LONDON BOROUGH OF LAMBETH – COMMUNITY INFRASTRUCTURE LEVY REVIEW IMPACT OF COVID-19

1.1 The research and appraisal assumptions underpinning the outcomes and advice set out in the *'Local Plan and Community Infrastructure Levy* Review' (December 2019) were established prior to the outbreak of the Novel Coronavirus (COVID-19), which was declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020.

1.2 COVID-19 has impacted global financial markets, with travel restrictions and lock-downs having been implemented by many countries, which were subsequently relaxed but are now being re-imposed in some countries, including across the United Kingdom. During the first lock-down, market activity was adversely impacted in many sectors, including the development industry, with both construction and sales paused. However, during subsequent restrictions, these activities have been permitted to continue with appropriate social distancing measures in place.

1.3 The RICS initially introduced a requirement on valuers to incorporate 'material uncertainty clauses' in their valuation reports. This requirement was lifted, sector by sector, over the summer. None of these requirements remain in place, indicating that the initial uncertainty associated with lack of market activity has now ceased. Residential and commercial property markets are therefore generating evidence, whereas during the first lockdown, they were not, resulting in speculation as to the impact of the pandemic when markets eventually re-opened.

Residential market

1.4 Since the UK emerged from the first lock-down, the residential market has recovered strongly. In Lambeth, the Land Registry House Price Index average residential property price in January 2020 was £526,333. By August 2020 (the most recently published data), the average price had increased to £546,470 (an increase of 3.8% over the period). Over the same period, the BCIS Tender Price Index has fallen from 334 to 327, a reduction of 2%.

1.5 Critically for the development industry, the government's second and subsequent national lockdowns and other restrictions in England have excluded the construction sector. Furthermore, there has been no restriction of residential property sales, providing all those involved adopt normal social distancing practices.

1.6 Markets always behave cyclically and it is important to note that there can never be absolute certainty on the future trajectory of values and costs. CIL charging schedules are examined at various points over the economic cycle and Lambeth finds itself close to examination during a time of uncertainty. However, CIL rates are set with significant 'headroom' below the maximum rates so that schemes can continue to come forward in difficult market conditions. CIL is, in any event, a modest proportion of overall development costs which is unlikely to have a significant bearing on a developer or landowner's decision making.

1.7 Savills revised their residential forecasts at the end of December 2020 and observe that *"house prices rose by 0.9% in November, according to Nationwide. This puts annual growth at 6.5%, the highest it's been since 2015. Even if December ends up being weaker, 2020 is on track to exceed our growth forecast of 4% for the UK mainstream market".* They report that this price growth was driven by high levels of demand, with more buyers entering the market than sellers.

1.8 Savills' house price forecast is for no growth in 2021; followed by growth of 1%, 4% and 2% in 2022, 2023 and 2024 respectively. This equates to cumulative growth of 12.7% between 2020 and 2024. If these forecasts are correct, there will have been no reduction in house prices since the beginning of 2020 and costs will be lower.

Commercial markets

1.9 During the lock-down period, many office workers were required to work from home and some have continued to do so after the strictest restrictions on movement were lifted. During periods where strict lockdowns were lifted, many companies were unable to accommodate all their staff in offices due to ongoing social distancing requirements, even if all of them wished to return. Similar restrictions on public transport have reduced capacity for office workers to travel to workplaces.

1.10 Although the pandemic has introduced a range of workers to working from home for the first time, companies expect that the office will continue to play a critical role as a hub for collaboration. JLL's *'London Borough of Lambeth: Commercial Office Baseline Report (October 2020)'* (EB110) indicates that "*we will not see a move away from activity-based working or the sharing of workspaces in the long term… [but] see the potential for moderate de-densification in workplace design to allay concerns about the spread of pathogens*". This de-densification is expected to offset reduced demand for space.

1.11 JLL expect reduced numbers of days that office workers are required to commute to result in London based businesses being able to draw upon a wider pool of workers from further afield than would have been historically possible. Consequently, they anticipate that office developments adjacent to major transport hubs (including Waterloo) will have greater strategic value. This is likely to strengthen such locations as key areas for the development of new offices.

Retail

1.12 The retail sector was already facing structural shifts resulting from competition from on-line retailing prior to the coronavirus pandemic. The lockdown has exacerbated these trends with more customers forced to purchase on-line and now choosing the continue to do so, even after the earlier restrictions were lifted.

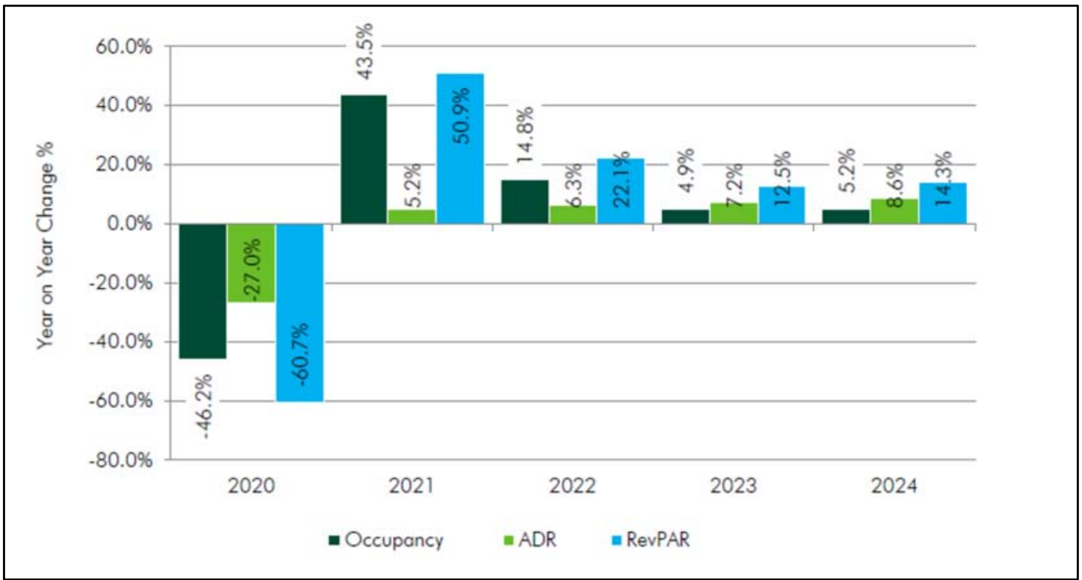
1.13 There is a consensus among commentators that it is unlikely that there will be any expansion in retail floorspace in town centres, other than convenience retailing which continues to perform strongly.

1.14 Savills' 'UK Retail Outlook Report – Summer 2020' indicates that reduced rent collection is putting pressure on landlords to consider whether current rental levels and leasing formats are sustainable. Current negotiations between landlords and retailers increasingly focus on moving away from fixed rents to 'turnover rents' (which result in a percentage of the retailer's turnover being paid in rent. Turnover rents are clearly inherently riskier for the landlord, which is likely to adversely impact on investment yields.

Hotels

1.15 Hotels in London have performed poorly from March 2020 onwards due to restrictions on travel from other countries and due to reduced business travel into the capital. STR Global's 'London Hotels Forecast May 2020' predicts that occupancy will fall by 46.2% and revenue per available room will fall by 60.7%. However, they predict a strong recovery in 2021, followed by growth in subsequent years (see Figure 1.13.1), which is likely to stimulate the development of additional beds in the capital. This recovery is likely to be delayed in the latter part of 2021 due to the re-introduction of strict lockdown and 'tier' restrictions from the end of 2020 onwards.

Figure 1.13.1: Hotel performance forecast (Source: STR Global London Hotels Forecast May 2020)



Conclusions

We do not anticipate any medium-term adverse impacts on the residential market in Lambeth resulting from the pandemic, providing current progress on developing a vaccine is maintained and there is no longer a requirement for periodic lockdowns. In the short-term, market activity is likely to be disrupted during periods of lockdown, although on-line viewing is helping to offset this.

The office sector in Lambeth is unlikely to see significant changes in demand due to the proximity of key transport hubs at Waterloo and Vauxhall. For the same reason, it is likely that hotel development will continue in these areas when occupancy increases back up to normal levels during 2021.

Other than convenience retailing, the retail sector continues to struggle and there will be little pressure to provide additional space, or to redevelop existing space over the plan period. It is likely that some surplus retail floorspace may need to be re-purposed but such developments would not be CIL-liable if the amount of floorspace is not increased.

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