
LONDON BOROUGH OF LAMBETH – LOCAL PLAN IMPACT OF COVID-19

- 1.1 The research and appraisal assumptions underpinning the outcomes and advice set out in the Local Plan Viability Study viability study (EB97) were established before December 2019, 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 in England. During the first lock-down, market activity was adversely impacted in many sectors, including the development industry, with both construction and sales paused.
- 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 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 house 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 national lockdown in England will exclude the construction sector and house sales will be allowed to proceed.
- 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. Local plans are examined at various points over the economic cycle and Lambeth finds itself at Examination during a time of uncertainty. However, key policies incorporate flexibility so that schemes can continue to come forward in difficult market conditions.
- 1.7 Savills revised their residential forecasts at the end of September 2020 and observe that *“the pace of change in the UK housing market has taken us all by surprise in the past few months. While we have been concerned about the economic backdrop, other factors have unleashed a wave of activity in the market. Behavioural changes have encouraged many to trade up the housing ladder and others to reassess their work-life balance, adding to the pent-up demand coming out of lockdown.*

The introduction of a stamp duty holiday, not factored into our previous forecast, has exacerbated this further.

All of the evidence now points to the prospect of price growth in 2020, quite unlike the pattern seen in any other recessionary period, as demand outpaces supply being brought to the market”.

- 1.8 Savills’ ‘New house price forecast’ is for growth of 3.7% in 2020; 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%. 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. Due to ongoing social distancing requirements, many companies are currently unable to accommodate all their staff in offices, 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.

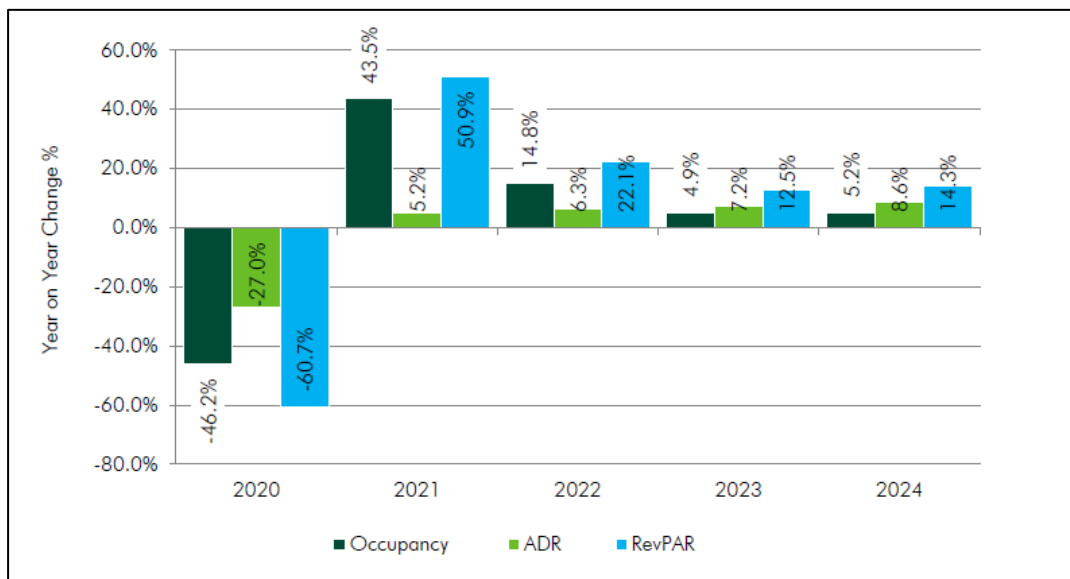
Retail

- 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 to 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.

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.