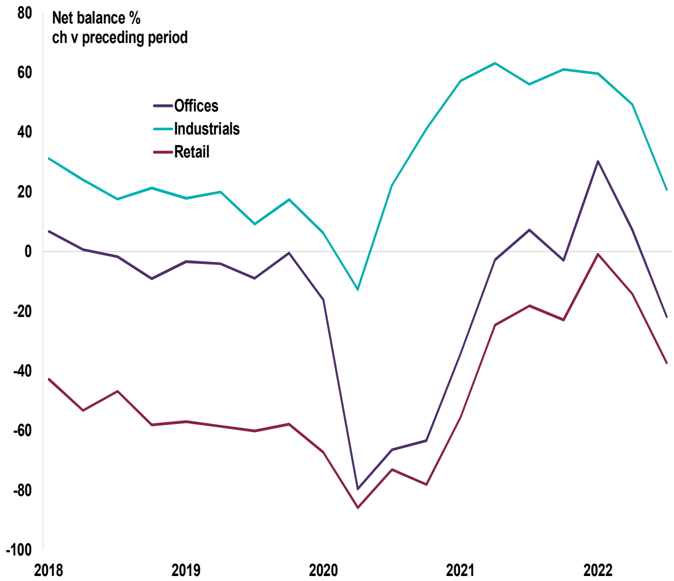
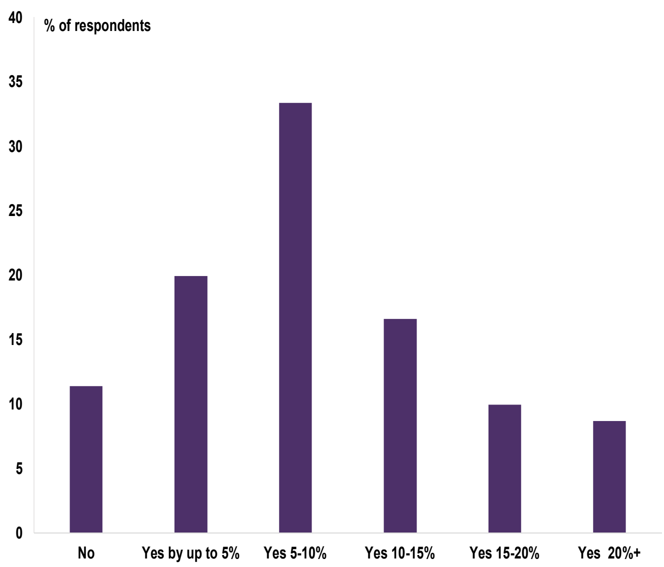



**Chart 6:** RICS data suggests businesses are looking to scale back the office footprint by around 10% over the next year



# Residential Property

Negative news flow around the outlook for the housing market has continued to grow notwithstanding the easing in volatility in the financial markets. The latest RICS Residential Market Survey shows the current price trend is now flatlining (broadly consistent with the hard data) and that buyers enquiries are falling sharply at a headline level (chart 7). Significantly, this is also being reflected in the twelve-month expectations metrics; the forward-looking sales series posted a reading of -42% (net balance) in October, little changed from the previous two months numbers which represents the worst run of results since the series began a decade ago. For pricing, the outlook has deteriorated markedly with a net balance of -42% anticipating price declines (compared to -18% in September and +3% in August).

Judging what this will actually mean for the market is inevitably highly speculative given the uncertainty as to how high interest rates will need to rise to contain inflation and how this eventually plays out in the labour market. Consensus forecasts currently appear to be centring around a 10% average decline in prices but with a larger fall-off in activity. Chart 8 shows the extent of recent mortgage rate increases based on data provided by the Bank of England. It is noteworthy that 2 and 5 year overnight money has fallen sharply over the past few weeks but it is unlikely that this will be fully reflected in lending rates. Meanwhile, the latest measure of affordability (mortgage payments as a share of take home pay) for first-time buyers produced by the Nationwide Building Society climbed to 34% in Q3 which is above the long run average (29%) and the highest figure since the GFC. As has been well discussed elsewhere, around 90% of mortgages are fixed rate products so the impact of the rising cost of borrowing will inevitably be felt over time. Estimates suggest around 300,000 fixed term products end per quarter, peaking at 370,000 in Q2 of next year; the total for the whole of 2023 could be around 1.5 million.

Meanwhile, the challenges in the sales market are exacerbating the strength of rental demand while supply of lettable property continues to lag some way behind. The latest RICS data, highlighted in chart 9, shows how is being reflected in rent expectations. Respondents to the Residential Survey contest that the shift in the tax and regulatory environment has played a critical role in driving this imbalance, which according to the most recent Zoopla data, is resulting in rents on new lets seeing double digit increases.

**Chart 7:** The latest readings for the RICS Price Balance and New Buyer Enquiries highlight the shift in tone in the housing market

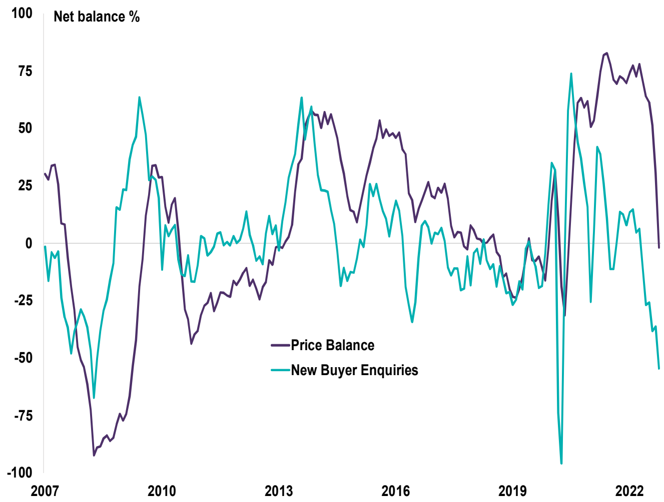



**Chart 8:** Bank of England data shows how sharply mortgage rates have risen over the past few months

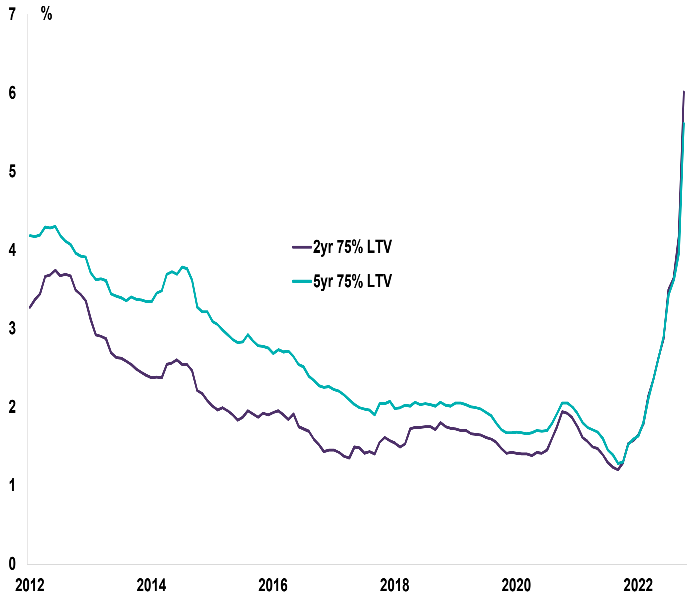
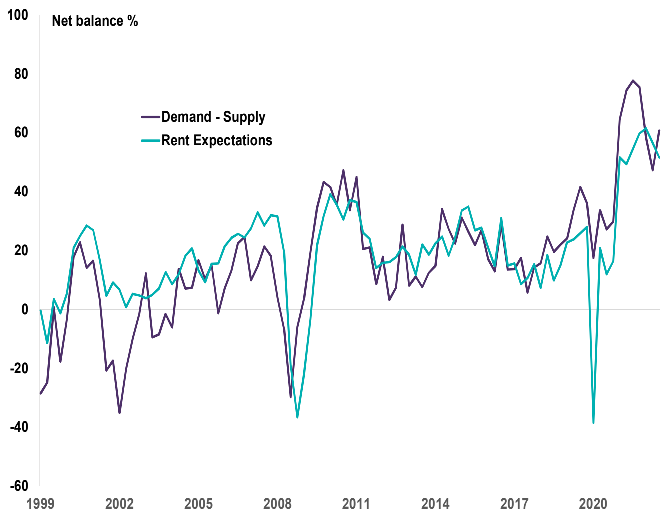



**Chart 9:** RICS lettings data show demand hugely exceeding supply and rent expectations still very strong



# Construction

The cost and availability of building materials continue to be viewed as major challenges for the construction industry with around four-fifths of respondents to the Q3 RICS Construction Monitor identifying these issues as limiting activity. Some comfort may, however, be drawn from the latest BEIS data on costs (chart 10); this shows that the annual inflation rate of construction materials was 16.7% in September 2022, which is a 3rd consecutive fall from the recent peak of 26.8% in June. However, this rate of increase will inevitably continue to be a source of discomfort particularly for SME contractors on fixed price contracts. This is partly captured in the headline profit margins metric from the RICS dataset. It suggests that a net balance of 23% of respondents saw a contraction in margins and that the pressure appears to be intensifying (-15% in previous three month period).

The latest official data for construction output indicates that it is around 6% up on a year ago and 2.5% above pre-pandemic levels. But the workload momentum does now appear to be slowing according to the RICS sentiment data, to a greater or lesser extent,  pretty much across the board. New Business Enquiries while still positive in net balance terms are showing the least positive reading since the Q4 2020 while hard numbers tracking new construction orders (ONS) appears to be slipping. Against this backdrop, the more subdued trend in the forward-looking workload indicators captured in the Monitor is unsurprising. Little change is anticipated in residential and commercial development while infrastructure is left to drive activity (chart 11).

Despite this prospect, concerns continue to be expressed about the challenges associated with recruitment. The number of employees in construction is now higher than it was prior to the pandemic but, significantly, there has been a material fall in self-employment in the sector (20% down on the 2019 peak). The Q3 RICS Monitor shows that shortage of labour continues to be reported by around three-quarters of respondents with lack of skilled trades and professionals cited by an even higher proportion. Meanwhile, upskilling the existing labour force is perceived to be the most immediate route to lifting productivity levels in the industry according to feedback garnered as a result of an additional question included in the last survey. The full results are shown in chart 12. Other areas of particular focus include greater investment in data and digitalisation and improving procurement and supply chain management.

Chart 10: The rate of price growth of building material is beginning to slow but remains well in double digits

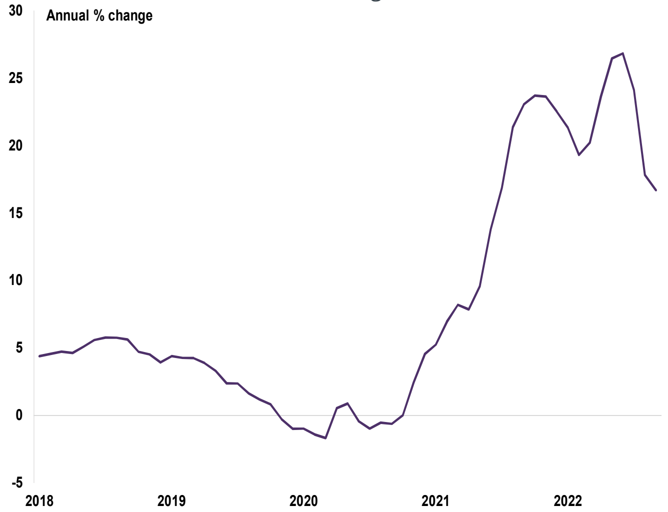



**Chart 11:** Twelve month workload expectations show the key role infrastructure is likely to play over the next year

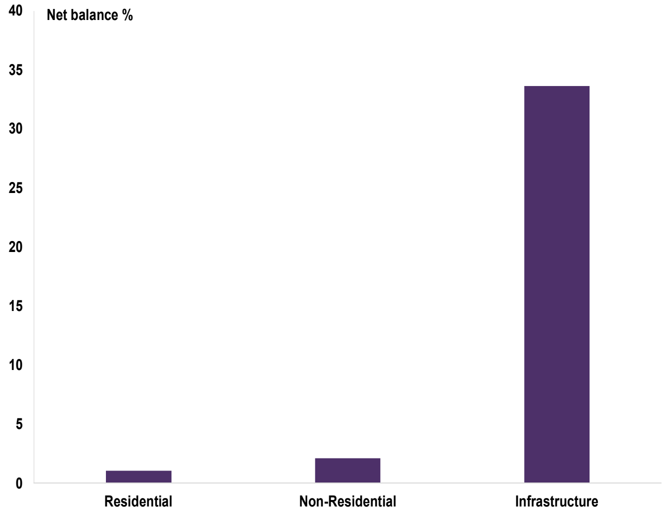
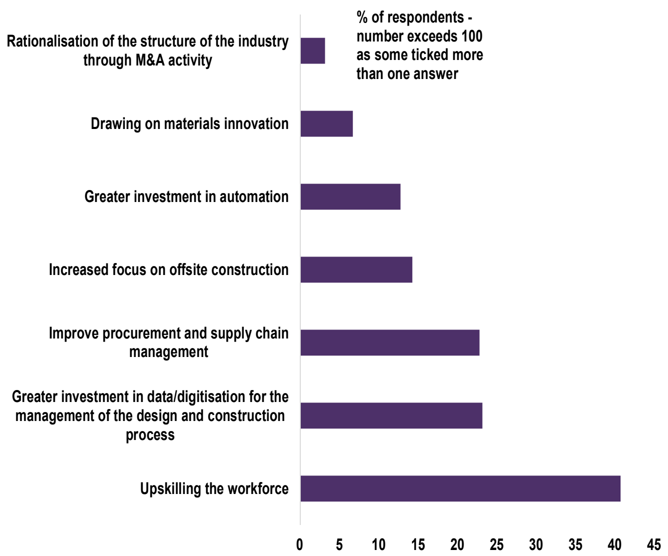



**Chart 12:** Upskilling the workforce is viewed as the key approach to lifting productivity over the next twelve months



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

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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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