

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 1 st April 2027 and be a band B by 1 st 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

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Secondary Implications	
Risk Assessment	N/A
Data Protection Impact Assessment	<i>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.</i>
	<p>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.</p> <p>No</p>
	<p>b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice?</p> <p>N/A</p>
	<p>c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdpr@medway.gov.uk.</p> <p>N/A</p>
Equality Impact Assessment	<p>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.</p> <p>N/A</p>
	<p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.</p> <p>N/A</p>
	<i>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</i>
Crime and Disorder	N/A
Digital and website implications	N/A
Safeguarding children and vulnerable adults	N/A