Written evidence submitted by the British Property Federation

Introduction

1. The British Property Federation (BPF) represents the real estate sector – an industry which contributed more than £100bn to the UK economy in 2018 and supported more than 2 million jobs[1]. We promote the interests of those with a stake in the UK built environment, and our membership comprises a broad range of owners, managers and developers of real estate as well as those who support them. Their investments help drive the UK's economic success; provide essential infrastructure and create great places where people can live, work and relax.

2. We welcome the Committee's call for evidence on the economic impact of coronavirus and in our response below set out some of the ways in which the pandemic is affecting and will continue to affect the commercial property sector. We have answered selected questions only.

To what extent do Government measures protect viable jobs in the future and reduce the risk of long-term unemployment?

3. The Government's extensive package of business support measures (in particular the CJRS and expanded retail business rates discount) has undoubtedly saved millions of jobs in the short term by keeping businesses at the sharp end of the pandemic (particularly in retail, leisure and hospitality) afloat. In so doing, the measures have also reduced the risk of long-term unemployment as businesses have been able to hold on to their employees for longer than they otherwise would have been able to.

4. However, we feel that the Government should have (and should still) take further action to protect jobs in the leisure and hospitality sectors. In contrast to bricks and mortar retail, which was already before the pandemic undergoing a profound structural change that included fewer people employed by the sector, leisure and hospitality employment was on a secular upwards trend. This suggests that jobs in these sectors are viable in the future, but a failure to provide sufficient support now – particularly for those businesses in Tier 3 areas – could wipe out a large number of leisure and hospitality businesses in the next three months.

5. While historic trend data suggests jobs lost in this way will return, it feels like a waste of time, effort and resources for otherwise viable businesses to be destroyed and then re-created. We would therefore strongly encourage the Government to consider additional fiscal support targeted at the leisure and hospitality industries, such as an extension until at least the end of 2021 of the reduced rate of VAT currently in place and a similar extension of the expanded retail business rates discount. We would agree with suggestions that this could be partly funded by business rates relief that large supermarket chains have recently repaid to the Government.

What impact will a second lockdown have on the economy? How should the Government best support the economy if intermittent lockdowns become a feature over the next year?

6. The Covid-19 pandemic and the Government's response to it has created unprecedented challenges whose impact will be felt for some considerable time to come. Property owners have been far from immune to this as many of their occupiers have either been prevented from trading or forced to trade at significantly lower than normal capacity due to lockdowns and other restrictions.

[1] https://bpf.org.uk/our-work/consultation-responses/uk-commercial-real-estate-economic-footprint/

7. This has led to much lower rent and service charge collection rates, particularly in the retail, leisure and hospitality sectors. The table below sets out collection rates for the second, third and fourth quarters of this year in those most affected sectors (under normal conditions these would be in the mid to high 90%):

		Rent	**Service charge**
Q2	Retail	68%	69%
	Leisure & hospitality	N/A	N/A
Q3	Retail	68%	64%
	Leisure & hospitality	52%	55%
Q4 (as at early November)	Retail	68%	61%
	Leisure & hospitality	48%	46%

8. We estimate the rent collection shortfall for 2020 across all different types of property will be in the region of £4.5bn. This shortfall will ultimately hit the investments of pensioners and savers who ultimately own as much as 70% of the of the c. 1.5bn sq ft of retail and food and beverage space in the UK and 60% of the UK's top 22 High Streets.

9. Property investors and developers have also significantly curtailed their development pipeline in response to the pandemic, with a knock-on impact for jobs in construction and the UK's productivity – more on this below.

10. Service charge collection levels have been similarly affected and in some ways this is even more concerning than unpaid rent, as service charges are what keeps buildings safe, clean and well-maintained and supports thousands of jobs across the facilities management industry.

11. While it is not surprising that rent and service charge collection rates have fallen as a result of the pandemic, the Government's response has made things worse than they needed to be and we are particularly concerned by measures to restrict property owners' contractual rights to recover rent (i.e. lease forfeiture, winding up petitions and Commercial Rent Arrears Recovery).

12. While these measures were intended to protect vulnerable businesses, particularly those forced to close during lockdown, they have been and continue to be exploited by well capitalised large businesses as a means to withhold rent payment. This notwithstanding the Government's reminders that rents remain a contractual obligation and that businesses should continue to honour these. Indeed, some of these "can pay, won't pay" businesses have grown their online businesses significantly over the past few months and have benefitted from extensive government support.

What changes to the economy are now permanent? What difference will the discovery of a vaccine and/or treatment make? Will behavioural changes necessitate structural changes?

13. While the pandemic has been with us for almost a year, it remains difficult to assess what changes to the economy arising from the crisis are permanent. That said, it is widely stated (and we agree) that the crisis has accelerated a number of trends that were already underway and which the discovery of a vaccine may reasonably be assumed to have relatively little impact on.

14. The ones most likely to affect commercial property owners, developers and investors are:

14.1. The move towards a greater share of retail spend being online, with consequent reduction in demand for (and value of) the physical retail space that has traditionally formed the backbone of town centres;

14.2. The associated move towards occupiers demanding more flexible, shorter leases and arrangements such as turnover-linked leases that result in greater sharing of the risks and rewards of an enterprise being located in a particular place;

14.3. The move towards more flexible and space-efficient use of office space – already visible before the pandemic with the growth of WeWork, The Office Group and others.

15. The first two of these have been widely reported on in recent years and the subject of several Government consultations, Select Committee inquiries and Task Forces and there is little we could add at this stage without repeating what has already been said. The one thing we would highlight is that by radically accelerating these trends, the pandemic is forcing property owners and occupiers to deal with years' worth of change in the space of a few months. It is this acceleration in change, rather than the change itself, that is causing the current acute stress and the Government should consider how it can accelerate its policy response to high street adaptation issues.

16. The third point above has been less widely explored but has potentially wide-ranging ramifications for towns and cities. While there was a pre-pandemic move towards greater use of shared space, shorter, more flexible office leases and people working from places other than their office, this trend was developing slowly and according to ONS data from 2018, only 14% of people "mainly" worked from their homes.[2]

17. It is hard to know at this stage the extent to which the pandemic will have permanently changed where people (and office workers in particular) work, but widespread anecdotal and survey evidence (for instance here, here and here) suggests that a "hybrid" approach to working (e.g. 50% at home, 50% in a workplace with colleagues) is likely to be far more widespread than before the pandemic.

18. If this persists, it could have the following impacts on commercial property:

A reduction in the demand for and value of office property

19. This would happen over time as businesses downsize their premises to reflect having to accommodate fewer people. However, estimating the size of this reduction in demand and value is not straightforward as an saying that a 40% reduction in the number of people working in an office at any one time may not lead to a 40% reduction in the space used as businesses may choose instead to offer their employees more individual space than was possible before, while still reducing their accommodation costs.

20. In addition, the development of new office buildings has since 2008 been at below long-term historical levels and has lagged growth in demand for that space, resulting in a gradual tightening of availability and an increase in rents and office property values.[3,4] As a result, the impact of downward pressure on office rents may be less pronounced than might be expected given the potentially large shift towards hybrid working.

A reduction in town and city centre footfall

21. With fewer people working in offices located in the centre of urban areas on any given day, the amount of traffic across all modes of transport in, around and out of those areas could potentially fall considerably. In the short term, we are particularly concerned by the impact on urban businesses reliant on the office trade such as cafes, restaurants, pubs and other hospitality venues.

[2] Homeworkers by UK region, 2008 compared to 2018
[3] Savills - Spotlight: UK Regional Office Market Report, September 2020
[4] Savills – Development across Central London, February 2020

22. The past few months have exposed how vulnerable many of these are to even modest falls in patronage. There is a real risk that large numbers of such businesses will go bust in the coming years, leaving behind empty units that will then need investment in order to be repurposed. On the flip side, hospitality venues located closer to predominantly residential areas where more people are working from home could well benefit from a large switch towards hybrid working.

23. Looking further ahead, it is possible that lower central urban footfall could reduce the agglomeration benefits of large towns and cities by reducing the level of human interaction and relationship building that underpins a lot of economic growth. This would further undermine the value of urban centre commercial property as less value is generated in those locations.

24. However, it is hard to know at this stage the extent to which this will really happen, particularly as office workers are likely to have enough flexibility regarding when they work from an urban centre that they can arrange their diaries to accommodate in-person meetings where these are felt to be the most productive way to interact.

What are the productivity challenges in the wake of the coronavirus crisis?

25. As noted above, the sharp contraction in economic activity and significant rent shortfall across all types of property (most notably retail, leisure and hospitality) has led property owners and developers to cut back on scheduled construction and maintenance projects. When we surveyed members towards the middle of the year we found a 30% drop in the amount of projected construction spend on new commercial development and 40% drop in the amount of projected renovation/refurbishment spend.

26. These reductions ran to a combined total of around £1.3bn just within our relatively small sample and we understand this shortfall in private sector development plans was one of the main reasons the Government accelerated its programme of public infrastructure spending.

27. This shortfall also worsens the country's productivity challenge. As we reported in our response to the Committee's inquiry into regional imbalances last year, factors such as lighting, air quality and noise have an impact on the value of worker's output per hour and these factors tend to be less supportive of productivity in older and less well-maintained buildings. These are also less energy-efficient and environmentally friendly than new buildings, consuming more energy and emitting greater levels of CO_2. The built environment itself is "less productive" in areas to which little investment flows, including as a result of coronavirus.

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